Chairman's Statement

Chairman and President LAM Kin Ngok, Peter

RESULTS

The Group recorded a consolidated net attributable loss of HK$461 million for the year ended 31st July, 2003 (2002: HK$1,942 million). Basic loss per share was HK$0.12 (2002: HK$0.52).

The operating environment for the year under review remained difficult, with the outbreak of Severe Acute Respiratory Syndrome ("SARS") bringing business activities to a virtual standstill in the early part of this year. Meanwhile, continued deflationary pressure resulting from wage decline and a further contraction in domestic demand have put additional pressure on office and retail rentals to which the Group is heavily exposed. Consequently, the Group has suffered from lower rental income, as well as losses incurred from provisions taken in respect of its development landbank during the period under review. Furthermore, the Group also realized a loss on the disposal of its 32.75% interest in Asia Television Limited ("ATV"), a transaction which was completed in July 2003.

DIVIDENDS

The Directors do not recommend payment of a dividend for the current financial year.

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BUSINESS REVIEW

Volatility, in terms of both activity and sentiment, was the main feature of Hong Kong for the period under review. Local business confidence sunk to an all time low in the early part of the year, especially when the SARS outbreak exacerbated the already fragile sentiment, causing irreparable damage to almost every facet of the economy, obviously with the tourism related industries being hardest hit — an all-time high unemployment rate of 8.7% in the second quarter, an average hotel occupancy of 20% and an almost 70% year-on-year decline in airport passenger volume in the month of April were just some of the anecdotal evidences illustrating the severity of the downturn. Naturally, local deflationary pressure further intensified — indeed Hong Kong has just recorded its 59th consecutive month of deflation, the longest ever. It is, however, gratifying to see a reasonable economic rebound since August 2003, fuelled by China's strong economic support to Hong Kong through the signing of the Closer Economic Partnership Arrangement ("CEPA") and the relaxation of mainland tourists' restrictions into the territory.

The overall property market echoed with this economic setting as it exhibited weakened signs across all sectors on shrinking volumes in the first half of 2003, only to see signs of stability in tandem with a recovery in business activities lately. As compared to the same period last year, residential property prices in general are estimated to have fallen by 5% for the luxury market, and 10% for the mass market. Meanwhile, commercial and office rentals remained the underperformers, exhibiting a 15%-20% decline on the same basis of comparison.

Thanks to the continued low interest rates and further disposal of non-strategic assets, the Group managed to reduce its overall interest expenses by almost 9%. Notwithstanding, the extent of debt reduction vis-à-vis the Group's asset base remained unsatisfactory and further disposals and/or debt restructuring would be necessary in order to re-establish a stable financial platform. As of July 2003, total bank and other debt of the Group stayed at HK$3,984 million. Together with bond debt of HK$2,141 million (including accrued premium) and an intercompany debt owed to associate eSun Holdings Limited ("eSun") in the amount of HK$1,500 million, total borrowings of the Group remained at a high of HK$7,625 million (2002: 7,797 million).

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In addition to being beleaguered by the still high financial expenses, the HK$461 million loss recorded in the period under review was also attributable to a HK$52 million provision taken in respect of its development landbank, an overall loss of almost HK$100 million resulting from the sale of the Group's 32.75% interest in ATV, and a HK$104 million net loss on deemed disposal of eSun in consequence of the latter's allotment of consideration shares to acquire an additional interest in Media Asia Holdings Ltd. ("MAH"), which allotment diluted the Company's interest from 49.99% to 42.54%.

Property Investment

The Group's investment property portfolio generated gross rental income of HK$390 million for the year, representing a drop of 6% from the previous year. The drop was largely due to the absence of contributions from Crocodile Houses 1 and 2 which were sold in July last year, as well as downward rental revision for the key investment properties; this was however partly compensated by maiden rental contribution from the Majestic Centre which was acquired by the Group in November 2002. Given the superior locations of the Group's investment properties, overall vacancy remained at a low 5% which is very respectable given the uninspiring form of the overall leasing market.

Property Sales

While it was a relatively lacklustre year in respect of property development, the Group on the other hand managed to conduct a few strategic disposals in the year of 2003. In March 2003, the Company's wholly-owned subsidiary, Peakflow Profits Limited, disposed a further 20% of its interest in Bayshore Development Group Limited which owns the site at 1 Connaught Road, Central, Hong Kong (or the former Furama Hotel site). The transaction effectively reduced the Group's indebtedness by HK$416.7 million previously owed to Grand Design Development Limited, the purchaser which was jointly controlled by American International Assurance Company (Bermuda) Limited and Somerset Mall Pte. Limited. Secondly, the Group sold the Lai Sun Yuen Long Centre for a total consideration of HK$89 million in July 2003 and the transaction was completed in August 2003. Finally, the Group, through a private tender, successfully disposed Causeway Bay Plaza 1 to The Wing On Properties and Securities Company Limited for a total consideration of HK$1,200 million; the disposal was unanimously approved by shareholders on 29th September, 2003 and was completed on 23rd October, 2003. All the transactions were demonstrative of the Group's genuine

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commitment to reduce its level of indebtedness, while hoping to reach a consensual restructuring with its creditors in the foreseeable future. More details regarding the progress of restructuring will be divulged in a later section.

Hotels

In sympathy to the SARS outbreak, the hotel sector in Hong Kong was hard hit during the first half of 2003. For the seven months ended July 2003, the Group's 65%-owned The Ritz-Carlton Hong Kong achieved an average occupancy of 45.6% and an average room rate of HK$1,520, as compared to 72.0% and HK$1,570 recorded in the previous corresponding period.

Meanwhile, performance of the Group's hotel operations in Vietnam was also negatively impacted by the huge decline in tourist volume during the same period. Notwithstanding, the two hotels, namely the Caravelle Hotel situated at Ho Chi Minh City (26.01% interest) and the Furama Resort Danang (62.625% interest) still managed to provide positive contributions to the Group.

eSun

eSun reported a net attributable loss of HK$46.721 million for the six months ended June 2003. The loss was mainly attributable to a HK$25.23 million operating loss recorded by East Asia Satellite Television Limited ("EAST"). However, it is gratifying to see the media and entertainment businesses of eSun displaying a turnaround during the period under review and recorded a profit of HK$5.855 million which compared favourably with the HK$12.6 million loss sustained in the same period last year. Finally, a suspension in interest payment from Furama Hotel Enterprises Limited ("FHEL"), a wholly-owned subsidiary of the Company, on approximately HK$1,500 million debt due from FHEL with effect from 1st January, 2003, had also adversely impacted the results of eSun.

During the period under review, EAST, despite continued losses, has made reasonable headway in terms of cost control and program distribution; for the latter, programmes produced by EAST are now being offered to subscribers of NOW Broadband TV of PCCW Limited. Additionally, EAST has also successfully marketed its services of providing broadcasting facilities and know-how to outside clients.

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As for media and entertainment, MAH in which eSun maintains a 49.77% interest, recorded an operating loss in the interim period. Meanwhile, on the back of strong distribution income growth, East Asia Entertainment Limited ("EAE"), a wholly-owned subsidiary, operated profitably notwithstanding depressed consumer spending due to the SARS outbreak.

On 29th January, 2003, the Group put forward a proposal for the privatization of eSun by way of a Scheme of Arrangement under Section 99 of the Companies Act 1981 of Bermuda at a price of HK$0.28 per share ("the Scheme"). At a meeting of the Scheme shareholders of eSun held on 30th April, 2003, the resolution for approving the Scheme was not approved in accordance with the relevant requirements under the Companies Act of Bermuda and the Hong Kong Code on Takeovers and Mergers. The Scheme thus could not be put into effect and hence had lapsed.

ATV Disposal

On 8th November, 2002, the Group entered into an agreement with Dragon Goodwill International Limited ("the purchaser") to dispose of its entire 32.75% interest in ATV and a 50% interest in HKATV.com Limited for a cash consideration of HK$360 million. The purchaser is an independent third party and is controlled by one of the existing shareholders of ATV, Mr. Chan Wing Kee. On 14th May, 2003, the Group agreed with the purchaser to amend the terms of the sale, notably the consideration in respect of the purchase was reduced to HK$230 million. The revised transaction was respectively approved by bondholders and shareholders of the Group and completion of the transaction took place on 25th July, 2003.

PROSPECTS

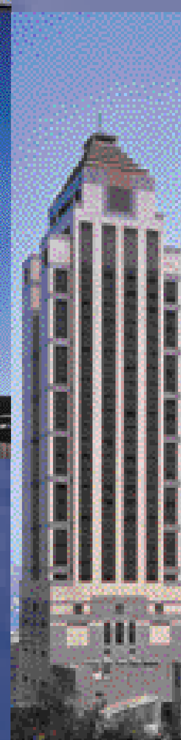
Despite of the improved sentiment, the economic outlook for Hong Kong remains highly uncertain. With the absence of effectively wage containment measures and a substantial reduction in land sales revenue, the Government's persistent fiscal deficit problem will remain a feature in the short-to-medium term. Meanwhile, the still high unemployment rate will stay as an issue of no easy remedy. The bright spot in an otherwise dull economic environment will very much hinge upon China, with which the Hong Kong's unique privilege of securing closer economic ties will no doubt spur investment demand and sentiment.

Furama Court

Majestic Hotel

East Asia Satellite TV City, Macau
(artist impression)

Cheung Sha Wan Plaza



The Ritz-Carlton
Hong Kong

Causeway Bay Plaza 2

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The residential property market has been showing signs of recovery lately, albeit mild. Given the fast depletion of the Group's development landbank, however, the property sales schedule will remain thin looking further out. The tentative projects earmarked for sale (or pre-sale) in Hong Kong for the year 2003/2004 are as follows:

Location	Type	Group Interest	Attributable GFA (sq.ft.)
Rolling Hills (Phase 2) DD105, Ngau Tam Mei Yuen Long	Residential	50%	38,010
Furama Court 24-26 Kimberly Road & 55-61 Carnarvon Road & 38-40 Kimberley Street Tsimshatsui, Kowloon	Service Apartment Commercial	50%	41,570 15,238 56,808

As supply continues to outpace demand, the prevailing cautious sentiment over the office and commercial market is likely to linger on, amongst which the Grade A office leasing market is expected to remain as the prime casualty given destitute multinational demand and still abundant supply. Indeed, due to the competitive environment, the average rental in Central registered an almost 15% decline in the third quarter of 2003, while other sub-markets in the Hong Kong Island also fell by around 5%-6%. Based on this projection and coupled with the disposals of Crocodile Houses 1 and 2, Lai Sun Yuen Long Centre and Causeway Bay Plaza 1, the Group's rental income would dwindle substantially in the coming year, and it would not be until late 2005 when the expected completion of the AIG Tower (i.e. in which the Group retains a 10% interest) would provide fresh contribution to the Group.

Thanks to the stronger than expected tourism arrival levels starting from August onward, the short term prospects of the overall hotel industry appear to be more promising vis-à-vis last year, with both occupancy and room rates likely to show reasonable improvement. The Ritz-Carlton Hong Kong should be a major beneficiary of this favourable trend, while the Majestic Hotel should also turn in better performance although competition in the three-star segment will remain very intense. We are equally

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optimistic of the performance of our twin Vietnamese hotels whose respective excellent and unique location will serve as strong competitive advantage in the marketplace.

The Group is guardedly optimistic of the prospects of eSun. While still awaiting relevant PRC authorities' approval for a satellite television downlink license, EAST stands to benefit, as a content provider, from the growing number of new players in the Pay TV market. Meanwhile, MAH will be a major beneficiary of CEPA given China's likelihood of relaxing its quota system for locally produced films. With the recent production launches being met with a warm reception, we are confident that MAH will provide positive contributions to eSun in the second half of 2003. Finally, in tandem with the improving consumer sentiment, eSun's entertainment vehicle EAE is expected to show a significant increase in revenue as compared to the first half of 2003.

GROUP RESTRUCTURING

With the continued devaluation of the Group's investment properties and the loss sustained for the year under review, the Group, as at the balance sheet date, recorded a consolidated net deficiency in assets of HK$374 million (2002: net assets of HK$766 million). Riding on a still high debt level of HK$7,625 million, it is obvious that a substantial debt restructuring program would be essential to re-position the Group with a cleaner bill of financial health. As a matter of record, the Group has defaulted in the settlement of both the Convertible Bonds and Exchangeable Bonds and the debt due to eSun; these defaults have in turn triggered cross defaults under all of the Group's other borrowing facilities. Consequently, all bank and other borrowings have been classified under current liabilities.

The Group has been negotiating with all creditors since late 2002 with a view to achieve a consensual debt restructuring agreement which if successful, will see a substantial portion of its indebtedness being repaid by a combination of cash, equity and certain property assets. Since then, the overall progress has unfortunately been marred by the SARS outbreak as well as the delay in completing the sale of ATV. Subsequent to the financial year-end, however, negotiations have resumed its normal course and the differences amongst various parties in respect of the form and value of settlement have narrowed. We envisage to hold a formal bondholders' meeting before the end of 2003, and we are hopeful that, barring unforeseen circumstances, an overall agreement would be reached amongst all parties before the first

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quarter of 2004. We will keep all creditors and shareholders promptly informed of future developments, and we sincerely look forward to the conclusion of this restructuring exercise which will result in a substantial improvement in the shareholders' value of the Group.

LIQUIDITY AND FINANCIAL RESOURCES

As at the balance sheet date, the Group had outstanding borrowings of approximately HK$7,625 million (2002: HK$7,797 million) comprising (i) secured bank loans and other borrowings of approximately HK$3,957 million, (ii) an accrued loan repayment premium of approximately HK$27 million under a loan facility, (iii) an outstanding amount of approximately HK$881 million payable under the Exchangeable Bonds (principal of HK$622 million and accrued bond redemption premium of HK$259 million) and (iv) an outstanding amount of approximately HK$1,260 million payable under the Convertible Bonds (principal of HK$907 million and accrued bond redemption premium of HK$353 million) and (v) an amount due to the eSun Group of approximately HK$1,500 million. Consolidated net deficiency in assets of the Group as at the same date was HK$374 million (2002: net assets of HK$766 million). The deterioration in the Group's net asset position was mainly resulted from the devaluation of the Group's investment properties and the operating loss incurred during the year. The Group has defaulted in the settlement of both the Convertible Bonds and the Exchangeable Bonds and the debt due to eSun. Such defaults, in turn, have triggered cross defaults under all of the Group's other borrowing facilities. As such, all bank and other borrowings have been classified under current liabilities in the consolidated balance sheet.

As at the balance sheet date, certain investment properties with carrying value of approximately HK$4,497 million, certain fixed assets with carrying value of approximately HK$1,468 million and certain cash deposits with banks of approximately HK$120 million were pledged to banks to secure banking facilities granted to the Group. In addition, 285,512,791 ordinary shares of eSun, the entire holding of the shares of Peakflow Profits Limited together with its 10% shareholding in and its advance to 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 Exchangeable Bonds and the Convertible Bonds, the

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Exchangeable Bondholders share on a pari passu and pro rata basis with the Convertible Bondholders the security charge over a second charge over 285,512,791 shares of eSun beneficially owned by the Company. The Exchangeable Bondholders 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 secured bank and other borrowings were also secured by floating charges over certain assets held by the Group.

The Group is still in its ongoing discussions with all of its financial creditors on a consensual debt restructuring plan. The Group is currently under a period of informal standstill. Up to now, neither the Exchangeable Bondholders, the Convertible Bondholders, eSun nor its other financial creditors has taken any action to enforce their respective securities and other rights. The directors of the Company are optimistic that the Group will be able to secure the agreement of all its financial creditors to a consensual debt restructuring plan by the end of the first quarter of 2004.

The Group's principal sources of funding remain mainly funds generated from its business operations including property rental income, proceeds from sale of investment and development properties and revenue from its hotel and restaurant operations. The Group will continue to implement its orderly disposal of assets, including properties and other investments to provide working capital of the Group's operation. The Directors believe that the currency peg to US dollar would be maintained in the foreseeable future. The majority of the Group's borrowings are denominated either in Hong Kong dollars or US dollars thereby avoiding exposure to undesirable exchange rate fluctuations. On the interest rate front, the majority of the bank borrowings are maintained as floating rate debts. The current low interest rate environment has benefited the Group in relieving to some extent the interest burden of the Group. The Directors are of the view that increase in interest rate in the ensuing year will be moderate. However, the market situation will be closely monitored such that hedging instruments may be employed as and when necessary.

EMPLOYEES AND REMUNERATION POLICIES

The Group employed a total of approximately 1,900 (as at 31st July, 2002: 1,700) employees as at 31st July, 2003. The increase in headcount is mainly due to the acquisition of the Majestic Hotel and Majestic Centre at 348 Nathan Road, Kowloon, Hong

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Kong 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 loyal 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
7th November, 2003