Chairman's Statement

"The performance of the Group for the year has been encouraging……"

Mr. Lim Por Yen, *Chairman*

RESULTS

Lai Fung Holdings Limited (the "Company") and its subsidiaries (the "Group") recorded a consolidated net profit from ordinary activities attributable to shareholders of HK$172,774,000 for the year ended 31st July, 2004, as compared with a restated net profit of HK$4,353,000 for the previous year.

DIVIDEND

The Board of Directors does not recommend the payment of any final dividend in respect of the year ended 31st July, 2004 (2003: Nil).

BUSINESS REVIEW

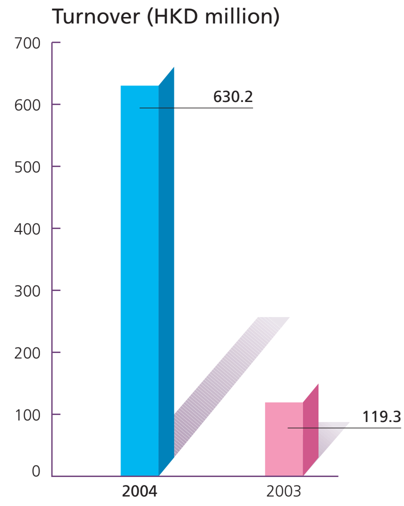
Demand for quality commercial and residential property in Mainland of China ("Mainland") has tracked the country's continued economic expansion, particularly in the major cities of Shanghai and Guangzhou where the Group's properties are concentrated.

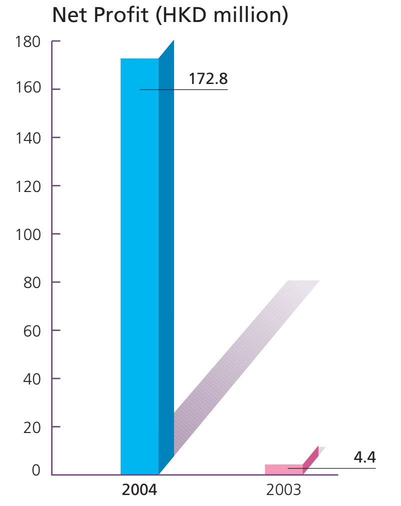
Further to the turnaround in the last financial year, the Group achieved a consolidated net profit from ordinary activities attributable to shareholders of HK$172,774,000 for the year ended 31st July, 2004, as compared with a restated net profit of HK$4,353,000 for the previous year and, representing an increase of approximately 3,869%. The remarkable improvement has been achieved by the encouraging operating performance and successful negotiation for more favourable terms with joint venture partners and their associates, representing the management's effort in the last few years.

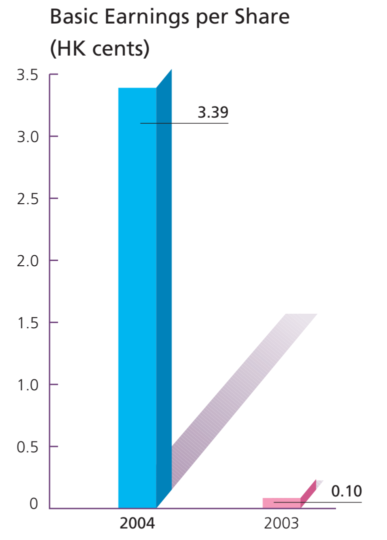
For the year ended 31st July, 2004, the Group registered a turnover of HK$630,204,000 (2003: HK$119,338,000) and a gross profit of HK$223,758,000 (2003: HK$93,777,000), representing an increase of approximately 428% and 139%, respectively from last year. The increase can mainly be attributed to the pre-sale of Phase I Regents Park in Shanghai, and Phase III Eastern Place in Guangzhou, which had commenced in October 2003 and August 2003, respectively. The Group's flagship project in Shanghai, Hong Kong Plaza, attained a record-high rental income for the year.

The Group achieved an increase in profit from operating activities of 68% at HK$187,658,000, as compared with HK$111,437,000 (restated) for the previous year.

On 20th August, 2003, the Group, through its newly formed wholly-owned subsidiary, Zhongshan Bao Li Properties Development Limited (formerly known as "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 Mainland, pursuant to which the Group conceded the entitlement of its investment in 50% of Zhongshan Li Shan, and was compensated by a new piece of land of approximately 55,000 sq.m. in Zhongshan. The land use rights certificates were issued to Zhongshan Bao Li by the Zhongshan People's Government on 24th October, 2003. The gain arising from the above transaction was approximately HK$42,555,000.

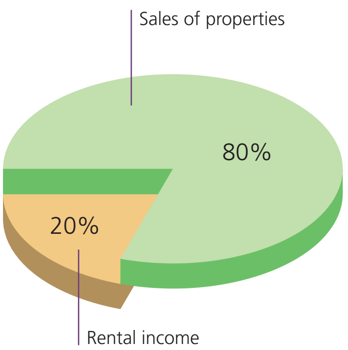




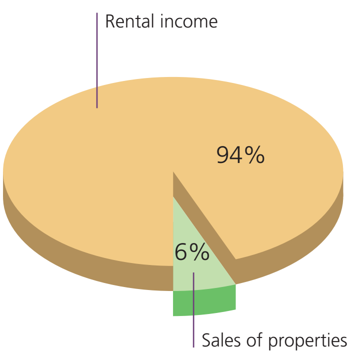


Chairman's Statement

Turnover Analysis



2004



2003

An investment of one of the Group's associates (the "Associate") is the development of a complex with 2 high-rise towers above a commercial podium in the Mainland. In respect of one of the towers and its related portion of the podium below, the Associate had entered into an agreement with a third party (the "Sino Party") under which, the Associate was responsible for the construction work and the budgeted construction costs were to be paid by both parties under an agreed ratio. In return for the accumulated costs, the Associate would be entitled to equivalent rental income for the related portion of the commercial podium over a 20-year period. The cost paid will be treated as rental prepayment for the period. However, actual construction took longer than anticipated and the rental prepayment could not be fully recovered from the net cash inflow, resulting in share of loss of the Associate of HK$43,470,000 in the financial year ended 31st July, 2002. Consequently, a supplementary agreement was signed between the two parties, with Sino Party agreeing to transfer its share of 1st to 5th floors and basement levels 1 and 2 of the podium (approximately 13,000 sq.m), including the corresponding land use rights, to the Associate as compensation. The related certificate of real estate ownership was issued to the Associate on 16th June, 2004. The aforesaid provision was written back as a consequence of the compensation received, leading to profit being shared from the Associate and a write-back of impairment loss in amount due from the Associate.

The Group has also successfully reduced its finance costs by 18% to HK$31,758,000 (2003: HK$38,728,000) amid its business growth. The Group is committed to continuing efforts to enhance its financial position for the coming year.

During the year, the Group has adopted the revised Statement of Standard Accounting Practice 12 "Income Taxes" (Revised) ("SSAP 12") and Interpretation 20 "Income taxes — Recovery of revalued non-depreciable assets" ("Interpretation 20") issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). SSAP 12 principally prescribes the accounting treatment and disclosure for deferred tax. Interpretation 20 requires that a deferred tax asset or liability that arises from the revaluation of certain non-depreciable assets and investment properties is measured based on the tax consequences that would follow from the recovery of the carrying amount of that asset through sale even if the Group does not have any intention to sell the properties. In the absence of any specific transitional requirements in SSAP 12 and Interpretation 20, the new accounting policy resulting from the adoption of SSAP 12 and Interpretation 20 has been applied retrospectively. Comparative amounts for last year have been restated accordingly. The deferred tax expenses for the current year and last year are HK$20,595,000 and HK$36,359,000, respectively.

PROSPECTS

Despite a series of macro-economic policies implemented in the first half of 2004, economic growth is expected to thrive in the Mainland, especially in the Yangtze and Pearl River Deltas, home to the country's fastest growing cities. Previous constraints for overseas investors in areas such as banking, insurance and service sectors are expected to ease given the Mainland's steady integration into the World Trade Organisation (WTO). As a result, this will continue to draw an influx of foreign corporations seeking to establish or strengthen their presence in the Mainland. With implementation of the second stage of Closer Economic Partnership Arrangement (CEPA), and hosting of 2010 World Expo in Shanghai and 2010 Asian Games in Guangzhou, foreign and Hong Kong corporations will undoubtedly gravitate towards the Mainland in greater numbers, spurring demand for quality commercial and residential properties.

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 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.

In view of this favourable outlook, the Group projects satisfactory growth for the coming financial years. 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 coming financial years, including Phases I and II of Regents Park in Shanghai and Phases III and IV of Eastern Place in Guangzhou, are also expected to boost turnover and profitability.

Chairman's Statement

With completion of the above-mentioned Zhongshan transaction, together with the likely construction of the Hongkong-Zhuhai-Macau Bridge, the Group is optimistic about future economic growth and development of the Zhongshan property market. Coupled with recent successful investments by other leading property developers from Hong Kong and the Mainland, Zhongshan is set to become one of the most prosperous property markets in Guangdong Province. 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 the coming years.

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
12th November, 2004