

# Chairman's Statement



Chairman LIM Por Yen

## GROUP RESULTS

The Group reported a consolidated net loss attributable to shareholders of HK\$629.4 million for the year ended 31st July, 2001. Turnover for the year decreased to HK\$1,317.5 million from HK\$2,966.8 million in the previous year, mainly due to the deconsolidation of the results of Lai Sun Development Company Limited ("LSD") since 2nd May, 2000 after LSD ceased to be a subsidiary of the Company.

## DIVIDEND

The directors of the Company do not recommend the payment of a final dividend for the year under review.

## BUSINESS REVIEW

### Lai Sun Garment (International) Limited

Turnover of the manufacturing operation and export business for the year under review declined by approximately 26%, as compared with the previous year. As a result, the combined contribution of the manufacturing operation and export business to the results of the Company had decreased significantly. Nonetheless, the Company managed to achieve a profit for the year, albeit at a lower level as compared to the previous year.

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

LSD reported a consolidated net loss attributable to shareholders of HK\$1,196.2 million for the year under review, compared with the net loss of HK\$2,757.9 million for the previous year. While

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the core property operations of the LSD group have shown major improvement, its overall results had been affected by the deconsolidation of Lai Fung Holdings Limited and eSun Holdings Limited during the year under review, which accounted for a loss of HK\$1,044.8 million arising on deemed disposal of interests, by way of dilution, in Lai Fung Holdings Limited and eSun Holdings Limited. The directors of LSD do not recommend the payment of a final dividend.

LSD has benefited from the declining interest rate trend which helped alleviate the overall interest expenses by approximately 30% as compared to the same period in the previous year. Debt reduction remained a high priority of the LSD group. As at the end of the financial year under review, total bank debt decreased by a further 6% to HK\$4,354 million, while total outstanding principal amounts on the two bonds issued by the LSD group had also been reduced to US\$218.625 million, following a further repayment of 2.5% of the principal to the convertible and exchangeable bondholders on 31st January, 2001.

The investment property portfolio of LSD generated gross rental income of HK\$459 million for the year, representing a drop of 11% from the previous year. This decrease was largely due to the disposal of selective non-core assets such as units in the Star House in Tsimshatsui and Garment Centre in Cheung Sha Wan, and downward rental reversion for certain investment properties. Following the continued, strategic disposal programme, the size of LSD group's investment portfolio has been reduced to around 2 million square feet, consisting mainly of prime grade-A office and retail properties.

On the property development side, Furama Hotel Hong Kong will be closed for demolition on 30th November, 2001. The 25,000 square feet site will be subsequently redeveloped into a grade-A office building with a gross floor area of around 400,000 square feet targeted for completion in 2005. LSD retains a 30% interest in the joint venture undertaking the redevelopment.

The Waterfront, Kowloon Station Package I residential development project in which LSD group has a 10% interest, was completed in November 2000. Apart from this investment, two other projects, namely, Rolling Hills (Phase 2) in Yuen Long and

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Furama Court in Tsimshatsui, in which LSD has a 50% interest have been earmarked for sale in the financial year 2001/2002.

In line with the hotel sector in Hong Kong, the two hotel properties of LSD in Hong Kong, namely Furama Hotel Hong Kong and The Ritz-Carlton Hong Kong, have been affected by the downturn in the global economy and recorded both lower occupancies and room rates. Elsewhere, the LSD group's hotel properties in South East Asia, namely, the Furama Resort Danang, the Caravelle Hotel in Ho Chi Minh City and the Grand Pacific Hotel in Bangkok, made considerable headway during the period under review.

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

Lai Fung issued and allotted a total of 2,023 million new shares to holders of its convertible bonds in January 2001 on mandatory conversion of the bonds. The Company acquired a 20.6% interest in Lai Fung on the aforesaid mandatory conversion whilst the interest of LSD in Lai Fung had been diluted from 75.4% to around 25.4%. The Company and LSD now collectively maintains a 46% interest in Lai Fung.

Lai Fung reported a net loss attributable to shareholders of HK\$164.6 million for the year under review, compared with a profit of HK\$11.5 million for the previous year. Turnover declined 16% to HK\$161.7 million, mainly due to the slowdown in sales of the remaining larger-sized units in Phase II of Eastern Place in Guangzhou. The loss was mainly attributable to the share of loss of associated companies amounting to HK\$62.5 million, as well as a write-off of goodwill arising from acquisition of an associated company amounting to HK\$37 million.

Gradual improvement in the occupancy of offices, retail space and service apartments of Hong Kong Plaza in Shanghai had been recorded, and rental contribution from this property continued to improve during the year under review.

During the year, Lai Fung successfully arranged a US\$120 million term loan with HSBC to refinance existing bank loans as well as to early repay the HK\$600 million convertible note issued to a wholly-owned subsidiary of the Bank of China group.



Causeway Bay Plaza 1



Causeway Bay Plaza 2



Crocodile House 1 & 2



Cheung Sha Wan Plaza

Furama Resort Danang



The Ritz-Carlton Hong Kong  
and Furama Hotel Hong Kong

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### eSun Holdings Limited ("eSun")

eSun, in which LSD holds a 49.9% interest, reported a net loss attributable to shareholders of HK\$80.48 million for the six months ended 30th June, 2001. The loss was mainly attributable to a further provision of HK\$22.48 million for diminution in value on the 237 million SUNDAY Communications Limited shares which it owned, a provision of HK\$17 million for impairment in value of a subsidiary and a pre-operating loss of HK\$8.07 million in relation to the setting up of East Asia Satellite Television Limited ("EAST"), the satellite television operation of eSun.

Progress in the development of eSun's Internet-related business fell short of previous expectations but its other media investments have made smooth progress during the period under review. eSun now holds a 39.55% interest in Media Asia Holdings Ltd., whose core businesses include the production, provision and distribution of films and television programmes.

EAST commenced daily broadcast of programmes on its "Life Channel" on 21st July, 2001. Its television programme production centre in Hong Kong, which commenced operation in the second quarter of 2001, has an annual production capacity of approximately 1,500 hours of programme. EAST is also constructing a Television City in Macau with a production capacity of approximately 5,000 hours of programme per year. Completion of this project is scheduled for 2003.

### Crocodile Garments Limited ("CGL")

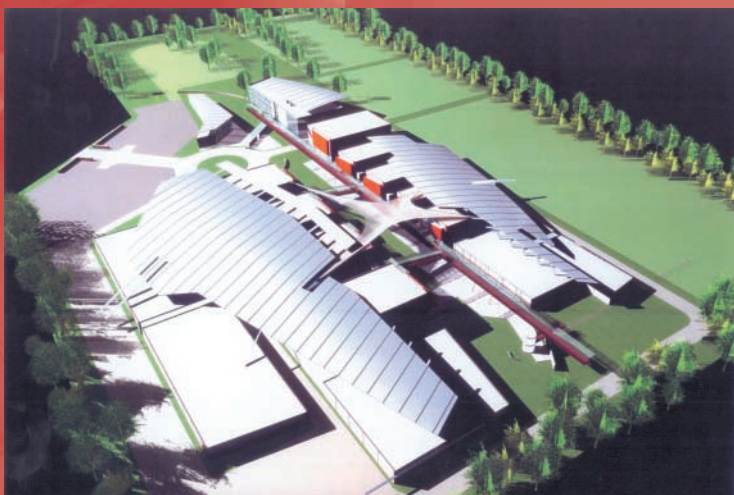
CGL achieved a successful turnaround in its results for the year under review. Total turnover, at HK\$679.9 million, was 7% lower than the corresponding figure for the previous year but an operating profit before tax of HK\$12.2 million had been recorded, which represents a substantial improvement over the loss of HK\$24.0 million for the previous year. This improvement in performance was attributable to stringent control on cost of sales and selling and distribution expenses. Overall, CGL reported a net profit attributable to shareholders of HK\$5.9 million, compared with a net loss of HK\$35.7 million for the previous year.



Crocodile Fashions



East Asia Satellite TV City, Macau (artist impression)



Eastern Place, Guangzhou



Hong Kong Plaza, Shanghai

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During the year, CGL continued to develop the market in the Mainland of China with encouraging results. Turnover and contribution to profit before tax from this sector both increased by around 30% over the previous year to HK\$297 million and HK\$27.7 million respectively. Its franchisee network had been further strengthened with the total number of sales outlets increased to over 700.

In contrast to the operations in the Mainland, the Hong Kong retail operation of CGL had been affected by sluggish consumer spending. It currently operates 29 retail shops in Hong Kong and plans are on hand to close down 4 to 5 shops with tenancies expiring in the financial year 2001/2002.

### PROSPECTS

As reported in the interim report of the Company for the year under review, competition in the Hong Kong garment exports markets remained intense. This situation has been aggravated by a noticeable deterioration in economic conditions in Hong Kong and other markets towards the last quarter of the financial year. The Company will continue to implement stringent control on operating and manufacturing expenses and at the same time, to actively seek suitable investment opportunities in order to enhance shareholders' value.

In view of the persistent deflationary scenario in Hong Kong, LSD will continue to maintain a prudent position in mapping out its overall strategy for the coming year. On the property investment front, prevailing rentals are expected to, at best, consolidate as demand for both office and retail space is poised to slow. Nonetheless, it is anticipated that the LSD group's well diversified investment properties will be able to maintain high occupancies and generate decent rental income for the coming year.

Recent tension in the Middle East will continue to depress travel activities. This, together with the forthcoming demolition of Furama Hotel Hong Kong, implies that profit contribution from the hotel division of LSD will likely be curtailed in the coming year.

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With its investment in television programme production facilities and in Media Asia Holdings Ltd., eSun expects its satellite television and movie and entertainment operations will assume a more prominent role in its strategic development in the foreseeable future. Its Internet-related operations will, meanwhile, complement the core businesses, and will remain an important element in the long term development plan of eSun.

The residential and commercial properties markets in the Mainland have experienced a healthy recovery. Sales of completed units in Eastern Place in Guangzhou of Lai Fung have picked up following vigorous marketing campaigns. The projected pre-sale of Phase III of Eastern Place in Guangzhou and further occupancy improvement in respect of the Hong Kong Plaza in Shanghai should benefit Lai Fung. It is also anticipated that the finance expenses of the company will be reduced now that the restructuring of the loans portfolio has been completed.

The retail industry in Hong Kong has been adversely affected by the local recession, and it is not expected that any significant improvement will be noted in the short-term. CGL will focus on the development of its operations in the Mainland, and will continue to strengthen and enhance its operational procedures and systems to achieve greater profitability.

### LIQUIDITY AND FINANCIAL RESOURCES

As at 31st July, 2001, total bank and other borrowings and consolidated net assets of the Group amounted to HK\$117 million and HK\$3,258 million, respectively. The debt to equity ratio, expressed as a percentage of total bank and other borrowings to total net assets, as at that date was only 3.6% which was considered to be at a comfortable level.

The maturity profile of the total bank and other borrowings of HK\$117 million as at 31st July, 2001 was spread over a period of three years with HK\$115 million repayable or renewable within one year and HK\$2 million repayable or renewable between one to two years.

The Group's bank borrowings were mainly in HK dollar and US dollar thereby reducing its exchange risk exposure. The majority of the bank and other borrowings were maintained as floating



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rate debts. Attention will be paid to the interest rate movements such that appropriate action will be taken when necessary to hedge against interest rate volatilities.

As at 31st July, 2001, certain investment properties with carrying value amounting to approximately HK\$139 million, certain fixed assets with carrying value amounting to approximately HK\$196 million and certain properties for sale of carrying value amounting to approximately HK\$4 million have been pledged to banks to secure banking facilities granted to the Group. In addition, 120,000,000 ordinary shares of LSD and 96,000,000 ordinary shares of CGL held by the Group have been pledged to a bank to secure banking facilities granted to the Group.

The Group's cash and cash equivalents as at 31st July, 2001 amounted to HK\$93 million which was considered adequate to cover the working capital requirement of the Group.

Most of the Group's sales and purchases were made mainly in US dollar, HK dollar, Renminbi and Euro dollars. Foreign purchases in Euro dollars were mostly covered with forward exchange contracts in order to minimise the exchange risk.

## EMPLOYEES AND REMUNERATION POLICIES

The Group employed a total of approximately 1,700 (2000: 2,000) employees as at 31st July, 2001. Pay rates of employees are maintained at competitive levels. Salary adjustments are made on a performance related basis. Other staff benefits included a number of mandatory provident fund schemes for all the eligible employees of the Group, free hospitalisation insurance plan, subsidised medical care and subsidies of external educational and training programmes.

## CONTINGENT LIABILITIES

Details of contingent liabilities of the Group at the balance sheet date are set out in note 29 to the financial statements.

## MANAGEMENT AND STAFF

The challenges and difficulties that the Group had to tackle and overcome during the period had been highly demanding for both Management and staff. I would like to record my appreciation of

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the efforts put in by Management and all staff members of Group companies and the support given by shareholders and business associates during this period.

**Lim Por Yen**

*Chairman & Managing Director*

Hong Kong

9th November, 2001