



LAI SUN DEVELOPMENT

LAI SUN DEVELOPMENT COMPANY LIMITED

(Stock code: 488)

Interim Report 2005-2006

PLACE OF INCORPORATION

Hong Kong

BOARD OF DIRECTORS

Lam Kin Ngok, Peter (*Chairman*)
Lau Shu Yan, Julius (*Chief Executive Officer*)
Tam Kin Man, Kraven
Cheung Wing Sum, Ambrose
Lam Kin Ming
U Po Chu
David Tang*
Lam Bing Kwan*
Leung Shu Yin, William*

* *Independent Non-executive Directors*

COMPANY SECRETARY

Yeung Kam Hoi

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Stock code on Hong Kong Stock Exchange: 488

RESULTS

The Board of Directors of Lai Sun Development Company Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 31st January, 2006 as follows:

Condensed Consolidated Income Statement

For the six months ended 31st January, 2006

		Six months ended 31st January,	
		2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited) (Restated)
	Notes		
TURNOVER	3	404,551	396,134
Cost of sales		(150,166)	(151,610)
Gross profit		254,385	244,524
Other revenue		8,695	2,891
Administrative expenses		(131,177)	(116,597)
Other operating expenses		(32,742)	(32,416)
Gain on revaluation of investment properties		178,360	217,269
Reversal of impairment of property, plant and equipment		—	7,409
Reversal of impairment of available-for-sale debt investments		—	105,979
PROFIT FROM OPERATING ACTIVITIES	4	277,521	429,059
Finance costs	5	(78,934)	(52,582)
Loss arising from the Bonds Settlement and eSun Debt Settlement	6	—	(1,483,527)
Provision for contingent liabilities to bondholders		(9,667)	(74,418)
Gain on cancellation of bond payables		37,492	28,135
Share of profits and losses of associates		65,413	49,529
Provision for impairment of associates		—	(1,031)
PROFIT/(LOSS) BEFORE TAX		291,825	(1,104,835)
Tax	7	(38,443)	(48,105)
PROFIT/(LOSS) FOR THE PERIOD		253,382	(1,152,940)
ATTRIBUTABLE TO:			
Equity holders of the parent		231,297	(1,171,387)
Minority interests		22,085	18,447
		253,382	(1,152,940)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic		HK\$0.02	(HK\$0.18)
Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

31st January, 2006

	Notes	As at 31st January, 2006 HK\$'000 (Unaudited)	As at 31st July, 2005 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		1,292,846	1,298,496
Prepaid land lease payment		31,689	14,550
Investment properties		3,987,060	3,808,700
Properties under development		1,468	1,462
Goodwill		5,150	6,294
Interests in associates	10	1,065,029	1,020,080
Available-for-sale investments		532,123	559,748
Pledged bank balances and time deposits	11	75,862	62,341
Total non-current assets		6,991,227	6,771,671
CURRENT ASSETS			
Completed properties for sale		2,350	2,350
Inventories		5,669	5,064
Debtors and deposits	12	190,688	139,563
Financial assets at fair value through profit or loss		—	17
Pledged bank balances and time deposits	11	—	8,020
Cash and cash equivalents		417,391	446,451
Total current assets		616,098	601,465
CURRENT LIABILITIES			
Creditors, deposits received and accruals	12	279,093	250,337
Tax payable		7,002	7,095
Interest-bearing bank and other borrowings		102,523	105,235
Bonds payable		2,660	40,152
Total current liabilities		391,278	402,819
NET CURRENT ASSETS		224,820	198,646
TOTAL ASSETS LESS CURRENT LIABILITIES		7,216,047	6,970,317
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		(2,516,397)	(2,583,509)
Deferred tax		(586,348)	(551,756)
Long term rental deposits received		(33,922)	(36,891)
Total non-current liabilities		(3,136,667)	(3,172,156)
		4,079,380	3,798,161
CAPITAL AND RESERVES			
Equity attributable to equity holders of the parent			
Issued capital		6,373,021	6,373,021
Share premium account		5,858,164	5,858,164
Investment revaluation reserve		121,477	111,598
Capital redemption reserve		1,200,000	1,200,000
Exchange fluctuation reserve		42,819	42,472
Accumulated losses		(9,921,887)	(10,153,184)
		3,673,594	3,432,071
Minority interests		405,786	366,090
		4,079,380	3,798,161

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31st January, 2006

	Attributable to equity holders of the parent									
	Issued capital HK\$'000	Share premium account HK\$'000	Investment property revaluation reserve HK\$'000	Investment revaluation reserve HK\$'000	Capital redemption reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
At 31st July, 2005 and 1st August, 2005 (audited)	6,373,021	5,858,164	—	111,598	1,200,000	42,472	(10,153,184)	3,432,071	366,090	3,798,161
Exchange realignments:										
Subsidiaries	—	—	—	—	—	228	—	228	—	228
Associates	—	—	—	—	—	119	—	119	—	119
Share of reserve movements of associates	—	—	—	1,879	—	—	—	1,879	—	1,879
Changes in fair values of available-for-sale investments	—	—	—	8,000	—	—	—	8,000	—	8,000
Net income/(expense) recognised directly in equity	—	—	—	9,879	—	347	—	10,226	—	10,226
Profit for the period	—	—	—	—	—	—	231,297	231,297	22,085	253,382
Total recognised income and expense for the period	—	—	—	9,879	—	347	231,297	241,523	22,085	263,608
Contribution from minority shareholders	—	—	—	—	—	—	—	—	17,611	17,611
At 31st January, 2006 (Unaudited)	6,373,021	5,858,164	—	121,477	1,200,000	42,819	(9,921,887)	3,673,594	405,786	4,079,380
At 31st July, 2004 and 1st August, 2004										
As previously reported	1,873,001	5,858,164	1,737,809	—	1,200,000	47,619	(10,832,704)	(116,111)	392,533	276,422
Effect of adopting HKFRSs (Note 2)	—	—	(1,737,809)	—	—	—	1,385,482	(352,327)	(2,811)	(355,138)
As restated (audited)	1,873,001	5,858,164	—	—	1,200,000	47,619	(9,447,222)	(468,438)	389,722	(78,716)
Exchange realignments:										
Subsidiaries	—	—	—	—	—	182	—	182	(9)	173
Associates	—	—	—	—	—	10	—	10	—	10
Net income/(expense) recognised directly in equity	—	—	—	—	—	192	—	192	(9)	183
Loss for the period	—	—	—	—	—	—	(1,171,387)	(1,171,387)	18,447	(1,152,940)
Total recognised income and expense for the period	—	—	—	—	—	192	(1,171,387)	(1,171,195)	18,438	(1,152,757)
Issue of settlement shares	4,500,020	—	—	—	—	—	—	4,500,020	—	4,500,020
Repayment to minority shareholders	—	—	—	—	—	—	—	—	(4,617)	(4,617)
At 31st January, 2005 (Unaudited)	6,373,021	5,858,164	—	—	1,200,000	47,811	(10,618,609)	2,860,387	403,543	3,263,930

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31st January, 2006

	Six months ended 31st January,	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
NET CASH INFLOW FROM OPERATING ACTIVITIES	71,025	70,513
NET CASH INFLOW FROM INVESTING ACTIVITIES	252,753	127,275
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	(352,857)	(225,498)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(29,079)	(27,710)
Cash and cash equivalents at beginning of period	446,451	530,446
Effect of foreign exchange rate changes, net	19	(23)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	417,391	502,713

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

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

2. ACCOUNTING POLICIES

The accounting policies and basis of presentation used in the preparation of these interim financial statements are the same as those used in the audited financial statements for the year ended 31st July, 2005.

As disclosed in the Company's audited consolidated financial statements for the year ended 31st July, 2005, the Group had resolved to early adopt all Hong Kong Financial Reporting Standards ("HKFRSs"), which also include all Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), in the financial year ended 31st July, 2005. The early adoption took place after the Group had prepared its unaudited condensed interim consolidated financial statements for the six months ended 31st January, 2005 and accordingly, the Group's results for the six months ended 31st January, 2005 were previously reported in accordance with Statements of Standard Accounting Practice ("SSAPs") issued by HKICPA. In order to conform with the current period's presentation and to comply with the new requirements of HKFRSs, certain comparative amounts have been restated and reclassified accordingly.

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The effect of changes in accounting policies on the unaudited condensed consolidated income statement for the six months ended 31st January, 2005 is summarised as follows:

	Impact of adopting HKFRSs on the Company and its subsidiaries						Impact of HKFRSs on share of profits and losses of associates	Total
	HKAS 1 HK\$'000	HKAS 16 HK\$'000	HKAS 17 HK\$'000	HKAS 39 HK\$'000	HKAS 40 HK\$'000	HKAS- Int-21 HK\$'000		
Increase in other operating expenses	—	(17,893)	(527)	—	—	—	—	(18,420)
Increase in gain on revaluation of investment properties	—	—	—	—	217,269	—	—	217,269
Increase in reversal of impairment of property, plant and equipment	—	7,409	—	—	—	—	—	7,409
Decrease in share of profits of associates	(2,413)	—	—	—	—	—	(87,169)	(89,582)
Decrease/(increase) in tax	2,413	951	—	—	—	(38,957)	—	(35,593)
Decrease/(increase) in loss for the year	—	(9,533)	(527)	—	217,269	(38,957)	(87,169)	81,083
Decrease/(increase) in loss attributable to equity holders of the parent	—	(6,206)	(355)	—	217,269	(38,957)	(87,169)	84,582
Decrease in profit attributable to minority interests	—	(3,327)	(172)	—	—	—	—	(3,499)
	—	(9,533)	(527)	—	217,269	(38,957)	(87,169)	81,083
Decrease/(increase) in loss per share (HK\$)	—	—	—	—	0.03	(0.01)	(0.01)	0.01

2. ACCOUNTING POLICIES (continued)

The effect of changes in accounting policies on the equity as at 1st August, 2004 is summarised as follows:

	Impact of adopting HKFRSs on the Company and its subsidiaries					HKAS- Int-21 HK\$'000	Impact of HKFRSs on interests in associates HK\$'000	Total HK\$'000
	HKAS 1 HK\$'000	HKAS 16 HK\$'000	HKAS 17 HK\$'000	HKAS 39 HK\$'000	HKAS 40 HK\$'000			
Total equity								
Decrease in investment property revaluation reserve	—	—	—	—	(1,737,809)	—	—	(1,737,809)
Decrease/(increase) in accumulated losses	—	(7,538)	(4,325)	—	1,737,809	(340,464)	—	1,385,482
Decrease in minority interests	—	(681)	(2,130)	—	—	—	—	(2,811)
Decrease in equity	—	(8,219)	(6,455)	—	—	(340,464)	—	(355,138)

3. SEGMENTAL INFORMATION

(a) Business Segments

The following table presents revenue and profit/(loss) for the Group's business segments:

	Six months ended 31st January, 2006 (Unaudited)					
	Property development and sales HK\$'000	Property investment HK\$'000	Hotel and restaurant operations HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Segment revenue:						
Sales to external customers	—	132,206	256,765	15,580	—	404,551
Intersegment sales	—	3,327	—	11,388	(14,715)	—
Other revenue	—	575	248	10	—	833
Total	—	136,108	257,013	26,978	(14,715)	405,384
Segment results	—	279,938	56,045	7,817	—	343,800
Interest income and unallocated gains						7,862
Unallocated expenses						(74,141)
Profit from operating activities						277,521

3. SEGMENTAL INFORMATION (continued)

(a) Business Segments (continued)

Six months ended 31st January, 2005 (Unaudited)						
	Property development and sales <i>HK\$'000</i>	Property investment <i>HK\$'000</i> (Restated)	Hotel and restaurant operations <i>HK\$'000</i> (Restated)	Others <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i> (Restated)
Segment revenue:						
Sales to external customers	3,626	122,090	259,257	11,161	—	396,134
Intersegment sales	—	3,963	—	11,126	(15,089)	—
Other revenue	—	476	590	6	—	1,072
Total	3,626	126,529	259,847	22,293	(15,089)	397,206
Segment results	1,759	309,843	54,461	7,405	—	373,468
Interest income and unallocated gains						1,819
Reversal of impairment of available-for-sale debt investments						105,979
Unallocated expenses						(52,207)
Profit from operating activities						429,059

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(b) Geographical Segments

The following table presents revenue for the Group's geographical segments:

Six months ended 31st January, 2006 (Unaudited)				
	Hong Kong <i>HK\$'000</i>	Mainland China <i>HK\$'000</i>	Vietnam <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment revenue:				
Sales to external customers	310,831	431	93,289	404,551
Other revenue	833	—	—	833
Total	311,664	431	93,289	405,384
Six months ended 31st January, 2005 (Unaudited)				
	Hong Kong <i>HK\$'000</i>	Mainland China <i>HK\$'000</i>	Vietnam <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment revenue:				
Sales to external customers	289,389	—	106,745	396,134
Other revenue	645	—	427	1,072
Total	290,034	—	107,172	397,206

4. PROFIT FROM OPERATING ACTIVITIES

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

	Six months ended	
	31st January,	
	2006	2005
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
		(Restated)
Depreciation	30,496	31,403
Amortisation of prepaid land lease payment	472	527
Impairment of goodwill arising on acquisition of a subsidiary	1,144	—
Amortisation of goodwill arising on acquisition of a subsidiary	—	1,144
Unrealised loss on revaluation of financial assets at fair value through profit or loss, net	—	34
Loss on disposal of property, plant and equipment	412	272
Dividend income	(431)	(671)

5. FINANCE COSTS

	Six months ended	
	31st January,	
	2006	2005
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on bank and other borrowings wholly repayable within five years	63,655	38,664
Interest on bank borrowings wholly repayable beyond five years	7,225	—
Interest on amount due to Golden Pool Enterprises Limited ("GPEL"), a wholly-owned subsidiary of eSun Holdings Limited	1,886	1,526
Total interest expenses	72,766	40,190
Other finance costs:		
Provision for premium on loan repayment	—	1,979
Bank charges and refinancing charges	6,168	10,413
	78,934	52,582

6. LOSS ARISING FROM THE BONDS SETTLEMENT AND ESUN DEBT SETTLEMENT

In last period, the Group incurred a loss of approximately HK\$1,484 million arising from the settlement of its indebtedness owed to (i) the holders of exchangeable bonds; (ii) the holders of convertible bonds (collectively, the "Bonds Settlement") and (iii) Golden Pool Enterprises Limited, a wholly-owned subsidiary of eSun Holdings Limited ("eSun") (the "eSun Debt Settlement").

7. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (Six months ended 31st January, 2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the period.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the places in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended 31st January,	
	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited) (Restated)
Provision for tax for the period:		
Current — Hong Kong	4,406	3,398
Deferred tax	34,594	44,707
	39,000	48,105
Prior period's overprovision — Hong Kong	(557)	—
	38,443	48,105

8. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share attributable to ordinary equity holders of the parent is based on the profit for the period attributable to equity holders of the parent of HK\$231,297,000 (2005: loss for the period attributable to equity holders of the parent of HK\$1,171,387,000 (restated)) and the weighted average number of 12,746,042,320 (2005: 6,485,145,000) ordinary shares in issue during the period.

Diluted earnings/(loss) per share amounts for the current and prior periods have not been disclosed, as no diluting event existed during both periods.

9. RELATED PARTY TRANSACTIONS

	Notes	Six months ended 31st January,	
		2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
Interest expenses to GPEL	(i)	1,886	1,526
Rental income and building management fee received from related companies	(ii)	1,867	2,012
Rental income and building management fee received from an associate of eSun	(iii)	889	269

Notes:

- (i) The interest expenses to GPEL represented interest on the HK\$225 million term loan owed to GPEL at 4.5% per annum.
- (ii) Rental income and building management fee received from one of the Company's major shareholders and its subsidiaries based on terms stated in the lease agreements.
- (iii) Rental income and building management fee received from an associate of eSun was based on terms stated in the respective lease agreement.

10. INTERESTS IN ASSOCIATES

Included in the Group's interests in associates as at 31st January, 2006 is the Group's share of net assets of eSun and its subsidiaries (the "eSun Group") of HK\$781,732,000.

At 31st December, 2005, the film rights of the eSun Group represented all rights, titles and interests in 127 films (the "127 Film Rights") with an aggregate carrying value of HK\$187,073,000 (2004: HK\$190,570,000). The directors of eSun engaged an independent film distributor (the "Valuer") to perform a valuation (the "Valuation") on the 127 Film Rights as at 31st December, 2005. Having regard to the Valuation performed by the Valuer and having regard to the current market conditions, the directors of eSun are of the opinion that there was no impairment on these film rights as at 31st December, 2005.

The auditors of eSun have issued a qualified opinion on the financial statements of the eSun Group for the year ended 31st December, 2005 in respect of the scope limitation of the carrying value of film rights. In their report, the auditors stated that they had been unable to obtain sufficient reliable information to carry out the audit procedures required by the Hong Kong Standards on Auditing 620 "Using the Work of an Expert" ("HKSA 620") issued by the HKICPA, to satisfy themselves as to (i) the competence and objectivity of the Valuer; and (ii) the adequacy of the scope of the Valuer's work on the 127 Film Rights. Accordingly, they had been unable to carry out adequate audit procedures to assess the carrying amount of the film rights as at 31st December, 2005. Included in the consolidated income statement for the year ended 31st December, 2005 is an amortisation charge on the eSun Group's film rights of HK\$3,497,000. They were also unable either to obtain sufficient reliable information, or to carry out alternative audit procedures to satisfy themselves as to the appropriateness of the basis of computation of the amortisation charge.

11. PLEDGED BANK BALANCES AND TIME DEPOSITS

As at 31st January, 2006, the non-current bank balances and time deposits of the Group of HK\$75,862,000 (as at 31st July, 2005: HK\$62,341,000) were pledged to a bank to secure a loan facility granted to the Group.

As at 31st July, 2005, the pledged bank balances and time deposits of HK\$8,020,000 as included in the current assets were pledged to a bank to back up corporate guarantees issued by the Company in respect of loan facilities granted by a bank to a subsidiary and an associate of the Company.

12. DEBTORS AND DEPOSITS/CREDITORS, DEPOSITS RECEIVED AND ACCRUALS

- (a) The Group maintains various credit policies for different business operations in accordance with business practices and market conditions in which the respective subsidiaries operate. Sale proceeds receivables from the sale of properties are settled in accordance with the terms of the respective contracts. 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. Hotel and restaurant charges are mainly settled by customers on cash basis except for those corporate clients who maintain credit accounts with the respective subsidiaries, the settlement of which is in accordance with the respective agreements.

12. DEBTORS AND DEPOSITS/CREDITORS, DEPOSITS RECEIVED AND ACCRUALS (continued)

(a) (continued)

An aged analysis of the trade debtors of the Group as at 31st January, 2006 and 31st July, 2005 are as follows:

	31st January, 2006 HK\$'000 (Unaudited)	31st July, 2005 HK\$'000 (Audited)
Trade debtors:		
Less than 30 days	26,071	22,456
31 — 60 days	4,779	4,370
61 — 90 days	1,653	1,506
Over 90 days	12,527	6,956
	<hr/> 45,030	35,288
Other debtors and deposits	<hr/> 145,658	104,275
	<hr/> 190,688 <hr/>	139,563

(b) An aged analysis of the trade creditors of the Group as at 31st January, 2006 and 31st July, 2005 are as follows:

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	31st January, 2006 HK\$'000 (Unaudited)	31st July, 2005 HK\$'000 (Audited)
Trade creditors:		
Less than 30 days	12,282	11,023
31 — 60 days	2,160	1,758
61 — 90 days	375	332
Over 90 days	364	467
	<hr/> 15,181	13,580
Other creditors, deposits received and accruals	<hr/> 263,912	236,757
	<hr/> 279,093 <hr/>	250,337

13. CONTINGENT LIABILITIES

- (i) Contingent liabilities not provided for in the financial statements as at the balance sheet date were as follows:

	Group		Company	
	31st January, 2006 HK\$'000 (Unaudited)	31st July, 2005 HK\$'000 (Audited)	31st January, 2006 HK\$'000 (Unaudited)	31st July, 2005 HK\$'000 (Audited)
Guarantees given to banks and other financial creditors in connection with facilities granted to:				
Subsidiaries	—	—	369,316	382,244
Associates	237,340	294,380	237,340	294,380
	237,340	294,380	606,656	676,624
Guarantees given in connection with the issue of A Bonds	—	—	2,661	2,661
Guarantees given in connection with the issue of B Bonds	—	—	—	37,492
	237,340	294,380	609,317	716,777

- (ii) Pursuant to certain indemnity deeds dated 12th November, 1997 entered into between the Company and Lai Fung Holdings Limited (“Lai Fung”), an associate of the Company’s controlling shareholder, the Company has undertaken to indemnify Lai Fung in respect of certain potential PRC income tax and land appreciation tax (“LAT”) payable or shared by Lai Fung in consequence of the disposal of any of the property interests attributable to Lai Fung through its subsidiaries and its associates as at 31st October, 1997 (the “Property Interests”). These tax indemnities given by the Company apply in so far as such tax is applicable to the difference between (i) the value of the Property Interests in the valuation thereon by Chesterton Petty Limited, independent chartered surveyors, as at 31st October, 1997 (the “Valuation”); and (ii) the aggregate costs of such Property Interests incurred up to 31st October, 1997, together with the amount of unpaid land costs, unpaid land premium and unpaid costs of resettlement, demolition and public utilities and other deductible costs in respect of the Property Interests. The indemnity deeds assume that the Property Interests are disposed of at the values attributed to them in the Valuation, computed by reference to the rates and legislation governing PRC income tax and LAT prevailing at the time of the Valuation.

The indemnities given by the Company do not cover (i) new properties acquired by Lai Fung subsequent to the listing of the shares of Lai Fung on The Stock Exchange of Hong Kong Limited (the “Listing”); (ii) any increase in the relevant tax which arises due to an increase in tax rates or changes to the legislation prevailing at the time of the Listing; and (iii) any claim to the extent that provision for deferred tax on the revaluation surplus has been made in the calculation of the adjusted net tangible asset value of Lai Fung as set out in Lai Fung’s prospectus dated 18th November, 1997.

No income tax payable nor LAT payable by Lai Fung was indemnifiable by the Company during the period.

14. COMMITMENTS FOR THE PURCHASE OF PROPERTY, PLANT AND EQUIPMENT

The Group had the following commitments not provided for in the financial statements at the balance sheet date:

	31st January, 2006 HK\$'000 (Unaudited)	31st July, 2005 HK\$'000 (Audited)
Capital commitments — contracted but not provided for	51,688	7,777

15. POST BALANCE SHEET EVENT

On 15th March, 2006, eSun, a 38.31% owned associate and a substantial shareholder of the Company, entered into a placing agreement (the "Placing Agreement") with independent third parties (the "Placing Agents"). Pursuant to the Placing Agreement, the Placing Agents agreed to procure subscribers to subscribe for 74,518,000 new ordinary shares of eSun (the "Placing Shares") at a price of HK\$5.8 per share. The net proceeds from the placing, after deducting the underwriting commission payable to the Placing Agents and other related expenses, will be approximately HK\$425 million. Please refer to the joint announcement made by the Company and eSun on 15th March, 2006 for the details of the transaction. The transaction was completed on 29th March, 2006.

Other than disclosed above, the Group had no significant post balance sheet event.

16. COMPARATIVE AMOUNTS

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As further explained in note 2 to the unaudited condensed consolidated financial statements, certain comparative amounts have been reclassified and restated to conform with the current period's presentation.

INTERIM ORDINARY DIVIDEND

The Directors do not recommend the payment of an interim ordinary dividend for the financial year ending 31st July, 2006. No interim ordinary dividend was declared in respect of the previous corresponding period.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group's turnover in the first half rose 2% to HK\$405 million. Gross profit rose 4% to HK\$254 million. Operating profit for the period amounted to HK\$278 million down 35% from the first half of the last financial year due largely to a lower gain on revaluation of investment properties and the absence of a reversal of impairment of available-for-sale debt investments, which in the first half of last year amounted to HK\$106 million. Net profit attributable to equity holders of the parent amounted to HK\$231 million as compared to a loss of HK\$1,171 million for the six months ended 31st January, 2005. However, the loss in the first half of the last financial year was principally due to a one-off loss of approximately HK\$1,484 million arising from the Group's debt settlement agreement.

The period under review saw the continued recovery of the domestic economy. Notwithstanding the sustained increases in interest rates, the Hong Kong property market has been resilient and both rental and capital values remained firm.

The Group has benefited from rental reversions, with property investment income registering an increase of around 8% and the property investment portfolio practically fully let. However, property development profits, which in the current financial year derive from the sale of our Rolling Hills Phase II joint venture project (50% owned), are down 48% compared to the first half of 2004/05.

The Group's hotel operations turned in a satisfactory performance. In Hong Kong, both the Ritz-Carlton Hong Kong (65% owned) and the Majestic Hotel (50% owned) have performed well benefiting from rising room rates and occupancy of 83% and 93% respectively. Our hotel operation in Vietnam has been affected by increasing competition with the opening of a Park Hyatt Hotel in Ho Chi Minh, but our Caravelle Hotel there was again voted the best business hotel in Ho Chi Minh for the fourth year in succession and it was also voted the best business hotel in Vietnam. Rising interest expenses and the sale of the Furama Resort Danang, which was sold in the second half of the previous financial year, adversely impacted divisional profit.

eSun Holdings Limited ("eSun"), in which we now have a 34.83% interest following its recent placement of 74,518,000 new shares, announced a net profit of HK\$210 million for the year ended 31st December, 2005 (2004 : Loss of HK\$146 million). The turnaround reflects the turnaround in our Group's reported profits as eSun is our largest shareholder with a 40.8% interest. During the year, eSun's most important business focus was planning for the redevelopment of its site in Macau. However, eSun has made good progress developing its media and entertainment businesses and its satellite television operations. Through its associate Media Asia Entertainment Group, eSun has also consolidated its number one position in the Chinese language film market in Hong Kong by gaining box office market share.

Prospects

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The Group's debt settlement agreement eliminated approximately HK\$3,700 million of debt and placed the Group on a firm financial footing. Since then, the Group has been actively looking at ways to move forward. We are in the process of upgrading our investment properties and rebalancing our tenant mix as tenancies expire so as to strengthen our rental income base. We have also been looking for development projects of a niche nature where we can add value. We have recently acquired a site which will be redeveloped to provide a total gross floor area of approximately 26,000 square feet and we continue to look for development opportunities — one area of focus is the greater opportunity presented by the proposed regulatory change that would allow developers to obtain possession of a property for development once it achieves 80% ownership of the property, down from the current 90% threshold.

It is our policy to evaluate the redevelopment potential of our property assets from time to time; such evaluation may lead to the redevelopment of the property asset being evaluated if the Board believes that it is in the best interest of its shareholders and the Group. In line with this policy, we are studying the possible redevelopment of the Ritz-Carlton Hong Kong site. During 2005, the adjacent AIG Tower in which we have a 10% interest, has achieved rents in excess of HK\$90 per square foot per month in its latest tenancies. Given the strong demand for prime office premises and the dearth of new supply in Central, prime office rentals in Central are likely to remain firm and could increase further. The Ritz-Carlton Hong Kong site of approximately 15,000 square feet has excellent potential for redevelopment to provide not less than 225,000 square feet of office accommodation under current building regulations. According to the current lease terms neither land premium payment nor lease modification is required.

Our most exciting prospects stem from our interest in eSun whose operating businesses have tremendous potential and management expects to continue making progress in developing these businesses. In addition, eSun owns a prime site of approximately 35 acres in the heart of Macau's Cotai and is working on a comprehensive master development plan with the following key elements: 2 hotels with a total of around 1,150 rooms, hotel residences with a total gross floor area of around 145,000 square metres, retail space of approximately 90,000 square metres and entertainment facilities of around 125,000 square metres in total, including a theatre with a seating capacity of around 2,500, an event centre/arena, television studio facilities and other entertainment facilities. The plan will be subject to approval of the Macau authorities. Phase I involves the construction of some 340,000 square metres of gross floor area and Phase II approximately 215,000 square metres of gross floor area. eSun's management is very excited by the longer term prospects for this project.

eSun intends to develop this project in joint venture with partners to whom it will sell an interest in its Cotai site. Given the low acquisition cost of the site in 2001 and its present market value, eSun can be expected to record a substantial profit on such sale. The sale proceeds will provide the capital for eSun to fund its share of the construction cost of the project and also provide capital for the development of its other businesses. The Cotai site has increased exponentially in value since it was acquired in 2001 and management anticipates there will be a further substantial increase in value upon completion of the project.

Liquidity and Financial Resources

As at 31st January, 2006, the Group had consolidated net assets of approximately HK\$3,674 million (as at 31st July, 2005: HK\$3,432 million).

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As at 31st January, 2006, the Group had outstanding borrowings of approximately HK\$2,622 million (as at 31st July, 2005: HK\$2,954 million) comprising (i) secured bank loans and other borrowings of approximately HK\$2,619 million and; (ii) an outstanding amount of approximately HK\$3 million, being residual amount payable under the Guaranteed Secured A Bonds due 2005 ("A Bonds"). The debt to equity ratio as expressed in a percentage of the total outstanding borrowings to consolidated net assets was approximately 71.37%. The maturity profile of the bank and other borrowings of HK\$2,619 million was spread over a period of more than 5 years with HK\$103 million repayable within 1 year, HK\$330 million repayable in the second year, HK\$2,104 million repayable in the third to fifth years and HK\$82 million repayable beyond 5 years.

As at 31st January, 2006, certain investment properties with carrying amounts of approximately HK\$3,976 million, certain property, plant and equipment with carrying amounts of approximately HK\$1,201 million, a prepaid land lease payment of approximately HK\$32 million and certain bank balances and time deposits with banks of approximately HK\$73 million were pledged to banks to secure banking facilities granted to the Group. At the same date, certain investment properties with carrying amounts of approximately HK\$4 million and certain property, plant and equipment with carrying amounts of approximately HK\$24 million were pledged to a bank to back up certain corporate guarantees issued by the Company in respect of certain banking facilities granted by the bank to a subsidiary and an associate of the Group. In addition, the entire holding of the shares of Peakflow Profits Limited together with its 10% shareholding in and its advance to Bayshore Development Group Limited, the joint venture company for the AIG Tower project, and certain shares in subsidiaries held by the Group were also pledged to banks and other lender to secure loan facilities granted to the Group. Certain shares of associates held by the Group were pledged to banks for loan facilities granted to certain associates of the Group. In addition, pursuant to the terms and conditions of the A

Bonds, A Bonds are secured by charges over the Group's entire 26.01% interest in Caravelle Hotel, Ho Chi Minh City, Vietnam and charges over the Group's entire 10% interest in The Waterfront, Hong Kong. The secured bank and other borrowings were also secured by floating charges over certain assets held by the Group.

All of the Group's borrowings are denominated in Hong Kong dollars or US dollars. The cash and cash equivalents of the Group are mainly held in Hong Kong dollars or US dollars. On the interest rate front, the majority of the bank borrowings are being maintained as floating rate debts.

Employees and Remuneration Policies

The Group employed a total of approximately 1,300 (as at 31st July, 2005: 1,300) employees as at 31st January, 2006. Total staff costs for the six months ended 31st January, 2006 amounted to approximately HK\$105 million. Pay rates of employees are maintained at competitive levels and salary adjustments are made on a performance related basis. Other staff benefits included a number of mandatory provident fund schemes for all the eligible employees, a free hospitalization insurance plan, subsidized medical care and subsidies for external educational and training programmes.

Contingent liabilities

Details of contingent liabilities are set out in note 13 to the condensed consolidated financial statements.

DISCLOSURE PURSUANT TO CHAPTER 13 OF THE LISTING RULES ("CHAPTER 13")

(A) Financial assistance and guarantees to affiliated companies (Paragraph 13.22 of Chapter 13)

As at 31st January, 2006 there were 12,746,042,320 shares of the Company (the "Shares") in issue. Based on the average closing price of Shares of HK\$0.1678 as stated in daily quotation sheets of The Stock Exchange of Hong Kong Limited for the 5 trading days immediately preceding 31st January, 2006, the total market capitalisation (the "Total Market Capitalisation") of the Company was HK\$2,138,785,901.

As at 31st January, 2006, the aggregate amount of financial assistance and guarantees given for facilities granted to affiliated companies has exceeded 8% of the Total Market Capitalisation of the Company. In compliance with paragraph 13.22 of Chapter 13, the proforma combined balance sheet of the affiliated companies as at 31st January, 2006 is disclosed as follows:

	<i>HK\$'000</i>
Property, plant and equipment	490,370
Prepaid land lease payment	710
Investment properties	323,000
Film rights	187,187
Properties under development	245,748
Interests in associates	1,653,769
Interests in jointly controlled entities	223
Net current assets	205,135
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Total assets less current liabilities	3,106,142
Long term borrowings	(579,327)
Land premium payable	(474)
Deferred tax	(55,209)
Deferred income	(41,271)
Amounts due to shareholders	(1,024,162)
<hr/>	
	1,405,699
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CAPITAL AND RESERVES	
Issued capital	380,874
Share premium account	3,001,935
Contributed surplus	891,289
Investment revaluation reserve	53,453
Exchange fluctuation reserve	91
Accumulated losses	(2,922,139)
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	1,405,503
Minority interests	196
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	1,405,699
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(B) Advances to entities (Paragraph 13.20 of Chapter 13)

In compliance with paragraph 13.20 of Chapter 13, details of the advances to the following entities by the Company as at 31st January, 2006 which individually has exceeded 8% of the Total Market Capitalisation are set out below:

Name of entities	Percentage of capital held	Principal amount of advance HK\$'000	Guarantees given for banking facilities granted HK\$'000	Total HK\$'000	Notes
Majestic Hotel Enterprises Limited and Majestic Centre Limited	50	—	250,000	250,000	(a)
Bayshore Development Group Limited	10	342,355	—	342,355	(b)

Notes:

- (a) A guarantee was given by the Company to a bank to secure 50% of a banking facility of up to HK\$500 million granted to Majestic Hotel Enterprises Limited and Majestic Centre Limited (being the owners of Majestic Hotel and Majestic Centre both situated at Kowloon, Hong Kong, respectively) as joint borrowers and is in proportion to the Group's beneficial shareholdings in the borrowers.
- (b) The balance due is unsecured, interest-free and has no fixed terms of repayment.

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DIRECTORS' INTERESTS

As at 31st January, 2006, 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 of equity derivatives 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 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 for Securities Transactions by Directors adopted by the Company to be notified to the Company and the Stock Exchange:

(1) **The Company**

Name of Director	Long positions in the shares					Total	Percentage
	Personal Interests	Family Interests	Corporate Interests	Other Interests	Capacity		
Lam Kin Ngok, Peter	10,099,585	Nil	1,582,869,192 <i>(Note 1)</i>	Nil	Beneficial owner	1,592,968,777	12.50%
Lau Shu Yan, Julius	1,200,000	Nil	Nil	Nil	Beneficial owner	1,200,000	0.0094%
U Po Chu <i>(Note 2)</i>	633,400	Nil	Nil	Nil	Beneficial owner	633,400	0.005%

Notes:

1. Lai Sun Garment (International) Limited ("LSG") and its wholly-owned subsidiary beneficially owned 1,582,869,192 shares. Mr. Lam Kin Ngok, Peter was deemed to be interested in such shares by virtue of his personal and deemed interest in approximately 37.69% of the issued share capital of LSG.
2. Madam U Po Chu is the widow of the late Mr. Lim Por Yen, whose estate includes an interest of 197,859,550 shares in the Company.

(2) **Associated Corporation**

eSun Holdings Limited ("eSun")

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Name of Director	Long positions in shares of eSun					Total	Percentage
	Personal Interests	Family Interests	Corporate Interests	Capacity			
Lau Shu Yan, Julius	500,000	Nil	Nil	Beneficial owner	500,000	0.067%	

Save as disclosed above, as at 31st January, 2006, none of the Directors and chief executive of the Company were interested, or were deemed to be interested in the long and short positions in the shares, underlying shares of equity derivatives and debentures of the Company or any associated corporation which were required to be notified to the Company and the Stock Exchange or recorded in the Register as aforesaid.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

As at 31st January, 2006, 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 equity derivatives of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name	Capacity	Long positions in the shares		
		Nature of Interests	Number of Shares	Percentage
eSun Holdings Limited	Beneficial owner	Corporate	5,200,000,000	40.80%
Lai Sun Garment (International) Limited ("LSG")	Beneficial owner	Corporate	1,582,869,192	12.42%
Lam Kin Ngok, Peter	Beneficial owner	Personal and Corporate	1,592,968,777	12.50% (Note 1)
Nice Cheer Investment Limited ("Nice Cheer")	Beneficial owner	Corporate	781,346,935	6.13%
Xing Feng Investments Limited ("Xing Feng")	Beneficial owner	Corporate	781,346,935	6.13% (Note 2)
Chen Din Hwa	Beneficial owner	Corporate	1,047,079,435	8.21% (Note 3)
Chen Yang Foo Oi	Beneficial owner	Family	1,047,079,435	8.21% (Note 4)
Lehman Brothers Holdings Inc.	Beneficial owner	Corporate	650,000,000	5.09%
Peter Cundill & Associates (Bermuda) Ltd.	Investment Manager	Corporate	775,000,000	6.08%

Notes:

- Lai Sun Garment (International) Limited ("LSG") and its wholly-owned subsidiary beneficially owned 1,582,869,192 shares, and Mr. Lam Kin Ngok, Peter was deemed to be interested in such shares by virtue of his personal and deemed interest in approximately 37.69% of the issued share capital of LSG.
- Xing Feng was taken to be interested in 781,346,935 shares beneficially owned by Nice Cheer due to its corporate interests therein.
- Mr. Chen Din Hwa was taken to be interested in 781,346,935 shares by virtue of his corporate interests in Nice Cheer. In addition, 265,732,500 shares were allotted by the Company to Absolute Gain Trading Limited on 7th December, 2004 as part of the Bonds Settlement (as defined in the Company's circular to its shareholders dated 15th September, 2004). Mr. Chen was taken to be interested in the 265,732,500 shares owned by Absolute Gain Trading Limited by virtue of his controlling interest therein.
- Madam Chen Yang Foo Oi was deemed to be interested in 1,047,079,435 shares by virtue of the interest in such shares of her spouse, Mr. Chen Din Hwa.

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 equity derivatives of the Company as at 31st January, 2006.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 31st January, 2006, 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 (the "CG Code") contained in Appendix 14 of the Listing Rules of the Stock Exchange throughout the accounting period covered by the 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 is appointed for a specific term. However, all Directors of the Company are subject to the retirement provisions under 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.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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The Company has adopted a Code for Securities Transactions by Directors (the "Code") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules of the Stock Exchange.

The Company has made specific enquiry of all the Directors who have confirmed their compliance with the required standard set out in the Code during the six months ended 31st January, 2006.

REVIEW OF INTERIM REPORT

The Interim Report of the Company for the six months ended 31st January, 2006 has been reviewed by the audit committee. The audit committee comprises the three independent non-executive Directors of the Company, namely Messrs. David Tang, Lam Bing Kwan and Leung Shu Yin, William.

By Order of the Board
Lam Kin Ngok, Peter
Chairman

Hong Kong, 7th April, 2006