LAI FUNG HOLDINGS

Lai Fung Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 31ST JANUARY, 2003

RESULTS

The Board of Directors of Lai Fung Holdings Limited (the "Company") announces that the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 31st January, 2003 are as follows:—

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE SIX MONTHS ENDED 31ST JANUARY, 2003

		Six months ended	
		31/1/03	31/1/02
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
TURNOVER	*2*	**63,472**	77,840
Cost of sales		**(13,478)**	(45,476)
Gross profit		**49,994**	32,364
Other revenues		**22,897**	31,335
Administrative expenses		**(31,022)**	(29,376)
Overprovision/(provision) for completed properties for sale		**200**	(3,000)
PROFIT FROM OPERATING ACTIVITIES	*3*	**42,069**	31,323
Finance costs	*4*	**(22,347)**	(33,154)

Share of losses of associates		**(1,546)**	(10,312)
Impairment loss in interest in a jointly-controlled entity		**(2,118)**	—
PROFIT/(LOSS) BEFORE TAX		**16,058**	(12,143)
TAX	*5*	**—**	395
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		**16,058**	(11,748)
Minority interests		**(981)**	1,336
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		**15,077**	(10,412)
PROFIT/(LOSS) PER SHARE	*6*		
Basic		**0.39 cents**	(0.34 cents)
Diluted		**N/A**	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 31ST JANUARY, 2003

	Notes	31/1/03 (Unaudited) HK$'000	31/7/02 (Audited) HK$'000
NON-CURRENT ASSETS			
Fixed assets		**49,871**	50,280
Investment properties		**2,952,400**	2,952,400
Properties under development		**3,260,761**	3,209,980
Interests in associates		**608,238**	599,908
Interests in jointly-controlled entities		**3,000**	5,118
Negative goodwill	*7*	**(28,749)**	—
		6,845,521	6,817,686
CURRENT ASSETS			
Completed properties for sale		**15,474**	16,555
Debtors, deposits and prepayments	*8*	**36,072**	55,372
Tax recoverable		**14,124**	13,442
Pledged bank balances		**6,070**	11,698
Cash and cash equivalents		**135,884**	96,284
		207,624	193,351

CURRENT LIABILITIES			
Interest-bearing bank loans, secured		**122,549**	138,006
Deposits received		**19,341**	19,502
Rental deposits received		**10,649**	10,455
Creditors and accruals	*9*	**218,371**	227,425
Loans from a substantial shareholder	*10*	**114,243**	—
		485,153	395,388
NET CURRENT LIABILITIES		**(277,529)**	(202,037)
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,567,992**	6,615,649
NON-CURRENT LIABILITIES			
Interest-bearing bank loans, secured		**(900,091)**	(829,445)
Loans from a substantial shareholder	*10*	**—**	(86,886)
Long-term rental deposits received		**(12,178)**	(10,735)
		(912,269)	(927,066)
MINORITY INTERESTS		**(120,879)**	(165,085)
		5,534,844	5,523,498
CAPITAL AND RESERVES			
Issued capital	*11*	**383,853**	383,853
Reserves	*12*	**5,150,991**	5,139,645
		5,534,844	5,523,498

NOTES

1. PRINCIPAL ACCOUNTING POLICIES

These unaudited condensed consolidated financial statements have been prepared under the historical cost convention except for the revaluation of investment properties and properties under development held for investment potential, and have been prepared in accordance with Statement of Standard Accounting Practice 25 (SSAP 25), "Interim financial reporting" issued by the Hong Kong Society of Accountants.

The accounting policies and basis of preparation used in the preparation of the interim financial statements are consistent with those adopted in the annual financial statements for the year ended 31st July 2002, except that the following new or revised Statements of Standard Accounting Practice ("SSAPs") which are effective for accounting period commencing on or after 1st January, 2002 are newly adopted in the preparation of the current period's unaudited condensed consolidated interim financial statements:

- SSAP1 (Revised) : "Presentation of financial statements"
- SSAP11 (Revised) : "Foreign currency translation"
- SSAP15 (Revised) : "Cash flow statements"
- SSAP33 : "Discontinuing operations"
- SSAP34 : "Employee benefits"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amount disclosed in these interim financial statements of adopting these SSAPs, which have had a significant effect on the financial statements, are summarised as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a condensed consolidated summary statement of changes in equity is now presented in place of the condensed consolidated statement of recognised gains and losses that was previously required.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions in the financial statements. The principal impact of the revision of this SSAP on the condensed consolidated financial statements is that the profit and loss accounts of overseas subsidiaries, associates and jointly-controlled entities are translated to Hong Kong dollars at weighted average exchange rates for the period, whereas previously they were translated at the exchange rates ruling at the balance sheet date.

SSAP 15 (Revised) prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that cash flows are now presented under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. The format of the condensed consolidated cash flow statement have been revised in accordance with the new requirements. In addition, the cash flows of overseas subsidiaries are translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates ruling at the balance sheet date.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no material change to the previously adopted accounting treatments for employee benefits.

2. SEGMENT REVENUE AND RESULTS

Business segments

Group

	Property development Six months ended 31/1/03 (Unaudited) HK$'000	Property development Six months ended 31/1/02 (Unaudited) HK$'000	Property investment Six months ended 31/1/03 (Unaudited) HK$'000	Property investment Six months ended 31/1/02 (Unaudited) HK$'000	Consolidated Six months ended 31/1/03 (Unaudited) HK$'000	Consolidated Six months ended 31/1/02 (Unaudited) HK$'000
Segment revenue:						
Sales to external customers	**1,167**	29,857	**—**	—	**1,167**	29,857
Rental income	**—**	—	**62,305**	47,983	**62,305**	47,983
Other revenue	**—**	1,846	**11,920**	10,185	**11,920**	12,031
Total	**1,167**	31,703	**74,225**	58,168	**75,392**	89,871
Segment results	**(114)**	(3,163)	**37,034**	23,451	**36,920**	20,288
Interest income					**10,977**	19,304
Unallocated expenses					**(6,028)**	(5,269)
Overprovision/(provision) for completed properties for sale	**200**	(3,000)			**200**	(3,000)
Profit from operating activities					**42,069**	31,323
Finance costs					**(22,347)**	(33,154)
Share of losses of associates			**(1,546)**	(10,312)	**(1,546)**	(10,312)
Impairment loss in interest in a jointly-controlled entity	**(2,118)**				**(2,118)**	—
Profit/(loss) before tax					**16,058**	(12,143)
Tax					**—**	395
Profit/(loss) before minority interests					**16,058**	(11,748)
Minority interests					**(981)**	1,336
Net profit/(loss) from ordinary activities attributable to shareholders					**15,077**	(10,412)

No geographical analysis is presented as over 90% of the Group's customers and assets are located in the Mainland China (the "PRC").

3. PROFIT FROM OPERATING ACTIVITIES

	Six months ended	
	31/1/03	31/1/02
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
This is arrived at after charging/(crediting):		
Cost of completed properties developed for sale recognised*	**1,081**	37,866
Depreciation	**1,584**	893
Amortisation of negative goodwill	**(366)**	—

* *amount included overprovision for completed properties for sales to net realisable value of HK$200,000 (six months ended 31st January, 2002: provision of HK$3,000,000).*

4. FINANCE COSTS

	Six months ended	
	31/1/03	31/1/02
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest expenses on:		
Bank loans repayable within five years	**22,719**	31,078
Loans from a substantial shareholder	**181**	1,297
Bank charges	**2,748**	2,578
	25,648	34,953
Less:		
Amounts capitalised in properties under development	**(3,301)**	(1,799)
	22,347	33,154

5. TAX

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profits arising in Hong Kong during the period (six months ended 31st January 2002: Nil).

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

	Six months ended	
	31/1/03	31/1/02
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Overprovision of the PRC profits tax in prior year	**—**	395

6. PROFIT/(LOSS) PER SHARE

The calculation of basic profit/(loss) per share is based on the net profit from ordinary activities attributable to shareholders for the period of HK$15,077,000 (six months ended 31st January, 2002: net loss of HK$10,412,000), and the weighted average of 3,838,533,653 (six months ended 31st January, 2002:3,070,826,923) ordinary shares in issue during the period.

The diluted profit/(loss) per share for the six months ended 31st January 2003 and 2002 has not been shown because there were no potential ordinary shares outstanding during these periods.

7. NEGATIVE GOODWILL

	31/1/03
	(Unaudited)
	HK$'000
Negative goodwill:	
Arising on acquisition of additional interests in subsidiaries during the period and at end of period	**29,115**
Accumulated amortisation:	
Amount provided during the period and at end of period	**(366)**
Net book value	**28,749**

8. DEBTORS, DEPOSITS AND PREPAYMENTS

The credit terms of the Group range from 30 to 180 days. The ageing analysis of debtors as at 31st January, 2003 is as follows:

	31/1/03	31/7/02
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Amount not yet due	**—**	1,735
Overdue by 30 days	**—**	1,510
Overdue by 60 days	**—**	3,368
Overdue by 90 days	**—**	1,445
Overdue by more than 90 days	**18,105**	23,724
Trade receivables	**18,105**	31,782
Deposits and prepayments	**17,967**	23,590
Total	**36,072**	55,372

9. CREDITORS AND ACCRUALS

The ageing analysis of creditors as at 31st January, 2003 is as follows:

	31/1/03	31/7/02
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Within 1 month	**5,276**	6,569
Between 1 to 3 months	**145**	167
Over 3 months	**56,765**	56,720
Trade payables	**62,186**	63,456
Accruals and other creditors	**156,185**	163,969
Total	**218,371**	227,425

10. LOANS FROM A SUBSTANTIAL SHAREHOLDER

The following loans were granted by a substantial shareholder to the Group:

	31/1/03	31/7/02
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Interest-bearing at best lending rate quoted by a specified bank	**787**	787
Interest-bearing at London Inter-Bank Offering rate	**20,238**	20,238
Interest-free	**93,218**	65,861
Total	**114,243**	86,886

All the loans above are unsecured and repayable on or before 31st December, 2003.

11. ISSUED CAPITAL

	Number of shares 31/1/03 (Unaudited) *'000*	Nominal value 31/1/03 (Unaudited) *HK$000*	**Number of shares 31/7/02 (Audited) *'000***	Nominal Value 31/7/02 (Audited) *HK$000*
Authorised:				
Ordinary share of HK$0.10 each	**7,000,000**	700,000	**7,000,000**	700,000
Issued and fully paid:				
Ordinary share of HK$0.10 each	**3,838,534**	383,853	**3,838,534**	383,853

12. RESERVES

	Share premium account *HK$'000*	**Exchange fluctuation reserve** *HK$'000*	**Investment properties revaluation reserve** *HK$'000*	**Properties under development held for investment potential revaluation reserve** *HK$'000*	**Capital reserve** *HK$'000*	**Retained profits/ (accumulated losses)** *HK$'000*	**Total** *HK$'000*
At 1st August 2002 (Audited)	3,225,689	18,057	426,211	1,376,016	181,292	(87,620)	5,139,645
Exchange realignments:							
Subsidiaries	—	(680)	—	—	—	—	(680)
Associates	—	(15)	—	—	—	—	(15)
Deficit on revaluation	—	—	(3,036)	—	—	—	(3,036)
Profit for the period retained	—	—	—	—	—	15,077	15,077
At 31st January 2003 (Unaudited)	3,225,689	17,362	423,175	1,376,016	181,292	(72,543)	5,150,991
Reserves retained by:							
Company and subsidiaries	3,225,689	11,162	423,175	1,376,016	181,292	122,491	5,339,825
Associates	—	7,964	—	—	—	(155,416)	(147,452)
Jointly-controlled entities	—	(1,764)	—	—	—	(39,618)	(41,382)
At 31st January 2003 (Unaudited)	3,225,689	17,362	423,175	1,376,016	181,292	(72,543)	5,150,991

13. COMPARATIVE AMOUNTS

As further explained in note 1 to the interim financial statements, due to the adoption of certain new and revised SSAPs during the current period, the accounting treatment and presentation of certain items in the interim financial statements have been revised to comply with the new requirements.

During the period, the directors considered it a fairer presentation to include in the cost of sales, certain costs incurred directly for the purpose of earning rental income which were classified as administrative expenses in previous years. Consequently, approximately HK$11 million representing the aforesaid direct cost of rental income was reclassified from administrative expenses to cost of sales for the six months ended 31st January, 2002.

INTERIM DIVIDEND

The Board of Directors does not recommend the payment of an interim dividend in respect of the six months ended 31st January, 2003. No interim dividend was declared in respect of the previous corresponding period.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the six months ended 31st January, 2003, the Group achieved a turnover of HK$63,472,000 (2002:HK$77,840,000) and recorded a profit from operating activities of HK$42,069,000 (2002:HK$31,323,000), representing a decrease of approximately 18% and an increase of approximately 34% respectively when compared with the previous corresponding period. The decrease in turnover was mainly attributable to the slowdown in sale of Phase II of Eastern Place in Guangzhou.

Despite the fall in turnover, the Group was able to increase the gross profit by 54% from HK$32,364,000 in the previous corresponding period to HK$49,994,000 in the period under review. The increment was due to the improvement in the occupancy of the offices, shopping arcades and service apartments of Hong Kong Plaza in Shanghai and the reduction of costs.

The performance of the Group for the period was still adversely affected by the performance, though to a smaller extent, of the associates and jointly-controlled entities. During the period, the share of losses of the associates and impairment loss in interest in a jointly-controlled entity amounted to HK$1,546,000 (2002: HK$10,312,000) and HK$2,118,000 (2002: Nil), respectively.

At the same time, finance costs had been reduced to HK$22,347,000 (2002: HK$33,154,000) in the period under review as a result of the decrease in the interest rate and reduction of outstanding loan principal.

As a result, the Group achieved turnaround by recording a net profit from ordinary activities attributable to shareholders for the period of HK$15,077,000 as compared with a net loss of HK$10,412,000 for last period.

Project Review

The Group's flapship project in Shanghai — the Hong Kong Plaza — is situated at the prime Huaihaizhong Road in close proximity to Huangpi Road subway station. This twin-building complex offers a gross floor area of approximately 140,000 sq.m. and includes offices, shopping arcades and service apartments with extensive clubhouse facilities. With the continuous improvement in the rates and/or occupancy of thereof, rental contribution from the property continued to increase during the period under review. Some prestigious and sizable tenants, like Physical Fitness Centre, KFC, Zen and Cyber Mart, etc., have been opened in the shopping arcades.

Hai Xin Garden in Shanghai which is to be developed into a residential, service apartments and commercial complex, is located at the western part of the city of Shanghai and in the centre of the Changning district, traditionally one of the prime residential districts in Shanghai. The Group believes this development project will cater for the demand of the buyers who call for comfortable and fashionable home living environment. The construction work for the Phase I has been started and is scheduled to be completed in 2004.

Through years of planning and operations, Eastern Place has become a landmark residential community in Guangzhou. The project is located at Dongfeng Dong Lu in the Dong Shan District of Guangzhou and also near the two other major roads of Guangzhou — Huanshi Road East & Guangzhou Road. The total site area is approximately 60,000 sq.m. The Phase I & II, comprising 4 residential buildings, had already been completed and substantially sold. The luxurious residents' club house, Dong Feng Hui, was completed and started to provide services and facilities to the residents. The construction work of Phase III — 2 residential buildings, coupled with additional deluxe facilities featuring a 50-meter swimming pool, tennis courts and golfing practice areas, etc., has been started and the pre-sales is expected to begin in late 2003.

Being recognised as a significant commercial project in Guangzhou, development activities of the Wuyuehua Shangye Guangchang is progressing smoothly. This project is located on Zhongshanwu Road and atop the Guangzhou Gongyuanqian subway station. It will provide approximately 35,000 sq.m. of office and commercial floors areas, as well as a 4-level basement of approximately 14,000 sq.m. earmarked for commercial and car park usage. The construction work is expected to be completed by 2003.

Capital Structure, Liquidity and Debt Maturity Profile

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

As at 31st January, 2003, the Group had a gross borrowing (inclusive of the loan of HK$114,243,000 loaned by Mr. Lim Por Yen) amounting to HK$1,137 million (2002: HK$1,054 million), representing an increase of HK$83 million over that of the preceding financial year end. The consolidated net assets of the Group amounted to HK$5,535 million (2002: HK$5,523 million). The resultant debt to equity ratio was 0.21 (2002: 0.19).

During the period, the Group obtained additional unsecured loan of RMB28,834,000 from Mr. Lim Por Yen, a substantial shareholder of the Company. The aggregate outstanding balances of the loans from Mr. Lim as at 31st January, 2003 were HK$114,243,000.

Approximately 92% of the Group's gross borrowings were on a floating rate basis at the balance sheet date and the remaining 8% were interest-free. As at 31st January, 2003, approximately 35.8% of the Group's gross borrowings were denominated in Renminbi ("RMB"), 0.6% were denominated in Hong Kong dollars ("HKD") and 63.6% were denominated in the United States dollars ("USD").

The Group's monetary assets, loans, and transactions are principally denominated in HKD, RMB and the USD. As the exchange rate between HKD and the USD is pegged, together with the insignificant fluctuation in exchange rate between HKD and RMB, the Group believes its exposure to exchange rate risk is not material. It is not the present intention of the Group to seek to hedge its exposure to foreign exchange fluctuations involving the USD and RMB. However, the Group will constantly review the economic situation and its foreign exchange risk profile, and will consider appropriate hedging measures in the future as may be necessary.

The maturity profile of the Group's bank borrowings as at 31st January, 2003 was spread over a period of five years, with approximately 12% repayable within one year and 88% repayable between two to five years. Certain assets of the Group have been pledged to secure financing, including investment properties with carrying value amounting to approximately HK$2,896 million and properties under development with carrying value amounting to approximately HK$1,199 million, and bank balances amounting to approximately HK$6 million at the balance sheet date.

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

On 7th March, 2003, the Company proposed to raise approximately HK$76.77 million, before expenses, by way of a rights issue of 767,706,730 rights shares in the Company of HK$0.10 each at the subscription price of HK$0.10 per share, in the proportion of one rights share for every five existing shares held on 31st March, 2003 (the "Rights Issue"). Further details of the Rights Issue are included in the Company's Prospectus issued on 31st March, 2003.

Contingent Liabilities

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

Prospects

The real estate markets in major cities in the PRC have experienced a reasonable recovery in the period under review as both residential and commercial rentals have exhibited a modest uptrend. Rental contributions from both Hong Kong Plaza in Shanghai and Tianhe Entertainment Plaza in Guangzhou, in which the Company has a 25% interest, should continue to improve. The envisaged pre-sale of Phase III of Eastern Place in Guangzhou is expected to have positive impact on the Group's turnover and profitability.

Despite the fact that the Group's performance was significantly improved by reducing the finance cost during the period under review, the management will keep on finding new measures to trim down this major cost item.

With the turnaround in the period under review, the forthcoming pre-sale in Guangzhou and Shanghai, together with decrease in borrowing costs, further improvement in operating results can be envisaged with prudent optimism.

The Group will continue its focus on property investment and development projects in Shanghai and the major cities in Guangdong Province, notable among which is Guangzhou. Should suitable opportunities arise, the Group will cautiously consider increasing its land reserve in due course.

Employees and Remuneration Policies

The Group employs a total of approximately 390 employees. The Group recognises the importance of the strength of its human resources for its success. Pay rates of employee are maintained at competitive levels and promotion and salary increments are assessed on a performance related basis. Discretionary bonuses are granted to certain employees on a merit basis and in accordance with industry practice. Other staff benefits include a mandatory provident fund, free hospitalization insurance plan, subsidised medical care and subsidies for external education and training programmes. The Group currently does not have any share option schemes for employees.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 31st January, 2003, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by the interim report, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Company has established an audit committee in accordance with paragraph 14 of the Code. The audit committee comprises the two independent non-executive directors of the Company, namely Mr. Wong Yee Sui, Andrew and Mr. Lam Bing Kwan. The interim report has been reviewed by the audit committee.

By Order of the Board
Lim Por Yen
Chairman

Hong Kong, 17th April, 2003