



LAI SUN GARMENT

LAI SUN GARMENT (INTERNATIONAL) LIMITED

(Stock code: 191)

Interim Report 2008-2009

## PLACE OF INCORPORATION

Hong Kong

## BOARD OF DIRECTORS

Lam Kin Ming (*Chairman*)

Lam Kin Ngok, Peter (*Deputy Chairman*)

Shiu Kai Wah

Lam Kin Hong, Matthew

Tam Kin Man, Kraven

Lam Hau Yin, Lester

*(also alternate director to Madam U Po Chu)*

Leung Churk Yin, Jeanny

U Po Chu

Chiu Wai

Lai Yuen Fong

(resigned on 26 March 2009)

Lam Wai Kei, Vicky

*(alternate director to Madam Lai Yuen Fong)* (ceased on 26 March 2009)

Wan Yee Hwa, Edward\*

Leung Shu Yin, William\*

Chow Bing Chiu\*

\* *Independent non-executive director*

## COMPANY SECRETARY

1

Yeung Kam Hoi

### **Lai Sun Garment (International) Limited**

11/F Lai Sun Commercial Centre

680 Cheung Sha Wan Road

Kowloon, Hong Kong

**Tel** (852) 2741 0391 **Fax** (852) 2785 2775

**Website** <http://www.laisun.com>

**E-mail** [advpr@laisun.com](mailto:advpr@laisun.com)

*Stock code on Hong Kong Stock Exchange: 191*

## RESULTS

The Board of Directors of Lai Sun Garment (International) Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 31 January 2009 as follows:

### Condensed Consolidated Income Statement

For the six months ended 31 January 2009

		Six months ended 31 January	
	Notes	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
TURNOVER	3	7,442	6,913
Cost of sales		(857)	(1,025)
Gross profit		6,585	5,888
Other revenue and gain	4	4,432	13,918
Administrative expenses		(12,172)	(13,095)
Other operating expenses		(201)	(3,199)
Fair value gain/(loss) on investment properties		(12,402)	21,415
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	5	(13,758)	24,927
Finance costs	6	(5,932)	(8,341)
Share of profits and losses of associates		25,778	20,219
PROFIT BEFORE TAX		6,088	36,805
Tax	7	1,739	(3,748)
PROFIT FOR THE PERIOD ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY		7,827	33,057
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	8		
Basic		HK 0.48 cents	HK 2.04 cents
Diluted		N/A	N/A

## Condensed Consolidated Balance Sheet

As at 31 January 2009

	Notes	31 January 2009 HK\$'000 (Unaudited)	31 July 2008 HK\$'000 (Audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		989	1,481
Investment properties		189,000	200,800
Properties under development		359,403	273,503
Interests in associates		3,004,391	3,025,253
Available-for-sale equity investments		183,613	167,784
Promissory note receivable		167,000	167,000
<b>Total non-current assets</b>		<b>3,904,396</b>	<b>3,835,821</b>
<b>CURRENT ASSETS</b>			
Debtors, deposits paid and other receivables	10	6,447	5,476
Loan and interest receivables		33,840	33,840
Cash and cash equivalents		27,300	22,665
<b>Total current assets</b>		<b>67,587</b>	<b>61,981</b>
<b>CURRENT LIABILITIES</b>			
Creditors, deposits received and accruals	11	63,286	44,817
Tax payable		545	669
Interest-bearing bank borrowing		144,000	—
<b>Total current liabilities</b>		<b>207,831</b>	<b>45,486</b>
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<b>(140,244)</b>	<b>16,495</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>3,764,152</b>	<b>3,852,316</b>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings		(31,745)	(113,745)
Note payable		(195,000)	(195,000)
Accrued interest payable		(61,228)	(55,370)
Deferred tax liabilities		(30,213)	(32,259)
<b>Total non-current liabilities</b>		<b>(318,186)</b>	<b>(396,374)</b>
		<b>3,445,966</b>	<b>3,455,942</b>
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the Company</b>			
Issued capital		16,174	16,174
Share premium account		1,908,840	1,908,840
Asset revaluation reserve		70,442	83,478
Share option reserve		1,409	1,440
Hedging reserve		—	2,321
Investment revaluation reserve		(17,411)	(33,240)
Capital reserve		148,694	148,694
Exchange fluctuation reserve		481,647	500,284
Retained earnings		836,171	827,951
		<b>3,445,966</b>	<b>3,455,942</b>

## Condensed Consolidated Statement of Changes in Equity

For the six months ended 31 January 2009

	Attributable to equity holders of the Company									
	Issued capital	Share premium account	Asset revaluation reserve	Share option reserve	Hedging reserve	Investment revaluation reserve	Capital reserve	Exchange fluctuation reserve	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 July 2008 and 1 August 2008 (Audited)	16,174	1,908,840	83,478	1,440	2,321	(33,240)	148,694	500,284	827,951	3,455,942
Changes in fair value of available-for-sale equity investments	—	—	—	—	—	15,829	—	—	—	15,829
Share of reserve movements of associates	—	—	(13,036)	(31)	(2,321)	—	—	(18,637)	393	(33,632)
Total income and expenses recognised directly in equity	—	—	(13,036)	(31)	(2,321)	15,829	—	(18,637)	393	(17,803)
Profit for the period	—	—	—	—	—	—	—	—	7,827	7,827
Total income and expenses for the period	—	—	(13,036)	(31)	(2,321)	15,829	—	(18,637)	8,220	(9,976)
At 31 January 2009 (Unaudited)	16,174	1,908,840	70,442	1,409	—	(17,411)	148,694	481,647	836,171	3,445,966
At 31 July 2007 and 1 August 2007 (Audited)	16,174	1,908,840	55,494	747	(16,954)	273,836	148,694	206,084	781,773	3,374,688
Changes in fair value of available-for-sale equity investments	—	—	—	—	—	(205,773)	—	—	—	(205,773)
Share of reserve movements of associates	—	—	—	382	(39,635)	—	—	133,825	233	94,805
Total income and expenses recognised directly in equity	—	—	—	382	(39,635)	(205,773)	—	133,825	233	(110,968)
Profit for the period	—	—	—	—	—	—	—	—	33,057	33,057
Total income and expenses for the period	—	—	—	382	(39,635)	(205,773)	—	133,825	33,290	(77,911)
At 31 January 2008 (Unaudited)	16,174	1,908,840	55,494	1,129	(56,589)	68,063	148,694	339,909	815,063	3,296,777

## Condensed Consolidated Cash Flow Statement

For the six months ended 31 January 2009

	Six months ended	
	31 January	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(6,423)	(12,213)
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	(49,190)	5,035
NET CASH INFLOW FROM FINANCING ACTIVITIES	60,248	12,019
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>4,635</b>	4,841
Cash and cash equivalents at beginning of period	22,665	18,401
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>27,300</b>	23,242
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	9,300	6,242
Non-pledged time deposits with original maturity of less than three months when acquired	18,000	17,000
	<b>27,300</b>	23,242

## Notes to Condensed Consolidated Interim Financial Statements

### 1. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements of the Group for the six months ended 31 January 2009 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

The condensed consolidated interim financial statements have not been audited by the Company's auditors but have been reviewed by the Company's audit committee.

### 2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies and basis of presentation used in the preparation of these interim financial statements are the same as those used in the Group's audited consolidated financial statements for the year ended 31 July 2008. The Group has adopted the new and revised Hong Kong Financial Reporting Standards ("HKFRS", which also include HKASs and Interpretations) which are applicable to the Group and are effective in the current period. The adoption of these new and revised HKFRSs has had no material impact on the accounting policies of the Group and the methods of computation in the Group's unaudited condensed consolidated interim financial statements.

#### Impact of issued but not yet effective HKFRSs

The Group has not applied the following new and revised HKFRSs, which are applicable to the Group, that have been issued but are not yet effective, in these interim financial statements:

6

HKFRSs (Amendments)	Improvements to HKFRS <sup>1</sup>
HKAS 1 (Revised)	Presentation of Financial Statement <sup>2</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>2</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>3</sup>
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate <sup>2</sup>
HKFRS 3 (Revised)	Business Combinations <sup>3</sup>
HKFRS 7 (Amendments)	Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments <sup>2</sup>
HKFRS 8	Operating Segments <sup>2</sup>
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009 except for the amendments to HKFRS 5, which is effective for annual periods beginning on or after 1 July 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2009

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that the adoption of HKAS 1 (Revised), HKFRS 7 (Amendments) and HKFRS 8 may result in new or amended disclosures in the financial statements. In respect of other amendments, new standards and new interpretations, the Group is not yet in a position to state whether they would have a significant impact on the Group's results of operations and financial position.

## Notes to Condensed Consolidated Interim Financial Statements (Continued)

### 3. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting format, by business segment.

No further geographical segment information is presented as all of the Group's revenue and operations are located in Hong Kong.

The following tables present revenue and results for the Group's business segments:

	Property development		Property investment		Consolidated	
	Six months ended		Six months ended		Six months ended	
	31 January		31 January		31 January	
	2009	2008	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Segment revenue:</b>						
Sales to external customers	—	—	7,442	6,913	7,442	6,913
<b>Segment results</b>	(52)	(22)	(6,018)	27,303	(6,070)	27,281
Interest income and unallocated other revenue and gain					4,432	13,918
Unallocated expenses					(12,120)	(16,272)
Profit/(loss) from operating activities					(13,758)	24,927
<b>Other segment information:</b>						
Fair value gain/(loss) on investment properties	—	—	(12,402)	21,415	(12,402)	21,415

### 4. OTHER REVENUE AND GAIN

	Six months ended	
	31 January	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest income from bank deposits	35	165
Other interest income	4,397	13,680
Others	—	73
	4,432	13,918



## Notes to Condensed Consolidated Interim Financial Statements (Continued)

### 5. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging:

	Six months ended 31 January	
	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Depreciation	517	918
Provision for doubtful debts *	201	—
Impairment for loan and interest receivables *	—	3,199

\* These items are included in "other operating expenses" on the face of the condensed consolidated income statement.

### 6. FINANCE COSTS

	Six months ended 31 January	
	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Interests on:		
Bank loans wholly repayable within five years	1,414	874
Other borrowings and note payable wholly repayable within five years	5,858	8,265
Total interest expenses	7,272	9,139
Bank financing charges	391	455
	7,663	9,594
Less: Amount capitalised in properties under development	(1,731)	(1,253)
	5,932	8,341

### 7. TAX

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 31 January 2008: 17.5%) on the estimated assessable profits arising in Hong Kong during the period.

	Six months ended 31 January	
	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Current tax	307	—
Deferred tax	(2,046)	3,748
Tax charge/(credit) for the period	(1,739)	3,748

## Notes to Condensed Consolidated Interim Financial Statements (Continued)

### 8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share is based on the profit for the period attributable to ordinary equity holders of the Company of HK\$7,827,000 (six months ended 31 January 2008: HK\$33,057,000) and the weighted average number of 1,617,423,423 (six months ended 31 January 2008: 1,617,423,423) ordinary shares in issue during the period.

The diluted earnings per share amounts for the six months ended 31 January 2009 and 2008 have not been disclosed as no diluting events existed during both periods.

### 9. RELATED PARTY TRANSACTIONS

#### (a) Transactions with related parties

		Six months ended 31 January	
		2009	2008
	Notes	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Rental expense and building management fee paid and payable to a related company	(i)	294	423
Interest expense on note payable to and other borrowing granted by a former director of the Company, the late Mr. Lim Por Yen	(ii)	5,858	8,265
Interest income received and receivable from an associate of the Group, Lai Fung Holdings Limited ("Lai Fung")	(iii)	4,315	6,087
Consideration paid and payable to Crocodile Garments Limited ("CGL") for pledging a property as security for the construction finance	(iv)	4,260	4,260

#### Notes:

- (i) Rental expense and building management fee were paid to the related company, of which certain directors are also directors of the Company, based on terms stated in the respective lease agreements.
- (ii) Interest expense was charged at the best lending rate quoted by a designated bank in Hong Kong in respect of the other borrowings and note payable.
- (iii) Interest income was charged at the prevailing Hong Kong dollar prime rate quoted by a designated bank in Hong Kong in respect of the promissory note receivable from Lai Fung, an associate of the Group.
- (iv) In consideration of CGL pledging a property as security for the construction finance of a joint development project of the Group and CGL, the Group agreed to make quarterly payments of HK\$2,130,000 to CGL for the period from the date of delivery of vacant possession of the property for development to the date of issuance of a certificate of practical completion of construction.

## Notes to Condensed Consolidated Interim Financial Statements (Continued)

### 9. RELATED PARTY TRANSACTIONS (Continued)

#### (b) Compensation of key management personnel of the Group

	Six months ended	
	31 January	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Short term employee benefits	3,225	3,345
Post-employment benefits	12	13
	<b>3,237</b>	<b>3,358</b>

### 10. DEBTORS, DEPOSITS PAID AND OTHER RECEIVABLES

The Group's major businesses are property development and property investment. The major income derived is rental income. Rent and related charges in respect of the leasing of properties are receivable from tenants, and are normally payable in advance with rental deposits received in accordance with the terms of the tenancy agreements.

An ageing analysis of the debtors, based on payment due date, as at balance sheet date is as follows:

	31 January	31 July
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Debtors:		
Less than 90 days past due	655	239
91 to 180 days past due	2	1
181 to 365 days past due	3	16
	<b>660</b>	<b>256</b>
Deposits paid and other receivables	5,787	5,220
	<b>6,447</b>	<b>5,476</b>

### 11. CREDITORS, DEPOSITS RECEIVED AND ACCRUALS

An ageing analysis of the creditors, based on invoice date, as at balance sheet date is as follows:

	31 January	31 July
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Creditors aged within 90 days	34,184	21,118
Deposits received and accruals	29,102	23,699
	<b>63,286</b>	<b>44,817</b>

## Notes to Condensed Consolidated Interim Financial Statements (Continued)

### 12. CONTINGENT LIABILITIES

During the year ended 31 July 2006, the Company disposed of its entire interests in Assetop Asia Limited ("Assetop"), a then wholly-owned subsidiary of the Group, to Goldthorpe Limited ("Goldthorpe"), a wholly-owned subsidiary of Lai Fung. The principal asset held by Assetop is a property under development in Shanghai, the People's Republic of China (the "PRC"). Certain subsidiaries of Assetop in the PRC were undergoing merger by absorption and completion of the merger was conditional upon approval of the relevant PRC government authorities. During the year ended 31 July 2007, the aforementioned merger of the PRC subsidiaries of Assetop was successfully completed. The Company had agreed to indemnify Lai Fung and Goldthorpe against all losses incurred by Lai Fung and Goldthorpe for the resettlement costs of approximately RMB124 million, which had been incurred and paid in prior years in connection with the relocation of the original inhabitants and the demolition of the then building structure erected on the property under development (the "Resettlement Costs"), not being tax deductible, up to a maximum amount of HK\$102,000,000, which was estimated based on the prevailing tax regulations. The Resettlement Costs are properly incurred for the project and are properly recorded in the books of the PRC subsidiaries of Assetop. The liability of the Company under this indemnity will terminate on 29 May 2012 (being six years after the completion of the Assetop disposal). Based on the prevailing rules and regulations, the directors of the Company consider such Resettlement Costs are tax deductible and thus no material liabilities are expected to crystallise under this indemnity.

### 13. CAPITAL COMMITMENTS

The Group had the following capital commitments at the balance sheet date:

	<b>31 January 2009 HK\$'000 (Unaudited)</b>	31 July 2008 HK\$'000 (Audited)
Capital commitments in respect of development costs attributable to properties under development:		
Contracted, but not provided for	<b>134,230</b>	214,170
Authorised, but not contracted for	<b>31,738</b>	31,706
	<b>165,968</b>	245,876

## INTERIM DIVIDEND

As at 31 January 2009, the Company did not have any reserves available for distribution in accordance with the provisions of Section 79B of the Companies Ordinance (Chapter 32). The Directors do not recommend the payment of an interim dividend for the financial year ending 31 July 2009. No interim dividend was declared in respect of the previous corresponding period.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Overview of Interim Results

For the six months ended 31 January 2009, the Group recorded a turnover of HK\$7,442,000 (2008: HK\$6,913,000) and a gross profit of HK\$6,585,000 (2008: HK\$5,888,000), representing an increase of approximately 7.7% and 11.8% respectively from the previous corresponding period. The Group derived its turnover and gross profit mainly from rental and related income from industrial properties held for investment.

During the period under review, the Group booked a fair value loss on investment properties of HK\$12,402,000 compared to a relevant gain of HK\$21,415,000 in the previous corresponding period. Mainly as a result of the decrease in fair value of investment properties, the Group incurred a loss from operating activities of HK\$13,758,000, compared to a profit from operating activities of HK\$24,927,000 from the previous corresponding period.

Share of profits from associates was HK\$25,778,000 (2008: HK\$20,219,000), up by 27.5% from the previous corresponding period. The change in such share of profits from associates was due to the increase in share of profits from Lai Fung Holdings Limited ("Lai Fung") to HK\$57,103,000 (2008: HK\$34,605,000), which was partially offset by a provision of HK\$30,534,000 (2008: HK\$12,575,000) for impairment in value of properties under development held by Lai Fung made in the Group's condensed consolidated income statement at the Group level.

12

For the six months ended 31 January 2009, the Group recorded a consolidated profit attributable to equity holders of HK\$7,827,000 (2008: HK\$33,057,000), representing a decrease of approximately 76.3% from the previous corresponding period. Shareholders' equity as at 31 January 2009 amounted to HK\$3,445,966,000, down slightly from HK\$3,455,942,000 as at 31 July 2008. Net asset value per share as at 31 January 2009 was HK\$2.13, as compared to HK\$2.14 as at 31 July 2008.

### *Lai Fung*

As at 31 January 2009, the Group held an effective 40.58% interest in Lai Fung.

For the six months ended 31 January 2009, Lai Fung recorded a turnover of HK\$148,092,000 (2008: HK\$128,685,000), up approximately 15.1% from the previous corresponding period. Out of the total turnover for the six months ended 31 January 2009, Lai Fung recorded gross rental income of HK\$120,147,000 (2008: HK\$121,377,000), down slightly by 1.0% from the previous corresponding period. The slight decrease in rental income of Lai Fung was due to the closure of certain retail spaces at Shanghai Hong Kong Plaza which was under renovation and a decrease in occupancy rate of serviced apartments at Shanghai Hong Kong Plaza, but compensated by improved rental income from Guangzhou May Flower Plaza and Shanghai Northgate Plaza I.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Overview of Interim Results (Continued)

#### *Lai Fung* (Continued)

During the period under review, Lai Fung recognised revenue generated from sales of property units amounting to HK\$27,945,000 (2008: HK\$7,308,000), up 282.4% due to the revenue recognised from sales of property units at Shanghai Regents Park, Phase II.

During the period under review, Lai Fung recorded a profit from operating activities of HK\$203,389,000 (2008: HK\$272,066,000) and a consolidated profit attributable to equity holders of HK\$140,716,000 (2008: HK\$85,276,000), representing a decrease of approximately 25.2% and an increase of approximately 65.0%, respectively from the previous corresponding period. Lai Fung's decrease in profit from operating activities was mainly attributable to a fair value loss on investment properties of HK\$64,278,000 against a gain of HK\$229,773,000 for the previous corresponding period. This was partly offset by a gain of HK\$256,311,000 arising from the termination of cross currency swaps in October 2008.

Finance costs reduced to HK\$66,539,000 (2008: HK\$94,991,000) for the period under review after HK\$34,765,000 (2008: HK\$10,162,000) had been capitalised in properties under development during the period under review.

Provision for tax was significantly reduced to a credit of HK\$2,719,000 (2008: charge of HK\$82,527,000). This was mainly attributable to write-back of deferred tax provision on Lai Fung's investment properties as a result of reduction in the fair value of these properties during the period under review.

As a result of the abovementioned factors, the profit attributable to equity holders of Lai Fung increased by 65% to HK\$140,716,000 (2008: HK\$85,276,000).

#### *Lai Sun Development Company Limited ("LSD")*

As at 31 January 2009, the Group held an effective 11.18% interest in LSD.

For the six months ended 31 January 2009, LSD recorded a turnover of HK\$326,726,000 (2008: HK\$506,562,000) and a gross profit of HK\$231,263,000 (2008: HK\$316,014,000), representing a decrease of approximately 35.5% and 26.8% respectively from the previous corresponding period. The decrease in turnover and gross profit was largely due to the lack of contribution during the six months ended 31 January 2009 from the hotel operations of the former The Ritz-Carlton Hong Kong which ceased operations since 1 February 2008.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Overview of Interim Results (Continued)

#### *Lai Sun Development Company Limited (“LSD”) (Continued)*

For the six months ended 31 January 2009, LSD booked a fair value loss on investment properties of HK\$356,448,000 (2008: a gain of HK\$472,568,000) as a result of the current adverse economic conditions. During this period, LSD did not record any gain on disposal whereas in the previous corresponding period, LSD recorded a gain on disposal of HK\$404,409,000 for the disposal of a partial interest in Diamond String Limited, which owns the former The Ritz-Carlton Hong Kong property. During this period, LSD also recorded a reversal of provision for tax indemnity of approximately HK\$72,668,000. Such provision was made in the financial year of 2008 in respect of certain tax indemnity granted by LSD to Lai Fung in November 1997 at the time of effecting the separate listing of Lai Fung on The Stock Exchange of Hong Kong Limited. Mainly as a result of the above exceptional items, LSD incurred a loss from operating activities of HK\$216,592,000 during the six months ended 31 January 2009, versus a profit from operating activities of HK\$1,028,838,000 in the previous corresponding period.

LSD currently holds a 36.08% interest in eSun Holdings Limited (“eSun”), an associated company of LSD, which in turn holds a 36.72% interest in LSD. During the period, LSD had a share of losses from associates of HK\$95,624,000, compared to the share of profits from associates of HK\$63,051,000 in the previous corresponding period. Such share of losses from associates mainly reflected the operational losses at eSun after taking into account the cross-holdings between LSD and eSun. Also, the cross-holdings between LSD and eSun results in a further loss to LSD due to its further share of eSun’s loss arising from eSun’s share of the results of LSD.

14

For the six months ended 31 January 2009, LSD recorded a consolidated net loss attributable to equity holders of HK\$328,235,000, compared to a consolidated net profit of HK\$882,771,000 in the previous corresponding period.

#### ***Development of 79 Hoi Yuen Road, Kwun Tong, Hong Kong***

Construction of this joint office and commercial development project with Crocodile Garments Limited continued with good progress. This project is now scheduled for completion by September 2009. Upon completion, the Group will retain the retail portion of this redeveloped property with a gross floor area of approximately 100,000 square feet.

#### **Prospects**

In the fourth quarter of 2008, the global financial crisis materialised, resulting in a meltdown of global financial markets. Crashes in financial markets and perceived global economic recession have created enormous uncertainties and risks to economies in the world. Hong Kong and the Mainland have inevitably experienced sharp economic slowdown. Under current circumstances, the Group and its associated companies will maintain a prudent approach to manage their businesses.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Prospects (Continued)

#### **Lai Fung**

Lai Fung will continue its prudent approach in acquisition strategy and in managing its business in China.

Lai Fung will focus on the sale of remaining finished units at Regents Park Phase II in Shanghai and pre-sale of West Point serviced apartments in Guangzhou in the next few months. With the recent rebound in volume of transactions in Shanghai and Guangzhou, Lai Fung will closely monitor the market sentiment and adjust its marketing strategy accordingly.

Lai Fung will suffer a decline in rental income in Shanghai Hong Kong Plaza for this and the next financial years during the renovation period. Following completion of the renovation, it is expected that the rental income will be improved from its current level. Initial discussions have already been commenced with potential tenants for leasing the retail podium of Shanghai Hong Kong Plaza and Guangzhou West Point.

#### **LSD**

With some of the world's major economies now in recession, office and retail rental rates in Hong Kong have been under pressure due to the lower demand of office space and lower retail consumption. Although LSD recorded steady rental income in the first half of this financial year, downward pressure in rental income will be reflected in the second half of this financial year. In the coming year, LSD will take a defensive approach as regards its rental policies, with the objective of maintaining the occupancy rates and rental cashflows from its investment properties.

In anticipation of a possible sharp downturn in the local economy and negative market sentiment generally, prices of residential properties in Hong Kong have fallen since September 2008. As two of its development properties, the Wood Road, Wanchai residential project and the Tai Po Road residential project, are both in early development phase, LSD's development and realisation plan are not severely affected by the market at the moment. Given the shortage in supply in core city areas in Hong Kong, LSD is still cautiously optimistic on the Hong Kong residential properties in the longer term. LSD will monitor the local property market closely and will adopt a prudent approach towards acquiring new development projects in future.

#### **79 Hoi Yuen Road, Kwun Tong, Hong Kong**

This redevelopment project is expected to be completed by September 2009 and the Group will retain the retail portion of this redeveloped property with a gross floor area of about 100,000 square feet. Upon its completion, the project will augment the Group's recurring rental income base. The Group will start pre-leasing the retail spaces of this project this year.



### Liquidity and Financial Resources

The Group has diverse sources of financing comprising internal funds generated from the Group's business operations, interest income generated from the promissory note, dividend income from investment in a listed associate and loan facilities provided by banks and others.

As at 31 January 2009, total borrowings, comprising a secured bank loan of HK\$144 million, a note payable of HK\$195 million and a loan of HK\$32 million payable to the late Mr. Lim Por Yen, amounted to a total of HK\$371 million. As at the same date, consolidated net assets of the Group amounted to HK\$3,446 million. The debt to equity ratio as expressed in a percentage of total borrowings to consolidated net assets as at that date was approximately 11%. All of the Group's borrowings were maintained as floating rate debts.

The note payable of HK\$195 million and the loan of HK\$32 million payable to the late Mr. Lim Por Yen have maturity dates of 30 April 2006 and 30 November 2005, respectively. The Group has received confirmation from the executor of the estate of the late Mr. Lim Por Yen that such note and loan payables are not repayable within one year from the balance sheet date.

As at 31 January 2009, certain investment properties with carrying value of approximately HK\$185 million were pledged to a bank to secure banking facilities granted to the Group. In addition, the Group's properties under development with carrying cost of HK\$359 million and share in a subsidiary held by the Group were pledged to a bank to secure a construction loan facility for financing the redevelopment of that property.

16

As at 31 January 2009, the Group had cash and bank balances amounting to approximately HK\$27 million and unutilised banking facility of HK\$277 million (including HK\$217 million unutilised construction loan facility for financing the construction costs of a property redevelopment project), which was considered adequate to cover the working capital requirement of the Group. The abovementioned construction loan facility will be maturing in December 2009. The related property redevelopment project is expected to be completed by September 2009. Such construction loan facility is expected to be refinanced by a new property term loan facility. The management of the Group has started preliminary discussion with bank for the refinancing arrangement and the feedback from the bank is positive.

The Group's monetary assets and liabilities and transactions are principally denominated in Hong Kong dollar. The Group does not have any significant exposure to exchange rate risk.

### Employees and Remuneration Policies

The Group employed a total of approximately 20 (as at 31 July 2008: 20) employees as at 31 January 2009. Total staff costs for the six months ended 31 January 2009 amounted to approximately HK\$6 million. Pay rate of employees are maintained at competitive levels and salary adjustments are made on a performance related basis. Other staff benefits included a share option scheme, a mandatory provident fund scheme for all eligible employees, a free hospitalisation insurance plan, subsidised medical care and subsidies for external educational and training programmes.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### **Contingent Liabilities**

Details of contingent liabilities of the Group as at the balance sheet date are set out in note 12 to the condensed consolidated interim financial statements.

### **SHARE OPTION SCHEME**

The Company operates a share option scheme (the “Share Option Scheme”) for the purpose of providing incentives and rewards to eligible participants for their contribution or would-be contribution to the Group, to enable the Group to recruit and retain high-calibre employees and to attract human resources that are valuable to the Group. Eligible participants of the Share Option Scheme include the Directors (including executive and non-executive directors), employees of the Group, agents or consultants of the Group, and employees of the shareholder of any member of the Group or holders of securities issued by any member of the Group. The Share Option Scheme was adopted on 22 December 2006 and became effective on 29 December 2006 and, unless otherwise terminated or amended, will remain in force for a period of 10 years from the latter date.

During the period from the date of adoption of the Share Option Scheme on 22 December 2006 to 31 January 2009, no share options had been granted under the Share Option Scheme.

## DIRECTORS' INTERESTS

As at 31 January 2009, the following directors and chief executive of the Company were interested, or were deemed to be interested in the following long and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance (the "SFO")), which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein (the "Register"); or (c) were required, pursuant to the Code of Practice for Securities Transactions by Directors and Designated Employees (the "Securities Code") adopted by the Company, to be notified to the Company and the Stock Exchange:

### (1) The Company

#### Long positions in the shares of the Company

Name of Director	Personal Interests	Family Interests	Corporate Interests	Capacity	Total	Percentage
Lam Kin Ngok, Peter	124,644,319	Nil	484,991,750 (Note)	Beneficial owner	609,636,069	37.69%
Lam Kin Ming	5,008,263	Nil	Nil	Beneficial owner	5,008,263	0.31%
U Po Chu	4,127,625	Nil	484,991,750 (Note)	Beneficial owner	489,119,375	30.24%
Lam Hau Yin, Lester	60,623,968	Nil	Nil	Beneficial owner	60,623,968	3.75%
Chiu Wai	199,600	Nil	Nil	Beneficial owner	199,600	0.01%

Note: Both Mr. Lam Kin Ngok, Peter and Madam U Po Chu were deemed to be interested in 484,991,750 shares by virtue of their respective 50% interest in the issued share capital of Wisdoman Limited which directly owned 484,991,750 shares in the Company.

### (2) Associated Corporation

#### Lai Fung Holdings Limited ("Lai Fung")

#### Long positions in the shares of Lai Fung

Name of Director	Personal Interests	Family Interests	Corporate Interests	Other Interests	Capacity	Total	Percentage
Lam Kin Ngok, Peter	Nil	Nil	3,265,688,037 (Note 1)	Nil	Owner of controlled corporation	3,265,688,037	40.58%
Tam Kin Man, Kraven	Nil	Nil	Nil	20,000,000 (Note 2)	Beneficial owner	20,000,000	0.25%

## DIRECTORS' INTERESTS (Continued)

### (2) Associated Corporation (Continued)

Notes:

- (1) The Company and its wholly-owned subsidiary beneficially owned 3,265,688,037 shares in Lai Fung. Mr. Lam Kin Ngok, Peter was deemed to be interested in 3,265,688,037 shares in Lai Fung by virtue of his approximate 37.69% interest in the issued share capital of the Company.
- (2) A share option scheme was adopted by Lai Fung on 21 August 2003 and will remain in force for 10 years from its effective date. During the period under review, 10,000,000 share options granted to the following Director lapsed under the share option scheme of Lai Fung. Details of the share options outstanding as at 31 January 2009 are set out below:

Name of Director	Date of Grant (dd/mm/yyyy)	No. of Share Options Outstanding	Option Exercisable Period (dd/mm/yyyy)	Subscription Price per Share
Tam Kin Man, Kraven	09/01/2007	10,000,000	01/01/2009 – 31/12/2009	HK\$0.65
	09/01/2007	10,000,000	01/01/2010 – 31/12/2010	HK\$0.75
		20,000,000		

19

Save as disclosed above, as at 31 January 2009, none of the directors and chief executive of the Company was interested, or was deemed to be interested in the long and short positions in the shares, underlying shares and debentures of the Company or any associated corporation, which were required to be notified to the Company and the Stock Exchange or were required to be entered in the Register as aforesaid.

### SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

As at 31 January 2009, the following persons, some of whom are directors or chief executive of the Company, had an interest in the following long positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

#### Long positions in the shares of the Company

Name	Capacity	Nature of Interests	Number of Shares	Percentage
Lam Kin Ngok, Peter	Beneficial owner	Personal and corporate	609,636,069	37.69% (Note)
U Po Chu	Beneficial owner	Personal and corporate	489,119,375	30.24% (Note)
Wisdoman Limited	Beneficial owner	Corporate	484,991,750	29.99%

## **SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS** *(Continued)*

*Note:* Both Mr. Lam Kin Ngok, Peter and Madam U Po Chu were deemed to be interested in 484,991,750 shares in the Company owned by Wisdoman Limited by virtue of their respective 50% interest in the issued share capital of Wisdoman Limited.

Save as disclosed above, no other person was recorded in the register required to be kept under Section 336 of the SFO as having an interest or short position in the shares and underlying shares of the Company as at 31 January 2009.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

During the six months ended 31 January 2009, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

## **CORPORATE GOVERNANCE**

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules throughout the accounting period covered by this Interim Report save for the deviation from code provision A.4.1.

Under code provision A.4.1, non-executive directors should be appointed for a specific term and be subject to re-election. None of the existing non-executive directors of the Company was appointed for a specific term. However, all directors of the Company are subject to the retirement provisions in the Articles of Association of the Company which provide that the directors for the time being shall retire from office by rotation once every three years since their last election at each annual general meeting and a retiring director shall be eligible for re-election.

20

## **DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted the Securities Code on terms no less exacting than the required standard set out in the Model Code in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all Directors who have confirmed their compliance with the required standard set out in the Securities Code during the six months ended 31 January 2009.

## **REVIEW OF INTERIM REPORT**

The Interim Report of the Company for the six months ended 31 January 2009 has been reviewed by the audit committee of the Company. The audit committee comprises the three independent non-executive directors of the Company, namely Messrs. Wan Yee Hwa, Edward, Leung Shu Yin, William and Chow Bing Chiu.

By Order of the Board  
**Lam Kin Ming**  
*Chairman*

Hong Kong, 9 April 2009