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 Group recorded a consolidated profit for the year attributable to equity holders of the parent of HK$246,197,000 for the year ended 31st July, 2005, compared with a consolidated profit for the year attributable to equity holders of the parent of HK$36,006,000, as restated, for the previous year. Shareholders' equity as at 31st July, 2005 amounted to HK$4,182,601,000 up from a restated HK$3,861,517,000 as at 31st July, 2004. Basic earnings per share was HK$0.0419 compared to HK$0.0071 in the previous year as restated. Net asset value per share as at 31st July, 2005 was HK$0.71, as compared to HK$0.66 on 31st July, 2004 as restated.

FINAL DIVIDEND

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

Chairman's Statement

BUSINESS REVIEW

The much-publicised fear of hard landing for the economy in Mainland of China ("PRC") that followed the introduction of macro-economic policies in May 2004 has largely evaporated. The property sector was one specifically identified as being targeted by the macro-economic policies. The credit squeeze and other administrative measures introduced to cool the economy did have an impact; they did not actually cause much of an economic slowdown but economic growth in the PRC was probably lower than it might otherwise have been in the absence of the macro-economic policies. Economic growth in the PRC was 9.5% in 2004. Growth this year is likely to be at a similar rate and possibly in 2006 as well.

In March 2005, the authorities announced a series of macro-economic policies such as the levy of additional taxes on sales of second-hand properties and the tightening of mortgage loans that were specifically designed to curb real estate speculation which had flourished despite the macro-economic policies introduced the previous year. Since then the level of speculation in the PRC real estate has declined markedly and property prices generally have fallen, particularly in the residential sector of the Shanghai real estate market, where property prices had been notably strong in the two years up to the first quarter of 2005.

The Group took advantage of the strength in the property market to pre-sell its development projects generally as soon as the projects had progressed to the point where it was possible for pre-sales to begin. As a result, the Group was able to sell most of its residential units available for pre-sale before the current softness in the market set in. The Group's investment properties also benefited from the strength in the property market. During the year, rental income rose 21% to HK$155 million which includes an initial rental contribution of HK$15 million from May Flower Plaza, an office and commercial complex in Guangzhou which was completed in mid-2005.

Following completion of May Flower Plaza, this investment property project which had been classified under "Properties under development" was reclassified under "Investment properties" and in accordance with HKAS 40 the revaluation surplus was credited to the consolidated income statement and provision has been made for the resulting deferred tax liability. Prior to the change in accounting standards, changes in the value of investment properties have been dealt with as movements in the investment property revaluation reserve. This account has also been affected by HKAS 16 as our land bank is now stated at cost.

Chairman's Statement

REVIEW OF PROJECTS

SHANGHAI

Hong Kong Plaza

The Group's twin-tower property located at Huaihaizhong Road, Shanghai, has a gross floor area of approximately 130,000 sq. m. comprising offices, shopping arcades and service apartments with extensive clubhouse facilities. Following upward adjustments in the room rates and increment in occupancy rate, rental contribution from the property continued to increase during the year under review. Also, in response to the market demand, a series of renovation work for service apartments, office tower and shopping arcades was begun in early 2005. The renovation of the service apartments has been completed increasing the number of service apartments from 299 to 331 (i.e. 213 units 100% owned and 118 units 95% owned). Rental income from Hong Kong Plaza during the year amounted to HK$140 million, up from HK$128 million in 2003-2004.

Hitherto, the service apartments in Hong Kong Plaza had been accounted for as investment properties. Under the new accounting standards that have come into force, service apartments are considered as operating assets, so appropriate amortisation has been charged and the prior year's result has been restated to reflect this change.

Regents Park

Another key project of the Group is Regents Park located at a 36,000 sq. m. site in Shanghai's prestigious Changning District near Zhongshan Park subway station. On completion, the Regents Park development will comprise 13 residential towers, with approximately 156,000 sq. m. of gross floor area, a fully-appointed clubhouse and other facilities. Phase I of the project, including 7 residential towers (Towers 1 to 7) with 1,010 units is scheduled for completion in late 2005.

The pre-sale permit for Tower 7 was obtained in September 2004 while the pre-sale permits for Towers 1 to 5 were issued in the previous financial year. By 31st December, 2004, 679 units of the 693 units of Towers 1 to 5 and Tower 7 had been sold. Under the Group's previous accounting policy, turnover and profit for these 679 units were recognised on a percentage of completion basis. The pre-sale permit for Tower 6 (317 units) was obtained in late March 2005 and there was a good market response. By 31st July, 2005, 268 units were pre-sold. However, under the new accounting interpretation that has come into force, revenues and profits from property development after 1st January, 2005 will only be recognised when the conditions in HKAS 18 are satisfied.

香港廣場
HONG KONG PLAZA

REGENTS PARK
凱欣豪園

Chairman's Statement

GUANGZHOU

Eastern Place

This project is located at Dongfeng East Road in Guangzhou. With a total site area of approximately 60,000 sq. m., the entire project comprises 8 residential towers and a 140,000 sq. m. commercial/ office complex, to be developed in several phases. Construction works on Phases I and II, which comprise 4 residential towers (Towers 1 to 4), and the well-appointed residents' clubhouse, Eastern Club, have been completed. Other facilities including a 50-metre swimming pool, tennis courts and golf amenities have also been put into service.

For Phase III, there are two towers (Towers 5 and 6) with 438 units. Phase III was completed in December 2004. As at 31st July, 2005, 436 of these units have been sold. Phase IV (Towers 7 and 8 comprising 438 units) is under construction and completion is scheduled for early 2006.

May Flower Plaza

This property is situated at a prime location directly above the Gongyuanqian subway station, interchange station of Guangzhou Subway Line No. 1 and 2, on Zhongshanwu Road. The 13-storey complex offers approximately 35,000 sq. m. of office, commercial area and a cinema city with state-of-the-art facilities. It also has a four-storey basement of approximately 14,000 sq. m. earmarked for commercial and car park use. The property was opened in mid-2005 and is now over 90% let. A number of prestigious and sizable tenants, such as Baleno, Bioscreen, Bossini, City Chain, Coca-Cola Shop, Esprit, http://www.izzue.com, MaBelle, Mannings, Nike, Optical 88, Swatch, Standard Chartered Bank, Theme, and Wanya Japanese Restaurant, have commenced business in the shopping arcade.

ZHONGSHAN

During the year under review, the Group's wholly-owned subsidiary, Zhongshan Bao Li Properties Development Co., Ltd., acquired two new pieces of land through public auctions. The size of the two pieces of land are approximately 70,460 sq. m. and 99,950 sq. m. raising the size of the land bank of the Group in Zhongshan to approximately 236,000 sq. m. The Group's sites in Zhongshan are contiguous and will be developed as one project. The expected gross floor area is approximately 354,000 sq. m., including approximately 248,000 sq. m. and 53,000 sq. m. for residential and commercial purposes, respectively. Development plans for the project are being evaluated and site formation work began in September 2005.

東風廣場
EASTERN PLACE

五月花商业广场
MayFlower
plaza

Chairman's Statement

CAPITAL STRUCTURE, LIQUIDITY AND DEBT MATURITY PROFILE

The Group has diverse sources of financing comprising internal funds generated from the Group's business operations, bank borrowings on project basis and general bank loan facilities on secured basis.

As at 31st July, 2005, the Group had a gross borrowing (inclusive of the advances of HK$44,795,000 (2004: HK$11,324,000) advanced by the late Mr. Lim Por Yen) amounting to HK$996 million (2004: HK$1,194 million), representing a decrease of HK$198 million over that of the preceding financial year-end. The consolidated net assets of the Group amounted to HK$4,183 million (2004 (restated): HK$3,862 million). The resultant debt to equity ratio was 0.24 (2004 (restated): 0.31).

During the year under review, the Group obtained additional unsecured advances of approximately HK$33,471,000 from the late Mr. Lim Por Yen, a substantial shareholder of the Company. The aggregate outstanding balance of the advances from the late Mr. Lim as at 31st July, 2005 was HK$44,795,000.

Approximately 96% of the Group's gross borrowings were on a floating rate basis at the balance sheet date and the remaining 4% were interest-free. As at 31st July, 2005, approximately 34% of the Group's gross borrowings were denominated in Renminbi ("RMB") and 66% were denominated in United States dollars ("USD").

The Group's monetary assets, loans, and transactions are principally denominated in Hong Kong dollars ("HKD"), RMB and USD. Considering that the exchange rate between HKD and USD is pegged, and that there is insignificant fluctuation in the exchange rate between HKD and RMB, the Group believes its exposure to exchange rate risk is nominal. At present, the Group does not intend to seek to hedge its exposure to foreign exchange fluctuations involving USD and RMB. However, the Group will constantly review the economic situation and its foreign exchange risk profile, and will consider appropriate hedging measures in future as may be necessary.

Chairman's Statement

The maturity profile of the Group's bank borrowings as at 31st July, 2005 was spread over a period of five years, with approximately 23% repayable within one year and 77% repayable between two to five years. Certain assets of the Group have been pledged to secure financing, including investment properties with carrying value amounting to approximately HK$3,073 million, service apartments with carrying value amounting to approximately HK$566 million, properties under development with carrying value amounting to approximately HK$444 million, and bank balances amounting to approximately HK$2 million at the balance sheet date.

Taking into account cash held as at the balance sheet date, available banking facilities and recent improvements in the Group's operating activities, the Group believes it has sufficient liquidity to finance its existing property development and investment projects. The Group will consistently maintain a prudent financial policy.

CONTINGENT LIABILITIES

According to a practice common among banks in the PRC when providing mortgage financing to property buyers, the bank will require the property developer to provide a buy-back guarantee to secure the due performance of borrowers. The Company is currently providing a number of buy-back guarantees to banks that have granted mortgage loans to buyers of office space and residential units in Hong Kong Plaza, Phase I of Regents Park, and Phase I to III of Eastern Place. The Group's obligations have gradually relinquished along with the settlement of the mortgage loans granted by the bank to the end-buyers. As the PRC property market is currently stable, the management does not expect such contingent liabilities to crystallise to a material extent in the near term.

EMPLOYEES AND REMUNERATION POLICIES

As the employer of approximately 550 staff, the Group recognises the importance that maintaining strong human resources plays in its continued success. Under the Group's existing policies, employee pay rates are maintained at competitive levels, whilst 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 share option scheme, a mandatory provident fund, a free hospitalisation insurance plan, subsidised medical care and subsidies for external education and training programmes.

Chairman's Statement

SHARE OPTION SCHEME

In order to provide the Group with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to eligible employees (including executive and non-executive directors) and for such other purposes as the Directors may approve from time to time, a share option scheme was adopted by the shareholders of the Company on 21st August, 2003. There were no share options outstanding as at 31st July, 2005 (2004: Nil).

PROSPECTS

In the short term, the Group expects rental income from its flagship Shanghai property, Hong Kong Plaza, will continue to grow, augmented in the current financial year by a full year's contribution from May Flower Plaza in Guangzhou. Projected sales of development properties scheduled for completion in the next few years, including later phases of Regents Park in Shanghai and Eastern Place in Guangzhou, should continue to contribute to the profitability of the Group.

In the medium term, the Directors do not expect that the series of macro-economic policies implemented by the Central Government will impede the PRC's economic growth, especially in the Yangtze and Pearl River deltas. As anticipated when the PRC joined the World Trade Organisation, previous restrictions for overseas investors in areas such as banking, insurance and service sectors are being relaxed as the PRC's economy becomes more integrated with the world economy. This will continue to draw an influx of foreign corporations seeking to establish or strengthen their presence in the PRC. With a number of key infrastructure projects in the pipeline, including the preparatory work of 2010 World Expo, the Group anticipates that Shanghai's economy will continue to grow, which should ensure demand in the property market. The initiatives on Pan-Pearl River Delta (Pan-PRD) regional cooperation and development, which is also known as "9+2", and the deepening of CEPA with CEPA III taking effect from January 2006 will accelerate the opening up and future development of this region.

With the proposed construction of the Hongkong-Zhuhai-Macau Bridge and the huge prospect brought about by the Pan-PRD cooperation, the Group is optimistic about future economic growth and development of the Zhongshan property market.

Chairman's Statement

As a result, notwithstanding the correction underway in the PRC property market, the Group will maintain its focus on property investment and development projects. The Group plans to accelerate the development of its land bank and will also explore opportunities to expand its land bank in selected locations to take advantage of the present weaker market conditions which the Directors consider will be temporary in nature. To fund acceleration of the development of the Group's land bank and acquisition of new sites, the Group will consider debt, equity, joint venture and other financing options. Indeed, the Group is very close to concluding an agreement with a joint venture partner for the development of its Jinshazhou site in Heng Sha, Guangzhou. The total gross floor area of this project is approximately 356,000 sq.m. and to accelerate the development of this project, management believes that it is prudent to join forces with a strong joint venture partner.

I would like to take this opportunity to express my sincere appreciation to our shareholders, customers and suppliers for their continuous support. My gratitude also goes to our invaluable staff for their dedicated service to the Group throughout the year.

Lam Kin Ngok, Peter
Chairman

Hong Kong
18th November, 2005