Chairman's Statement

Chairman and Managing Director LIM Por Yen

GROUP RESULTS

The Group reported a consolidated net loss from ordinary activities attributable to shareholders of HK$31,066,000 for the year ended 31st July, 2003, which represented a significant improvement on the net loss of HK$1,200,274,000 recorded for the previous year. The aforesaid loss for the year was derived from the Group's share of losses of Crocodile Garments Limited and Lai Sun Development Company Limited.

A mild decrease in turnover for the year was reported, due mainly to a noticeable drop in turnover of Crocodile Garments Limited of around 19% but offset by an increase in turnover of about 16% recorded by the garment operation 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

The garment operation of the Company recorded an increase of around 32% in net operating profit compared with the corresponding figure for the previous financial year. Savings in administrative and operating expenses, which had been cut by approximately 20.3% on the figure for last year, was the major contributor to the favourable results.

Chairman's Statement

Lai Sun Development Company Limited ("LSD")

LSD reported a consolidated net loss attributable to shareholders of HK$461 million for the year under review. This represented a noticeable improvement on the net loss of HK$1,941.5 million recorded by LSD for the previous financial year. The operating results of LSD had been affected by the outbreak of Severe Acute Respiratory Syndrome ("SARS") in Hong Kong in early 2003. Local business activities dropped to an unexpectedly low level and continued deflationary pressure resulting from wage decline and contraction in consumer spending had put additional pressure on office and retail properties rentals to which LSD is heavily exposed.

The results of LSD were further affected by losses incurred from provisions taken in respect of its development landbank and the realized loss on disposal of its entire interest in Asia Television Limited during the year.

Notwithstanding such unfavourable market conditions, LSD managed to reduce its overall interest expense for the year under review by almost 9% due to the continued low interest rate environment and its disposal of non-strategic assets.

LSD's investment property portfolio generated gross rental income of HK$390 million for the year, representing a drop of 6% from the previous year. This was largely due to the sale of Crocodile House 1 and 2 in July 2002 and downward rental revision for the key investment properties. This was, however, partly compensated by rental income from the Majestic Centre acquired by LSD in November 2002. Overall vacancy of LSD's investment properties remained at a low 5%.

During the year, LSD managed to complete a few strategic disposals. These included the LSD group's 20% interest in Bayshore Development Group Limited, which owns the site of the former Furama Hotel at 1 Connaught Road, Central, Hong Kong in March 2003; its entire interest in Asia Television Limited in July 2003; Lai Sun Yuen Long Centre in August 2003 and Causeway Bay Plaza 1 in October 2003.

The hotel sector in Hong Kong was hard hit during the first half of 2003 due to the SARS outbreak. For the seven months ended 31st July, 2003, LSD's 65%-owned The Ritz-Carlton Hong Kong recorded an average occupancy of 45.6% and an average room rate of HK$1,520, compared with 72.0% and HK$1,570 recorded in the previous corresponding period.

Chairman's Statement

Performance of LSD's two hotels in Vietnam, the Caravelle Hotel in Ho Chi Minh City (26.01% interest) and Furama Resort Danang (62.6% interest) was also adversely affected by the substantial decline in tourist traffic during the first seven months of 2003. Both hotels, however, still managed to provide positive contributions.

eSun Holdings Limited ("eSun")
eSun, in which LSD holds a 42.54% interest, reported a net loss attributable to shareholders of HK$46,721,000 for the six months ended 30th June, 2003. The loss was mainly attributable to a HK$25,228,000 operating loss recorded by East Asia Satellite Television Limited ("EAST"). eSun's results had also been affected by the suspension in interest payment from Furama Hotel Enterprises Limited ("FHEL") of the LSD group on the HK$1,500 million debt due from FHEL with effect from 1st January, 2003.

EAST made reasonable progress in cost control and programme distribution. Programmes produced by EAST are now being offered to subscribers of NOW Broadband TV of PCCW Limited. EAST has also successfully marketed its services of providing broadcasting facilities and know-how to outside clients.

Media Asia Holdings Ltd. ("MAH"), in which eSun holds a 49.77% interest, recorded an operating loss for the six months ended 30th June, 2003. East Asia Entertainment Limited, a wholly-owned subsidiary of eSun, had made good progress in the sale of distribution rights for DVD/VCD recordings of its entertainment shows and films.

On 29th January, 2003, LSD requested the board of eSun to put forward a proposal for the privatization of eSun by way of a Scheme of Arrangement under Section 99 of the Companies Act 1981 of Bermuda at a price of HK$0.28 per share (the "Scheme"). At a meeting of the Scheme shareholders of eSun convened at the direction of the Supreme Court of Bermuda and held on 30th April, 2003, the resolution for approving the Scheme was not approved in accordance with the relevant requirements under the Companies Act 1981 of Bermuda and the Hong Kong Code on Takeovers and Mergers. The Scheme thus could not be put into effect and had lapsed.

Chairman's Statement

Lai Fung Holdings Limited ("Lai Fung")

Lai Fung reported a consolidated net profit attributable to shareholders of HK$56,995,000 for the year under review, which represented a significant improvement compared with a net loss of HK$93,976,000 for the previous year. This improvement in results was attributable mainly to the gain on disposal of a partial interest in a subsidiary; an increase in total rental income from Hong Kong Plaza; reduction in finance costs; and a decrease in share of losses of associates.

A decrease in turnover of approximately 16% was recorded due to a slowdown in sale of units in Phase II of Eastern Place in Guangzhou. This shortfall had been compensated by an increase of HK$13,180,000 in rental income from Hong Kong Plaza in Shanghai.

In Shanghai, rental income from the service apartments of Hong Kong Plaza had been affected by the outbreak of SARS in early 2003 but the property continued to generate satisfactory growth in total rental income.

Foundation work for Lai Fung's project in Changning district, the Regents Park (formerly known as Hai Xin Garden), was completed during the year under review. This development will comprise 13 residential blocks, around 14,800 sq.m. of commercial area, a clubhouse and other facilities. Phase I of the project is scheduled for completion in early 2005.

Construction work of Phase III of Eastern Place in Guangzhou, including a 50-metre swimming pool, tennis courts and golf practice areas has been completed and pre-sale of the residential units is in progress.

Substantial structural work for May Flower Plaza (previously known as Wuyuehua Shangye Guangchang) in Guangzhou had been completed during the year under review. The development comprises a 13-storey complex of office and commercial units of approximately 35,000 sq.m., and a 4-storey basement of approximately 14,000 sq.m. for commercial and car parking uses.

In May 2003, Lai Fung completed a one-for-five rights issue of 767,706,730 shares at HK$0.10 per share. The Company took up its entitlement in full and therefore its equity interest in Lai Fung remains unchanged at 46.04%.

Chairman's Statement

Crocodile Garments Limited ("CGL")

CGL's operating results had been adversely affected by the outbreak of SARS in early 2003 and as a result, a drop in turnover of around 19%, compared with the previous financial year, was reported. CGL's overall performance was further affected by provisions made for slow-moving inventories (HK$29,917,000) and the deficit on revaluation of investment properties (HK$22,000,000). The consolidated net loss attributable to shareholders of CGL therefore amounted to HK$58,130,000, compared with a net profit of HK$20,058,000 recorded for the previous financial year.

The unfavourable impact of SARS on in-bound tourists and local consumer spending had had instantaneous effect on the Hong Kong retail operation of CGL. The profit achieved in the first six months of the financial year reversed to a loss for the full year, despite the prompt adoption of various measures by management to control cost.

The impact of SARS extended to the Mainland of China but following the implementation by CGL of contingent measures, a quick recovery in business activities had been reported by the franchisees.

In October 2003, CGL settled its legal dispute with La Chemise Lacoste S.A. ("Lacoste") over its claim that CGL had infringed its trademark in the Mainland. CGL will use a new trademark device in the Mainland from the third quarter of 2004 and it will cease to use the original trademark design with effect from April 2006.

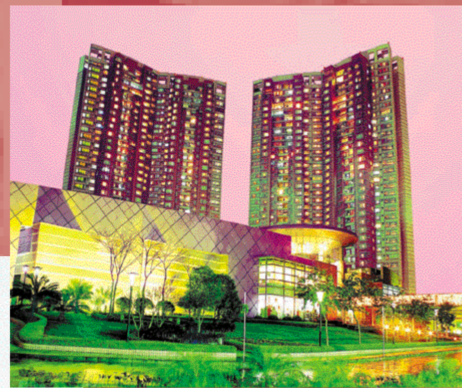
PROSPECTS

Following the abatement of SARS in May 2003 and the implementation by the Hong Kong SAR government of a number of measures to revive the local economy, in particular the tourism industry, there are signs that the adverse impact of SARS on the local economy is being gradually neutralized. Tourists arrival figures since August 2003 onwards have been stronger than expected and this should benefit the retail, catering and hotel sectors. Sentiment of local residents also appears to be more optimistic and this will augur well for both the property and consumer markets in the short term.

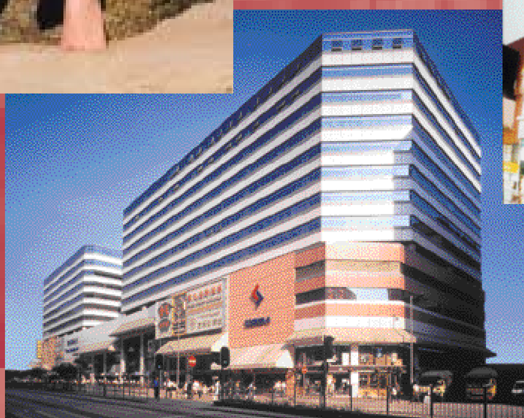
Given the depletion of LSD's development landbank, its property sales schedule will remain thin, with only two projects, namely the Rolling Hills (Phase 2) in Yuen Long and Furama Court in Tsimshatsui, earmarked for sale or pre-sale in 2003/2004.

Croco ladies line

Eastern Place, Guangzhou

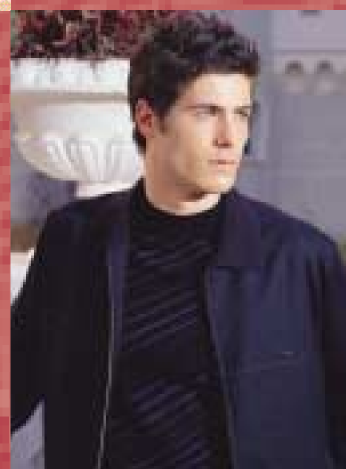


Majestic Hotel



Cheung Sha Wan Plaza

Crocodile fashion



Regents Park,
Shanghai

Croco Kids

May Flower Plaza,
Guangzhou

Chairman's Statement

LSD expects the competitive environment in the office and commercial property market to continue. Following its disposal of Crocodile House 1 and 2, Lai Sun Yuen Long Centre and Causeway Bay Plaza 1, LSD anticipates that a substantially lower rental income will be reported in the coming year.

With the stronger than expected revival in tourists arrival levels, the short-term prospects of the hotel industry appear to be more promising. LSD is optimistic of better performance of The Ritz-Carlton Hong Kong and Majestic Hotel in Hong Kong and the two hotels in Vietnam in this financial year.

With the continued devaluation of LSD's investment properties and the loss sustained for the year under review, LSD recorded a consolidated net deficiency in assets of HK$374 million (2002: net assets of HK$766 million) as at 31st July, 2003. It is obvious that a substantial debt restructuring programme would be essential for LSD to regain financial health. LSD is negotiating with all of its creditors on a comprehensive debt restructuring plan which LSD hopes could be agreed upon by all parties before the first quarter of 2004.

The debt of approximately HK$1,500 million owed to the eSun group by the LSD group, originally due to be repaid on 31st December, 2002, remained outstanding. eSun will continue its discussions with the LSD group to pursue the recovery of the debt.

While EAST awaits approval for a satellite television downlink licence from the relevant authorities in the Mainland, it stands to benefit, as a content provider, from the growing number of new players in the local pay-TV market. MAH will benefit from the possible relaxation of quota for Hong Kong produced films in the Mainland following the formal introduction of the Closer Economic Partnership Arrangement ("CEPA").

With the successful accession of China into the World Trade Organisation and the signing of CEPA between Hong Kong and the Mainland, the outlook for further growth in the property market in the Mainland remains positive. Lai Fung expects its flagship property in Shanghai, Hong Kong Plaza, to continue to contribute stable rental income. Its investment property portfolio will be further strengthened when its new grade-A commercial property, May Flower Plaza in Guangzhou, begins leasing in early 2004.

Chairman's Statement

The scheduled pre-sale of completed developments, the Regents Park in Shanghai and Phase III of Eastern Place in Guangzhou, is also expected to contribute positively to both turnover and profitability.

With the legal dispute between CGL and Lacoste concerning the trademark of CGL now settled amicably, CGL is confident it can further strengthen its market share in the Mainland when the new trademark is launched in fall 2004. Given this conclusion to the long-running dispute and the implementation of CEPA, CGL is also optimistic about future prospects for its products in the Mainland market.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st July, 2003, total bank and other borrowings, inclusive of the note payable to a shareholder, and net assets of the Group amounted to HK$295 million and HK$1,858 million, respectively. The debt to equity ratio as expressed as a percentage of total bank and other borrowings to total net assets as at that date was approximately 15.9%.

Substantially all of the total bank and other borrowings of HK$85 million as at 31st July, 2003 were repayable or renewable within one year. The note payable to a shareholder had a maturity date on 30th April, 2005.

The Group's bank borrowings were mainly in HK dollar and US dollar thereby avoiding any unnecessary exchange risk exposure. The majority of the bank and other borrowings were 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, 2003, certain investment properties with carrying value of approximately HK$244 million and certain land and building with carrying value of approximately HK$6 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.

The cash and bank balance and short-term listed investments held by the Group as at 31st July, 2003 amounted to HK$100 million and HK$20 million, respectively, which was considered adequate to cover the working capital requirement of the Group.

Chairman's Statement

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

EMPLOYEES AND REMUNERATION POLICIES

The Group employed a total of approximately 1,000 (2002: 1,300) employees as at the balance sheet date. The drop in headcount was mainly due to further streamlining of the garment operations as part of the overall cost-cutting plan carried out by the Group. 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, free hospitalisation insurance plan, subsidised 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 30 to the financial statements.

MANAGEMENT AND STAFF

The impact of SARS on the operations of Group companies in Hong Kong and the Mainland during the year has been short and sharp but management and staff have shown exceptional resilience to this unprecedented shock to their operating units. On behalf of the Board, I wish to pay tribute to management and all staff members of the Group for their contribution and dedication to their work. I would also like to thank our shareholders and business partners and associates for their continuing support.

Lim Por Yen
Chairman and Managing Director

Hong Kong
7th November, 2003