

## Chairman's Statement

quickly emerge into a strong multimedia play with key operating assets comprising:

Assets	Interest (%)	Description
Media Asia Holdings Ltd. ("MAH")	25	Movie production and distribution
Coolala International Limited	50	A 50/50 joint venture with MAH entitling 50 years right to webcast MAH library and future production features
HKATV.com Limited	50	A 50/50 joint venture with Asia Television Ltd. ("ATV") with perpetual right to webcast all ATV library and future programme
Eastweek.com.hk Limited	50	A 50/50 joint venture with Oriental Press Group Limited entitling 50 years right to transmit the library and future contents of Eastweek magazine
SUNDAY Communications Limited	9.87	A major PCS operator in Hong Kong using the popular brandname 'SUNDAY'.

However, this restructuring exercise entails a write-down of certain hotel assets being transferred and subsequently, a provision for diminution in value of the 295 million SUNDAY shares vis-a-vis the acquisition cost. All these caused eSun to report a loss of HK\$885 million in the previous financial year and a further HK\$192 million loss in the first half of the financial year 2000.

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SUNDAY Communications Limited ("SUNDAY"), which operates under the popular brandname 'SUNDAY' and obtained a dual listing on both the Hong Kong Stock Exchange and Nasdaq in March 2000, continued to demonstrate its resilience notwithstanding the stiff competition within the mobile communications arena. The operating performance of SUNDAY have been making substantial progress, with attainment of a break-even position on the EBITDA level expected shortly. Looking ahead, the prospects of SUNDAY should remain promising as its improved financial warchest and core strategy in developing innovative personalized wireless services targeted at consumers' lifestyles should prove rewarding, while the onset of WAP technology and 3G mobile phones will provide further expansion opportunities.

### Other Strategic Investments

Performance of the Group's other strategic investments continued to show healthy progress during the period under review. Asia Television Limited ("ATV") in which the Group has an 16.7% interest, recorded steady viewership while 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 improved performance on the back of a mild revival of tourism. Looking ahead, the prospects of the business will continue to be dependent on further tourism recovery, although the successful procurement of the arrival duty-free business should be able to help achieve better economies of scale and thus operating performance.

### PROSPECTS

The performance of the Hong Kong economy is expected to further expand in a healthy manner, although GDP growth is widely forecast to decelerate to around 4%-5% for the coming year. Meanwhile, in view of the currency peg with the US dollar and still high labour costs, the territory's competitive advantage relative to its Asian peers remain in question. The recent deterioration in investment sentiment coupled with ambiguous government housing policy remarks have also led to the general adoption of a more cautious outlook of the residential property market despite the likelihood of a lower real interest rate environment.

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The Group will thus 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 consolidate after a formidable jump this year, as new office establishments particularly by the high tech companies are poised to slow. Nonetheless, I am confident that the Group's well diversified and prime located investment property portfolio is expected to be able to maintain high occupancies and generate stronger recurrent rental income for the coming year.

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

Location	Type	Group Interest	Attributable GFA (sq.ft.)
The Waterfront 1 Austin Road West Tsimshatsui Kowloon Hong Kong	Residential	10%	158,836
Well-found Building 486-488 Jaffe Road Causeway Bay Hong Kong	Residential Commercial	100%	15,713 11,425 4,288
Rolling Hills (Phase II) DD105, Ngau Tam Mei Yuen Long New Territories Hong Kong	Residential	50%	38,266
Furama Court 24-26 Kimberly Road & 55-61 Carnarvon Road & 38-40 Kimberley Street Tsimshatsui Kowloon Hong Kong	Service Apartments Commercial	50%	58,172 40,858 17,314

Short term caution notwithstanding, I am reasonably sanguine over the medium term outlook for the local property market. In

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particular, prime office-commercial and residential properties should remain in vogue as sustained multinational demand and scarcity of supply would fuel capital values respectively. It is based on this projection that the Group endeavors to retain its core property portfolio so as to benefit from this anticipated trend and create more shareholder value.

Meanwhile, the Group is currently in discussion with its joint venture partners with regard to the Furama redevelopment project. This key project would enable the Group to fully capitalize on the medium term cyclical upswing, thus further strengthening the Group's financial position and asset backing.

The real estate market in China is experiencing a turnaround in year 2000, and I believe this growth momentum is sustainable due to the continued implementation of the housing reform and China's likely attainment of the WTO status. On the property development side, Phase III development of the Eastern Place is now underway, with the size of the development increases to approximately 80,000 sq.m. The management expects pre-sale of Phase III to commence in the second quarter of year 2001. Moreover, the foundation work of the New Trend Plaza in Guangzhou is almost completed and the pre-marketing program of this flagship Ginza-type project will commence in the first quarter of year 2001. Tentatively, the office portion and basement retail portion will be sold while the remaining retail portion will be held by the Group for investment purpose. With the strategic alliance with the Bank of China Group, the Company has obtained Renminbi project financing for the above projects.

In November this year, the Lai Fung US\$150 million convertible-bond (with a current outstanding balance of US\$120.4 million) will be due for maturity. According to the terms of the bonds, the Company may elect to redeem the bonds or to convert the outstanding bonds into shares of Lai Fung at a conversion price equal to the average closing price of the shares over the period of 30 consecutive dealing days prior to 28th November, 2000. With the dual intention of reducing interest expenses and utilizing capital for project funding purpose, the directors of the Company consider that it is in the interest of Lai Fung to exercise its option of mandatorily converting all the outstanding bonds into equity to further enlarge its equity and shareholding base while reducing its interest expenses. A notice detailing the eventual

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board decision and the conversion procedures will be dispatched to bondholders on or immediately after 28th November, 2000.

The Group is extremely hopeful of the prospects of eSun, which, through a string of timely acquisitions and alliances, has positioned itself as one of the premier Asia Pacific multimedia company. The combination of scarce quality Chinese content and the rapid development of Pay TV and satellite TV services in both Hong Kong and China should bode well for eSun. The company will leverage on its exclusive partnerships with ATV, Oriental Press Group Limited and Media Asia Holdings Ltd. to establish an unrivaled platform for content production and distribution. I am extremely optimistic over developments on this front and believe eSun will deliver meaningful contribution to the Group in the foreseeable future.

At the time of writing, eSun, as part of its expansion plan, is contemplating a one-for-two rights issue following the proposed one-for-five share consolidation. The proceeds, which will not be less than HK\$160 million, are intended mainly for the setting-up of a programme production centre in Hong Kong and the proposed acquisition of a site in Macau for development of a multi-purpose production complex for production of television dramas and movies. It is the intention of the Board that if the rights issue proceeds as scheduled, the Company will take up its entitlement in full to maintain its controlling equity shareholding in eSun.

### LIQUIDITY AND FINANCIAL RESOURCES

The Group sustained a consolidated net loss attributable to shareholders of HK\$2,758 million for the year ended 31st July, 2000. As at that date, the Group had consolidated bank and other borrowings and bond and note payables of HK\$8,223 million and consolidated net assets of HK\$6,382 million. The resultant debt to equity ratio was 1.29. The maturity profile of the bank and other borrowings was spread over a period of 5 years with HK\$2,065 million repayable or renewable within one year, HK\$357 million repayable or renewable between 1 to 2 years and HK\$2,218 million repayable or renewable between 2 to 5 years.

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As at the balance sheet date, total bank debt of the Group after deconsolidating the listed subgroups' bank debt, had been reduced to HK\$4,374 million, representing a 21% 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. The proposal included, among other things, a 15% principal repayment on 31st August, 2000 to both of the exchangeable bondholders and convertible bondholders together with certain other terms and conditions in exchange for a deferral of the remaining bond repayments to 31st December, 2002. Bond debts were further reduced to US\$225 million in principal following the 15% principal repayment on 31st August, 2000. 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, 2000, certain investment properties with carrying value amounting to approximately HK\$7,790 million, certain properties under development with carrying value of approximately HK\$522 million, certain completed properties for sale with carrying value amounting to approximately HK\$369 million and certain fixed assets with carrying value amounting to approximately HK\$917 million have been pledged to banks to secure banking facilities granted to the Group. In addition, the entire holding by the Company of 779,958,912 shares of Lai Fung and 942,813,306 shares out of the 951,709,306 shares of eSun 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.

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.

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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 from time to time 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.

### CONTINGENT LIABILITIES

Details of contingent liabilities of the Group at the balance sheet date are set out in note 37 to the financial statements.

### EMPLOYEES AND REMUNERATION POLICIES

The Group employs a total of approximately 1,500 employees. The total staff costs including net pension contributions for the year was approximately HK\$231 million. Pay rates of employees are maintained at competitive levels and salary and bonuses are rewarded on a performance related basis. Other staff benefits included both contributory and defined benefit provident fund schemes, free hospitalisation insurance plan, subsidised medical care and subsidies for external educational and training programmes.

This has been another eventful year for the Group, and I would like to take this opportunity to thank the shareholders of the Company for their continued support to the Group. At the same time, my appreciation also goes to fellow Board colleagues and all staff members of the Group for their hardwork and contribution during the year.

**Lam Kin Ngok, Peter**  
*Chairman and President*

Hong Kong  
20th November, 2000