LAI SUN DEVELOPMENT

Lai Sun Development Company Limited

(Incorporated in Hong Kong with limited liability)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31ST JULY, 2001

RESULTS

The Board of Directors of Lai Sun Development Company Limited announces that the audited results of the Group for the year ended 31st July, 2001 are as follows:

	Notes	**2001** **HK$'000**	2000 HK$'000
TURNOVER	2	**1,899,862**	4,659,663
Cost of sales		**(858,995)**	(4,469,259)
Gross profit		**1,040,867**	190,404
Other revenue		**258,247**	290,480
Administrative expenses		**(609,678)**	(504,747)
Other operating expenses		**(29,292)**	(124,602)
Loss on deemed disposal of subsidiaries	3	**(1,044,781)**	(16,686)
Release of unrealised profit arising on deemed disposal of subsidiaries		**412,556**	—
Provisions for impairments in values of properties under development		**(138,652)**	(338,388)
Provisions for impairments in values of long term unlisted investments		**(71,755)**	(158,587)
Provision for contingent loss in respect of the put options relating to the disposal of a subsidiary in prior year		**(86,000)**	(245,000)
Provisions for impairments in values of associates		**(74,002)**	(50,300)
Write off of goodwill		**—**	(407,822)
Provisions for impairments in values of fixed assets		**—**	(638,170)
Provisions for impairments in values of completed properties for sale		**—**	(383,353)
LOSS FROM OPERATING ACTIVITIES	4	**(342,490)**	(2,386,771)
Finance costs	5	**(638,483)**	(911,077)
Share of losses less profits of associates		**(174,549)**	(189,561)
Share of losses less profits of jointly controlled entities		**—**	(36,790)
LOSS BEFORE TAX		**(1,155,522)**	(3,524,199)
Tax	6	**(30,476)**	16,008
LOSS BEFORE MINORITY INTERESTS		**(1,185,998)**	(3,508,191)
Minority interests		**(10,184)**	750,209
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		**(1,196,182)**	(2,757,982)
LOSS PER SHARE	7		
Basic		**HK$0.32**	HK$0.77
Diluted		**N/A**	N/A

Notes:

1. **BASIS OF PRESENTATION**

The Group sustained a net loss from ordinary activities attributable to shareholders of HK$1,196 million for the year ended 31st July, 2001 (2000: HK$2,758 million). The loss was mainly resulted from the effects of the non-recurring transactions in respect of deemed disposal of its interests in Lai Fung Holdings Limited ("Lai Fung") and eSun Holdings Limited ("eSun").

As at the balance sheet date, the Group had consolidated net current liabilities of HK$975 million (2000: HK$1,589 million), an improvement of HK$614 million, and consolidated net assets of HK$3,866 million (2000: HK$6,382 million).

As reported in the Group's last annual report, in the meeting of the holders of the US$115 million Exchangeable Bonds due in 2004 (the "Exchangeable Bondholders") and the holders of the US$150 million Convertible Bonds due in 2002 (the "Convertible Bondholders") held on 4th August, 2000, the Group successfully obtained the agreement of the Exchangeable Bondholders and the Convertible Bondholders to the restructuring proposal put forward by the Group which included the deferral of the repayment of the bonds' principal to 31st December, 2002. In addition, during the prior year, the Group successfully rescheduled the principal repayments of the borrowings from its principal lending banks under their bilateral facilities. The Group's bond payables and other borrowings have been classified in accordance with the terms in the respective loan agreements and trust deeds prevailing as at 31st July, 2001.

During the year, the Group continued to implement an asset disposal programme (the "Disposal Programme"). The Group disposed of certain properties and equity interest in an associate which generated a total cash inflow of HK$586 million which was used for the repayment of bank borrowings and as working capital of the Group. The Group will continue to implement the Disposal Programme, as appropriate, in the coming year. On the basis that the Disposal Programme continues to be successfully implemented, the directors of the Company consider that the Group will have sufficient working capital to finance its operations in the foreseeable future. Accordingly, the directors of the Company 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. **SEGMENTAL INFORMATION**

An analysis of Group's turnover and contribution/(absorption) to loss from operating activities by principal activities and geographical areas for the year ended 31st July, 2001 is as follows:

	Turnover 2001 HK$'000	Turnover 2000 HK$'000	**Contribution/ (absorption) 2001 HK$'000**	Contribution/ (absorption) 2000 HK$'000
By activities:				
Sale of properties	**596,064**	3,466,069	**76,780**	(897,781)
Property rentals	**511,224**	602,662	**306,501**	424,486
Hotel, restaurant and other operations	**792,574**	590,932	**47,908**	158,952
	1,899,862	4,659,663	**431,189**	(314,343)
Other revenue			**258,247**	290,480
Other operating expenses			**(29,292)**	(124,602)
Loss on deemed disposal of subsidiaries			**(1,044,781)**	(16,686)
Release of unrealised profit arising on deemed disposal of subsidiaries			**412,556**	—
Provisions for impairments in values of properties under development			**(138,652)**	(338,388)
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Write off of goodwill			**—**	(407,822)
Provisions for impairments in values of fixed assets			**—**	(638,170)
Provisions for impairments in values of completed properties for sale			**—**	(383,353)
LOSS FROM OPERATING ACTIVITIES			**(342,490)**	(2,386,771)

	Turnover 2001 HK$'000	Turnover 2000 HK$'000	**Contribution/ (absorption) 2001 HK$'000**	Contribution/ (absorption) 2000 HK$'000
By geographical areas:				
Hong Kong	**1,666,799**	4,296,800	**349,068**	(361,961)
People's Republic of China ("PRC"), excluding Hong Kong	**99,649**	272,232	**18,690**	23,138
Others	**133,414**	90,631	**63,431**	24,480
	1,899,862	4,659,663	**431,189**	(314,343)
Other revenue			**258,247**	290,480
Other operating expenses			**(29,292)**	(124,602)
Loss on deemed disposal of subsidiaries			**(1,044,781)**	(16,686)
Release of unrealised profit arising on deemed disposal of subsidiaries			**412,556**	—
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LOSS FROM OPERATING ACTIVITIES			**(342,490)**	(2,386,771)

3. **LOSS ON DEEMED DISPOSAL OF SUBSIDIARIES**

On 28th November, 2000, Lai Fung Overseas Finance Limited ("LFO"), a wholly-owned subsidiary of Lai Fung, elected to mandatorily convert all the outstanding Lai Fung convertible bonds (the "Lai Fung Convertible Bonds") of US$120,385,000 into shares of Lai Fung of HK$0.10 each (the "Lai Fung Shares") at a conversion price of HK$0.464 per share. 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, the Company's equity interest in Lai Fung fell, by way of dilution, 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.

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, 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 Artiste Campus International Limited (formerly known as Union Holding 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 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 Consideration 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, which represented approximately 50.48% of the then existing issued share capital of eSun. As a result of this transaction, the Company's shareholding percentage in eSun was reduced, by way of dilution, to approximately 49.99%.

As a result of the above transactions, Lai Fung and eSun ceased to be subsidiaries of the Company, and their results ceased to be consolidated in the group's financial statements of the Company immediately following the respective allotment and issue of the new shares of Lai Fung and eSun. A loss on deemed disposals of interests in Lai Fung and eSun of approximately HK$1,044,781,000 was charged to the profit and loss account. In addition, a sum of approximately HK$1,200,542,000 was released from various reserves upon the deemed disposals of interests in Lai Fung and eSun.

4. LOSS FROM OPERATING ACTIVITIES

This is arrived at after charging:

	Group 2001 HK$'000	2000 HK$'000
Depreciation	**38,052**	42,953
Amortisation of goodwill on acquisition of associates	**578**	1,181
Write off of fixed assets	**17,394**	—
Loss on disposal of fixed assets	**2,421**	318
Loss on disposal of interests in associates	**1,651**	—
Loss on disposal of short term listed investments	**1,854**	—
Loss on disposal of short term unlisted investments	**3,353**	—
Loss on disposal of properties under development	**—**	475,321
Loss on disposal of investment properties	**—**	138,805
Loss on disposal of a long term listed investment	**—**	3,500
and after crediting:		
Interest from bank deposits	**(21,363)**	(35,576)
Other interest income	**(153,384)**	(111,228)
Dividend income from listed investments	**(200)**	(823)
Dividend income from unlisted investments	**(10,989)**	(9,155)
Gain on disposal of an investment property	**(205,402)**	—
Gain on disposal of a long term listed investment	**(7,662)**	—
Gain on disposal of subsidiaries	**—**	(81,006)
Gain on disposal of associates	**—**	(22,708)
Gain on disposal of jointly controlled entities	**—**	(6,610)
Gain on disposal of short term listed investments	**—**	(23,634)
Gain on disposal of short term unlisted investments	**—**	(2,056)

5. FINANCE COSTS

	Group 2001 HK$'000	2000 HK$'000
Interest on bank loans, overdrafts and other borrowings wholly repayable within five years	**373,207**	568,908
Interest on amount due to an associate	**25,069**	—
Interest on bonds payable	**38,122**	44,773
Interest on convertible bonds and convertible note	**78,734**	126,607
Less: Amounts capitalised in properties under development	**(69,012)**	(95,719)
Amounts capitalised in associates engaged in property development	**(3,523)**	(6,132)
	442,597	638,437
Provision for premium on bonds redemption	**119,064**	104,527
Provision for premium on note redemption	**10,000**	20,000
Provision for loan repayment premium	**17,500**	—
Bank charges and refinancing charges	**49,322**	148,113
	195,886	272,640
	638,483	911,077

6. 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 year.

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.

	Group 2001 HK$'000	2000 HK$'000
Provision for tax for the year:		
Hong Kong	**38,052**	50,300
Outside Hong Kong	**19**	9,015
Deferred	**(250)**	(500)
	37,821	58,815
Prior year under/(over) provision:		
Hong Kong	**(3,866)**	(14,842)
Outside Hong Kong	**657**	(54,087)
	(3,209)	(68,929)
Associates:		
Hong Kong	**(3,611)**	(5,986)
Outside Hong Kong	**(525)**	92
	(4,136)	(5,894)
Tax charge/(credit) for the year	**30,476**	(16,008)

7. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK$1,196,182,000 (2000: HK$2,757,982,000) and the weighted average number of 3,746,002,000 (2000: 3,588,502,000) ordinary shares in issue during the year.

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

8. 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 1st August, 2000	5,858,164	3,066,784	1,171,429	1,200,000	92,614	72,266	(6,951,830)	4,509,427
Release upon disposal of investment properties	—	(300,402)	—	—	—	—	—	(300,402)
Surplus on revaluation of investment properties	—	136,195	—	—	—	—	—	136,195
Share of revaluation deficits of associates	—	(6,318)	(11,691)	—	—	—	—	(18,009)
Share of reserve of associates	—	—	—	—	3,757	—	—	3,757
Exchange realignments:								
Subsidiaries	—	—	—	—	—	3,174	—	3,174
Associates	—	—	—	—	—	2,190	—	2,190
Jointly controlled entities	—	—	—	—	—	43	—	43
Adjustment for goodwill arising on acquisition of additional interests in subsidiaries in prior year	—	—	—	—	53,663	—	—	53,663
Release upon deemed disposal of subsidiaries	—	(277,423)	(771,989)	—	(137,233)	(13,897)	—	(1,200,542)
Net loss for the year	—	—	—	—	—	—	(1,196,182)	(1,196,182)
At 31st July, 2001	5,858,164	2,618,836	387,749	1,200,000	12,801	63,776	(8,148,012)	1,993,314

9. COMPARATIVE AMOUNTS

Certain items significant to this year's consolidated profit and loss account are disclosed by separate line disclosure on the face of the consolidated profit and loss account. This has resulted in the comparative amounts for these items, which were immaterial to last year's consolidated profit and loss account, being correspondingly reclassified from the other operating expenses category to the separate line disclosure in the 2000 comparative consolidated profit and loss account. Conversely, certain immaterial amounts which were disclosed on separate lines on the face of last year's consolidated profit and loss account, and which have an immaterial balance this year, have been reclassified into the other operating expenses category of the 2000 comparative consolidated profit and loss account.

SUMMARY OF AUDITOR'S REPORT

The Group has completed principal deferral arrangements with the Exchangeable Bondholders and the Convertible Bondholders. During the year ended 31st July, 2001, the Group continued to implement an active asset disposal progamme (the "Disposal Programme"). The auditors, in forming their opinion, have considered the adequacy of the disclosures made in the above "Basis of Presentation" note which explain the circumstances giving rise to concerns regarding the fundamental uncertainties relating to the adoption of the going concern basis of presentation. The financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome of the Disposal Programme. The financial statements do not include any adjustments that would result from the Disposal Programme not being able to be conducted as planned. The auditors consider that appropriate disclosures and estimates have been made in the financial statements and their opinion is not qualified in this respect.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

The Group recorded a consolidated net attributable loss of HK$1,196,182,000 for the year ended 31st July, 2001. Basic loss per share was HK$0.32.

The financial year under review witnessed a substantial deterioration of the overall operating environment, principally led by a worldwide economic slowdown. Property prices softened across the board while transaction volumes on both the sales and leasing fronts have also dwindled. This recessionary sentiment, which have triggered a myriad of interest rate reductions over the past twelve months have, however, helped ameliorate the financial health and thus profitability of the Group. Stripping out the loss realized as a result of the deconsolidation of Lai Fung Holdings Limited ("Lai Fung"), it is apparent that the Group's operating performance have shown marked improvement from the previous financial year.

Business Review

In sympathy with the US economic slowdown and thus a worldwide deflationary trend, the Hong Kong economy gradually lost the forward momentum, with the tragic event on 11 September further exacerbating the situation. Substantial wealth erosion resulted from the collapse of the TMT (Telecommunications-Media-Technology) sectors coupled with the onset of a recessionary economic backdrop inevitably leads to further downturn in real asset prices. Meanwhile, slackened domestic demand and contraction in multinational business activities have also put pressure on the retail, office and hotel sectors to varying extents. A few bright spots did however emerge from this lethargic economic portrayal: the continuous reduction in interest rates and a more active loan syndication market as banks have stepped up their intention to reduce exposure to the increasingly competitive, diminishing margin personal mortgage finance over the course of the year. On balance, Hong Kong's real GDP in 2001 is expected to register a decline in the range of 0.5%–1.5% from the previous year, accompanied by a deflation of 1%–2% and a year-end unemployment rate of close to 6.0%.

Given this difficult economic setting, it is not surprising to see the overall property market exhibiting weakened signs across all sectors on shrinking volumes. Both luxury and mass market residential prices have, on a year-on-year basis fallen in the range of 10%–20%, with prices in the New Territories faring the worst. Commercial and office rentals also showed comparable degree of downward adjustment as premature lease terminations and escalating external uncertainties combined to jack up vacancy and thus put pressure on rental values.

Notwithstanding the unfavourable operating environment, the Group was benefited from the descending interest rate trend which helped alleviate the overall interest expenses by approximately 30% as compared to the same period last year. Meanwhile, debt reduction, a high priority of the Group, continued to feature in the year under review. Total bank debt of the Group dropped by a further 6% to HK$4,354 million as of the end of this financial period, while bond debt exposure had also reduced to a principal amount of US$218.625 million following a further 2.5% principal repayment to convertible and exchangeable bondholders on 31st January, 2001.

While the core property operations of the Group have shown major improvement, the overall bottomline was affected by the deconsolidation of Lai Fung and eSun Holdings Limited ("eSun") during the year under review. The Group's shareholding in Lai Fung was diluted from 74.49% to 25.40% in consequence of the mandatory conversion of the Lai Fung Convertible Bonds and as a result the Group recorded a deemed disposal loss amounting to HK$1,006 million. This was however partially compensated by a release of unrealized profit totalling HK$413 million in respect of prior year intra-group transaction with eSun which is now 49.99% owned by and thus deconsolidated from the Group. Finally, a provision of HK$182 million was taken to reflect the diminution in value of the Group's development landbank.

Property Investment

The Group's investment property portfolio generated gross rental income of HK$459 million for the year, representing a drop of 11% from the previous year. The drop was largely due to the disposal of selective non-core assets such as the Star House and the Garment Centre, as well as mild downward rental reversion for selective investment properties. In reflection of the contrasting performance of the industrial and commercial properties, rental revenues derived from office and retail spaces now represented over 91% of total as against 87% in the previous year.

With the continued strategic disposal of industrial property assets whose prospects are expected to remain gloomy, the size of the Group's investment portfolio have now been reduced to around 2 million square feet. Nonetheless, this streamlined asset base which primarily consists of prime Grade A office and retail properties are well positioned to capitalize on any potential recovery in the foreseeable future. In the meantime, the future redevelopment of the Furama Hotel Hong Kong ("Furama Hotel") in which the Group has a 30% interest, should provide good upside potential looking further out.

Property Development

The Waterfront, the Kowloon Station Package 1 residential development project in which the Group has a 10% interest, was completed in November 2000; selling and leasing of the remaining units have been progressing satisfactorily. Meanwhile, the period under review also witnessed the Group's complete disposal of the Well-found Building, a retail and service apartment project situated at 488 Jaffe Road, Causeway Bay.

Hotels

The hotel sector in Hong Kong suffered from the downturn of the global economic climate and recorded both lower occupancies and room rates. The Furama Hotel recorded an average occupancy rate of 67% between January-September 2001 with an average room rate of approximately HK$980, while the corresponding figures for the 65%-owned Ritz-Carlton Hotel were 66% and HK$1,657. It is noteworthy to mention that the Furama Hotel will officially be closed for demolition on 30th November, 2001. The 25,000 square feet site will be subsequently redeveloped into an office building with GFA exceeding 400,000 square feet, targeted for completion by the year 2005.

Elsewhere, the Group's South East Asian hotel properties made considerable headway during the period under review. The two hotels in Vietnam, namely the Caravelle Hotels situated in Ho Chi Minh City (26.01% interest) and the Furama Resort Danang (62.625% interest) have improved their respective financial performance, and indeed provided positive cashflow contributions to the Group. Meanwhile, the 49%-owned Grand Pacific Hotel in Bangkok have also shown reasonable progress.

China Property

As highlighted previously, the Group's interest in Lai Fung has been reduced to 25.40%. However, the Group remains as the single largest shareholder, and together with Lai Sun Garments (International) Limited, collectively maintains a 46% stake in Lai Fung, demonstrating the Lai Sun Group's commitment of employing Lai Fung as the flagship vehicle to spearhead further expansion into the PRC real estate market.

Lai Fung achieved a net attributable loss of HK$164.6 million for the year ended 31st July, 2001. Turnover declined 16% to HK$161.7 million. The loss was mainly due to the share of loss of the associated companies amounting to HK$62.5 million, as well as a write-off of goodwill arising from the acquisition of an associated company which amounted to HK$37 million. On the operating level, the sales of Phase II of Eastern Place in Guangzhou was slowed as the unsold portion which mainly comprises of larger-size units have taken longer than expected time for the market to absorb. Gratifyingly, leasing demand for the Hong Kong Plaza in Shanghai continued to be robust, with respective occupancies for service apartments, office and retail being further improved to 91%, 85% and 53% as at end-July 2001.

The period under review also saw Lai Fung successfully arrange a USD120 million term loan with The Hongkong and Shanghai Banking Corporation Limited to refinance existing bank loans as well as to early repay the HK$600 million convertible note issued to the Sun Chung Estate Company, Limited, a wholly-owned property investment subsidiary of the Bank of China Group. The refinancing exercise not only demonstrates Lai Fung's strong asset base which will provide more satisfactory return in the foreseeable future, it also allays shareholders' concern over the likelihood of substantial share dilution resulting from the note conversion.

Multimedia

eSun reported a net attributable loss of HK$80.48 million for the six months ended 30th June, 2001. The loss was mainly attributable to a further provision of HK$22.48 million for diminution in value on the 237 million SUNDAY Communications Limited which it owns, a provision of HK$17 million for impairment in value of a subsidiary and a pre-operating loss of HK$8.07 million in relation to the setting up of East Asia Satellite Television Limited ("EAST"), the satellite television operation of eSun.

In sympathy with the reversal in sentiments toward the TMT sector, progress in the development of eSun's internet related business fell short of previous expectations. On the contrary, the company's other media investments have made smooth progress during the period under review: Media Asia Holdings Ltd., of which eSun has increased its interest to 39%, continued to expand rapidly and is now widely recognized, amongst local production and distribution houses, as one of the very few fully integrated Chinese language media content provider with a global orientation. Meanwhile, EAST commenced daily broadcast of programmes on the EAST "Life Channel" on 21st July, 2001, supported by the eSun's media production centre at Aberdeen which commenced operation in the second quarter of 2001 and is capable of producing 1,500 hours of programme per year.

EAST is also constructing a Television City in Macau with a production capacity of approximately 5,000 hours of programme per year. Completion of this project is scheduled for 2003.

Other Strategic Investments

Performance of the Group's other strategic investments continued to be encouraging despite the difficult operating environment. Asia Television Limited ("ATV") in which the Group has a 16.7% interest, recorded improved viewership and operating performance; implementation of adequate cost containment measures have made positive impact on the bottomline. Elsewhere, Sky Connection Limited, the Group's 50%-owned liquor and tobacco duty-free operator which trades under the name "Free Duty", showed reasonable performance with the maiden contribution from its arrival duty-free business providing good enhancement in economies-of-scale. However, tourism recovery is hardly evident, while the steadily dwindling spending per ticket is indicative of the worldwide frugal consumption pattern in sympathy with the global economic climate.

Prospects

It is consensus view that Hong Kong has plunged back into a recession after having muddled through the first leg of the double dip two to three years ago. The general confidence level and investment sentiment is currently more fragile than the peak of the Asian financial crisis. From a cumulative perspective, mass residential property prices have registered an over 20% decline from the same period in 1998, or indeed returned to 1991–92 price levels. Notwithstanding easing interest rates, the exacerbation of the negative equity situation and surging unemployment particularly post the New York calamity would undoubtedly restrain the domestic economy from a quick rebound, not to mention the currency peg which also confines the territory's ability to improve its competitive advantage relative to its Asian peers. A more expansionary fiscal policy in the form of unlocking the reserve coffers would be a much needed incentive to shore up confidence.

In view of this persistent deflationary scenario, the Group will continue to maintain a prudent position in mapping out its overall strategy for the coming year. On the property investment front, prevailing rentals are expected to at best consolidate as new office establishments and demand for retail space are both poised to slow. Nonetheless, the Group's well diversified and prime located investment would be able to maintain high occupancies and generate decent rental income for the coming year.

As for property sales, projects earmarked for sale in Hong Kong for the year 2001/2002 are as follows:

Location	Type	Group Interest	Attributable GFA (sq.ft.)
Rolling Hills (Phase 2) DD105, Ngau Tam Mei, Yuen Long	Residential	50%	38,266
Furama Court		50%	58,172
24–26 Kimberly Road &	Service Apartment		40,858
55–61 Carnarvon Road &	Commercial		17,314
38–40 Kimberley Street Tsimshatsui, Kowloon			

Despite of the short term caution, the Group is reasonably bullish over the medium term outlook for the Grade A leasing market. In particular, prime office-commercial properties should remain in vogue as renewed multinational demand and scarcity of supply in areas such as core Central would fuel capital values. It is based on this projection that the Group endeavors to retain its core property portfolio, while fully committed to teaming up with its partners to redevelop the Furama Hotel which, upon completion, will indubitably erect another landmark in the Hong Kong office market.

As the persistent US-Middle East tension will continue to depress travel activities, the hotel sector is unlikely to experience a major uptick in both rates and occupancies until the second half of 2002. This, together with the demolition of the Furama Hotel, implies that profit contribution from the hotel division is likely to curtail in the coming year.

During the period under review, both the residential and commercial real estate markets in China have undergone a healthy recovery. The continued implementation of housing reform on the back of rising household income have proved to be strong locomotive behind the housing market, while the rapid urbanization of major metropolis have generated strong office and retail demand from multinational companies. Such macroeconomic development bodes well for Lai Fung whose adequate presence in Guangzhou and Shanghai should underwrite reasonable earnings prospects in the foreseeable future.

For the coming year, further improvement in occupancy rate and rental value is expected in respect of the Hong Kong Plaza in which Lai Fung has a 90% stake. On the property development side, the remaining units of Phase II of Eastern Place are expected to be disposed in its entirety, while pre-sales of Phase III which provides total GFA of approximately 80,000 square meter, will commence in 2002.

The Group is optimistic of the prospects of eSun. The combination of scarce quality Chinese content and the rapid development of Pay TV and satellite TV services should bode well for the company, which through the guidance of a competent management team, has now established a formidable presence in this arena and is well positioned to capitalize on the vast multimedia opportunities encompassing Greater China. Notably, eSun will benefit from its associate Media Asia which has established a strong platform for content production and distribution, while the investment in EAST should also prove rewarding. Earlier this year, EAST has lodged an application for a PRC satellite transmission "downlink" license; it is expected that the State Administration of Radio, Film & Television will confirm and announce the licensee list around the end of year-2001.

Liquidity and Financial Resources

As at the balance sheet date, the Group had consolidated bank and other borrowings and bond payables of HK$6,059 million and consolidated net assets of HK$3,866 million. The resultant debt to equity ratio was 1.57. The maturity profile of the bank and other borrowings was spread over a period of 4 years with HK$1,226 million repayable or renewable within one year, HK$2,503 million repayable or renewable between 1 to 2 years and HK$625 million repayable or renewable between 2 to 4 years.

As at the balance sheet date, total bank and other borrowings of the Group after deconsolidating the listed subgroups, had been reduced to HK$4,354 million, representing a 6% fall compared to the previous year. 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. A 15% and a 2.5% principal repayments had been made to both of the Exchangeable Bondholders and Convertible Bondholders on 31st August, 2000 and 31st January, 2001, respectively. Repayment of the outstanding principals of the bonds had been rescheduled to 31st December, 2002 in accordance with the terms and conditions of the proposal approved by the bondholders. The Group's principal lending banks had also agreed to reschedule the principal repayments to 31st December, 2002 under their respective bilateral facilities.

As at 31st July, 2001, certain investment properties with carrying value amounting to approximately HK$6,044 million, certain properties under development with carrying value of approximately HK$75 million and certain fixed assets with carrying value amounting to approximately HK$933 million have been pledged to banks to secure banking facilities granted to the Group. In addition, the entire beneficial holding by the Group of 285,512,791 shares of eSun and 779,958,912 shares of Lai Fung held by the Group and certain other subsidiaries and associates held by the Group have been pledged to banks to secure banking facilities granted to the Group. In addition, pursuant to the terms and conditions of the restructuring of the bonds, the Exchangeable Bondholders will share on a pari passu and pro rata basis, with the Convertible Bondholders the security of a first charge over 130 million shares of ATV beneficially owned by the Company (subject to the Exchangeable Bondholders' existing exchangeable rights) and a second charge over 285,512,791 shares of eSun beneficially owned by the Company. The Exchangeable Bondholders will also share on a pari passu and pro rata basis with the Convertible Bondholders and eSun the security of a limited recourse second charge over 6,500 shares of Diamond String Limited (which owns The Ritz-Carlton, Hong Kong Hotel) beneficially owned by the Company.

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 also 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 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 HK$ or US$ 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 when considered appropriate in order to optimise the exchange rate 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 2,200 (as at 31st July, 2000: 2,600) employees as at 31st July, 2001. The significant drop in head count is mainly due to the deconsolidation of Lai Fung and eSun subgroups during the year. 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, a free hospitalization insurance plan, subsidized medical care and subsidies for external educational and training programmes.

Contingent liabilities

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

	Group		Company	
	2001	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Guarantees given to banks in connection with facilities granted to:				
Subsidiaries	**—**	—	**2,365,501**	2,110,686
Associates	**274,799**	304,443	**274,799**	304,443
Investee companies	**4,301**	31,717	**4,301**	31,717
	279,100	336,160	**2,644,601**	2,446,846
Guarantees given in connection with the issue of convertible bonds	**—**	—	**965,287**	1,161,375
Guarantees given in connection with the issue of bonds	**—**	—	**740,053**	891,250
	279,100	336,160	**4,349,941**	4,499,471

(ii) Pursuant to certain indemnity deeds dated 12th November, 1997 entered into between the Company and Lai Fung, the Company has undertaken to indemnify Lai Fung in respect of certain potential PRC income taxes and land appreciation tax 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 (the "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 assume that the Property Interests are disposed of at the values 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 do not cover (i) new properties acquired by Lai Fung subsequent to the listing of the shares of Lai Fung on The Stock Exchange of Hong Kong Limited (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 that provision for deferred tax on the revaluation surplus has been made in the calculation of the adjusted net tangible asset value of Lai Fung as set out in Lai Fung's prospectus dated 18th November, 1997.

Lai Fung had no LAT payable during the year. No income tax payable by Lai Fung was indemnifiable by the Company during the year.

FINAL ORDINARY DIVIDEND

The Board does not recommend the payment of any final ordinary dividend in respect of the year ended 31st July, 2001 (2000: Nil).

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held on Friday, 21st December, 2001. Notice of the Annual General Meeting together with the Company's 2000–2001 Annual Report will be despatched to the members on or before 28th November, 2001.

PUBLICATION OF INFORMATION ON STOCK EXCHANGE WEBSITE

The Annual Report of the Company, which will contain all the information required by paragraphs 45(1) to 45(3) inclusive of Appendix 16 to the Stock Exchange Listing Rules, will be published on the website of the Stock Exchange on or before 30th November, 2001.

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

Hong Kong, 9th November, 2001