

## Chairman's Statement

While we have not been able to finalize the form and structure of this proposal at the time of writing, we are confident that an interim agreement would be reached amongst all parties before the end of this year, with the technicalities to be sorted out in the early part of 2003. We will keep all shareholders promptly informed of future developments on this front, and we are extremely hopeful that the conclusion of this restructuring exercise will result in a substantial improvement in the shareholders' value of the Group.

### LIQUIDITY AND FINANCIAL RESOURCES

As at the balance sheet date, consolidated bank and other borrowings, inclusive of the amount due to eSun of HK\$1,500 million, and bond payables of the Group amounted to HK\$7,144 million (2001: HK\$7,560 million). Consolidated net assets of the Group as at the same date was HK\$766 million (2001: HK\$3,866 million). The resultant debt to equity ratio increased significantly to 9.33.

As reported in last year's annual report, in the meetings of the exchangeable bondholders and convertible bondholders held on 4th August, 2000, the respective bondholders 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% and a 2.5% principal repayments were made by the Group 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 in prior year to reschedule the principal repayments to 31st December, 2002 under their respective bilateral facilities. As at the balance sheet date, total bank and other borrowings of the Group amounted to HK\$3,938 million, representing a 10% fall from the balance as at 31st July, 2001. The maturity profile of the bank and other borrowings was spread over a period of 3 years with HK\$2,445 million repayable or renewable within one year, HK\$64 million repayable or renewable between 1 to 2 years and HK\$1,429 million repayable or renewable between 2 to 3 years.

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As the bulk of the indebtedness is falling due on 31st December, 2002 and the amount due to eSun of HK\$1,500 million is also due for repayment on the same day, the consolidated net current liabilities of the Group as at the balance sheet date increased significantly to HK\$6,193 million. The Group will continue to implement appropriate asset disposal programme with a view to generating positive cash flows for providing sufficient working capital for the Group's operations and to further reduce its overall level of indebtedness. The Group has been working closely with its legal and financial advisors in formulating a plan for the repayment and/or refinancing of the outstanding indebtedness. Recently, the Group initiated discussion with the Exchangeable Bondholders, Convertible Bondholders and eSun to explore the terms of a new debt restructuring plan (the "New Restructuring Plan"). The Group has also initiated negotiations with its principal banks with a view to arranging a rescheduling and/or refinancing of bank borrowings (the "Refinancing Arrangements"). As of the date of approval of these financial statements, no fixed terms or binding agreements in respect of the New Restructuring Plan or the Refinancing Arrangements had been agreed upon or executed.

The Directors of the Company believe that the Group will be able to secure the agreement of the Exchangeable Bondholders, the Convertible Bondholders, eSun and the banks to the New Restructuring Plan and the Refinancing Arrangements and, at the same time, continue the successful orderly disposal of the necessary Group assets to generate additional positive cash flows. On this basis, the Directors consider that the Group will have sufficient working capital to finance its operations in the foreseeable future.

As at the balance sheet date, certain investment properties with carrying value of approximately HK\$4,981 million, certain properties under development with carrying value of approximately HK\$75 million and certain fixed assets with carrying value of approximately HK\$931 million were pledged to banks to secure banking facilities granted to the Group. In addition, the entire beneficial holding by the Group of 285,512,791 ordinary shares of eSun, the entire holding of the

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shares of Peakflow Profits Limited together with its 30% holding in the shares of Bayshore Development Group Limited, the joint venture company for the AIG Tower project and certain shares in other subsidiaries, associates and investee companies held by the Group were also pledged to banks and other lenders to secure loan facilities granted to the Group. In addition, pursuant to the terms and conditions of the bonds, the Exchangeable Bondholders will share on a pari passu and pro rata basis with the Convertible Bondholders the security 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) 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 investment and development properties and revenue from hotel and restaurant operations.

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 currency 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. 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.

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### EMPLOYEES AND REMUNERATION POLICIES

The Group employed a total of approximately 1,700 (as at 31st July, 2001: 2,200) employees as at 31st July, 2002. The significant drop in headcount is mainly due to the cessation of operation of Furama Hotel Hong Kong for its redevelopment 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

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

### CONCLUSION

Amidst difficult times, I would particularly 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 diligence and contribution.

Lam Kin Ngok, Peter  
*Chairman and President*

Hong Kong  
8th November, 2002