Chairman's Statement

Chairman and President LAM Kin Ngok, Peter

RESULTS

The Group recorded a consolidated net attributable loss of HK$1,941,508,000 for the year ended 31st July, 2002. Basic loss per share was HK$0.52.

In sympathy with the continued deflationary environment and a further contraction in both investment and consumer demand, property prices in Hong Kong registered varying extents of decline across the board, with weakness in Grade A office rentals being the most notable feature. Consequently, the Group has suffered from lower rental income, as well as losses incurred from property sales and provisions taken in respect of its development landbank during the period under review. Furthermore, the Group also realized a loss on the disposal of Lai Fung Holdings Limited ("Lai Fung") shares, as well as sharing a loss from eSun Holdings Limited ("eSun") in which the Group maintains a 49.9% interest.

DIVIDENDS

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

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BUSINESS REVIEW

The economic environment of 2002 should indubitably be ranked as the most difficult one in the last decade, both globally and locally. Wounds inflicted by the 911 debacle have fuelled and precipitated a long awaited global economic slowdown, while deflation becomes a natural corollary. Liquidity contraction and a dive in investment sentiment were evident, with cash and strong credit bonds being the twin refuges. Such worldwide trends only add to Hong Kong's woes given the already fragile confidence - unemployment rate has reached (and hopefully peaked) an unprecedented high of 7.8% in the second quarter of 2002 while bankruptcy applications have risen by almost threefold so far this year. Meanwhile, slackened domestic demand and curtailment in multinational business activities have put pressure on the retail and hotel industries. Low interest rate probably serves as one of the very few bright spots in an otherwise stagnant economy.

The overall property market positively correlates with this economic setting as it exhibited weakened signs across all sectors on shrinking volumes. Mass market residential prices have fallen a further 10%-15% from the previous year, while commercial and office rentals have shown an even more substantial downward adjustment, as the lack of business opportunities and stubbornly high supply have combined to put pressure on rents.

While the Group managed to reduce its overall finance cost by almost 11%, given the absence of buying interest and thus illiquidity of the property market, the pace of debt reduction has not been satisfactory during the period under review. Total bank and other borrowings of the Group dropped by 10% to HK$3,938 million as of the end of this financial period, while bond debt exposure, excluding accrued premium, remained unchanged at US$218.625 million (HK$1,705 million).

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The hefty HK$1,942 million loss incurred in the year under review was, to a considerable extent, a reflection and consequence of the macroeconomic situation as portrayed above. In addition to recording a loss of HK$294 million resulted from the disposal of Crocodile Houses 1 and 2, the Group's results were also adversely impacted by a HK$424 million provision taken to reflect the diminution in value of properties under development, including the AIG Tower project in which the Group has a 30% interest. Furthermore, the Group also registered a loss of HK$586.6 million as a result of disposing of its entire 25.4% stake in Lai Fung in exchange for a 16.08% interest in Asia Television Limited ("ATV"). ATV in turn, also necessitated the Group to make a HK$228 million provision in tandem with declining TMT asset valuations.

Property Investment

The Group's investment property portfolio generated gross rental and related income of HK$415 million for the year, representing a drop of 10% from the previous year. The drop was largely due to the disposal of selective non-core assets such as the Garment Centre, as well as minor downward rental reversion for the key investment properties. In view of the substantial reduction in industrial exposure within the portfolio, rental contribution from office and retail spaces have further increased, representing over 95% of total as against 91% in the previous year. Meanwhile, overall vacancy remained at a low 5% which is very respectable given the lethargic state of the overall leasing market.

Property Sales

It was a relatively lacklustre year in respect of property development; in contrast, the Group continued to actively look for opportunities to offload some of its sites and investment properties. Subsequent to completion, pace of sales for the remaining units of Waterfront (10% interest) has slowed as competition heightened, although given the fact that over two-thirds of the project have already been sold, any price volatility should post minute impact to the Group. In December 2001, the Group successfully sold its entire 80% interest in a site situated at Ping Shan (DD122) to Nan Fung Development for a price of HK$44 million. The Group, as mentioned earlier, has also disposed of Crocodile Houses 1 and 2 for a total consideration of HK$400 million; the transaction was completed in July 2002.

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Hotels

As mentioned earlier, the hotel sector in Hong Kong also suffered from the downturn of the global economic climate and recorded lower room rates, albeit higher occupancies. For the seven months ended July 2002, the Group's 65%-owned The Ritz-Carlton Hong Kong achieved an average occupancy of 73.7% and an average room rate of HK$1,561, as compared to 69% and HK$1,854 recorded in the previous corresponding period.

Elsewhere, the Group's South East Asian hotel properties managed to buck the uninspiring economic trends and exhibited decent performance during the period under review. The two hotels in Vietnam, namely the Caravelle Hotel situated at Ho Chi Minh City (26.01% interest) and the Furama Resort Danang (62.625% interest) have both shown improvement in terms of occupancy and room rates and have provided positive contributions to the Group.

China Property

Lai Fung registered a net attributable loss of HK$94 million for the year ended 31st July, 2002. Turnover declined 12% to HK$142.5 million. The loss was mainly due to the share of loss of the associates amounting to HK$43.7 million, as well as HK$64 million impairment losses arising from an associate and jointly-controlled entities. On the operating level, the sales of Phase II of Eastern Place in Guangzhou was slowed as the unsold portion are of larger-size units which have taken longer than expected time for the market to absorb. However, leasing demand for the Hong Kong Plaza in Shanghai continued to be strong, with further improvement in occupancies being recorded. Finance costs have shown a substantial reduction from the previous year to HK$58 million following the successful completion of the Group's debt restructuring.

As a result of the asset swap exercise which saw the Group acquire a further 16.08% interest in ATV in exchange of its interest in Lai Fung, the latter ceased to become an associate of the Group with effect from April 2002.