

# Chairman's Statement



*Chairman and President LAM Kin Ngok, Peter*

## RESULTS

The Group recorded a consolidated net attributable loss of HK\$39 million for the year ended 31st July, 2004 (2003 (as restated): loss of HK\$477 million). Basic loss per share was HK\$0.01 (2003 (as restated): HK\$0.13)

The operating environment for the year under review showed a considerable improvement from the previous period. With the absence of SARS' recurrence together with the continued uptick in both consumption and investment sentiments, the real estate market has exhibited the strongest rebound since 1997, with the ascent of prices evident across all sectors. Meanwhile, the territory has also lately recorded its first, albeit mild, inflation after suffering from more than five years of continued deflationary pressure. On the operating level, while the Group suffered a loss in the sale of Causeway Bay Plaza 1, this was largely compensated by the write-back of impairment in value of properties. Meanwhile, the Group also registered a tax write-back (for prior years' provision) of HK\$88.6 million which alleviated the negative impact from the still high interest and financial expenses for the year.

## DIVIDENDS

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

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## BUSINESS REVIEW

Hong Kong remains a place of volatility and thus opportunities. In our last annual report we highlighted the turnaround of the domestic economy, being fuelled by China's economic support through the signing of CEPA and relaxing restriction on mainland visitors to Hong Kong. This China factor continued to serve as the major impetus behind the domestic economic revival during the period under review. Consequently, the local unemployment rate has now fallen to 6.8%, as compared to an all-time high of 8.7%, while the prolonged deflationary pressure finally gave way to a mild and welcome inflation lately. Such broad-based recovery has spurred confidence of both corporations and individuals, and has in turn uplifted investment and consumption enthusiasm.

Being a natural beneficiary of this favourable development, the overall property market exhibited a strong turnaround during the period under review. In particular, prices for luxury residential properties are in general estimated to have risen by more than 50% as compared to the same period last year, while mass residential prices have also increased by over 30% on the same basis of comparison. Meanwhile, Grade A office rentals have also shown strong signs of recovery, registering an average year-on-year gain of around 25%.

Such property market recovery has undoubtedly made a positive impact on the Group's results. While the disposal of Causeway Bay Plaza 1 has incurred a HK\$273 million loss during the period, this was partially compensated by a release of negative goodwill attributable to Causeway Bay Plaza 1 of HK\$150 million to the profit and loss account, and a HK\$61 million gain resulted from the disposal of the Group's 50% interest in the Majestic Hotel and Centre. Further, in tandem with the ongoing appreciation in property prices, the Group have written back approximately HK\$133 million to reflect the prevailing value of both properties under development and existing hotel properties under the Group. Nonetheless, heavy financial expenses remained an active feature that depressed the results, while the Group continued to share a small HK\$12 million loss from its 42.54%-owned associate eSun Holdings Limited.

Thanks to the continued low interest rates and further asset disposals, the Group managed to reduce its overall interest expenses by 20%. Notwithstanding, the extent of improvement remained insufficient to support the Group's operational activities

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and to repay debt. As of 31st July, 2004, while total bank and other debt of the Group have reduced to HK\$2,324 million, total borrowings continued to stay a high of HK\$5,965 million (2003: HK\$7,625 million) after taking into account bond debt of HK\$2,141 million (including accrued premium) and an intercompany debt owed to eSun in the amount of HK\$1,500 million. Since late 2002, the Group has therefore embarked on a corporate restructuring program with an ultimate objective of achieving a settlement plan with all creditors, improving its free cash flow position, and bringing the Group back to positive net asset territory. The Board is extremely pleased to inform shareholders that this exercise is nearing completion. More details will be divulged in the section under "Group Restructuring".

## Property Investment

The Group's investment property portfolio generated gross rental income of HK\$280 million for the year, representing a substantial drop of 28% from the previous year. The marked decrease was largely due to the absence of contributions from both the Lai Sun Yuen Long Centre and the Causeway Bay Plaza 1 which were sold in August 2003 and October 2003 respectively. However, overall unit rentals have shown reasonable improvement, a reversionary trend which is expected to continue. Given the superior locations of the Group's investment properties, the overall vacancy continued to stay at a respectable 10%.

## Property Sales

In harmony with the Group's restructuring program, the year under review witnessed two strategic property disposals intended to facilitate the plan. As mentioned earlier, the Group successfully disposed of Causeway Bay Plaza 1 to The Wing On Property and Securities Company Limited for a total consideration of HK\$1,200 million; the transaction was unanimously approved by shareholders on 29th September, 2003 and was completed on 23rd October, 2003. On 6th May, 2004, the Group achieved the sale of a 50% interest in the Majestic Hotel and Centre to an independent third party for a gross consideration of HK\$435 million, and the transaction was completed on 31st July, 2004. The twin disposals, which took off over HK\$1.2 billion bank debt from the balance sheet, were indicative of the Group's continued commitment to improve its financial position. In addition, they also helped equip the Company with the necessary cash resources to negotiate and finalize a consensual agreement with the creditors.

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## Hotels

In contrast to the same period last year which was heavily plagued by SARS, the hotel sector made a formidable recovery in the period under review. For the seven months ended July 2003, the Group's 65%-owned The Ritz-Carlton, Hong Kong achieved an average occupancy of 80.2% and an average room rate of HK\$1,677, as compared to 45.6% and HK\$1,520 recorded in the previous period. For the Majestic Hotel, the corresponding figures were 90.6% and HK\$433 respectively.

Meanwhile, performance of the Group's hotel operations in Vietnam continued to be hampered by the bird flu epidemic which naturally led to stagnant tourist volume during the same period. Notwithstanding, the Group's 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 Holdings Limited

eSun Holdings Limited ("eSun") reported a net attributable loss of HK\$33 million for the six months ended June 2004. It is gratifying to see further reduced losses from East Asia Satellite Television Limited ("EAST"), and positive contributions from Media Asia Holdings Limited, a 49.77% associate of eSun. However, the continued informal standstill of the Group which involved a suspension in interest payment by Furama Hotel Enterprises Limited on approximately HK\$1,500 million debt due to eSun, had made an adverse impact on the bottomline of the latter.

## PROSPECTS

We are sanguine over the short-to-medium prospects of the domestic economy. The prevailing environment continues to be well buttressed by the China factor and improved inflation-employment balance. For the China factor, apart from the unique privileges deriving from CEPA and the influx of PRC tourists, the positive investment outlook over China will also lead to favourable capital flow into Hong Kong, being undoubtedly the best fund raising platform for PRC enterprises. Meanwhile, brisk demand for land supply in consequence to the property market upswing, should significantly lighten the deficit burden of the Hong Kong Government.

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For the year 2004/2005, the Group will earmark the following projects for sale with details as follow:

Location	Type	Group Interest	Attributable GFA (sq.ft.)
Rolling Hills (Phase 2) DD105, Ngau Tam Mei Yuen Long	Residential	50%	<u>38,010</u>
Kimberley 26 26 Kimberly Road	Service Apartment	50%	41,570
Tsimshatsui, Kowloon	Commercial		<u>15,238</u>
			<u>56,808</u>

On the property investment front, as demand looks poised to outstrip supply, we believe that rentals should be able to register further increase in the coming months. As such, positive rental reversions should be evident in respect of the Group's core investment properties. Meanwhile, the Group's rental income should see further improvement by late 2005 when the expected completion of the AIG Tower (in which the Group retains a 10% interest) would provide fresh contribution to the Group.

Prospects of the overall hotel industry will continue to be promising, with both occupancy and room rates likely to show reasonable improvement. The Ritz-Carlton, Hong Kong should be a major beneficiary of this evolving trend, while the Majestic Hotel should also turn in better performance although competition in the three-star segment will remain very intense. Meanwhile, the Group will devote substantial effort to market and expand the business of Furama Hotel and Resorts International Limited, whose 'Furama' brandname together with its competent management team should enable it to secure more hotel and service apartment management contracts in Asia, with a notable emphasis on Hong Kong and China.

The Group is optimistic of the prospects of eSun Holdings Limited ("eSun"). At the time of writing, Media Asia Holdings Limited (MAH) has successfully obtained a listing on the SGX-SESDAQ of the Singapore Stock Exchange with an offering market capitalization of approximately HK\$280 million. Following this





The Ritz-Carlton ▶  
Hong Kong



Causeway Bay Plaza 2 ▼



East Asia Satellite TV City, Macau ▶  
(artist impression)



▲ Kimberley 26,  
Tsimshatsui



◀ Cheung Sha Wan Plaza



Majestic Hotel ▶



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flotation, eSun's shareholding in MAH will be diluted to approximately 37.3%. The move demonstrates eSun's capability to transform MAH into a profitable entity with strong critical mass in the film production and distribution industry. Looking ahead, the prospects of MAH are bright given an improved consumer sentiment as well as the onset of CEPA which relaxes the quota for locally produced films. Meanwhile, wholly-owned subsidiary East Asia Entertainment Limited will continue to be active in the concert production arena; in the second half of 2004, it has already profitably participated in the performances of several top-tier local artistes such as Andy Lau, Sammi Cheng and Sam Hui.

While still awaiting for 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. Finally, together with EAST, eSun is actively evaluating development plan alternatives for the EAST Television City, with an objective of adopting a plan which will nicely capitalize on the evolving trends of the Macau economy. We are confident that such changes will be able to be approved and be implemented, which in turn should bring in substantial benefit to the Group, being the largest shareholder of eSun.

### GROUP RESTRUCTURING

The Group has been negotiating with all creditors since late 2002 with a view to achieve a consensual debt restructuring agreement as soon as practicable. Substantial headway have been made since early 2004, and on 28th June, 2004, the Group entered into a settlement agreement with eSun and reached an in-principle agreement with the Informal Committee (representing holders of the Convertible Bonds and Exchangeable Bonds) in respect of the total indebtedness owed to eSun and the Convertible and Exchangeable Bondholders (collectively "the Bondholders") respectively. The principal terms of the proposed settlement comprise of the following:

For eSun

HK\$20 million cash repayment

A new five-year interest bearing secured term loan of HK\$225 million, and

5,200 million new Lai Sun Development shares

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For the Bondholders

Approximately HK\$300 million cash repayment  
Issue of a zero-coupon, secured 'A' Bond due 31st December, 2005 in the amount of HK\$266 million, and  
3,800 million new Lai Sun Development shares (with two put options having been granted to the Bondholders by Mr. Lam Kin Ngok, Peter).

Following completion of the restructuring, eSun will become the largest shareholder of the Group with an interest of approximately 40.8%. Meanwhile, the 'A' Bond will, amongst others, be secured by and repaid via the disposals of three property interests of the Group, namely the Caravelle Hotel (26.01%), the Furama Resort Danang (62.625%) and the remaining units in the Waterfront (10%).

The proposed settlement plan was duly approved by both the Convertible Bondholders and the Exchangeable Bondholders on 6th October, 2004, while independent shareholders of eSun and the Group have also approved the plan on 13th October, 2004. It is expected that final completion will take place no later than the end of 2004.

Success in finalizing this restructuring exercise certainly opens a new chapter for the Group. It will see the retirement of approximately HK\$3,700 million debt owed to eSun and the Bondholders, while it enables the Group to retain certain core properties, notably including the Cheung Sha Wan Plaza, the Causeway Bay Plaza 2 and the Ritz-Carlton Hotel.

While we would like to remind shareholders that there will be, upon completion, a one-off pro-forma accounting loss of approximately HK\$1,704 million (subject to change), mainly arising from the creation of a settlement premium to facilitate the issue of shares at par value (of HK\$0.50) to the creditors, such loss will be comfortably absorbed by enlargement of the equity base through the issue of new shares for cancellation of debt, and that the Group will return to positive net asset territory with a pro-forma NAV estimated at approximately HK\$2,273 million, or HK\$0.18 per share. (For more details in respect of the above please refer to Appendix II of the Group's circular to shareholders dated 15th September, 2004).



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## LIQUIDITY AND FINANCIAL RESOURCES

As at 31st July, 2004, the Group had outstanding borrowings of approximately HK\$5,965 million (2003: HK\$7,625 million) comprising (i) secured bank loans and other borrowings of approximately HK\$2,292 million, (ii) an accrued loan repayment premium of approximately HK\$32 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\$116 million (as at 31st July, 2003 (as restated): HK\$418 million). As a result of the cross defaults triggered by the defaults in the repayment of the Bonds and the eSun Debt, the Group was in technical default of all bank and other borrowings. These financial creditors have the right to serve notice to the Group to declare the bank and other borrowings to be immediately due and repayable. To date, no such notices have been served. All principal banks had showed their intention to provide continued financial support to the Group by continuously granting short-term extension to the loan repayment dates as necessary pending outcome of the Settlements. All of the bank and other borrowings of HK\$2,292 million as at 31st July, 2004 were repayable within 1 year in accordance with the original repayment terms. The Group is having ongoing discussions with these financial creditors with an objective to refinance the Group's bank and other borrowings for a longer term. All principal bank creditors have indicated that it would be their intention to proceed with refinancing of the outstanding loan facilities following the completion of the Settlements.

As at 31st July, 2004, certain investment properties with carrying amounts of approximately HK\$3,198 million, certain fixed assets with carrying amounts of approximately HK\$965 million and certain bank balances and time deposits with banks of approximately HK\$90 million were pledged to banks to secure banking facilities granted to the Group. At the same date, certain investment properties with carrying amounts of approximately HK\$3 million, certain fixed assets with carrying amounts of approximately HK\$25 million and a time deposit with a bank of

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approximately HK\$8 million were pledged to the bank to back up certain corporate guarantees issued by the Company in respect of certain banking facilities granted by the bank to a subsidiary and an associate of 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 held by the Group were also pledged to banks and other lenders to secure loan facilities granted to the Group. Certain shares of associates held by the Group were pledged to banks for loan facilities granted to certain associates of the Group. In addition, pursuant to the terms and conditions of the Exchangeable Bonds and the Convertible Bonds, the 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 Group. 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.

At the meetings of the holders of the Exchangeable Bonds (the "Exchangeable Bondholders") and the holder of the Convertible Bonds (the "Convertible Bondholders") held on 6th October, 2004, the necessary resolutions to approve the settlement of the outstanding indebtedness due to the Exchangeable Bondholders and the Convertible Bondholders (the "Bonds Settlement") were passed by the Exchangeable Bondholders and Convertible Bondholders. At the extraordinary general meeting of shareholders of the Company held on 13th October, 2004, the resolutions to approve, inter alia, the Bonds Settlement and completion of the agreement dated 28th June, 2004 made between the Company, eSun, FHEL and GPEL relating to the settlement of the outstanding principal indebtedness of approximately HK\$1,500 million owed by FHEL, and guaranteed by the Company, to GPEL as amended and supplemented by a supplemental agreement dated 31st August, 2004 (the "eSun Settlement Agreement") were passed by the independent shareholders of the Company. In addition, the resolution to approve the eSun Settlement Agreement was also

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passed by the independent shareholders of eSun at the special general meeting of eSun held on 13th October, 2004. Pursuant to the resolutions, the conditions precedent shall be fulfilled or otherwise waived on or before 31st January, 2005.

The Group's principal sources of funding comprise mainly funds generated from its business operations including property rental income, proceeds from sale of properties and revenue from its hotel and restaurant operations. The directors of the Company are of the view that with funds generated from the business operations of the Group and additional funds derived from certain refinancing of the existing indebtedness, there will be sufficient working capital for the Group. 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 minimizing 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 of the interest burden of the Group. There seems to be consensus view in the market that interest rate is on the gradual rising trend. 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 1,600 (as at 31st July, 2003: 1,900) employees as at 31st July, 2004. The decrease in headcount is mainly due to the disposal of a 50% interest in the Majestic Hotel and Majestic Centre at 348 Nathan Road, Kowloon, Hong 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 hospitalisation insurance plan, subsidised medical care and subsidies for external educational and training programmes.

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## CONTINGENT LIABILITIES

Details of contingent liabilities of the Group at the balance sheet date are set out in note 35 to the Financial Statements.

## CONCLUSION

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  
12th November, 2004