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## LAI SUN DEVELOPMENT

Lai Sun Development Company Limited  
(Incorporated in Hong Kong with limited liability)

(Stock Code: 488)

### ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 JULY 2010

#### RESULTS

The Board of Directors of Lai Sun Development Company Limited (the “Company”) announces the consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 July 2010 as follows:

#### Consolidated Income Statement

For the year ended 31 July 2010

|   | Notes | 2010<br>HK\$'000      | 2009<br>HK\$'000       |
|---|-------|-----------------------|------------------------|
| TURNOVER  | 3     | 729,254               | 649,742                |
| Cost of sales   |       | <u>(254,273)</u>      | <u>(195,206)</u>       |
| Gross profit  |       | 474,981               | 454,536                |
| Other revenue   | 4     | 46,579                | 22,858                 |
| Selling and marketing expenses  |       | (11,964)              | -                      |
| Administrative expenses   |       | (270,721)             | (273,312)              |
| Other operating expenses, net   |       | (41,765)              | (58,937)               |
| Fair value gain/(loss) on investment properties                                     |       | 1,232,615             | (145,748)              |
| Reversal of provision/(provision) for tax indemnity                                 | 5     | <u>(17,495)</u>       | <u>11,936</u>          |
| PROFIT FROM OPERATING ACTIVITIES  | 6     | 1,412,230             | 11,333                 |
| Finance costs   | 7     | (41,777)              | (58,479)               |
| Share of profits and losses of associates   | 10    | <u>982,364</u>        | <u>(132,483)</u>       |
| PROFIT/(LOSS) BEFORE TAX  |       | 2,352,817             | (179,629)              |
| Tax   | 8     | <u>(244,756)</u>      | <u>(3,868)</u>         |
| PROFIT/(LOSS) FOR THE YEAR  |       | <u>2,108,061</u>      | <u>(183,497)</u>       |
| Attributable to:  |       |                       |                        |
| Ordinary equity holders of the Company  |       | 2,064,562             | (220,985)              |
| Non-controlling interests   |       | <u>43,499</u>         | <u>37,488</u>          |
|   |       | <u>2,108,061</u>      | <u>(183,497)</u>       |
| EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO<br>ORDINARY EQUITY HOLDERS OF THE COMPANY | 9     |                       |                        |
| Basic   |       | <u>HK 14.58 cents</u> | <u>HK (1.56) cents</u> |
| Diluted   |       | <u>N/A</u>            | <u>N/A</u>             |

**Consolidated Statement of Comprehensive Income**  
*For the year ended 31 July 2010*

|  | <b>2010</b><br><i>HK\$'000</i> | 2009<br>HK\$'000         |
|--|--------------------------------|--------------------------|
| PROFIT/(LOSS) FOR THE YEAR                                   | <u><b>2,108,061</b></u>        | <u>( 183,497)</u>        |
| OTHER COMPREHENSIVE INCOME/(EXPENSES)                        |                                |                          |
| Changes in fair value of available-for-sale financial assets | <b>216,350</b>                 | ( 12,494)                |
| Exchange realignments:                                       |                                |                          |
| Subsidiaries   | <b>5</b>                       | ( 305)                   |
| Associate  | ( <b>6,526</b> )               | ( 94)                    |
| Share of investment revaluation reserve of an associate      | <b>33,041</b>                  | ( 1,908)                 |
| Share of other reserve of an associate                       | <u><b>3,734</b></u>            | <u>-</u>                 |
| OTHER COMPREHENSIVE INCOME/(EXPENSES)<br>FOR THE YEAR        | <u><b>246,604</b></u>          | <u>( 14,801)</u>         |
| TOTAL COMPREHENSIVE INCOME/(EXPENSES)<br>FOR THE YEAR        | <u><u><b>2,354,665</b></u></u> | <u><u>( 198,298)</u></u> |
| Attributable to:   |                                |                          |
| Ordinary equity holders of the Company                       | <b>2,311,166</b>               | ( 235,786)               |
| Non-controlling interests                                    | <u><b>43,499</b></u>           | <u>37,488</u>            |
|  | <u><u><b>2,354,665</b></u></u> | <u><u>( 198,298)</u></u> |

**Consolidated Statement of Financial Position**  
As at 31 July 2010

|  | Notes | 2010<br>HK\$'000    | 2009<br>HK\$'000    |
|--|-------|---------------------|---------------------|
| <b>NON-CURRENT ASSETS</b>  |       |                     |                     |
| Property, plant and equipment  |       | 368,231             | 379,091             |
| Prepaid land lease payments  |       | 27,066              | 28,094              |
| Investment properties  |       | 6,444,930           | 5,192,800           |
| Properties under development for sale                                |       | 900,378             | 723,552             |
| Interests in associates  | 10    | 3,725,761           | 2,659,637           |
| Available-for-sale financial assets                                  |       | 657,994             | 441,419             |
| Held-to-maturity debt investments                                    |       | 35,840              | 12,205              |
| Pledged bank balances and time deposits                              |       | 99,154              | -                   |
| <b>Total non-current assets</b>                                      |       | <b>12,259,354</b>   | <b>9,436,798</b>    |
| <b>CURRENT ASSETS</b>  |       |                     |                     |
| Completed properties for sale  |       | 465,085             | 2,350               |
| Equity investments at fair value through profit or loss              |       | 12,552              | 38,332              |
| Inventories  |       | 4,780               | 5,050               |
| Debtors and deposits paid  | 11    | 121,315             | 86,714              |
| Held-to-maturity debt investments                                    |       | 144,812             | 241,145             |
| Pledged bank balances and time deposits                              |       | -                   | 77,547              |
| Cash and cash equivalents  |       | 1,124,778           | 1,079,259           |
| <b>Total current assets</b>  |       | <b>1,873,322</b>    | <b>1,530,397</b>    |
| <b>CURRENT LIABILITIES</b>   |       |                     |                     |
| Creditors, deposits received and accruals                            | 11    | 216,621             | 206,417             |
| Tax payable  |       | 51,829              | 39,221              |
| Bank borrowings  |       | 390,323             | 613,249             |
| <b>Total current liabilities</b>                                     |       | <b>658,773</b>      | <b>858,887</b>      |
| <b>NET CURRENT ASSETS</b>  |       | <b>1,214,549</b>    | <b>671,510</b>      |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>                         |       | <b>13,473,903</b>   | <b>10,108,308</b>   |
| <b>NON-CURRENT LIABILITIES</b>                                       |       |                     |                     |
| Bank borrowings  |       | ( 2,313,493)        | ( 1,533,829)        |
| Deferred tax   |       | ( 975,875)          | ( 766,103)          |
| Provision for tax indemnity  | 5     | ( 470,191)          | ( 452,696)          |
| Long term rental deposits received                                   |       | ( 47,523)           | ( 40,576)           |
| <b>Total non-current liabilities</b>                                 |       | <b>( 3,807,082)</b> | <b>( 2,793,204)</b> |
|  |       | <b>9,666,821</b>    | <b>7,315,104</b>    |
| <b>EQUITY</b>  |       |                     |                     |
| <b>Equity attributable to ordinary equity holders of the Company</b> |       |                     |                     |
| Issued capital   | 12    | 141,620             | 141,620             |
| Share premium account  |       | 6,974,701           | 6,974,701           |
| Investment revaluation reserve                                       |       | 699,769             | 450,378             |
| Share option reserve   |       | 12,417              | 19,019              |
| Capital redemption reserve   |       | 1,200,000           | 1,200,000           |
| General reserve  | 12    | 504,136             | 504,136             |
| Other reserve  |       | 3,734               | -                   |
| Special capital reserve  | 12    | 126,264             | 46,885              |
| Exchange fluctuation reserve   |       | 35,058              | 41,579              |
| Accumulated losses   |       | ( 292,009)          | (2,284,844)         |
|  |       | <b>9,405,690</b>    | <b>7,093,474</b>    |
| <b>Non-controlling interests</b>                                     |       | <b>261,131</b>      | <b>221,630</b>      |
|  |       | <b>9,666,821</b>    | <b>7,315,104</b>    |

## Notes to Consolidated Financial Statements

### 1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, equity investments at fair value through profit or loss and certain available-for-sale financial assets, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest thousand except when otherwise indicated.

### 2. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs, which are applicable to the Group, for the first time for the current year's financial statements:

#### Improvements to HKFRSs

|                                     |   |
|-------------------------------------|---|
| HKAS 1 (Revised)                    | Presentation of Financial Statements  |
| HKAS 23 (Revised)                   | Borrowing Costs   |
| HKAS 27 (Revised)                   | Consolidated and Separate Financial Statements  |
| HKFRS 1 and HKAS 27<br>(Amendments) | Cost of an Investment in a Subsidiary, Jointly controlled<br>Entity or Associate          |
| HKFRS 2 (Amendments)                | Share-based Payment - Vesting Conditions and Cancellations                                |
| HKFRS 3 (Revised)                   | Business Combinations   |
| HKFRS 7 (Amendments)                | Financial Instruments: Disclosures - Improving Disclosures about Financial<br>Instruments |
| HKFRS 8                             | Operating Segments  |
| HK(IFRIC)-Int 15                    | Agreements for the Construction of Real Estate  |

The adoption of the new and revised HKFRSs, except for HKAS 1 (Revised) Presentation of Financial Statements, HKFRS 7 (Amendments) Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments, HKFRS 8 Operating Segments and the amendments to HKAS 40 Investment Property under the Improvements to HKFRSs issued in October 2008 as described below, has had no material impact on the reported results or financial position of the Group.

#### *HKAS 1 (Revised) Presentation of Financial Statements*

HKAS 1 (Revised) introduces a number of terminology changes (including revised titles for the financial statements) and changes in format and content of the financial statements. The revised standard requires all changes in equity arising from transactions with owners in their capacity as owners to be presented separately from non-owner changes in equity (i.e. comprehensive income). All non-owner changes in equity are required to be presented in (i) a single statement of comprehensive income or (ii) two statements (a separate income statement displaying items of income and expenses recognised as profit or loss and a second statement beginning with net profit or loss as shown in the income statement and displaying components of other comprehensive income). The Group has elected to present in two statements. Comparative amounts have been restated to conform to the new presentation.

#### *HKFRS 7 (Amendments) Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments*

The HKFRS 7 Amendments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by sources of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance is now required for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The adoption of this amendment has no effect on the financial position or results of operations of the Group. It does, however, result in additional disclosures of fair value hierarchy in the financial statements.

## 2. **IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS** (continued)

### *HKFRS 8 Operating Segments*

HKFRS 8, which replaces HKAS 14 "Segment Reporting" specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The adoption of this standard has no effect on the financial position or results of operations of the Group. It does, however, result in certain changes in the presentation and disclosure of the financial statements, including change in basis of measurement of segment profit or loss and new disclosure of information about major customers..

### *Improvements to HKFRSs - Amendments to HKAS 40 Investment Property*

The Group has adopted the amendments to HKAS 40 which became effective in the Group's accounting period beginning 1 August 2009. Under the amendments, investment property under construction is included within the scope of HKAS 40. Investment property under construction could be carried at fair value when its fair value is reliably determinable. Any difference between the fair value and the carrying book value of the property shall be recognised as gain or loss in the income statement for the period of initial adoption of this amendment. Prior to the amendments, investment property under construction was carried at cost until the construction had been completed. The Group, through Diamond String Limited ("Diamond String"), a 50%-owned associate, holds a property ("Property") situated at 3 Connaught Road Central, Hong Kong (formerly operating as "The Ritz-Carlton, Hong Kong") which is being re-developed into a grade-A office tower for investment purpose. The Property is stated at cost less accumulated depreciation and any impairment losses in Diamond String's financial statements. When the Group accounts for its interest in Diamond String under equity method in its consolidated financial statements, the Property is measured at fair value for the purpose of conforming to the Group's accounting policies. As a result, a 50% share of fair value gain arising from valuation of the Property of HK\$859,582,000 (after net of the related deferred tax and goodwill (note 10)) is recorded in the Group's share of results of associates for the year ended 31 July 2010. The carrying amount of the Group's interests in associates as at 31 July 2010 is correspondingly increased by HK\$859,582,000. The basic earnings per share attributable to ordinary equity holders of the Company is increased by HK 6.07 cents. This amendment has been applied prospectively and the corresponding amounts of prior periods have not been restated.

### 3. OPERATING SEGMENT INFORMATION

#### Segment revenue and results

The following tables present revenue and profit/(loss) for the Group's reportable segments:

|   | Property development and sales |                  | Property investment |                  | Hotel and restaurant operations |                  | Others           |                  | Eliminations     |                  | Consolidated     |                  |
|---|--------------------------------|------------------|---------------------|------------------|---------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|   | 2010<br>HK\$'000               | 2009<br>HK\$'000 | 2010<br>HK\$'000    | 2009<br>HK\$'000 | 2010<br>HK\$'000                | 2009<br>HK\$'000 | 2010<br>HK\$'000 | 2009<br>HK\$'000 | 2010<br>HK\$'000 | 2009<br>HK\$'000 | 2010<br>HK\$'000 | 2009<br>HK\$'000 |
| Segment revenue:  |                                |                  |                     |                  |                                 |                  |                  |                  |                  |                  |                  |                  |
| Sales to external customers                             | 34,578                         | -                | 341,103             | 340,980          | 334,843                         | 284,335          | 18,730           | 24,427           | -                | -                | 729,254          | 649,742          |
| Intersegment sales                                      | -                              | -                | 8,537               | 9,967            | -                               | -                | 26,144           | 24,861           | (34,681)         | (34,828)         | -                | -                |
| Other revenue   | 883                            | 1,276            | 542                 | 613              | 1                               | 22               | -                | -                | -                | -                | 1,426            | 1,911            |
| Total   | <u>35,461</u>                  | <u>1,276</u>     | <u>350,182</u>      | <u>351,560</u>   | <u>334,844</u>                  | <u>284,357</u>   | <u>44,874</u>    | <u>49,288</u>    | <u>(34,681)</u>  | <u>(34,828)</u>  | <u>730,680</u>   | <u>651,653</u>   |
| Segment results   | <u>(4,020)</u>                 | <u>(482)</u>     | <u>265,462</u>      | <u>259,691</u>   | <u>76,159</u>                   | <u>63,706</u>    | <u>367</u>       | <u>8,197</u>     | <u>-</u>         | <u>-</u>         | <u>337,968</u>   | <u>331,112</u>   |
| Interest income and unallocated gains                   |                                |                  |                     |                  |                                 |                  |                  |                  |                  |                  | 45,153           | 20,947           |
| Fair value gain/(loss) on investment properties         | -                              | -                | 1,232,615           | (145,748)        | -                               | -                | -                | -                | -                | -                | 1,232,615        | (145,748)        |
| Unallocated expenses                                    |                                |                  |                     |                  |                                 |                  |                  |                  |                  |                  | (186,011)        | (206,914)        |
| Reversal of provision/(provision) for tax indemnity     |                                |                  |                     |                  |                                 |                  |                  |                  |                  |                  | (17,495)         | 11,936           |
| Profit from operating activities                        |                                |                  |                     |                  |                                 |                  |                  |                  |                  |                  | 1,412,230        | 11,333           |
| Finance costs   |                                |                  |                     |                  |                                 |                  |                  |                  |                  |                  | (41,777)         | (58,479)         |
| Share of profits and losses of associates               | (4,246)                        | (27)             | 859,299             | (344)            | 155                             | (12)             | -                | -                | -                | -                | 855,208          | (383)            |
| Share of profits and losses of associates - unallocated |                                |                  |                     |                  |                                 |                  |                  |                  |                  |                  | 127,156          | (132,100)        |
| Profit/(loss) before tax                                |                                |                  |                     |                  |                                 |                  |                  |                  |                  |                  | 2,352,817        | (179,629)        |
| Tax   |                                |                  |                     |                  |                                 |                  |                  |                  |                  |                  | (244,756)        | (3,868)          |
| Profit/(loss) for the year                              |                                |                  |                     |                  |                                 |                  |                  |                  |                  |                  | <u>2,108,061</u> | <u>(183,497)</u> |

### 3. OPERATING SEGMENT INFORMATION (continued)

#### Segment assets and liabilities

The following table presents the total assets and liabilities for the Group's reportable segments:

|   | Property development and sales |          | Property investment |           | Hotel and restaurant operations |          | Others        |          | Consolidated      |            |
|---|--------------------------------|----------|---------------------|-----------|---------------------------------|----------|---------------|----------|-------------------|------------|
|   | 2010                           | 2009     | 2010                | 2009      | 2010                            | 2009     | 2010          | 2009     | 2010              | 2009       |
|   | HK\$'000                       | HK\$'000 | HK\$'000            | HK\$'000  | HK\$'000                        | HK\$'000 | HK\$'000      | HK\$'000 | HK\$'000          | HK\$'000   |
| Segment assets                              | <b>1,409,304</b>               | 731,903  | <b>6,465,206</b>    | 5,213,345 | <b>528,001</b>                  | 504,351  | <b>56,497</b> | 46,278   | <b>8,459,008</b>  | 6,495,877  |
| Interests in associates                     | <b>279,531</b>                 | 235,465  | <b>1,384,180</b>    | 524,881   | <b>4,174</b>                    | -        | -             | -        | <b>1,667,885</b>  | 760,346    |
| Interests in associates - unallocated       |                                |          |                     |           |                                 |          |               |          | <b>2,057,876</b>  | 1,899,291  |
| Unallocated assets                          |                                |          |                     |           |                                 |          |               |          | <b>1,947,907</b>  | 1,811,681  |
| Total assets                                |                                |          |                     |           |                                 |          |               |          | <b>14,132,676</b> | 10,967,195 |
| Segment liabilities                         | <b>21,496</b>                  | 11,784   | <b>96,806</b>       | 89,342    | <b>48,462</b>                   | 41,617   | <b>16,129</b> | 13,201   | <b>182,893</b>    | 155,944    |
| Bank borrowings                             |                                |          |                     |           |                                 |          |               |          | <b>2,703,816</b>  | 2,147,078  |
| Other unallocated liabilities               |                                |          |                     |           |                                 |          |               |          | <b>1,579,146</b>  | 1,349,069  |
| Total liabilities                           |                                |          |                     |           |                                 |          |               |          | <b>4,465,855</b>  | 3,652,091  |
| <b>Other segment information</b>            |                                |          |                     |           |                                 |          |               |          |                   |            |
| Amortisation of prepaid land lease payments | -                              | -        | -                   | -         | <b>1,028</b>                    | 1,027    | -             | -        | <b>1,028</b>      | 1,027      |
| Depreciation                                | <b>124</b>                     | -        | <b>28</b>           | 28        | <b>15,215</b>                   | 14,343   | <b>212</b>    | 271      | <b>15,579</b>     | 14,642     |
| Depreciation - unallocated                  |                                |          |                     |           |                                 |          |               |          | <b>11,228</b>     | 11,366     |
|   |                                |          |                     |           |                                 |          |               |          | <b>26,807</b>     | 26,008     |
| Capital expenditure                         | <b>665,638</b>                 | 253,291  | <b>19,515</b>       | 2,548     | <b>10,843</b>                   | 15,335   | <b>40</b>     | 281      | <b>696,036</b>    | 271,455    |
| Capital expenditure - unallocated           |                                |          |                     |           |                                 |          |               |          | <b>4,965</b>      | 53,708     |
|   |                                |          |                     |           |                                 |          |               |          | <b>701,001</b>    | 325,163    |

### 3. OPERATING SEGMENT INFORMATION *(continued)*

#### Geographical information

The following table presents revenue and assets by geographical location of the assets for the years ended 31 July 2010 and 2009:

|                             | Hong Kong               |                         | Vietnam                 |                         | Consolidated            |                         |
|-----------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
|                             | 2010<br><i>HK\$'000</i> | 2009<br><i>HK\$'000</i> | 2010<br><i>HK\$'000</i> | 2009<br><i>HK\$'000</i> | 2010<br><i>HK\$'000</i> | 2009<br><i>HK\$'000</i> |
| Segment revenue             |                         |                         |                         |                         |                         |                         |
| Sales to external customers | <b>436,390</b>          | 395,175                 | <b>292,864</b>          | 254,567                 | <b>729,254</b>          | 649,742                 |
| Other revenue               | <b>1,426</b>            | 1,911                   | -                       | -                       | <b>1,426</b>            | 1,911                   |
| Total                       | <b>437,816</b>          | 397,086                 | <b>292,864</b>          | 254,567                 | <b>730,680</b>          | 651,653                 |
| Segment assets              |                         |                         |                         |                         |                         |                         |
| Non-current assets          | <b>7,358,638</b>        | 5,933,435               | <b>303,466</b>          | 305,337                 | <b>7,662,104</b>        | 6,238,772               |
| Current assets              | <b>597,362</b>          | 82,266                  | <b>199,542</b>          | 174,839                 | <b>796,904</b>          | 257,105                 |
|                             | <b>7,956,000</b>        | 6,015,701               | <b>503,008</b>          | 480,176                 | <b>8,459,008</b>        | 6,495,877               |

#### Information about major customers

For both the years ended 31 July 2010 and 31 July 2009, there was no revenue derived from a single customer which contributed for more than 10% of the Group's revenue for respective years.

### 4. OTHER REVENUE

|  | 2010<br><i>HK\$'000</i> | 2009<br><i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Interest income from bank deposits   | <b>1,774</b>            | 11,546                  |
| Interest income from held-to-maturity debt investments                       | <b>5,433</b>            | 1,317                   |
| Other interest income  | <b>1,079</b>            | 1,328                   |
| Dividend income from equity investments at fair value through profit or loss | <b>46</b>               | -                       |
| Dividend income from unlisted available-for-sale equity investments          | <b>20,748</b>           | 1,247                   |
| Return of capital from an unlisted available-for-sale equity investment      | -                       | 424                     |
| Project management fee income received from an associate                     | <b>9,000</b>            | -                       |
| Others   | <b>8,499</b>            | 6,996                   |
|  | <b>46,579</b>           | 22,858                  |



## 5. REVERSAL OF PROVISION/(PROVISION) FOR TAX INDEMNITY

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

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

After taking into account the Property Interests currently held by Lai Fung as at 31 July 2010 which are covered under the Lai Fung Tax Indemnity Deed and the prevailing tax rates and legislation governing PRC income tax and LAT, the total amount of tax indemnity given by the Company is estimated to be HK\$1,341,829,000.

As at 31 July 2010, the directors of the Company, after taking into account the prevailing market situation and the latest development plan and status of the various individual property development projects as included in the Property Interests and the prevailing tax rates and legislation governing PRC income tax and LAT, considered it is probable that an estimated amount of HK\$470,191,000 (2009:HK\$452,696,000) of the abovementioned tax indemnity given by the Company would be crystallised. Therefore, an additional provision for the tax indemnity amount of HK\$17,495,000 (2009: reversal of provision of HK\$11,936,000) was recognised in the income statement for the year ended 31 July 2010.

## 6. PROFIT FROM OPERATING ACTIVITIES

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

|   | 2010<br><i>HK\$'000</i> | 2009<br><i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Depreciation #  | 26,807                  | 26,008                  |
| Amortisation of prepaid land lease payments *                                       | 1,028                   | 1,027                   |
| Loss on disposal of items of property, plant and equipment *                        | 327                     | -                       |
| Fair value loss/(gain) on equity investments at fair value through profit or loss * | ( 121)                  | 30,229                  |
| Loss on disposal of equity investments at fair value through profit or loss*        | <u>19,804</u>           | <u>1,563</u>            |

# Depreciation charge of HK\$19,451,000 (2009: HK\$18,064,000) for property, plant and equipment is included in "other operating expenses, net" on the face of the consolidated income statement.

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

## 7. FINANCE COSTS

|  | 2010<br><i>HK\$'000</i> | 2009<br><i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Interest on bank borrowings wholly repayable<br>within five years  | 33,892                  | 54,450                  |
| Bank financing charges   | <u>9,149</u>            | <u>7,409</u>            |
|  | 43,041                  | 61,859                  |
| Less : Amount capitalised in properties under development for sale | <u>( 1,264)</u>         | <u>( 3,380)</u>         |
|  | <u>41,777</u>           | <u>58,479</u>           |

## 8. TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

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

|  | <b>2010</b><br><i>HK\$'000</i> | 2009<br><i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Current tax                              |                                |                         |
| Hong Kong                                | <b>17,148</b>                  | 10,483                  |
| Overseas                                 | <u><b>13,557</b></u>           | <u>11,864</u>           |
|  | <u><b>30,705</b></u>           | <u>22,347</u>           |
| Deferred tax                             | <u><b>209,772</b></u>          | <u>(19,420)</u>         |
| Prior years' under provision – Hong Kong | <u><b>4,279</b></u>            | <u>941</u>              |
| Tax charge for the year                  | <u><b>244,756</b></u>          | <u>3,868</u>            |

## 9. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings/(loss) per share is based on the profit for the year attributable to ordinary equity holders of the Company of HK\$2,064,562,000 (2009: loss attributable to ordinary equity holders of the Company of HK\$220,985,000) and the weighted average number of 14,162,042,000 (2009: 14,162,042,000) ordinary shares in issue during the year.

Diluted earnings/(loss) per share for the years ended 31 July 2010 and 2009 have not been presented as no diluting events existed during both years.

## 10. INTERESTS IN ASSOCIATES/SHARE OF PROFITS AND LOSSES OF ASSOCIATES

### The eSun Group

Included in the Group's interests in associates at 31 July 2010 was the Group's share of net assets of the eSun Group of HK\$2,044,631,000 (2009: HK\$1,886,180,000).

Until 30 September 2010, a cross holding position has been existing between eSun and the Company. As at 31 July 2010, the Group's interest in eSun was 36.08% (2009: 36.08%) and the eSun Group held 36.72% (2009: 36.72%) in the issued share capital of the Company.

On 26 July 2010, Lai Sun Garment (International) Limited ("LSG"), a substantial shareholder of the Company, entered into a conditional shares swap agreement with eSun pursuant to which:

- (a) LSG agreed to transfer or procure the transfer of, and eSun 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 eSun's entire shareholding interest in the Company; 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) eSun agreed to procure the transfer of, and LSG agreed to accept the transfer of, eSun's indirect interest in 5,200,000,000 shares in the capital of the Company (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 the Company and eSun's entire shareholding interest in the Company, for an aggregate consideration of approximately HK\$3,704.8 million, to be settled by the transfer to eSun of LSG's entire shareholding interest in Lai Fung.

Further details of the Transactions were set out in the circulars of LSG and eSun both dated 30 August 2010. Resolutions for approving the shares swap agreement were duly passed at an extraordinary general meeting of LSG and a special general meeting of eSun on 20 September 2010. All the conditions precedent under the shares swap agreement were fulfilled and completion of the Transactions took place on 30 September 2010.

eSun no longer holds any interest in the Company but the Company continues to hold 36.08% equity interest in eSun. Accordingly, the cross-holding relationship between eSun and the Company has been eliminated.

### Diamond String

Included in the Group's interests in associates as at 31 July 2010 and share of profits and losses of associates for the year ended 31 July 2010 was the Group's share of net assets and profits of Diamond String of HK\$1,384,180,000 (2009: HK\$524,881,000) and HK\$859,299,000 (2009: share of loss of HK\$344,000), respectively.

The increase in the Group's share of net assets and profits of Diamond String was mainly attributable to the Group's adoption of the new amendments to HKAS 40 - Investment Property which became effective in the Group's accounting period beginning 1 August 2009. The details are set out in note 2.

Included in interests in associate as at 31 July 2009 was a goodwill of HK\$129,488,000 attributable to acquisition of additional equity interests in Diamond String in 2007. Such goodwill represented consideration paid by the Group over the Group's corresponding share of the then net assets value of Diamond String, of which the Property was stated at cost less depreciation. Upon adoption of the amendments to HKAS 40, the Property was stated at its fair value when the Group equity accounted for its interest in Diamond String in the Group's consolidated financial statements. As a result, such goodwill was charged to consolidated income statement and included in share of profits and losses of associates during the year ended 31 July 2010.

## 11. DEBTORS AND DEPOSITS PAID/CREDITORS, DEPOSITS RECEIVED AND ACCRUALS

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

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

|                                 | <b>2010</b>           | 2009            |
|---------------------------------|-----------------------|-----------------|
|                                 | <i>HK\$'000</i>       | <i>HK\$'000</i> |
| Trade debtors:                  |                       |                 |
| Less than 30 days past due      | <b>23,363</b>         | 5,307           |
| 31 – 60 days past due           | <b>1,458</b>          | 1,215           |
| 61 – 90 days past due           | <b>270</b>            | 459             |
| Over 90 days past due           | <u><b>2,282</b></u>   | <u>1,918</u>    |
|                                 | <b>27,373</b>         | 8,899           |
| Other debtors and deposits paid | <u><b>93,942</b></u>  | <u>77,815</u>   |
|                                 | <u><b>121,315</b></u> | <u>86,714</u>   |

- (b) An ageing analysis of the trade creditors, based on payment due date, as at the end of the reporting period is as follows:

|   | <b>2010</b>           | 2009            |
|---|-----------------------|-----------------|
|   | <i>HK\$'000</i>       | <i>HK\$'000</i> |
| Trade creditors:                                |                       |                 |
| Less than 30 days past due                      | <b>6,973</b>          | 6,887           |
| 31 – 60 days past due                           | <b>173</b>            | 654             |
| 61 – 90 days past due                           | <u><b>1</b></u>       | <u>-</u>        |
|   | <b>7,147</b>          | 7,541           |
| Other creditors, deposits received and accruals | <u><b>209,474</b></u> | <u>198,876</u>  |
|   | <u><b>216,621</b></u> | <u>206,417</u>  |

## 12. SHARE CAPITAL

|  | 2010                        |                              | 2009                        |                              |
|--|-----------------------------|------------------------------|-----------------------------|------------------------------|
|  | Number of<br>shares<br>'000 | Nominal<br>value<br>HK\$'000 | Number of<br>shares<br>'000 | Nominal<br>value<br>HK\$'000 |
| Authorised:  |                             |                              |                             |                              |
| Ordinary shares of HK\$0.01<br>(2009: HK\$0.01) each | <u>17,200,000</u>           | <u>172,000</u>               | <u>17,200,000</u>           | <u>172,000</u>               |
| Preference shares of HK\$1.00 each                   | <u>1,200,000</u>            | <u>1,200,000</u>             | <u>1,200,000</u>            | <u>1,200,000</u>             |
|  |                             | <u>1,372,000</u>             |                             | <u>1,372,000</u>             |
| Issued and fully paid:                               |                             |                              |                             |                              |
| Ordinary shares of HK\$0.01<br>(2009: HK\$0.01) each | <u>14,162,042</u>           | <u>141,620</u>               | <u>14,162,042</u>           | <u>141,620</u>               |

Pursuant to a special resolution passed at an extraordinary general meeting of the Company held on 24 July 2006, and the subsequent Order of the High Court of Hong Kong granted on 17 October 2006, the Company effected a capital reduction (the "Capital Reduction") which took effect on 18 October 2006. The paid-up capital on each of its issued ordinary shares of HK\$0.50 was cancelled to the extent of HK\$0.49 per share, and the nominal value of all of the ordinary shares of the Company, both issued and unissued, was reduced from HK\$0.50 per share to HK\$0.01 per share. A total credit of HK\$6,245,561,000 had arisen as a result of the Capital Reduction. An amount of HK\$5,619,000,000 of the total credit was credited to the accumulated losses of the Company and the remaining amount of HK\$626,561,000 was credited to the share premium account of the Company.

An undertaking in standard terms was given to the High Court by the Company in connection with the Capital Reduction. The undertaking is for the benefit of the Company's creditors as at the effective date of the Capital Reduction. Pursuant to the undertaking, any receipts by the Company on or after 1 August 2005 in respect of the Company's:

- (1) 50% investment in Fortune Sign Venture Inc. ("Fortune Sign"), up to an aggregate amount of HK\$1,556,000,000;
- (2) 10% investment in Bayshore Development Group Limited ("Bayshore"), up to an aggregate amount of HK\$2,923,000,000; and/or
- (3) 100% investment in Furama Hotel Enterprises Limited, up to an aggregate amount of HK\$1,140,000,000

shall be credited to a special capital reserve in the accounting records of the Company. While any debt of or claim against the Company as at 18 October 2006 (the effective date of the Capital Reduction) remains outstanding, and the person entitled to the benefit thereof has not agreed otherwise, the special capital reserve shall not be treated as realised profits and (for so long as the Company remains a listed company) shall be treated as an undistributable reserve pursuant to Section 79C of the Hong Kong Companies Ordinance.

The undertaking is subject to the following provisos:

- (i) the amount standing to the credit of the special capital reserve may be applied for the same purposes as a share premium account may be applied or may be reduced or extinguished by the aggregate of any increase in the Company's issued share capital or share premium account resulting from an issue of shares for cash or other new consideration upon a capitalisation of distributable reserves after 18 October 2006 and the Company shall be at liberty to transfer the amount of any such reduction to the general reserve of the Company and the same shall become available for distribution;
- (ii) the aggregate limit in respect of the special capital reserve may be reduced after the disposal or other realisation of any of the assets being the subject of the undertaking (as referred to at (1) to (3) above) by the amount of the individual limit for the asset in question less such amount (if any) as is credited to the special capital reserve as a result of such disposal or realisation; and

## 12. SHARE CAPITAL *(continued)*

- (iii) in the event that the amount standing to the credit of the special capital reserve exceeds the limit thereof, after any reduction of such limit pursuant to proviso (ii) above, the Company shall be at liberty to transfer the amount of such excess to the general reserve of the Company and the same shall become available for distribution.

In prior years, an aggregate amount of HK\$551,021,000, which comprised (i) the reversal of provision for impairment of the Company's interest in Peakflow Profits Limited ("Peakflow"), a wholly-owned subsidiary of the company which holds a 10% equity interest in Bayshore, to the extent of HK\$292,693,000; and (ii) the recognition of dividend income from the Company's investment in Fortune Sign of HK\$258,328,000, was transferred from accumulated losses to the special capital reserve of the Company.

During the year, an amount of HK\$79,379,000, which represented the reversal of provision of impairment of the Company's interest in Peakflow, was transferred from accumulated losses to the special capital reserve of the Company.

After the effective date of the Capital Reduction, the Company entered into a placing agreement dated 17 November 2006 pursuant to which a total of 1,416,000,000 new ordinary shares of HK\$0.01 each in the capital of the Company were allotted and issued for net cash proceeds of HK\$504,136,000. With such increase in the Company's issued share capital and share premium account resulting from the placing of new shares for cash, an aggregate amount of HK\$504,136,000 was then transferred from special capital reserve to general reserve (a distributable reserve) of the Company in prior years pursuant to the provisos of the undertaking given by the Company in connection with the Capital Reduction as stated above.

As a result of the above transfers between the reserves, the outstanding balance of the special capital reserve of the Company as at 31 July 2010 was HK\$126,264,000 (2009: HK\$46,885,000).

## DIVIDENDS

As at 31 July 2010, the Company did not have any reserves available for distribution in accordance with provisions of Section 79B of the Companies Ordinance. The directors of the Company do not recommend the payment of an ordinary dividend for the financial year ended 31 July 2010. No ordinary dividend was declared in respect of the previous corresponding year.

## MANAGEMENT DISCUSSION AND ANALYSIS

### OVERVIEW OF FINAL RESULTS

For the year ended 31 July 2010, the Group recorded a turnover of HK\$729,254,000 (2009: HK\$649,742,000) and a gross profit of HK\$474,981,000 (2009: HK\$454,536,000), representing an increase of approximately 12.2% and 4.5% respectively from the previous year.

During the year, the Group booked a fair value gain on completed investment properties of HK\$1,232,615,000 (2009: a loss of HK\$145,748,000) as a result of the continued strength of the macro-economic conditions and rebound of the property markets. During the year, the Group recorded an additional provision for tax indemnity of approximately HK\$17,495,000 (2009: a reversal of provision of HK\$11,936,000). Such provision was made in the financial year of 2008 in respect of certain tax indemnity granted by the Group to Lai Fung Holdings Limited (“Lai Fung”) in November 1997 at the time of effecting the separate listing of Lai Fung on The Stock Exchange of Hong Kong Limited (*details of such tax indemnity and provision are set out in Note 5 above*). Taking into account of the above exceptional items, the Group recorded a profit from operating activities of HK\$1,412,230,000 during the year ended 31 July 2010 (2009: HK\$11,333,000).

During the year, share of profits from associates was HK\$982,364,000, compared to share of losses from associates of HK\$132,483,000 in the previous year. Movements of main items of the Group’s share of profits from associates during the year were as follows:

1. The Group currently holds a 50% interest in Diamond String Limited (“DSL”), which is the joint venture company between the Group and a wholly-owned subsidiary of China Construction Bank Corporation (“CCB”) for the purpose of redevelopment project of 3 Connaught Road Central, Hong Kong. During the year, the Group adopted amendments to HKAS 40 in relation to its interest through DSL in the 3 Connaught Road Central redevelopment project, which is an investment property under development. Prior to the application of amendments to HKAS 40, DSL’s investment property under development was carried at cost until the construction is completed, at which time it will be fair valued with gain or loss being recognised in profit or loss. As a result of the Group’s adoption of amendments to HKAS 40, such property development project will be carried at fair value for the purpose of conforming to the Group’s accounting policies and a fair value gain or loss will be recognised in profit or loss. Accordingly, the Group shared the fair value gain of DSL’s investment property under development amounting to approximately HK\$859,582,000 (net of the related deferred tax and goodwill) in the consolidated income statement for the year.
2. During the year, the Group held a 36.08% interest in eSun Holdings Limited (“eSun”), which in turn held a 36.72% interest in the Group. For the year ended 31 July 2010, the Group’s share of eSun’s losses (before taking into account the Group’s further share of eSun’s result arising from eSun’s share of the results of the Group) included in the Group’s share of results of associates was approximately HK\$168,700,000 (2009: a loss of HK\$118,700,000).
3. Due to the cross-holding structure between the Group and eSun existed during the year, the Group is required to further take up eSun’s share of the Group’s results. The effect of such recurring process leads to the Group taking up a share of profit of approximately HK\$295,900,000 (2009: a loss of HK\$13,500,000) and such amount is included in the Group’s share of results of associates. The cross-holding relationship between the Company and eSun was eliminated as a result of the Group



Reorganization completed on 30 September 2010. Details of the Group Reorganisation are set out the section headed “Subsequent Event – Group Reorganisation” below.

As a result of decrease in interest rate, finance costs expensed further decreased to HK\$41,777,000 (2009: HK\$58,479,000).

For the year ended 31 July 2010, the Group recorded a consolidated net profit attributable to ordinary equity holders of the Company of HK\$2,064,562,000, compared to a consolidated net loss of HK\$220,985,000 from the previous year.

Shareholders’ equity as at 31 July 2010 amounted to HK\$9,405,690,000, up from HK\$7,093,474,000 as at 31 July 2009. Net asset value per share as at 31 July 2010 was HK\$0.664, as compared to HK\$0.501 as at 31 July 2009.

## ***BUSINESS REVIEW***

### **Investment Properties**

The Group wholly owns three major investment properties for rental purposes, i.e. Causeway Bay Plaza 2, Cheung Sha Wan Plaza and Lai Sun Commercial Centre. For the year ended 31 July 2010, aggregate gross rental income from investment properties contributed to the Group’s turnover of approximately HK\$341,103,000 (2009: HK\$340,980,000), which was stable compared to the previous year. As at 31 July 2010, overall occupancy of the Group’s investment properties remained high at 97%.

### **Development Properties**

#### ***3 Connaught Road Central Project (Redevelopment of the former The Ritz-Carlton Hong Kong site)***

This joint redevelopment project is a 50:50 joint venture between the Group and a wholly-owned subsidiary of China Construction Bank Corporation (“CCB”). The buildable gross floor area for the redevelopment is approximately 225,000 square feet. The redeveloped office tower will become a landmark property in Central, Hong Kong. Part of the redeveloped property, upon its completion, will be used by CCB as offices of its Hong Kong operations. Total construction cost of the project is estimated to be about HK\$1,100,000,000.

Foundation work was completed in April 2010, and above-ground construction work has started thereafter. The entire redevelopment work is now expected to be completed by first half of 2012.

#### ***The Oakhill, Wood Road, Wanchai***

This joint residential development project is a 50:50 joint venture between the Group and the AIG Global Real Estate Investment (Asia) LLC. The development has total development cost of about HK\$1,300,000,000. It offers a total of 130 residential units with a total saleable gross floor area of 154,753 square feet, podium retail units with a total saleable gross floor area of 5,122 square feet and about 60 carparks for sale.

The project is scheduled for completion by second half of 2011. Pre-sale for the residential units commenced in July 2010. Up to the date of this announcement, 117 residential units with an aggregate saleable gross floor area of 132,448 square feet were pre-sold at an average selling price of HK\$14,600 per square foot. The development income will be recognised in the Group’s share of results of associates after completion of the project.

### ***Emerald 28, Tai Po Road, Kowloon***

The Group wholly owns this development project. The development has an estimated total development cost of about HK\$500,000,000. It offers a total of 53 residential units with a total saleable gross floor area of 60,686 square feet and podium retail units with a total salable gross floor area of 8,580 square feet. For the year under review, the Group recorded the sale of 3 residential units with an aggregate gross floor area of 3,694 square feet at an average selling price of HK\$9,400 per square foot and recognised a turnover of HK\$34,578,000. Up to the date of this announcement, the Group contracted further sale of 27 residential units with an aggregate saleable gross floor area of 30,618 sq. ft. were sold at an average selling price of HK\$8,700 per square foot. The relevant development income, subject to completion of the sale, will be recognised in the next financial year.

### ***Yau Tong Project***

The Group completed the purchase of the site of this project located at No. 4 Shung Shun Street, Yau Tong, Kowloon, Hong Kong in September 2008. In 2009, the Group also completed lease modification of the site to non-industrial use and paid the relevant land premium.

The Group wholly owns this development project. The Group intends to develop the site into a residential-cum-commercial property with a total gross floor area of about 106,000 square feet. Total development cost is now estimated to be about HK\$700 million.

Foundation work was started in May 2010 and the entire construction is scheduled for completion in 2012.

### ***Tai Hang Road Project***

The Group completed the purchase of this project situated at 335-339 Tai Hang Road, Hong Kong for a consideration of HK\$358 million in December 2009.

The Group wholly owns this project and intends to redevelop the site into a luxury residential property. Total gross floor area for redevelopment is about 29,000 square feet. Total development cost is estimated to be about HK\$ 650 million. Foundation work was started in October 2010 and the entire construction is scheduled for completion in 2013.

### **Hotel and Restaurant Operation**

For the year ended 31 July 2010, hotel and restaurant operations contributed HK\$334,843,000 to the Group's turnover (2009: HK\$284,335,000), up approximately 17.8% from the previous year. The increase in turnover was partly contributed by certain new restaurants which commenced business in the first half of 2009. Most of the turnover from hotel and restaurant operations was derived from the Group's operation of Caravelle Hotel in Ho Chi Minh City, Vietnam. For the year ended 31 July 2010, Caravelle Hotel achieved an average occupancy of 59% (2009: 48%) and average daily room rate of US\$148 (2009: US\$192).

## eSun

eSun's principal businesses are media and entertainment and the development of Macao Studio City project through its 40% effectively-owned jointly controlled entity.

### *Macao Studio City*

eSun'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 year 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 eSun 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. 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 eSun 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 judgment dated 16 July 2010, it has struck out certain claims, including the derivative claims by EAST (Holdings) 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 judgment. The appeals have been lodged and listed to be heard on 12 and 13 May 2011. EAST (Holdings) will pursue the appeals vigorously. In parallel with the appeals, EAST (Holdings) continues to pursue the remaining claims in the legal proceedings, including the claim for damages of approximately HK\$689 million for breach of contract by the New Cotai Parties. These claims are contested by the New Cotai Parties and a defence has been filed by them on 27 September 2010.

In addition, on 14 October 2010, New Cotai Parties and New Cotai Entertainment LLC (an affiliate of New Cotai) ("NCE") have respectively commenced two sets of legal proceedings in the Hong Kong SAR against EAST (Holdings), eSun, CapitaLand, CapitaLand Limited and the Cyber One group. One of the claims is brought by NCE against the joint venture company, EAST (Holdings), eSun and others, seeking specific performance from the joint venture as to the execution of a casino lease and for damages for breach of contract/inducing or procuring breach of contract for failure to execute the lease. Both eSun and EAST (Holdings) have filed acknowledgment of service of the proceedings on 27 October 2010 indicating their intention to contest the proceedings. The other claim is brought by the New Cotai nominated directors of Cyber One against Cyber One and EAST (Holdings) for an indemnity of all costs and liability incurred by these directors in defending the legal proceedings commenced against them by EAST (Holdings). EAST (Holdings) has taken, and will take, all appropriate steps to protect its position, including filing an acknowledgment of service.

Further, on 29 October 2010, New Cotai presented to the High Court of the Hong Kong SAR its own petition ("New Cotai's Petition") seeking an order that EAST (Holdings) do transfer its shareholding in Cyber One to New Cotai, at a valuation to be determined by the court. In terms of the relief sought, New Cotai's Petition is the mirror-image of the petition of EAST (Holdings) filed on 29 October 2009. New Cotai is seeking an expedited hearing of the New Cotai Petition based on, amongst other things, the risk that the site for the Macao Studio City project may be reclaimed by the Macau government. The New Cotai's Petition has been fixed to be heard on 10 November 2010, at which directions will be given by the court as to the future conduct of the proceedings.

With the litigation continuing, it should be noted that its timing and outcome remain inherently uncertain. The directors of eSun 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 eSun'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.

Cyber One has not appointed a general contractor and has not, to date, progressed the building works beyond foundations for the superstructure.

### Financing

To date, the parties have contributed a total of US\$200 million capital to the project (eSun's attributable share being US\$80 million). However, Cyber One has yet to secure the necessary project finance for the development. The directors of eSun 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 eSun 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 (the "Put Option") to put back its holding of shares in EAST (Holdings) to eSun. 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, eSun's attributable interest in Macao Studio City would increase to 60%.

As the Put Option is potentially exercisable in September 2011, eSun 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 of eSun 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.

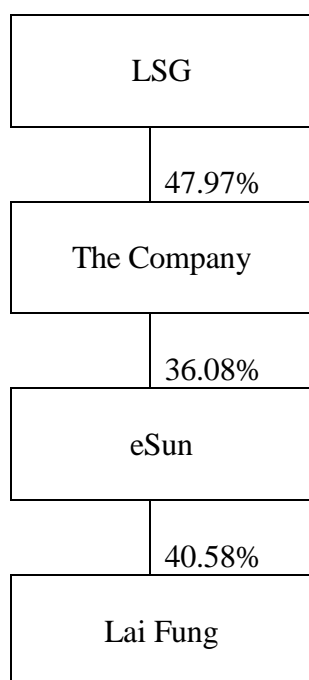
***Media and entertainment businesses***

During the year under review, eSun’s media and entertainment businesses had mixed performances. 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 organized/promoted in the early part of 2010 as compared to smaller events/dramas being organised in 2009.

***SUBSEQUENT EVENT - GROUP REORGANISATION***

On 30 September 2010, Lai Sun Garment (International) Limited (“LSG”) and eSun completed a group reorganisation (“Group Reorganisation”). Pursuant to the Group Reorganisation, LSG transferred its entire interest in Lai Fung (approximately 40.58% of the issued share capital of Lai Fung) to eSun; whereby eSun transferred its entire interest in the Company (approximately 36.72% of the issued share capital of the Company) to LSG. In order to settle the difference in the consideration of each transaction, eSun paid HK\$100 million in cash to LSG and will pay an additional sum of approximately HK\$78.4 million in cash to LSG, without interest, six months after the completion.

Immediately following the completion of the Group Reorganisation, the group structure involving LSG, the Company, eSun and Lai Fung became:



As a result of the Group Reorganisation, the cross-holding structure between the Company and eSun that existed since 2004 was dismantled. The Group Reorganisation simplified the ownership structure of the Company and eSun, and eliminated the circular effect of the accounting treatment of the cross-holdings. By unlocking this structure, the magnifying effect of the cross-held interests will be eliminated. More importantly, the directors of the Company believe that the simplified shareholding structure provides greater clarity to shareholders and the market with regard to the core business of each of the companies.

eSun became the controlling shareholder of Lai Fung with a well-established portfolio of property interests in the Mainland of China and shares the operating profit of Lai Fung as an associate (as that expression is used in the context of the Hong Kong Financial Reporting Standards) of eSun. This directly benefits eSun and indirectly benefits the Company as well.

## ***PROSPECTS***

### **Hong Kong Property Development**

In 2010, Hong Kong's economy and property market continues to benefit from the global low interest rate environment and the Mainland of China's continued effort to stimulate domestic economy.

With improvement of its operations and with the timely disposal of assets in the past few years, the Group has a healthy balance sheet with reasonable leverage. Under the current circumstances, the Group is now further looking for investment opportunities to expand and grow its business in Hong Kong and overseas.

### **Investment Properties**

Rentals for office and commercial properties in prime locations in Hong Kong have regained momentum since the middle of 2009. Strong liquidity and low interest environment has fostered favourable operating conditions for most retail, consumption and commercial sectors. Active business environment fosters demand in office space which in turn fuels the uptick of rental rates. Improved local consumption expenditure and strong retail spending by the Mainland visitors provides further impetus to the retail market. Strong retail performance has boosted rental demand for retail premises.

In the coming year, the Group will target to maintain high occupancy rates and rental cashflows from its investment properties.

### **Development Properties**

Since the middle of 2009, bullish sentiment in Hong Kong's residential property market has continued with surges in transaction prices and volume. Recently, the Hong Kong government has implemented various measures to improve the transparency and regulate practices of the Hong Kong residential property market. However, strong primary sales this year and recent satisfactory land auctions reinforced the confidence of both demand and supply side of the residential property market. The Hong Kong property market should continue to benefit from the economic rebound, low interest rate, high liquidity and tight supply in the pipeline.

The Group currently holds a number of residential projects under development in Hong Kong and managed to capture the strong sentiment in the Hong Kong residential property market by achieving satisfactory sales performance for its The Oakhill and Emerald 28 projects this year. In the coming year, the Group intends to sell the remaining units at The Oakhill and Emerald 28, in order to capture the continued rebound of Hong Kong's residential property market. Given the shortage in supply in core city areas in Hong Kong, the Group is still optimistic on the Hong Kong residential properties in the longer term.

## **eSun**

### ***Macao Studio City***

eSun 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 eSun to expand and monetise its entertainment and media expertise. eSun remains firmly committed to the project, with or without the participation of its US project partners, to the project.

### ***Media and entertainment***

With regard to eSun's media and entertainment businesses, eSun will strive to (i) steadily increase the number of films produced per annum, through diversification by co-production and joint venture; (ii) diversify its Hong Kong live entertainment business by expanding into the Mainland of China, Macau and Taiwan; (iii) expand into the Mainland of China's music business by releasing more Mandarin albums; (iv) continue to search for better new media distributor(s) and explore new media channels for music distribution; and (v) develop the lucrative television drama, content production and distribution business in the Mainland of China.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 31 July 2010, the Group had consolidated net assets of approximately HK\$9,406 million (as at 31 July 2009: HK\$7,093 million).

The Group has diverse sources of financing comprising internal funds generated from the Group's business operations and loan facilities provided by banks.

As at 31 July 2010, the Group had outstanding secured bank borrowings of approximately HK\$2,704 million (as at 31 July 2009: HK\$2,147 million). The debt to equity ratio as expressed in a percentage of the total outstanding borrowings to consolidated net assets was approximately 29%. As at 31 July 2010, the maturity profile of the bank borrowings of HK\$2,704 million was spread over a period of less than 5 years with HK\$391 million repayable within 1 year, HK\$1,283 million repayable in the second year and HK\$1,030 million repayable in the third to fifth years. As at 31 July 2010, all the Group's borrowings carried interest on a floating rate basis.

As at 31 July 2010, certain investment properties with carrying amounts of approximately HK\$6,435 million, certain property, plant and equipment with carrying amounts of approximately HK\$251 million, prepaid land lease payments of approximately HK\$27 million, certain properties under development for sale of approximately HK\$416 million, certain completed properties for sale of approximately HK\$463 million and certain bank balances and time deposits with banks of approximately HK\$99 million were pledged to banks to secure banking facilities granted to the Group. In addition, certain shares in subsidiaries held by the Group were also pledged to banks to secure loan facilities granted to the Group. Certain shares of associates held by the Group were pledged to banks to secure loan facilities granted to these associates of the Group. Certain shares of an investee company held by the Group were pledged to banks to secure a loan facility granted to this investee company. The Group's secured bank borrowings were also secured by floating charges over certain assets held by the Group.

The Group's monetary assets and liabilities and transactions are principally denominated in Hong Kong dollars or United State dollars. All of the Group's borrowings are denominated in Hong Kong dollars or US dollars. Considering that Hong Kong dollars are pegged against US dollars, the Group believes that the corresponding exposure to exchange rate risk is nominal.

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

During the year ended 31 July 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 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the accounting period covered by the Annual Report save for the deviation from code provisions A.4.1 and E.1.2.

Under code provision A.4.1, non-executive directors should be appointed for a specific term and be subject to re-election. None of the existing non-executive Directors of the Company is appointed for a specific term. However, all Directors of the Company are subject to retirement provisions in the Articles of Association of the Company which provide that the directors for 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.

Under code provision E.1.2, the chairman of the board should attend the annual general meeting. Due to other commitments which must be attended to by the Chairman, the Chairman was not present at the annual general meeting of the Company held on 23 December 2009.

## **REVIEW OF ANNUAL RESULTS**

The annual results of the Company for the year ended 31 July 2010 have been reviewed by the audit committee of the Company. The audit committee comprises the three independent non-executive Directors of the Company, namely Messrs. Wan Yee Hwa, Edward, Lam Bing Kwan and Leung Shu Yin, William.

## **REVIEW OF PRELIMINARY ANNOUNCEMENT OF RESULTS BY AUDITORS**

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 July 2010 have been agreed by the Group's auditors, Ernst & Young, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement.

## **ANNUAL GENERAL MEETING**

The Annual General Meeting of the Company will be held on Tuesday, 21 December 2010. Notice of the Annual General Meeting together with the Company's Annual Report for 2009-2010 will be despatched to shareholders in due course.

By Order of the Board  
**Lam Kin Ngok, Peter**  
*Chairman*

Hong Kong, 5 November 2010

*As at the date of this announcement, the executive Directors of the Company are Mr. Lam Kin Ngok, Peter; Mr. Lau Shu Yan, Julius, Mr. Tam Kin Man, Kraven, Mr. Cheung Wing Sum, Ambrose and Miss Leung Churk Yin, Jeanny; the non-executive Directors are Dr. Lam Kin Ming and Madam U Po Chu, and the independent non-executive Directors are Mr. Lam Bing Kwan, Mr. Leung Shu Yin, William, Mr. Wan Yee Hwa, Edward and Mr. Ip Shu Kwan, Stephen*