



LAI SUN DEVELOPMENT

Lai Sun Development Company Limited
(Incorporated in Hong Kong with limited liability)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 31ST JANUARY, 2001

RESULTS

The Board of Directors of Lai Sun Development Company Limited (the "Company") announces that the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 31st January, 2001 were as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT For the six months ended 31st January, 2001

		Six months ended	
	Notes	31/1/2001 (Unaudited) HK\$'000	31/1/2000 (Unaudited) HK\$'000
TURNOVER	3	801,244	983,103
Cost of sales		(331,946)	(703,566)
Gross profit		469,298	279,537
Other revenue		149,143	87,365
Administrative expenses		(353,303)	(208,625)
Other operating expenses		(6,555)	(121,717)
Loss on deemed disposal of interest in a listed subsidiary	4	(1,006,211)	(3,970)
Write back of provision for diminutions in values of associates holding properties under development		21,817	—
Gain/(loss) on disposal of long term listed investments		7,061	(3,500)
Provision for impairment in values of long term unlisted investments		—	(56,586)
Provisions for diminutions in values of fixed assets		—	(649,257)
Provisions for diminutions in values of properties under development		—	(559,679)
Provisions for diminutions in values of completed properties for sale		—	(113,527)
LOSS FROM OPERATING ACTIVITIES	5	(718,750)	(1,349,959)
Finance costs	6	(305,604)	(436,463)
Share of losses less profits of associates		(84,697)	(45,706)
LOSS BEFORE TAX		(1,109,051)	(1,832,128)
Tax	7	(18,834)	(22,985)
LOSS BEFORE MINORITY INTERESTS		(1,127,885)	(1,855,113)
Minority interests		2,002	516,997
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(1,125,883)	(1,338,116)
LOSS PER SHARE	8		
Basic		HK\$0.30	HK\$0.38
Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET 31st January, 2001

	Notes	31st January, 2001 (Unaudited) HK\$'000	31st July, 2000 (Audited) HK\$'000
NON-CURRENT ASSETS			
Fixed assets		1,433,434	1,371,567
Investment properties		6,091,070	9,478,130
Properties under development		335,934	3,571,007
Interests in associates		2,768,400	1,964,843
Interests in jointly controlled entities		—	50,127
Long term investments		1,028,026	1,018,910
Deferred tax assets		729	749
		11,657,593	17,455,333
CURRENT ASSETS			
Short term investments		11,769	11,884
Completed properties for sale		74,490	388,628
Inventories		16,926	16,062
Debtors and deposits	9(a)	397,483	871,740
Tax recoverable		1,127	13,103
Pledged cash and bank balances	10	41,101	39,106
Cash and cash equivalents		308,441	703,573
		851,337	2,044,096
CURRENT LIABILITIES			
Creditors, deposits received and accruals	9(b)	547,825	1,089,734
Tax payable		107,491	121,412
Interest-bearing bank and other borrowings		1,802,403	2,064,547
Short term bonds payable		—	155,397
Convertible bonds		—	202,496
		2,457,719	3,633,586
NET CURRENT LIABILITIES		(1,606,382)	(1,589,490)
TOTAL ASSETS LESS CURRENT LIABILITIES		10,051,211	15,865,843
NON-CURRENT LIABILITIES			
Long term rental deposits received		(54,866)	(73,629)
Provision for premium on bonds redemption		(412,827)	(354,081)
Provision for premium on convertible note redemption		—	(21,667)
Interest-bearing bank and other borrowings		(2,252,338)	(2,575,890)
Long term bonds payable		(735,281)	(735,853)
		(3,455,312)	(3,761,120)
		6,595,899	12,104,723

CAPITAL AND RESERVES

	Notes	31st January, 2001 (Unaudited) HK\$'000	31st July, 2000 (Audited) HK\$'000
Share capital		1,873,001	1,873,001
Reserves	11	1,938,811	4,509,427
		3,811,812	6,382,428

MINORITY INTERESTS

		1,825,953	3,233,971
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		5,637,765	9,616,399
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		958,134	1,888,324
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		—	600,000
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		6,595,899	12,104,723
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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

(a) The condensed consolidated financial statements have not been audited by the Company's auditors but have been reviewed by the Company's audit committee.

(b) As reported by the Company in its annual report for the year ended 31st July, 2000, the Group succeeded in obtaining agreements from the holders of the exchangeable bonds and convertible bonds and its principal lending banks to defer the principal repayment of indebtedness to 31st December, 2002. As a result of the successful conclusion of the debt restructuring, the Group's bond payables and bank and other borrowings have been classified in accordance with the revised terms specified in the respective loan agreements and trust deeds as at 31st January, 2001. The Group will continue to execute an asset disposal programme with a view to generating cash proceeds to further reduce the Group's indebtedness. On the basis that the asset disposal programme continues to be successful, the directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis. If the going concern basis is not appropriate, adjustments would have to be made to restate the values of the assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

2. ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared in accordance with Statement of Standard Accounting Practice No. 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants ("SSAP 25") except that no comparative figures have been presented for the condensed consolidated statement of recognized gains and losses and the condensed consolidated cash flow statement, being the first condensed consolidated statement of recognized gains and losses and the first condensed consolidated cash flow statement included in the interim report relating to accounting period ended on or after 1st July, 2000. Such departures from SSAP 25 are permitted under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies and basis of preparation used in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31st July, 2000.

3. SEGMENTAL INFORMATION

An analysis of Group turnover and contribution/(absorption) to loss from operating activities by activities and geographical areas for the six months ended 31st January, 2001 is as follows:

	Six months ended		Six months ended	
	31/1/2001	31/1/2000	31/1/2001	31/1/2000
	Turnover (Unaudited) HK\$'000	Turnover (Unaudited) HK\$'000	Contribution/ (absorption) (Unaudited) HK\$'000	Contribution/ (absorption) (Unaudited) HK\$'000
By activity:				
Sales of properties	68,796	467,040	(12,903)	(187,782)
Property rentals	274,789	296,758	130,335	189,322
Hotel, restaurant and other operations	457,659	219,305	(1,437)	69,372
	801,244	983,103	115,995	70,912
Other revenue			149,143	87,365
Other operating expenses			(6,555)	(121,717)
Loss on deemed disposal of interest in a listed subsidiary			(1,006,211)	(3,970)
Write back of provision for diminutions in values of associates holding properties under development			21,817	—
Gain/(loss) on disposal of long term listed investments			7,061	(3,500)
Provision for impairment in values of long term unlisted investments			—	(56,586)
Provisions for diminutions in values of fixed assets			—	(649,257)
Provisions for diminutions in values of properties under development			—	(559,679)
Provisions for diminutions in values of completed properties for sale			—	(113,527)
LOSS FROM OPERATING ACTIVITIES			(718,750)	(1,349,959)
By geographical area:				
Hong Kong	621,377	789,750	116,541	73,442
People's Republic of China ("PRC"), excluding Hong Kong	119,102	137,505	5,255	5,238
Others	60,765	55,848	(5,801)	(7,768)
	801,244	983,103	115,995	70,912
Other revenue			149,143	87,365
Other operating expenses			(6,555)	(121,717)
Loss on deemed disposal of interest in a listed subsidiary			(1,006,211)	(3,970)
Write back of provision for diminutions in values of associates holding properties under development			21,817	—
Gain/(loss) on disposal of long term listed investments			7,061	(3,500)
Provision for impairment in values of long term unlisted investments			—	(56,586)
Provisions for diminutions in values of fixed assets			—	(649,257)
Provisions for diminutions in values of properties under development			—	(559,679)
Provisions for diminutions in values of completed properties for sale			—	(113,527)
LOSS FROM OPERATING ACTIVITIES			(718,750)	(1,349,959)

4. LOSS ON DEEMED DISPOSAL OF INTEREST IN A LISTED SUBSIDIARY

On 28th November, 2000, Lai Fung Holdings Limited ("Lai Fung"), by then a listed subsidiary of the Company, elected to mandatorily convert all the outstanding convertible bonds issued by its wholly-owned subsidiary, Lai Fung Overseas Finance Limited, which are convertible into shares of HK\$0.1 each in the share capital of Lai Fung ("Lai Fung Shares"), as constituted by a trust deed dated 5th January, 1994 ("LF Convertible Bonds"). The total outstanding LF Convertible Bonds in the aggregate amount of US\$120,385,000 were converted into new Lai Fung Shares at a conversion price of HK\$0.464 per share, in accordance with the terms and conditions of the LF Convertible Bonds.

On 10th January, 2001, a total of 2,023,713,337 new Lai Fung Shares were allotted and issued pursuant to the mandatory conversion. As a result of the allotment and issue of such new Lai Fung Shares to the bondholders pursuant to the mandatory conversion, the Company's shareholding in Lai Fung, by way of dilution, fell from approximately 74.49% of the issued share capital of Lai Fung before the mandatory conversion to approximately 25.40% of the issued share capital of Lai Fung as enlarged by the issue of the new Lai Fung Shares.

Accordingly, immediately following the allotment and issue of such new Lai Fung Shares, Lai Fung ceased to be a subsidiary and became an associate of the Company. The financial statements of Lai Fung and its subsidiaries were then deconsolidated from and had, since then, been equity accounted for in the consolidated financial statements of the Company.

As a result of the conversion, a loss on deemed disposal of interest in Lai Fung of approximately HK\$1,006,211,000 was charged to the profit and loss account. In addition, a sum of approximately HK\$1,201,812,000 was released from the various reserves upon the deemed disposal of interest in Lai Fung.

5. LOSS FROM OPERATING ACTIVITIES

This is arrived at after charging:

	Six months ended	
	31/1/2001 (Unaudited) HK\$'000	31/1/2000 (Unaudited) HK\$'000
Depreciation	20,832	15,810
Amortisation of goodwill on acquisition of an associate	578	578
Loss on disposal of fixed assets	1,754	1,441
Loss on disposal of investment properties	—	150,034
Loss on disposal of subsidiaries	245	—
Loss on disposal of associates	295	—
Loss on disposal of interest in an associate	1,335	—
and after crediting:		
Gain on disposal of subsidiaries	—	(74,112)
Gain on disposal of associates	—	(178)
Gain on disposal of short term listed investments	—	(16,470)
Write back of contingent loss in respect of a guarantee given to a bank	(39,071)	(38,406)

6. FINANCE COSTS

	Six months ended	
	31/1/2001 (Unaudited) HK\$'000	31/1/2000 (Unaudited) HK\$'000
Interest on bank loans, overdrafts and other borrowings wholly repayable within five years	198,758	289,033
Interest on bonds payable	20,479	22,387
Interest on convertible bonds and convertible note	58,480	61,630
Less: Amounts capitalised in properties under development	(47,299)	(31,473)
Amounts capitalised in associates engaged in property development	(3,001)	(19,082)
Amounts capitalised in jointly controlled entities engaged in property development	—	(710)
	227,417	321,785
Provision for premium on bonds redemption	58,746	56,820
Provision for premium on note redemption	10,000	10,000
Bank charges and refinancing charges	9,441	47,858
	305,604	436,463

7. TAX

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the period.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the places in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended	
	31/1/2001 (Unaudited) HK\$'000	31/1/2000 (Unaudited) HK\$'000
Provision for tax for the period:		
Hong Kong	17,670	13,479
Outside Hong Kong	626	8,995
Deferred	20	—
	18,316	22,474
Associates:		
Hong Kong	518	599
Outside Hong Kong	—	(88)
	518	511
Tax charge for the period	18,834	22,985

8. LOSS PER SHARE

The calculations of basic loss per share are based on:

	Six months ended	
	31/1/2001 (Unaudited) HK\$'000	31/1/2000 (Unaudited) HK\$'000
Loss used in basic loss per share calculation	1,125,883	1,338,116
	'000	'000
Weighted average number of ordinary shares in issue during the period used in basic loss per share calculation	3,746,002	3,536,002

The diluted loss per share for the current and prior periods has not been presented because any potential ordinary shares of the Group outstanding during these periods had an anti-dilutive effect on the basic loss per share for these periods.

9. DEBTORS AND DEPOSITS/CREDITORS, DEPOSITS RECEIVED AND ACCRUALS

(a) The Group maintains a defined credit policy. Details of the debtors and deposits of the Group as at 31st January, 2001 and 31st July, 2000 are as follows:

	31st January, 2001 (Unaudited) HK\$'000	31st July, 2000 (Audited) HK\$'000
Trade debtors:		
Less than 30 days	58,795	56,516
31-60 days	7,454	5,846
61-90 days	3,874	5,903
Over 90 days	10,823	33,669
	80,946	101,934
Other debtors and deposits	316,537	769,806
	397,483	871,740

(b) Details of the creditors, deposits received and accruals of the Group as at 31st January, 2001 and 31st July, 2000 are as follows:

	31st January, 2001 (Unaudited) HK\$'000	31st July, 2000 (Audited) HK\$'000
Trade creditors:		
Less than 30 days	45,580	141,962
31-60 days	3,215	11,103
61-90 days	8,808	4,815
Over 90 days	11,005	93,582
	68,608	251,462
Other creditors, deposits received and accruals	479,217	838,272
	547,825	1,089,734

10. PLEDGED CASH AND BANK BALANCES

As at 31st January, 2001, approximately HK\$41,101,000 (as at 31st July, 2000: approximately HK\$39,106,000) of the cash and bank balances of the Group were pledged to banks to secure a syndicated loan facility granted to the Group.

11. RESERVES

	Share premium account HK\$'000	Investment property revaluation reserve HK\$'000	Revaluation reserve for properties under development held for investment potential HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated Losses HK\$'000	Total HK\$'000
At 31st July, 2000 and 1st August, 2000 (Audited)	5,858,164	3,066,784	1,171,429	1,200,000	92,614	72,266	(6,951,830)	4,509,427
Release upon transfer of investment properties to completed properties for sale	—	(300,402)	—	—	—	—	—	(300,402)
Deficit on revaluation of investment properties	—	(188)	—	—	—	—	—	(188)
Exchange realignments:								
Subsidiaries	—	—	—	—	—	4,095	—	4,095
Associates	—	—	—	—	—	(311)	—	(311)
Jointly controlled entities	—	—	—	—	—	222	—	222
Adjustment for capital reserve arising on acquisition of additional interests in subsidiaries in prior year	—	—	—	—	53,663	—	—	53,663
Release upon deemed disposal of a listed subsidiary (note 4)	—	(277,423)	(771,989)	—	(138,503)	(13,897)	—	(1,201,812)
Net loss for the year	—	—	—	—	—	—	(1,125,883)	(1,125,883)
At 31st January, 2001 (Unaudited)	5,858,164	2,488,771	399,440	1,200,000	7,774	62,375	(8,077,713)	1,938,811

12. POST BALANCE SHEET EVENT

On 9th February, 2001, a conditional sale and purchase agreement (the "Agreement") was entered into between Autumn Gold Limited ("Autumn Gold"), a wholly-owned subsidiary of eSun Holdings Limited ("eSun"), and Mr. Chan Chee Kheong ("Mr. Chan"). Pursuant to the Agreement, Autumn Gold acquired from Mr. Chan 5 existing shares of HK\$1.00 each of The Artist Campus International Limited (formerly known as Union Holdings Limited), a company incorporated in Hong Kong with limited liability, for a total consideration of HK\$7,600,005, comprising (i) HK\$2,000,005 in cash, and (ii) the balance of HK\$5,600,000 by the allotment and issue of a total of 5,600,000 new shares of HK\$0.50 each in the share capital of eSun (the "Consideration Shares"), at an issue price of HK\$1.00 per share. The allotment of the 5,600,000 new shares to Mr. Chan was completed on 4th April, 2001. Immediately prior to the allotment and issue of the Consideration Shares, the Company held 285,512,791 shares in eSun out of a total of 565,584,927 shares in issue, representing approximately 50.48% of the then existing issued share capital of eSun. As a result of the allotment and issue of the Consideration Shares to Mr. Chan, the Company's shareholding percentage in eSun was reduced, by way of dilution, to 49.99% and eSun ceased to be a subsidiary and became an associate of the Company on 4th April, 2001. Accordingly, the financial statements of eSun and its subsidiaries were then deconsolidated and had, since then, been equity accounted for in the consolidated financial statements of the Company immediately following the allotment and issue of such Consideration Shares.

13. COMPARATIVE AMOUNTS

Due to the adoption of Statements of Standard Accounting Practice No.1 "Presentation of Financial Statements" and No.2 "Net Profit or Loss for the Period, Fundamental Errors and Change in Accounting Policies" during current period, the presentation of the consolidated profit and loss account, consolidated balance sheet and certain supporting notes have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current period's presentation.

INTERIM ORDINARY DIVIDEND

The Directors do not recommend the payment of an interim ordinary dividend for the financial year ending 31st July, 2001. No interim ordinary dividend was declared in respect of the previous corresponding period.

MANAGEMENT DISCUSSION AND ANALYSIS**Business Review**

The Group recorded a loss of HK\$1,125.9 million for the six months ended 31st January, 2001. The loss was mainly attributable to the loss on deemed disposal of Lai Fung Holdings Limited ("Lai Fung") as a result of the mandatory conversion of the LF Convertible Bonds (as defined below), which saw the Group's shareholding in Lai Fung being diluted from 74.49% to 25.40%. Gratifyingly, the priority of debt reduction as stated in our last annual report have proved rewarding as overall interest expenses during the period have been reduced by 26% from the same period last year.

In sympathy to the collapse of global stock markets driven by a sharp reversal in sentiment toward internet valuation, the operating environment of Hong Kong have deteriorated during the period under review. The prospect of interest rate reduction was overshadowed by pessimism over income growth and inflation expectations. Meanwhile, a dearth of liquidity was evident as a result of the evaporation of internet-related wealth. Such economic adversities obviously did not augur well for the overall performance of the real estate market. While capital values in the luxury residential sector continued to demonstrate their resilience given its limited supply, prices for the mass market were met with further downward pressure, albeit mild. Nonetheless, it is gratifying to see commercial and office markets finally showing some signs of stability with rental values creeping up steadily. As for the Group, the rental property portfolio was further dwindled to around 2 million sq.ft. following the disposal of certain non-core commercial and industrial property assets. Consequently, net rental receipts exhibited a 13.5% decline during the period under review.

On the property development front, the Group's 10% investment in The Waterfront, the Kowloon Station Package 1 residential development project, was completed in November 2000 and selling of the remaining units have been progressing satisfactorily. Meanwhile, as discussed in the previous section, the period under review also witnessed the Group's disposal of its entire interest in Star House, as well as the Garment Centre whose sale was completed in March 2001. At the time of writing, the Group have commenced the selling of the service apartment units situated at 488 Jaffe Road and have met with a warm reception.

The Board would like to report that in accordance with the restructuring scheme agreed amongst all creditors, the Group's 1.67% direct interest in SUNDAY Communications Limited ("SUNDAY") were disposed during the period, with all the proceeds being appropriated for a second repayment to bondholders on 31st January, 2001. Together with the first repayment which was made on 31st August, 2000, the outstanding principal of both the exchangeable and convertible bonds have been reduced by 17.5% to US\$218.625 million (approximately HK\$1,693 million).

As for the performance of the Group's principal associate, eSun Holdings Limited ("eSun") reported a net attributable loss of HK\$305.65 million for the year ended 31st December, 2000 (1999: Loss of HK\$884.75 million). The reported loss was mainly due to a provision of HK\$351 million taken in respect of the diminution in value for the 295 million SUNDAY shares (9.87%) held by eSun. Stripping this out, the company's performance had been satisfactory in the previous year, successfully making a smooth operational transition from a hotel company into an integrated multimedia conglomerate.

In November 2000, eSun announced a share consolidation of every five issued and unissued shares into one consolidated ordinary share and a rights issue on the basis of one rights share for every two existing shares held to raise approximately HK\$160 million. The corporate exercise was completed in January 2001. At the time of writing, eSun also announced the acquisition of a 50% interest in The Artist Campus International Limited which principally engages in artist management and training. The purchase was satisfied by a combination of cash and the issue of 5,600,000 new eSun shares at HK\$1.00 per share. The transaction consequently diluted the Group's interest in eSun to 49.99%, implying that the latter will cease to be a subsidiary of the Group.

Lai Fung recorded a net loss of HK\$39.2 million for the six months ended 31st January, 2001. Turnover of HK\$74.8 million represented a decrease of approximately 46% when compared with that of the previous year. The decrease in turnover was mainly attributed to the slow down in sales of Phase II of Eastern Place in Guangzhou, due to the relatively longer time required to dispose the remaining large units. However, it is expected that the sales will pick up when Phase III of Eastern Place begins to pre-sale in the second half of this year. Meanwhile, with a decent average occupancy of over 70%, rental contribution from the Hong Kong Plaza continued to improve during the period under review.

Lai Fung's US\$150 million convertible guaranteed bonds ("LF Convertible Bonds") was due for maturity in November 2000. Pursuant to the terms of the LF Convertible Bonds, Lai Fung elected to mandatorily convert all the outstanding bonds into new shares of Lai Fung at a conversion price of HK\$0.464 per share on 10th January, 2001. This conversion, which will lower the finance cost of Lai Fung in the future, have created an additional 2,023 million new shares, thereby diluting the Group's interest in Lai Fung from 74.49% to 25.40%. Together with Lai Sun Garment (International) Limited which has made an investment in the LF Convertible Bonds and resulted in a 20.6% stake in Lai Fung upon conversion; the Group collectively maintains a 46% interest in Lai Fung, demonstrating its commitment to securing a strong foothold in the PRC.

Prospects

Hong Kong's economic environment seems to have returned to a territory of frugality and fragility as the high tech boom and the positive wealth effect reversed sharply and abruptly. Office and commercial rentals would at best stabilize as demand is expected to slacken. Meanwhile, residential housing supply, particularly for the mass market, will be abundant. With income growth expected to remain uninspiring, the only cushioning features will be a generally lower interest rate environment, and still ample bank liquidity both from the corporate and personal lending perspectives. Under this economic backdrop, the Group will continue to closely monitor the evolving trends and will flexibly realize its landbank, development projects and non-core commercial properties as and when appropriate.

Equipped with a strong financial warchest, eSun will continue to steadily expand its multimedia business in a prudent yet proactive manner. On 21st February, 2001, eSun announced the construction of East Asia Satellite Television City ("EAST-TV City") in Macau. An estimated HK\$300 million investment, EAST-TV City will, upon completion, be one of the largest Chinese entertainment production facilities in Asia and generate significant synergistic benefits to the existing operations of eSun. In particular, EAST-TV City will place a high priority on producing content for East Asia Satellite Television (EAST), a wholly owned operation of eSun which is scheduled to begin commercial broadcasting in early 2002.

China's real estate market have experienced a reasonable recovery over the past six months as both residential and commercial rentals have embarked on a steady uptrend. The Group is thus optimistic over the prospects for Lai Fung. In particular, rental contributions from both the Hong Kong Plaza and the Tianhe Entertainment Plaza in which Lai Fung has a 25% interest should continue to buttress recurrent cashflow, while the pre-sales of Phase III of Eastern Place as mentioned earlier, and the potential launch of the New Trend Plaza by the end of this year will also prove beneficial. Strategically, Lai Fung's strong asset backing and low financial gearing should nicely position itself for healthy expansion in the mainland in the foreseeable future.

Liquidity and Financial Resources

As at 31st January, 2001, the Group had consolidated bank and other borrowings and bond payables of HK\$5,748 million and consolidated net assets of HK\$3,812 million. The resultant debt to equity ratio was 1.51. The maturity profile of the bank and other borrowings was spread over a period as to HK\$1,802 million repayable or renewable within one year, HK\$1,805 million repayable or renewable between 1 to 2 years and HK\$448 million repayable or renewable between 2 to 5 years.

As at 31st January, 2001 total bank debt of the Group after deconsolidating the listed subgroups' bank debt, had been reduced to HK\$4,055 million, representing a 7.3% fall compared to the balance as at 31st July, 2000. In the meetings of the exchangeable bondholders and convertible bondholders held on 4th August, 2000, the respective bondholders had resolved to approve a debt restructuring proposal put forward by the Group for a deferral of the repayment date to 31st December, 2002, subject to certain conditions specified in the proposal. A 15% (approximately HK\$310 million) and a 2.5% (approximately HK\$52 million) principal repayments were made by the Group on 31st August, 2000 and 31st January, 2001, respectively, to both of the exchangeable bondholders and convertible bondholders in accordance with the terms of the restructuring proposal approved by the bondholders. The total principal of the bond debts was reduced to approximately HK\$1,693 million following the principal repayments.

As at 31st January, 2001, certain investment properties with carrying value of approximately HK\$6,081 million, certain completed properties for sale with carrying value of approximately HK\$40 million, certain properties under development with carrying value of approximately HK\$239 million and certain fixed assets with carrying value of approximately HK\$948 million were pledged to banks to secure banking facilities granted to the Group. In addition, the 285,512,791 ordinary shares of eSun and certain shares in other subsidiaries and associates held by the Group were pledged to the respective lenders to secure loan facilities granted to the Group.

The Group's principal sources of funding comprise mainly internal funds generated from its business operations such as property rental income, proceeds from the sale of development properties and revenue from hotel operations, etc. The Group will continue to streamline its asset portfolio through the disposal of non-core assets as a means for providing necessary working capital and further reducing the level of indebtedness.

The Group continued to adopt a prudent approach in the management of foreign exchange and interest rate exposures. The revenue of the Group was mainly in Hong Kong dollars. The directors believed that the peg against US dollar would be maintained in the foreseeable future. The majority of the Group's borrowings were denominated either in Hong Kong dollars or US dollars thereby reducing exposure to undesirable exchange rate fluctuations. However, the exposure to US dollar liabilities would be closely monitored and hedging instruments might be employed from time to time in order to optimise the exchange risk profile of the Group. On the interest rate front, while all of the bond debts were fixed rate debts, the majority of the bank borrowings were maintained as floating rate debts. As a result, a balanced portfolio of fixed and floating rate debts was maintained to hedge against interest rate volatilities.

Employees and Remuneration Policies

The Group employed a total of approximately 1,100 (as at 31st July, 2000: 1,500) employees as at 31st January, 2001. The significant drop in head count is mainly due to the deconsolidation of Lai Fung subgroup during the period under review. Pay rates of employees are maintained at competitive levels and salary adjustments are made and bonuses are rewarded on a performance related basis. Other staff benefits included a mandatory provident fund scheme for all the eligible employees, free hospitalisation insurance plan, subsidised medical care and subsidies for external educational and training programmes.

Contingent Liabilities

Contingent liabilities not provided for in the financial statements at the balance sheet date were as follows:

	31st January, 2001 (Unaudited) HK\$'000	31st July, 2000 (Audited) HK\$'000
Guarantees given to banks in connection with facilities granted to:		
Associates	270,556	304,443
Investee companies	<u>4,305</u>	<u>31,717</u>
	<u>274,861</u>	<u>336,160</u>

In addition to the above, as at 31st January, 2001, the Group had the following contingent liabilities:

In connection with listing of Lai Fung on The Stock Exchange of Hong Kong Limited (the "Listing"), tax indemnity deeds were entered into between the Company and Lai Fung on 12th November, 1997. Pursuant to the tax indemnity deeds the Company undertook to indemnify Lai Fung in respect of certain potential PRC income taxes and land appreciation taxes ("LAT") payable or shared by Lai Fung in consequence of the disposal of any of the property interests attributable to Lai Fung through its subsidiaries and its associates as at 31st October, 1997 ("Property Interests"). These tax indemnities given by the Company apply in so far as such tax is applicable to the difference between (i) the value of the Property Interests in the valuation thereon by Chesterton Petty Limited as at 31st October, 1997 (the "Valuation") and (ii) the aggregate costs of such Property Interests incurred up to 31st October, 1997 together with the amount of unpaid land costs, unpaid land premium and unpaid costs of resettlement, demolition and public utilities and other deductible costs in respect of the Property Interests.

The indemnity deeds assumed that the Property Interests were disposed of at the value attributed to them in the Valuation, computed by reference to the rates and legislation governing PRC income tax and LAT prevailing at the time of the Valuation. The indemnities given by the Company shall not cover (i) new properties acquired by Lai Fung subsequent to the Listing; (ii) any increase in the relevant tax which arises due to an increase in tax rates or changes to the legislation prevailing at the time of the Listing; and (iii) any claim to the extent the provision for deferred taxation on the revaluation surplus had been made in the calculation of the adjusted net tangible asset value of Lai Fung.

As at 31st January, 2001, there were no such PRC income tax and LAT payable by Lai Fung which were indemnified by the Company under the tax indemnity deeds.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 31st January, 2001, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

CODE OF BEST PRACTICE

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the period for the six months ended 31st January, 2001, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The non-executive Directors of the Company are subject to retirement by rotation and re-election at the Company's Annual General Meeting in accordance with the Articles of Association of the Company. The interim report of the Company for the six months ended 31st January, 2001 has been reviewed by the Audit Committee of the Company.

By Order of the Board
Lam Kin Ngok, Peter
Chairman and President