Chairman's Statement

Chairman LIM Por Yen

GROUP RESULTS

The Group reported a consolidated net loss attributable to shareholders of approximately HK$1,055.8 million for the year ended 31st July, 2000. Turnover for the year decreased to HK$2,967 million from HK$3,181 million in the previous year but gross profit increased to HK$1,034 million from HK$727.8 million the year before, representing an increase of 42%.

The major contributing factor to the net loss reported is the consolidated net loss recorded by Lai Sun Development Company Limited ("LSD") of approximately HK$2,757.9 million, which remained a principal subsidiary of the Company until 1st May, 2000. The interest of the Company in LSD decreased to 42.25% on 2nd May, 2000 when LSD issued 210 million new shares to acquire an effective 25% interest in HKATV.com Limited.

The other subsidiary of the Company, Crocodile Garments Limited, had reported substantially improved results, trimming its net loss for the year under review to HK$35.7 million compared with the loss for the previous year of HK$196.3 million.

Chairman's Statement

Lai Sun Garment (International) Limited

The combined operating results of the manufacturing operation and export business of the Company had shown a significant improvement over the results for the previous year. Operating expenses had been well contained and savings had been achieved in manufacturing and finance costs. However, the overall results of the Company had been affected by provisions made for the values of investment in a subsidiary on a conservative basis.

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

Lai Sun Development Company Limited ("LSD")

LSD reported a consolidated net loss attributable to shareholders of HK$2,757.9 million for the year ended 31st July, 2000, compared with the net loss of HK$6,832 million for the previous year. No final dividend was recommended by the directors of LSD. LSD continued to place top priority on improving its debt to equity ratio and the momentum in its asset disposal programme was maintained throughout the year under review.

However, the overall cash generation and debt restructuring programme was achieved at the expense of profitability. Of the consolidated net loss of HK$2,757.9 million reported by LSD, HK$974 million was due to losses arising from disposal of properties, largely attributed to the realized loss of HK$455 million on disposal of a 65% interest in Furama Hotel Hong Kong. In addition, provisions totalling HK$469 million were also taken for diminution in values of its property development landbank.

LSD also made a write-off of HK$408 million against goodwill arising from the acquisition of technology-oriented assets. The consolidated net losses of HK$885 million and HK$192 million reported by eSun Holdings Limited, formerly known as Lai Sun Hotels International Limited, for its financial year ended 31st December, 1999 and its half-year ended 30th June, 2000 respectively also adversely affected the results of LSD.

Chairman's Statement

Total bank debt of LSD group, excluding debts of subsidiaries, fell by 21% from the level for the previous year to HK$4,374 million. Subsequent to the year-end, bond debt exposure had also been further reduced to US$225 million following a partial repayment of principal on 31st August, 2000 as part of the restructuring programme of LSD group.

LSD Group's 3 million square feet investment property portfolio generated gross rental income of HK$516 million for the year, representing a decline of 15% from the previous year. This decline was attributable to the sale of selective industrial properties of LSD and the overall unfavourable market conditions for the industrial property sector. LSD intends to further reduce its exposure to this sector through disposals and active exploration of the possibility of rezoning certain properties into commercial and/or residential use.

The main feature of LSD Group's property development activities for the year under review was the disposal of a 65% interest in the Furama Hotel Hong Kong site to a 50-50 joint venture company formed between Pidemco Land of Singapore and American International Group for a net consideration of approximately HK$1,881 million. The transaction was completed on 31st July, 2000. Subsequent to the year-end, LSD disposed of a further 5% interest in Furama Hotel to the aforesaid joint venture company, thus reducing its interest in the redevelopment project to 30%. Preliminary plans formulated by the joint venture company called for the redevelopment of the Furama Hotel property into a grade-A office building with gross floor area of around 400,000 square feet. This project was in line with LSD's priority of debt reduction and cashflow generation, whilst retaining an exposure to the prime grade-A office property market in Hong Kong.

Response to the sale of Phase 1 of Rolling Hills, the residential project at Ngau Tam Mei, Yuen Long, in which LSD held a 50% interest was encouraging and all 16 houses were sold. Phase 2 of the project was in the planning stage. Completion of The Waterfront, the Kowloon Station Package I residential development project in which LSD held a 10% interest was targeted for the end of 2000.

Causeway Bay Plaza 2

Cheung Sha Wan Plaza

Causeway Bay Plaza 1

Crocodile House 1 & 2

The Ritz-Carlton, Hong Kong
and Furama Hotel

Chairman's Statement

LSD disposed of its industrial/commercial site situated at 789 Cheung Sha Wan Road, Kowloon in March 2000. Subsequent to the year-end, LSD also completed the disposal of its entire interest in Star House, Tsim Sha Tsui, in September 2000.

During the year, LSD successfully implemented a restructuring scheme involving a swap of hotel and technology-oriented assets between LSD and its listed subsidiary, eSun Holdings Limited, and the deferral of repayment of bank loans and bonds to 31st December, 2002. Following the restructuring, the core businesses and strategic direction of both LSD and eSun Holdings became more clearly focussed, with eSun Holdings concentrating on the development and operation of and investment in telecommunications, media, entertainment and other related businesses through the Internet and other electronic means.

Lai Fung Holdings Limited ("**Lai Fung**")

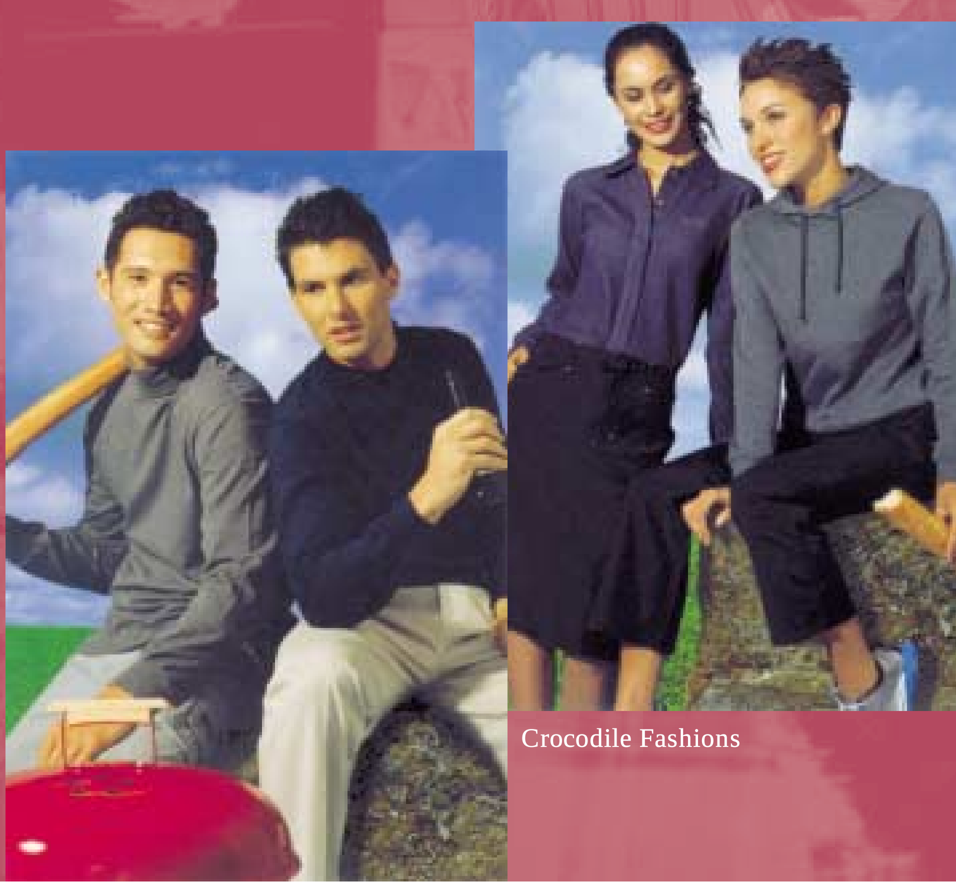
Lai Fung reported a net profit attributable to shareholders of HK$11.5 million for the year under review, an increase of 6.6% compared to the previous year. Turnover increased by approximately 42% to HK$191.6 million from the previous year, derived mainly from sales of Phase II of Eastern Place in Guangzhou. Administrative expenses had also been reduced, thus contributing to the improvement in operating results. Since the outstanding convertible guaranteed bonds amounting to approximately US$120 million will be maturing at the end of November 2000, interest cost is expected to decrease significantly from then on.

Reforms introduced in the Mainland of China during the year under review in the government welfare housing system should, in time, benefit the residential property portfolio of Lai Fung. A range of measures aimed at encouraging the purchase of flats by individual purchasers should enhance the affordability of commodity housing and consequently the demand for housing stock, particularly in cities like Guangzhou where the per capita income is amongst the highest in the country. Development Phase III of Eastern Place is underway, and Lai Fung expects pre-sale of the 80,000 square metres project to commence in the second quarter of 2001. Marketing of another project in Guangzhou, the New Trend Plaza, which comprises office and retail portions will commence in the first quarter of 2001.

Hong Kong Plaza

New Trend Plaza

eSun Holdings investments



Crocodile Fashions

Chairman's Statement

With the expected accession to the World Trade Organization of China in the near future, the commercial property sector has recently experienced a significant recovery. This trend should be advantageous to the marketing and leasing of Hong Kong Plaza, a prime commercial complex of Lai Fung in one of the top business and commercial locations of Shanghai. Lai Fung increased its interest in this project to 90% during the year. Current occupancy rates of 80% for the office portion and over 75% for the service apartments had been reported by Lai Fung.

eSun Holdings Limited ("eSun Holdings")

eSun Holdings, the 50.48% subsidiary of LSD, formally changed its name from Lai Sun Hotels International Limited on 10th July, 2000 to better reflect its new business focus on completion of the restructuring involving, amongst other things, the transfer of its hotel assets to LSD in return for the technology-oriented assets of LSD. During its financial year ended 31st December, 1999, eSun Holdings recorded losses arising from the disposal of hotel, residential and service apartment properties in Canada and Shanghai, and made provisions for diminution in values of certain hotel assets, reporting a consolidated net loss of HK$885 million for the year. eSun Holdings further recorded a net loss of HK$192 million in the first half of 2000.

eSun Holdings currently holds various substantial interests in selected telecommunications-media-technology companies, including Media Asia Holdings Ltd., HKATV.com Limited and Eastweek.com.hk Limited and a 9.87% interest SUNDAY Communications Limited listed in Hong Kong.

Crocodile Garments Limited ("Crocodile")

Crocodile reported substantially improved results for the year compared with the previous financial year when it recorded a net loss attributable to shareholders of HK$196.3 million. The net loss reported for this year had been reduced to HK$35.7 million, representing an improvement of 82% over the previous year. Turnover increased by 12% to HK$727.5 million, whilst gross profit margin had been improved and total operating costs had been well controlled.

Chairman's Statement

The retail operation of Crocodile in Hong Kong recorded an increase in turnover of 12% compared to the previous year. At the same time, staff and premises expenses and inventory level had been aggressively retrenched.

Encouraging improvement in the performance of the operation in the Mainland had been achieved. Turnover for the year increased to HK$220 million from HK$170 million in the previous year, an improvement of over 29%. To further develop and strengthen its sales and distribution network, Crocodile had made good progress in expanding its network of franchise stores during the year.

Demand for high-end products appeared to be recovering gradually after adjustments to the Hong Kong economy in 1999. Improvements in both turnover and profit had been recorded for the imported label "LACOSTE" line.

PROSPECTS

The Company will continue to exercise tight control on operating and manufacturing expenses in this financial year. Barring unforeseen circumstances, the Company anticipates that profitability at the company level can be maintained.

With its restructuring scheme now in place, LSD will continue to adopt a prudent position in mapping out its strategy for the coming year. It will maintain the momentum in its disposal of property projects, while retaining its core property portfolio so as to benefit from the anticipated upward trend in capital values. The participation of LSD in the Furama Hotel redevelopment project will enable LSD to fully capitalize on the medium-term property market upswing, thus further strengthening its financial position and asset backing.

Chairman's Statement

eSun Holdings announced on 16th November, 2000 proposals to consolidate its share capital at the ratio of 5 shares to 1 share, and to seek the approval of its shareholders to a rights issue in the proportion of one rights share for two existing shares held. The proceeds, which will be not less than HK$160 million, are intended mainly for the setting-up of a programme production centre in Hong Kong and the proposed acquisition of a site in Macau for development of a multi-purpose production facility for production of television dramas and movies. The programmes produced are expected to be distributed through various terrestrial, satellite pay-TV and the Internet channels. LSD is optimistic that eSun Holdings will deliver meaningful contribution to the LSD group in the foreseeable future. LSD intends to maintain its controlling shareholding in eSun Holdings by taking up its entitlements in the proposed rights issue.

With the projected increase in consumer spending in Hong Kong and in the Mainland in the coming year, Crocodile plans to position itself to capitalise on this trend, in particular in the Mainland. It is forecasting significant growth and profitability for its Mainland operation. For its Hong Kong operation, Crocodile will continue to enforce stringent cost control in order to achieve a breakeven position for this division, and an overall profit for the company in the coming year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st July, 2000, total bank and other borrowings and consolidated net assets of the Group amounted to HK$124 million and HK$3,261 million, respectively. The debt to equity ratio, expressed as a percentage of total bank and other borrowings to total net assets, as at that date was only 3.8% which was considered to be at a comfortable level.

The maturity profile of the total bank and other borrowings of HK$124 million as at 31st July, 2000 was spread over a period of three years with HK$116 million repayable or renewable within one year, HK$5 million repayable or renewable between one to two years and HK$3 million repayable or renewable between two to three years.

Chairman's Statement

The Group's bank borrowings were mainly in HK$ and US$ thereby reducing its exchange risk exposure. The majority of the bank and other borrowings were maintained as floating rate debts. Attention will be paid to the interest rate movements such that appropriate action will be taken when necessary to hedge against interest rate volatilities.

As at 31st July, 2000, certain investment properties with carrying value amounting to approximately HK$74 million, and certain fixed assets with carrying value amounting to approximately HK$329 million have been pledged to banks to secure banking facilities granted to the Group. In addition, 120,000,000 ordinary shares of LSD and 96,000,000 ordinary shares of Crocodile held by the Group have been pledged to a bank to secure banking facilities granted to the Group.

The Group's cash and bank balances as at 31st July, 2000 amounted to HK$137 million which was adequate to cover the working capital requirement of the Group.

Most of the Group's sales and purchases were made mainly in US$, HK$, Renminbi and French franc. Most of the transactions in French franc were mostly covered with forward exchange contracts in order to minimise the exchange risk.

CONTINGENT LIABILITIES

Details of contingent liabilities of the Group at the balance sheet date are set out in note 37 to the financial statements.

Chairman's Statement

EMPLOYEES AND REMUNERATION POLICIES

The Group employed a total of approximately 2,000 (1999: approximately 4,300) employees as at 31st July, 2000. The significant drop is mainly due to the deconsolidation of LSD subgroup on 2nd May, 2000. The total staff costs including net pension contributions for the year (including staff costs of LSD subgroup up to 2nd May, 2000), was approximately HK$333 million. Pay rates of employees are maintained at competitive levels and salary and bonuses are rewarded on a performance related basis. Other staff benefits included both contributory and defined benefit provident fund schemes, free hospitalisation insurance plan, subsidised medical care and subsidies for external educational and training programmes.

MANAGEMENT AND STAFF

The challenges and difficulties that the Group had to tackle and overcome during the period had been highly demanding for both Management and staff. I would like to record my appreciation of the efforts put in by Management and all staff members of Group companies and the support given by shareholders and business associates during this period.

Lim Por Yen
Chairman

Hong Kong
20th November, 2000