

Chairman's Statement



Chairman LAM Kin Ngok, Peter

IN MEMORIAM

Mr. Lim Por Yen, the founder of the Lai Sun Group, passed away in February 2005. He was a man of energy, vision and perseverance and dedicated to work and family. His contribution to the Group is immeasurable and his death an irreplaceable loss.

RESULTS

The year under review was a watershed for the Group. We completed our debt settlement which eliminated approximately HK\$3,700 million of debt and put the Group on a firm financial footing. As at 31st July 2005, the Group had consolidated net assets (excluding minority interests) of HK\$3,432 million, as compared to a consolidated deficiency in assets (excluding minority interests) of HK\$468 million on 31st July 2004 as restated. Net asset value per share as at 31st July 2005 was HK\$0.27, as compared to a deficiency in assets per share of HK\$0.13 on 31st July 2004 as restated.

The operating environment continued to improve and the Group benefited from the rebound in the property market and the strength in the hotel sector. Operating profits for the year ended 31st July 2005, buoyed by gain on revaluation of investment properties and reversal of impairment of fixed assets and of long term unlisted investments, rose to HK\$1,171 million, up 112% from HK\$552 million in the previous year. However, due to the loss of HK\$1,484

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million arising from the debt settlement, the Group recorded a consolidated net loss attributable to shareholders of HK\$706 million for the year. Basic loss per share was HK\$0.07 in 2004/05 as compared to earning per share of HK\$0.1 in 2003/04 (restated).

DIVIDENDS

The Directors do not recommend payment of a dividend for the year ended 31st July 2005 (2004: Nil).

BUSINESS REVIEW

The Hong Kong economy continued to expand at a brisk pace during the year under review. Merchandise exports performed strongly buoyed by China's strong trade flows. Exports of services were also buoyant due to the strength in trade and vibrant inbound tourism. On the domestic front, consumer spending grew supported by improving labour market conditions and the positive impact of the vigorous recovery in property prices. The broad-based economic expansion boosted employment which rose to a record high while the seasonally adjusted unemployment rate fell to the lowest level since the third quarter of 2001. Because of the recovery in the labour market, salary levels have been rising, as have prices generally as measured by the government's Composite Consumer Price Index.

The Group has benefited from the recovery in the property market; rentals income on reversion is increasing and the underlying value of the Group's properties and other assets and investments have increased.

Property Investment

The Group's investment property portfolio generated gross rental income of HK\$247 million for the year, somewhat lower than HK\$280 million generated in the previous financial year. The decline was due to the absence of contributions from both the Majestic Centre and the Causeway Bay Plaza 1 which 50% interest and 100% interest were sold in the previous financial year, respectively. Overall unit rentals showed improvement, a reversionary trend which is expected to continue, as current achieved average rents are below market levels and there is substantial scope for upgrading our properties. During the course of the year vacancy levels fell steadily. In August 2004, the overall vacancy of the Group's investment portfolio was about 7% and in July 2005 it had fallen to about 2% and is currently about 1%.

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Property Development

During the year, the Group marketed two joint venture development projects, each 50% owned. All the service apartments at No. 26 Kimberley Road were sold for a total consideration of HK\$602 million and subsequent to the year end we have also sold the commercial podium of this project realising proceeds of HK\$501 million.

As at 31st July 2005, we sold 15 of the 54 houses that comprise our Yuen Long luxury residential project, Rolling Hills II. The proceeds from these sales totalled HK\$117 million. We expect to complete the sale of this project in the current financial year.

Hotels

The Group's hotel division benefited from the strong tourism market. For the year under review, the Group's 65%-owned The Ritz-Carlton, Hong Kong achieved an average occupancy of 84.2% and an average room rate of HK\$2,072, as compared to 80.2% and HK\$1,677 recorded in the previous year. For the Majestic Hotel, the corresponding figures were 91.7% and HK\$552 respectively, as compared to 90.6% and HK\$433 in the previous year.

The Group disposed of its 62.625% interest in the Furama Resort Danang in July for a consideration of US\$16.8 million (approximately HK\$131 million), but remains as manager of this hotel. Proceeds from the sale were used for partial repayment of our Series A Bonds. The Group's other hotel investment in Vietnam, namely the Caravelle Hotel situated at Ho Chi Minh City (26.01% interest) achieved an average occupancy of 69.8% and an average room rate of HK\$810 as compared to 50.5% and HK\$806 respectively in the previous year.

eSun Holdings Limited

eSun Holdings Limited ("eSun") reported a net profit attributable to the equity holders of HK\$203 million for the six months ended 30th June 2005, as compared to a loss of HK\$33 million in the year earlier period. At the operating level, it reported reduced losses. However, positive contributions from Media Asia Entertainment Group Limited, a 37.3% associate of eSun and from the Company, in which it now holds a 40.8% interest as a result of the debt settlement, enabled eSun to record the sharp turnaround in attributable profits reported by eSun in its interim results.



◀ Kimberley 26, Tsimshatsui



◀ The Ritz-Carlton Hong Kong



Cheung Sha Wan Plaza ▼



▲ Rolling Hills II



▲ Studio City, Macau (artist impression)



Majestic Hotel ▼



◀ Causeway Bay Plaza 2



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In May 2005, eSun received conditional approval from the Macau Special Administrative Region Government for its proposed development plans in respect of its property situated in Cotai in Macau. The proposed plans involve the construction of hotels, a television / film studio, concert hall, theatre and event centre and retail and other facilities, with an aggregate gross floor area of approximately 340,000 square metres.

PROSPECTS

Interest rate increases, which have been gradual and predictable to date, have had little dampening impact on the overall Hong Kong economy so far. Meanwhile, after two years of macro-economic tightening in China, concerns of an economic hard landing have eased and the Chinese economy is expected to continue growing, albeit, possibly at a somewhat slower pace than the growth rate recorded in recent years.

Although the global economy has been resilient in absorbing the impact of rising oil prices and higher interest rates, continuing oil price increases and further sustained rises in interest rates could slow global economic growth. However, unless global economic growth were to reverse, we are positive about prospects for our businesses.

On the property investment front, as demand remains firm, we believe that rentals could continue to increase next year and will at least be maintained at current levels. We therefore expect positive rental reversions in respect of the Group's core investment properties. In addition, the Group's rental income will be augmented by income from the AIG Tower in which the Group has a 10% interest.

Prospects of the hotel industry are also promising, with both occupancy and room rates likely to show further improvement. The Ritz-Carlton, Hong Kong should be a major beneficiary, while the Majestic Hotel should also turn in better performance although competition in the three-star segment will remain intense.

The Group is very optimistic about the longer-term prospects of eSun despite the fact that its media businesses face a challenging operating environment and despite the delay in obtaining relevant PRC authorities' approval for a satellite television downlink license so that it can benefit from the growing demand for content in China.

Our tremendous optimism about the prospects for eSun is due to the exciting potential represented in its Studio City site in the heart of Cotai in Macau.

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The liberalisation of gaming in Macau has catalysed a wave of development that is transforming the Macau economy. Liberalisation has attracted an inflow of capital and investors, and development plans that have been announced suggest that Macau could become Asia's premier gaming / convention / exhibition / entertainment / destination-resort centre, occupying in Asia a position not unlike that of Las Vegas in the U.S.

We believe that Macau is ripe for major development because a confluence of economic and other factors has made it pregnant with potential including:

- resumption of economic growth in Asia and particularly the sustained strong growth in China,
- strong growth in disposable income as a result of economic growth and with such growth, growth in tourism,
- strong growth in China trade. China is today the third largest importer and exporter in world merchandise trade and Hong Kong ranks eleventh in terms of exports.

Macau's central location within Asia, its existing and growing transportation links and its expanding supportive infrastructure make it well placed to become the Vegas of Asia, serving the convention / exhibition needs of two of the world's largest trading economies on its doorstep and serving the recreational / entertainment and shopping needs of its visitors from all over Asia.

eSun's Cotai site development is being planned to offer an attractive themed entertainment and retail experience capitalising on the eSun Group's media assets and its knowledge and contacts in Asia's entertainment industry. Management is in active discussions / negotiations, some recently begun and others in progress for some time, all at various stages of advancement, with a number of potential joint venture partners in this project. Potential partners include potential equity partners as well as potential operational partners who are interested in investing in and / or managing / operating various facets of the development.

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GROUP RESTRUCTURING

The Group's debt settlement was completed on 7th December, 2004. Its principal terms were:

For eSun

- HK\$20 million cash repayment
- A new five-year interest bearing secured term loan of HK\$225 million, and
- 5,200 million new Lai Sun Development shares

For the Bondholders

- HK\$300 million cash repayment
- Issue of a zero-coupon, secured 'A' Bond due 31st December, 2005 in the amount of HK\$266 million, and
- 3,800 million new Lai Sun Development shares.

As a result of the issue of new Lai Sun Development shares, eSun became the largest shareholder of the Group with an interest of approximately 40.8%. The A Bond were secured by, amongst others, three property interests of the Group, namely the Caravelle Hotel (26.01%), the Furama Resort Danang (62.625%) and the remaining units in the Waterfront (10%). As mentioned earlier, the Furama Resort Danang has been sold. These proceeds, together with proceeds from the refinancing of the Caravelle Hotel and certain other funds were used to repay in full the A Bondholders in July 2005. However, under the debt settlement, A Bondholders continue to have an interest in the two remaining of the three property interests. Please refer to the Group's "Proposed Settlement of Indebtedness" Circular dated 15th September, 2004 for full details of the debt settlement.

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LIQUIDITY AND FINANCIAL RESOURCES

Apart from completing the debt settlement, during the year the Group refinanced all its major bank and other borrowings to longer term maturities. The Group has turned around from a net current liability position of HK\$5,670 million as at 31st July, 2004 to a net current asset position of HK\$199 million as at 31st July, 2005.

As at 31st July, 2005, the Group had outstanding borrowings of approximately HK\$2,954 million (as at 31st July, 2004: HK\$5,965 million) comprising (i) secured bank loans and other borrowings of approximately HK\$2,689 million, (ii) an outstanding amount of approximately HK\$3 million, being residual amount payable under the Guaranteed Secured A Bonds due 2005 ("A Bonds"), (iii) an outstanding amount of approximately HK\$37 million payable under the Guaranteed Secured B Bonds ("B Bonds") and; (iv) an amount due to the eSun Group of approximately HK\$225 million. The debt to equity ratio as expressed in a percentage of the total outstanding borrowings to net assets was approximately 86.19%. The maturity profile of the bank and other borrowings of HK\$2,689 million was spread over a period more than 5 years with HK\$105 million repayable within 1 year, HK\$310 million repayable in the second year, HK\$2,158 million repayable in the third to fifth years and HK\$116 million repayable beyond 5 years.

As at 31st July, 2005, certain investment properties with carrying amounts of approximately HK\$3,798 million, certain property, plant and equipment with carrying amounts of approximately HK\$1,256 million and certain bank balances and time deposits with banks of approximately HK\$62 million were pledged to banks to secure banking facilities granted to the Group. At the same date, certain investment properties with carrying amounts of approximately HK\$4 million, certain property, plant and equipment with carrying amounts of approximately HK\$25 million and a time deposit with a bank of approximately HK\$8 million were pledged to a bank to back up certain corporate guarantees issued by the Company in respect of certain banking facilities granted by the bank to a subsidiary and an associate of the Group. In addition, 285,512,791 ordinary shares of eSun Holdings Limited ("eSun"), the entire holding of the shares of Peakflow Profits Limited together with its 10% shareholding in and its advance to Bayshore Development Group Limited, the joint venture company for the AIG Tower project, and certain shares in other subsidiaries held by the group were also pledged to banks and other lenders to secure loan facilities granted to the Group. Certain

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shares of associates held by the Group were pledged to banks for loan facilities granted to certain associates of the Group. In addition, pursuant to the terms and conditions of the A Bonds, A Bonds are secured by charges over the Group's entire 26.01% interest in Caravelle Hotel, Ho Chi Minh City, Vietnam and charges over the Group's entire 10% interest in The Waterfront, Hong Kong. eSun and the holders of B Bonds share charges over the Group's 65% interest in The Ritz-Carlton, Hong Kong. The secured bank and other borrowings were also secured by floating charges over certain assets held by the Group.

All of the Group's borrowings are denominated in Hong Kong dollars and US dollars. On the interest rate front, the majority of the bank borrowings are being maintained as floating rate debts.

EMPLOYEES AND REMUNERATION POLICIES

The Group employed a total of approximately 1,300 (as at 31st July, 2004: 1,600) employees as at 31st July, 2005. 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 the eligible employees, a free hospitalization insurance plan, subsidized medical care and subsidies for external educational and training programmes.

CONTINGENT LIABILITIES

Details of contingent liabilities of the Group at the balance sheet date are set out in note 38 to the Financial Statements.

CONCLUSION

I would particularly like to take this opportunity to thank the shareholders of the Company for their continued loyal support to the Group. At the same time, my appreciation also goes to fellow Board colleagues and staff members of the Group for their diligence and contribution.

Lam Kin Ngok, Peter
Chairman

Hong Kong
18th November, 2005