Chairman's Statement

Chairman LAM Kin Ming

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.

GROUP RESULTS

The Group recorded a consolidated net profit attributable to shareholders of HK$318.0 million for the year ended 31st July, 2005, compared with a consolidated net profit of HK$82.2 million for the previous year, as restated. Shareholders' equity as at 31st July, 2005 amounted to HK$2,787 million, up from a restated HK$1,740 million as at 31st July, 2004. Net asset value per share as at 31st July, 2005 was HK$1.72, as compared to HK$1.21 on 31st July, 2004 as restated. Basic earnings per share was HK$0.22 compared to HK$0.06 in the previous year.

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Turnover of the Group for the year, at HK$481.7 million was 43.9% lower than the previous year mainly due to a reduction in turnover generated by our garment operations. The Group's gross profit fell 25.8% to HK$257.7 million. Operating profit, however, doubled, boosted by gains on revaluation of investment properties, write back of provision for impairment of property under development and a gain on disposal of investment properties. Attributable profit was further boosted by a gain of HK$217.8 million on deemed disposal of former associate Lai Sun Development Company Limited.

DIVIDEND

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

BUSINESS REVIEW

Lai Sun Garment (International) Limited

As agreed in the WTO Agreement on Textiles and Clothing, the four-decade long textile quota system finally came to an end on 1st January, 2005 and with it the Group's income from sale of quotas. As a result, the garment operation of the Company reported a 85.3% decline in turnover compared with the figure for the previous year. The Group is exploring various business opportunities but until such nascent activities develop into fully fledged businesses, the Group can be considered to be mainly an investment holding company with interests in garment operations, property development and investment, hotels and media and entertainment.

Lai Sun Development Company Limited ("LSD")

The Group's interest in this former associate has been diluted to 12.42% as a result of LSD's issue of 9,000 million new shares in connection with its debt settlement. LSD's debt settlement eliminated approximately HK$3,700 million of debt and placed its finances on a firm footing. As at 31st July, 2005, the LSD Group had consolidated net assets attributable to shareholders of HK$3,432 million, as compared to a consolidated deficiency in shareholders' funds of HK$468 million on 31st July, 2004 as restated. Because of this deficiency, prior to the debt settlement, the Group had previously completely written-off its investment in LSD. The Group's shareholding in LSD is held as a long term investment and valued in the balance sheet at market value.

Chairman's Statement

LSD benefitted from the rebound in the property market and the strength in the hotel sector. Operating profits rose to HK$1,171 million in 2004/05, up 112% from HK$552 million in 2003/04 as restated. However, the LSD Group reported a consolidated net attributable loss of HK$706 million for the year due to the loss of HK$1,484 million arising from the debt settlement. LSD's investment property portfolio generated gross rental income of HK$247 million for the year, representing a drop of 11.9% from the previous year. The decline was due to the absence of contributions from both the Majestic Centre and Causeway Bay Plaza 1 which 50% interest and 100% interest were sold during the previous financial year respectively. Overall unit rental levels in LSD's portfolio have shown improvement and this trend is expected to continue.

The LSD Group benefitted from the strong tourism market. Its 65%-owned The Ritz-Carlton Hong Kong reported a 4 percentage points improvement in average occupancy and average room rate during the year rose 23.6% to HK$2,072. The Majestic Hotel in Kowloon achieved a high occupancy rate of 91.7% and average room rate of HK$552.

During the year the LSD Group sold all the service apartments at its Kimberley Road development project and 15 of the 54 houses that comprise its Yuen Long luxury residential development project, Rolling Hills II.

eSun Holdings Limited ("eSun")

eSun, a 38.31%-owned associate of LSD, reported an unaudited consolidated profit attributable to shareholders of HK$203 million for the half year ended 30th June, 2005 as compared to a loss of HK$33 million in the year earlier period. At the operating level, eSun reported reduced losses. The sharp turnaround in attributable profits was due to positive contributions from associates, mainly from LSD.

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.

Chairman's Statement

Lai Fung Holdings Limited ("Lai Fung")

Lai Fung reported a consolidated net profit attributable to shareholders of HK$246.2 million for the year, as compared to the profit of HK$36.0 million for the previous year as restated. Rental income from the Lai Fung Group's investment properties in China rose 20.9% to HK$155.4 million due to continued growth in rental income from Hong Kong Plaza in Shanghai and an initial contribution from May Flower Plaza in Guangzhou, which was completed in early 2005. The completion of this investment project gave rise to a substantial surplus on revaluation which boosted attributable profits. On the property development front, the pre-sale permit for Tower 7 of Regents Park was obtained in September 2004. By 31st December, 2004, 679 units of the 693 units of towers 1 to 5 and Tower 7 had been pre-sold. Under Lai Fung's previous accounting policy, turnover and profit for these 679 units were recognized on a percentage of completion basis. The pre-sale permit for Tower 6 (317 units) was obtained in March 2005 and met a good market response with 268 units pre-sold up to July 2005. However, under the new accounting standards that have come into force, revenues and profits from property development are only recognized on completion, which is expected shortly .

Crocodile Garments Limited ("CGL")

CGL reported a net profit attributable to shareholders of HK$127.2 million for the year which represented an improvement of 165% from the net profit of HK$47.9 million recorded for the previous year. The sharp improvement in net profit was due mainly to the profit of HK$77.0 million on sale of an investment property in Tsimshatsui and the surplus of HK$36.3 million from revaluation of investment properties. Total turnover for the year showed a decline of 13.6% due mainly to consolidation of retail outlets in China.

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. As part of its strategy to rejuvenate and strengthen its "Crocodile" brand, CGL has begun a program to renovate its sales outlets to reflect its new store image and design. Shops that cannot be upgraded to meet the standards set by management have been closed or will be closed. CGL currently operates 20 Crocodile outlets and 7 Lacoste outlets in Hong Kong and there are approximately 600 sales channels in China, including about 30 retail outlets operated by CGL itself and some 570 operated by franchises.

Chairman's Statement

PROSPECTS

Despite rising interest rates and high oil prices, the economy of Hong Kong is expected to continue growing at a healthy pace.

On the property investment front, LSD expects positive rental reversions and believes that prospects of the Hong Kong hotel industry will remain encouraging and both occupancy and room rates are likely to remain firm. This should benefit both The Ritz-Carlton Hong Kong and the Majestic Hotel.

LSD is very excited about the potential of eSun's Studio City site in Cotai, Macau. eSun is seeking to capitalize on the liberalization of gaming in Macau and the wave of development that is transforming the Macau economy.

Although a series of macro-economic policies have been implemented by the authorities in China, Lai Fung remains optimistic about economic growth in China, especially in the Yangtze and Pearl River deltas. With the increase in the number of foreign corporations establishing a presence in China, demand for quality commercial and residential properties is expected to remain at a high level.

Lai Fung plans to accelerate the development of its landbank. It is pursuing plans for Phase II of Regents Park in Shanghai and for further phases of Eastern Place in Guangzhou. The company is also optimistic about future economic growth of Zhongshan and the prospects for the local property market and has enlarged its land bank there.

CGL believes the momentum of the current economic rebound in Hong Kong will continue 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 continue growing in coming years. Unfortunately, the company is vulnerable to rising rents and is experiencing sharp increases on lease renewals.

CGL is optimistic about the longer term potential of the China market and is making the investment now to protect and build its brand. Although the number of retail outlets in China has been significantly reduced by the closure of outlets that are not suitable to be upgraded, the long term aim is to expand CGL's retail distribution network in China.

Crocodile Garments Limited - new logo

Chairman's Statement

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st July, 2005, total bank and other borrowings (comprising the note payable of HK$195 million and a loan of HK$32 million payable to the late Mr. Lim Por Yen, a loan of HK$69 million payable to Mr. Lam Kin Ngok, Peter and bank borrowings of HK$44 million) amounted to HK$340 million. At that date, consolidated net assets of the Group (excluding minority interests) amounted to HK$2,787 million. The debt to equity ratio as expressed as a percentage of total bank and other borrowings to consolidated net assets (excluding minority interests) as at the date was approximately 12.2%.

The note payable of HK$195 million and a loan of HK$32 million payable to the late Mr. Lim Por Yen have maturity dates on 30th April, 2006 and 30th November, 2005 respectively. The Group has received confirmation from the executor of the estate of the late Mr. Lim Por Yen that such note payable and loan are not repayable within one year from the balance sheet date. The loan payable to Mr. Lam Kin Ngok, Peter of HK$69 million is not repayable within one year from the balance sheet date. The remaining bank and other borrowings of HK$44 million were repayable or renewable within one year.

All of the Group's borrowings were denominated in Hong Kong 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, 2005, certain investment properties with carrying value of approximately HK$248 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, 2005 amounted to HK$386 million and HK$27 million respectively, which was considered adequate to cover the working capital requirement of the Group.

Chairman's Statement

EMPLOYEES AND REMUNERATION POLICIES

The Group employed a total of approximately 1,000 (2004: 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 hospitalization insurance plan, subsidized 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.

MANAGEMENT AND STAFF

Management and staff members of the Group and our business associates have demonstrated their commendable capability and spirit of co-operation in achieving excellent result on the operations of the Group.

On behalf of the Board, I would like to record my appreciation of the hard work and perseverance of Management and all staff members during this year, and to thank our shareholders and business associates for their continuing support.

Lam Kin Ming
Chairman

Hong Kong
18th November, 2005