



LAI FUNG HOLDINGS

LAI FUNG HOLDINGS LIMITED

Interim Report 2004-2005

PLACE OF INCORPORATION

Cayman Islands

BOARD OF DIRECTORS

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

Yew Yat Ming

Lam Kin Ko, Stewart °

Chiu Wai °

Shiu Kai Wah °

Siu Fai Wing °

Yu Po Kwan °

Wong Yee Sui, Andrew **

Lam Bing Kwan **

Mui Ying Chun, Robert **

Mr. Lim Por Yen (*Chairman*) (passed away on 18th February, 2005)

* *also alternate director to °*

** *independent non-executive directors*

COMPANY SECRETARY

Yeung Kam Hoi

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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, 2005 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 31st January, 2005

	Notes	Six months ended	
		31/1/05 (unaudited) HK\$'000	31/1/04 (unaudited) HK\$'000
TURNOVER	2	249,702	143,143
Cost of sales		(124,367)	(83,157)
Gross profit		125,335	59,986
Other revenue		28,279	26,513
Selling expenses		(8,607)	(4,836)
Administrative expenses		(50,920)	(33,752)
PROFIT FROM OPERATING ACTIVITIES	3	94,087	47,911
Finance costs	4	(16,987)	(16,776)
Impairment loss in amounts due from associates		(7,352)	(7,427)
Write-back of provision for impairment in an interest in a jointly-controlled entity		—	42,555
PROFIT BEFORE TAX		69,748	66,263
Tax	5	(17,741)	(15,534)
PROFIT BEFORE MINORITY INTERESTS		52,007	50,729
Minority interests		(1,814)	(659)
NET PROFIT FROM ORDINARY ACTIVITIES			
ATTRIBUTABLE TO SHAREHOLDERS		50,193	50,070
EARNINGS PER SHARE	6		
Basic		0.85 cents	1.08 cents
Diluted		N/A	1.08 cents

CONDENSED CONSOLIDATED BALANCE SHEET

As at 31st January, 2005

	Notes	31/1/05 (unaudited) HK\$'000	31/7/04 (audited) HK\$'000
NON-CURRENT ASSETS			
Fixed assets		54,771	55,457
Investment properties		2,704,400	2,704,400
Properties under development		3,489,056	3,634,658
Negative goodwill	7	(10,075)	(10,210)
Interests in associates		629,334	626,595
Pledged bank balances		15,989	10,262
		6,883,475	7,021,162
CURRENT ASSETS			
Completed properties for sale		24,619	48,836
Debtors, deposits and prepayments	8	144,473	105,855
Tax recoverable		3,324	13,811
Pledged time deposits and bank balances		4,756	6,871
Cash and cash equivalents		669,378	548,730
		846,550	724,103
CURRENT LIABILITIES			
Interest-bearing bank loans, secured		186,415	89,227
Tax payable		39,590	32,138
Deposits received		22,976	34,424
Rental deposits received		12,017	10,386
Creditors and accruals	9	223,642	257,510
Other borrowings		45,132	11,324
		529,772	435,009
NET CURRENT ASSETS		316,778	289,094
TOTAL ASSETS LESS CURRENT LIABILITIES		7,200,253	7,310,256
NON-CURRENT LIABILITIES			
Interest-bearing bank loans, secured		(940,798)	(1,093,593)
Long term rental deposits received		(17,212)	(14,147)
Deferred tax liabilities		(710,933)	(711,510)
		(1,668,943)	(1,819,250)
MINORITY INTERESTS		(202,176)	(215,708)
		5,329,134	5,275,298
CAPITAL AND RESERVES			
Issued capital		587,296	587,296
Reserves		4,741,838	4,688,002
		5,329,134	5,275,298

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31st January, 2005

	Issued 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	Retained profits/ losses) (accumulated HK\$'000	Total HK\$'000
At 1st August, 2004 (audited)	587,296	3,224,676	16,538	100,593	1,332,490	58,063	(44,358)	5,275,298
Exchange realignments	—	—	979	—	—	—	—	979
Surplus/(deficit) on revaluation, net of deferred tax	—	—	—	(82)	2,746	—	—	2,664
Net gains and losses not recognised in the profit and loss account	—	—	979	(82)	2,746	—	—	3,643
Profit for the period	—	—	—	—	—	—	50,193	50,193
At 31st January, 2005 (unaudited)	587,296	3,224,676*	17,517*	100,511*	1,335,236*	58,063*	5,835*	5,329,134
At 1st August, 2003 (audited)	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
Surplus on revaluation, net of deferred tax	—	—	—	1,219	156,114	—	—	157,333
Net gains 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

* These reserve accounts comprise the consolidated reserves of HK\$4,741,838,000 (as at 31st January, 2004: HK\$4,831,536,000) in the consolidated balance sheet.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31st January, 2005

	Six months ended	
	31/1/05 (unaudited) HK\$'000	31/1/04 (unaudited) HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	379,947	54,467
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(194,288)	(108,391)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	(66,446)	151,181
NET INCREASE IN CASH AND CASH EQUIVALENTS	119,213	97,257
Cash and cash equivalents at beginning of period	548,730	177,508
Effect of foreign exchange rate changes, net	1,435	5,843
CASH AND CASH EQUIVALENTS AT END OF PERIOD	669,378	280,608
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	598,707	267,605
Non-pledged time deposits with original maturity of less than three months when acquired	70,671	13,003
	669,378	280,608

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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, "Interim financial reporting" (SSAP 25) issued by the Hong Kong Institute of Certified Public 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, 2004, except that the Group has adopted the new Interpretation 24 "Revenue — Pre-completion contracts for the sale of development properties" ("Interpretation 24") which apply to pre-completion contracts for the sale of development properties entered into on or after 1st January, 2005.

Interpretation 24 concludes that, if pre-completion contracts are not specifically negotiated for the construction of the property, Statement of Standard Accounting Practice 18 "Revenue" (SSAP 18) is the appropriate accounting standard for the recognition of revenue and the stage of completion method shall not be used to recognise revenue arising from such contracts.

The Group applied this Interpretation to pre-completion contracts for the sale of development properties entered into on or after 1st January, 2005 whereas those contracts which were entered into before that date remained to be accounted for under the accounting policies used in prior years.

2. SEGMENT REVENUE AND RESULTS

Business segments

Group

	Property development		Property investment		Consolidated	
	Six months ended		Six months ended		Six months ended	
	31/1/05	31/1/04	31/1/05	31/1/04	31/1/05	31/1/04
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:						
Sales to external customers	177,643	83,228	—	—	177,643	83,228
Rental income	—	—	72,059	59,915	72,059	59,915
Other revenue	30	—	15,938	15,418	15,968	15,418
Total	177,673	83,228	87,997	75,333	265,670	158,561
Segment results	54,550	8,151	47,366	36,235	101,916	44,386
Interest income and other revenue					12,311	11,095
Unallocated expenses					(20,140)	(7,570)
Profit from operating activities					94,087	47,911
Finance costs					(16,987)	(16,776)
Impairment loss in amounts due from associates	—	—	(7,352)	(7,427)	(7,352)	(7,427)
Write-back of provision for impairment in an interest in a jointly-controlled entity	—	42,555	—	—	—	42,555
Profit before tax					69,748	66,263
Tax					(17,741)	(15,534)
Profit before minority interests					52,007	50,729
Minority interests					(1,814)	(659)
Net profit from ordinary activities attributable to shareholders					50,193	50,070

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

3. PROFIT FROM OPERATING ACTIVITIES

	Six months ended	
	31/1/05	31/1/04
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
The Group's profit from operating activities is arrived at after charging/ (crediting):		
Cost of completed properties held for sale	27,519	29,589
Cost of pre-sale of properties under development	115,426	40,652
Depreciation	1,743	1,683
Write-back of over-accrual for property development costs	(26,920)	—
Write-back of provision for completed properties held for sale	(3,145)	—
Negative goodwill recognised as income during the period	(135)	(135)

4. FINANCE COSTS

Group

	Six months ended	
	31/1/05	31/1/04
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Interest expenses on:		
Bank loans wholly repayable within five years	25,382	22,627
Other borrowings	8	549
Bank charges	1,827	2,586
	27,217	25,762
Less:		
Interest capitalised in properties under development	(10,230)	(8,986)
	16,987	16,776

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, 2004: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Group

	Six months ended	
	31/1/05 (unaudited) HK\$'000	31/1/04 (unaudited) HK\$'000
Charge for the period for Mainland of China profits tax	13,335	5,266
Deferred tax	3,152	10,268
	16,487	15,534
Share of deferred tax attributable to associates	1,254	—
Total tax charge for the period	17,741	15,534

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\$50,193,000 (six months ended 31st January, 2004: HK\$50,070,000), and the weighted average of 5,872,956,478 (six months ended 31st January, 2004: 4,618,256,661) ordinary shares in issue during the period.

The calculation of diluted earnings per share for the six months ended 31st January, 2004 was based on the net profit from ordinary activities attributable to shareholders for that period of HK\$50,070,000, and the diluted weighted average of 4,627,289,516 ordinary shares in issue during that period.

The diluted earnings per share for the six months ended 31st January, 2005 has not been shown because there were no potential ordinary shares outstanding during the period.

7. NEGATIVE GOODWILL

The amount of the negative goodwill recognised in the condensed consolidated balance sheet, arising from the acquisition of an additional interest in a subsidiary, is as follows:

	31/1/05 (unaudited) HK\$'000	31/7/04 (audited) HK\$'000
Gross amount:		
At beginning and at end of period	(10,750)	(10,750)
Accumulated recognition as income:		
At beginning of period	540	270
Amount recognised as income during the period	135	270
At end of period	675	540
Net book value	(10,075)	(10,210)

8. DEBTORS, DEPOSITS AND PREPAYMENTS

The credit terms granted by the Group range from 30 to 180 days. An aged analysis of the Group's debtors, based on the invoice date, as at 31st January, 2005 is as follows:

	31/1/05 (unaudited) HK\$'000	31/7/04 (audited) HK\$'000
Within 1 month	4,539	7,246
Between 1 to 2 months	2,675	15,587
Between 2 to 3 months	—	6,116
Between 3 to 6 months	835	24,700
Over 6 months	7,064	10,882
Trade receivables	15,113	64,531
Deposits and prepayments	129,360	41,324
Total	144,473	105,855

9. CREDITORS AND ACCRUALS

An aged analysis of the Group's creditors, based on the invoice date, as at 31st January, 2005 is as follows:

	31/1/05 (unaudited) HK\$'000	31/7/04 (audited) HK\$'000
Within 1 month	14,074	36,718
Between 1 to 3 months	4,371	2,465
Over 3 months	50,910	37,062
Trade payables	69,355	76,245
Accruals and other creditors	154,287	181,265
Total	223,642	257,510

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10. RELATED PARTY TRANSACTIONS

The Group had the following material transactions with related parties during the period:

		Six months ended	
		31/1/05 (unaudited) HK\$'000	31/1/04 (unaudited) HK\$'000
Interest income from an associate	<i>(i)</i>	10,594	10,770
Advertising charges paid to related companies	<i>(ii)</i>	(6,940)	(781)
Interest expense on other borrowings	<i>(iii)</i>	(8)	(549)
Rental expenses paid to a director	<i>(iv)</i>	(450)	(375)
Legal fees paid to a law firm, of which a director of the Company is a partner	<i>(v)</i>	(179)	(241)

Notes:

- (i) 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.
- (ii) The related companies are subsidiaries of eSun Holdings Limited ("eSun") in which certain directors of the Company are also directors of eSun.

The advertising charges were paid to the related companies with reference to the market rates.

- (iii) Certain amounts of the Group's other borrowings are interest-bearing at best lending rate quoted by a specified bank. The borrowings are unsecured and repayable on demand.
- (iv) The rental charges were based on the terms stated in the lease agreements.
- (v) The legal fees were charged for legal services rendered to the Group by a law firm of which a director of the Company was a partner, based on mutual agreement.

11. CONTINGENT LIABILITIES

As at 31st January, 2005, 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, the Group 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 Group at the balance sheet date.
- (b) Under mortgage loan facilities provided by banks to the end-buyers of Eastern Place Phase I, Phase II and Phase III and Regents Park Phase I, the Group 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 Group at the balance sheet date.

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12. COMMITMENTS

At the balance sheet date, the Group had capital commitments in respect of the following:

	31/1/05 (unaudited) HK\$'000	31/7/04 (audited) HK\$'000
Contracted, but not provided for:		
Land premium, resettlement, compensation and construction costs	594,220	572,530

13. COMPARATIVE AMOUNTS

Certain comparative amounts in the interim financial statements have been reclassified to accord with the presentation adopted in the audited annual financial statements for the year ended 31st July, 2004.

14. 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 15th April, 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Demand for quality commercial and residential property in Mainland of China ("Mainland") has tracked the country's continued economic expansion, particularly in the major cities of Shanghai and Guangzhou where the Group's properties are concentrated.

The Group achieved a consolidated net profit from ordinary activities attributable to shareholders of HK\$50,193,000 for the six months ended 31st January, 2005, compared with a consolidated net profit of HK\$50,070,000 for the previous corresponding period.

For the six months ended 31st January, 2005, the Group registered a turnover of HK\$249,702,000 (2004: HK\$143,143,000) and a gross profit of HK\$125,335,000 (2004: HK\$59,986,000), representing an increase of approximately 74% and 109%, respectively from the previous corresponding period. The increase in turnover was mainly attributed to pre-sale of Phase I Regents Park in Shanghai and the sale of Phase III Eastern Place in Guangzhou, which commenced in the last financial year. The Group's flagship project in Shanghai, Hong Kong Plaza, continued to provide a stable rental income for the Group.

The Group achieved an increase of 96% in profit from operating activities amounting to HK\$94,087,000, compared with HK\$47,911,000 for the previous corresponding period.

The finance costs of the Group remained relatively stable at HK\$16,987,000 (2004: HK\$16,776,000) for the period under review.

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During the period, the Group has adopted Interpretation 24 "Revenue — Pre-completion contracts for the sale of development properties" ("Interpretation 24") issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). Interpretation 24 concludes that: if the pre-completion contracts for the sale of development properties are not specifically negotiated for the construction of the properties, the contracts in question are not construction contracts as defined in Statement of Standard Accounting Practice ("SSAP") 23 "Construction contracts" ("SSAP 23"); and SSAP 18 "Revenue" ("SSAP 18") is the appropriate accounting standard for the recognition of revenue arising from those pre-completion contracts that do not fall within the scope of SSAP 23. As with the sale of other types of goods under SSAP 18, revenue from the sale of development properties is recognised only when the conditions in paragraph 13 of SSAP 18 are satisfied. The Interpretation is first effective for pre-completion contracts entered into on or after 1st January, 2005, irrespective of the company's year end. Pre-completion contracts entered into before 1st January, 2005 can continue to be accounted for under the accounting policies adopted in prior year for those contracts. Therefore, the pre-sale contracts entered into on or after 1st January, 2005 for Regents Park, Shanghai, will be recognised when the conditions in paragraph 13 of SSAP 18 are satisfied. For those pre-sale contracts entered into before 1st January, 2005 for Regents Park, Shanghai will continue to be accounted for under the accounting policies adopted in the annual financial statements for the year ended 31st July, 2004.

Business Environment

During the period under review, the Mainland's economy continued to experience growth while demand in the property market has remained positive.

Since 2004, the Chinese Central People's Government ("Central Government") has launched a series of macro-economic policies to stabilise the economy and prevent undue fluctuations. New administrative controls in certain cities like the levy of additional taxes on sales of second hand properties and the tightening of mortgage loans granted were also announced in early 2005 to curb real estate speculation. Besides, land supply is more closely matched with demand under an open land supply policy through public auction and tender. All these measures are conducive to the orderly development of the real estate market.

Review of Projects

Shanghai

Hong Kong Plaza

The Group's twin-tower property located at Huaihaizhong Road, Shanghai, has a gross floor area of approximately 140,000 sq.m. comprising offices, shopping arcades and service apartments with extensive clubhouse facilities. Following upward adjustments in the room rates and increment in occupancy rate, rental contribution from the property continued to increase during the period under review. Hong Kong Plaza has contributed to a reliable stable income flow for the Group. Also, in response to the market demand, a series of renovation work for service apartments, office tower and shopping arcades have been undertaken in early 2005. After renovation, more service apartment units will be provided.

Regents Park

Another key project of the Group is Regents Park located at a 36,000 sq.m. site in Shanghai's prestigious Changning District near Zhongshan Park subway station. On completion, the Regents Park community will comprise 13 residential towers, with approximately 156,000 sq.m. of gross floor area, around 14,800 sq.m. of commercial area, a fully-appointed clubhouse and other facilities. Phase I of the project, including 7 residential towers (Towers 1 to 7) with approximately 1,000 units, is scheduled for completion in late 2005.

The pre-sale permit for Tower 7 had been obtained in the period under review while the pre-sale permits for Towers 1 to 5 were issued in the last financial year. Encouraging results at pre-sale had been achieved and as at 31st December, 2004, 679 units of the 693 units of Towers 1 to 5 and Tower 7 were sold. Turnover and profit for these 679 units were recognised gradually after the signing of sales and purchase agreements following the issue of the pre-sale permits. Pre-sale permit for Tower 6 (317 units) was obtained in late March 2005 and good results had also been recorded. These sales will be recognised when the conditions in paragraph 13 of SSAP 18 are satisfied.

Guangzhou

Eastern Place

The project is located at Dongfeng East Road in Guangzhou's Dongshan District. With a total site area of approximately 60,000 sq.m., the entire project comprises 8 residential towers and a 140,000 sq.m. commercial/office complex, to be developed in several phases. Construction works on Phases I and II, which comprise 4 residential towers (Towers 1 to 4), and the well-appointed residents' clubhouse, Eastern Club, have been completed. Other facilities including a 50-metre swimming pool, tennis courts and golf amenities have also been put into service.

For Phase III, there are two towers (Towers 5 and 6) with 438 units available for sale, and sale permits were obtained in the last financial year. Results on sale were encouraging and up to 31st January, 2005, 412 units were sold. For Phase IV (Towers 7 and 8), a detailed development and construction plan has been approved by government authorities. Construction works began in the period under review.

May Flower Plaza

This property is situated at a prime location directly above the Gongyuanqian subway station, interchange station of Subway Line No. 1 and 2, on Zhongshanwu Road. Four floors (L1–L3 and B1) of May Flower Plaza were opened in the period under review. The 13-storey complex offers approximately 35,000 sq.m. of office, commercial area and a cinema city with state-of-the-art facilities. It also has a four-storey basement of approximately 14,000 sq.m. earmarked for commercial and car park use. A number of prestigious and sizable tenants, such as Baleno, Bioscreen, Bossini, City Chain, Esprit, <http://www.izzue.com>, MaBelle, Mannings, Optical 88, Swatch, Theme, and Wanya Japanese Restaurant, have commenced business in the shopping arcade.

Zhongshan

During the period under review, the Group's wholly-owned subsidiary, Zhongshan Bao Li Properties Development Limited, acquired two new pieces of land through public auctions. The size of the two pieces of land are approximately 70,460 sq.m. and 99,950 sq.m.. The current land bank of the Group in Zhongshan is approximately 236,000 sq.m.. Development plans for the project are being evaluated.

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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, 2005, the Group had total borrowings in the amount of HK\$1,172 million (2004: HK\$1,194 million), representing a slight decrease of HK\$22 million from that as at the preceding financial year-end. The consolidated net assets of the Group amounted to HK\$5,329 million (2004: HK\$5,275 million). The resultant debt to equity ratio was 0.22 (2004: 0.23).

Approximately 96% of the Group's borrowings were on a floating rate basis at the balance sheet date and the remaining 4% were interest-free. As at 31st January, 2005, approximately 43% of the Group's borrowings were denominated in Renminbi ("RMB") and 57% 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, 2005 was spread over a period of five years, with approximately 17% repayable within one year and 83% 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\$2,642 million and properties under development with carrying value amounting to approximately HK\$1,336 million, and bank balances amounting to approximately HK\$5 million at the balance sheet date.

Taking into account cash held as at the balance sheet date, available banking facilities and the recurring cashflow from the Group's operating activities, the Group believes it has sufficient liquidity to finance its existing 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 Mainland 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 Group 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 Phases I to III of Eastern Place. The Group's obligations have been gradually relinquished along with the settlement of the mortgage loans granted by the bank to the end-buyers. As the Mainland property market is currently stable, the management does not expect such contingent liabilities to crystallise to a material extent in the near term.

Employees and Remuneration Policies

As the employer of approximately 490 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

It is anticipated that the series of macro-economic policies implemented by the Central Government in 2004 will not impede the economic growth of the Mainland in the medium term, especially in the Yangtze and Pearl River deltas. Previous constraints for overseas investors in areas such as banking, insurance and service sectors are being relaxed given the Mainland's steady integration into the World Trade Organisation. This will continue to draw an influx of foreign corporations seeking to establish or strengthen their presence in the Mainland. With a number of key infrastructure projects in the pipeline, including the preparatory work of 2010 World Expo, the Group anticipates that Shanghai's economy will continue to grow, which should ensure demand in the property market. The recent initiatives on Pan-Pearl River Delta (Pan-PRD) regional cooperation and development, which is also known as "9+2", will accelerate the opening up and future development of the region.

The Group will maintain its focus on property investment and development projects in Shanghai and Guangzhou, while prudently exploring opportunities to expand its land bank in selected locations.

With the upcoming construction of the Hongkong-Zhuhai-Macau Bridge and the prospects of the Pan-PRD cooperation, the Group is optimistic about future growth and development of Zhongshan city and its property market.

The Group expects its flagship Shanghai property, Hong Kong Plaza, to continue to contribute stable rental income in 2005. Projected sales of completed developments scheduled for the next few years, including Phase II of Regents Park in Shanghai and Phase IV of Eastern Place in Guangzhou, should continue to contribute to the profitability of the Group.

INTERIM DIVIDEND

The Board of Directors does not recommend the payment of an interim dividend in respect of the six months ended 31st January, 2005. No interim dividend was declared in respect of the previous corresponding period.

DIRECTORS' INTERESTS

As at 31st January, 2005, 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	115,156,000	2,650,688,037 (Note 1)	Nil	Beneficial owner	2,765,844,037	47.09%
U Po Chu	Nil	115,156,000	2,650,688,037 (Note 2)	Beneficial owner	2,765,844,037	47.09%
Lam Kin Ngok, Peter	Nil	Nil	2,650,688,037 (Note 3)	Beneficial owner	2,650,688,037	45.13%

Notes:

1. Mr. Lim Por Yen passed away on 18th February, 2005. Mr. Lim was deemed to be interested in the 2,650,688,037 shares in the Company held by Lai Sun Garment (International) Limited ("LSG") and Silver Glory Securities Limited ("SGS"), a wholly-owned subsidiary of LSG, since his spouse, Madam U Po Chu held a 50% interest in Wisdoman Limited which held 484,991,750 shares in LSG (representing 33.73%).

2. These interests in the Company represented the shares beneficially owned by LSG (1,819,206,362 shares) and SGS (831,481,675 shares). Madam U Po Chu was deemed to be interested in the 115,156,000 shares held by her spouse, Mr. Lim Por Yen and she was also deemed to be interested in the 2,650,688,037 shares in the Company held by LSG and SGS since she held a 50% interest in Wisdoman Limited which held 484,991,750 shares in LSG (representing 33.73%).
3. These interests in the Company represented the shares beneficially owned by LSG (1,819,206,362 shares) and SGS (831,481,675 shares). Mr. Lam Kin Ngok, Peter was deemed to be interested in the 2,650,688,037 shares in the Company held by LSG and SGS since he held a 50% interest in Wisdoman Limited which held 484,991,750 shares in LSG (representing 33.73%).

Save as disclosed above, as at 31st January, 2005, 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 "Scheme") on 21st August, 2003 for the purpose of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to Eligible Employees (as defined in the Scheme) of the Company. Eligible Employees of the Scheme include the directors and employees of the Group. Unless otherwise cancelled or amended, the Scheme will remain in force for 10 years from the date of adoption.

No options under the Scheme were granted to any Eligible Employees or other persons or were exercised, cancelled or lapsed during the six months ended 31st January, 2005.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

As at 31st January, 2005, 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	2,650,688,037	45.13% (Note 2)
Silver Glory Securities Limited ("SGS")	Beneficial owner	Corporate	831,481,675	14.16% (Note 2)
Wisdoman Limited	Beneficial owner	Corporate	2,650,688,037	45.13% (Note 3)
Lam Kin Ngok, Peter	Beneficial owner	Corporate	2,650,688,037	45.13% (Note 4)
U Po Chu	Beneficial owner	Corporate and family	2,765,844,037	47.09% (Note 5)
Lim Por Yen	Beneficial owner	Personal and family	2,765,844,037	47.09% (Note 6)
Lai Yuen Fong	Beneficial owner	Family	2,765,844,037	47.09% (Note 7)

Notes:

1. Personal, family and corporate denote personal interest, family interest and corporate interest respectively.
2. These interests in the Company represented the shares beneficially owned by LSG (1,819,206,362 shares) and SGS (831,481,675 shares), a wholly-owned subsidiary of LSG. SGS's interest constituted part of the interest held by LSG.
3. This parcel of shares refers to the same parcel of shares held by LSG and SGS since Wisdoman Limited held approximately 33.73% of the issued share capital of LSG.
4. Mr. Lam Kin Ngok, Peter was deemed to be interested in 2,650,688,037 shares held by LSG and SGS by virtue of his holding of a 50% interest in Wisdoman Limited which held approximately 33.73% of the issued share capital of LSG.
5. Madam U Po Chu was deemed to be interested in the 115,156,000 shares held by her spouse, Mr. Lim Por Yen and was also deemed to be interested in 2,650,688,037 shares held by LSG and SGS by virtue of her holding of a 50% interest in Wisdoman Limited which held approximately 33.73% of the issued share capital of LSG.
6. Mr. Lim Por Yen beneficially owned 115,156,000 shares and was also deemed to be interested in 2,650,688,037 shares held by LSG and SGS by virtue of the interest of his spouse, Madam U Po Chu, in such shares.
7. Madam Lai Yuen Fong was deemed to be interested in 2,765,844,037 shares by virtue of the interest in such shares of her spouse, Mr. Lim Por Yen.

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 or short position in the shares and underlying shares of equity derivatives of the Company as at 31st January, 2005.

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PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 31st January, 2005, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

DISCLOSURE PURSUANT TO CHAPTER 13 OF THE LISTING RULES ("CHAPTER 13")

(A) Loan agreements with covenants relating to specific performance of the controlling shareholder (Paragraph 13.21 of Chapter 13)

Loans agreements for certain bank facilities of certain subsidiaries of the Group (the "Subsidiaries") impose specific performance obligations on LSG, the substantial shareholder of the Company, and Lai Sun Development Company Limited ("LSD"), an associate of LSG.

Pursuant to the covenants of the loans agreements dated 14th June, 2001, the Company and the Subsidiaries shall procure that LSG and LSD shall together hold not less than 45% of the total issued share capital of the Company at all times throughout the terms of the facilities.

The outstanding loan balances of these facilities at the balance sheet date amounted to HK\$726,950,000, with the last instalment repayment falling due in December 2007.

(B) Advances to entities (Paragraph 13.13 of Chapter 13) and financial assistance to affiliated companies (Paragraph 13.16 of Chapter 13)

As at 31st January, 2005, there were 5,872,956,478 shares of the Company (the "Shares") in issue. Based on the average closing price of Shares of HK\$0.222 as stated in daily quotation sheets of The Stock Exchange of Hong Kong Limited for the 5 trading days immediately preceding 31st January, 2005, the total market capitalisation (the "Total Market Capitalisation") of the Company was HK\$1,303,796,338.

In compliance with paragraph 13.13 and 13.16 of Chapter 13, details of the advances to the following affiliated companies by the Group as at 31st January, 2005 which individually, and in aggregate, has exceeded 8% of the Total Market Capitalisation are set out below:

Name of entities	Percentage of capital held	Principal amount of advance	Notes
		<i>HK\$'000</i>	
Hankey Development Limited	50%	202,007	1
Besto Investments Limited	25%	486,144	2
		688,151	

Notes:

1. The amount due is unsecured, interest-free and has no fixed terms of repayment.
2. Except for an amount of HK\$298,531,000 which bears interest at the Hong Kong dollar prime rate plus 2% per annum, the amount due is unsecured, interest-free and has no fixed terms of repayment.

(C) Financial assistance to affiliated companies (Paragraph 13.22 of Chapter 13)

As at 31st January, 2005, the aggregate amount of financial assistance to affiliated companies has exceeded 8% of the Total Market Capitalisation of the Company and the Group's total assets of HK\$7,730,025,000, respectively. In compliance with paragraph 13.22 of Chapter 13, the proforma combined balance sheet of the affiliated companies as at 31st January, 2005 is disclosed as follows:

	<i>HK\$'000</i>
Investment properties	599,000
Properties under development	169,200
Fixed assets	4,625
Other non-current assets	491,236
Net current assets	6,179
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Total assets less current liabilities	1,270,240
Amounts due to shareholders	(1,756,075)
Deferred tax liabilities	(113,580)
Minority interests	(6,326)
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	(605,741)
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Capital and reserves	
Issued capital	40,010
Reserves	(645,751)
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	(605,741)
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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, 2005, 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 which was in force during the period under review. 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 Article of Association of the Company.

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

CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code for securities transaction by Directors (the "Code") on terms no less exacting than the standard set out in the Model Code in Appendix 10 of the Listing Rules during the period under review. The Company has made specific enquiry of all Directors who have confirmed their compliance with the required standard set out in the Code during the six months ended 31st January, 2005.

By Order of the Board
Lam Kin Ming
Deputy Chairman

Hong Kong, 15th April, 2005