

## Chairman's Statement



Chairman LAM Kin Ngok, Peter

### RESULTS

The Company registered a consolidated net attributable profit of HK\$11,540,000 for the year ended 31st July, 2000, which implies a basic earnings per share of 1.1 Hong Kong cents.

### DIVIDEND

The Board of directors resolved that no payment of dividend is recommended for the current financial year.

### BUSINESS REVIEW

For the year ended 31st July, 2000, the Group achieved a turnover of HK\$191,593,000 representing an increase of approximately 41.72% when compared with that of the previous year. The increase in turnover was mainly attributed to the sales of Phase II of Eastern Place in Guangzhou. By the end of October 2000, approximately 70% of the Phase II has been sold. This revenue growth coupled with a substantial decrease in administrative expenses attributed to an operating profit of HK\$16,934,000 when compared with an operating loss of HK\$10,713,000 of the previous year. Losses incurred on the associates' level were mainly attributed to the decline in property valuation and operating expenses of the newly completed Tianhe Entertainment Plaza. The increase in finance costs was mainly attributed to the issue of HK\$600 million convertible note in July 1999. As the USD150 million convertible guaranteed bonds

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("US-dollar CGB") will be due for maturity in November this year, interest cost is expected to reduce in the year 2001. Taxation credit of HK\$120 million was attributed to the write-back of an over-provision of taxation in prior years. In sum, the Group achieved a net profit of HK\$11,540,000 representing an increase of approximately 6.58% when compared with that of the previous year.

During the year under review, the commodity residential market in China has undergone a fundamental change. The welfare housing system was banned at the end of 1999 in order to speed up commercialization of commodity housing. Policies were introduced by the Government to assist individuals to purchase flats including easier access to mortgage, provision of lower interest mortgage loans through "Housing Provident Funds" and deregulation of the secondary market. With the continued implementation of the housing reform, it is envisaged that individual buyers will replace institutional buyers as the dominant force behind the housing market. With the steadily rising household income, end-user demand for housing will increase over time. Given the prime location of the Eastern Place coupled with a huge residential landbank in Guangzhou, the Group is set to benefit from the current market upswing, particularly in view of the fact that per capita income in Guangzhou is among one of the highest in the Mainland of the People's Republic of China (the "PRC").

The commercial property sector is also experiencing a strong recovery with China's impending entry into the WTO. In the third quarter of year 2000, rental value for prime office property has increased by 30% and 10% in Beijing and Shanghai respectively. Hong Kong Plaza is a commercial complex located in the prime business area of Shanghai. In January this year, the Company managed to increase its shareholding in the Hong Kong Plaza from 60% to 90%. Currently the office portion achieved an occupancy rate of over 80% and the service apartments achieved an occupancy rate of over 75%. With the increase in occupancy rate and rental value, Hong Kong Plaza will continue to provide a steady income source for the Group. Further out, the management believes that China's economic growth will continue to accelerate after securing the WTO status, which will ultimately benefit the real estate market as a whole.

New Trend Plaza



Tianhe Entertainment Plaza



Eastern Place - interior



Eastern Place

Hong Kong Plaza



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### CAPITAL STRUCTURE, LIQUIDITY AND DEBT MATURITY PROFILE

As at 31st July, 2000, the Group has a gross borrowing amounting to HK\$1,818 million, representing an increase of HK\$56 million over that of the previous year. Net debt (gross borrowing less cash and cash equivalent) and net debt to shareholders' funds were HK\$1,638 million (1999: HK\$1,498 million) and 32.6% (1999: 29.2%) respectively as at 31st July, 2000.

Approximately 85% of the Group's gross borrowings were on a fixed rate basis and the remaining were on a floating rate basis at the balance sheet date. As at 31st July, 2000, approximately 12% of the Group's gross borrowings were denominated in Renminbi, 37% were denominated in Hong Kong dollars and 51% were denominated in US dollars. The US dollar borrowings were mainly attributed to the US-dollar CGB.

In November this year, the US-dollar CGB will be due for maturity. According to the terms of the US-dollar CGB, the Company may elect to redeem the US-dollar CGB or to convert the outstanding US-dollar CGB into shares of the Company at a conversion price equal to the average closing price of the shares over the period of 30 consecutive dealing days prior to 28th November, 2000. With the dual intention of reducing interest expenses and utilizing capital for project funding purpose, the management considers that it would be in the interest of the Company to exercise its option of mandatorily converting all the outstanding US-dollar CGB into equity to further enlarge its shareholding base while reducing its interest expenses. A notice detailing the eventual Board decision and, if applicable, the conversion procedures will be despatched to bondholders separately forthwith after 28th November, 2000. In addition, a separate Stock Exchange announcement on the matter will be issued forthwith after 28th November, 2000.

The maturity profile of the Group's remaining borrowings as at 31st July, 2000 was spread over a period of three years, with approximately 19% repayable within one year, 78% repayable between one to two years and 3% repayable between two to three years. Certain assets of the Group have been pledged to secure financing, including investment properties with carrying value



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amounting to HK\$1,369 million, properties under development with carrying value amounting to HK\$484 million, and completed properties for sale with carrying value amounting to HK\$125 million.

As a common practice in the PRC for banks to provide mortgage financing to end-users, the bank will normally require the developer to provide buy-back guarantee to secure the due performance of the mortgagors. The Company is currently providing buy-back guarantees to banks for granting mortgage loans to buyers of Hong Kong Plaza, Phase I and Phase II of Eastern Place. As the PRC property market is currently stable, the management does not expect such contingent liability will be crystallized.

The Group has diverse sources of financing comprising internal funds generated from the Group's business operations, bank borrowings on project basis and general term or revolving bank loan facilities on secured basis. With the cash held as at the balance sheet date as well as available banking facilities, the Group has sufficient liquidity to finance its existing and planned property development and other investment projects.

### PROSPECTS

The real estate market in China is experiencing a turnaround in year 2000, the management believes the growth is sustainable due to the continued implementation of the housing reform and China assumes full membership of the WTO. On the property development side, Phase III of the Eastern Place is now underway, with the size of the development increasing to approximately 80,000 sq. m.. The management expects pre-sale of Phase III to commence in the second quarter of year 2001. Moreover, the foundation work of the New Trend Plaza in Guangzhou is almost complete and the pre-marketing program of this flagship Ginza-type project will commence in the first quarter of 2001. Tentatively, the office portion and basement retail portion will be sold to recover development cost, while the remaining retail portion will be held by the Group for investment purpose. Thanks to the strategic alliance with the Bank of China group ("BOC"), the Company has obtained Renminbi project financing for the above projects.

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Looking ahead, prospects for the Mainland economy remain positive. The Group will continue to focus on property investment and development in the PRC. In addition, following the maturity of the US-dollar CGB which lifted the restriction on the Group's scope of business, the Group will also explore non-property businesses whenever opportune. Given its firm financial footing, the Group is well positioned to achieve this strategic breakthrough in the foreseeable future.

### EMPLOYEES AND REMUNERATION POLICIES

The Group employs a total of approximately 400 employees. The Group recognizes the importance of the strength of its human resources for its success. Pay rates of employees are maintained at competitive levels and promotion and salary increments are assessed on a performance related basis. Discretionary bonuses are granted to certain employees on a merit basis and in accordance with industry practice. Other staff benefits include a contributory provident fund scheme, free hospitalization insurance plan, subsidized medical care and subsidies for external educational and training programmes. The Group currently does not have any share option schemes for employees.

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### PRACTICE NOTE 19 TO THE LISTING RULES

Pursuant to paragraph 3.7.1 of Practice Note 19 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Company discloses the following details on the US-dollar CGB which impose specific performance obligation on the controlling shareholder of the Company:

On 5th January, 1994, Lai Fung Overseas Finance Limited, a wholly-owned subsidiary of the Company, issued US-dollar CGB. Unless previously redeemed or purchased and cancelled, the US-dollar CGB are convertible into fully paid shares of the Company at the option of the holders from 28th February, 1998 to 21st November, 2000. It will be an event of default under the US-dollar CGB if Lai Sun Development Company Limited ceases to own at least 50% of the issued share capital of the Company from 29th November, 1997 to 22nd November, 2000 on a fully diluted basis.

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Finally, I would like to take this opportunity to express my gratitude to all the shareholders and bondholders for their support, and to my fellow directors and all staff members of the Group for their dedication and hard work during the year.

**Lam Kin Ngok, Peter**  
*Chairman*

Hong Kong  
20th November, 2000