

# Chairman's Statement



*Chairman and Managing Director LIM Por Yen*

## **GROUP RESULTS**

The Group reported a consolidated net profit attributable to shareholders of HK\$123,570,000 for the year ended 31st July, 2004, compared with the net loss of HK\$85,110,000 recorded for the previous year as restated. Positive contributions to the consolidated results were attributable to the garment operation of the Company, Lai Fung Holdings Limited and Crocodile Garments Limited (“CGL”). Lai Sun Development Company Limited (“LSD”) had reported a net loss of HK\$39,313,000 for the year under review, but since the carrying value of the Group’s interest in LSD had been fully written down in the previous year, it would not be necessary for the Group to take up the Group’s share of LSD’s losses in the consolidated profit and loss account of the Group for the year under review.

Turnover of the Group for the year, at HK\$858,755,000, was 33.7% lower than the previous year, due to a noticeable reduction in turnover generated by the garment operation of the Company and a 5% drop in turnover of CGL.

## **DIVIDEND**

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

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### BUSINESS REVIEW

#### *Lai Sun Garment (International) Limited*

The garment operation of the Company reported a decrease in turnover compared with the figure for the previous year. This shortfall has been more than made up for by the unrealised gain on short-term investments and a surplus of investment property revaluation reserve and improved operating results had been achieved.

#### *Lai Sun Development Company Limited (“LSD”)*

LSD reported a consolidated net loss attributable to shareholders of HK\$39,313,000 for the year under review, which was a significant improvement on the net loss of HK\$476,566,000 for the previous year as restated. On the operating level, while the LSD group recorded a loss in the disposal of Causeway Bay Plaza 1, this was largely compensated by the write-back of impairment in value of LSD's properties. Its results had also been helped by a tax write-back (for prior years' provision) of HK\$88.6 million, which offset to a certain extent the relatively high interest and financial expenses of the LSD group.

The Hong Kong property market has shown a strong rebound during the year, with prices and rentals in all sectors reporting significant recovery. This favourable environment has made a positive impact on the results of LSD group. The company incurred a loss of HK\$273 million on disposal of Causeway Bay Plaza 1 during the year but this was partially compensated by a release of negative goodwill attributable to the aforesaid property of HK\$150 million to the profit and loss account of LSD, and a HK\$61 million gain arising from LSD's disposal of a 50% interest in Majestic Hotel and Centre. Appreciation in property prices during the year enabled LSD group to write back approximately HK\$133 million of provisions in prior years, reflecting the prevailing value of LSD's properties under development and existing hotel properties.

LSD group was able to reduce its overall interest expenses by 20% following a series of asset disposals, helped by the continued low interest rates. It disposed of Causeway Bay Plaza 1 for a consideration of HK\$1,200 million in October 2003 and a 50% interest in Majestic Hotel and Centre for a gross consideration of HK\$435 million in July 2004. This had allowed LSD to reduce its bank debt by over HK\$1,200 million.

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LSD's investment property portfolio generated gross rental income of HK\$280 million for the year, representing a drop of 28% from the previous year. This can be attributed mainly to the sale of Lai Sun Yuen Long Centre and Causeway Bay Plaza 1 during the year. Overall unit rental levels in LSD's portfolio have shown reasonable improvement and this trend is expected to continue.

The hotel sector in Hong Kong made a prominent recovery in the year under review. LSD group's 65%-owned The Ritz-Carlton Hong Kong reported an encouraging turnaround in both average occupancy and room rate in the seven months ended 31st July, 2004, compared with last year. The Majestic Hotel in Mongkok, Kowloon also achieved a high occupancy rate of 90.6%.

The two hotels in Vietnam, namely, Caravelle Hotel in Ho Chi Minh City and Furama Resort Danang, in which the LSD group has a 26.01% and 62.625% interest respectively, also managed to report positive contributions.

LSD made substantial progress during the year under review in its negotiations with all of its creditors for a consensual debt restructuring programme. It entered into a settlement agreement with eSun Holdings Limited ("eSun") and reached an agreement in principle with the Informal Committee representing the holders of the Convertible Bonds and Exchangeable Bonds for the settlement of the total indebtedness owing to eSun and the bondholders. The proposed settlement plan was approved by the aforesaid bondholders on 6th October, 2004 and by the independent shareholders of eSun and LSD on 13th October, 2004. On completion of the settlement plan scheduled to take place before the end of 2004, eSun will become the largest shareholder of LSD with an interest of approximately 40.8%. The Group's interest in LSD, however, will be reduced from the current 42.25% to approximately 12.42%.

Successful completion of the settlement plan will also result in LSD retiring approximately HK\$3,700 million debt owing to eSun and the bondholders, and retaining core properties such as Cheung Sha Wan Plaza, Causeway Bay Plaza 2 and The Ritz-Carlton Hong Kong.

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### *eSun Holdings Limited ("eSun")*

eSun, a 42.54%-owned associate of LSD, had reported an unaudited consolidated net loss attributable to shareholders of HK\$33 million for the half-year ended 30th June, 2004. East Asia Satellite Television Limited ("EAST") reported lower operating losses. Reclamation work at the EAST Television City in Macau Special Administrative Region was completed in September 2004. A number of development plans have been evaluated by eSun with a view to capitalizing on recent changes in market trends in Macau.

Media Asia Holdings Ltd. ("MAH") reported positive contributions to the results of the eSun group for the first-half of 2004. Following a restructuring of the MAH group, the new holding company of the group, Media Asia Entertainment Group Limited ("MAEG"), had successfully obtained a listing on the SGX-ST Dealing and Automated Quotation System of the Singapore Stock Exchange. Trading in the shares of MAEG commenced on 3rd November, 2004. Immediately following its listing, the interest of eSun in MAEG has been diluted to approximately 37.33 % from the previous holding of approximately 49.77%.

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

Lai Fung reported a consolidated net profit attributable to shareholders of HK\$172,774,000 for the year, which represented a substantial improvement on the profit of HK\$4,353,000 for the previous year as restated. This improvement was attributable mainly to increased contribution from sale of property development, reduction in finance cost, share of profit of an associate and the write-back of impairment loss in amount due from an associate. An increase of approximately 5.6% in contribution from rental income and other revenue had also been recorded.

Turnover increased by approximately 428% to HK\$630,204,000 on the pre-sale of Phase I of Regents Park in Shanghai, and Phase III of Eastern Place in Guangzhou.

In Shanghai, rental income from Hong Kong Plaza recovered strongly in the second half of 2003 and exceeded the figure for the previous financial year.

Phase I of Regents Park in Changning District comprises Towers 1 to 7, with approximately 1,000 units. Pre-sale of Towers 1 to 5 commenced in October 2003 on receipt of the requisite pre-sale

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permits. Market response has been encouraging, with 360 of the total 407 units of Towers 1 to 5 sold as at 31st July, 2004. The pre-sale permit for Tower 7 was issued in September 2004 and the permit for Tower 6 will be issued at a later date.

Pre-sale permits for the two towers in Phase III of Easter Place in Guangzhou were issued in June 2003. As at 31st July, 2004, 374 units out of the total 446 units had been sold. Construction plans for Towers 7 and 8 in Phase IV have been submitted to government authorities for approval and construction work is expected to commence in early 2005.

Internal fitting-out works are in progress at May Flower Plaza in Guangzhou. The 13-storey complex will provide approximately 35,000 sq.m. of office and commercial area, and a 4-storey basement of approximately 14,000 sq.m. for commercial and car park uses.

Following rationalisation of its development land bank in Zhongshan, Lai Fung group now holds a site of approximately 55,000 sq.m. in Zhongshan. The company had been increasing its land bank during the year under review.

In July 2004, Lai Fung completed a one-for-four rights issue of 1,174,591,295 shares at HK\$0.10 per share. The Company took up its entitlement in full and its equity interest in Lai Fung has been maintained at 45.13%.

### ***Crocodile Garments Limited ("CGL")***

CGL reported a net profit attributable to shareholders of HK\$47,896,000 for the year, which represented a turnaround from the net loss of HK\$58,768,000 recorded for the previous year as restated. Total turnover for the year showed a decline of 5.1% due to consolidation of retail outlets in both Hong Kong and the Mainland.

With the recovery in in-bound tourist arrivals and market sentiment in Hong Kong, CGL managed to improve its profit margin through stricter gross profit policies and cost control. In September 2004, CGL launched a new trademark in Hong Kong which features a golden crocodile emblem. The existing classic green "Crocodile" trademark will continue in use in Hong Kong.

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Turnover for the year from the Mainland operation declined by 6.6% compared with the previous year. This was due to lower consumer spending following the imposition of fiscal measures by the Mainland authorities to dampen the overheating economy.

CGL has been looking to expand its distribution income from Crocodile brand products such as leather shoes, bags and polyamide garments, and good progress has been made during the year.

### PROSPECTS

As previously announced by the Company on 16th September, 2004, on completion of the settlement of the outstanding indebtedness of LSD (the "Completion") scheduled to take place before the end of 2004, the Company's interest in LSD will be diluted from approximately 42.25% to approximately 12.42%. The Company's equity interest in LSD will, henceforth, be treated as a long-term investment in the Company's consolidated financial statements.

LSD has disclosed in its circular to shareholders dated 15th September, 2004 that its net asset value will become positive following Completion. After taking into account various reserves to be released to the consolidated profit and loss account of the Company, the Directors estimate that a gain on the deemed disposal of the Company's equity interest in LSD will arise.

Shareholders should note, however, that the estimated gain on such deemed disposal by the Company is calculated based on the pro forma consolidated net assets of LSD as detailed in LSD's circular to its shareholders dated 15th September, 2004. The actual amount to be recognised in the Company's consolidated profit and loss account will have to be recalculated based on the actual consolidated net assets of LSD as at Completion. Accordingly, the financial effect of the deemed disposal to the Company can only be confirmed upon Completion.

LSD believes the positive impact of CEPA and the influx of Mainland tourists will continue to benefit the Hong Kong economy. For the year 2004/2005, LSD has earmarked two property development projects for sale, namely, Rolling Hills (Phase 2) in Ngau Tam Mei, Yuen Long and Kimberley 26 in Tsimshatsui, Kowloon. The total gross floor area of the two projects attributable to LSD amounts to approximately 94,818 sq.ft.

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On the property investment front, LSD considers rentals should register further increase in the short-term, as demand looks poised to outstrip supply. Rental reversions should, therefore, be beneficial to the investment properties of LSD. With the completion of the AIG Tower by late 2005, LSD's 10% interest in the project should provide additional contribution.

Prospects of the Hong Kong hotel industry will remain encouraging and both occupancy and room rates are likely to register further improvement. This should benefit both The Ritz-Carlton Hong Kong and Majestic Hotel, although the latter will be facing more intense competition. LSD will devote substantial effort to market and expand the business of Furama Hotel and Resorts International Limited, with a view to securing more hotel and service apartments management contracts in Hong Kong and the Mainland and across Asia.

For eSun, the customer base of and capacity in revenue generation by East Asia Satellite Television ("EAST"), the satellite television operation, will be linked to a certain extent to the availability of a satellite television downlink licence in the Mainland.

EAST is evaluating a number of development plans for the EAST Television City in Macau, with the aim of adapting the selected plans to capitalize on projected changes in trends in the economy of Macau. If EAST can succeed in bringing these plans to fruition, this should benefit its operations in Macau and shareholders of eSun in the medium-term.

MAEG will continue to focus on meeting its production schedule. It is expected that the successful flotation of its shares should enhance its profile and image.

On completion of settlement of the debt of approximately HK\$1,500 million due from the LSD group, eSun will receive HK\$20 million in cash and a 40.8% shareholding interest in LSD. eSun will also have extended a loan of HK\$225 million to the LSD group, which loan will be interest bearing at 4.5% per annum. eSun estimates that a loss from the settlement will be recognised on completion.

Although a series of macro-economic policies have been implemented by the authorities in the Mainland in the first half of 2004, Lai Fung remains optimistic about economic growth in the





◀ Eastern Place, Guangzhou

Regents Park, Shanghai ▼



East Asia Satellite TV City, Macau ▲  
(artist impression)

Kimberley 26, Tsimshatsui ▼



▲ Crocodile shop with its new trademark



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Mainland, especially in the Yangtze and Pearl River deltas. With the anticipated increase in the number of foreign corporations establishing a presence in the Mainland, demand for quality commercial and residential properties by these foreign companies is expected to remain at a high level.

Lai Fung will maintain its focus on property investment and development projects in Shanghai and Guangzhou, and will also explore opportunities to increase its landbank. The company is also optimistic about future economic growth of Zhongshan and the prospects for the local property market.

CGL believes the momentum of the current economic rebound in Hong Kong will continue in the short-term and should further improve the trading environment for the company. Driven by the rising number of inbound tourists, the local retail market is expected to achieve rapid growth in coming years.

Plans are on hand to renovate sales outlets of CGL's franchisees in the Mainland, so as to reflect the new store image and design. The number of outlets currently stands at 900 but this should decrease during renovation of the outlets.

Management of CGL believes the company's improving fundamentals will reinforce the future development of the Crocodile brand, and the new Crocodile product line.

### LIQUIDITY AND FINANCIAL RESOURCES

As at 31st July, 2004, total bank and other borrowings (inclusive of the note payable of HK\$195 million and borrowings of HK\$39 million payable to Mr. Lim Por Yen) amounted to HK\$307 million. At that date, consolidated net assets of the Group amounted to HK\$1,810 million. The debt to equity ratio as expressed as a percentage of total bank and other borrowings to net assets as at that date was approximately 17.0%.

The note payable of HK\$195 million and borrowings of HK\$39 million payable to Mr. Lim Por Yen have maturity dates on 30th April, 2006 and 30th November 2005, respectively. The remaining bank and other borrowings of HK\$73 million were repayable or renewable within one year.

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The Group's bank borrowings were mainly denominated in HK dollar thereby avoiding any unnecessary exchange risk exposure. The majority of the bank and other borrowings was maintained as floating rate debts. Attention will be paid to the interest rate movements. Hedging instruments will be employed when necessary to hedge against unanticipated interest rate volatilities.

As at 31st July, 2004, certain investment properties with carrying value of approximately HK\$264 million were pledged to banks to secure banking facilities granted to the Group. In addition, 115,000,000 ordinary shares of Lai Fung and 96,000,000 ordinary shares of CGL held by the Group were pledged to a bank to secure banking facilities granted to the Group.

Cash and bank balances and short-term listed investments held by the Group as at 31st July, 2004 amounted to HK\$183 million and HK\$24 million, respectively, which was considered adequate to cover the working capital requirement of the Group.

Most of the Group's sale and purchases were mainly conducted in US dollar, HK dollar, Renminbi and euro. Foreign purchases in euro 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 1,000 (2003: 1,000) employees as at the balance sheet date. Pay rates of employees are maintained at competitive levels and salary adjustments are made on a performance related basis. Other staff benefits included a number of mandatory provident fund schemes for all eligible employees, free hospitalisation insurance plan, subsidised medical care and subsidies for external educational and training programmes.

### CONTINGENT LIABILITIES

At the balance sheet date, neither the Group, nor the Company had any significant contingent liabilities.

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## MANAGEMENT AND STAFF

The encouraging results of the Group for the year have been achieved by all management and staff members of the Group. On behalf of the Board, I wish to thank them for their hard work and dedication. My colleagues on the Board and I would also like to thank all shareholders of our Company and business partners and associates for their continuing support during the year.

**Lim Por Yen**

*Chairman and Managing Director*

Hong Kong

12th November, 2004