



**eSun Holdings Limited**

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Interim Report 2010  
(Stock code: 571)

## PLACE OF INCORPORATION

Bermuda

## BOARD OF DIRECTORS

Low Chee Keong ( <i>Chairman</i> )	(re-designated as a non-executive director and appointed Chairman on 1 June 2010)
Tong Ka Wing, Carl* ( <i>Deputy Chairman</i> )	
Leung Churk Yin, Jeanny ( <i>Chief Executive Officer</i> )	
Lam Kin Ngok, Peter	
Cheung Wing Sum, Ambrose	
U Po Chu	
Lo Kwok Kwei, David	
Alfred Donald Yap*	
Ng Lai Man, Carmen*	
Lui Siu Tsuen, Richard	(appointed on 1 July 2010)
Albert Thomas da Rosa, Junior	(appointed on 19 July 2010)
Low Kit Leong	(resigned on 9 January 2010)
Lien Jown Jing, Vincent	(retired on 1 June 2010)

\* *Independent non-executive director*

## COMPANY SECRETARY

Goh Soon Khian	(appointed on 1 August 2010)
Yeung Kam Hoi	(retired on 1 August 2010)

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### **eSun Holdings Limited**

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*Stock code on Hong Kong Stock Exchange: 571*

## RESULTS

The Board of Directors of eSun Holdings Limited (the "Company") announces the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2010 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2010

	Notes	Six months ended	
		30 June 2010 (Unaudited) HK\$'000	30 June 2009 (Unaudited) HK\$'000
<b>TURNOVER</b>	3	<b>174,972</b>	166,984
Cost of sales		<b>(121,164)</b>	(111,167)
Gross profit		<b>53,808</b>	55,817
Other revenue	4	<b>6,477</b>	8,707
Marketing expenses		<b>(22,994)</b>	(59,462)
Administrative expenses		<b>(113,459)</b>	(115,771)
Other operating gains		<b>26,046</b>	8,596
Other operating expenses		<b>(29,796)</b>	(25,607)
Fair value loss on a put option	5	<b>(11,672)</b>	—
<b>LOSS FROM OPERATING ACTIVITIES</b>	6	<b>(91,590)</b>	(127,720)
Finance costs	7	<b>(3,574)</b>	(3,316)
Share of profits and losses of jointly-controlled entities		<b>(19,881)</b>	(15,641)
Share of profits and losses of associates		<b>269,580</b>	39,664
<b>PROFIT/(LOSS) BEFORE TAX</b>		<b>154,535</b>	(107,013)
Income tax	8	<b>(282)</b>	(331)
<b>PROFIT/(LOSS) FOR THE PERIOD</b>		<b>154,253</b>	(107,344)
Attributable to:			
Owners of the parent		<b>159,991</b>	(100,760)
Non-controlling interests		<b>(5,738)</b>	(6,584)
		<b>154,253</b>	(107,344)
<b>EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT</b>	9		
Basic and diluted		<b>HK\$0.13</b>	(HK\$0.08)
<b>INTERIM DIVIDEND</b>	10	<b>Nil</b>	Nil

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

	Six months ended	
	30 June 2010 (Unaudited) HK\$'000	30 June 2009 (Unaudited) HK\$'000
<b>PROFIT/(LOSS) FOR THE PERIOD</b>	<b>154,253</b>	<b>(107,344)</b>
<b>OTHER COMPREHENSIVE INCOME/(LOSS)</b>		
Exchange realignment on translation of foreign operations	1,247	(271)
Release of investment revaluation reserve upon disposal of an available-for-sale investment	(25,355)	—
Share of other comprehensive income of associates	25,889	6,722
<b>OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX</b>	<b>1,781</b>	<b>6,451</b>
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD</b>	<b>156,034</b>	<b>(100,893)</b>
Attributable to:		
Owners of the parent	161,772	(94,309)
Non-controlling interests	(5,738)	(6,584)
	<b>156,034</b>	<b>(100,893)</b>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2010

	Notes	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		83,737	84,761
Film rights		71,396	72,568
Film products		85,889	68,538
Music catalogs		112,973	115,249
Interests in jointly-controlled entities		1,040,406	1,044,869
Interests in associates	11	3,449,704	3,152,538
Available-for-sale investments		61,473	90,338
Held-to-maturity debt investments		26,645	—
Deposits, prepayments and other receivables		118,481	102,362
Deferred tax assets		329	423
<b>Total non-current assets</b>		<b>5,051,033</b>	<b>4,731,646</b>
<b>CURRENT ASSETS</b>			
Due from a jointly-controlled entity		1,834	1,844
Loan receivable		11,000	11,000
Inventories		5,232	3,769
Equity investments at fair value through profit or loss		2,254	2,809
Held-to-maturity debt investments		25,925	120,724
Films under production		154,751	130,823
Debtors	12	77,625	89,096
Deposits, prepayments and other receivables		90,788	103,286
Pledged deposit		12,600	12,600
Cash and cash equivalents		1,317,892	1,341,437
<b>Total current assets</b>		<b>1,699,901</b>	<b>1,817,388</b>
<b>CURRENT LIABILITIES</b>			
Creditors and accruals	13	429,731	411,683
Tax payable		2,520	2,434
Finance lease payables		136	92
Promissory notes		32,839	32,319
Interest-bearing bank borrowings		11,557	11,418
Interest-bearing other borrowings		158,474	155,673
<b>Total current liabilities</b>		<b>635,257</b>	<b>613,619</b>
<b>NET CURRENT ASSETS</b>		<b>1,064,644</b>	<b>1,203,769</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>6,115,677</b>	<b>5,935,415</b>
<b>NON-CURRENT LIABILITIES</b>			
Finance lease payables		(386)	(196)
Put option	5	(130,000)	(118,328)
<b>Total non-current liabilities</b>		<b>(130,386)</b>	<b>(118,524)</b>
<b>Net assets</b>		<b>5,985,291</b>	<b>5,816,891</b>
<b>EQUITY</b>			
<b>Equity attributable to owners of the parent</b>			
Issued capital	14	620,366	620,366
Reserves		5,043,414	4,870,296
<b>Non-controlling interests</b>		<b>5,663,780</b>	<b>5,490,662</b>
		<b>321,511</b>	<b>326,229</b>
<b>Total equity</b>		<b>5,985,291</b>	<b>5,816,891</b>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT							NON- CONTROLLING INTERESTS	TOTAL EQUITY	
	Issued share capital HK\$'000	Share premium account HK\$'000	Contributed surplus HK\$'000	Share option reserve HK\$'000	Investment revaluation reserve HK\$'000	Other reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	HK\$'000	HK\$'000
At 1 January 2010 (Audited)	620,366	4,227,678	891,289	15,586	256,640	—	(520,897)	5,490,662	326,229	5,816,891
Total comprehensive income/(loss) for the period	—	—	—	—	341	—	161,431	161,772	(5,738)	156,034
Equity-settled share option arrangements	—	—	—	863	—	—	—	863	—	863
Release of reserves upon lapse of share options	—	—	—	(2,622)	—	—	2,622	—	—	—
Share of reserve movements of associates	—	—	—	(268)	—	1,371	400	1,503	—	1,503
Disposal of partial interests in a subsidiary to non-controlling interests	—	—	—	—	—	8,980	—	8,980	1,020	10,000
<b>At 30 June 2010 (Unaudited)</b>	<b>620,366</b>	<b>4,227,678</b>	<b>891,289</b>	<b>13,559</b>	<b>256,981</b>	<b>10,351</b>	<b>(356,444)</b>	<b>5,663,780</b>	<b>321,511</b>	<b>5,985,291</b>
At 1 January 2009 (Audited)	620,366	4,227,678	891,289	29,515	159,613	—	(607,230)	5,321,231	345,782	5,667,013
Total comprehensive income/(loss) for the period	—	—	—	—	6,722	—	(101,031)	(94,309)	(6,584)	(100,893)
Equity-settled share option arrangements	—	—	—	2,033	—	—	—	2,033	—	2,033
Share of reserve movements of associates	—	—	—	311	—	—	—	311	—	311
Repayment of shareholder's loan from a non-controlling interest	—	—	—	—	—	—	—	—	(97)	(97)
<b>At 30 June 2009 (Unaudited)</b>	<b>620,366</b>	<b>4,227,678</b>	<b>891,289</b>	<b>31,859</b>	<b>166,335</b>	<b>—</b>	<b>(708,261)</b>	<b>5,229,266</b>	<b>339,101</b>	<b>5,568,367</b>

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2010

	Six months ended	
	30 June	30 June
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(115,222)	(81,376)
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	81,567	(179,578)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	9,695	(117)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(23,960)	(261,071)
Cash and cash equivalents at beginning of period	1,341,437	1,652,980
Effect of foreign exchange rate changes, net	415	(124)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,317,892	1,391,785
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents	1,317,892	1,391,785

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2010

### 1. BASIS OF PREPARATION

The condensed consolidated interim financial statements of the Group for the six months ended 30 June 2010 have not been audited by the Company's auditors but have been reviewed by the Company's Audit Committee.

The unaudited condensed consolidated interim 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.

### 2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies and basis of preparation adopted in the preparation of the unaudited condensed consolidated interim financial statements for the period under review are the same as those used in the Group's annual financial statements for the year ended 31 December 2009.

In addition, the Group has adopted a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) which are applicable to the Group for the first time for the current period's unaudited condensed consolidated interim financial statements, details of which are described below.

#### Impact of new and revised HKFRSs

The Group has adopted the following new and revised HKFRSs, applicable to the Group, for the first time for the current period's unaudited condensed consolidated interim financial statements:

HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment — Group Cash-settled Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HKFRS 8 (Amendment)	Amendments to HKFRS 8 Operating Segments — Disclosure of information about segment assets
HKAS 27 (Revised)	Consolidated and Separate Financial Statements

The adoption of the above new and revised HKFRSs, except for HKAS 27 (Revised) as described below, has had no material impact on the reported results or financial position of the Group.

#### ***HKAS 27 (Revised) Consolidated and Separate Financial Statements***

The application of HKAS 27 (Revised) has resulted in changes in the Group's accounting policies regarding increase or decrease in ownership interests in subsidiaries of the Group. In prior years, in the absence of specific requirements in HKFRSs, increase in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. The impact of decrease in interests in subsidiaries that did not involve loss of control (being the difference between the consideration received and the carrying amount of the share of net assets disposed of) was recognised in profit or loss. Under HKAS 27 (Revised), all increase or decrease in such interests are dealt with in equity, with no impact on goodwill or profit or loss.

During the period under review, the Group disposed of 10% equity interest in a subsidiary to non-controlling interests without loss of control of that subsidiary by the Group. The impact of the change in accounting policy has been that the surplus of the consideration received over the increase in the carrying amount of the non-controlling interests in the amount of HK\$8,980,000 has been recognised directly in equity. Had the previous accounting policy been applied, this amount would have been recognised in profit or loss. Therefore, the change in accounting policy has resulted in a decrease in profit for the period of HK\$8,980,000.



### 3. SEGMENT INFORMATION

#### Segment revenue/results:

	Media and entertainment		Film production and distribution		Corporate and others		Consolidated	
	Six months ended		Six months ended		Six months ended		Six months ended	
	30 June	30 June	30 June	30 June	30 June	30 June	30 June	30 June
	2010	2009	2010	2009	2010	2009	2010	2009
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Segment revenue:								
Sales to external customers	103,176	53,707	52,022	98,078	19,774	15,199	174,972	166,984
Other revenue	1,671	2,218	2,256	1,353	—	781	3,927	4,352
<b>Total</b>	<b>104,847</b>	<b>55,925</b>	<b>54,278</b>	<b>99,431</b>	<b>19,774</b>	<b>15,980</b>	<b>178,899</b>	<b>171,336</b>
Segment results	(2,746)	(17,955)	(11,954)	(19,049)	(92,801)	(103,667)	(107,501)	(140,671)
Unallocated interest and other gains							2,550	6,433
Gain on disposal of an available-for-sale investment	—	—	—	—	25,505	—	25,505	—
Fair value gains/(losses) on unrealised equity investments at fair value through profit or loss	—	—	—	—	(446)	6,518	(446)	6,518
Fair value loss on a realised equity investment at fair value through profit or loss	—	—	—	—	(26)	—	(26)	—
Fair value loss on a put option	—	—	—	—	(11,672)	—	(11,672)	—
Loss from operating activities							(91,590)	(127,720)
Finance costs							(3,574)	(3,316)
Share of profits and losses of jointly-controlled entities	(767)	712	(3,514)	2,759	(15,600)	(19,112)	(19,881)	(15,641)
Share of profits and losses of associates	(132)	(7)	—	—	269,712	39,671	269,580	39,664
Profit/(loss) before tax							154,535	(107,013)
Income tax							(282)	(331)
<b>Profit/(loss) for the period</b>							<b>154,253</b>	<b>(107,344)</b>

**Segment assets:**

	Media and entertainment		Film production and distribution		Corporate and others		Consolidated	
	30 June	31 December	30 June	31 December	30 June	31 December	30 June	31 December
	2010	2009	2010	2009	2010	2009	2010	2009
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	287,426	272,260	532,752	521,254	1,322,186	1,339,960	2,142,364	2,133,474
Interests in jointly- controlled entities	7,033	3,759	68,518	60,666	966,689	982,288	1,042,240	1,046,713
Interests in associates	(359)	(220)	—	—	3,450,063	3,152,758	3,449,704	3,152,538
Unallocated assets							116,626	216,309
Total assets							6,750,934	6,549,034

**4. OTHER REVENUE**

	Six months ended	
	30 June 2010 (Unaudited) HK\$'000	30 June 2009 (Unaudited) HK\$'000
Bank interest income	580	1,804
Interest income on held-to-maturity debt investments	1,043	1,029
Interest income from an amount due from a jointly-controlled entity	1,061	—
Interest income on a loan receivable	—	3,600
Distribution income from an unlisted available-for-sale investment	385	—
Consultancy service income from a jointly-controlled entity	1,901	—
Others	1,507	2,274
	6,477	8,707

**5. FAIR VALUE LOSS ON A PUT OPTION**

In connection with the disposal of one-third of the equity interest in East Asia Satellite Television (Holdings) Limited ("EAST (Holdings)") by the Group to CapitaLand Integrated Resorts Pte. Ltd. ("CapitaLand"), an independent third party, for a cash consideration of HK\$658,757,000 on 12 March 2007 (the "CapitaLand Transaction"), the Group granted CapitaLand a right (but not the obligation) at nil consideration, to sell or put back (the "Put Option") to the Group all (and not some) of the shares of EAST (Holdings) then held by CapitaLand at that time, in exchange for the return of:

- (i) the purchase consideration paid for such shares; and
- (ii) any associated joint venture capital contributions made up to that time, net of any benefits had or received by CapitaLand in respect of such shareholding.

The principal asset of EAST (Holdings) is its investment in Cyber One Agents Limited ("Cyber One"), which through its direct and indirect interests in East Asia-Televisão Por Satélite, Limitada ("EAST (Macau)"), holds a piece of land in Macau proposed to be developed into the "Macao Studio City".

Up to 30 June 2010, CapitaLand has made an aggregate capital contribution of approximately HK\$312 million (31 December 2009: HK\$312 million) to EAST (Holdings), which is proportional to its effective interest of 20% in Cyber One. The Put Option is only exercisable under certain discrete circumstances; including failure to obtain certain documents such as the occupation permit of Macao Studio City solely due to failure in obtaining a land grant modification within 54 months after completion of the CapitaLand Transaction, i.e. by 11 September 2011. Further details of the Put Option are set out in the Company's circular dated 1 February 2007. The land grant modification is being sought for an increase in the developable gross floor area from the original gazetted area. The Directors consider that the fair value of the Put Option depends on the possibility and timing of certain events (including whether and when EAST (Macau) will obtain the land grant modification for Macao Studio City as well as the probability of exercising the Put Option).

After taking into consideration the litigation between the Group and New Cotai, LLC ("New Cotai"), initiated by the Group in October 2009, and the prevailing progress and uncertainties as regards obtaining the abovementioned land grant modification (details as set out in the sub-paragraph headed "Litigation with New Cotai" under Note 16(b) below), the Directors have reassessed the fair value of the Put Option at HK\$130 million as at 30 June 2010 (31 December 2009: HK\$118 million). An additional fair value loss on the Put Option for the period of HK\$11,672,000 was recognised in the condensed consolidated income statement for the six months ended 30 June 2010.

The fair value of the Put Option as at 30 June 2010 and 31 December 2009 had been determined (i) by using a Black-Scholes model with key inputs including estimated valuation of the underlying property of Cyber One, expected volatility and risk-free rate; and (ii) with reference to the estimation by the Directors on the probability of the Put Option being exercised.

## 6. LOSS FROM OPERATING ACTIVITIES

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

	Six months ended	
	30 June 2010 (Unaudited) <i>HK\$'000</i>	30 June 2009 (Unaudited) <i>HK\$'000</i>
Cost of film rights, licence rights and film products	29,402	51,995
Cost of artiste management services, advertising agency services, and services for entertainment events provided	81,359	51,454
Cost of inventories sold	10,403	7,718
<b>Total cost of sales</b>	<b>121,164</b>	<b>111,167</b>
Provision for advances to artistes*	—	336
Reversal of provision for advance to an artiste*	(220)	—
Provision for bad and doubtful debts*	285	—
Write-back of provision for inventories*	(1,243)	—
Depreciation	4,293	3,917
Amortisation of film rights*	4,062	2,606
Amortisation of film products*	28,767	45,855
Amortisation of music catalogs*	2,276	2,205
Gain on disposal of an available-for-sale investment***	(25,505)	—
Fair value gains on unrealised equity investments at fair value through profit or loss***	—	(6,518)
Fair value losses on unrealised equity investments at fair value through profit or loss**	446	—
Fair value loss on a realised equity investment at fair value through profit or loss**	26	—
Foreign exchange gains	(91)	(227)

\* These items are included in "Cost of sales" on the face of the unaudited condensed consolidated income statement.

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

\*\*\* These items are included in "Other operating gains" on the face of the unaudited condensed consolidated income statement.

## 7. FINANCE COSTS

	Six months ended	
	30 June 2010 (Unaudited) <i>HK\$'000</i>	30 June 2009 (Unaudited) <i>HK\$'000</i>
Interest on other borrowings wholly repayable within five years	2,801	2,792
Interest on secured bank borrowings wholly repayable within five years	251	—
Interest on promissory notes	520	520
Interest on finance leases	2	4
<b>Total finance costs</b>	<b>3,574</b>	<b>3,316</b>

## 8. INCOME TAX

No provision for Hong Kong profits tax has been made during the current period as there are no assessable profits generated during the six months ended 30 June 2010 (six months ended 30 June 2009: nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended	
	30 June 2010 (Unaudited) HK\$'000	30 June 2009 (Unaudited) HK\$'000
Provision for tax for the period:		
Elsewhere	188	—
Deferred tax charge	94	331
Total tax charge for the period	282	331

## 9. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT

The calculation of basic earnings/(loss) per share amounts for the six months ended 30 June 2010 is based on the profit/(loss) for the period attributable to owners of the parent and the weighted average number of ordinary shares in issue during the period.

The calculation of basic earnings/(loss) per share is based on:

	Six months ended	
	30 June 2010 (Unaudited) HK\$'000	30 June 2009 (Unaudited) HK\$'000
<b>Earnings/(loss)</b>		
Profit/(loss) attributable to owners of the parent, used in the basic earnings/(loss) per share calculation	159,991	(100,760)

	Number of shares	
	Six months ended	
	30 June 2010 (Unaudited)	30 June 2009 (Unaudited)
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the period used in the basic earnings/(loss) per share calculation	1,240,732,165	1,240,732,165

The calculation of diluted earnings/(loss) per share for both periods presented has not assumed the exercise of share options as no diluting events existed during these periods.

## 10. INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2010 (six months ended 30 June 2009: nil).

## 11. INTERESTS IN ASSOCIATES

The balance mainly includes the Group's interests in Lai Sun Development Company Limited ("LSD").

### Interests in LSD

A cross-holding position has been existing between LSD and the Company since 7 December 2004. As at 30 June 2010, the Group's interests in LSD was 36.72% (31 December 2009: 36.72%) and LSD and its subsidiaries (the "LSD Group") held in aggregate 36.08% (31 December 2009: 36.08%) in the issued share capital of the Company.

The Group's share of net assets of the LSD Group is included in the Group's interests in associates. The Group's share of profit of the LSD Group included in the Group's share of profits and losses of associates, after taking into account the cross-holding effect between the Group and the LSD Group, for the six months ended 30 June 2010 was HK\$269,801,000 (six months ended 30 June 2009: HK\$40,088,000).

## 12. DEBTORS

Trade debtors include receivables for advertising, sales of products, licensing income and distribution commission from music publishing, film products and film rights. Trading terms with customers are largely on credit. Invoices are normally payable within 30 to 90 days of issuance, except for certain well-established customers, where the terms are extended to 120 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise its credit risk. Overdue balances are regularly reviewed by senior management. In view of the aforementioned and the fact that the Group's debtors relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An ageing analysis of the trade debtors, net of provision for doubtful debts, based on payment due date, as at 30 June 2010 and 31 December 2009 is as follows:

	<b>30 June 2010 (Unaudited) HK\$'000</b>	31 December 2009 (Audited) HK\$'000
Trade debtors:		
Neither past due nor impaired	<b>27,141</b>	53,418
1 - 90 days past due	<b>30,005</b>	19,961
Over 90 days past due	<b>20,479</b>	15,717
	<b>77,625</b>	89,096

Included in trade debtors are amounts due from related companies of HK\$294,000 (31 December 2009: HK\$779,000). The balances arose from ordinary course of business of the Group. The balances are unsecured, interest-free and are subject to similar credit terms to those offered to major customers of the Group.

### 13. CREDITORS AND ACCRUALS

An ageing analysis of the trade creditors, prepared based on the dates of receipt of the goods and services purchased, as at 30 June 2010 and 31 December 2009 is as follows:

	<b>30 June 2010 (Unaudited) HK\$'000</b>	31 December 2009 (Audited) HK\$'000
Trade creditors:		
Less than 30 days	4,878	13,396
31 - 60 days	2,874	1,310
61 - 90 days	160	—
Over 90 days	525	762
	<b>8,437</b>	15,468
Other creditors and accruals	<b>421,294</b>	396,215
	<b>429,731</b>	411,683

Trade creditors are non-interest-bearing and have an average credit term of three months.

### 14. SHARE CAPITAL

	30 June 2010		31 December 2009	
	Number of shares (Unaudited) '000	Nominal value (Unaudited) HK\$'000	Number of shares (Audited) '000	Nominal value (Audited) HK\$'000
Authorised:				
Ordinary shares of HK\$0.50 each	2,000,000	1,000,000	2,000,000	1,000,000
Issued and fully paid:				
Ordinary shares of HK\$0.50 each	1,240,732	620,366	1,240,732	620,366

### 15. COMMITMENTS

- (a) The Group had the following capital commitments, contracted but not provided for, at the end of the reporting periods:

	<b>30 June 2010 (Unaudited) HK\$'000</b>	31 December 2009 (Audited) HK\$'000
Commitments in respect of:		
Acquisition of furniture, fixtures and equipment	50	50
Capital contribution payable to jointly-controlled entities to be established	17,250	5,681
Contribution to an available-for-sale investment	16,232	16,856
	<b>33,532</b>	22,587

The Group's share of the jointly-controlled entities' own capital commitments, which is not included in the above, is as follows:

	<b>30 June 2010 (Unaudited) HK\$'000</b>	31 December 2009 (Audited) HK\$'000
Contracted, but not provided for	<b>276,459</b>	279,340

- (b) As at 30 June 2010, the Group leased certain of its office premises under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

At the end of the reporting periods, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>30 June 2010 (Unaudited) HK\$'000</b>	31 December 2009 (Audited) HK\$'000
Within one year	<b>5,909</b>	7,161
In the second to fifth years, inclusive	<b>4,240</b>	5,810
	<b>10,149</b>	12,971

## 16. LITIGATIONS

### (a) Litigation with Passport

In December 2008, the Company had sought to raise approximately HK\$60 million through a share placement exercise (with the prospect of raising an additional HK\$60 million if the placees exercised the accompanying warrants in full). The placing shares would have represented approximately 8.82% of the enlarged issued share capital of the Company (and the shares issued on the full exercise of the warrants would have represented approximately 8.10% of the further enlarged issued share capital of the Company). The placing, which was primarily intended to finance the Group's media and entertainment businesses and otherwise for general working capital purposes, did not ultimately proceed in light of the fact that Passport Special Opportunities Master Fund, LP and Passport Global Master Fund SPC Limited ("Passport"), who was then a substantial shareholder of the Company, obtained an ex-parte injunction temporarily restraining the Company from proceeding with the placing (Passport and its affiliates disposed of their entire shareholdings in the Company on 30 April 2010). Although the long-stop date for the placing was extended once, with the injunction order remaining in place and the conditions to the placing remaining unfulfilled, the placing agreement lapsed on 9 January 2009.

In essence, Passport alleges that the Company had no good commercial reason for the placement and that its sole or primary purpose was to dilute Passport's shareholding. Whether or not the injunction was validly obtained by Passport remains the subject of on-going legal proceedings in respect of which the Company and its directors are vigorously defending Passport's claims, and are pursuing their own remedies against Passport. The Court granted leave to the placing agent and certain of the placees to join the legal proceedings, as parties who were adversely affected by Passport injunction. The Court required Passport to put up a bank guarantee in the sum of HK\$120 million to fortify its undertaking as to damages. Passport also put up security for the Company's costs. The trial commenced in November 2009 and concluded in January 2010. The judge reserved his decision after the conclusion of the trial and it is expected judgement will be handed down in the fourth quarter of 2010.



**(b) Litigation with New Cotai**

The Group holds an effective 40% economic interest in Cyber One. Cyber One, owned as to 60% by EAST (Holdings) and 40% by New Cotai, is the jointly-controlled entity responsible for the proposed development of the Macao Studio City project, which has, in effect, stalled on account of a dispute between the parties, including as regards the submission to the Macau government of further particulars in relation to Cyber One's application to increase the developable gross floor area of the site from the original gazetted area to approximately 6,000,000 square feet. In connection with that application, the Macau government requested, and has repeated its request for, further particulars from the joint venture concerning plans for the project, in respect of which EAST (Holdings) and New Cotai have yet to formulate an agreed response.

On 29 October 2009, EAST (Holdings) commenced legal proceedings in the Hong Kong SAR against New Cotai and parties interested in that company (the "New Cotai Parties"). Amongst other things, EAST (Holdings) is claiming damages of approximately HK\$689 million for breach or inducing breaches of contract and, by way of derivative action on behalf of members of the Cyber One group, damages of approximately US\$2.385 billion (approximately HK\$18.6 billion) for, amongst other things, breaches of fiduciary duties and dishonestly assisting breaches of fiduciary duties owed to such members of the Cyber One group. EAST (Holdings) is also seeking orders requiring New Cotai to transfer its interests in the Cyber One group to EAST (Holdings). The proceedings are being pursued in the context of a desire on the part of the Company to protect EAST (Holdings)'s interests in the development and to progress the Macao Studio City project.

The New Cotai Parties made several interlocutory applications to the Court to challenge certain of these claims. By the Court's judgement dated 16 July 2010, it has struck out certain claims, including the derivative claims by the Company made on behalf of members of the Cyber One group. The aforesaid judgement, if not overturned on appeal, would have the effect of preventing EAST (Holdings) from proceeding with the derivative claims in Hong Kong. However, EAST (Holdings) may consider proceeding with the derivative claims in the jurisdictions of incorporation of the relevant members of the Cyber One group. EAST (Holdings) might also procure the relevant members of the Cyber One group to proceed with the claims in Hong Kong directly in the event EAST (Holdings) was successful in securing control of the Cyber One group through the litigation. On 30 July 2010, EAST (Holdings) obtained leave to appeal the aforesaid judgement and will pursue the appeal vigorously. It is noted that no challenge was made in these applications with regard to the claim for damages of approximately HK\$689 million for breach of contract by the New Cotai Parties.

With the litigation continuing, it should be noted that its timing and outcome remain inherently uncertain. It appears that it will continue to be contested by New Cotai and others and may yet prompt claims or counterclaims against EAST (Holdings) or others, although the Directors do not believe that any such claims or counterclaims are likely to have merit. The Directors have given due consideration to these risks and have chosen to accept those risks, because they consider that EAST (Holdings)'s core claims are well-founded and the litigation is necessary in order to protect the interest of all of the Company's shareholders and, ultimately, to preserve the potential of the Macao Studio City project. Further, in the event of prolonged delays to the recommencement of the project, it is uncertain as to whether and how the Macau government would exercise its rights, including but not limited to its rights to re-possess the plot of land.

## 17. POST BALANCE SHEET EVENT

On 26 July 2010, the Company entered into a conditional shares swap agreement (the “Shares Swap Agreement”) with Lai Sun Garment (International) Limited (“LSG”) pursuant to which:

- (a) LSG has agreed to transfer or procure the transfer of, and the Company has agreed to accept the transfer of, LSG’s direct and indirect interests in 3,265,688,037 shares in the capital of Lai Fung Holdings Limited (“Lai Fung”) (the “Lai Fung Transaction”), representing approximately 40.58% of the existing issued share capital of Lai Fung and LSG’s entire shareholding interest in Lai Fung, for an aggregate consideration of approximately HK\$3,883.2 million, to be settled by (i) the transfer to LSG of the Group’s entire shareholding interest in LSD; and (ii) as to the balance (approximately HK\$178.4 million) by the payment of cash (HK\$100 million to be paid on the date of completion of the Transactions (see definition below), and approximately HK\$78.4 million to be paid, without interest, six months after the date of completion); and
- (b) the Company has agreed to procure the transfer of, and LSG has agreed to accept the transfer of, the Company’s indirect interest in 5,200,000,000 shares in the capital of LSD (the “LSD Transaction”, together with the Lai Fung Transaction collectively referred to as “Transactions”), representing approximately 36.72% of the existing issued share capital of LSD and the Group’s entire shareholding interest in LSD, for an aggregate consideration of approximately HK\$3,704.8 million, to be settled by the transfer of LSG’s entire shareholding interest in Lai Fung.

The Lai Fung Transaction constitutes a very substantial acquisition and connected transaction for the Company and the LSD Transaction constitutes a very substantial disposal and connected transaction for the Company under the Listing Rules. Further details of the Transactions are set out in the Company’s announcement dated 26 July 2010 and a circular to be dated 30 August 2010.

## INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2010 (six months ended 30 June 2009: nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### OVERVIEW OF INTERIM RESULTS

For the six months ended 30 June 2010, the Group recorded a turnover of HK\$174,972,000 (2009: HK\$166,984,000), representing an increase of approximately 5% from the corresponding period in 2009. For the first half of 2010, there were increases in revenue across almost all media and entertainment business operations (namely live entertainment, music production and distribution, sale of products, film library licensing and advertising), but this was tempered by a reduction in revenue from film production and distribution. The decrease in revenue over the corresponding period for film production and distribution was largely due to the comparatively lower revenue from the films released in early 2010. The increase in revenue over the corresponding period for music production and distribution was largely due to high sales on a particular album. The increase in revenue over the corresponding period for live entertainment was mainly due to major concerts being organised/promoted in the early part of 2010 as compared to smaller events/dramas being organised in the first half of 2009.

For the six months ended 30 June 2010, the Group recorded a loss from operating activities of HK\$91,590,000 (2009: loss of HK\$127,720,000). For the first half of 2010, due to the reasons explained above, the increase in revenue of certain business operations was accompanied by corresponding increases in related cost/expenditure. Similarly, the increase in revenue generated from other business operations was accompanied by an increase in related cost/expenditure.

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For the six months ended 30 June 2010, the Group recorded a consolidated profit attributable to owners of the parent of HK\$159,991,000 (2009: loss of HK\$100,760,000). The substantial improvement over the corresponding period of last year was largely due to the reasons set out below. The Group recorded a share of profits of associates of HK\$269,580,000 (2009: HK\$39,664,000). The share of profits of associates was mainly attributable to Lai Sun Development Company Limited ("LSD"), an associate of the Company. The Group currently holds a 36.72% interest in LSD, which in turn holds a 36.08% interest in the Group. The Group's share of the losses of jointly-controlled entities was HK\$19,881,000 being maintained at a similar level as compared to a reported loss of HK\$15,641,000 for the corresponding period of last year. Shareholders' equity as at 30 June 2010 amounted to HK\$5,663,780,000, as compared to HK\$5,490,662,000 as at 31 December 2009. Net asset value per share as at 30 June 2010 was HK\$4.56, as compared to HK\$4.43 as at 31 December 2009.

## **BUSINESS REVIEW**

### **Macao Studio City**

The Company's ambition remains to build Macao Studio City into one of Asia's leading integrated leisure resorts combining theatre/concert venues, live entertainment facilities, Studio Retail™ (a destination retail complex), Las Vegas-style gaming facilities and world-class hotels. The site of the project is strategically located "Where Cotai Begins™", next to the Lotus Bridge immigration checkpoint, linking the complex directly to Zhuhai's Hengqin Island.

#### *Project progress*

The Macao Studio City project has not progressed over the period under review, essentially because of the continuing dispute between East Asia Satellite Television (Holdings) Limited ("EAST (Holdings)") and New Cotai, LLC ("New Cotai").

EAST (Holdings) is the holding company of a 60% interest in Cyber One Agents Limited ("Cyber One"), of which 66.7% is held indirectly by the Company and 33.3% is held by CapitaLand Integrated Resorts Pte. Ltd. ("CapitaLand"), a wholly-owned subsidiary of CapitaLand Limited (one of the largest listed real estate companies in Asia). New Cotai is the US joint venture partner holding a 40% interest in Cyber One.

Cyber One, the jointly-controlled joint venture company responsible for the project, has yet to receive approval from the Macau government in relation to its application for a land grant modification on land use and to increase the developable gross floor area of the site from the original gazetted area to approximately 6,000,000 square feet. In connection with that application, the Macau government requested, and has repeated its request for, further particulars from the joint venture concerning plans for the project, in respect of which EAST (Holdings) and New Cotai have yet to formulate an agreed response, although EAST (Holdings) and New Cotai made separate submissions in May 2010 in response to the Macau government. In the event of prolonged delays to the recommencement of the project, it is uncertain as to whether and how the Macau government would exercise its rights, including but not limited to its rights to re-possess the plot of land.

On 29 October 2009, EAST (Holdings) commenced legal proceedings in the Hong Kong SAR against New Cotai and parties interested in that company (the "New Cotai Parties"). Amongst other things, EAST (Holdings) is claiming damages of approximately HK\$689 million for breach or inducing breaches of contract and, by way of derivative action on behalf of members of the Cyber One group, damages of approximately US\$2.385 billion (approximately HK\$18.6 billion) for, amongst other things, breaches of fiduciary duties and dishonestly assisting breaches of fiduciary duties owed to such members of the Cyber One group. EAST (Holdings) is also seeking order requiring New Cotai to transfer its interests in the Cyber One group to EAST (Holdings). The proceedings are being pursued in the context of a desire on the part of the Company to protect EAST (Holdings)'s interests in the development and progress the Macao Studio City project.

The New Cotai Parties made several interlocutory applications to the Court to challenge certain of these claims. By the Court's judgement dated 16 July 2010, it has struck out certain claims, including the derivative claims by the Company made on behalf of members of the Cyber One group. The aforesaid judgement, if not overturned on appeal, would have the effect of preventing EAST (Holdings) from proceeding with the derivative claims in Hong Kong. However, EAST (Holdings) may consider proceeding with the derivative claims in the jurisdictions of incorporation of the relevant members of the Cyber One group. EAST (Holdings) might also procure the relevant members of the Cyber One group to proceed with the claims in Hong Kong directly in the event EAST (Holdings) was successful in securing control of the Cyber One group through the litigation. On 30 July 2010, EAST (Holdings) obtained leave to appeal the aforesaid judgement and will pursue the appeal vigorously. It is noted that no challenge was made in these applications with regard to the claim for damages of approximately HK\$689 million for breach of contract by the New Cotai Parties.

With the litigation continuing, it should be noted that its timing and outcome remain inherently uncertain. It appears that it will continue to be contested by New Cotai and others and may yet prompt claims or counterclaims against EAST (Holdings) or others, although the Directors do not believe that any such claims or counterclaims are likely to have merit. The Directors have given due consideration to these risks and have chosen to accept the risks, because they consider that EAST (Holdings)'s core claims are well-founded and the litigation is necessary in order to protect the interest of all of the Company's shareholders and, ultimately, to preserve the potential of the Macao Studio City project. Further, in the event of prolonged delays to the recommencement of the project, it is uncertain as to whether and how the Macau government would exercise its rights, including but not limited to its rights to re-possess the plot of land.

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Cyber One has not appointed a general contractor and has not, to date, progressed the building works beyond foundations for the superstructure. Cyber One presently has only a minimal staff base, so as to contain overheads and expenses.

#### *Financing*

To date, the parties have contributed a total of US\$200 million capital to the project (the Company's attributable share being US\$80 million). However, Cyber One has yet to secure the necessary project finance for the development. The Directors believe that this will be more readily achievable once consensus is reached between the joint venture partners or the current differences are resolved.

### *EAST (Holdings)'s put option*

Although the Company and CapitaLand have been in consistent agreement on the development of Macao Studio City, it should be noted that, in the event the land grant modification for the first phase of the project has not been published by the Macau government and the occupation permit for Macao Studio City (in effect, signifying completion of the first phase of the project) is not issued solely due to the failure of the Macau government to publish in its gazette the land grant modification for the first phase of the project, in each case, within 54 months of completion of CapitaLand's investment (i.e. by mid September 2011), then CapitaLand would, subject to the terms and conditions in the sale and purchase agreement, have an option to put back its holding of shares in EAST (Holdings) to the Company. The consideration payable for the shares would be equal to the purchase price paid by CapitaLand for the shares (being approximately HK\$659 million to date) and any further sums invested by it (being US\$40 million to date, as its project funding contribution) net of any returns or dividends received by CapitaLand. Were the put option to become exercisable and be exercised and completed, the Company's attributable interest in Macao Studio City would increase to 60%.

In assessing the Company's working capital requirements for the next twelve months from the date of this report, the Directors have given due consideration to, and made certain assumptions about the Put Option (as defined in note 5 to the condensed consolidated interim financial statements of the Group for the six months ended 30 June 2010 above). As the Put Option is potentially exercisable in September 2011, the Company is considering the likelihood of exercise and a number of prospective outcomes. However, given the current uncertainties surrounding the Macao Studio City project, the Directors believe that it will only be feasible to accurately assess the likely working capital implications of the Put Option once the prospects of any solution to the impasse in respect of the development of the Macao Studio City project has been more fully explored over the coming twelve months.

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### **Media and entertainment**

#### *Film production and distribution — Media Asia Entertainment Group Limited ("MAEG")*

During the six months ended 30 June 2010, MAEG has completed the principal photography on 3 films, with 9 films still in the production pipeline or under development. There were three films released in the first half of 2010, namely *Love In A Puff* in March, *Fire Of Conscience* in April and *Once A Gangster* in May, as compared to three films released in the corresponding period last year, namely *Look For A Star*, *The Sniper* and *City Of Life And Death*.

#### *Live entertainment*

For the six months ended 30 June 2010, the Group's live entertainment division produced and participated in 20 (2009: 64) concerts and entertainment events by popular local, Asian and internationally renowned artistes, including Sammi Cheng, Jan Lamb, Captain Lu, Yoga Lin, Show Lo, Big Four, Fama and Super Band, in Hong Kong, the People's Republic of China (the "PRC") and Macau.

### *Music production, distribution and publishing*

For the six months ended 30 June 2010, the Group's music production, distribution and publishing division released 20 albums (2009: 30), including titles by Sammi Cheng, Leon Lai, Denise Ho, Ivana Wong, Janice M. Vidal, Chet Lam, Bosco Wong, Big Four and Fama.

Although the Group has expanded its music library through acquisition in 2007 and 2008, and achieved a positive contribution to the performance of the Group from the exploitation of the music library through new media distribution; during the period under review, the pace of development and performance of this music publishing business was still lagged behind the scheduled plan. It is noted that the performance of the music publishing business depends on, among other things, the new media distributor(s) capability, the available channels for new media/digital distribution and the receptiveness of the public (in general) to use such distribution method for music.

### *Television drama and content production*

The Group has expanded its entertainment offerings to include TV drama business. During the period under review, the Group has made investments, via content directors, producers and artistes from the Mainland of China, to produce renowned television dramas and content. In addition, the Group is gradually expanding its distribution network for such operation. However, during the period under review, the hours of production being made and released were limited due to various constraints, namely the highly competitive market for prime time spots on TV channels and other mediums, and the mis-match of capital to be recouped and re-invested which has resulted in dampening the growth rate of this business.

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

For the period under review, the Group reported an operating loss (before taking into account the Group's share of LSD's profit) of approximately HK\$109,810,000 (2009: HK\$140,848,000). Since LSD holds a 36.08% equity interest in the Company, LSD is required to equity account for the operating loss of the Group. As the Group also holds a 36.72% equity interest in LSD, the Group is required to further take up LSD's share of the Group's operating results. The effect of the cross-holding resulted in the Group having to take up a further loss of HK\$16,770,000 (2009: loss of HK\$21,510,000) and such amount is included in the Group's share of profits and losses of associates. Taking into account the cross-holdings between the Group and LSD, the Group's share of LSD's profits included within the Group's share of profits and losses of associates for the six months ended 30 June 2010 was HK\$269,801,000 (2009: HK\$40,088,000).

## **OUTLOOK**

### **Macao Studio City**

The Company continues to believe that the Macao Studio City will eventually become one of the region's major entertainment destinations and will be an important platform for the Group to expand and monetise its entertainment and media expertise. The Group remains firmly committed to the project, with or without the participation of its US project partners, to the project.

### **Media and entertainment**

#### *Film production and distribution*

MAEG will continue to explore and/or consider various film projects according to its objectives as identified in the Company's last published annual report.

#### *Live entertainment*

For the second half of 2010, the live entertainment division of the Group is planning to self produce 3 concerts and entertainment events by popular local artistes and to participate in the production of around 3 other events sponsored by other promoters, thus comprising in aggregate around 60 shows. The Group will continue its efforts to maintain its market position in Hong Kong, the PRC and Taiwan.

#### *Music production, distribution and publishing*

With the successful debut of East Asia Music's expansion into Mandarin albums, the Group will continue its efforts to expand its presence in the PRC. Although there were positive contributions from the exploitation of the music library through new media distribution in the first half of 2010, the Group will continue to monitor the lagged performance and take necessary actions in the second half of 2010, including, but not limited to, searching for better performed new media distributor(s) as replacement, exploring other new media channels for music distribution and adjusting the management's expectation to the public receptiveness of using such distribution method for music.

#### *Television drama and content production, and distribution*

Despite the highly competitive market for such business operations, the Group will continue to leverage its reputation in the industry and look for new business opportunities in this area.

### **LSD**

In the event that the Company completes the reorganisation referred to in its joint announcement with Lai Sun Garment (International) Limited dated 26 July 2010, the Company would cease to hold any interest in LSD, but would, via a shares swap arrangement, hold an interest of approximately 40.58% in Lai Fung Holdings Limited, the holding company of a group whose principal business includes property development for sale and property investment in the PRC.



## Other matters relating to the Company

*Update in relation to Passport Special Opportunities Master Fund, LP and Passport Global Master Fund SPC Limited ("Passport")*

In December 2008, the Company had sought to raise approximately HK\$60 million through a share placement exercise (with the prospect of raising an additional HK\$60 million if the placees exercised the accompanying warrants in full). The placing shares would have represented approximately 8.82% of the enlarged issued share capital of the Company (and the shares issued on the full exercise of the warrants would have represented approximately 8.10% of the further enlarged issued share capital of the Company). The placing, which was primarily intended to finance the Group's media and entertainment businesses and otherwise for general working capital purposes, did not ultimately proceed in light of the fact that Passport, who was then a substantial shareholder of the Company, obtained an ex-parte injunction temporarily restraining the Company from proceeding with the placing (Passport and its affiliates disposed of their entire shareholdings in the Company on 30 April 2010). Although the long-stop date for the placing was extended once, with the injunction order remaining in place and the conditions to the placing remaining unfulfilled, the placing agreement lapsed on 9 January 2009.

In essence, Passport alleges that the Company had no good commercial reason for the placement and that its sole or primary purpose was to dilute Passport's shareholding. Whether or not the injunction was validly obtained by Passport remains the subject of on-going legal proceedings in respect of which the Company and the Directors are vigorously defending Passport's claims, and are pursuing their own remedies against Passport. The Court granted leave to the placing agent and certain of the placees to join the legal proceedings, as parties who were adversely affected by Passport injunction. The Court required Passport to put up a bank guarantee in the sum of HK\$120 million to fortify its undertaking as to damages. Passport also put up security for the Company's costs. The trial commenced in November 2009 and concluded in January 2010. The judge reserved his decision after the conclusion of the trial and it is expected judgement will be handed down in the fourth quarter of 2010.

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## **LIQUIDITY, FINANCIAL RESOURCES, CHARGE ON ASSETS, GEARING AND CAPITAL COMMITMENTS**

As at 30 June 2010, cash and cash equivalents held by the Group amounted to HK\$1,317,892,000 of which over 94% were denominated in Hong Kong dollar currency.

In order to optimise the Group's liquidity and to enhance the yield of the Group's available cash, the Group also invested in bond investments with investment grade rating and short-term securities investments. As at 30 June 2010, the carrying amount of such bond investments and securities investments held by the Group amounted to HK\$52,570,000 and HK\$2,254,000, respectively. The bond investments of the Group as at 30 June 2010 are denominated in United States dollars. As Hong Kong dollars are pegged to United States dollars, the Group considers that the corresponding exposure to exchange rate risk is nominal.

As at 30 June 2010, the Group had unsecured promissory notes payable of HK\$30,000,000 falling due within one year. The promissory notes payable bears interest at 3.5% per annum; and the Group recorded interest accruals of HK\$2,839,000 as at 30 June 2010. As at 30 June 2010, there existed unsecured other borrowings from a former shareholder of the Company in the principal amount of HK\$112,938,000 which is interest-bearing at the HSBC prime rate per annum and is repayable on demand. The Group recorded interest accruals of HK\$45,536,000 for the other borrowings as at 30 June 2010. As at 30 June 2010, the Group had secured bank borrowings in the Mainland of China of RMB10,000,000 (or HK\$11,500,000) falling due within one year which was secured by pledged deposit of HK\$12,600,000. The secured bank borrowings bear interest with reference to the People's Bank of China Base Interest Rate. The Group recorded interest accruals of HK\$57,000 for the secured bank borrowings as at 30 June 2010. In addition, as at 30 June 2010, a revolving term loan facility in the amount of HK\$60 million was granted by a bank to the Group. The said loan facility is subject to annual review and is secured by a pledge of the Group's land and buildings with a carrying amount of HK\$57,583,000 as at 30 June 2010. Such bank loan facility had not been utilised by the Group as at 30 June 2010. Also, the Group had finance lease payables of HK\$136,000 falling due within one year, HK\$126,000 falling due within the second year and HK\$260,000 falling due within the third to fifth years, as at 30 June 2010.

The Group's debt to equity ratio, expressed as a percentage of total borrowings to consolidated net assets attributable to owners of the parent, remained low at approximately 4% as at 30 June 2010. All of the Group's borrowings, except for the secured bank borrowings of HK\$11,557,000 which are denominated in Renminbi, are denominated in Hong Kong dollars and the majority of which are floating rate debts. No financial instruments for hedging purposes were employed by the Group during the period under review.

## **EMPLOYEES AND REMUNERATION POLICIES**

The Group employed a total of approximately 250 employees as at 30 June 2010. Pay rates for employees are maintained at competitive levels, salary and bonuses are rewarded on a performance-related basis. Other staff benefits include mandatory provident fund scheme for all eligible employees, free hospitalisation insurance plan, subsidised medical care and subsidies for external educational and training programmes. The Company also adopted a share option scheme for its directors and employees on 23 December 2005.

## **SHARE OPTION SCHEME**

An employee share option scheme (the "Share Option Scheme") was adopted by the Company on 23 December 2005 and became effective on 5 January 2006. It will remain in force for a period of 10 years from the effective date. Information on movements under the Share Option Scheme during the six months ended 30 June 2010 is set out below:

Category/Name of participant	Date of grant of share options (Note 1)	Number of share options				Exercise period of share options	Exercise price of share options HK\$ per share (Note 2)
		At 1 January 2010	Granted during the period (Note 5)	Lapsed during the period	At 30 June 2010		
<b>Directors</b>							
Lam Kin Ngok, Peter (Note 3)	24/02/2006	1,889,507	—	—	1,889,507	01/01/2010 to 31/12/2010	4.68
Cheung Wing Sum, Ambrose (Note 3)	24/02/2006	1,889,507	—	—	1,889,507	01/01/2010 to 31/12/2010	4.68
Leung Churk Yin, Jeanny (Note 3)	20/02/2008	1,267,810	—	—	1,267,810	01/01/2010 to 31/12/2010	6.18
	20/02/2008	1,267,810	—	—	1,267,810	01/01/2011 to 31/12/2011	6.52
		2,535,620	—	—	2,535,620		
Low Kit Leong (resigned on 9 January 2010) (Note 4)	20/02/2008	1,622,797	—	(1,622,797)	—	31/05/2009 to 30/05/2010	5.83
	20/02/2008	1,622,797	—	(1,622,797)	—	31/05/2010 to 30/05/2011	6.18
		3,245,594	—	(3,245,594)	—		
		9,560,228	—	(3,245,594)	6,314,634		
<b>Other employees</b>							
In aggregate (Note 3)	14/02/2006	1,889,507	—	—	1,889,507	01/01/2010 to 31/12/2010	5.42
	24/02/2006	1,889,507	—	—	1,889,507	01/01/2010 to 31/12/2010	4.68
	22/04/2010	—	2,480,000	—	2,480,000	01/01/2011 to 31/12/2013	1.40
	22/04/2010	—	2,480,000	—	2,480,000	01/01/2012 to 31/12/2013	1.70
	22/04/2010	—	2,480,000	—	2,480,000	01/01/2013 to 31/12/2013	1.90
		3,779,014	7,440,000	—	11,219,014		
		13,339,242	7,440,000	(3,245,594)	17,533,648		

Notes:

- (1) The vesting period of the share options is from the date of grant until the commencement of the exercise period.
- (2) The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
- (3) A total of 8,825,834 share options lapsed on expiration of the exercise period from 1 January 2009 to 31 December 2009 in accordance with the terms of the Share Option Scheme.
- (4) 1,622,797 share options with the exercise period of 31 May 2009 to 30 May 2010 and 1,622,797 share options with the exercise period of 31 May 2010 to 30 May 2011 lapsed on 9 January 2010 on cessation of employment of the Director in accordance with the terms of the Share Option Scheme.
- (5) The closing price of the Company's shares immediately before the date of grant during the period was HK\$1.02 per share. The fair value of the share options granted during the six months ended 30 June 2010 was HK\$2,323,000.

The fair value of equity-settled share options granted during the six months ended 30 June 2010 was estimated as at the date of grant, using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the share options granted during the six months ended 30 June 2010:

Dividend yield	—
Expected volatility	58.17%
Historical volatility	58.17%
Risk-free interest rate	1.59%
Expected life of options	3.7 years

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The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

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

At 30 June 2010 and the date of this report, the Company had a total number of 17,533,648 share options outstanding under the Share Option Scheme which represented approximately 1.41% of the Company's shares in issue as at that date. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 17,533,648 additional ordinary shares of the Company and additional share capital of approximately HK\$8,767,000 and share premium of approximately HK\$56,504,000 (before issue expenses).

## DIRECTORS' INTERESTS

As at 30 June 2010, 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 of its associated corporation (within the meaning of the Securities and Futures Ordinance (the "SFO")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein (the "Register"); or (c) were required, pursuant to the Code of Practice for Securities Transactions by Directors and Designated Employees adopted by the Company, to be notified to the Company and the Stock Exchange:

### (1) The Company

Name of Director	Personal interests	Family interests	Long positions in the shares of the Company		Capacity	Total	Percentage
			Corporate interests	Other interests			
Lam Kin Ngok, Peter	2,794,443	Nil	Nil	1,889,507 (under share options)	Beneficial owner	4,683,950	0.38%
Cheung Wing Sum, Ambrose	2,194,443	Nil	Nil	1,889,507 (under share options)	Beneficial owner	4,083,950	0.33%
Leung Churk Yin, Jeanny	Nil	Nil	Nil	2,535,620 (under share options)	Beneficial owner	2,535,620	0.20%

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### (2) Associated Corporation

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

Name of Director	Personal interests	Family interests	Long positions in the shares of LSD		Capacity	Total	Percentage
			Corporate interests				
Lam Kin Ngok, Peter	10,099,585	Nil	1,592,869,192 (Note)	Beneficial owner/ Owner of controlled corporation		1,602,968,777	11.32%
U Po Chu	633,400	Nil	Nil	Beneficial owner		633,400	0.004%

Note:

Lai Sun Garment (International) Limited ("LSG") and its wholly-owned subsidiary beneficially owned 1,592,869,192 shares in LSD representing approximately 11.25% in the issued ordinary share capital of LSD. 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.

Save as disclosed above, as at 30 June 2010, none of the directors and chief executive of the Company was interested, or was deemed to be interested in the long and short positions in the shares, underlying shares of equity derivatives and debentures of the Company or any of its associated corporation(s) 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 30 June 2010, the following persons 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:

<b>Long positions in the shares of the Company</b>				
<b>Name</b>	<b>Capacity</b>	<b>Nature</b>	<b>Number of ordinary shares</b>	<b>Percentage of issued share capital</b>
Lai Sun Development Company Limited	Owner of controlled corporation	Corporate interest	447,604,186	36.08%

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 30 June 2010.

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

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During the six months ended 30 June 2010, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

#### **CORPORATE GOVERNANCE**

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

Under code provision A.4.1, non-executive directors should be appointed for a specific term and be subject to re-election. None of the existing non-executive directors of the Company was appointed for a specific term. However, all Directors are subject to the retirement provisions under the bye-laws 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.

## **DIRECTORS' CODE FOR SECURITIES TRANSACTIONS**

The Company has adopted a Code of Practice for Securities Transactions by Directors and Designated Employees (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 contained in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all Directors who have confirmed their compliance with the required standard set out in the Code during the accounting period covered by the Interim Report.

## **UPDATE ON DIRECTOR'S INFORMATION**

The following is the updated information of a director of the Company required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

Mr. Low Chee Keong ("Mr. Low") has been elected Chairman of the Board and re-designated as a non-executive director of the Company with effect from 1 June 2010. Mr. Low remains as chairman of the Remuneration Committee and a member of the Audit Committee of the Board. The annual director's fee of Mr. Low has been increased from HK\$240,000 (basic director's fee) to HK\$575,000 for acting as Chairman of the Board from 1 June 2010.

## **REVIEW OF INTERIM REPORT**

The Interim Report of the Company for the six months ended 30 June 2010 has been reviewed by the Audit Committee. The Audit Committee comprises three independent non-executive Directors, namely Mr. Tong Ka Wing, Carl, Mr. Alfred Donald Yap and Dr. Ng Lai Man, Carmen, and a non-executive Director, namely Mr. Low Chee Keong.

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By Order of the Board  
**Low Chee Keong**  
*Chairman*

Hong Kong, 27 August 2010