Chairman's Statement

Chairman and President LAM Kin Ngok, Peter

RESULTS

The Group registered a consolidated net attributable loss of HK$2,758 million for the year ended 31st July, 2000. Basic loss per share was HK$0.77.

The financial year under review witnessed a gradual recovery of the operating environment of the Group as property prices, notably of the commercial and office sectors, showed reasonable improvement. However, with the consistent priority of cash generation over profitability in order to lessen the debt level, the Group continued to implement an aggressive disposal program during the period under review and thus suffered from losses arising from property sales. In addition, provisions for diminution in the values of the Group's properties together with still high interest expenses continued to have a negative impact on the bottomline.

DIVIDENDS

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

Chairman's Statement

BUSINESS REVIEW

The business environment of Hong Kong, albeit showing minor improvement, turned out to be very unstable during the period under review. The impetus behind such volatility is apparent — the substantial appreciation in values of high-tech assets and thus an unprecedented process of wealth creation have proved to be short-lived. In tandem with global vagaries, business valuation of the TMT (Telecommunications-Media-Technology) assets virtually collapsed at the time of writing as investors quickly re-divert their focus back to "old economy" assets. These undesirable volatilities have in turn negatively affected consumption and investment sentiments of the domestic economy. Liquidity derived from the equity markets also dissipated while the debt market players remained in a state of vigilance. On the interest rate front, despite short term stability, US interest rates saw no signs of subsiding and thus caused real interest rates in Hong Kong to remain stubbornly high. Given this operating environment, it is not surprising to see the overall property market also exhibiting signs of mixed sentiment. While capital values in the luxury residential sector have rebounded briskly on the back of the wealth effect, prices for the mass market remained uninspiring. Commercial and office rentals, meanwhile, showed reasonable improvement with strong take-up of Grade A office spaces being one of the most prominent features.

On the back of such economic performance, the Group continued to place a strong emphasis on cash generation in order to lessen the overall debt position. Total bank debt of the Group, after deconsolidating subsidiary debt, have dwindled by a further 21% to HK$4,374 million as of the end of this financial period principally resulted from a partial divestiture of the Group's interest in Furama Hotel Hong Kong. Bond debt exposure had also further reduced to US$225 million following a 15% principal repayment on 31st August, 2000 in accordance with the Group's restructuring scheme which will be highlighted in a later section.

However, the overall debt restructuring program was successfully achieved at the expense of profitability. For the full year, the Group recorded a net attributable loss of HK$2,758 million, of which HK$974 million were due to losses arisen from property disposals, largely attributed to the disposal of a substantial

Chairman's Statement

interest in the Furama Hotel which realized a loss of approximately HK$455 million. Meanwhile, a provision of approximately HK$469 million was also taken to reflect the diminution in value of the Group's property development landbank.

The Group also prudently made a write-off of HK$408 million against goodwill arising from the acquisition of technology assets. Finally, the Group was impacted by losses incurred by its 50.48%-owned subsidiary Lai Sun Hotels International Limited ("Lai Sun Hotels"), now renamed eSun Holdings Limited ("eSun"), which reported 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.

Property Investment

Despite the improving conditions of the leasing market, the Group's 3 million sq.ft. investment property portfolio generated gross rental income of HK$516 million for the year, representing a drop of 15% from the previous year. The drop was largely due to the still uninspiring form of the industrial market to which the Group has reasonable exposure, as well as the disposal of selective industrial properties such as the Yuen Long Godown which alone contributed HK$12 million in the previous year. Gratifyingly, the retail and office rentals have shown signs of improvement and we expect overall rental receipts to stabilize in the coming year. As a result of the contrasting performance of the industrial and commercial properties, rental revenues derived from office and retail spaces now represented approximately 86% of total as against 84% in the previous year.

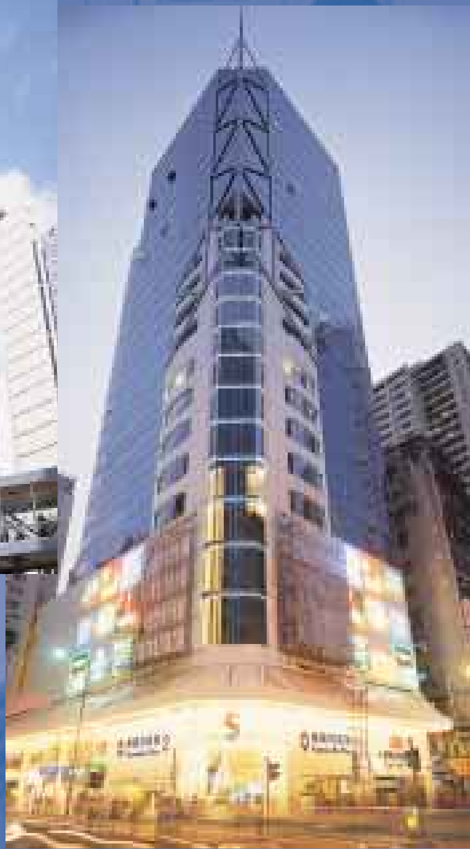
Given the continued weakness of the industrial market of which no easy remedy exists, it is the Group's intention of further reducing exposure to this sector through disposals and active exploration of the possibility of rezoning certain properties into commercial and/or residential usage.

Property Development

The main feature of the Group's property development activities for the period under review was the joint venture agreement in relation to Furama Hotel Hong Kong. On 24th March, 2000, the Group announced that it has signed a conditional agreement to

Causeway Bay Plaza 1

Causeway Bay Plaza 2



Cheung Sha Wan Plaza

Crocodile House 1 & 2

Lai Sun Commercial Centre

Chairman's Statement

dispose of a 65% interest in Furama Hotel Hong Kong to a 50-50 joint venture company formed between Pidemco Land and American International Group, for a net consideration of approximately HK$1,881 million. With all necessary approvals and conditions being obtained and satisfied respectively, the transaction was completed on 31st July, 2000. At the time of writing, the Group sold a further 5% interest to its partners to reduce its interest in this joint venture redevelopment project to 30%. It is envisaged that this hotel property will be redeveloped into a Grade-A office building with gross floor area of around 400,000 sq.ft.. This project is highly positive to the Group as it not only provides a platform for strategic alliance with two reputable investors, it is also in line with the Group's priority of debt reduction and cashflow generation. However, such divestiture and partnership have, as mentioned earlier, resulted in a net realizable loss of HK$455 million booked in the current financial year.

On the residential property front, Phase I of Rolling Hills, the 50%-owned luxury residential project located at Ngau Tam Mei, Yuen Long, was completed during the year. Sales reception was extremely warm as all 16 houses were snapped up within a short period of time. Phase II of the project is currently in the planning stage and should commence construction shortly. Meanwhile, the Group's 10% investment in The Waterfront, the Kowloon Station Package 1 residential development project, have been showing good progress, with the entire project targeted for completion by the end of this year.

Finally, the disposal of the industrial/commercial site situated at 789 Cheung Sha Wan Road was completed in March 2000, while subsequent to year-end the Group have also successfully completed the disposal of its entire interest in Star House in September 2000. Both disposals are in line with the Group's strategy of reducing its debt through trimming its exposure to non-core investment properties, thus enhancing the overall portfolio quality to better capitalize on the strength of the commercial/office market.

Group Restructuring

The Board is pleased to announce that the Group's proposed restructuring scheme as highlighted at the interim stage was approved by all parties, comprising the Group's major lending banks, shareholders of both the Group and eSun, and bondholders. The scheme, in summary and essence, includes the following:

(i) an asset swap agreement between the Group and eSun pursuant to which all hotel related assets, notably including a 65% interest in The Ritz-Carlton Hong Kong, were transferred to the former in exchange for certain technology assets which amongst others, include a 9.87% interest in SUNDAY Communications Limited and a 25% interest in HKATV.com Limited;

(ii) a 15% principal repayment to both the convertible and exchangeable bondholders on 31st August, 2000 together with certain terms and conditions agreed by respective parties in exchange for a deferral of the remaining bond repayments to 31st December, 2002; and

(iii) an agreement with the principal lending banks of the Group to defer the repayment of a substantial portion of its bank loans to 31st December, 2002.

The Board strongly believes that this restructuring would not only streamline its asset composition and operation, but would also provide the Group with sufficient time to capitalize on the evolving trend of the property market, with an ultimate objective of further disposals whenever opportune and repay creditors in full eventually. Formal documentation in respect of the scheme is expected to be finalized and completed prior to the end of this year.

Lai Fung Holdings

The Group's 74.49%-owned China subsidiary Lai Fung Holdings Limited ("Lai Fung") achieved a turnover of HK$192 million representing an increase of approximately 41.7% when compared with that of the previous year. The increase in turnover was mainly attributed to brisk sales of Phase II of Eastern Place in Guangzhou; as at the time of writing, approximately 70% have been sold. This mild revenue growth coupled with a substantial decrease in expenses have resulted in a net profit of HK$11,540,000, representing an increase of 6.6% as compared to

Chairman's Statement

the previous financial year. An over-provision of taxation in the prior year was also written back which offset partly the losses generated due to devaluation of properties and the increase in finance costs.

During the period under review, the residential market in China have undergone some fundamental changes. The welfare housing system was banned at the end of 1999 in order to speed up commercialization of commodity housing. Policies were introduced by the Government to assist individuals to purchase flats including easier access to mortgage, obtaining lower interest mortgage loans through "Housing Provident Funds" and deregulation of the secondary market. As the continued implementation of the housing reform, it is foreseeable that individual buyers will replace institutional buyers as the dominant force in the housing market. With the steadily rising housing income, individual housing demand will increase over time. Income per capita in Guangzhou is among one of the highest in the PRC. Supported by the well located Eastern Place project and a huge land bank in Guangzhou, Lai Fung is set to benefit from the current market upswing.

The commercial property sector is also experiencing a strong recovery on the back of China's likely entry into the WTO. In the third quarter of year 2000, rental values for prime office property have increased by 30% and 10% in Beijing and Shanghai respectively. Lai Fung actually received a double benefit as it capitalized from this favorable trend while managed to increase its shareholding in the flagship Hong Kong Plaza from 60% to 90%. Currently the office portion of the complex achieved an occupancy rate of over 80% and the service apartments achieved an occupancy rate of over 75%. With this improvement in occupancy rate and rental value, Hong Kong Plaza will continue to provide a steady income source for the Group.

eSun Holdings

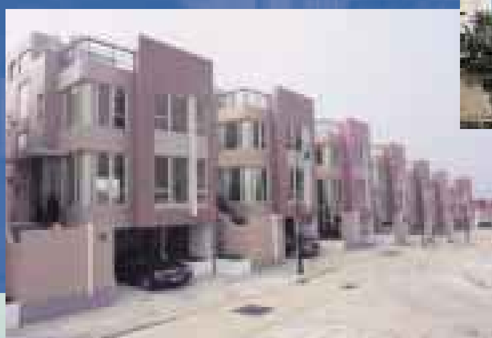
Formerly Lai Sun Hotels, the 50.48%-owned subsidiary of the Group was formally renamed eSun Holdings Limited on 10th July, 2000. The combination of prudent acquisition and inheritance of certain technology assets from parent saw eSun

Hong Kong Plaza

New Trend Plaza

The Ritz-Carlton, Hong Kong
and Furama Hotel

Rolling Hills



eSun Holdings investments