Lai Fung Holdings

Lai Fung Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Interim Report 2011/2012

Stock Code: 1125

Cover photos:

1 Shanghai May Flower Plaza

2 Zhongshan Palm Spring

Corporate Information

Place of Incorporation
Cayman Islands

Board of Directors
Executive Directors
Lam Kin Ngok, Peter *(Chairman)*
Lam Kin Ming *(Deputy Chairman)*
Lam Kin Hong, Matthew
(Executive Deputy Chairman)
Lam Hau Yin, Lester *(Chief Executive Officer)*
U Po Chu
Lau Shu Yan, Julius
Tam Kin Man, Kraven
Cheng Shin How
Lui Siu Tsuen, Richard
Cheung Sum, Sam

Non-executive Directors
Leow Juan Thong, Jason
Lucas Ignatius Loh Jen Yuh
(also Alternate Director to Leow Juan Thong, Jason)

Independent Non-executive Directors
Lam Bing Kwan
Ku Moon Lun
Law Kin Ho

Audit Committee
Law Kin Ho *(Chairman)*
Lam Bing Kwan
Leow Juan Thong, Jason

Remuneration Committee
Lam Bing Kwan *(Chairman)*
Leow Juan Thong, Jason
Ku Moon Lun
Law Kin Ho
Cheung Sum, Sam

Company Secretary
Kwok Siu Man

Registered Office
P.O. Box 309
Ugland House
South Church Street
George Town
Grand Cayman, Cayman Islands

Principal Place of Business
11th Floor
Lai Sun Commercial Centre
680 Cheung Sha Wan Road
Kowloon, Hong Kong

Tel: (852) 2741 0391
Fax: (852) 2741 9763
Email: ir@laisun.com

Authorised Representatives
Lam Kin Ming
Lam Hau Yin, Lester

Share Registrars and Transfer Office in Cayman Islands
Butterfield Fulcrum Group (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 609
Grand Cayman KY1-1107
Cayman Islands

Branch Share Registrars and Transfer Office in Hong Kong
Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

Independent Auditors
Ernst & Young
Certified Public Accountants

Listing Information
Shares
The issued shares of the Company are listed and traded on the Main Board of The Stock Exchange of Hong Kong Limited

Stock Code/Board Lot
1125/1,000 shares

Notes
The 9.125% senior notes due 2014 issued by the Company are listed and traded on Singapore Exchange Securities Trading Limited

Website
www.laifung.com

Chairman's Statement

I am pleased to present the unaudited consolidated results of Lai Fung Holdings Limited (the "**Company**") and its subsidiaries (the "**Group**") for the six months ended 31 January 2012.

Overview of Interim Results

For the six months ended 31 January 2012, the Group recorded a turnover of HK$831.3 million (2011: HK$383.4 million) and a gross profit of HK$454.1 million (2011: HK$190.4 million), representing an increase of approximately 117% and 138% respectively from the previous corresponding period. Net profit attributable to shareholders was approximately HK$399.1 million (2011: HK$389.8 million), representing an increase of approximately 2%.

Basic earnings per share correspondingly increased to HK4.96 cents (2011: HK4.84 cents).

Shareholders' equity as at 31 January 2012 amounted to HK$9,060.9 million, up from HK$8,514.5 million as at 31 July 2011. Net asset value per share attributable to owners of the Company correspondingly increased to HK$1.13 per share from HK$1.06 per share for the same period.

Interim Dividend

The board of directors (the "**Board**") of the Company has resolved not to pay an interim dividend for the six months ended 31 January 2012 (six months ended 31 January 2011: Nil).

Market and Business Overview

In 2011, the property market in China was characterised by waves of escalated austerity measures with the intention to rein back a surging property market in order to harmonise overall economic growth. Factors such as the fear of global economic recession, the spread of Europe's financial crisis, the presidential election in the United States and the change of leadership in China added uncertainties to China's export economy, which led to concerns on China's overall economic growth. As a result, the China property market changed from robust to challenging. Against such testing market conditions, the Group adopted a prudent yet flexible strategy and responded to market changes actively with the objective of preserving profitability and long-term value for shareholders, which led to an encouraging set of results characterised by the strong performances from the Group's investment properties and satisfactory sales momentum of its development properties.

Chairman's Statement *(Continued)*

Stable Financial Position

The Group maintains a prudent financial strategy adopted for optimising its financial structure and strengthening working capital. In light of the challenging operating environment in the China property sector currently and the expected construction costs for completed and on-going projects, the Company has been reviewing different options to shore up working capital. Having considered the credit markets and the interest burden associated with any loan or debt issuance, the directors (excluding those directors who are members of the Independent Board Committee (as defined in the announcement stated below) and will form their view after discussion with the independent financial adviser) of the Company believe that it would be in the best interests of the Company and its shareholders as a whole to raise long-term equity capital through an open offer of its shares which provides all shareholders with an equitable means to participate without suffering from shareholding dilution.

On 27 February 2012, the Company announced a proposed open offer on the basis of one offer share for every one share of HK$0.10 each in the share capital of the Company (the "**Offer Shares**") at a subscription price of HK$0.125 per Offer Share (the "**Open Offer**"). The Open Offer is fully underwritten by eSun Holdings Limited ("**eSun**") with irrevocable undertakings from eSun and CapitaLand LF (Cayman) Holdings Co., Ltd., to subscribe for their assured entitlements which demonstrates the Company's major shareholders' confidence and commitment in the long-term prospect of the Group. Depending on the level of subscription of the Open Offer and the underwriting obligations of eSun, eSun's interests in the Company may potentially increase to more than 50% of the Company's issued share capital as enlarged by the Open Offer, in which case the Company will become a subsidiary of eSun.

The Open Offer, subject to approvals from the respective shareholders of the Company and eSun, is expected to raise approximately HK$990 million (net of expenses), which is intended to be used as working capital for (i) applying towards financing the existing property development projects of the Company; and (ii) identifying and proceeding with property projects that may emerge in the future. The Open Offer is expected to complete in June 2012.

Further details of the Open Offer are disclosed in the joint announcement of the Company and eSun dated 27 February 2012.

Chairman's Statement *(Continued)*

Strategy and Prospects

The international financial and economic conditions are expected to remain challenging in 2012 with no clear long-term solution to the credit crisis in Europe and recession risk in the United States has not completely subsided. The presidential election in the United States and the change of leadership in China add short-term uncertainties. These uncertainties will affect the macro-economic situation in China. The tightening policies introduced by the Central Government over the property market are showing signs of impact and expected to continue. However, the Group is optimistic in the long-term prospects of the property market in China which is underpinned by robust long-term economic growth, continuous urbanisation trend, strong underlying demand, high inflation and high savings ratio.

The Group will adopt a strategy of prudent expansion. While continuing to strengthen its business in and around Shanghai and Guangzhou, the Group will continue to investigate the conditions of different cities to identify new opportunities. It will adapt its development plans according to market conditions in different cities with a view to delivering long-term value to shareholders.

Successful revitalisation of Shanghai Hong Kong Plaza is a testament of our expertise in enhancing the value of our investment properties. The Group will continue to improve its recurrent income base through upgrading existing rental properties and adding new commercial properties from development projects. The Group expects its investment properties to provide a strong base of recurrent income in the years to come.

The Group will continue to focus on development projects in and around Shanghai and Guangzhou. It will also continue to replenish its land bank should the right opportunities arise. With its quality products, excellent after-sales service and customer-focused property management, the Group is confident that it is well positioned to take advantage of the challenges ahead.

At the same time, the Group will adhere to and implement a prudent financial strategy to maintain a sound financial position and cash flow, with a view to improving its competitiveness in the challenging market environment and capturing market opportunities that arise in a timely manner.

Shareholders and Staff

On behalf of the Board, I would like to extend my heartfelt gratitude to the full trust and enormous support of our shareholders, customers and partners, as well as the unrelenting commitment and efforts of all our staff members, which set the Company on course for long-term success.

Lam Kin Ngok, Peter
Chairman

Hong Kong
29 March 2012

Condensed Consolidated Income Statement

For the six months ended 31 January 2012

	Notes	For the six months ended 31 January	
		2012	2011
		(Unaudited)	(Unaudited)
		HK$'000	HK$'000
TURNOVER	3	**831,332**	383,418
Cost of sales		**(377,185)**	(193,013)
Gross profit		**454,147**	190,405
Other income and gains		**57,055**	56,888
Selling and marketing expenses		**(39,921)**	(21,096)
Administrative expenses		**(120,918)**	(99,645)
Other operating expenses, net		**(61,122)**	(7,954)
Fair value gains on investment properties		**480,759**	533,849
PROFIT FROM OPERATING ACTIVITIES	4	**770,000**	652,447
Finance costs	5	**(45,123)**	(34,580)
Share of losses of associates		**(7,889)**	(350)
PROFIT BEFORE TAX		**716,988**	617,517
Tax	6	**(270,110)**	(195,710)
PROFIT FOR THE PERIOD		**446,878**	421,807
ATTRIBUTABLE TO:			
Owners of the Company		**399,129**	389,783
Non-controlling interests		**47,749**	32,024
		446,878	421,807
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY:			
Basic and diluted	7	**HK4.96 cents**	HK4.84 cents

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 31 January 2012

	For the six months ended 31 January	
	2012 (Unaudited) HK$'000	2011 (Unaudited) HK$'000
PROFIT FOR THE PERIOD	**446,878**	421,807
OTHER COMPREHENSIVE INCOME/(EXPENSES), NET OF TAX		
Exchange differences arising on translation to presentation currency	**161,568**	279,456
Share of other comprehensive income of associates	**37,269**	10,243
Reversal of impairment/(impairment) of investment properties under construction	**(2,469)**	14,284
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	**196,368**	303,983
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**643,246**	725,790
ATTRIBUTABLE TO:		
Owners of the Company	**586,731**	678,851
Non-controlling interests	**56,515**	46,939
	643,246	725,790

Condensed Consolidated Statement of Financial Position

As at 31 January 2012

	Notes	**31 January 2012 (Unaudited) HK$'000**	31 July 2011 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**865,449**	931,774
Properties under development		**717,210**	1,122,284
Investment properties		**10,195,922**	9,295,785
Prepaid land lease payments		**5,716**	5,717
Goodwill		**3,737**	4,561
Interests in associates		**325,062**	350,289
Total non-current assets		**12,113,096**	11,710,410
CURRENT ASSETS			
Properties under development		**615,613**	1,231,503
Completed properties for sale		**1,553,757**	193,649
Debtors, deposits and prepayments	8	**129,885**	160,525
Tax recoverable		**28,640**	39,472
Pledged and restricted time deposits and bank balances		**487,945**	712,456
Cash and cash equivalents		**758,477**	887,300
Total current assets		**3,574,317**	3,224,905
CURRENT LIABILITIES			
Creditors and accruals	9	**856,448**	590,206
Deposits received and deferred income		**234,478**	567,815
Interest-bearing bank loans, secured		**667,748**	118,154
Tax payable		**347,899**	265,451
Total current liabilities		**2,106,573**	1,541,626
NET CURRENT ASSETS		**1,467,744**	1,683,279
TOTAL ASSETS LESS CURRENT LIABILITIES		**13,580,840**	13,393,689

Condensed Consolidated Statement of Financial Position

(Continued)

As at 31 January 2012

	31 January 2012 (Unaudited) HK$'000	31 July 2011 (Audited) HK$'000
NON-CURRENT LIABILITIES		
Long-term deposits received	**88,795**	81,692
Interest-bearing bank loans, secured	**890,636**	1,471,241
Advances from a former substantial shareholder	**57,404**	56,474
Fixed rate senior notes	**1,423,624**	1,427,850
Deferred tax liabilities	**1,444,246**	1,283,303
Total non-current liabilities	**3,904,705**	4,320,560
	9,676,135	9,073,129
EQUITY		
Equity attributable to owners of the Company		
Issued capital	**804,796**	804,796
Share premium account	**3,876,668**	3,876,668
Asset revaluation reserve	**31,450**	33,894
Exchange fluctuation reserve	**1,753,287**	1,594,660
Capital reserve	**25,974**	(5,445)
Retained earnings	**2,568,774**	2,169,645
Proposed dividend	**—**	40,240
	9,060,949	8,514,458
Non-controlling interests	**615,186**	558,671
	9,676,135	9,073,129

Condensed Consolidated Statement of Changes in Equity

For the six months ended 31 January 2012

	Attributable to owners of the Company										
	Issued capital HK$'000	**Share premium account** HK$'000	**Asset revaluation reserve** HK$'000	**Share option reserve** HK$'000	**Exchange fluctuation reserve** HK$'000	**Capital reserve** HK$'000	**Retained earnings** HK$'000	**Proposed dividend** HK$'000	**Sub-total** HK$'000	**Non-controlling interests** HK$'000	**Total** HK$'000
As at 31 July 2011 and 1 August 2011 (Audited)	804,796	3,876,668	33,894	–	1,594,660	(5,445)	2,169,645	40,240	8,514,458	558,671	9,073,129
Profit for the period	–	–	–	–	–	–	399,129	–	399,129	47,749	446,878
Other comprehensive income/(expenses) for the period, net of tax:											
Impairment of investment properties under construction	–	–	(2,444)	–	–	–	–	–	(2,444)	(25)	(2,469)
Exchange differences arising on translation to presentation currency	–	–	–	–	152,777	–	–	–	152,777	8,791	161,568
Share of other comprehensive income of associates	–	–	–	–	5,850	31,419	–	–	37,269	–	37,269
Total comprehensive income/(expenses) for the period, net of tax	–	–	(2,444)	–	158,627	31,419	399,129	–	586,731	56,515	643,246
Final 2011 dividend paid	–	–	–	–	–	–	–	(40,240)	(40,240)	–	(40,240)
As at 31 January 2012 (Unaudited)	**804,796**	**3,876,668**	**31,450**	**–**	**1,753,287**	**25,974**	**2,568,774**	**–**	**9,060,949**	**615,186**	**9,676,135**
As at 31 July 2010 and 1 August 2010 (Audited)	804,796	3,876,668	17,571	1,680	1,111,524	(5,445)	1,678,093	40,240	7,525,127	479,409	8,004,536
Profit for the period	–	–	–	–	–	–	389,783	–	389,783	32,024	421,807
Other comprehensive income for the period, net of tax:											
Reversal of impairment of investment properties under construction	–	–	14,141	–	–	–	–	–	14,141	143	14,284
Exchange differences arising on translation to presentation currency	–	–	–	–	264,684	–	–	–	264,684	14,772	279,456
Share of other comprehensive income of associates	–	–	–	–	10,243	–	–	–	10,243	–	10,243
Total comprehensive income for the period, net of tax	–	–	14,141	–	274,927	–	389,783	–	678,851	46,939	725,790
Release of reserve upon lapse of share options	–	–	–	(1,680)	–	–	1,680	–	–	–	–
Final 2010 dividend paid	–	–	–	–	–	–	–	(40,240)	(40,240)	–	(40,240)
As at 31 January 2011 (Unaudited)	804,796	3,876,668	31,712	–	1,386,451	(5,445)	2,069,556	–	8,163,738	526,348	8,690,086

Condensed Consolidated Statement of Cash Flows

For the six months ended 31 January 2012

	For the six months ended 31 January	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
NET CASH FLOW FROM/(USED IN) OPERATING ACTIVITIES	**(9,852)**	187,144
NET CASH FLOW FROM/(USED IN) INVESTING ACTIVITIES	**61,305**	(359,910)
NET CASH FLOW FROM/(USED IN) FINANCING ACTIVITIES	**(199,262)**	63,664
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(147,809)**	(109,102)
Cash and cash equivalents at beginning of period	**883,058**	1,391,295
Effect of foreign exchange rate changes, net	**23,228**	39,912
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**758,477**	1,322,105
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Non-pledged and non-restricted cash and bank balances	**456,817**	424,015
Non-pledged and non-restricted time deposits with original maturity of less than three months when acquired	**301,660**	898,090
	758,477	1,322,105

Notes to Condensed Consolidated Financial Statements

1. Basis of Preparation

The unaudited condensed consolidated interim financial statements of the Group for the six months ended 31 January 2012 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 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 2011. The Group has adopted the new and revised Hong Kong Financial Reporting Standards ("**HKFRSs**", 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 reported results or financial position of the Group.

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:

HKAS 1 (Revised) Amendments[2]	*Amendments to HKAS 1 (Revised) Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income*
HKAS 12 Amendments[1]	*Amendments to HKAS 12 Income Taxes — Deferred Tax: Recovery of Underlying Assets*
HKAS 27 (2011)[3]	*Separate Financial Statements*
HKAS 28 (2011)[3]	*Investments in Associates and Joint Ventures*
HKAS 32 Amendments[4]	*Amendments to HKAS 32 Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities*
HKFRS 7 Amendments[3]	*Amendments to HKFRS 7 Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities*
HKFRS 9[5]	*Financial Instruments*
HKFRS 9 and HKFRS 7 Amendments[5]	*Amendments to HKFRS 9 Financial Instruments and HKFRS 7 Financial Instruments: Disclosures — Mandatory Effective Date of HKFRS 9 and Transition Disclosures*
HKFRS 10[3]	*Consolidated Financial Statements*
HKFRS 11[3]	*Joint Arrangements*
HKFRS 12[3]	*Disclosure of Interests in Other Entities*
HKFRS 13[3]	*Fair Value Measurement*

Notes to Condensed Consolidated Financial Statements

(Continued)

2. Significant Accounting Policies *(Continued)*

Impact of issued but not yet effective HKFRSs *(Continued)*

[1] Effective for annual periods beginning on or after 1 January 2012
[2] Effective for annual periods beginning on or after 1 July 2012
[3] Effective for annual periods beginning on or after 1 January 2013
[4] Effective for annual periods beginning on or after 1 January 2014
[5] Effective for annual periods beginning on or after 1 January 2015

The amendments to HKAS 12 "Deferred Tax: Recovery of Underlying Assets" mainly deal with the measurement of deferred tax for investment properties that are measured using the fair value model in accordance with HKAS 40 "Investment Property". Based on the amendments, for the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties measured using the fair value model, the carrying amounts of the investment properties are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances. The adoption of the amendments to HKAS 12 may have a material impact on deferred tax recognised for investment properties that are measured using the fair value model. The Group is in the process of assessing the impact from application of these amendments.

For other new and revised HKFRSs which are issued but not yet effective, the Group is in the process of making an assessment of the impact upon initial application. 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 Financial Statements

(Continued)

3. Operating Segment Information

	For the six months ended 31 January (Unaudited)					
	Property development		Property investment		Consolidated	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
Segment revenue/results:						
Segment revenue						
Sales to external customers	**604,328**	201,413	**227,004**	182,005	**831,332**	383,418
Other revenue	**201**	205	**47,016**	43,236	**47,217**	43,441
Total	**604,529**	201,618	**274,020**	225,241	**878,549**	426,859
Segment results	**228,194**	12,133	**554,449**	646,782	**782,643**	658,915
Unallocated gains					**10,427**	13,447
Unallocated expenses, net					**(23,070)**	(19,915)
Profit from operating activities					**770,000**	652,447
Finance costs					**(45,123)**	(34,580)
Share of losses of associates	**(7,889)**	(350)	**—**	—	**(7,889)**	(350)
Profit before tax					**716,988**	617,517
Tax					**(270,110)**	(195,710)
Profit for the period					**446,878**	421,807
Other segment information:						
Fair value gains on investment properties	**—**	—	**480,759**	533,849	**480,759**	533,849
Reversal of impairment/ (impairment) of properties under development/ investment properties under construction*	**(4,401)**	(20,755)	**(3,291)**	19,047	**(7,692)**	(1,708)
Loss on disposal of items of property, plant and equipment	**(17)**	(20)	**(54,487)**	(27)	**(54,504)**	(47)

* *Impairment of HK$4,401,000 (six months ended 31 January 2011: HK$20,755,000) and impairment of HK$3,291,000 (six months ended 31 January 2011: reversal of impairment of HK$19,047,000) were recognised in profit or loss and in other comprehensive income, respectively.*

Notes to Condensed Consolidated Financial Statements

(Continued)

3. Operating Segment Information *(Continued)*

	Property development		Property investment		Consolidated	
	31 January 2012 (Unaudited) HK$'000	31 July 2011 (Audited) HK$'000	**31 January 2012 (Unaudited) HK$'000**	31 July 2011 (Audited) HK$'000	**31 January 2012 (Unaudited) HK$'000**	31 July 2011 (Audited) HK$'000
Segment assets:						
Segment assets	**2,937,715**	2,613,121	**11,080,036**	10,240,000	**14,017,751**	12,853,121
Interests in associates	**325,062**	350,289	**—**	—	**325,062**	350,289
Unallocated assets					**1,344,600**	1,731,905
Total assets					**15,687,413**	14,935,315

4. Profit from Operating Activities

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

	For the six months ended 31 January	
	2012 (Unaudited) HK$'000	2011 (Unaudited) HK$'000
Cost of completed properties sold	**326,781**	153,530
Impairment of properties under development*	**4,401**	20,755
Depreciation#	**29,664**	13,361
Foreign exchange differences, net*	**(7,863)**	(16,095)
Loss on disposal of items of property, plant and equipment#	**54,504**	47
Amortisation of prepaid land lease payments	**96**	90

\# *The depreciation charge of HK$9,092,000 (six months ended 31 January 2011: HK$8,888,000) for serviced apartments and the loss on disposal of items of property, plant and equipment of HK$54,504,000 (six months ended 31 January 2011: Nil) are included in "Other operating expenses, net" on the face of the condensed consolidated income statement.*

* *These items of expenses/(income) are included in "Other operating expenses, net" on the face of the condensed consolidated income statement.*

Notes to Condensed Consolidated Financial Statements

(Continued)

5. Finance Costs

	For the six months ended 31 January	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interest on:		
Bank loans wholly repayable within five years	**36,383**	19,374
Fixed rate senior notes, net	**65,866**	66,111
Amortisation of fixed rate senior notes	**3,461**	3,164
Bank financing charges	**826**	805
	106,536	89,454
Less: Capitalised in properties under development	**(46,083)**	(37,069)
Capitalised in investment properties	**(15,330)**	(12,616)
Capitalised in property, plant and equipment	**—**	(5,189)
	(61,413)	(54,874)
Total finance costs	**45,123**	34,580

6. Tax

No provision for Hong Kong profits tax had been made as the Group had no estimated assessable profits arising in Hong Kong during the period (six months ended 31 January 2011: Nil). Taxes on profits assessable elsewhere had been calculated at the tax rates prevailing in the jurisdictions in which the Group operates.

	For the six months ended 31 January	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Current — Mainland China		
Corporate income tax	**35,147**	22,116
Land appreciation tax	**93,806**	23,561
Deferred	**141,157**	150,033
Total tax charge for the period	**270,110**	195,710

Notes to Condensed Consolidated Financial Statements

(Continued)

7. Earnings per Share Attributable to Owners of the Company

The calculation of basic earnings per share amounts was based on the profit for the period attributable to owners of the Company of HK$399,129,000 (six months ended 31 January 2011: HK$389,783,000), and the weighted average number of ordinary shares of 8,047,956,478 (six months ended 31 January 2011: 8,047,956,478) in issue during the period.

The Group had no potentially dilutive ordinary shares in issue during the period ended 31 January 2012.

No adjustment had been made to the basic earnings per share amount presented for the period ended 31 January 2011 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic earnings per share amount presented.

8. Debtors, Deposits and Prepayments

The Group maintains various credit policies for different business operations in accordance with business practices and market conditions in which the respective subsidiaries operate. Sales proceeds receivable 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. Serviced apartments charges are mainly settled by customers on cash basis except for those corporate clients who maintain credit accounts with the Group, the settlement of which is in accordance with the respective agreements. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the payment due date, is as follows:

	31 January 2012 (Unaudited) HK$'000	31 July 2011 (Audited) HK$'000
Trade receivables, net:		
Within one month	**55,326**	59,269
One to three months	**1,084**	890
	56,410	60,159
Other receivables, deposits and prepayments	**73,475**	100,366
Total	**129,885**	160,525

Notes to Condensed Consolidated Financial Statements

(Continued)

9. Creditors and Accruals

An ageing analysis of the trade payables as at the end of the reporting period, based on the payment due date, is as follows:

	31 January 2012 (Unaudited) HK$'000	31 July 2011 (Audited) HK$'000
Trade payables:		
Within one month	**16,723**	83,740
One to three months	**1,410**	2,252
	18,133	85,992
Accruals and other payables	**838,315**	504,214
Total	**856,448**	590,206

10. Commitments

The Group had the following capital commitments as at the end of the reporting period:

	31 January 2012 (Unaudited) HK$'000	31 July 2011 (Audited) HK$'000
Contracted, but not provided for:		
Construction, renovation and compensation costs	**84,955**	151,564
Authorised, but not contracted for:		
Construction and resettlement costs	**73,395**	169,852

11. Related Party Transactions

(a) Transactions with related parties

		For the six months ended 31 January	
	Notes	2012 (Unaudited) HK$'000	2011 (Unaudited) HK$'000
Advertising and promotion fees paid or payable to related companies	(i)	**468**	1,081
Management and other service fees paid or payable to a related company	(ii)	**3,958**	2,705

Notes to Condensed Consolidated Financial Statements

(Continued)

11. Related Party Transactions *(Continued)*

(a) Transactions with related parties *(Continued)*

Notes:

*(i) The related companies are subsidiaries of eSun Holdings Limited ("**eSun**"), over which certain key management personnel of the Company has significant influence. In addition, eSun became a substantial shareholder of the Company with effect from 30 September 2010 following the completion of a corporate restructuring exercise on the same day.*

The terms of the advertising and promotion fees were determined based on the agreements entered into between the Group and the related companies.

(ii) The related company is a subsidiary of CapitaLand Limited (a substantial shareholder of the Company) which provides management and other services on the serviced apartment operation of the Group.

The terms of the management and other service fees were determined based on the agreement entered into between the Group and the related company.

(b) Compensation of key management personnel of the Group

	For the six months ended 31 January	
	2012 (Unaudited) HK$'000	2011 (Unaudited) HK$'000
Short-term employee benefits	**9,619**	8,024
Post-employment benefits	**46**	41
Total	**9,665**	8,065

12. Events after the Reporting Period

On 27 February 2012, the Company announced a proposed issue by way of an open offer (the "**Open Offer**") of 8,047,956,478 offer shares at the subscription price of HK$0.125 per offer share on the basis of 1 offer share for every 1 share of the Company held on the record date (being 9 May 2012 or such other date as may be agreed as defined in the joint announcement of the Company and eSun dated 27 February 2012 (the "**Announcement**")). The estimated gross proceeds before expenses from the Open Offer are approximately HK$1,006 million. The estimated proceeds after expenses of HK$990 million are intended to be used as working capital.

12. Events after the Reporting Period *(Continued)*

In connection with the Open Offer, (i) the Company and eSun (a shareholder of the Company holding about 40.6% of the existing issued shares of the Company as at the date of the Announcement) entered into an underwriting agreement on 27 February 2012 (the "**Underwriting Agreement**"), pursuant to which eSun has irrevocably undertaken to the Company to take up their assured entitlements under the Open Offer in full; and (ii) CapitaLand LF (Cayman) Holdings Co., Ltd. ("**CL**", a shareholder of the Company holding about 20% of the existing issued shares of the Company as at the date of the Announcement) has irrevocably undertaken to each of the Company and eSun to take up its assured entitlements under the Open Offer (the "**CL Undertaken Shares**") pursuant to a written undertaking in favour of the Company and eSun dated 27 February 2012. Save for those offer shares which eSun has irrevocably undertaken to be taken up, the Open Offer (including the CL Undertaken Shares) is fully underwritten by eSun.

eSun and the parties acting in concert with it potentially have the obligations to make a mandatory general offer arising from the terms of the Underwriting Agreement to acquire all the shares of the Company not otherwise owned, controlled or agreed to be acquired by them (including the offer shares to be issued upon completion of the Open Offer) pursuant to the Hong Kong Code on Takeovers and Mergers (the "**Takeovers Code**"). eSun has made an application to the Securities and Futures Commissions of Hong Kong (the "**SFC**") for a waiver (the "**Whitewash Waiver**") to waive such obligations. The Whitewash Waiver, if granted, will be subject to the approval of the independent shareholders (as defined under the Listing Rules) of the Company (the "**LF Independent Shareholders**") at the forthcoming extraordinary general meeting of the Company (the "**EGM**"). If the Whitewash Waiver is not granted by the SFC or not approved by the LF Independent Shareholders, the Open Offer will not proceed.

The Open Offer is conditional upon, inter alia, the following conditions being fulfilled: (i) the approval of the shareholders of eSun at the forthcoming special general meeting of eSun for the Underwriting Agreement and the transactions contemplated thereunder in accordance with the Listing Rules; and (ii) the approval of the LF Independent Shareholders at the EGM for the Open Offer and the Whitewash Waiver in accordance with the Listing Rules and the Takeovers Code.

Further details of the Open Offer are set out in the Announcement.

13. Approval of the Financial Statements

These condensed consolidated interim financial statements were approved and authorised for issue by the Board on 29 March 2012.

Management Discussion and Analysis

Business Review

Property Investment

Rental Income

During the six months ended 31 January 2012, the Group's rental operations recorded a turnover of HK$227.0 million (2011: HK$182.0 million), representing 27% of the Group's total turnover and a 25% increase as compared with that of the same period in 2011. Breakdown of rental turnover by investment properties is as follows:

	Six months ended 31 January		
	2012 HK$ million	2011 HK$ million	Change %
Shanghai Hong Kong Plaza	**168.2**	129.1	30
Shanghai Regents Park (commercial podium and car-parking spaces)	**5.2**	4.0	30
Shanghai Northgate Plaza I	**2.8**	9.0	– 69
Guangzhou May Flower Plaza	**43.0**	35.5	21
Guangzhou West Point (commercial podium and car-parking spaces)	**7.8**	4.4	77
Total	**227.0**	182.0	25

During the period, we had five major investment properties located in the heart of Shanghai and Guangzhou with a total gross floor area ("**GFA**") of 200,255 square metres ("**sq.m.**"). The commercial podium and basement of the recently completed Shanghai May Flower Plaza has been added to the portfolio and pre-lease is in progress.

Rental income achieved robust increase as a whole. Strong performance from Shanghai Hong Kong Plaza was underpinned by full contribution from existing leases and increase in revenue from the serviced apartments due to a substantial increase in average available rooms to over 300 rooms (2011: 162) after renovation. As the Group is considering a comprehensive redevelopment of Shanghai Northgate Plaza I and II, rental income for this property recorded a negative growth as we did not renew leases expired during the period.

Rental income from Guangzhou May Flower Plaza recorded a healthy growth driven by robust rent increase. Guangzhou West Point demonstrated strong growth as a result of improved occupancy and rent on lease renewal.

Business Review *(Continued)*

Property Development

Recognised Sales

During the six months ended 31 January 2012, the Group's property development operations recorded a turnover of HK$604.3 million (2011: HK$201.4 million) and total recognised GFA sold was approximately 14,211 sq.m. (2011: 9,054 sq.m.) from sale of properties, representing a 200% increase in turnover and 57% increase in GFA.

The increase in recognised sales was due to increase in volume as well as change in geographical mix, which led to a higher average selling price. Total recognised sales was driven by sales performance of Shanghai May Flower Plaza in 2011 of which 13,953 sq.m. of GFA was sold. During the period under review, the average selling price recognised for all the projects increased by 115% to approximately HK$45,000 per sq.m. (2011: HK$20,900 per sq.m.).

Breakdown of turnover for the period from property sales is as follows:

	Six months ended 31 January 2012		
	Recognised sales area	**Approximate average recognised selling price#**	**Total recognised sales amount***
	sq.m.	HK$/sq.m.	HK$'000
Shanghai May Flower Plaza			
Residential Units	13,953	45,200	595,671
Guangzhou West Point			
Residential Units	258	29,400	7,154
Sub-total	14,211		602,825
Guangzhou Eastern Place			
Car-parking Spaces			1,503
Total			604,328

Before business tax
* *After business tax*

Management Discussion and Analysis *(Continued)*

Business Review *(Continued)*

Property Development *(Continued)*

Contracted Sales

During the same period, contracted sales (excluding those conducted through associates) decreased to HK$196.3 million (2011: HK$528.5 million) and contracted GFA sold to 9,817 sq.m. (2011: 16,511 sq.m.), representing a 63% and 41% decrease respectively. Average selling price decreased by 35% to approximately HK$19,900 per sq.m. (2011: HK$30,600 per sq.m.).

The decrease in contracted sales was due to lower volume and change in geographical mix, which led to the decrease in average selling price. During the period under review, contracted sales was dominated by transaction volume from Palm Spring in Zhongshan, whereas the performance in the same period last year was driven by transaction volume from Shanghai May Flower Plaza.

Breakdown of contracted sales for the period is as follows:

	Six months ended 31 January 2012		
	Contracted sales area sq.m.	**Approximate average contracted selling price#** HK$/sq.m.	**Total contracted sales amount#** HK$ '000
Shanghai May Flower Plaza			
Residential Units	2,639	46,300	122,147
Shanghai Regents Park			
Phase II, Residential Units	371	48,700	18,080
Guangzhou West Point			
Residential Units	514	28,300	14,522
Office Units	100	27,100	2,714
Zhongshan Palm Spring			
Residential Units	6,193	6,200	38,139
Sub-total	9,817		195,602
Guangzhou Eastern Place			
Car-parking Spaces			674
Total			196,276
Guangzhou Dolce Vita			
Residential Units*	21,453	19,400	416,859

Before business tax

* *Guangzhou Dolce Vita is a joint venture project with CapitaLand China Holdings Pte. Ltd., in which the Group has an effective 47.5% interest. Please note that the reported contracted sales of HK$417 million is attributable to the full project. The Group's attributable share of profit from the sale of these residential units is expected to be recognised upon completion of the project after 2012.*

Management Discussion and Analysis *(Continued)*

Business Review *(Continued)*

Property Development *(Continued)*

Contracted Sales *(Continued)*

In light of the challenging operating environment and stringent government policies particularly for residential properties, the Group has adopted a prudent yet flexible approach with the objective of preserving margin and optimising long-term value for shareholders. The Group has achieved satisfactory sales momentum for the six months ended 31 January 2012 with such strategy. The Group expects the operating environment to remain challenging in 2012. However, the Group believes that it is well-positioned to take advantage of the pent-up demand with our project pipeline.

Project Pipeline

As at 31 January 2012, the Group had a number of projects in various stages of development in Shanghai, Guangzhou and Zhongshan, which are expected to complete in the next two to three years. The Group continues to adopt its prudent land replenishment plan, including making acquisitions in accordance with the development needs and market conditions.

Gross Profit

Gross profit of the Group (before land appreciation tax provision) increased substantially by 138% to approximately HK$454.1 million for the six months ended 31 January 2012 over the same period in 2011. Gross profit margin increased to approximately 55% for the six months ended 31 January 2012 from approximately 50% for the same period in 2011, primarily due to the sale of Shanghai May Flower Plaza's residential units having higher gross profit margin than projects sold in the same period in 2011 and strong performance from key investment property projects, namely Shanghai Hong Kong Plaza and Guangzhou May Flower Plaza.

Fair Value Gains on Investment Properties

During the period, the fair value gains on all investment properties amounted to approximately HK$480.8 million and the related deferred tax charged for the period was approximately HK$120.2 million.

Profit Attributable to Shareholders

For the reasons elaborated above, the net profit attributable to shareholders was approximately HK$399.1 million (2011: HK$389.8 million), representing an increase of approximately 2%.

Management Discussion and Analysis *(Continued)*

Review of Major Property Projects

Shanghai

Shanghai Hong Kong Plaza

Shanghai Hong Kong Plaza is a twin-tower prime property located on both the north and south sides of the street at Huaihaizhong Road, Huangpu District, Shanghai; the twin-towers are connected by a footbridge. The property comprises an office tower, shopping arcades and a serviced apartments tower. The property is directly above the Huangpi South Road Metro Station and is within walking distance of Xintiandi, a well-known landmark in Shanghai. Rental income for the six months ended 31 January 2012 amounted to HK$168.2 million, up by 30% from HK$129.1 million in the previous corresponding period. The increase in rental income continues to reflect its improved leasing profile of the shopping arcades and serviced apartments after renovation.

Shopping arcades were re-opened in October 2010 and since their re-opening, Shanghai Hong Kong Plaza's shopping arcades have become one of the most visible high-end retail venues for global luxury brands in the Huaihaizhong Road area. Anchor tenants include The Apple Store, Cartier, Coach, GAP and Tiffany and international renowned luxury brands and high-end restaurants. As at 31 January 2012, 97% of the arcades' leasable areas were leased.

Serviced apartments are managed by the Ascott Group and the Group has successfully leveraged Ascott Group's extensive experience and expertise in operating serviced apartments to position the serviced apartments as a high-end product. Since the completion of the renovation work of the shopping arcades and serviced apartments, occupancy of the office tower of Shanghai Hong Kong Plaza has also improved. As at 31 January 2012, occupancy rate for the office tower was approximately 96%.

Shanghai May Flower Plaza

Shanghai May Flower Plaza is a mixed-use project located at the junction of Da Tong Road and Zhi Jiang Xi Road in Su Jia Xiang in the Zhabei District of Shanghai. This project is situated near the Zhongshan Road North Metro Station. The Group has an effective 95% interest in the project.

The project has a total GFA of approximately 111,000 sq.m. (GFA attributable to the Group of approximately 105,000 sq.m.), comprising residential units, office apartment units and commercial spaces. The total saleable area of residential and office apartment units is approximately 80,000 sq.m. The completion certificate for the project was obtained in December 2011.

The residential portion of Shanghai May Flower Plaza is branded "The Mid-town" which comprises 628 residential units. Up to 31 January 2012, the Group had obtained contracted sales for 164 units with a total saleable GFA of 17,267 sq.m. at an average price of approximately RMB37,000 per sq.m.

We commenced pre-sale of the office apartments portion of the project with a total GFA of approximately 18,800 sq.m. comprising 335 units in late February this year. Sales momentum to date has been in line with expectation.

Management Discussion and Analysis *(Continued)*

Review of Major Property Projects *(Continued)*

Shanghai *(Continued)*

Shanghai Regents Park Phase II

Regents Park is a major residential project located in the Zhongshan Park Commercial Area of the prestigious Changning District, Shanghai with a total saleable GFA of approximately 154,000 sq.m. (GFA attributable to the Group is approximately 146,000 sq.m.). The Group has an effective 95% interest in the project. Phase II of the project comprises 6 residential towers with 455 units (total saleable GFA of approximately 62,845 sq.m. and GFA attributable to the Group of approximately 59,700 sq.m.).

Residential units have almost been completely sold with only a handful of units remaining. We retain the commercial podium which is fully let out.

Shanghai Northgate Plaza

Shanghai Northgate Plaza I comprises office units, a retail podium (now closed) and car-parking spaces. Located on Tian Mu Road West in the Zhabei District of Shanghai near the Shanghai Railway Terminal, this property is 97% owned by the Group and has a total GFA of approximately 36,500 sq.m. including car-parking spaces. Shanghai Northgate Plaza II is a vacant site adjacent to Plaza I. The site area of Plaza II is approximately 4,115 sq.m. and its buildable above ground GFA is approximately 25,000 sq.m. The Group has an effective 99% interest of Northgate Plaza II.

The Group plans to redevelop Shanghai Northgate Plaza I and II together under a comprehensive redevelopment plan. The redeveloped project will include an office tower, a shopping arcade and underground car-parking spaces. The Group is currently discussing the feasibility of the redevelopment proposal with professional consultants.

Guangzhou and Zhongshan

Guangzhou May Flower Plaza

Guangzhou May Flower Plaza is a prime property situated at Zhongshanwu Road, Yuexiu District directly above the Gongyuanqian Metro Station in Guangzhou, the interchange station of Guangzhou Subway Lines No. 1 and 2. The Group has an effective 77.5% interest in this property.

This 13-storey complex has a total GFA of approximately 51,000 sq.m. (GFA attributable to the Group of approximately 39,000 sq.m.), comprising retail spaces, restaurants and fast food outlets, and office units. The property is fully leased to tenants that are well-known corporations, consumer brands and restaurants. The property also houses a multiplex cinema. Rental income from Guangzhou May Flower Plaza was HK$43.0 million for the six months ended 31 January 2012, representing an increase of approximately 21% from the previous corresponding period. The increase in rental income reflects its improved tenant mix after partial transformation of the shopping arcades.

Review of Major Property Projects *(Continued)*

Guangzhou and Zhongshan *(Continued)*

Guangzhou Eastern Place

Guangzhou Eastern Place is a multi-phase project located on Dongfeng East Road, Yuexiu District, Guangzhou. The current Phase V development will have a total GFA attributable to the Group of approximately 101,000 sq.m., comprising two residential blocks, an office block and ancillary retail spaces. Construction work has commenced and is expected to be completed between 2012 and 2013. Pre-sale of the residential units is expected to start in the fourth quarter of 2012.

Guangzhou West Point

Guangzhou West Point is located on Zhongshan Qi Road and is within walking distance from the Ximenkou Subway Station. The project has a total GFA of approximately 63,000 sq.m., comprising 243 residential units, 244 office units and commercial spaces. In addition, there are approximately 10,000 sq.m. for carparks and ancillary facilities.

Residential blocks were completed in February 2010 and the office and commercial blocks were completed in June 2010 and sales of the residential and office units have virtually been completed.

As at 31 January 2012, the retail spaces available were fully leased. Tenants in Guangzhou West Point include renowned restaurants and retail brands. During the period under review, the rental income from the commercial podium and car-parking spaces of Guangzhou West Point was approximately HK$7.8 million.

Guangzhou Dolce Vita

The Guangzhou Dolce Vita is a joint venture project with CapitaLand China Holdings Pte. Ltd in which the Group has a 47.5% interest. This development in Jinshazhou, Hengsha, Baiyuan District, Guangzhou will have a total GFA of approximately 369,000 sq.m. (GFA attributable to the Group of approximately 175,200 sq.m.), comprising approximately 3,400 low-rise and high-rise residential units with ancillary facilities including car-parking spaces and shopping amenities. It is conveniently located near the business centre of Jinshazhou as well as several shopping and entertainment areas, and is easily accessible via Guangzhou Subway Line 6 and other transport modes. Praised as the metropolis of Guangzhou and Foshan, Jinshazhou is located in north-west Guangzhou.

The project is divided into four phases of similar sizes for development. Construction of Phase I commenced in the second quarter of 2010 and completion is expected to take place around the end of 2012. Pre-sale of Phase I of this project commenced in the second quarter of 2011. Up to 31 January 2012, the project had obtained contracted sales for 352 residential units with a total saleable GFA of 36,762 sq.m. at an average price of approximately RMB15,600 per sq.m.

Management Discussion and Analysis *(Continued)*

Review of Major Property Projects *(Continued)*

Guangzhou and Zhongshan *(Continued)*

Guangzhou Haizhu Plaza

Guangzhou Haizhu Plaza is located on Chang Di Main Road in Yuexiu District, Guangzhou along the Pearl River. The Group owns the entire project.

The proposed development has a GFA of approximately 103,000 sq.m. and is intended to be developed into an office and commercial complex. The Group has completed substantially most of the resettlement work of the original occupants. However, due to recent changes in government planning of the site, the Group is now in the process of negotiating a land exchange with the city government.

Guangzhou King's Park

The site is located on Donghua Dong Road in Yuexiu District. The permitted GFA is approximately 10,000 sq.m. The project is intended to be developed into a residential block with car-parking spaces and ancillary facilities. Construction work commenced in December 2010 and is expected to be completed in 2012.

Guangzhou Paramount Centre

The site is located at the junction of Da Sha Tou Road and Yan Jiang Dong Road in Yuexiu District. The permitted GFA is approximately 8,000 sq.m. This project is intended to be developed into an office block with car-parking spaces and ancillary facilities. Construction work commenced in December 2010 and is expected to be completed in 2012.

Guangzhou Guan Lu Road Project

The site is located on Guan Lu Road in Yuexiu District. The permitted GFA is approximately 14,000 sq.m. The project is intended to be developed into a residential block with car-parking spaces and ancillary facilities. Construction work is expected to commence later this year and will be completed in 2014.

Management Discussion and Analysis *(Continued)*

Review of Major Property Projects *(Continued)*

Guangzhou and Zhongshan *(Continued)*

Zhongshan Palm Spring

The project is located in Caihong Planning Area, West District of Zhongshan. The overall development has a total planned GFA of approximately 510,000 sq.m.

Phase I of the project will comprise high-rise residential towers with a total saleable GFA of approximately 47,000 sq.m., commercial areas with a total GFA of approximately 16,000 sq.m. and low-rise townhouses and semi-detached villas with a total saleable GFA of approximately 27,000 sq.m. Construction of Phase I development is expected to be completed around mid-2012. Pre-sale of the residential units commenced in September 2011.

Up to 31 January 2012, the project had obtained contracted sales for 66 units with a total saleable GFA of 6,193 sq.m. at an average price of approximately RMB5,000 per sq.m.

Capital Structure, Liquidity and Debt Maturity Profile

As at 31 January 2012, the Group had total borrowings in the amount of HK$3,039 million (as at 31 July 2011: HK$3,074 million), representing a decrease of HK$35 million. The consolidated net assets attributable to the owners of the Company amounted to HK$9,061 million (as at 31 July 2011: HK$8,514 million). The total debt to equity ratio (total borrowings to consolidated net assets) was 34% (as at 31 July 2011: 36%). The total debt to total capitalisation (long-term debt + equity) ratio was 27% (as at 31 July 2011: 27%). The net debt (total borrowings less cash and bank balances) to total equity plus net debt was 17% (as at 31 July 2011: 15%). The maturity profile of the Group's borrowings of HK$3,039 million was spread with HK$668 million repayable within 1 year, HK$930 million repayable in the second year and HK$1,441 million repayable in the third to fifth years.

Approximately 47% and 51% of the Group's borrowings were on a fixed rate basis and floating rate basis respectively, and the remaining 2% of the Group's borrowings were interest free.

Apart from the fixed rate senior notes which were denominated in United States dollars ("**USD**"), the Group's other borrowings of HK$1,615 million were 63% denominated in Renminbi ("**RMB**"), 36% in USD and 1% in Hong Kong dollars ("**HKD**"). The Group's cash and bank balances of HK$1,246 million were 87% denominated in RMB, 8% in HKD and 5% in USD.

The Group's presentation currency is denominated in HKD. The Group's monetary assets, liabilities and transactions are principally denominated in RMB, USD and HKD. The Group, with HKD as its presentation currency, is exposed to foreign currency risk arising from the exposure of HKD against USD and RMB, respectively. Considering that HKD is pegged against USD, the Group believes that the corresponding exposure to USD exchange rate fluctuation is nominal. However, the Group has a net exchange exposure to RMB as the Group's assets are principally located in China and the revenues are predominantly in RMB.

Management Discussion and Analysis *(Continued)*

Capital Structure, Liquidity and Debt Maturity Profile *(Continued)*

Certain assets of the Group have been pledged to secure borrowings of the Group, including investment properties with a total carrying value of approximately HK$7,009 million, properties under development with a total carrying value of approximately HK$219 million, serviced apartments and related properties with a total carrying value of approximately HK$749 million, a property with carrying value of approximately HK$41 million, completed properties for sale with a total carrying value of approximately HK$1,287 million and bank balances of approximately HK$161 million.

Under a litigation being processed in a district court in China, the Group, as the claimant, is claiming for a sum of RMB17 million from one of the Group's contractors. As a measure to preserve the payment ability of the defendant, the Group applied to the local court to freeze certain assets of the defendant. In return, the Group was required to pledge a leasehold property with a carrying value of approximately HK$45 million to the court as collateral.

On 27 February 2012, the Company announced a proposed issue by way of an open offer (the "**Open Offer**") of 8,047,956,478 offer shares at the subscription price of HK$0.125 per offer share on the basis of 1 offer share for every 1 share of the Company. The estimated gross proceeds before expenses from the Open Offer are approximately HK$1,006 million. The estimated proceeds after expenses of HK$990 million are intended to be used as working capital.

Taking into account the amount of cash being held as at the end of the reporting period, available banking facilities, expected renewal of certain bank loans, recurring cash flows from the Group's operating activities and the estimated net proceeds from the proposed Open Offer, the Group believes that it would have sufficient liquidity to finance its existing property development and investment projects.

Contingent Liabilities

There has been no material change in contingent liabilities of the Group since 31 July 2011.

Employees and Remuneration Policies

As at 31 January 2012, the Group employed a total of around 1,400 employees. The Group recognises the importance of maintaining a stable staff force in its continued success. Under the Group's existing policies, employee pay rates are maintained at competitive levels whilst promotion and salary increments are assessed on a performance-related basis. Discretionary bonuses are granted to employees based on their merit and in accordance with industry practice. Other benefits including share option scheme, mandatory provident fund scheme, free hospitalisation insurance plan, subsidised medical care and sponsorship for external education and training programmes are offered to eligible employees.

Corporate Governance and Other Information

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 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**" and the "**Listing Rules**" respectively) throughout the six months ended 31 January 2012 save for the deviations from code provisions A.4.1 and E.1.2 as follows:

Under code provision A.4.1, non-executive directors should be appointed for a specific term and subject to re-election.

None of the existing non-executive directors (including the independent non-executive directors) of the Company is appointed for a specific term. However, all directors of the Company (the "**Directors**") are subject to the retirement provisions of the Articles of Association of the Company (the "**Articles of Association**") which require that the Directors for the time being shall retire from office by rotation once every three years since their last election by shareholders and the retiring Directors are eligible for re-election. In addition, any person appointed by the board of Directors of the Company (the "**Board**") as an additional Director (including a non-executive Director) will hold office only until the next annual general meeting of the Company (the "**AGM**") and will then be eligible for re-election. Further, each of the Directors appointed to fill a casual vacancy will be subject to election by shareholders at the first general meeting after his/her appointment in line with the relevant code provision of the CG Code. In view of these, the Board considers that such requirements are sufficient to meet the underlying objective of the said code provision A.4.1 and, therefore, does not intend to take any remedial steps in this regard.

Under code provision E.1.2, the chairman of the board should attend the annual general meeting.

Due to other pre-arranged business commitments which must be attended to by him, the Chairman was not present at the AGM held on 21 December 2011. However, Mr. Lam Hau Yin, Lester, an executive Director and the Chief Executive Officer who was present at that AGM was elected chairman thereof AGM pursuant to the Articles of Association to ensure an effective communication with shareholders of the Company thereat.

Securities Transactions by Directors and Designated Employees

The Company has adopted a Code of Practice for Securities Transactions by Directors and Designated Employees (the "**Securities Code**") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules. The Company has made specific enquiries of all the Directors who have confirmed in writing their compliance with the required standard set out in the Securities Code during the six months ended 31 January 2012.

Corporate Governance and Other Information *(Continued)*

Directors' Interests

The following Directors and the chief executive of the Company who held office on 31 January 2012 and their respective associates (as defined in the Listing Rules) were interested, or were deemed to be interested, in the following interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "**SFO**")) on that date (a) as required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions, if any, which they were taken or deemed to have under such provisions of SFO); or (b) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO (the "**Register**"); or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the Securities Code or (d) as otherwise known by the Directors:

(A) Long positions in the Ordinary shares of HK$0.10 each (the "Shares") of the Company

Name of Director	Personal Interests	Family Interests	Corporate Interests	Other Interests	Capacity	Total Interests	Approximate % of Total Interests to Total Issued Shares
Lam Kin Ngok, Peter	Nil	Nil	3,265,688,037 *(Note)*	Nil	Owner of Controlled Corporations	3,265,688,037	40.58%
Lau Shu Yan, Julius	6,458,829	Nil	Nil	Nil	Beneficial Owner	6,458,829	0.08%

Note:

These interests in the Company represented the Shares beneficially owned by eSun Holdings Limited ("**eSun**"). eSun is owned as to approximately 37.93% by Lai Sun Development Company Limited which in turn is owned as to approximately 47.97% by Lai Sun Garment (International) Limited ("**LSG**"). As such, Dr. Lam Kin Ngok, Peter was deemed to be interested in the same 3,265,688,037 Shares in the Company (representing approximately 40.58% of the Company's issued share capital) held by eSun by virtue of his personal and deemed interests in approximately 38.06% of the issued share capital of LSG.

Corporate Governance and Other Information *(Continued)*

Directors' Interests *(Continued)*

(B) Long positions in the 9.125% Senior Notes due 2014 issued by the Company

Name of Director	Capacity	Nature of Interests	Principal Amount
Lam Kin Ngok, Peter	Owner of Controlled Corporations	Corporate *(Note)*	US$1,025,000
Lau Shu Yan, Julius	Beneficial Owner	Personal	US$300,000
Cheung Sum, Sam	Beneficial Owner	Personal	US$200,000

Note:

Accuremark Limited (a wholly-owned subsidiary of eSun) is interested in a principal amount of US$1,025,000 of the 9.125% Senior Notes due 2014 issued by the Company. As disclosed in the Note to (A) above, eSun is the controlling shareholder of the Company. As such, Dr. Lam Kin Ngok, Peter was deemed to be interested in the same principal amount of the said Notes held indirectly by eSun by virtue of his personal and deemed interests in approximately 38.06% of the issued share capital of LSG.

Save as disclosed above, as at 31 January 2012, none of the Directors or the chief executive of the Company and their respective associates 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 corporations, which were required to be notified to the Company under the Securities Code and the Stock Exchange or recorded in the Register as aforesaid or otherwise known by the Directors.

Interests of Substantial Shareholders and Other Persons

As at 31 January 2012, so far as it is known by or otherwise notified to any Director or the chief executive of the Company, the particulars of the corporations or persons, one being a Director, who had 5% or more interests 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 or were entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of the Company (the "**Voting Entitlements**") (i.e. within the meaning of substantial shareholders of the Listing Rules) were as follows:

Long Positions in the Shares of the Company

Name	Capacity	Nature of Interests	Number of Shares	Approximate % of Shares in Issue
Substantial Shareholders				
eSun Holdings Limited ("**eSun**")	Owner of Controlled Corporations	Corporate	3,265,688,037 *(Note 1)*	40.58%
Lai Sun Development Company Limited ("**LSD**")	Owner of Controlled Corporations	Corporate	3,265,688,037 *(Note 1)*	40.58%
Lai Sun Garment (International) Limited ("**LSG**")	Owner of Controlled Corporations	Corporate	3,265,688,037 *(Note 1)*	40.58%
Lam Kin Ngok, Peter	Owner of Controlled Corporations	Corporate	3,265,688,037 *(Note 2)*	40.58%
Merit Worth Limited ("**MWL**")	Beneficial Owner and Owner of Controlled Corporation	Corporate	3,265,688,037 *(Note 3)*	40.58%
CapitaLand China Holdings Pte. Ltd. ("**CapitaLand China**")	Owner of Controlled Corporation	Corporate	1,610,000,000 *(Note 4)*	20%
CapitaLand LF (Cayman) Holdings Co., Ltd ("**CapitaLand Cayman**")	Beneficial Owner	Corporate	1,610,000,000	20%
CapitaLand Limited	Owner of Controlled Corporations	Corporate	1,610,000,000 *(Note 4)*	20%
CapitaLand Residential Limited ("**CapitaLand Residential**")	Owner of Controlled Corporations	Corporate	1,610,000,000 *(Note 4)*	20%

Corporate Governance and Other Information *(Continued)*

Interests of Substantial Shareholders and Other Persons *(Continued)*

Long Positions in the Shares of the Company

Name	Capacity	Nature of Interests	Number of Shares	Approximate % of Shares in Issue
Temasek Holdings (Private) Limited ("**Temasek**")	Owner of Controlled Corporations	Corporate	1,610,000,000 *(Note 4)*	20%
Silver Glory Securities Limited ("**SGS**")	Beneficial Owner	Corporate	1,396,481,675 *(Note 3)*	17.35%
Other Persons				
Yu Cheuk Yi	Beneficial Owner	Personal	631,524,000 *(Note 5)*	7.85%
Yu Siu Yuk	Beneficial Owner	Personal	631,524,000 *(Note 5)*	7.85%

Notes:

1. These interests in the Company represented all the Shares beneficially owned by MWL (1,869,206,362 shares or about 23.23% of the total issued shares) and SGS (1,396,481,675 shares or about 17.35% of the total issued shares), both being wholly-owned subsidiaries of eSun. eSun is owned as to approximately 37.93% by LSD which in turn is owned as to approximately 47.97% by LSG. As such, both LSD and LSG were deemed to be interested in the same 3,265,688,037 Shares of the Company held by eSun.

2. Dr. Lam Kin Ngok, Peter was deemed to be interested in the same 3,265,688,037 Shares of the Company held by eSun by virtue of his personal and deemed interests in approximately 38.06% of the issued share capital of LSG.

3. SGS is wholly owned by MWL which in turn is wholly owned by eSun. Therefore, MWL is deemed to be interested in the 1,396,481,675 Shares held by SGS and eSun is deemed to be interested in the 3,265,688,037 Shares held and deemed to be held by MWL.

4. These interests in the Company represented the Shares beneficially owned by CapitaLand Cayman which is wholly owned by CapitaLand China which in turn is wholly owned by CapitaLand Residential while CapitaLand Residential is wholly owned by CapitaLand Limited. Temasek was deemed to be interested in the same 1,610,000,000 Shares of the Company held by CapitaLand Cayman by virtue of its approximate 39.60% interest in the issued share capital of CapitaLand Limited.

5. Mr. Yu Cheuk Yi and Ms. Yu Siu Yuk were both taken to be interested in the same 631,524,000 Shares of the Company which were held jointly by them.

Save as disclosed above, the Directors are not aware of any other corporation or person who, as at 31 January 2012, had the Voting Entitlements or any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Corporate Governance and Other Information *(Continued)*

Share Option Scheme

The Company adopted a share option scheme (the "**Share Option Scheme**") on 21 August 2003 for the purpose of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the Eligible Employees (as defined in the Share Option Scheme). Eligible Employees of the Share Option Scheme include the Directors and employees of the Group. Unless otherwise cancelled or amended, the Share Option Scheme will remain in force for 10 years from the date of approval and adoption of the Scheme.

During the period under review, no share options were granted, exercised, lapsed or cancelled in accordance with the terms of the Share Option Scheme.

Purchase, Sale or Redemption of Listed Securities

During the six months ended 31 January 2012, the Company did not redeem any of its shares listed and traded on the Stock Exchange nor did the Company or any or its subsidiaries purchase or sell any of such shares.

During the above period, the Company repurchased a principal amount of US$1,000,000 of its 9.125% Senior Notes due 2014, which are listed and traded on Singapore Exchange Securities Trading Limited, for an aggregate consideration (with accrued interest) of US$953,850.69 (equivalent to approximately HK$7,440,035.38) through private arrangement.

Update of Directors' Information

Pursuant to Rule 13.51B(1) of the Listing Rules, changes in the Directors' information since the disclosure made in the Company's annual report 2010-2011 are set out as follows:

(a) as an annual revision and with effect from 1 January 2012:

  (i) the monthly salary of Mr. Cheng Shin How, an Executive Director, has been increased from HK$433,333 to HK$437,667;

  (ii) the monthly salary of Mr. Cheung Sum, Sam, an Executive Director, has been increased from HK$123,000 to HK$126,690; and

(b) Mr. Lam Hau Yin, Lester, an Executive Director and the Chief Executive Officer, has been appointed a member of the Executive Committee of the Company with effect from 29 March 2012.

Corporate Governance and Other Information *(Continued)*

Review of Interim Report

The Audit Committee of the Company currently comprises two of the independent non-executive Directors, namely Mr. Law Kin Ho and Mr. Lam Bing Kwan and a non-executive Director, Mr. Leow Juan Thong, Jason (alternate Director: Mr. Lucas Ignatius Loh Jen Yuh). Such Committee has reviewed the unaudited interim report (containing the unaudited condensed consolidated financial statements) of the Company for the six months ended 31 January 2012.