



LAI FUNG HOLDINGS

LAI FUNG HOLDINGS LIMITED

Interim Report 2003-2004

PLACE OF INCORPORATION

Cayman Islands

BOARD OF DIRECTORS

Lim Por Yen (*Chairman*)

Lam Kin Ming * (*Deputy Chairman*)

Lam Kin Hong, Matthew (*Chief Executive Officer*)

Ho Wing Tim ° (*Deputy Chief Executive Officer*)

Lam Kin Ngok, Peter

Lee Po On

U Po Chu

Lam Kin Ko, Stewart °

Yew Yat Ming

Chiu Wai °

Shiu Kai Wah °

Siu Fai Wing °

Yu Po Kwan °

Wong Yee Sui, Andrew **

Lam Bing Kwan **

* *also alternate director to °*

** *independent non-executive directors*

COMPANY SECRETARY

Yeung Kam Hoi

1

Lai Fung Holdings Limited

11/F Lai Sun Commercial Centre

680 Cheung Sha Wan Road

Kowloon, Hong Kong

Tel (852) 2741 0391 Fax (852) 2741 9763

Internet <http://www.laisun.com/laifung>

E-mail info@laifung.com

Stock code on Hong Kong Stock Exchange: 1125

RESULTS

The Board of Directors of Lai Fung Holdings Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 31st January, 2004 as follows:—

Condensed Consolidated Profit and Loss Account

For the six months ended 31st January, 2004

	Notes	Six months ended	
		31/1/04 (unaudited) HK\$'000	31/1/03 (unaudited) Restated HK\$'000
TURNOVER	2	143,143	63,472
Cost of sales		(83,157)	(13,278)
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Gross profit		59,986	50,194
Other revenues		26,513	23,032
Selling and marketing expenses		(4,836)	—
Administrative expenses		(33,752)	(31,388)
Recovery of impairment loss in interest in a jointly controlled entity		42,555	—
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PROFIT FROM OPERATING ACTIVITIES	3	90,466	41,838
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Finance costs	4	(16,776)	(22,347)
Share of losses of associates		—	(1,546)
Impairment loss in amounts due from associates		(7,427)	—
Impairment loss in interest in a jointly-controlled entity		—	(2,118)
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PROFIT BEFORE TAX		66,263	15,827
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TAX	5	(15,534)	(2,501)
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PROFIT BEFORE MINORITY INTERESTS		50,729	13,326
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Minority interests		(659)	(675)
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NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		50,070	12,651
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EARNINGS PER SHARE	6		
Basic		1.08 cents	0.33 cents
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Diluted		1.08 cents	N/A
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Condensed Consolidated Balance Sheet

As at 31st January, 2004

		31/1/04 (unaudited)	31/7/03 (audited) Restated
	Notes	HK\$'000	HK\$'000
NON-CURRENT ASSETS			
Fixed assets		54,721	52,628
Investment properties		2,955,000	2,946,700
Negative goodwill	7	(10,345)	(10,480)
Properties under development		3,959,245	3,377,730
Interests in associates		578,156	574,565
Long-term investments		2,300	2,300
		7,539,077	6,943,443
CURRENT ASSETS			
Completed properties for sale		13,214	16,168
Debtors, deposits and prepayments	8	40,061	41,165
Tax recoverable		17,625	18,085
Pledged time deposits and bank balances		16,444	11,466
Cash and cash equivalents		280,608	177,508
		367,952	264,392
CURRENT LIABILITIES			
Interest-bearing bank loans, secured		134,399	47,126
Tax payable		11,385	7,567
Deposits received		46,758	17,406
Rental deposits received		16,232	9,725
Creditors and accruals	9	227,202	215,342
Loans from a substantial shareholder	10	39,634	16,170
		475,610	313,336
NET CURRENT LIABILITIES		(107,658)	(48,944)
TOTAL ASSETS LESS CURRENT LIABILITIES		7,431,419	6,894,499
NON-CURRENT LIABILITIES			
Interest-bearing bank loans, secured		(1,096,371)	(1,074,362)
Long-term rental deposits received		(7,109)	(12,666)
Deferred tax liabilities		(806,850)	(555,783)
		(1,910,330)	(1,642,811)
MINORITY INTERESTS		(219,717)	(174,318)
		5,301,372	5,077,370
CAPITAL AND RESERVES			
Issued capital	11	469,836	460,624
Reserves		4,831,536	4,616,746
		5,301,372	5,077,370

Condensed Consolidated Statement of Changes in Equity

For the six months ended 31st January, 2004

	Issued share capital HK\$'000	Share premium account HK\$'000	Exchange fluctuation reserve HK\$'000	Investment properties revaluation reserve HK\$'000	Revaluation reserve of properties under development held for investment potential HK\$'000	Capital reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st August, 2003, as previously reported (audited)	460,624	3,222,276	17,349	417,384	1,329,918	181,292	(26,571)	5,602,272
Prior year adjustments in respect of deferred tax	—	—	—	(146,620)	(64,492)	(123,229)	(190,561)	(524,902)
Restated	460,624	3,222,276	17,349	270,764	1,265,426	58,063	(217,132)	5,077,370
Exercise of share options	9,212	6,357	—	—	—	—	—	15,569
Exchange realignments	—	—	1,030	—	—	—	—	1,030
Increase in revaluation surplus upon reclassification of properties under development held for other than investment potential to held for investment potential	—	—	—	—	90,902	—	—	90,902
Surplus on revaluation	—	—	—	1,219	252,011	—	—	253,230
Deferred tax charged to equity	—	—	—	—	(186,799)	—	—	(186,799)
Net gains and losses not recognised in the profit and loss account	—	—	1,030	1,219	156,114	—	—	158,363
Profit for the period	—	—	—	—	—	—	50,070	50,070
At 31st January, 2004 (unaudited)	469,836	3,228,633*	18,379*	271,983*	1,421,540*	58,063*	(167,062)*	5,301,372
At 1st August, 2002, as previously reported (audited)	383,853	3,225,689	18,057	426,211	1,376,016	181,292	(87,620)	5,523,498
Prior year adjustments in respect of deferred tax	—	—	—	(149,803)	—	(123,229)	(137,919)	(410,951)
Restated	383,853	3,225,689	18,057	276,408	1,376,016	58,063	(225,539)	5,112,547
Exchange realignments	—	—	(695)	—	—	—	—	(695)
Deficit on revaluation	—	—	—	(3,036)	—	—	—	(3,036)
Deferred tax credited to equity	—	—	—	1,096	—	—	—	1,096
Net gains and losses not recognised in the profit and loss account	—	—	(695)	(1,940)	—	—	—	(2,635)
Profit for the period	—	—	—	—	—	—	12,651	12,651
At 31st January, 2003 (unaudited)	383,853	3,225,689*	17,362*	274,468*	1,376,016*	58,063*	(212,888)*	5,122,563

* These reserve accounts comprise the consolidated reserves of HK\$4,831,536,000 (as at 31st January, 2003: HK\$4,738,710,000) in the consolidated balance sheet.

Condensed Consolidated Cash Flow Statement

For the six months ended 31st January, 2004

	Six months ended	
	31/1/04 (unaudited) HK\$'000	31/1/03 (unaudited) HK\$'000
NET CASH FROM OPERATING ACTIVITIES	54,467	19,697
NET CASH USED IN INVESTING ACTIVITIES	(108,391)	(67,616)
NET CASH FROM FINANCING ACTIVITIES	151,181	82,433
NET INCREASE IN CASH AND CASH EQUIVALENTS	97,257	34,514
Cash and cash equivalents at beginning of period	177,508	107,982
Exchange realignments	5,843	(542)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	280,608	141,954
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	267,605	135,216
Non-pledged time deposits with original maturity of less than three months when acquired	13,003	6,738
	280,608	141,954

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, 2003, except that the Group has adopted the revised Statement of Standard Accounting Practice 12 "Income Taxes" ("SSAP 12 (Revised)") which become effective for the current accounting period.

SSAP 12 (Revised) principally prescribes the accounting treatment and disclosure for deferred tax. In prior years, deferred tax liabilities was provided, using the income statement liability method, on all significant timing differences to the extent it was probable that the liability would crystallise in the foreseeable future. A deferred asset was not recognised until its realisation was assured beyond reasonable doubt.

SSAP 12 (Revised) requires the adoption of the balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy resulting from the adoption of SSAP 12 (Revised) has been applied retrospectively. Comparative amounts for prior period have been restated accordingly.

2. Segment Revenue and Results

Business segments

Group

	Property development		Property investment		Consolidated	
	Six months ended		Six months ended		Six months ended	
	31/1/04 (unaudited)	31/1/03 (unaudited) Restated	31/1/04 (unaudited)	31/1/03 (unaudited) Restated	31/1/04 (unaudited)	31/1/03 (unaudited) Restated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:						
Sales to external customers	83,228	1,167	—	—	83,228	1,167
Rental income	—	—	59,915	62,305	59,915	62,305
Other revenue	—	—	15,418	12,055	15,418	12,055
Total	83,228	1,167	75,333	74,360	158,561	75,527
Segment results	8,151	86	36,235	36,803	44,386	36,889
Interest income					11,095	10,977
Unallocated expenses					(7,570)	(6,028)
Recovery of impairment loss in interest in a jointly-controlled entity	42,555				42,555	—
Profit from operating activities					90,466	41,838
Finance costs					(16,776)	(22,347)
Share of losses of associates				(1,546)	—	(1,546)
Impairment loss in amounts due from associates			(7,427)		(7,427)	—
Impairment loss in interest in a jointly-controlled entity		(2,118)			—	(2,118)
Profit before tax					66,263	15,827
Tax					(15,534)	(2,501)
Profit before minority interests					50,729	13,326
Minority interests					(659)	(675)
Net profit from ordinary activities attributable to shareholders					50,070	12,651

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

3. Profit from Operating Activities

Six months ended	
31/1/04	31/1/03
(unaudited)	(unaudited)
	Restated
<i>HK\$'000</i>	<i>HK\$'000</i>

This is arrived at after charging/(crediting):

Cost of completed properties developed for sale recognised*	—	1,081
Cost of properties under development held for purposes other than investment potential recognised	70,241	—
Depreciation	1,683	1,584
Negative goodwill recognised as income during the period	(135)	(135)

* amount for the six months ended 31st January, 2003 included overprovision for completed properties for sales to net realisable value of HK\$200,000.

4. Finance Costs

Six months ended	
31/1/04	31/1/03
(unaudited)	(unaudited)
	Restated
<i>HK\$'000</i>	<i>HK\$'000</i>

Interest expenses on:

Bank loans repayable within five years	22,627	22,719
Loans from a substantial shareholder	549	181
Bank charges	2,586	2,748

25,762 25,648

Less:

Amounts capitalised in properties under development	(8,986)	(3,301)
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16,776 22,347

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, 2003: 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	
	31/1/04 (unaudited) HK\$'000	31/1/03 (unaudited) Restated HK\$'000
Group:		
Charge for the period for Mainland of China profits tax	5,266	—
Deferred tax	10,268	2,673
	15,534	2,673
Share of tax attributable to associates	—	(172)
Tax charge for the period	15,534	2,501

6. Earnings Per Share

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the period of HK\$50,070,000 (six months ended 31st January, 2003 — restated: HK\$12,651,000), and the weighted average of 4,618,256,661 (six months ended 31st January, 2003: 3,838,533,653) ordinary shares in issue during the period.

The calculation of diluted earnings per share is based on the net profit from ordinary activities attributable to shareholders for the period of HK\$50,070,000, and the diluted weighted average of 4,627,289,516 ordinary shares in issue during the period.

The diluted earnings per share for the six months ended 31st January, 2003 has not been shown because there were no potential ordinary shares outstanding during that period.

7. Negative Goodwill

	31/1/04 (unaudited) HK\$'000	31/7/03 (audited) Restated HK\$'000
Negative goodwill:		
Arising on acquisition of additional interest in a subsidiary	(10,750)	(10,750)
Accumulated amortisation:		
Amount at beginning of period	270	—
Amount recognised as income during the period	135	270
Amount at end of period	405	270
Net book value	(10,345)	(10,480)

8. Debtors, Deposits and Prepayments

The credit terms of the Group range from 30 to 180 days. The aged analysis of debtors, based on the invoice date, as at 31st January, 2004 is as follows:

	31/1/04 (unaudited) HK\$'000	31/7/03 (audited) <i>HK\$'000</i>
Overdue by 60 days	—	1,036
Overdue by more than 90 days	7,404	9,178
Trade receivables	7,404	10,214
Deposits and prepayments	32,657	30,951
Total	40,061	41,165

9. Creditors and Accruals

The aged analysis of creditors, based on the invoice date, as at 31st January, 2004 is as follows:

	31/1/04 (unaudited) HK\$'000	31/7/03 (audited) <i>HK\$'000</i>
Within 1 month	10,181	4,665
Between 1 to 3 months	1,708	145
Over 3 months	63,654	68,458
Trade payables	75,543	73,268
Accruals and other creditors	151,659	142,074
Total	227,202	215,342

10

10. Loans from a Substantial Shareholder

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

	31/1/04 (unaudited) HK\$'000	31/7/03 (audited) <i>HK\$'000</i>
Interest-bearing at best lending rate quoted by a specified bank	25,357	—
Interest-free	14,277	16,170
Total	39,634	16,170

All the loans above are unsecured and repayable on demand.

11. Share Capital

	Number of shares 31/1/04 (unaudited) '000	Nominal value 31/1/04 (unaudited) HK\$000	Number of shares 31/7/03 (audited) '000	Nominal Value 31/7/03 (audited) HK\$000
<i>Authorised:</i>				
Ordinary share of HK\$0.10 each	7,000,000	700,000	7,000,000	700,000
<i>Issued and fully paid:</i>				
Ordinary share of HK\$0.10 each	4,698,365	469,836	4,606,241	460,624

12. Related Party Transactions

		Six months ended	
		31/1/04 (unaudited) HK\$'000	31/1/03 (unaudited) HK\$'000
Interest income from an associate	(a)	10,770	10,612
Interest expense on loans from a substantial shareholder	(b)	(549)	(181)
Rental expense paid to an associate of Lai Sun Garment (International) Limited	(c)	(170)	(179)
Legal fees paid to a law firm, in which a director is a partner	(d)	(241)	—

- (a) The interest is charged on an advance made to an associate at Hong Kong dollar prime rate plus 2% per annum. The amount due is unsecured and has no fixed terms of repayment.
- (b) The interest is charged on the loans from a substantial shareholder. Details of the loans granted are included in note 10 to the financial statements.
- (c) The rental charge was calculated by reference to the prevailing open market rentals.
- (d) The legal fees were charged at market rates for legal services rendered to the Group by a law firm in which a director of the Company is a partner.

13. Contingent Liabilities

As at 31st January, 2004, the Group had contingent liabilities in the respect of the following:

- (a) Under a mortgage loan facility provided by a bank to the end-buyers of the office and apartments units of Hong Kong Plaza, Shanghai, the Company agreed to guarantee up to 95% of the liabilities of a subsidiary for the due performance of its undertaking to buy back the relevant property in case of default by the borrowers. It is not practical to determine the outstanding amount of the contingent liabilities of the Company at the balance sheet date.
- (b) Under mortgage loan facilities provided by banks to the end-buyers of Phase I to III of Eastern Place, Guangzhou, and Phase I of Regents Park, Shanghai, the Company agreed to provide guarantees to the banks to buy back the relevant property in case of default by the borrowers. It is not practical to determine the outstanding amount of the contingent liabilities of the Company at the balance sheet date.

14. Commitments

As at 31st January, 2004, the Group had the following capital commitment:

	31/1/04 (unaudited) HK\$'000	31/7/03 (audited) HK\$'000
Contracted, but not provided for:		
Land premium, resettlement, compensation and construction costs	671,421	744,917
Capital contribution to a subsidiary in the PRC	25,500	—
Total	696,921	744,917

15. Comparative Amounts

As further explained in note 1 to the condensed consolidated financial statements, due to the adoption of a revised SSAP during the current period, the accounting treatment and presentation of certain items and balances in the interim financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified, to conform with the current period's presentation.

16. Approval of the Financial Statements

The interim financial report was reviewed by the Company's audit committee and it was approved and authorised for issue by the board of directors on 16th April, 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Demand for quality commercial and residential property in the PRC has paralleled the country's continued economic expansion, particularly in the major cities of Shanghai and Guangzhou where the Group's properties are concentrated.

The performance of the Group for the first half financial year has been encouraging. The Group achieved a consolidated net profit attributable to shareholders of HK\$50,070,000 for the six months ended 31st January, 2004, as compared with a net profit of HK\$12,651,000 for the previous corresponding period and representing an increase of approximately 296%.

For the six months ended 31st January, 2004, the Group registered a turnover of HK\$143,143,000 (2003: HK\$63,472,000) and a gross profit of HK\$59,986,000 (2003: HK\$50,194,000), representing an increase of approximately 126% and approximately 20%, respectively when compared with the previous corresponding period. The increase in turnover and gross profit were mainly due to the pre-sale of Phase I of Regents Park in Shanghai and Phase III of Eastern Place in Guangzhou commencing in November 2003 and August 2003, respectively, whilst the Group's flagship project in Shanghai, Hong Kong Plaza, continued to provide a stable rental income for the Group.

On 20th August, 2003, the Group through its newly formed wholly-owned subsidiary, Zhongshan City Bao Li Properties Development Limited ("Zhongshan Bao Li"), entered into an agreement with Zhongshan Li Shan Properties Development Limited ("Zhongshan Li Shan"), a jointly-controlled entity of the Group, and a third party in the PRC, pursuant to which the Group gave up the entitlement of its investment in 50% of Zhongshan Li Shan and in return was compensated by a new piece of land of approximately 55,000 sq.m. in Zhongshan, the Land Use Rights Certificates of which were issued to Zhongshan Bao Li by the People's Government of Zhongshan on 24th October, 2003. The gain arising from the above transaction was approximately HK\$42,555,000.

As a result, the Group achieved an increase in profit from operating activities of 116% at HK\$90,466,000, as compared with HK\$41,838,000 for the previous corresponding period.

Alongside with the business growth of the Group, the Group successfully reduced its finance costs by 25% to HK\$16,776,000 (2003: 22,347,000). The Group is committed to continue its efforts to enhance the financial position for the coming year.

Review of Projects

Shanghai

Hong Kong Plaza

Rising above the Huangpi South Road subway station at one of Shanghai's prime downtown addresses on famous Huaihaizhong Road, the property has become a prestigious landmark in the heart of the city. Offering a gross floor area of approximately 140,000 sq.m., the twin-building complex contains offices, shopping arcades and service apartments with extensive clubhouse facilities. Since its opening in late 1997, Hong Kong Plaza has attracted a diverse portfolio of prominent shopping arcade tenants. It is also a choice location for many esteemed corporate tenants who lease office space and service apartments. The occupancy rate of service apartments in the period under review recovered from the decline caused by the outbreak of Severe Acute Respiratory Syndrome ("SARS") in the first half-year of 2003.

Regents Park

Another key project of the Group is located in Shanghai's prestigious Changning District near Zhongshan Park subway station on a 36,000 sq.m. site. Upon completion, the Regents Park community will comprise 13 residential towers with approximately 156,000 sq.m. of gross floor area, a fully appointed clubhouse, and other facilities in approximately 15,900 sq.m. Phase I of the project, including 7 residential towers with approximately 1,000 units, is scheduled for completion in 2005.

The pre-sale permits for Tower 1 and 2 were obtained in late October 2003. Pre-sale started in November 2003 and achieved an impressive sales performance. For the six months ended 31st January, 2004, 77 units of Tower 1 and 2 were sold and turnover and profit are recognised progressively starting from the signing of sale and purchase agreements after the issue of the pre-sale permits. After the period under review, the pre-sale permit for Tower 3 was issued in late February 2004 and the pre-sale permits for other Towers are expected to be issued in phases in mid/late 2004.

14

Guangzhou

Eastern Place

The project, located on Dongfeng East Road in Guangzhou's desirable Dongshan District, has earned a distinctive reputation as one of the most sought-after residential addresses in Guangzhou. With a total site area of approximately 60,000 sq.m., the entire project includes 8 residential towers and a 130,000 sq.m. commercial/office complex to be developed in several phases. Now in place are Phase I and II, which comprise 4 residential towers (Towers 1 to 4), and the well-appointed residents' clubhouse, Eastern Club. Other deluxe facilities including a 50-metre swimming pool, tennis courts and golf amenities have also been completed, making Eastern Place a fully self-sufficient community, not to mention an even more highly esteemed residence. Resident amenities are among the most luxurious and comprehensive available at any residential property in downtown Guangzhou.

For Phase III, there are 2 residential towers (Tower 5 and 6) with 446 units and the substantial structural work was completed in the period under review. The pre-sale permit for Tower 6 was obtained in June 2003 resulting in an impressive sales performance. For the six months ended 31st January, 2004, 127 units of Tower 6 were sold and turnover and profit are recognised progressively starting from the signing of sale and purchase agreements after the issue of the pre-sale permit. The pre-sale permit for Tower 5 was also obtained in late December 2003 but the tower was not officially launched to the market in the period under review.

May Flower Plaza

The property, which enjoys a prime strategic location directly above the Gongyuanqian subway station on Zhongshanwu Road, is now undergoing internal works including electrical and mechanical engineering, partitioning and decoration. May Flower Plaza will provide commercial tenants with exceptional convenience and access to a well-developed transportation network, directly linked as it is to two exits of the subway station and situated in close proximity to the bustling Beijing Road Buxingjie shopping street, a popular and mature shopping district. Its superior location is already drawing enormous traffic flow to the Plaza. The 13-storey complex will soon offer approximately 35,000 sq.m. of office and commercial floor area, as well as a four-storey basement of approximately 14,000 sq.m. earmarked for commercial and car park usage. With a view to having, before the formal market launch, the most carefully selected mix and layout of retail tenants, exhibition centres, restaurants and cinemas with state-of-the-art facilities, May Flower Plaza is scheduled to open in late 2004.

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, 2004, the Group had a gross borrowing (inclusive of the loan of HK\$39,634,000 (2003: HK\$16,170,000) loaned by Mr. Lim Por Yen) amounting to HK\$1,270 million (2003: HK\$1,138 million), representing an increase of HK\$132 million over that of the preceding financial year-end. The consolidated net assets of the Group amounted to HK\$5,301 million (2003: HK\$5,077 million). The resultant debt to equity ratio was 0.24 (2003: 0.22).

15

During the period, the Group obtained an additional unsecured loan of RMB27,000,000 from Mr. Lim Por Yen, a substantial shareholder in the Group. The Group has repaid HK\$2,384,000 to Mr. Lim Por Yen during the period under review. The aggregate outstanding balance of the loans from Mr. Lim as at 31st January, 2004 was HK\$39,634,000.

Approximately 99% of the Group's gross borrowings were on a floating rate basis at the balance sheet date and the remaining 1% were interest-free. As at 31st January, 2004, approximately 45% of the Group's gross borrowings were denominated in Renminbi ("RMB") and 55% were denominated in United States dollars ("USD").

The Group's monetary assets, loans, and transactions are principally denominated in Hong Kong dollars ("HKD"), RMB and USD. Considering that the exchange rate between HKD and USD is pegged, and that there is insignificant fluctuation in the exchange rate between HKD and RMB, the Group believes its exposure to exchange rate risk is nominal. At present, the Group does not intend to seek to hedge its exposure to foreign exchange fluctuations involving 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 future as may be necessary.

The maturity profile of the Group's bank borrowings as at 31st January, 2004 was spread over a period of five years, with approximately 11% repayable within one year and 89% 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\$2,893 million and properties under development with carrying value amounting to approximately HK\$1,807 million, and bank balances amounting to approximately HK\$16 million at the balance sheet date.

Taking into account cash held as at the balance sheet date, available banking facilities and recent improvements in the Group's operating activities, the Group believes it has sufficient liquidity to finance its existing and currently planned property developments and investment projects. The Group will consistently maintain a prudent financial policy.

Contingent Liabilities

According to a practice common among banks in the PRC when providing mortgage financing to property buyers, the bank will require the property developer to provide a buy-back guarantee to secure the due performance of borrowers. The Company is currently providing a number of buy-back guarantees to banks that have granted mortgage loans to buyers of office space and residential units in Hong Kong Plaza, Phase I of Regents Park, and Phase I to III of Eastern Place. As the PRC property market is currently stable, the management does not expect such contingent liabilities to crystallise in the near term.

Employees and Remuneration Policies

16

As the employer of approximately 400 staff, the Group recognises the importance of maintaining strong human resources in its continued success. Under the Group's existing policies, employee pay rates are maintained at competitive levels, whilst 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 share option scheme, a mandatory provident fund, a free hospitalisation insurance plan, subsidised medical care and subsidies for external education and training programmes.

Prospects

With the PRC's steady integration into the World Trade Organisation ("WTO"), the constraints for overseas investors in some special areas such as banking, insurance and services sectors will be reduced. This will continue to draw an influx of foreign corporations seeking to establish or strengthen their presences in the PRC. With the implementation of the Closer Economic Partnership Arrangement ("CEPA"), and the hosting of the 2010 World Expo in Shanghai, Hong Kong and foreign corporations will undoubtedly gravitate towards the PRC market in ever-greater numbers, further stimulating the already surging demand for quality commercial and residential properties.

Considering this favourable outlook, the Group projects satisfactory growth for the second half financial year. The Group expects its flagship Shanghai property, Hong Kong Plaza, to continue to contribute stable rental income. The scheduled pre-sale and sale of completed developments in the second half financial year, including Phase I of Regents Park in Shanghai and Phase III of Eastern Place in Guangzhou, are also expected to boost turnover and profitability. With the completion of the above-mentioned Zhongshan transaction, together with the likely construction of the Hongkong-Zhuhai-Macau bridge, the Group has a very positive view on the economic development and property market of Zhongshan and will seriously consider the investment potentials thereat. With other completed projects scheduled to come on stream amid a favourable leasing market, the Group is prudently optimistic of achieving solid growth and higher earnings in coming years.

Robust economic growth is expected to continue in the PRC, especially in the Yangtze and Pearl River deltas, home to the country's fastest growing cities. As an early entrant into the PRC with over ten years of property development experience in the market, the Group is in a prime position to seize future opportunities to fuel growth. Moving forward, the Group will maintain its focus on property investment and development projects in Shanghai and Guangzhou, the country's two primary engines for growth, while prudently exploring opportunities to expand its land bank in due course.

INTERIM DIVIDEND

The Board of Directors does not recommend the payment of an interim dividend in respect of the six months ended 31st January, 2004. No interim dividend was declared in respect of the previous corresponding period.

DIRECTORS' INTERESTS

17

As at 31st January, 2004, the following directors and chief executive of the Company were interested, or were deemed to be interested in the following long and short positions in the shares, underlying shares of equity derivatives and debentures of the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance ("SFO")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein (the "Register"); or (c) were required, pursuant to the Code for Securities Transactions by Directors adopted by the Company, to be notified to the Company and the Stock Exchange:

Name of Director	Long positions in the shares of the Company			Capacity	Total	Percentage
	Personal Interests	Family Interests	Corporate Interests			
Lim Por Yen	92,124,800	Nil	2,120,550,431 (Note 1)	Beneficial owner	2,212,675,231	47.09%
U Po Chu	Nil	2,212,675,231 (Note 2)	Nil	Beneficial owner	2,212,675,231	47.09%

Notes:

1. These interests in the Company represented the shares beneficially owned by Lai Sun Garment (International) Limited ("LSG") (1,455,365,090 shares) and Silver Glory Securities Limited ("SGS") (665,185,341 shares), a wholly-owned subsidiary of LSG. Mr. Lim Por Yen was deemed to be interested in the 2,120,550,431 shares in the Company held by LSG and SGS since Mr. Lim Por Yen (together with his associates) held an interest of about 33.99% in the issued share capital of LSG.

Mr. Lim Por Yen, Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming, Madam U Po Chu and Madam Lai Yuen Fong were directors of LSG and held in aggregate an interest of about 42% in the issued share capital of LSG.

2. Madam U Po Chu was deemed to be interested in 2,212,675,231 shares by virtue of the interest in such shares of her spouse, Mr. Lim Por Yen.

Save as disclosed above, as at 31st January, 2004, none of the Directors and chief executive of the Company were interested, or were deemed to be interested in the long and short positions in the shares, underlying shares of equity derivatives and debentures of the Company or any associated corporation which were required to be notified to the Company and the Stock Exchange or recorded in the Register as aforesaid.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Share Option Scheme") on 21st August, 2003 for the purpose of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the Eligible Employees (as defined in the Share Option Scheme) of the Company.

18

The following options were granted and exercised under the Share Option Scheme during the six months ended 31st January, 2004:

Name	Date of Grant	No. of Options	Option Period	Option Price	Date of Exercise	No. of Options Exercised	No. of Options at 31/1/2004
Lam Kin Ming, Director	19/9/2003	46,062,400	19/9/2003- 2/10/2011	HK\$0.169 per share	8/1/2004	46,062,400	Nil
Lam Kin Hong, Matthew, Director	19/9/2003	46,062,400	19/9/2003- 2/10/2011	HK\$0.169 per share	8/1/2004	46,062,400	Nil
		<u>92,124,800</u>				<u>92,124,800</u>	

The closing price of shares in the capital of the Company (the "Shares") as at 18th September, 2003, the date immediately before the date of grant of the aforesaid options, was HK\$0.161 per share.

The weighted average closing price of the Shares as at 7th January, 2004, the date immediately before the date of exercise of the abovementioned Options, was HK\$0.255 per share.

Save as disclosed above, no options under the Share Option Scheme were granted to any Eligible Employees or other persons or were cancelled or lapsed during the six months ended 31st January, 2004.

The Directors consider it inappropriate to disclose a theoretical value of the options granted to the abovementioned Directors as various factors crucial for valuation could not be predicted or ascertained on the date of grant. The Directors believe that valuation based on assumptions would be speculative and not meaningful.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

As at 31st January, 2004, the following persons, some of whom are directors or chief executive of the Company, had an interest in the following long positions in the shares and underlying shares of equity derivatives of the Company as recorded in the register required to be kept under section 336 of the SFO:—

Name	Long positions in the shares			
	Capacity	Nature (Note 1)	Number of Shares	Percentage
Lai Sun Garment (International) Limited ("LSG")	Beneficial owner	Corporate	2,120,550,431	45.13% (Note 2)
Lim Por Yen	Beneficial owner	Personal and Corporate	2,212,675,231	47.09% (Note 2)
U Po Chu	Beneficial owner	Family	2,212,675,231	47.09% (Note 3)
Lai Yuen Fong	Beneficial owner	Family	2,212,675,231	47.09% (Note 4)
Silver Glory Securities Limited ("SGS")	Beneficial owner	Corporate	665,185,341	14.16% (Note 2)
Credit Suisse Group	Beneficial owner	Corporate	442,196,119	9.41% (Note 5)

Notes:

1. Personal, family and corporate denote personal interest, family interest and corporate interest respectively.
2. These interests in the Company represented the shares personally owned by Mr. Lim Por Yen (92,124,800 shares) and those beneficially owned by LSG (1,455,365,090 shares) and SGS (665,185,341 shares), a wholly-owned subsidiary of LSG. Mr. Lim Por Yen and his associates held an interest of approximately 33.99% in the issued share capital of LSG and were deemed to be interested in the 2,120,550,431 shares in the Company held by LSG and SGS. Mr. Lim Por Yen, Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming, Madam U Po Chu and Madam Lai Yuen Fong were directors of LSG and held in aggregate an interest of about 42% in the issued share capital of LSG.

3. Madam U Po Chu was deemed to be interested in 2,212,675,231 shares by virtue of the interest in such shares of her spouse, Mr. Lim Por Yen.
4. Madam Lai Yuen Fong was deemed to be interested in 2,212,675,231 shares by virtue of the interest in such shares of her spouse, Mr. Lim Por Yen.
5. Persons falling into the category of "Other Persons" in Practice Note 5 of the Listing Rules.

Save as disclosed above, no other person was recorded in the register required to be kept under section 336 of the SFO as having an interest in the long or short positions in the shares and underlying shares of equity derivatives of the Company as at 31st January, 2004.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 31st January, 2004, 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 of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the period covered by the Interim Report of the Company for the six months ended 31st January, 2004, 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 non-executive Directors of the Company are subject to retirement by rotation and re-election at the Company's Annual General Meeting in accordance with the Articles of Association of the Company.

20

In accordance with the requirements of the Code of Best Practice, the Company established in March 2000 an audit committee which comprises the two independent non-executive directors of the Company. The Interim Report has been reviewed by the Audit Committee of the Company.

By Order of the Board
Lim Por Yen
Chairman

Hong Kong, 16th April, 2004