



LAI FUNG HOLDINGS

(Incorporated in Cayman Islands with limited liability)

LAI FUNG HOLDINGS LIMITED

Interim Report 2000-2001

PLACE OF INCORPORATION

Cayman Islands

BOARD OF DIRECTORS

Lam Kin Ngok, Peter	(Chairman)
Lam Kwong Siu	(Vice Chairman)
Tong Yuk Lun, Paul	(Vice Chairman)
Kam Kin Yat	
Ng See Wai, Rowena	
Lam Kin Ming	
Chan Yuk Sing*	
Wong Yee Sui, Andrew*	

Hung Hing Chuen, Billy resigned as a Director on 1st December, 2000

* *Independent Non-executive Directors*

COMPANY SECRETARY

Yeung Kam Hoi

RESULTS

The Directors announce that the unaudited consolidated results of the Group for the six months ended 31st January, 2001 were as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE SIX MONTHS ENDED 31ST JANUARY, 2001

		Unaudited	Unaudited
		1/8/00 to	1/8/99 to
		31/1/01	31/1/00
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
Turnover	2	74,843	137,505
Cost of sales		(31,541)	(107,194)
Gross profit		43,302	30,311
Other revenues		19,270	23,791
Administrative expenses		(27,347)	(28,571)
Operating profit	3	35,225	25,531
Finance costs	4	(44,705)	(45,953)
Share of losses of associated companies		(29,433)	(7,478)
Loss before minority interests		(38,913)	(27,900)
Minority interests		(295)	32,020
(Loss)/profit attributable to shareholders		(39,208)	4,120
(Loss)/earnings per share	6	(3.04 cents)	0.39 cent

**CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 31ST JANUARY, 2001**

		Unaudited	Audited
		31/1/01	31/7/00
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
Non-current assets			
Fixed assets		7,901	8,170
Investment properties		2,972,060	2,972,060
Properties under development		3,359,694	3,287,781
Associated companies		660,985	672,280
Jointly controlled entities		50,184	50,127
		7,050,824	6,990,418
Current assets			
Cash and bank balances		106,373	180,004
Completed properties developed for sale		113,902	133,553
Debtors, deposits and prepayments	7	47,058	67,306
Tax prepayments		16,103	13,103
		283,436	393,966
Current liabilities			
Bank loans, secured		150,872	169,603
Creditors, accruals and provisions	8	341,842	387,140
Amount due to a shareholder	11(2)	40,787	—
		533,501	556,743
Net current liabilities		(250,065)	(162,777)
Total assets less current liabilities		6,800,759	6,827,641
Capital and reserves			
Share capital	9	307,083	104,711
Reserves	10	5,605,058	4,914,157
		5,912,141	5,018,868
Minority interests		151,143	151,889
		6,063,284	5,170,757
Long-term bank loans, secured		97,148	97,112
Convertible guaranteed bonds		—	929,445
Convertible note		600,000	600,000
Long-term rental deposits received		8,660	8,660
Provision for premium on convertible note redemption		31,667	21,667
		6,800,759	6,827,641

**CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED GAINS
AND LOSSES
FOR THE SIX MONTHS ENDED 31ST JANUARY, 2001**

	Unaudited 1/8/00 to 31/1/01 <i>HK\$'000</i>
Exchange differences arising on translation of subsidiaries, associated companies and jointly controlled entities	3,035
Gains not recognised in the profit and loss account	3,035
Net loss for the period	(39,208)
Total recognised losses	<u>(36,173)</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 31ST JANUARY, 2001**

	Unaudited 1/8/00 to 31/1/01 <i>HK\$'000</i>
NET CASH INFLOW FROM OPERATING ACTIVITIES	54,905
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	(46,213)
NET CASH OUTFLOW FROM TAXATION	(3,000)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(61,400)
NET CASH OUTFLOW BEFORE FINANCING	(55,708)
NET CASH OUTFLOW FROM FINANCING	(18,695)
DECREASE IN CASH AND CASH EQUIVALENTS	(74,403)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	180,004
EXCHANGE REALIGNMENT	772
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>106,373</u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS	
Cash and bank balances	<u>106,373</u>

Notes:

1. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated accounts have been prepared under the historical cost convention as modified by the revaluation of investment properties and properties under development held for investment potential.

The unaudited condensed consolidated accounts have been prepared in accordance with Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" ("SSAP 25") issued by the Hong Kong Society of Accountants (as applicable to condensed interim accounts) except that comparative figures are not presented for the condensed consolidated statement of recognised gains and losses and for the condensed consolidated cash flow statement, being the first set of such statements to be included in the interim financial report relating to accounting period ended on or after 1st July, 2000. Such departures from SSAP 25 are permitted under Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies adopted are consistent with those followed in the Group's annual accounts for the year ended 31st July, 2000. Due to the adoption of Statements of Standard Accounting Practice No. 1 "Presentation of Financial Statements" and No.2 "Net Profit or Loss for the Period, Fundamental Errors and Change in Accounting Policies" during current period, the presentation of the condensed consolidated profit and loss account, condensed consolidated balance sheet and certain supporting notes have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current period's presentation.

2. TURNOVER

The Group's principal activities have not changed during the period and consisted of property development for sale and property investment for rental purposes.

	Turnover		Operating Profit	
	1/8/00 to 31/1/01	1/8/99 to 31/1/00	1/8/00 to 31/1/01	1/8/99 to 31/1/00
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By activity:				
Sale of completed properties	38,620	106,052	7,079	1,142
Rental income	36,223	31,453	28,146	24,389
	74,843	137,505	35,225	25,531

No geographical analysis is presented as over 90% of the Group's turnover and operating profit are derived from activities inside the People's Republic of China.

3. OPERATING PROFIT

	Unaudited	Unaudited
	1/8/00 to	1/8/99 to
	31/1/01	31/1/00
	HK\$'000	HK\$'000
<hr/>		
This is arrived at after charging:		
Depreciation	1,407	1,481
Amortisation of goodwill arising on acquisition of an associated company	578	578
	<hr/>	<hr/>

4. FINANCE COSTS

	Unaudited	Unaudited
	1/8/00 to	1/8/99 to
	31/1/01	31/1/00
	HK\$'000	HK\$'000
<hr/>		
Interest expense on:		
Bank loans due within five years	6,953	8,172
Amounts due to minority shareholders	1,318	2,502
Convertible guaranteed bonds and convertible note	38,955	38,016
Provision for premium on convertible note redemption	10,000	10,000
	<hr/>	<hr/>
	57,226	58,690
Less:		
Amounts capitalised in properties under development	(10,082)	(9,685)
Amounts capitalised in associated companies engaged in property development	(2,439)	(2,342)
Amounts capitalised in jointly controlled entities engaged in property development	—	(710)
	<hr/>	<hr/>
	44,705	45,953

5. TAXATION

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 (2000: HK\$Nil).

Taxes on profits assessable elsewhere have been calculated at the rates of taxation prevailing in places in which the Group operates.

6. (LOSS)/EARNINGS PER SHARE

Basic (loss)/earnings per share is calculated based on the following:

	Unaudited	Unaudited
	1/8/00 to	1/8/99 to
	31/1/01	31/1/00
	HK\$'000	HK\$'000
(Loss)/profit attributable to shareholders	(39,208)	4,120
	1/8/00 to	1/8/99 to
	31/1/01	31/1/00
	'000	'000
Weighted average number of ordinary shares in issue during the period	1,289,079	1,046,999

Diluted loss per share for the six months ended 31st January, 2001 has not been shown as potential shares have an anti-dilutive effect on the basic loss per share.

7. DEBTORS, DEPOSITS AND PREPAYMENTS

The credit terms of the Group range from 30 to 180 days. The ageing analysis of debtors is stated as follows:

	Unaudited	Audited
	31/1/01	31/7/00
	HK\$'000	HK\$'000
Amount not yet due	4,714	6,743
Overdue by 30 days	2,457	3,514
Overdue by 60 days	1,862	2,663
Overdue by 90 days	3,499	5,004
Overdue by more than 90 days	20,170	28,849
Total	32,702	46,773
Deposits and prepayments	14,356	20,533
	47,058	67,306

8. CREDITORS, ACCRUALS AND PROVISIONS

The ageing analysis of creditors is stated as follows:

	Unaudited	Audited
	31/1/01	31/7/00
	HK\$'000	HK\$'000
Overdue by 30 days	115,240	116,599
Overdue by more than 180 days	91,919	93,003
Total	207,159	209,602
Accruals and provisions	134,683	177,538
	341,842	387,140

9. SHARE CAPITAL

	Unaudited Number of shares 31/1/01 '000	Unaudited Nominal value 31/1/01 HK\$'000	Audited Number of shares 31/7/00 '000	Audited Nominal value 31/7/00 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	3,070,827	307,083	1,047,114	104,711

On 10th January, 2001, 2,023,713,337 ordinary shares of HK\$0.10 each were allotted and issued at a conversion price of HK\$0.464 to the bondholders of the convertible guaranteed bonds due 2000 issued by Lai Fung Overseas Finance Limited ("CGB") upon the mandatory conversion of the CGB with a total principal amount of US\$120,385,000.

10. RESERVES

	Share premium 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 HK\$'000	Total HK\$'000
At 31st July, 2000	2,492,200	25,803	462,995	1,580,892	181,292	170,975	4,914,157
Share premium arising on conversion of convertible guaranteed bonds	727,074	—	—	—	—	—	727,074
Exchange realignments: subsidiaries associated companies jointly controlled entities	—	2,119	—	—	—	—	2,119
	—	859	—	—	—	—	859
	—	57	—	—	—	—	57
Loss for the period	—	—	—	—	—	(39,208)	(39,208)
At 31st January, 2001	3,219,274	28,838	462,995	1,580,892	181,292	131,767	5,605,058

11. RELATED PARTY TRANSACTIONS

- (1) The Group had the following material transaction with a related party during the period:

	Unaudited	Unaudited
	1/8/00 to	1/8/99 to
	31/1/01	31/1/00
	HK\$'000	HK\$'000
Interest income received from an associated company	15,419	13,323

Interest is charged on advance to an associated company at the Hong Kong prime lending rate plus 2% per annum. The amounts due are unsecured and have no fixed terms of repayment.

- (2) On 19th January, 2001, an unsecured loan of HK\$40,786,686 was obtained by the Company from Mr. Lim Por Yen, a substantial shareholder of the Company, for financing working capital of the Group. The loan was repayable on or before 31st January, 2002 and was bearing interest at the Best Lending Rate quoted by The HongKong and Shanghai Banking Corporation Limited. The balance of the loan as at 31st January, 2001 was HK\$40,786,686.

12. CONTINGENT LIABILITIES

- (1) Under a mortgage loan facility provided by a bank to the end-buyers of the office and apartment units of Hong Kong Plaza, the Company agreed to guarantee up to 95% of the liabilities of Shanghai Li Xing Real Estate Development Co., Ltd. for the due performance of its undertaking to buy back the relevant property in case of default by the borrower.
- (2) Under a mortgage loan facility provided by another bank to the end-buyers of Eastern Place Phase I and Phase II, the Company agreed to provide guarantees to the bank to buy back the relevant property in case of default by the borrowers.
- (3) Pursuant to a loan agreement, the Company agreed to provide a corporate guarantee to the bank to secure the loan facility of approximately HK\$236 million granted to a wholly-owned subsidiary of the Group. Approximately HK\$47 million of the loan was outstanding as at 31st January, 2001.

13. COMMITMENTS FOR THE PURCHASE OF PROPERTY, PLANT AND EQUIPMENT

Commitments not provided for in the accounts at the balance sheet date were as follows:

	Unaudited	Audited
	31/1/01	31/7/00
	HK\$'000	HK\$'000
Commitments for property development expenditure		
Authorised but not contracted for	—	—
Contracted but not provided for	571,302	552,044
	571,302	552,044

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the six months ended 31st January, 2001, the Group achieved a turnover of HK\$74,843,000 and an operating profit of HK\$35,225,000, representing a decrease of approximately 46% and an increase of approximately 38% respectively when compared with the previous year. The decrease in turnover was mainly attributed to the slowdown in sales of Phase II of Eastern Place in Guangzhou. The remaining stocks of Phase II of Eastern Place comprised mainly large-size flats with consideration of over RMB1 million each. It will normally take a longer time for these units to be absorbed by the market. It is expected that sales will pick up when pre-sale of Phase III of Eastern Place begins in the third quarter of this year. With a gradual improvement in the occupancy of the offices and service apartments of Hong Kong Plaza, Shanghai, the rental contribution from the properties continued to improve during the period under review. This has mainly accounted for the improvement in the operating profit. However, the performance of the Company for the period was adversely affected by the share of losses of the associated companies amounting to HK\$29.4 million, which had increased by HK\$22 million compared to the previous period. As a result, the Company has recorded a loss attributable to the shareholders for the period of HK\$39.2 million as compared with a small profit of HK\$4.1 million for the corresponding previous period.

The CGB were due for maturity in November 2000. Pursuant to the terms of the CGB, Lai Fung Overseas Finance Limited elected to convert mandatorily all the outstanding CGB into shares of the Company at a conversion price of HK\$0.464 per share on 10th January, 2001. This conversion will effectively lower the finance cost of the Company in the future.

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, 2001, the Group had gross borrowings (inclusive of the loan of HK\$40,786,686 due to Mr. Lim Por Yen as referred to below) amounting to HK\$920 million, representing a decrease of HK\$898 million over that of the preceding financial year. The decrease was mainly attributable to the conversion of the CGB in January this year. Net debt (gross borrowings less cash and cash equivalent) and net debt to shareholders' funds were HK\$814 million and 13.8% respectively as at 31st January, 2001.

Approximately 85% of the Group's gross borrowings were on a fixed rate basis and the remaining were on a floating rate basis at the balance sheet date. As at 31st January, 2001, approximately 78% of the gross borrowings were denominated in Hong Kong dollars and the remaining were denominated in Renminbi. Approximately 73% of the gross borrowings of the Group were unsecured.

The maturity profile of the Group's outstanding borrowings as at 31st January, 2001 was spread over a period of two years, with approximately 21% repayable within one year and 79% repayable between one to two years. Certain assets of the Group have been pledged to secure financing, including investment properties with carrying value amounting to HK\$1,369 million and properties under development with carrying value amounting to HK\$514 million.

On 19th January, 2001, an unsecured loan of HK\$40,786,686 was obtained by the Company from Mr. Lim Por Yen, a substantial shareholder of the Company, for financing working capital of the Group. The loan was repayable on or before 31st January, 2002 and was bearing interest at the Best Lending Rate quoted by The HongKong and Shanghai Banking Corporation Limited. The balance of the loan as at 31st January, 2001 was HK\$40,786,686.

Contingent Liabilities

As a common practice in the People's Republic of China ("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 mortgagors. 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 will be crystallized.

Prospects

The real estate markets in major cities in the Mainland of China have experienced a reasonable recovery over the past six months as both residential and commercial rentals have exhibited a steady 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 pre-sale of Phase III of Eastern Place and the potential launch of New Trend Plaza in Guangzhou by the end of this year will also prove beneficial.

With the mandatory conversion of the CGB, it is anticipated that the finance expenses of the Company will be significantly reduced. The strong asset backing and low financial gearing of the Company should enable the Company to position itself for healthy expansion in the Mainland.

Employees and Remuneration Policies

The Group employs a total of approximately 400 employees. The Group recognizes the importance of the strength of its human resources for its success. Pay rates of employees 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 contributory provident fund scheme, mandatory provident fund, free hospitalization insurance plan, subsidized medical care and subsidies for external educational and training programmes. The Group currently does not have any share option schemes for employees.

PRACTICE NOTE 19 TO THE LISTING RULES

Pursuant to paragraph 3.7.1 of Practice Note 19 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Company discloses the following details on the CGB which impose specific performance obligation on the controlling shareholder of the Company:

On 5th January, 1994, Lai Fung Overseas Finance Limited, a wholly-owned subsidiary of the Company, issued US\$150,000,000 CGB. Unless previously redeemed or purchased and cancelled, the CGB are convertible into fully paid shares of the Company at the option of the holders from 28th February, 1998 to 21st November, 2000. It will be an event of default under the CGB if Lai Sun Development Company Limited ceases to own at least 50% of the issued share capital of the Company from 29th November, 1997 to 22nd November, 2000 on a fully diluted basis. No such event of default was noted up to 22nd November, 2000. On 10th January, 2001, the CGB were mandatorily converted into shares of the Company.

INTERIM DIVIDEND

The Board of Directors does not recommend the payment of an interim dividend in respect of the year ending 31st July, 2001. No interim dividend was declared in respect of the previous corresponding period.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 31st January, 2001, none of the Directors and chief executive of the Company had any interest in the equity or debt securities of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register required to be kept by the Company pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

SUBSTANTIAL SHAREHOLDERS

As at 31st January, 2001, the persons listed below were interested in 10% or more of the total issued share capital of the Company as recorded in the register required to be kept by the Company under Section 16(1) of the SDI Ordinance:

Name of Shareholder	Number of Shares Held	Shareholding Percentage	Note(s)
Lai Sun Development Company Limited ("LSD")	779,958,912	25.40%	2
Lai Sun Garment (International) Limited ("LSG")	1,413,700,289	46.04%	1 & 2
Lim Por Yen	1,413,700,289	46.04%	1 & 2
Silver Glory Securities Limited ("SGS")	443,456,895	14.44%	—
Credit Suisse First Boston (Hong Kong) Limited	442,112,068	14.40%	—

Note 1: These interests in the Company represented the shares beneficially owned by LSD (779,958,912 shares), LSG (190,284,482 shares) and SGS (443,456,895 shares), a wholly-owned subsidiary of LSG. LSG and Mr. Lim Por Yen were deemed to be interested in the 1,413,700,289 shares in the Company held by LSD, LSG and SGS by virtue of LSG and its wholly-owned subsidiary holding collectively an interest of about 42.25% in LSD and Mr. Lim Por Yen (together with his spouses) holding an interest of about 34.30% 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.

Note 2: Sun Chung Estate Company, Limited ("Sun Chung") held 21,429,000 shares (the "Sun Chung Holding"), representing about 0.70% in the issued share capital of the Company. LSD granted an option to Sun Chung in April 1999 whereby Sun Chung has the right by serving not less than 7 days' written notice upon LSD to require LSD to sell up to 230,000,000 existing shares in the Company to Sun Chung at the price of HK\$0.464 per share (adjusted after the completion of the mandatory conversion of CGB and subject to further adjustments) during the period commencing from 7th April, 1999 to the date falling 42 months thereafter and accordingly, for the purposes of the SDI Ordinance, Sun Chung, Bank of China and Bank of China Group Investment Limited were deemed to be interested in the said 230,000,000 shares in the Company and the Sun Chung Holding.

Save for the interests disclosed above, the Directors are not aware of any other person being interested in 10% or more of the issued share capital of the Company as at 31st January, 2001.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 31st January, 2001, 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 for the six months ended 31st January, 2001, 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.

The Company has established an audit committee in accordance with paragraph 14 of the Code of Best Practice. The audit committee comprises two independent non-executive Directors, Mr. Chan Yuk Sing and Mr. Wong Yee Sui, Andrew as at the date hereof. The interim report has been reviewed by the audit committee.

By Order of the Board
Lam Kin Ngok, Peter
Chairman

Hong Kong, 20th April, 2001