

Chairman's Statement



Chairman LAM Kin Ming

RESULTS

Due to the impact of corporate developments during the year ended 31st July, 2006, the Group recorded a consolidated loss attributable to shareholders of HK\$121 million for the year as compared to a profit of HK\$318 million for the previous year.

Turnover of the Group for the year under review amounted to HK\$347 million of which HK\$25 million derived from continuing operations and HK\$322 million was from discontinued operations. Profit from operating activities included a loss of HK\$179 million arising from disposal of the Group's shareholding in Crocodile Garments Limited upon the Group ceasing to engage in the now discontinued garment business.

The consolidated net loss attributable to shareholders also includes a loss of HK\$254 million on the deemed disposal of interests in associates when Lai Fung issued new shares to CapitaLand China Holdings Pte Ltd thereby diluting the Group's interest in Lai Fung to approximately 40%. By comparison, in the previous year the Group had recorded a gain of HK\$218 million on the deemed disposal of interest in associates.

DIVIDEND

The Board of Directors do not recommend the payment of a dividend for the year ended 31st July, 2006 (2005: Nil).

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BUSINESS REVIEW

Lai Fung Holdings Limited ("Lai Fung")

Lai Fung's revenue and core profits achieved impressive growth. Lai Fung reported a total turnover of HK\$703,352,000 and a gross profit of HK\$308,673,000, representing an increase of approximately 75% and 91%, respectively from the previous corresponding period.

Lai Fung recorded turnover of HK\$197,621,000 from rental income during the year under review, representing an increase of approximately 27% over the previous financial year. Gross rental income from Hong Kong Plaza in Shanghai increased by approximately 13%, while gross rental income from May Flower Plaza in Guangzhou increased by 159% as it achieved full occupancy during the year under review. Lai Fung recorded turnover of HK\$505,731,000 from sales of development properties during the year under review (an increase of approximately 104% from the previous financial year), substantially most of which were attributable to the recognition of final portions of the revenue from sales of residential units at Shanghai Regents Park Phase I made before 1st January, 2005 and the revenue from sales of units at Shanghai Regents Park made after 1st January, 2005.

Lai Fung achieved a profit from operating activities of HK\$294,532,000 and a consolidated profit attributable to equity holders of the parent of HK\$132,745,000 during the year under review.

The Group completed the sale of its interest in a property at Su Jia Xiang, Shanghai to Lai Fung in May 2006.

Lai Sun Development Company Limited ("LSD")

LSD's operations recorded steady growth. LSD reported a total turnover of HK\$794 million and a net profit of HK\$513 million during the period under review.

Its investment property portfolio, which has been and remains practically fully let, generated gross rental income of approximately HK\$265 million during the year under review, representing an increase of about 7% over the previous financial year. LSD's share of property development profits from its associates for the year fell from approximately HK\$167 million in the previous year to approximately HK\$55 million which derived largely from the sale of its Rolling Hills Phase II project. LSD's hotel division also recorded a satisfactory performance with its hotel operations in

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Hong Kong benefiting from the growth in tourist arrivals. For the year under review, The Ritz-Carlton Hong Kong achieved an average occupancy of 84.7% and an average room rate of HK\$2,441 as compared to 84.2% and HK\$2,072 recorded in the previous year. For the Majestic Hotel, the corresponding figures were 93.3% and HK\$592 as compared to 91.7% and HK\$552 in the previous year.

eSun Holdings Limited (“eSun”)

eSun, a 34.83%-owned associate of LSD, reported a net profit of HK\$54 million for the six months ended 30th June, 2006 (2005: HK\$203 million). The decline reflects the much reduced gain on revaluation of LSD's investment property and absence of impairment reversal which has affected eSun's results as eSun is the largest shareholder of LSD with a 40.8% interest. During the year, eSun's most important business focus was work related to the redevelopment of its site in Macau. In April 2006, eSun entered into an agreement whereby it will initially dispose of 40% of its interest in a site in Cotai, Macau to New Cotai, LLC (“New Cotai”) and will develop the Cotai site jointly with New Cotai. The disposal transaction is pending completion subject to fulfillment of certain conditions precedent.

Crocodile Garments Limited (“CGL”)

During the year under review, the Group disposed of its entire stake in CGL and thereby exited the garment business. However, it retains an interest in CGL's property at 79 Hoi Yuen Road, Kwun Tong under the terms of an agreement to jointly redevelop this site. On completion of this redevelopment, the Group will retain the retail portion of the project and portion of the car-parking spaces.

PROSPECTS

Lai Fung

Despite the recent property control measures introduced by the Chinese government, Lai Fung remains confident about the prospects of the property markets in the Mainland of China (“PRC”). For investment properties, Lai Fung will continue to improve the rental income from its investment properties through improvement of tenant mix, renovations and facelifts. For development properties, Lai Fung has accelerated its property development schedule and expects the completion volume to increase significantly in the next few years.



Night view of Northgate Plaza Phase II, Shanghai (artist impression)



Regents Park, Shanghai



Hai Zhu Plaza, Guangzhou (artist impression)



Crocodile Building (artist impression)



Hong Kong Plaza, Shanghai



Eastern Place, Guangzhou



May Flower Plaza, Guangzhou

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Lai Fung is actively looking for property development opportunities in the core cities such as Shanghai and Guangzhou where we already have a strong presence. Other than the replenishment of land bank in Shanghai and Guangzhou, Lai Fung is also studying the potential of Beijing and other major cities of the PRC where such opportunities may materialize. Going forward, one of the key development strategies to be adopted by Lai Fung is through co-operation with joint venture partners.

LSD and eSun

LSD's property investment income and income from hotel operations are expected to continue growing steadily. It also aims to improve the return on its Hong Kong property investment portfolio and its hotel assets. In particular, it is assessing the redevelopment potential of the Ritz-Carlton Hong Kong in the light of the strong demand for and limited new supply of prime office accommodation in Central.

LSD's associate, eSun and its joint venture partner New Cotai, LLC, is finalizing a Master Development Plan for the Macau Studio City project in Cotai, Macau and upon approval from the Macau authorities, construction work is expected to commence in 2007.

79 Hoi Yuen Road Project, Kwun Tong

On completion of this joint redevelopment with CGL, the Group will retain the retail portion of this redeveloped property. This redevelopment is expected to be completed by the end of 2009 and by then will significantly augment the Group's recurring rental income base.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st July, 2006, total borrowings (comprising the note payable of HK\$195 million and a loan of HK\$32 million payable to the late Mr. Lim Por Yen) amounted to HK\$227 million. At that date, consolidated net assets of the Group amounted to HK\$2,960 million. The debt to equity ratio as expressed as a percentage of total borrowings to net assets as at that date was approximately 7.7%.

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.

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The Group's 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, 2006, certain investment properties with carrying value of approximately HK\$116 million were pledged to banks to secure banking facilities granted to the Group.

Cash and bank balances held by the Group as at 31st July, 2006 amounted to HK\$35 million, which was considered adequate to cover the working capital requirement of the Group.

Most of the Group's sale and purchases during the year under review were mainly conducted in US dollar, HK dollar, Renminbi and euro. Foreign purchases in euro were mostly covered with forward exchange contracts in order to minimise the exchange risk. The foreign exchange exposure of the Group has much reduced in the wake of the discontinuation of the garment operation and the disposal of the property at Su Jia Xiang, Shanghai to Lai Fung.

EMPLOYEES AND REMUNERATION POLICIES

The Group employed a total of approximately 50 (2005: 1,000) employees as at the balance sheet date. The significant decrease in the number of employees is due to the disposal of the Group's entire interest in Crocodile Garments Limited which was previously a subsidiary of 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 mandatory provident fund scheme for all eligible employees, 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 36 to the financial statements.

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MANAGEMENT AND STAFF

On behalf of my colleagues on the Board, I wish to thank all members of staff and Management for their loyalty and contribution during this evolving phase in the development of the Company. I would also like to record my appreciation of the support given by shareholders and business associates during the year.

Lam Kin Ming

Chairman

Hong Kong

10th November, 2006