Chairman's Statement

Chairman LAM Kin Ngok, Peter

RESULTS

The Group registered a consolidated net loss attributable to shareholders of HK$164,619,000 for the year ended 31st July, 2001, compared with a net profit of HK$11,540,000 for the previous year.

DIVIDEND

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

BUSINESS REVIEW

For the year ended 31st July, 2001, the Group recorded a turnover of HK$161,743,000 (2000: HK$191,593,000) and an operating profit of HK$73,607,000 (2000: HK$16,934,000), representing a decrease of approximately 16% and an increase of approximately 335% respectively when compared with the previous year. The decrease in turnover was mainly attributed to the slowdown in sale of Phase II of Eastern Place in Guangzhou. The remaining stocks of Phase II of Eastern Place comprised significant numbers of large-size flats with consideration of over RMB1 million each and, as the numbers of unsold units decreased, the choices available to potential buyers were more restrictive. It will normally take a longer time for these units to be absorbed by the market. It is expected that sales will pick up by more vigorous marketing campaigns and when pre-sale of Phase III of Eastern Place begins in the forthcoming year.

Chairman's Statement

With a gradual improvement in the occupancy of the offices and service apartments of Hong Kong Plaza, Shanghai, the rental contribution from the properties continued to improve during the year under review. This, plus the result of cost reduction measures and write-back of certain provisions related to completed properties for sale and of provision for properties under development held for other than investment potential, has mainly accounted for the improvement in the operating profit. However, the performance of the Group for the year was adversely affected significantly by the share of losses of the associated companies amounting to HK$62,505,000 (2000: HK$42,042,000) and the write-off of unamortised goodwill arising from the acquisition of an associated company amounting to HK$36,993,000 (2000: HK$Nil). Furthermore, finance costs increased to HK$139,973,000 (2000: HK$91,675,000), which included premium on convertible note redemption amounting to HK$38,333,000 (2000: HK$20,000,000) and bank charges amounting to HK$7,035,000 (2000: HK$Nil) and interest on convertible guaranteed bonds and convertible note amounting to HK$89,181,000 (2000: HK$79,819,000).

CAPITAL STRUCTURE, LIQUIDITY AND DEBT MATURITY PROFILE

On 10th January, 2001, 2,023,713,337 ordinary shares of HK$0.10 each were allotted and issued at a conversion price of HK$0.464 to convert the Group's US$120,385,000 (approximately HK$939,003,000 at the rate of exchange ruling at the date of conversion) convertible guaranteed bonds (the "CGB") into ordinary shares of the Company in accordance with the terms and conditions on issuance of the CGB. These shares rank pari passu in all respects with the existing shares of the Company.

Eastern Place, Guangzhou

Eastern Place - Clubhouse

Tianhe Entertainment Plaza, Guangzhou

Artist impression of New Trend Plaza, Guangzhou

Hong Kong Plaza, Shanghai

Chairman's Statement

During the year, the Group obtained unsecured loan facilities from Mr. Lim Por Yen, a substantial shareholder of the Company. The loans were repayable on or before 31st December, 2003 and were bearing interest at the best lending rate and the LIBOR quoted by The Hongkong and Shanghai Banking Corporation Limited. The aggregate outstanding balance of the loans as at 31st July, 2001 was HK$53,285,000.

The Group has diverse sources of financing comprising internal funds generated from the Group's business operations, bank borrowings on project basis and general term bank loan facilities on secured basis.

As at 31st July, 2001, the Group has gross borrowings (inclusive of the loans of HK$53,285,000 loaned by Mr. Lim Por Yen) amounting to HK$1,031 million, representing a decrease of HK$787 million over that of the previous year. Net debt (gross borrowing less cash and cash equivalent) and net debt to shareholders' funds were HK$933 million (2000: HK$1,638 million) and 16% (2000: 33%) respectively.

All of the Group's gross borrowings were on a floating rate basis at the balance sheet date. The Group is expected to benefit from the decrease in the prevailing interest rate. As at 31st July, 2001, approximately 19% of the Group's gross borrowings were denominated in Renminbi, 4% were denominated in Hong Kong dollars and 77% were denominated in US dollars.

The maturity profile of the Group's borrowings as at 31st July, 2001 was spread over a period of five years, with approximately 8% repayable within one year and 92% repayable between more than one to five years. Certain assets of the Group have been pledged to secure financing, including investment properties with carrying value amounting to HK$2,954 million and properties under development with carrying value amounting to HK$520 million.

Chairman's Statement

With the cash held as at the balance sheet date as well as available banking facilities, and the improvement in the Group's operating activities, the Group has sufficient liquidity to finance orderly its existing and planned property development and other investment projects.

CONTINGENT LIABILITIES

As a common practice in the People's Republic of China ("PRC") for banks to provide mortgage financing to end-users, banks will normally require developers to provide buy-back guarantees to secure the due performance of the mortgagors. The Company is currently providing buy-back guarantees to banks for granting mortgage loans to buyers of Hong Kong Plaza, and Phase I and Phase II of Eastern Place. As the PRC property market is currently stable, the management does not expect such contingent liability to be crystallised.

PROSPECTS

The real estate markets in major cities in the PRC have experienced a reasonable recovery in the year under review as both residential and commercial rentals have exhibited a steady uptrend. With the opening of the luxurious clubhouse and the implementation of more vigorous marketing campaigns since this summer, sales of completed units in Eastern Place have picked up considerably. Rental contributions from both Hong Kong Plaza in Shanghai and Tianhe Entertainment Plaza in Guangzhou, in the latter of which the Group has a 25% interest, should continue to improve. The envisaged pre-sale of Phase III of Eastern Place and New Trend Plaza in Guangzhou next year will also prove beneficial.

Following the restructuring of the borrowings of the Group, it is anticipated that the finance expenses of the Group will be reduced in the long run.

Chairman's Statement

EMPLOYEES AND REMUNERATION POLICIES

The Group employs a total of approximately 371 employees. The Group recognises the importance of the strength of its human resources for its success. Pay rates of employees are maintained at competitive levels and promotion and salary increments are assessed on a performance related basis. Discretionary bonuses are granted to certain employees on a merit basis and in accordance with industry practice. Other staff benefits include free hospitalisation insurance plan, subsidised medical care and subsidies for external educational and training programmes. The Group currently does not have any share option schemes for employees.

PRACTICE NOTE 19 TO THE LISTING RULES

Pursuant to paragraph 3.7.1 of Practice Note 19 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Company discloses the following details on the CGB which imposes specific performance obligation on Lai Sun Development Company Limited, the then controlling shareholder of the Company:

On 5th January, 1994, Lai Fung Overseas Finance Limited, a wholly-owned subsidiary of the Company, issued US$150,000,000 CGB. Unless previously redeemed or purchased and cancelled, the CGB were convertible into fully paid shares of the Company at the option of the holders from 28th February, 1998 to 21st November, 2000. It would be an event of default under the CGB if Lai Sun Development Company Limited ceased to own at least 50% of the issued share capital of the Company from 29th November, 1997 to 22nd November, 2000 on a fully diluted basis. No such event of default was noted up to 22nd November, 2000. On 10th January, 2001, the CGB were mandatorily converted into shares of the Company.

Chairman's Statement

Finally, I would like to take this opportunity to express my gratitude to all the shareholders for their support, and to my fellow directors and all staff members of the Group for their dedication and hard work during the year.

Lam Kin Ngok, Peter
Chairman

Hong Kong
9th November, 2001