



# LAI FUNG HOLDINGS

Lai Fung Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

## ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31ST JULY, 2003

### RESULTS

The Board of Directors of Lai Fung Holdings Limited (the "Company") announces the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31st July, 2003 as follows:

	Notes	2003 HK\$'000	2002 HK\$'000
TURNOVER	2	119,338	142,510
Cost of sales		(25,561)	(80,580)
Gross profit		93,777	61,930
Other revenue		52,213	59,161
Selling expenses		(1,289)	—
Administrative expenses		(56,125)	(44,887)
Loss on disposal of a jointly-controlled entity		(3,772)	—
Gain on disposal of partial interest in a subsidiary		27,095	—
PROFIT FROM OPERATING ACTIVITIES	3	111,899	76,204
Finance costs	4	(38,728)	(57,960)
Share of losses of associates		—	(43,742)
Impairment loss in amounts due from associates		(10,249)	(18,916)
Impairment loss in interests in jointly-controlled entities		—	(45,057)
PROFIT/(LOSS) BEFORE TAX		62,922	(89,471)
Tax	5	(4,103)	(2,352)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		58,819	(91,823)
Minority interests		(1,824)	(2,153)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		56,995	(93,976)
EARNINGS/(LOSS) PER SHARE	6		
Basic		1.41 cents	(2.95 cents)
Diluted		N/A	N/A

#### Notes:

#### 1. PRINCIPAL ACCOUNTING POLICIES

The audited consolidated financial statements are prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants, and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

#### 2. TURNOVER AND SEGMENT INFORMATION

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

	Property development		Property investment		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment revenue:						
Sales to external customers	6,712	43,064	—	—	6,712	43,064
Rental income	—	—	112,626	99,446	112,626	99,446
Other revenue	3,829	1,856	25,888	19,596	29,717	21,452
Total	10,541	44,920	138,514	119,042	149,055	163,962
Segment results	18,626	(5,815)	88,671	54,292	107,297	48,477
Interest income and other revenue					22,496	37,709
Unallocated expenses					(14,122)	(9,982)
Loss on disposal of a jointly-controlled entity					(3,772)	—
Profit from operating activities					111,899	76,204
Finance costs					(38,728)	(57,960)
Share of losses of associates				(43,742)	—	(43,742)
Impairment loss in amounts due from associates			(10,249)	(18,916)	(10,249)	(18,916)
Impairment loss in interests in jointly-controlled entities		(45,057)			—	(45,057)
Profit/(loss) before tax					62,922	(89,471)
Tax					(4,103)	(2,352)
Profit/(loss) before minority interests					58,819	(91,823)
Minority interests					(1,824)	(2,153)
Net profit/(loss) from ordinary activities attributable to shareholders					56,995	(93,976)

No geographical segment information is presented as over 90% of the Group's customers and assets are located in the Mainland of China.

### 3. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	2003 HK\$'000	2002 HK\$'000
Cost of completed properties for sale	4,629	49,249
Depreciation	4,025	3,092
Loss on disposal of fixed assets	—	9
Write-back of provision for a deposit paid	(3,632)	—
Negative goodwill recognised as income during the year*	(732)	—

\* The negative goodwill recognised in the profit and loss account for the year is included in "Other revenue" on the face of the consolidated profit and loss account.

### 4. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest expense on:		
Bank loans wholly repayable within five years	44,023	14,559
Bank loans wholly repayable beyond five years	—	40,571
Loans from a substantial shareholder	228	2,318
Bank charges	4,168	4,983
	48,419	62,431
Less:		
Interests capitalised in properties under development	(9,691)	(4,471)
	38,728	57,960

### 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 year (2002: 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.

	2003 HK\$'000	2002 HK\$'000
Charge for the year for Mainland of China profits tax	3,567	3,000
Overprovision of Mainland of China profits tax in prior years	(464)	(648)
	3,103	2,352
Underprovision of Hong Kong profits tax in prior years	1,000	—
Tax charge for the year	4,103	2,352

### 6. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$56,995,000 (2002: net loss of HK\$93,976,000) and the weighted average of 4,048,864,263 (2002: 3,180,247,007) ordinary shares in issue during the year, as adjusted to reflect the rights issue during the year. The weighted average number of ordinary shares in issue for the year ended 31st July, 2002 was not restated because there was no bonus element resulting from the aforementioned rights issue.

The diluted earnings/(loss) per share for the years ended 31st July, 2003 and 2002 have not been disclosed as no diluting events existed during these years.

### FINAL DIVIDEND

The Board of Directors does not recommend the payment of any final dividend in respect of the year ended 31st July, 2003 (2002: Nil).

### MANAGEMENT DISCUSSION AND ANALYSIS

#### Business Review

Realising a marked turnaround, 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.

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.

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.

## Review of Projects

### Shanghai

Rising above the Huangpi South Road subway station at one of Shanghai's prime downtown addresses on famous Huaihaizhong Road, the Group's flagship project, Hong Kong Plaza, 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 including HSBC, Bank of China, Physical Fitness Centre, KFC, Zen and Cyber Mart. It is also a choice location for many esteemed corporate tenants who lease office space and service apartments. Despite the outbreak of SARS in the first half of 2003 which caused considerable shortfall in rental income from service apartments when compared with the original budget, Hong Kong Plaza continued to contribute stable rental income growth to the Group, recording an increase of HK\$13,180,000 in rental income for the Group.

Foundation work for another of the Group's key Shanghai projects, Regents Park (previously known as Hai Xin Garden), was completed during the year under review. The project 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 blocks with approximately 168,600 sq.m. of gross floor area, approximately 14,800 sq.m. of commercial area, a fully appointed clubhouse and other facilities. Phase I of the project is scheduled for completion in early 2005.

### Guangzhou

Eastern Place, 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 eight residential blocks and a commercial/office complex to be developed in several phases. Now in place are Phase I and II, which comprise four residential buildings, and the well-appointed residents' clubhouse, Eastern Club (previously known as Dong Feng Hui). Phase III, which includes two additional residential blocks adding approximately 42,000 sq.m. of gross floor area, is scheduled for completion and pre-sale towards the end of 2003. 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.

Substantial structural work was completed during the year for May Flower Plaza (previously known as Wuyuehua Shangye Guangchang) in Guangzhou. The property, which enjoys a prime strategic location directly above the Gongyuanqian subway station on Zhongshanwu Road, is now undergoing 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. Targeted to house a comprehensive mix of retail tenants, exhibition centres, restaurants and a cinema with state-of-the-art facilities, May Flower Plaza is scheduled to open in the beginning of 2004.

### Zhongshan

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 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. Since the development of the land held by Zhongshan Li Shan was not commercially feasible and the remaining term of this joint-venture was short, full provision on the impairment of the Group's interest in 50% in Zhongshan Li Shan were already made in the Group's financial statements since the financial year ended 31st July, 2002. The detailed development plan of this new piece of land owned by Zhongshan Bao Li has yet to be determined by the Group.

## 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.

On 11th March, 2003, the Company announced a rights issue of 767,706,730 rights shares of HK\$0.10 each at HK\$0.10 per rights share in the proportion of one rights share for every five existing shares held on 31st March, 2003 (the "Rights Issue"). A total of 767,706,730 shares were allotted and issued, representing approximately 20% and 16.67% of the original and enlarged issued share capital of the Company, respectively. In view of the recent economic climate, the Directors decided upon a prudent course to finance long-term growth through long-term funding, preferably in the form of equity. The Directors deemed that it was in the interest of the Company to enlarge its capital base by way of the Rights Issue, which would allow all shareholders the opportunity to participate in the growth of the Group.

As at 31st July, 2003, the Group had a gross borrowing (inclusive of the loan of HK\$16,170,000 (2002: HK\$86,886,000) loaned by Mr. Lim Por Yen) amounting to HK\$1,138 million (2002: HK\$1,054 million), representing an increase of HK\$84 million over that of the preceding financial year-end. The consolidated net assets of the Group amounted to HK\$5,602 million (2002: HK\$5,523 million). The resultant debt to equity ratio was 0.20 (2002: 0.19).

During the period, the Group obtained an additional unsecured loan of RMB38,934,000 from Mr. Lim Por Yen, a substantial shareholder in the Group. The Group has repaid HK\$106,000,000 to Mr. Lim Por Yen during the year under review. The aggregate outstanding balance of the loans from Mr. Lim Por Yen as at 31st July, 2003 was HK\$16,170,000.

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 July, 2003, approximately 38% of the Group's gross borrowings were denominated in Renminbi ("RMB") and 62% 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 July, 2003 was spread over a period of five years, with approximately 4% repayable within one year and 96% 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\$1,304 million, and bank balances amounting to approximately HK\$11.5 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 planned property developments and other 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 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, and Phase I and Phase II 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 Policy

As the employer of approximately 400 staff, the Group recognises the importance that maintaining strong human resources plays in its continued success. Under the Group's existing policy, 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 mandatory provident fund, a free hospitalisation insurance plan, subsidised medical care and subsidies for external education and training programmes.

## Share Option Scheme

In order to provide the Group with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to eligible employees (including executive and non-executive directors), a Share Option Scheme was approved and adopted by the shareholders at an Extraordinary General Meeting held on 21st August, 2003.

## 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 presences in the Mainland. With the signing of the Closer Economic Partnership Arrangement (CEPA), Hong Kong 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 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.

## ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held on Monday, 22nd December, 2003. Notice of the Annual General Meeting together with the Company's Annual Report for 2002-2003 will be despatched to shareholders as soon as possible.

## PUBLICATION OF INFORMATION ON STOCK EXCHANGE WEBSITE

All information required by paragraphs 45(1) to 45(3) inclusive of Appendix 16 to the Listing Rules, will be submitted to the Stock Exchange on or before 21st November, 2003 for publication on the website of the Stock Exchange.

By Order of the Board  
**Lim Por Yen**  
Chairman

Hong Kong, 7th November, 2003