Chairman's Statement

Mr. Lim Por Yen, Chairman

"On behalf of the Board of Directors, I am pleased to present the 2002-03 annual report to the shareholders."

RESULTS

Realising a marked turnaround, Lai Fung Holdings Limited (the "Company") and its subsidiaries (the "Group") recorded a consolidated net profit attributable to shareholders of HK$56,995,000 for the year ended 31st July, 2003, as compared with a net loss of HK$93,976,000 for the previous year.

DIVIDEND

The Board of Directors does not recommend the payment of a final dividend for the financial year under review.

BUSINESS REVIEW

For the year under review, the Group registered a turnover of HK$119,338,000 (2002: HK$142,510,000) and a profit from operating activities of HK$111,899,000 (2002: HK$76,204,000), representing a decrease of approximately 16% and an increase of approximately 47% respectively when compared with the previous year.

Chairman's Statement

Demand for quality commercial and residential property in the Mainland of China ("Mainland") has paralleled the country's continued economic expansion, particularly in the major cities of Shanghai and Guangzhou where the Group's properties are concentrated. As a result, the Group enjoyed improving occupancy and rental rates at its properties, despite the effects of Severe Acute Respiratory Syndrome ("SARS"), and also benefited from the availability of about 100 additional service apartment units during the period under review, all contributing to an increase in gross profit of 51% at HK$93,777,000, as compared with HK$61,930,000 last year.

On 27th February, 2003, the Group entered into an agreement to sell to an independent third party 22.5% of the equity interest in and 22.5% of the shareholder's loan advanced by the Group to a subsidiary company, for an aggregate consideration of HK$111,000,000. The gain on the disposal of the 22.5% interest in the project is approximately HK$27,095,000.

The effects of underperforming associates and jointly-controlled entities on the Group's overall performance diminished substantially during the year, as compared with the previous year. The impairment loss in amounts due from associates decreased to HK$10,249,000 (2002: HK$18,916,000) while the loss on the disposal of a jointly-controlled entity amounted to HK$3,772,000 (2002: Nil). Having taken these and other positive steps to mitigate the situation, the Group expects its overall performance to improve in the coming year.

Through aggressive debt restructure and an increase in equity base, the Group successfully reduced its finance cost by 33% to HK$38,728,000 (2002: 57,960,000). The Group is committed to redoubling efforts to enhance its financial position for the coming year.

PROSPECTS

The Mainland's steady integration into the World Trade Organization (WTO) continues to draw an influx of foreign corporations seeking to establish or strengthen their presence in the Mainland. With the signing of the Closer Economic Partnership Arrangement (CEPA), Hong Kong corporations will undoubtedly gravitate towards the Mainland market in ever-greater numbers, further stimulating the already surging demand for quality commercial and residential properties.

Chairman's Statement

Considering this favourable outlook, the Group projects satisfactory growth for the coming year. The Group expects its flagship Shanghai property, Hong Kong Plaza, to continue to contribute stable rental income. In addition, a new Grade-A commercial property in Guangzhou, May Flower Plaza, will open in early 2004, fortifying the Group's investment portfolio and serving as another regular stream of revenue. The scheduled pre-sale of completed developments, including Regents Park in Shanghai and Phase III of Eastern Place in Guangzhou, is also expected to boost turnover and profitability. With other completed projects scheduled to come on stream amid a favourable leasing market, the Group is confident of achieving solid growth and higher earnings in coming years.

Robust economic growth is expected to continue in the Mainland, especially in the Yangtze and Pearl River deltas, home to the country's fastest growing cities. As an early entrant into the Mainland with over ten years of property development experience in the market, the Group is in a prime position to seize upon 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.

I would like to take this opportunity to express my sincere appreciation to our shareholders, customers and suppliers for their continuous support. My gratitude also goes to our invaluable staff for their dedicated service to the Group throughout the year.

Lim Por Yen
Chairman

Hong Kong
7th November, 2003