Chairman's Statement

Chairman and President LAM Kin Ngok, Peter

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 has shown marked improvement from the previous financial year.

DIVIDENDS

The Directors do not recommend payment of a final ordinary dividend for the financial year under review.

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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) sector 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.

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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 has 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, Cheung Sha Wan Plaza

Crocodile House 1 & 2

Causeway Bay Plaza 2

Causeway Bay Plaza 1

Lai Sun Commercial Centre

Rolling Hills

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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 The Ritz-Carlton Hong Kong 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 a gross floor area 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 Hotel 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 has 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 Garment (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 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 US$120 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 Sunny Group Investment Limited, a wholly-owned 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,

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supported by 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 are 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.

The Ritz-Carlton Hong Kong
and Furama Hotel Hong Kong

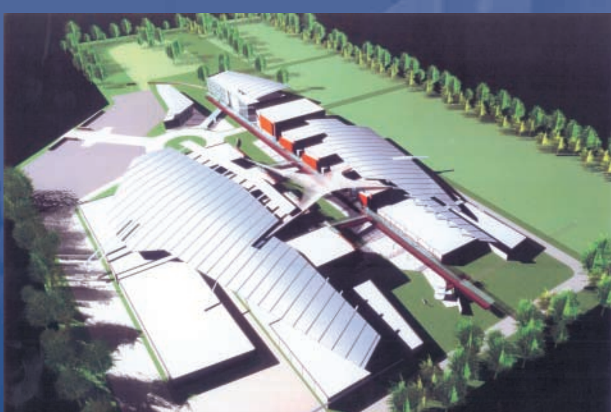
Caravelle Hotel,
Ho Chi Minh City

Furama Resort Danang

Hong Kong Plaza,
Shanghai

Eastern Place,
Guangzhou

East Asia Satellite TV City, Macau (artist impression)



East Asia Satellite
Television Limited
Hong Kong production centre

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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 II) Lot 2094 in DD105, Ngau Tam Mei, Yuen Long New Territories Hong Kong	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 Hong Kong			

Despite of the short term caution, I am 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

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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 has proved to be a strong locomotive behind the housing market, while the rapid urbanization of major metropolis has 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 gross floor area of approximately 80,000 square meters, 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.

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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

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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 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.

CONTINGENT LIABILITIES

Details of contingent liabilities of the Group at the balance sheet date are set out in note 36 to the financial statements.

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

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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.

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 diligence and contribution during the year.

Lam Kin Ngok, Peter
Chairman and President

Hong Kong
9th November, 2001