LAI SUN DEVELOPMENT

Lai Sun Development Company Limited

(Incorporated in Hong Kong with limited liability)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31ST JULY, 2002

RESULTS

The Board of Directors of Lai Sun Development Company Limited (the "Company") announces the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31st July, 2002 as follows:

	Notes	**2002** *HK$'000*	**2001** *HK$'000*
TURNOVER	3	934,720	1,899,862
Cost of sales		(350,219)	(858,995)
Gross profit		584,501	1,040,867
Other revenue		132,710	258,247
Administrative expenses		(356,297)	(609,678)
Other operating income/(expenses), net		52,735	(28,714)
Loss on disposal of subsidiaries		(296,361)	—
Loss on deemed disposal of subsidiaries		—	(1,044,781)
Release of unrealised profit arising on deemed disposal of subsidiaries		—	412,556
Impairment of properties under development		(44,267)	(138,652)
Impairment of long term unlisted investments		(62,400)	(71,755)
Provision for contingent loss in respect of the put options relating to the disposal of a subsidiary in prior year		—	(86,000)
PROFIT/(LOSS) FROM OPERATING ACTIVIIES	4	10,621	(267,910)
Finance costs	5	(567,748)	(638,483)
Share of profits and losses of associates		(232,507)	(174,549)
Amortisation of goodwill on acquisition of associates		(6,636)	(578)
Impairment in value of goodwill of an associate		(228,258)	—
Impairment in value of associates		(318,000)	(74,002)
Loss on disposal of associates		(538,662)	—
LOSS BEFORE TAX		(1,881,190)	(1,155,522)
Tax	6	(35,927)	(30,476)
LOSS BEFORE MINORITY INTERESTS		(1,917,117)	(1,185,998)
Minority interests		(24,391)	(10,184)
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(1,941,508)	(1,196,182)
LOSS PER SHARE	7		
Basic		HK$0.52	HK$0.32
Diluted		N/A	N/A

Consolidated Balance Sheet

31st July, 2002

	Note	**2002** *HK$'000*	**2001** *HK$'000*
NON-CURRENT ASSETS			
Fixed assets		1,294,943	1,312,728
Investment properties		4,987,860	6,224,870
Properties under development		116,592	160,754
Interests in associates		2,082,375	2,128,954
Long term investments		173,531	539,307
Long term note receivable		—	—
Long term prepayment		194,000	194,000
Pledged cash and bank balances and time deposits		70,053	—
		8,919,354	10,560,613
CURRENT ASSETS			
Short term investments		6,953	9,349
Completed properties for sale		8,637	16,484
Inventories		9,587	11,998
Debtors and deposits		108,116	213,823
Pledged cash and bank balances and time deposits		23,007	75,670
Cash and cash equivalents		238,384	477,805
		394,684	805,129
CURRENT LIABILITIES			
Creditors, deposits received and accruals		232,231	437,626
Tax payable		103,930	98,835
Interest-bearing bank and other borrowings		2,445,317	1,225,815
Provision for premium on bonds redemption		600,692	—
Short term bonds payable		740,025	—
Short term convertible bonds payable		965,250	—
Amount due to an associate		1,500,040	—
		6,587,485	1,762,276
NET CURRENT LIABILITIES		(6,192,801)	(957,147)
TOTAL ASSETS LESS CURRENT LIABILITIES		2,726,553	9,603,466
NON-CURRENT LIABILITIES			
Deferred tax liabilities		(380)	(380)
Long term rental deposits received		(62,981)	(50,707)
Interest-bearing bank and other borrowings		(1,493,000)	(3,128,335)
Provision for premium on loan repayment		(52,500)	(17,500)
Provision for premium on bonds redemption		—	(473,145)
Long term bonds payable		—	(740,053)
		(1,608,861)	(4,410,120)
		1,117,692	5,193,346
CAPITAL AND RESERVES			
Issued capital		1,873,001	1,873,001
Reserves	8	(1,106,583)	1,993,314
		766,418	3,866,315
MINORITY INTERESTS		351,274	361,744
CONVERTIBLE BONDS		—	965,287
		1,117,692	5,193,346

Notes:

1. **BASIS OF PRESENTATION**

The Group sustained a net loss from ordinary activities attributable to shareholders of HK$1,942 million for the year ended 31st July, 2002 (2001: HK$1,196 million). The loss principally arose from non-recurring transactions in respect of the disposals of certain subsidiaries and associates, and was compounded by impairment provisions in respect of its interests in certain properties under development, unlisted investments, associates and goodwill related thereto.

At the balance sheet date, the Group had consolidated net current liabilities of HK$6,193 million (2001: HK$957 million) and consolidated net assets of HK$766 million (2001: HK$3,866 million).

Included in such net current liabilities were the outstanding balance of the US$115 million exchangeable bonds (the "Exchangeable Bonds") of HK$740 million, the outstanding balance of the US$150 million convertible guaranteed bonds (the "Convertible Bonds") of HK$965 million, the debt of HK$1,500 million (the "Debt") owed by the Group to Golden Pool Enterprises Limited ("GPEL"), a wholly-owned subsidiary of eSun Holdings Limited ("eSun"), which in turn is an associate of the Group and bank and other borrowings of HK$2,445 million, all of which are scheduled to mature within the next 12 months from the balance sheet date.

Over the past two years, the Group has successfully monitored an orderly disposal of assets, including properties and other investments, to generate positive cash flows for the repayment of bank and other borrowings and to provide sufficient working capital for the Group's operations. The Group will continue to implement appropriate asset disposal programmes to further reduce its overall level of indebtedness.

During the year, the Group has been working closely with its legal and financial advisors in formulating a plan for the repayment and/or refinancing of its outstanding indebtedness. Recently, the Group initiated discussions with the Exchangeable Bondholders, Convertible Bondholders and eSun to explore the terms of a new debt restructuring plan (the "New Restructuring Plan"). The Group has also initiated negotiations with its principal banks with a view to arranging a rescheduling and/or refinancing of its bank borrowings (the "Refinancing Arrangements"). As of the date of approval of these financial statements, no fixed terms or binding agreements in respect of the New Restructuring Plan or the Refinancing Arrangements had been agreed upon or executed.

The directors of the Company believe that the Group will be able to secure the agreement of the Exchangeable Bondholders, Convertible Bondholders, eSun and the banks to the New Restructuring Plan and the Refinancing Arrangements and, at the same time, continue the successful orderly disposal of the necessary Group assets to generate additional positive cash flows. On this basis, the directors consider that the Group will have sufficient working capital to finance its operations in the foreseeable future. Accordingly, the directors of the Company are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

If the going concern basis is not appropriate, adjustments would have to be made to restate the values of the assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

2. **PRIOR YEAR ADJUSTMENT**

In accordance with paragraph 88 of Statement of Standard Accounting Practice No. 30 ("SSAP 30") "Business combinations" and Interpretation 13 "Goodwill-continuing requirements for goodwill previously eliminated against reserves", the Group is required to estimate any impairment loss that arose on goodwill arising from acquisitions of subsidiaries, which was previously eliminated against reserves, in accordance with the requirements of SSAP 31 "Impairment of assets" since the date of acquisition of the subsidiaries. Implementation of this policy is treated as a change in accounting policy in accordance with SSAP 2 "Net profit or loss for the period, fundamental errors and changes in accounting policies".

The Group has performed an assessment of the fair values of its goodwill eliminated against reserves prior to 1st August, 2001. As a result, the Group has recognised an impairment of goodwill, previously eliminated against reserves, of HK$62,619,000 which has been accounted for retrospectively as a prior year adjustment in accordance with the transitional provisions of SSAP 30. The prior year adjustment has resulted in an increase of HK$62,619,000 in both of the Group's capital reserve and accumulated loss as at 31st August, 2000. This prior year adjustment had no effect on the results and net asset value of the Group for the current year and last year.

3. **SEGMENT INFORMATION**

The following table presents revenue and profit/(loss) for the Group's business segments:

(a) **Business segments**

	Property development and sales		**Property investment**		**Hotel and restaurant operations**		**Others**		**Eliminations**		**Consolidated**	
	2002 *HK$'000*	**2001** *HK$'000*	**2002** *HK$'000*	**2001** *HK$'000*	**2002** *HK$'000*	**2001** *HK$'000*	**2002** *HK$'000*	**2001** *HK$'000*	**2002** *HK$'000*	**2001** *HK$'000*	**2002** *HK$'000*	**2001** *HK$'000*
Segment revenue:												
Sales to external customers	5,661	351,064	415,479	756,224	498,972	761,164	14,608	31,410	—	—	934,720	1,899,862
Intersegment sales	—	—	13,087	15,564	—	—	16,522	—	(29,609)	(15,564)	—	—
Other revenue	608	12,192	20,036	2,934	3,702	3,524	5,244	49,167	—	—	29,590	67,817
Total	6,269	363,256	448,602	774,722	502,674	764,688	36,374	80,577	(29,609)	(15,564)	964,310	1,967,679
Segment results	(54,959)	(165,512)	52,697	610,775	57,447	71,857	(23,124)	(93,638)	—	—	32,061	423,482
Interest income and unallocated gains											103,120	190,430
Unallocated expenses											(62,160)	(91,842)
Loss on deemed disposal of subsidiaries											—	(1,044,781)
Release of unrealised profit arising on deemed disposal of subsidiaries											—	412,556
Impairment of long term unlisted investments											(62,400)	(71,755)
Provision for contingent loss in respect of the put options relating to the disposal of a subsidiary in prior year											—	(86,000)
Profit/(loss) from operating activities											10,621	(267,910)
Finance costs											(567,748)	(638,483)
Share of profits and losses of associates	4	(2,143)	—	—	—	—	—	—	—	—	4	(2,143)
Share of profits and losses of associates - unallocated											(232,511)	(172,406)
Amortisation of goodwill on acquisition of associates											(6,636)	(578)
Impairment in value of goodwill of an associate											(228,258)	—
Impairment in value of associates	(318,000)	(45,131)	—	—	—	—	—	—	—	—	(318,000)	(45,131)
Impairment in value of associates - unallocated											—	(28,871)
Loss on disposal of associates											(538,662)	—
Loss before tax											(1,881,190)	(1,155,522)
Tax											(35,927)	(30,476)
Loss before minority interests											(1,917,117)	(1,185,998)
Minority interests											(24,391)	(10,184)
Net loss from ordinary acfivities attributable to shareholders											(1,941,508)	(1,196,182)

The following table presents revenue and profit/(loss) for the Group's geographical segments:

(b) **Geographical segments**

	Hong Kong		**Elsewhere in the People's Republic of China (the "PRC")**		**Vietnam**		**Other locations**		**Consolidated**	
	2002 *HK$'000*	**2001** *HK$'000*	**2002** *HK$'000*	**2001** *HK$'000*	**2002** *HK$'000*	**2001** *HK$'000*	**2002** *HK$'000*	**2001** *HK$'000*	**2002** *HK$'000*	**2001** *HK$'000*
Segment revenue:										
Sales to external customers	790,599	1,666,799	—	99,649	144,121	126,903	—	6,511	934,720	1,899,862
Other revenue	24,438	32,085	4,348	35,732	644	—	160	—	29,590	67,817
Total	815,037	1,698,884	4,348	135,381	144,765	126,903	160	6,511	964,310	1,967,679
Segment results	136	425,898	(9,632)	(38,686)	40,938	30,079	619	6,191	32,061	423,482

4. **PROFIT/(LOSS) FROM OPERATING ACTIVITIES**

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting):

	Group	
	2002 *HK$'000*	**2001** *HK$'000*
Depreciation	30,604	38,052
Write off of fixed assets	—	17,394
Loss on disposal of fixed assets	1,582	2,421
Loss on disposal of interests in associates	—	1,651
Loss on disposal of long term unlisted investments	90	251
Loss on disposal of short term listed investments	—	1,854
Loss on disposal of short term unlisted investments	—	3,353
Unrealised loss of short term investments	2,360	2,418
Interest income from bank deposits	(3,810)	(21,363)
Other interest income	(95,357)	(153,384)
Dividend income from listed investments	—	(200)

4. **PROFIT/(LOSS) FROM OPERATING ACTIVITIES (continued)**

	Group 2002 *HK$'000*	Group 2001 *HK$'000*
Dividend income from unlisted investments	—	(10,989)
Gain on disposal of an investment property	—	(205,402)
Gain on disposal of a long term listed investment	—	(7,662)
Write back of contingent loss in respect of a guarantee given to a bank	(71,720)	(78,141)

5. **FINANCE COSTS**

	Group 2002 *HK$'000*	Group 2001 *HK$'000*
Interest on bank and other borrowings wholly repayable within five years	252,541	373,207
Interest on amount due to an associate	75,002	25,069
Interest on bonds payable	37,005	38,122
Interest on convertible bonds and convertible note	38,505	78,734
Total interest expenses	403,053	515,132
Less: Interest capitalised in properties under development	(33,042)	(69,012)
Interest capitalised in associates engaged in property development	—	(3,523)
	370,011	442,597
Other finance costs:		
Provision for premium on bonds redemption	127,547	119,064
Provision for premium on note redemption	—	10,000
Provision for premium loan repayment	35,000	17,500
Bank charges and refinancing charges	35,190	49,322
	567,748	638,483

6. **TAX**

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong during the year.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the places in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group 2002 *HK$'000*	Group 2001 *HK$'000*
Provision for tax for the year:		
Hong Kong	35,408	38,052
Outside Hong Kong	—	19
Deferred tax	—	(250)
	35,408	37,821
Prior year under/(over)provision:		
Hong Kong	(157)	(3,866)
Outside Hong Kong	—	657
	(157)	(3,209)
Share of tax attributable to associates:		
Hong Kong	766	(3,611)
Outside Hong Kong	(90)	(525)
	676	(4,136)
Tax charge for the year	35,927	30,476

7. **LOSS PER SHARE**

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK$1,941,508,000 (2001: HK$1,196,182,000) and the weighted average number of 3,746,002,000 (2001: 3,746,002,000) ordinary shares in issue during the year.

Diluted loss per share amounts for the years ended 31st July, 2002 and 2001 have not been disclosed, as the potential ordinary shares of the Group outstanding during these years had an anti-dilutive effect on the basic loss per share for these years.

8. **RESERVES**

Group

	Share premium account *HK$'000*	Investment property revaluation reserve *HK$'000*	Revaluation reserve for properties under development held for investment potential *HK$'000*	Capital redemption reserve *HK$'000*	Capital reserve *HK$'000*	Exchange fluctuation reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1st August, 2000								
As previously reported	5,858,164	3,066,784	1,171,429	1,200,000	92,614	72,266	(6,951,830)	4,509,427
Prior year adjustment *(note 2)*	—	—	—	—	62,619	—	(62,619)	—
As restated	5,858,164	3,066,784	1,171,429	1,200,000	155,233	72,266	(7,014,449)	4,509,427
Release upon disposal of investment properties	—	(300,402)	—	—	—	—	—	(300,402)
Surplus on revaluation of investment properties	—	136,195	—	—	—	—	—	136,195
Share of revaluation deficit of associates	—	(6,318)	(11,691)	—	—	—	—	(18,009)
Share of reserve of associates	—	—	—	—	3,757	—	—	3,757
Exchange realignments:								
Subsidiaries	—	—	—	—	—	3,174	—	3,174
Associates	—	—	—	—	—	2,190	—	2,190
Jointly-controlled entities	—	—	—	—	—	43	—	43
Adjustment for goodwill arising on acquisition of additional interests in subsidiaries in prior year	—	—	—	—	53,663	—	—	53,663
Release upon deemed disposal of subsidiaries	—	(277,423)	(771,989)	—	(137,233)	(13,897)	—	(1,200,542)
Net loss for the year	—	—	—	—	—	—	(1,196,182)	(1,196,182)
At 31st July, 2001	5,858,164	2,618,836	387,749	1,200,000	75,420	63,776	(8,210,631)	1,993,314
At 1st August, 2001								
As previously reported	5,858,164	2,618,836	387,749	1,200,000	12,801	63,776	(8,148,012)	1,993,314
Prior year adjustment *(note 2)*	—	—	—	—	62,619	—	(62,619)	—
As restated	5,858,164	2,618,836	387,749	1,200,000	75,420	63,776	(8,210,631)	1,993,314
Release upon disposal of subsidiaries	—	113,921	—	—	—	—	—	113,921
Deficit on revaluation of investment properties	—	(658,638)	—	—	—	—	—	(658,638)
Share of revaluation surplus/(deficit) of associates	—	381	(36,449)	—	—	—	—	(36,068)
Share of reserve of associates	—	—	—	—	(3,757)	—	—	(3,757)
Exchange realignments:								
Subsidiaries	—	—	—	—	—	147	—	147
Associates	—	—	—	—	—	(212)	—	(212)
Release upon disposal of associates	—	(147,390)	(351,300)	—	(71,663)	(3,429)	—	(573,782)
Net loss for the year	—	—	—	—	—	—	(1,941,508)	(1,941,508)
At 31st July, 2002	5,858,164	1,927,110	—	1,200,000	—	60,282	(10,152,139)	(1,106,583)

9. **COMPARATIVE AMOUNTS**

Due to the adoption of certain new and revised SSAPs and Interpretations during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, a prior year adjustment (note 2) has been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

SUMMARY OF AUDITORS' REPORT

The Group has initiated discussions with the Exchangeable Bondholders, the Convertible Bondholders and eSun to explore the terms of the New Restructuring Plan. The Group has also initiated negotiations with its principal banks for the Refinancing Arrangements. The auditors, in forming their opinion, have considered the adequacy of the disclosures made in the above "Basis of Presentation" note which explain the circumstances giving rise to concerns regarding the fundamental uncertainties relating to the adoption of the going concern basis of presentation. The financial statements have been prepared on a going concern basis, the validity of which depends on the success in securing the agreement of the Exchangeable Bondholders, the Convertible Bondholders, eSun and the banks to the New Restructuring Plan and the Refinancing Arrangements together with the continued success of the orderly disposal of certain Group assets to generate additional positive cash flow. The financial statements do not include any adjustments that would result from the failure to secure the New Restructuring Plan and the Refinancing Arrangements or complete the assets disposal programme. The auditors consider that appropriate disclosures have been made but because of the significant uncertainty relating to whether the New Restructuring Plan and Refinancing Arrangements or the successful completion of the assets disposal programme will be forthcoming, they are not able to determine whether the going concern basis used in preparing the financial statements is appropriate. Accordingly, they have disclaimed their opinion.

MANAGEMENT DISCUSSION AND ANALYSIS

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 in which the Group maintains a 49.9% interest.

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).

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$296 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.

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.

Multimedia

On a turnover of HK$56.573 million, eSun reported a net attributable loss of HK$33.284 million for the six months ended June 2002. The loss was mainly attributable to a HK$31.98 million loss recorded by the overall operations of East Asia Satellite Television Limited ("EAST"). The rationalization of its internet-related operations has also resulted in a layoff of 15 staff members and a one-time loss of HK$4.6 million.

During the period under review, eSun has initiated exposure to the concert management business through its wholly-owned subsidiary, East Asia Entertainment Limited ("EAE"). As for its existing businesses, Media Asia Holdings Ltd. ("MAH"), in which eSun has a 35% stake, continued to expand rapidly and has increased its market share in the local film production market; however, due to difficult market conditions, MAH reported an operating loss for the first half of 2002. Meanwhile, EAST's operations have been on a smooth track with continuous effort being made to improve the quality and marketability of the programmes. EAST is now providing 24-hour broadcast and 6-hour refresh programmes per day, supported by its media production centre at Aberdeen which is capable of producing up to 2,000 programme hours per year.

Other Strategic Investments

Performance of the Group's other strategic investments has been reasonable amidst the difficult operating environment. ATV, in which the Group has increased its interest to 32.75%, managed to reduce its operating loss thanks to adequate cost containment measures, although the viewership vis-a-vis TVB remained disappointing. Elsewhere, Sky Connection Limited, the Group's 50%-owned liquor and tobacco duty-free operator which trades under the name "Free Duty", has successfully extended its exclusive licensing agreement for a further 12 months. Having re-negotiated a revised rental agreement with the Hong Kong Airport Authority, it is expected that the operation should manage to at least breakeven for this extended period, although the ultimate performance will be contingent upon the pace of tourism recovery and tourists' propensity to consumption.

Prospects

The economic outlook for Hong Kong remains bleak. With deflation and anemic economic growth persistently dominating the global economic environment, the local territory looks difficult to come out unscathed. It is apparent that the general confidence level and investment sentiment have further deteriorated, with concerns over the stability of pegged rate system gradually re-emerging in view of the burgeoning fiscal deficit for which no easy remedy exists. Easing interest rates turns out to be a double edged sword - while it lightens interest burden on the one hand, it also greatly reduces interest income generation which in turn discourages private spending. Such economic scenario means that asset prices are unlikely to display any formidable turnaround in the short-to-medium term.

Given the fast depletion of the Group's development landbank, the property sales schedule will remain thin looking further out. The tentative projects earmarked for sale (or pre-sale) in Hong Kong for the year 2002/2003 are as follows:

Location	Type	Group Interest	Attributable GFA (sq.ft.)
Rolling Hills (Phase 2) DD105, Ngau Tam Mei Yuen Long	Residential	50%	38,266
Furama Court 24-26 Kimberley Road & 55-61 Carnarvon Road & 38-40 Kimberley Street Tsimshatsui, Kowloon	Service Apartment	50%	40,858
	Commercial		17,314
			58,172

The prevailing cautious sentiment over the office and commercial market is likely to linger on for a prolonged period of time, amongst which the Grade A office leasing market is expected to remain as the prime casualty as destitute multinational demand and still abundant supply (averaging over 2 million square feet per annum over the next four years), would post sustained pressure on rental and thus capital values. Based on this projection and coupled with the disposal of Crocodile Houses 1 and 2, the Group's rental income would further dwindle in the coming year.

In line with the overall hotel industry which is unlikely to make any headway in terms of both occupancy and room rates, contribution from The Ritz-Carlton Hong Kong is expected to remain paltry. However, it is encouraging to see a revitalization of the Group's hotel management division, led by Furama Hotels and Resorts International Limited ("FHRI"). In addition to the Majestic Hotel, FHRI has further secured the hotel management contracts for the Royal Windsor Hotel during the year under review, and the hotel supporting service contract for the Kimberley Hotel at the time of writing. With longstanding expertise in this area, we are sanguine of this expansionary drive and thus the future prospects of FHRI.

The Group is guardedly optimistic of the prospects of eSun. In addition to its core operations, EAST has been actively developing new sources of revenue such as programme sales to South East Asia and the provision of broadcasting facilities and services to clients. Initial market response has been encouraging and we anticipate further growth in both areas. EAST has also 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 early 2003. Meanwhile, as the difficult market conditions will persist, both MAH and EAE are unlikely to turn in meaningful contributions to eSun in the second half of 2002, although we believe that both operating vehicles are well positioned to capitalize on any cyclical upswing of the entertainment industry.

Group Restructuring

In sympathy with the continued downturn of property prices, it is natural to see a further erosion of the Group's net asset backing, which stood at HK$766 million as of year-end 2002. Riding on a still high debt level of over HK$7,000 million (inclusive of a HK$1,500 million due to associate e-Sun), it is obvious that a substantial debt restructuring program would be required in order to re-equip the Group with a cleaner bill of financial health. The Group is currently having ongoing discussions with all creditors with an objective to eliminate most of its unsecured indebtedness possibly through a combination of cash repayment, debt-equity swap and the pledging of residual value of certain Group assets. While we have not been able to finalize the form and structure of this proposal at the time of writing, we are confident that an interim agreement would be reached amongst all parties before the end of this year, with the technicalities to be sorted out in the early part of 2003. We will keep all shareholders promptly informed of future developments on this front, and we are extremely hopeful that the conclusion of this restructuring exercise will result in a substantial improvement in the shareholders' value of the Group.

Liquidity and Financial Resources

As at the balance sheet date, consolidated bank and other borrowings, inclusive of the amount due to eSun of HK$1,500 million, and bond payables of the Group amounted to HK$7,144 million (2001: HK$7,560 million). Consolidated net assets of the Group as at the same date was HK$766 million (2001: HK$3,866 million). The resultant debt to equity ratio increased significantly to 9.33.

As reported in last year's annual report, in the meetings of the exchangeable bondholders and convertible bondholders held on 4th August, 2000, the respective bondholders resolved to approve a debt restructuring proposal put forward by the Group for a deferral of the repayment date to 31st December, 2002, subject to certain conditions specified in the proposal. A 15% and a 2.5% principal repayments were made by the Group 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 in prior year to reschedule the principal repayments to 31st December, 2002 under their respective bilateral facilities. As at the balance sheet date, total bank and other borrowings of the Group amounted to HK$3,938 million, representing a 10% fall from the balance as at 31st July, 2001. The maturity profile of the bank and other borrowings was spread over a period of 3 years with HK$2,445 million repayable or renewable within one year, HK$64 million repayable or renewable between 1 to 2 years and HK$1,429 million repayable or renewable between 2 to 3 years.

As the bulk of the indebtedness is falling due on 31st December, 2002 and the amount due to eSun Holdings Limited of HK$1,500 million is also due for repayment on the same day, the consolidated net current liabilities of the Group as at the balance sheet date increased significantly to HK$6,193 million. The Group will continue to implement appropriate asset disposal programme with a view to generating positive cashflows for providing sufficient working capital for the Group's operations and to further reduce its overall level of indebtedness. The Group has been working closely with its legal and financial advisors in formulating a plan for the repayment and/or refinancing of the outstanding indebtedness. Recently, the Group initiated discussion with the Exchangeable Bondholders, Convertible Bondholders and eSun to explore the terms of a new debt restructuring plan (the "New Restructuring Plan"). The Group has also initiated negotiations with its principal banks with a view to arranging a rescheduling and/or refinancing of bank borrowings (the "Refinancing Arrangements"). As of the date of approval of these financial statements, no fixed terms or binding agreements in respect of the New Restructuring Plan or the Refinancing Arrangements had been agreed upon or executed.

The directors of the Company believe that the Group will be able to secure the agreement of the Exchangeable Bondholders, the Convertible Bondholders, eSun and the banks to the New Restructuring Plan and the Refinancing Arrangements and, at the same time, continue the successful orderly disposal of the necessary Group assets to generate additional positive cash flows. On this basis, the directors consider that the Group will have sufficient working capital to finance its operations in the foreseeable future.

As at the balance sheet date, certain investment properties with carrying value of approximately HK$4,981 million, certain properties under development with carrying value of approximately HK$75 million and certain fixed assets with carrying value of approximately HK$931 million were pledged to banks to secure banking facilities granted to the Group. In addition, the entire beneficial holding by the Group of 285,512,791 ordinary shares of eSun, the entire holding of the shares of Peakflow Profits Limited together with its 30% holding in the shares of Bayshore Development Group Limited, the joint venture company for the AIG Tower project and certain shares in other subsidiaries, associates and investee companies held by the Group were also pledged to banks and other lenders to secure loan facilities granted to the Group. In addition, pursuant to the terms and conditions of the bonds, the Exchangeable Bondholders will share on a pari passu and pro rata basis with the Convertible Bondholders the security 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 investment and development properties and revenue from hotel and restaurant operations.

The Group continued to adopt a prudent approach in the management of foreign exchange and interest rate exposures. The revenue of the Group was mainly in Hong Kong dollars. The Directors believed that the currency peg against US dollar would be maintained in the foreseeable future. The majority of the Group's borrowings were denominated either in Hong Kong dollars or US dollars thereby reducing exposure to undesirable exchange rate fluctuations. 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.

Employees and Remuneration Policies

The Group employed a total of approximately 1,700 (as at 31st July, 2001: 2,200) employees as at 31st July, 2002. The significant drop in headcount is mainly due to the cessation of operation of Furama Hotel Hong Kong for its redevelopment 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 hospitalization insurance plan, subsidized medical care and subsidies for external educational and training programmes.

Contingent liabilities

(i) Contingent liabilities not provided for in the financial statements at the balance sheet date were as follows:

	Group 2002 HK$'000	Group 2001 HK$'000	Company 2002 HK$'000	Company 2001 HK$'000
Guarantees given to banks in connection with facilities granted to:				
Subsidiaries	—	—	2,355,431	2,365,501
Associates	269,194	274,799	269,194	274,799
Investee companies	—	4,301	—	4,301
	269,194	279,100	2,624,625	2,644,601
Guarantees given in connection with the issue of Convertible Bonds	—	—	965,250	965,287
Guarantees given in connection with the issue of Exchangeable Bonds	—	—	740,025	740,053
	269,194	279,100	4,329,900	4,349,941

(ii) Pursuant to certain indemnity deeds dated 12th November, 1997 entered into between the Company and Lai Fung, the Company has undertaken to indemnify Lai Fung in respect of certain potential PRC income tax and land appreciation tax ("LAT") payable or shared by Lai Fung in consequence of the disposal of any of the property interests attributable to Lai Fung through its subsidiaries and its associates as at 31st October, 1997 (the "Property Interests"). These tax indemnities given by the Company apply in so far as such tax is applicable to the difference between (i) the value of the Property Interests in the valuation thereon by Chesterton Petty Limited, independent chartered surveyors, as at 31st October, 1997 (the "Valuation"); and (ii) the aggregate costs of such Property Interests incurred up to 31st October, 1997, together with the amount of unpaid land costs, unpaid land premium and unpaid costs of resettlement, demolition and public utilities and other deductible costs in respect of the Property Interests. The indemnity deeds assume that the Property Interests are disposed of at the values attributed to them in the Valuation, computed by reference to the rates and legislation governing PRC income tax and LAT prevailing at the time of the Valuation.

The indemnities given by the Company do not cover (i) new properties acquired by Lai Fung subsequent to the listing of the shares of Lai Fung on The Stock Exchange of Hong Kong Limited (the "Listing"); (ii) any increase in the relevant tax which arises due to an increase in tax rates or changes to the legislation prevailing at the time of the Listing; and (iii) any claim to the extent that provision for deferred tax on the revaluation surplus has been made in the calculation of the adjusted net tangible asset value of Lai Fung as set out in Lai Fung's prospectus dated 18th November, 1997.

Lai Fung had no LAT payable during the year. No income tax payable by Lai Fung was indemnifiable by the Company during the year.

PRACTICE NOTE 19 TO THE LISTING RULES ("PN19")

Advances to entities (Paragraph 3.2.1 of PN19)

As at 31st July, 2002, the Group had advanced to and given guarantees for facilities granted to certain affiliated companies that, individually, exceed 25% of the Group's net asset value. In compliance with PN19, details of the advances to and guarantees given for facilities granted to Bayshore Development Group Limited ("Bayshore"), an associate owned as to 30% by the Group, Hillfield Trading Limited ("Hillfield Trading"), Bushell Limited and Sky Connection Limited ("Sky Connection"), associates each owned as to 50% by the Group, as at 31st July, 2002 are set out below:

	Name of affiliated companies				
	Bayshore HK$'000 (a)	Hillfield Trading HK$'000 (b)	Bushell Limited HK$'000 (b)	Sky Connection HK$'000 (c)	Total HK$'000
Principal Amount of advances	900,000	402,180	—	253,458	1,555,638
Interest receivable	105,875	—	—	31,071	136,946
Guarantees given for banking facilities granted	—	—	215,000	124,000	339,000
	1,005,875	402,180	215,000	408,529	2,031,584

(a) The advance was provided to Bayshore to finance the development of AIG Tower project at 1 Connaught Road Central, Hong Kong. The balance was unsecured, interest-bearing at prevailing market rate and had no fixed terms of repayment.

(b) The advance was provided to Hillfield Trading for its on-lending to Bushell Limited, its wholly-owned subsidiary, to finance the property development of Furama Court project at Tsim Sha Tsui, Hong Kong. The balance was unsecured, interest-free and had no fixed terms of repayment. The guarantee was given to a bank, in proportion to the Group's beneficial shareholding in Bushell Limited, to secure facilities granted to Bushell Limited to finance the property development project of Furama Court.

(c) The advance was provided to Sky Connection to finance the general working capital requirement of its duty free business. The balance was unsecured, interest-bearing at prevailing market rates and repayable on demand. The guarantees were given to banks, in proportion to the Group's beneficial shareholding in Sky Connection, to secure a performance bond issued by a bank in favor of Hong Kong Airport Authority and other banking facilities granted by such banks to Sky Connection.

Financial assistance provided to and guarantees given for affiliated companies (paragraph 3.3 of PN19)

As at 31st July, 2002, the Group had given financial assistance and guarantees to financial institutions for the benefit of its affiliated companies amounting to, in aggregate, approximately 326% of the Group's net asset value. In compliance with PN19, the proforma combined balance sheet of the affiliated companies as at the balance sheet date is disclosed as follows:

	HK$'000
Fixed assets	728,757
Properties under development	4,134,229
Interests in associates	405,360
Long term investments	9,182
Amount due from a related company	1,500,040
Interests in jointly controlled entities	34,253
Net current liabilities	(124,830)
Total assets less current liabilities	6,686,991
Long term borrowings	(3,488)
Convertible notes	(259,501)
Deferred income	(105,788)
Amounts due to shareholders	(5,835,744)
	482,470
CAPITAL AND RESERVE	
Share capital	489,385
Share premium account	3,142,400
Contributed surplus	891,289
Fixed assets revaluation reserve	287,237
Exchange fluctuation reserve	16,461
Accumulated losses	(4,298,553)
	528,219
Minority interests	(45,749)
	482,470

FINAL ORDINARY DIVIDEND

The Board does not recommend the payment of any final ordinary dividend in respect of the year ended 31st July, 2002 (2001: Nil).

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held on Friday, 20th December, 2002. Notice of the Annual General Meeting together with the Company's 2001-2002 Annual Report will be despatched to the members on or before 27th November, 2002.

PUBLICATION OF INFORMATION ON STOCK EXCHANGE WEBSITE

The Annual Report of the Company, which will contain all the information required by paragraphs 45(1) to 45(3) inclusive of Appendix 16 to the Stock Exchange Listing Rules, will be published on the website of the Stock Exchange on or before 29th November, 2002.

By Order of the Board
Lam Kin Ngok, Peter
Chairman and President

Hong Kong, 8th November, 2002