



# CHINESE ESTATES HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 127)**

**Interim Report  
For The Six Months  
Ended 30th June, 2008**

## **CORPORATE INFORMATION**

### **Directors**

#### *Executive Directors:*

Joseph Lau, Luen-hung  
(Chairman and Chief Executive Officer)  
Lau, Ming-wai

#### *Non-executive Director:*

Amy Lau, Yuk-wai

#### *Independent Non-executive Directors:*

Chan, Kwok-wai  
Cheng, Kwee  
Phillis Loh, Lai-ping

### **Audit Committee**

Chan, Kwok-wai  
Cheng, Kwee  
Phillis Loh, Lai-ping

### **Remuneration Committee**

Chan, Kwok-wai  
Cheng, Kwee  
Phillis Loh, Lai-ping

### **Company Secretary and Qualified Accountant**

Lam, Kwong-wai

### **Solicitors**

Sidley Austin  
Sit, Fung, Kwong & Shum

### **Auditors**

HLB Hodgson Impey Cheng

### **Principal Bankers and Financial Institutions**

Agricultural Bank of China  
Banco Comercial de Macau, S.A.  
Bank of China (Hong Kong) Limited  
Bank of Communications Co., Ltd.  
China Construction Bank (Asia) Limited  
China Everbright Bank  
Chong Hing Bank Limited  
Citibank, N.A.  
Dah Sing Bank, Limited  
DBS Bank (Hong Kong) Limited  
Hang Seng Bank Limited  
Industrial and Commercial Bank of China  
(Asia) Limited  
Malayan Banking Berhad  
Nanyang Commercial Bank, Limited  
Oversea-Chinese Banking Corporation Limited  
Public Bank (Hong Kong) Limited  
Seng Heng Bank Limited  
Standard Chartered Bank (Hong Kong) Limited  
Tai Fung Bank Limited  
The Bank of East Asia, Limited  
The Bank of Tokyo-Mitsubishi UFJ, Ltd.  
Wing Lung Bank, Limited

*(Listed in alphabetical order)*

### **Registered Office**

Canon's Court, 22 Victoria Street  
Hamilton HM 12, Bermuda

### **Principal Office in Hong Kong**

26th Floor, MassMutual Tower  
38 Gloucester Road  
Wanchai, Hong Kong

### **Principal Registrar and Transfer Office**

Butterfield Fund Services (Bermuda) Limited  
Rosebank Centre, 11 Bermudiana Road  
Pembroke HM 08, Bermuda

### **Branch Registrar and Transfer Office in Hong Kong**

Computershare Hong Kong Investor  
Services Limited  
Shops 1712-1716  
17th Floor, Hopewell Centre  
183 Queen's Road East  
Wanchai, Hong Kong

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#### *Shenzhen Office:*

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### **Website**

<http://www.chineseestates.com>

### **Stock Code**

127

### **Board Lot**

1,000 Shares

### **Investor Relations**

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Investor Relations Manager

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## RESULTS

The Board of Directors (the “Board”) of Chinese Estates Holdings Limited (the “Company”) would like to announce the unaudited consolidated interim results of the Company and its subsidiaries (together, the “Group”) for the six months ended 30th June, 2008 (the “Period”) together with the comparative figures for 2007:–

### CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2008

		Six months ended 30th June,	
		2008	2007
	Notes	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
<b>Continuing operations</b>			
Turnover	3	985,820	2,534,962
Cost of sales		(466,227)	(1,646,723)
Gross profit		519,593	888,239
Other income	5	19,339	17,604
Investment income, net	6	1,629,553	264,210
Administrative expenses		(115,843)	(124,597)
Other expenses	7	(1,430)	–
(Loss) gain on disposals of property and other fixed assets		(26)	3,084
(Loss) gain on disposals of investment properties		(2,641)	7
Fair value changes on investment properties		1,539,731	1,332,437
Finance costs	9	(163,204)	(253,033)
Other gains and losses, net	10	(174)	(77,724)
Share of results of associates		68,167	357,624
Profit before tax		3,493,065	2,407,851
Income tax expense	11	45,568	(284,066)
Profit for the period from continuing operations		3,538,633	2,123,785
<b>Discontinued operation</b>	12		
Loss for the period from discontinued operation		(1,899)	–
Profit for the period	8	3,536,734	2,123,785
Attributable to:			
Equity holders of the parent		3,522,830	2,052,396
Minority interests		13,904	71,389
		3,536,734	2,123,785
Dividends	14	517,159	406,869
Earnings per share (HK\$)	15		
Basic			
Continuing operations		1.53	0.91
Discontinued operation		–	–
		1.53	0.91
Diluted			
Continuing operations		1.53	0.91
Discontinued operation		–	–
		1.53	0.91

**CONDENSED CONSOLIDATED BALANCE SHEET**  
**At 30th June, 2008**

	<i>Notes</i>	<b>30th June, 2008</b>	31st December, 2007
		<b>HK\$'000</b>	<b>HK\$'000</b>
		<b>(Unaudited)</b>	<b>(Audited)</b>
<b>Non-current assets</b>			
Investment properties	16	39,180,880	38,498,440
Property and other fixed assets		93,984	101,846
Properties under development		60,231	33,548
Prepaid lease payments		1,480,075	1,417,631
Property interests held for future development		–	–
Intangible assets		11,440	12,870
Goodwill		2,940	–
Interests in associates	17	953,711	1,210,936
Advances to associates	18	1,734,326	1,352,741
Interests in jointly controlled entities		–	–
Available-for-sale investments	19	6,560,134	11,916,268
Advances to investee companies		320,609	310,055
Loans receivable, due after one year		61,214	61,300
Deferred tax assets		67,276	66,574
Advance to a minority shareholder of subsidiary		12,217	9,527
Pledged deposits		142,748	79,217
		<u>50,681,785</u>	<u>55,070,953</u>
<b>Current assets</b>			
Stock of properties		4,699,326	3,781,462
Investments held-for-trading		158,446	367,753
Equity-linked note		–	101,516
Loans receivable, due within one year		160	586
Inventories for cosmetic products		2,021	1,425
Debtors, deposits and prepayments	20	258,043	299,433
Securities trading receivables and deposits		148,572	309,766
Tax recoverable		649	536
Pledged deposits		428,637	406,492
Time deposits, bank balances and cash		9,516,850	6,167,845
Sale proceeds held by stakeholders		59,994	206,540
		<u>15,272,698</u>	<u>11,643,354</u>
Assets classified as held for sale	13	<u>207,055</u>	<u>–</u>
		<u>15,479,753</u>	<u>11,643,354</u>

**CONDENSED CONSOLIDATED BALANCE SHEET** (continued)  
At 30th June, 2008

	Notes	30th June, 2008 HK\$'000 (Unaudited)	31st December, 2007 HK\$'000 (Audited)
<b>Current liabilities</b>			
Derivative financial instruments	21	45,797	50,851
Creditors and accruals	22	399,683	295,766
Securities trading and margin payable		129,779	284,165
Deposits and receipts in advance		334,497	297,085
Tax liabilities		273,353	230,827
Borrowings – due within one year	23	3,070,194	2,949,269
Provisions		16,017	16,017
		<u>4,269,320</u>	4,123,980
Liabilities associated with assets classified as held for sale	13	10,781	–
		<u>4,280,101</u>	4,123,980
<b>Net current assets</b>		<u>11,199,652</u>	7,519,374
<b>Total assets less current liabilities</b>		<u>61,881,437</u>	62,590,327
<b>Non-current liabilities</b>			
Financial guarantee liabilities		618	618
Borrowings – due after one year	23	9,471,683	9,380,589
Convertible bonds	24	59,828	–
Amounts due to associates	25	9,343	8,941
Amounts due to minority shareholders	25	61,944	90,059
Deferred tax liabilities		5,358,541	5,444,587
		<u>14,961,957</u>	14,924,794
<b>Total assets and liabilities</b>		<u>46,919,480</u>	47,665,533
<b>Capital and reserves</b>			
Share capital	26	229,689	230,044
Reserves		46,021,777	46,931,594
<b>Equity attributable to equity holders of the parent</b>		<u>46,251,466</u>	47,161,638
<b>Minority interests</b>		<u>668,014</u>	503,895
<b>Total equity</b>		<u>46,919,480</u>	47,665,533

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**For the six months ended 30th June, 2008**

Attributable to equity holders of the parent

	Share capital	Share premium	Treasury stocks	Convertible bonds— equity reserve	Securities investments reserve	Statutory reserve	Other reserve	Special reserve	Capital redemption reserve	Retained profits	Total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January, 2007	225,981	3,236,338	-	55,435	4,761,630	728	(35,202)	2,499,685	98,362	24,689,741	35,532,698	429,936	35,962,634
Share of associates' reserve movements during the period	-	-	-	-	(17,445)	-	12,113	-	-	-	(5,332)	-	(5,332)
Fair value changes of available-for-sale investments	-	-	-	-	-	-	-	-	-	-	-	-	-
- listed investments	-	-	-	-	821,063	-	-	-	-	-	821,063	-	821,063
- unlisted investments	-	-	-	-	(36,802)	-	-	-	-	-	(36,802)	-	(36,802)
PRC statutory reserve	-	-	-	-	-	36	-	-	-	-	36	-	36
Exchange adjustments	-	-	-	-	-	-	-	-	-	43,412	43,412	-	43,412
Net amount recognised directly in equity	-	-	-	-	766,816	36	12,113	-	-	43,412	822,377	-	822,377
Profit for the period	-	-	-	-	-	-	-	-	-	2,052,396	2,052,396	71,389	2,123,785
Total amount recognised for the period	-	-	-	-	766,816	36	12,113	-	-	2,095,808	2,874,773	71,389	2,946,162
Deemed contribution from minority interests	-	-	-	-	-	-	-	-	-	-	-	962	962
Disposal of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	(64,769)	(64,769)
Issue of ordinary shares from conversion of convertible bonds	57	4,106	-	(687)	-	-	-	-	-	-	3,476	-	3,476
Conversion of convertible bonds by cash settlement	-	-	-	(54,748)	-	-	-	-	-	-	(54,748)	-	(54,748)
Issue of shares in lieu of 2006 final cash dividend	2,383	-	-	-	-	-	-	-	-	-	2,383	-	2,383
Premium on issue of shares upon 2006 final scrip dividend	-	274,711	-	-	-	-	-	-	-	-	274,711	-	274,711
Final dividend paid	-	-	-	-	-	-	-	-	-	(406,869)	(406,869)	-	(406,869)
At 30th June, 2007	228,421	3,515,155	-	-	5,528,446	764	(23,089)	2,499,685	98,362	26,378,680	38,226,424	437,518	38,663,942
Share of associates' reserve movements during the period	-	-	-	-	-	-	13,958	-	-	-	13,958	-	13,958
Fair value changes of available-for-sale investments	-	-	-	-	-	-	-	-	-	-	-	-	-
- listed investments	-	-	-	-	3,684,705	-	-	-	-	-	3,684,705	-	3,684,705
- unlisted investments	-	-	-	-	14,448	-	-	-	-	-	14,448	-	14,448
PRC statutory reserve	-	-	-	-	-	1,411	-	-	-	-	1,411	-	1,411
Exchange adjustments	-	-	-	-	-	-	-	-	-	89,097	89,097	-	89,097
Net amount recognised directly in equity	-	-	-	-	3,699,153	1,411	13,958	-	-	89,097	3,803,619	-	3,803,619
Transfer to income statement on disposals of available-for-sale investments	-	-	-	-	(890,662)	-	-	-	-	-	(890,662)	-	(890,662)
Profit for the period	-	-	-	-	-	-	-	-	-	6,143,461	6,143,461	65,622	6,209,083
Total amount recognised for the period	-	-	-	-	2,808,491	1,411	13,958	-	-	6,232,558	9,056,418	65,622	9,122,040
Deemed contribution from minority interests	-	-	-	-	-	-	-	-	-	-	-	755	755
Issue of shares in lieu of 2007 interim cash dividend	1,623	-	-	-	-	-	-	-	-	-	1,623	-	1,623
Premium on issue of shares upon 2007 interim scrip dividend	-	185,542	-	-	-	-	-	-	-	-	185,542	-	185,542
Interim dividend paid	-	-	-	-	-	-	-	-	-	(308,369)	(308,369)	-	(308,369)
At 31st December, 2007	230,044	3,700,697	-	-	8,336,937	2,175	(9,131)	2,499,685	98,362	32,302,869	47,161,638	503,895	47,665,533

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)**  
**For the six months ended 30th June, 2008**

	Attributable to equity holders of the parent												
	Share capital	Share premium	Treasury stocks	Convertible bonds- equity reserve	Securities investments reserve	Statutory reserve	Other reserve	Special reserve	Capital redemption reserve	Retained profits	Total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31st December, 2007	230,044	3,700,697	-	-	8,336,937	2,175	(9,131)	2,499,685	98,362	32,302,869	47,161,638	503,895	47,665,533
Share of associates' reserve movements during the period	-	-	-	-	1	-	979	-	-	12,800	13,780	-	13,780
							(Note 1)						
Fair value changes of available-for-sale investments													
- listed investments (Note 2)	-	-	-	-	(2,546,974)	-	-	-	-	-	(2,546,974)	-	(2,546,974)
- unlisted investments	-	-	-	-	(19,320)	-	-	-	-	-	(19,320)	-	(19,320)
PRC statutory reserve	-	-	-	-	-	161	-	-	-	-	161	-	161
Exchange adjustments	-	-	-	-	-	-	-	-	-	240,161	240,161	-	240,161
Share of securities investments reserve by minority interests													
- listed investments (Note 2)	-	-	-	-	537	-	-	-	-	-	537	(537)	-
- unlisted investments	-	-	-	-	376	-	-	-	-	-	376	(376)	-
Share of exchange adjustments by minority interests	-	-	-	-	-	-	-	-	-	(4,331)	(4,331)	4,331	-
Net amount recognised directly in equity	-	-	-	-	(2,565,380)	161	979	-	-	248,630	(2,315,610)	3,418	(2,312,192)
Transfer to income statement on disposals of available-for-sale investments													
- listed investments	-	-	-	-	(1,448,452)	-	-	-	-	-	(1,448,452)	-	(1,448,452)
- unlisted investments	-	-	-	-	(5,221)	-	-	-	-	-	(5,221)	-	(5,221)
Profit for the period	-	-	-	-	-	-	-	-	-	3,522,830	3,522,830	13,904	3,536,734
Total amount recognised for the period	-	-	-	-	(4,019,053)	161	979	-	-	3,771,460	(246,453)	17,322	(229,131)
Deemed contribution from minority interests	-	-	-	-	-	-	-	-	-	-	-	453	453
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	183,877	183,877
Purchase of convertible bonds issued by a non-wholly owned subsidiary	-	-	-	-	-	-	-	-	-	-	-	(9,033)	(9,033)
Cancellation on repurchase of own shares	(737)	(194,567)	(929)	-	-	-	-	-	1,666	-	(194,567)	-	(194,567)
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	-	-	-	(28,500)	(28,500)
Issue of shares in lieu of 2007 final cash dividend	382	-	-	-	-	-	-	-	-	-	382	-	382
Premium on issue of shares upon 2007 final scrip dividend	-	47,625	-	-	-	-	-	-	-	-	47,625	-	47,625
Final dividend paid	-	-	-	-	-	-	-	-	-	(517,159)	(517,159)	-	(517,159)
At 30th June, 2008	229,689	3,553,755	(929)	-	4,317,884	2,336	(8,152)	2,499,685	100,028	35,557,170	46,251,466	668,014	46,919,480

**Notes:**

- (1) The movement of other reserve for the Period represented the release of the negative reserve held by an associate of the Group upon the disposal of the relevant properties.
- (2) The fair value changes of available-for-sale investments included the fair value changes of listed securities investments of approximately HK\$2,546,974,000 and approximately HK\$537,000 was shared by minority interests. Hence, the net fair value changes of listed securities investments to the Group is approximately HK\$2,546,437,000.

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**  
*For the six months ended 30th June, 2008*

	<b>Six months ended 30th June,</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Net cash generated from (used in) operating activities	<b>1,012,425</b>	(592,179)
Net cash generated from (used in) investing activities	<b>2,919,801</b>	(1,772,579)
Net cash used in financial activities	<b>(674,762)</b>	(2,874,884)
	<hr/>	<hr/>
Net increase (decrease) in cash and cash equivalents	<b>3,257,464</b>	(5,239,642)
Cash and cash equivalents at 1st January,	<b>6,167,845</b>	7,034,820
Effect of foreign exchange rate changes	<b>102,887</b>	3,495
	<hr/>	<hr/>
Cash and cash equivalents at 30th June,	<b>9,528,196</b>	1,798,673
	<hr/> <hr/>	<hr/> <hr/>
Analysis of the balances of cash and cash equivalents:		
Time deposits, bank balances and cash	<b>9,516,850</b>	1,798,673
Cash and cash equivalents included in a disposal group held for sale ( <i>note 13</i> )	<b>11,346</b>	–
	<hr/>	<hr/>
	<b>9,528,196</b>	1,798,673
	<hr/> <hr/>	<hr/> <hr/>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30th June, 2008*

### 1. Basis of Preparation

The unaudited condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and with Hong Kong Accounting Standard (the “HKAS”) 34 “Interim Financial Reporting”, issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

### 2. Principal Accounting Policies

The unaudited condensed consolidated financial statements have been prepared under the historical cost basis, except for certain properties and financial instruments, which are measured at fair values, as appropriate.

The accounting policies adopted in the unaudited condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st December, 2007 except as described below.

In the current interim period, the Group has applied, for the first time, the following new interpretations issued by the HKICPA, which are effective for the Group’s financial year beginning 1st January, 2008.

HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions <sup>1</sup>
HK(IFRIC) – Int 12	Service Concession Arrangements <sup>2</sup>
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1st March, 2007

<sup>2</sup> Effective for annual periods beginning on or after 1st January, 2008

The adoption of the new interpretations has no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

In the current interim period, the Group has early applied HKFRS 8 “Operating Segments” which is effective for annual periods beginning on or after 1st January, 2009. The application of HKFRS 8 has resulted in a change in the presentation of the operating segments of the Group. The changes in presentation have been applied retrospectively.

HKFRS 8 requires the issuer to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of the issuer about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

## 2. Principal Accounting Policies *(continued)*

The adoption of this new standard had no material effect on the results of operations and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

Except as described above, the Group has not early applied the following standards, amendments or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements <sup>1</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>3</sup>
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation <sup>1</sup>
HKFRS 2 (Amendment)	Share-based Payment: Vesting Conditions and Cancellations <sup>1</sup>
HKFRS 3 (Revised)	Business Combinations <sup>3</sup>
HK(IFRIC)-Int 13	Customer Loyalty Programmes <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1st January, 2009

<sup>2</sup> Effective for annual periods beginning on or after 1st July, 2008

<sup>3</sup> Effective for annual periods beginning on or after 1st July, 2009

The Group is in the process of assessing the potential impact of these standards or interpretations but not yet in a position to determine whether these standards or interpretations will have a significant impact on how its results and financial position are prepared and presented. These standards or interpretations may result in changes in the future as to how the results and financial position are prepared and presented.

## 3. Turnover

Turnover represents the aggregate of amounts received and receivable from the sales of investments held-for-trading, sales of properties held for sale, property rental income, commission from brokerage, settlement charges from brokerage, interest income from loan financing and cosmetic goods sold less returns.

#### 4. Operating Segments

The Group currently has six reportable segments – property development and trading, property leasing for retail, property leasing for non-retail, listed available-for-sale investments, other listed held-for-trading investments and treasury products and unlisted investments, investment holding and brokerage. The segmentations are based on the information about the operation of the Group that management uses to make decisions.

Principal activities are as follows:

Property development and trading	–	Property development and sales of trading properties
Property leasing for retail	–	Property leasing from retail properties
Property leasing for non-retail	–	Property leasing from non-retail properties
Listed available-for-sale investments	–	Listed securities investments in available-for-sale investments
Other listed held-for-trading investments and treasury products	–	Listed securities investments in investments held-for-trading, over-the-counter trading and structured products
Unlisted investments, investment holding and brokerage	–	Unlisted securities investments, trading and brokerage

The accounting policies of the operating segments are the same as those described in the principal accounting policies. The Group evaluates performance on the basis of profit or loss from operations after tax expense and minority interests but not including the major non-cash items. The major non-cash items are fair value changes on investment properties together with their respective deferred tax expense. No intersegment turnover is accounted for as the intersegment turnover is mainly the rental income for administrative purpose.

The Group's measurement methods used to determine reported segment profit or loss remain unchanged from 2007.

The Group's reportable segments are strategic business units that operate different activities. They are managed separately because each business has different market and requires different marketing strategies.

Further, the business units are also managed to operate in different countries separately. Revenue and result are attributed to countries on the basis of the properties located.

No major customer is for the Group's revenue and result.



#### 4. Operating Segments (continued)

##### Other Material Items

	Reportable segments totals <i>HK\$'000</i>	Adjustments for unallocated <i>HK\$'000</i>	Adjustments for major non-cash items <i>HK\$'000</i>	Income statement (continuing operations) <i>HK\$'000</i>	Income statement (discontinued operation) <i>HK\$'000</i>	Income statement totals <i>HK\$'000</i>
Interest income	83,140	-	-	83,140	38	83,178
Interest expenses	(21,042)	(142,162)	-	(163,204)	-	(163,204)
Net interest income (expenses)	62,098	(142,162)	-	(80,064)	38	(80,026)
Depreciation and amortisation	-	(9,744)	-	(9,744)	(110)	(9,854)
Fair value changes on investment properties	-	-	1,539,731	1,539,731	-	1,539,731
Share of results of associates	54,295	-	13,872	68,167	-	68,167
Income tax expense	(65,557)	-	111,125	45,568	-	45,568
Minority interests	(8,059)	-	(6,791)	(14,850)	946	(13,904)

#### 4. Operating Segments (continued)

For the six months ended 30th June, 2007

	Property development and trading HK\$'000	Property leasing for retail for-sale HK\$'000	Property leasing for non-retail investments HK\$'000	Listed available- for-sale investments HK\$'000	Other listed held-for- trading investments and treasury products HK\$'000	Unlisted investments, holding and brokerage HK\$'000	All other segments HK\$'000	Consolidated HK\$'000
<b>Revenue</b>								
Revenue from external customers								
– Hong Kong	1,506,756	220,912	107,119	–	438,027	42,965	4,816	2,320,595
– PRC	–	18,840	14,162	–	–	–	–	33,002
– other countries	–	–	–	–	181,365	–	–	181,365
	<u>1,506,756</u>	<u>239,752</u>	<u>121,281</u>	<u>–</u>	<u>619,392</u>	<u>42,965</u>	<u>4,816</u>	<u>2,534,962</u>
<b>Result</b>								
Segment result								
– Hong Kong	440,401	202,401	101,898	24,305	161,480	176,593	4,801	1,111,879
– PRC	–	16,094	12,112	–	–	1,807	–	30,013
– other countries	–	–	–	–	10,564	–	–	10,564
	<u>440,401</u>	<u>218,495</u>	<u>114,010</u>	<u>24,305</u>	<u>172,044</u>	<u>178,400</u>	<u>4,801</u>	<u>1,152,456</u>
Unallocated corporate expenses, net								(103,909)
Finance costs								
– finance cost on listed securities investments and treasury products	–	–	–	–	(45,994)	–	–	(45,994)
– unallocated finance costs								(207,039)
Other gains and losses, net								
– impairment loss recognised in respect of advance to an associate	–	(860)	–	–	–	–	–	(860)
– unallocated others gains and losses, net								(76,864)
Share of results of associates								
– Hong Kong	242,398	1,346	6,268	–	–	64,373	4,542	318,927
– PRC	–	3,655	221	–	–	–	–	3,876
Profit before tax and minority interests (excluding major non-cash items)								1,040,593
Income tax expense								(37,422)
Minority interests								(58,802)
Core profit (excluding major non-cash items)								944,369
Major non-cash items								
– fair value changes on investment properties (including share of results of associates and minority interests)								1,354,671
– deferred tax								(246,644)
Profit for the period attributable to equity holders of the parent								<u>2,052,396</u>



## 6. Investment Income, Net

	<b>Six months ended 30th June,</b>	
	<b>2008</b>	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Continuing operations</b>		
(Loss) gain on financial assets at fair value through profit or loss classified as held-for-trading:		
Unrealised (loss) gain on investments held-for-trading	(36,244)	5,463
Financial assets at fair value through profit or loss classified as designated:		
Unrealised loss on equity-linked notes	–	(26,069)
Realised loss on equity-linked notes	(16,221)	–
Net loss on financial assets at fair value through profit or loss classified as designated	(16,221)	(26,069)
Financial liabilities at fair value through profit or loss classified as held-for-trading:		
Unrealised gain on derivative financial instruments	5,054	18,152
Realised gain on derivative financial instruments	–	56,422
Net gain on financial liabilities at fair value through profit or loss classified as held-for-trading	5,054	74,574
Transfer from equity on disposals of available-for-sale investments:		
Listed investments	1,445,177	–
Unlisted investments	5,221	–
Dividend income on:		
Listed investments		
– available-for-sale investments	90,518	24,305
– other listed investments	761	1,804
Unlisted investments	38,571	41,513
Interest income	83,140	125,848
Imputed interest on:		
Advances to associates	13,385	16,536
Advances to minority shareholders	191	236
	1,629,553	264,210
<b>Discontinued operation</b>		
Interest income from discontinued operation	38	–
	1,629,591	264,210

Included in interest income is interest from derivative financial instruments approximately HK\$7,382,000 (2007: equity-linked notes HK\$11,221,000 and derivative financial instruments HK\$33,542,000).



## 9. Finance Costs

	<b>Six months ended 30th June,</b>	
	<b>2008</b>	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on:		
Bank loans wholly repayable within five years	157,819	252,370
Bank loans wholly repayable over five years	3,382	822
Other loans wholly repayable within five years	2,484	45,994
	<u>163,685</u>	<u>299,186</u>
Imputed interest on:		
Amounts due to associates	406	503
Amounts due to minority shareholders	716	96
Convertible bonds	3,704	4,050
	<u>4,826</u>	<u>4,649</u>
Total interest	168,511	303,835
Exchange loss on translation of foreign currency loans	18,558	–
Other finance costs	2,317	1,409
	<u>189,386</u>	305,244
Less: Interest capitalised to stock of properties under development	(9,950)	(23,166)
Less: Interest capitalised to investment properties under development	(16,232)	(29,045)
	<u>163,204</u>	<u>253,033</u>

## 10. Other Gains and Losses, Net

	<b>Six months ended 30th June,</b>	
	<b>2008</b>	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Included in other gains and losses, net are:		
Impairment loss reversed in respect of advances to associates	256	975
Impairment loss recognised in respect of advance to an associate	(993)	(860)
Discount on acquisition of a subsidiary (Note 1)	12,317	–
Loss on purchase of convertible bonds of a subsidiary (Note 2)	(11,744)	–
Gain on disposal of a subsidiary (Note 3)	–	158,212
Loss on conversion of convertible bonds by cash settlement	–	(236,705)
	<u>–</u>	<u>–</u>

### Notes:

- Discount on acquisition of a subsidiary arose from acquisition of further 36.51% interest in G-Prop (Holdings) Limited (“G-Prop”) in February 2008. The Group then holds 50.20% shareholding in G-Prop and G-Prop became a subsidiary of the Company.
- Loss on purchase of convertible bonds of a subsidiary arose from acquisition of convertible bonds in face value of HK\$108,000,000 of G-Prop from Fame Ascent Investments Limited in April 2008.
- Gain on disposal of a subsidiary arose from disposal of 15.11% interest in G-Prop by placing on 7th June, 2007.

## 11. Income Tax Expense

	<b>Six months ended 30th June,</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	<b>HK\$'000</b>
The charge (credit) comprises:		
Current tax:		
Hong Kong Profits Tax	<b>28,298</b>	29,705
Other than Hong Kong	<b>5,823</b>	4,363
	<u><b>34,121</b></u>	<u>34,068</u>
Underprovision in prior years:		
Hong Kong Profits Tax	<b>15,402</b>	–
	<u><b>49,523</b></u>	<u>34,068</u>
Deferred tax:		
Current period	<b>197,238</b>	249,998
Attributable to a change in tax rate	<b>(292,329)</b>	–
	<u><b>(95,091)</b></u>	<u>249,998</u>
	<u><b>(45,568)</b></u>	<u>284,066</u>

Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) on the estimated assessable profits for the period. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

With effect from the year of assessment 2008/2009, the Hong Kong Profits Tax has been reduced from 17.5% to 16.5%. On 16th March, 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax by Order No. 63 of the President of the People's Republic of China, which has changed the tax rate from 33% to 25% for certain subsidiaries from 1st January, 2008. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective years when the asset is realised or the liability is settled.

Deferred tax of HK\$197,238,000 included the deferred tax expense of HK\$181,333,000 (2007: HK\$246,644,000) on fair value changes on investment properties recognised for the period and tax provision of HK\$292,458,000 (2007: nil) reflecting the respective reduction in tax rate was included in the reverse figure of HK\$292,329,000.

## 12. Discontinued Operation

	<b>Six months ended 30th June,</b>	
	<b>2008</b>	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	–	–
Investment income	<b>38</b>	–
Administrative expenses	<u>(1,937)</u>	–
Loss for the period from discontinued operation	<u><b>(1,899)</b></u>	<u>–</u>

On 1st February, 2008, G-Prop entered into a conditional agreement with Fame Ascent Investments Limited to dispose of the operation in production and sale of methanol (the “Methanol Project”) for approximately HK\$183.7 million. The disposal was completed in July 2008, following the disposal, the results of Methanol Project was reported as a discontinued operation and presented separately in the income statement in accordance with HKFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”.

Cash flows from discontinued operation:

Net cash flows used in operating activities	<b>4,404</b>	–
Net cash flows used in investing activities	<u><b>1,067</b></u>	–
Net cash flows used in discontinued operation	<u><b>5,471</b></u>	<u>–</u>

The Methanol Project has been classified and accounted for at 30th June, 2008 as a disposal group held for sale (*see note 13*).

## 13. Assets Classified as Held For Sale/Liabilities Associated with Assets Classified as Held For Sale

The major classes of assets and liabilities of the Methanol Project are as follows:

	<b>30th June,</b>	31st December,
	<b>2008</b>	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Property and other fixed assets	<b>3,165</b>	–
Properties under development	<b>2,170</b>	–
Prepaid lease payments	<b>65,489</b>	–
Goodwill	<b>7,756</b>	–
Debtors, deposits and prepayments	<b>117,129</b>	–
Cash and bank balances	<u><b>11,346</b></u>	–
Assets classified as held for sale	<u><b>207,055</b></u>	<u>–</u>
Creditors and accruals	<b>(928)</b>	–
Deferred tax liabilities	<u><b>(9,853)</b></u>	–
Liabilities associated with assets classified as held for sale	<u><b>(10,781)</b></u>	<u>–</u>

## 14. Dividends

	<b>Six months ended 30th June,</b>	
	<b>2008</b>	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
(a) Interim dividend for 2008 declared after interim period end		
Interim dividend declared of HK13.5 cents (2007: HK13.5 cents) per share with scrip dividend option	<b>306,187</b>	308,369
(b) Final dividend for 2007 paid on 25th June, 2008 of HK22.5 cents (2006: HK18 cents) per share		
Cash	<b>469,152</b>	129,774
Share alternative under scrip dividend scheme	<b>48,007</b>	277,095
Total dividends paid	<b>517,159</b>	406,869

## 15. Earnings Per Share

The calculation of the basic and diluted earnings per share attributable to equity holders of the parent is based on the following data:

	<b>Six months ended 30th June,</b>			
	<b>Continuing</b>	<b>Discontinued</b>	<b>Total</b>	<b>Total</b>
	<b>operations</b>	<b>operation</b>	<b>2008</b>	<b>2007</b>
	<b>2008</b>	<b>2008</b>	<b>2008</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Earnings:				
Earnings for the purposes of basic earnings per share (profit for the period attributable to equity holders of the parent)	<b>3,523,783</b>	<b>(953)</b>	<b>3,522,830</b>	2,052,396
Effect of dilutive potential ordinary shares:				
Imputed interest on convertible bonds	<b>3,704</b>	-	<b>3,704</b>	
Adjustment to the share of loss of a subsidiary based on dilution of its earnings per share	<b>(2,019)</b>	<b>(66)</b>	<b>(2,085)</b>	
Earnings for the purposes of diluted earnings per share	<b>3,525,468</b>	<b>(1,019)</b>	<b>3,524,449</b>	

## 15. Earnings Per Share (continued)

	Number of shares	
	2008	2007
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share and diluted earnings per share	<u>2,298,481,181</u>	<u>2,262,396,351</u>

The computation of diluted earnings per share for the Period does not assume the conversion of G-Prop's outstanding zero coupon convertible bonds since their exercise would result in an increase in profit per share from continuing operations and from total.

Diluted earnings per share for the six months ended 30th June, 2007 is the same as the basic earnings per share as there was no dilutive potential ordinary shares outstanding.

## 16. Investment Properties

	<i>HK\$'000</i>
At 1st January, 2008	38,498,440
Acquisition of a subsidiary	31,000
Additions	148,309
Disposals	(179,600)
Net increase in fair value recognised in the income statement	1,539,731
Reclassified to stock of properties	<u>(857,000)</u>
<b>At 30th June, 2008</b>	<b><u>39,180,880</u></b>

The market value of the Group's investment properties at 30th June, 2008 has been arrived at on the basis of valuation carried out on that date by Messrs. Norton Appraisals Limited ("Norton Appraisals"), independent qualified professional valuers not connected with the Group who has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation report on the investment properties is signed by a director of Norton Appraisals, who is a member of the Hong Kong Institute of Surveyors. The valuation, which conforms to the Hong Kong Institute of Surveyors Valuation Standards on Properties (1st Edition 2005) published by the Hong Kong Institute of Surveyors, was based on market value basis.

## 17. Interests in Associates

	<b>30th June, 2008</b>	31st December, 2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of investment in associates		
Listed in Hong Kong	–	47,772
Unlisted	<b>283,667</b>	308,254
Share of post-acquisition profits, net of dividend received	<b>670,044</b>	854,910
	<u><b>953,711</b></u>	<u>1,210,936</u>
Market value of investment in associates		
Listed in Hong Kong	–	269,523
	<u>–</u>	<u>269,523</u>

The Company provided corporate guarantee to secure bank loans granted to its associates. The fair value of the financial guarantee contract was determined by Norton Appraisals, independent qualified professional valuers, and it was recognised as interests in associates and financial guarantee liabilities in the Group's consolidated balance sheet.

The investment properties of the Group's principal associates were revalued at 30th June, 2008 by Norton Appraisals. The valuation, which conforms to the Hong Kong Institute of Surveyors Valuation Standards on Properties (1st Edition 2005) published by the Hong Kong Institute of Surveyors, was based on market value basis.

## 18. Advances to Associates

	<b>30th June, 2008</b>	31st December, 2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest bearing advances to associates	<b>161,962</b>	168,064
Interest-free advances to associates	<b>1,572,364</b>	1,184,677
	<u><b>1,734,326</b></u>	<u>1,352,741</u>

The advances to associates are unsecured. An approximately HK\$1,555,017,000 was expected to be repayable in 2010 and 2011 and the amount is therefore shown as non-current. For the remaining HK\$179,309,000, the Group will not demand repayment within one year from the balance sheet date and the amounts are therefore shown as non-current. The interest bearing advances to associates bear interest at the prevailing market rates. The Directors consider that the fair value of the interest-free advances as at the balance sheet date, determined based on the present values of the estimated future cash flows discounted using the prevailing market rates at the balance sheet date, approximates their carrying amounts.

## 19. Available-for-sale Investments

	<b>30th June, 2008 HK\$'000</b>	31st December, 2007 HK\$'000
Available-for-sale investments comprise:		
Listed investments:		
Equity securities listed in Hong Kong	<b>6,091,635</b>	11,389,583
Debt securities listed elsewhere	<b>42,517</b>	–
Unlisted fund:		
Fund established elsewhere	–	202,119
Unlisted securities:		
Equity securities incorporated in Hong Kong	<b>212,699</b>	229,954
Equity securities incorporated in elsewhere	<b>78,881</b>	78,881
Debt securities	<b>118,671</b>	–
	<b>6,544,403</b>	11,900,537
Club debentures	<b>15,731</b>	15,731
Total	<b><u>6,560,134</u></b>	<b><u>11,916,268</u></b>

## 20. Debtors, Deposits and Prepayments

Included in debtors, deposits and prepayments are trade receivables of approximately HK\$38,920,000 (31st December, 2007: HK\$119,439,000) comprising mainly rental receivables which are billed in advance and settlements are expected upon receipts of billings and properties sales proceeds receivable.

The following is an aged analysis of trade receivables at the balance sheet date:

	<b>30th June, 2008 HK\$'000</b>	31st December, 2007 HK\$'000
0 – 30 days	<b>21,396</b>	103,443
31 – 60 days	<b>1,847</b>	1,216
61 – 90 days	<b>1,294</b>	1,391
Over 90 days	<b>14,383</b>	13,389
	<b><u>38,920</u></b>	<b><u>119,439</u></b>

The Directors consider that the fair value of the Group's debtors at the balance sheet date was approximately their carrying amounts.

## 21. Derivative Financial Instruments

	<b>30th June, 2008 HK\$'000</b>	31st December, 2007 HK\$'000
Liabilities		
Financial liabilities, held-for-trading		
Interest rate swap	<u>45,797</u>	<u>50,851</u>

## 22. Creditors and Accruals

Included in creditors and accruals are trade payables of approximately HK\$3,080,000 (31st December, 2007: HK\$43,765,000).

The following is an aged analysis of trade payables at the balance sheet date:

	<b>30th June, 2008 HK\$'000</b>	31st December, 2007 HK\$'000
0 – 90 days	405	38,243
Over 90 days	<u>2,675</u>	<u>5,522</u>
	<u>3,080</u>	<u>43,765</u>

The Directors consider that the fair value of the Group's creditors at the balance sheet date was approximately their carrying amounts.

## 23. Borrowings

	<b>30th June, 2008 HK\$'000</b>	31st December, 2007 HK\$'000
Bank loans, secured	12,344,064	12,152,330
Other loans, secured	<u>197,813</u>	<u>177,528</u>
	12,541,877	12,329,858
Less: Amounts due within one year and shown under current liabilities	<u>3,070,194</u>	<u>2,949,269</u>
Amounts due after one year	<u>9,471,683</u>	<u>9,380,589</u>

## 24. Convertible Bonds

G-Prop (Holdings) Limited (“G-Prop”), becoming a 50.20% subsidiary of the Company in February 2008, has issued 180 million Hong Kong dollar denominated zero coupon convertible bonds (the “Bonds”) to Asian Kingdom Limited and Fame Ascent Investments Limited (the “Bondholders”) at an issue price of HK\$0.162 per share on 25th October, 2007.

Each Bondholders are entitled to convert the Bonds to ordinary shares of G-Prop at a conversion price of HK\$0.162 per share, subject to adjustment. Conversion may occur at any time between 25th October, 2007 and 24th October, 2010. If the Bonds have not been converted, G-Prop is obliged to redeem the Bonds on 25th October, 2010 at 100 per cent of the face value.

The Bonds contain two components, liability and equity components. The liability component, included in long-term borrowings, was calculated using a market interest rate for an equivalent non-convertible bond. The remaining balance represented the equity conversion component, was included in equity named as “Convertible bonds – equity reserve”.

In April 2008, a wholly-owned subsidiary of the Company had purchased the Bonds with face value of HK\$108 million from Fame Ascent Investments Limited. The face value of the Bonds outstanding to the Group as at 30th June, 2008 was HK\$72 million.

The movement of the liability component of the Bonds for the period is set out below:

	<i>HK\$'000</i>
Liability component at acquisition of a subsidiary	144,682
Purchase of the Bonds in April 2008	(88,558)
Imputed interest expense for the period	<u>3,704</u>
<b>Liability component at 30th June, 2008</b>	<b><u><u>59,828</u></u></b>

The effective interest rate of the liability component of the Bonds is approximately 8.35%.

## 25. Amounts due to Associates and Minority Shareholders

Both the amounts due to associates and minority shareholders are unsecured. Except for the amount due to one minority shareholder which is interest bearing at prevailing market rate, the amounts due to associates and other minority shareholders are interest-free. The associates and minority shareholders will not demand for repayment within one year from the balance sheet date and the amounts are therefore shown as non-current. The Directors consider that the fair value of the amounts as at the balance sheet date, determined based on the present values of the estimated future cash flows discounted using the prevailing market rates at the balance sheet date, approximate their carrying amounts.

## 26. Share Capital

	Number of shares	Share capital HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1st January, 2007, 31st December, 2007 and 30th June, 2008	<u>5,000,000,000</u>	<u>500,000</u>
Issued and fully paid:		
At 1st January, 2007	2,259,809,483	225,981
Issue of ordinary shares from conversion of convertible bonds	573,888	57
Issue of ordinary shares in lieu of cash dividend	<u>40,060,007</u>	<u>4,006</u>
At 31st December, 2007	2,300,443,378	230,044
Repurchased and cancelled ( <i>Note</i> )	(7,376,000)	(737)
Issue of ordinary shares in lieu of cash dividend	<u>3,822,246</u>	<u>382</u>
<b>At 30th June, 2008</b>	<b><u>2,296,889,624</u></b>	<b><u>229,689</u></b>

*Note : During the Period, the Company repurchased on the Stock Exchange a total of 16,667,000 (2007: Nil) shares of HK\$0.10 each of the Company, at an aggregate consideration after expenses of approximately HK\$194,567,000 (2007: Nil), of which 7,376,000 shares were immediately cancelled during the Period. The remaining 9,291,000 shares were subsequently cancelled in July 2008 and was included in treasury stocks. The nominal value of the cancelled shares was credited to capital redemption reserve and the aggregate consideration paid was debited to the share premium of the Group.*

## 27. Capital Commitments and Contingent Liabilities

	<b>30th June, 2008 HK\$'000</b>	31st December, 2007 HK\$'000
(a) Capital commitments:		
Authorised and contracted for:		
Development expenditure of properties in Hong Kong	<b>371,664</b>	460,080
Development expenditure of properties in Mainland China	<b>123,971</b>	126,637
Development expenditure of properties in Macau	<b>45,780</b>	51,780
Renovation of properties	<b>291,591</b>	276,546
	<b>833,006</b>	915,043
Authorised but not contracted for:		
Development expenditure of properties in Hong Kong	<b>163,090</b>	163,113
Renovation of properties	<b>224</b>	224
	<b>163,314</b>	163,337
(b) Contingent liabilities:		
Guarantees given to bank, in respect of banking facilities utilised by associates/investee company	<b>1,069,650</b>	1,069,650
Guarantee given to a bank in respect of banking facilities in lieu of the cash public utility deposit jointly utilised by subsidiaries	<b>10,000</b>	10,000
	<b>1,079,650</b>	1,079,650

## 28. Related Party Transactions

During the period, the Group entered into the following transactions with related parties:

	<b>Six months ended 30th June,</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	<b>HK\$'000</b>
Income received from associates:		
Office and retail rental	141	550
Building management fee	–	36
Interest income	3,788	4,001
Management fee	24	36
Accountancy fee	60	60
Administration fee	25	–
Rent and rates paid to associates	496	406
Consideration paid to an associate for acquisition of a subsidiary	–	20,000
	<u>–</u>	<u>20,000</u>

Office and retail rental and building management fee were determined on terms similar to those applicable to transactions with unrelated parties. Management fee, administration fee and accountancy fee were charged at the terms agreed by both parties. Interest income was charged at prevailing market rate based on outstanding balance during the period. Consideration paid to an associate for acquisition of a subsidiary was reference to open market value.

Details of the balances with related parties as at the balance sheet date are set out in notes 18 and 25 above.

## 29. Post Balance Sheet Events

- (a) On 22nd July, 2008, a special general meeting of G-Prop was held and with a resolution to approve the disposal agreement to dispose the entire issued share capital of Big Winner Investments Limited (the “Disposal”). Big Winner Investments Limited and its subsidiaries mainly involved the Methanol Project in the PRC. The Disposal was completed on 25th July, 2008 with an aggregate consideration of approximately HK\$183.7 million.
- (b) On 17th January, 2008, the Group had entered into a conditional sale and purchase agreement with Chi Cheung Investment Company, Limited (“Chi Cheung”), a 61.96% interest subsidiary of the Company, in relation to the acquisition of share interests in and loans to certain subsidiaries of Chi Cheung, subject to the fulfillment of certain conditions precedent on or before 30th June, 2008, or such other date as the parties to the agreement may agree in writing (“Conditions Date”). As all conditions precedent could not be fulfilled on 30th June, 2008, the Company and Chi Cheung had agreed to extend the Conditions Date to 30th September, 2008, or such other date as the parties to the agreement may agree in writing. For further details, please refer to the Company’s joint announcement with Chi Cheung dated 2nd July, 2008.

## INTERIM DIVIDEND AND SHARE REPURCHASE

The Board has declared an interim dividend of HK13.5 cents per share for the Period (the “Interim Dividend”) (2007: HK13.5 cents) and give shareholders the option of receiving part or all of the Interim Dividend in form of new shares (“Scrip Dividend”) in lieu of cash dividend.

For the period from March to July, 2008, the Company has allocated an aggregate cash amount of HK\$724.4 million (2007: HK\$308.4 million) (or HK31.7 cents per share (2007: HK13.5 cents)) which would be paid to shareholders. Out of such sum, an amount of HK\$306.2 million (2007: HK\$308.4 million) (or HK13.5 cents per share (2007: HK13.5 cents)) would be applied for the payment of Interim Dividend and an amount of HK\$418.2 million (2007: nil) (or HK18.2 cents per share) has been utilized for the repurchase of the Company’s shares during March to July, 2008. With such a total cash sum of HK31.7 cents per share (2007: HK13.5 cents) and a core profit of HK\$0.81 per share (2007: HK\$0.42), a ratio of 39.1% (2007: 32.4%) is recorded, which is summarized as follows: –

	<b>Six months ended 30th June,</b>	
	<b>2008</b>	2007
Core profit (HK\$m)	<b>1,865</b>	944
Share repurchase* (HK\$m)	<b>418.2</b>	–
Interim Dividend (HK\$m)	<b>306.2</b>	308.4
 <u>On a share basis</u>		
Core profit (HK cents)	<b>81.1</b>	41.7
Share repurchase* (HK cents)	<b>18.2</b>	–
Interim Dividend (HK cents)	<b>13.5</b>	13.5
Share repurchase* and Interim Dividend (HK cents)	<b>31.7</b>	13.5
As a percentage of core profit	<b>39.1%</b>	32.4%

*Note: \* for the period from March to July, 2008*

The Scrip Dividend proposal (the “Proposal”) will be conditional on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) granting a listing of and permission to deal in the shares to be issued pursuant to the Proposal. For the purpose of determining the number of new shares to be allotted, the market value of new shares will be calculated as the average of the closing prices of the existing shares of the Company on the Stock Exchange for the five trading days commencing on 20th August, 2008, the first day on which the shares were traded ex dividend. A circular containing the details of the Proposal together with a form of election will be despatched to shareholders on or about 5th September, 2008.

Dividend warrants or new share certificates will be posted on or about 8th October, 2008 to shareholders whose names appear on the register of members of the Company on 27th August, 2008.

## CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 22nd August, 2008 to 27th August, 2008, both days inclusive. In order to qualify for the Interim Dividend, all share transfers documents accompanied by the relevant share certificates must be lodged with the Company’s Branch Registrar and Transfer Office in Hong Kong, namely Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 21st August, 2008.

## FINANCIAL OPERATION REVIEW

### Results

#### *Continuing Operations*

Turnover for the Period amounted to HK\$985.8 million (six months ended 30th June, 2007: HK\$2,535.0 million), a 61.1% decrease over the same period last year. It was mainly due to the decrease in turnover of securities investment and turnover for sales of development properties.

For property leasing, following the completion of renovation on the first phase of Windsor House and on the cinema portion of Silvercord at the end of 2007, new letting transactions with very favourable rentals have been recorded, thus the rental income in retail section jumped by 27.8%. Rental income from non-retail section had also shown a very satisfactory increase of 28.2% during the Period. The Period recorded an increase of 27.9% in total rental income to HK\$461.8 million as compared with the corresponding period in 2007 of HK\$361.0 million.

Gross profit for the Period amounted to HK\$519.6 million, a 41.5% decrease as compared with the same period last year.

In relation to property development, sale of MOD 595 in Mongkok had been successful and had contributed a attributable profit to the Group of approximately HK\$40.4 million. Certain units at Gemstar Tower in Hung Hom (61.96% interest) sold during the Period had contributed a profit of HK\$20.6 million to the Group. Miami Crescent in Sheung Shui (50% interest) and Indihome in Tsuen Wan (50% interest) continuously had generated profit of HK\$21.6 million (six months ended 30th June, 2007: HK\$20.3 million) and HK\$4.5 million (six months ended 30th June, 2007: HK\$9.1 million) respectively, all of which were included in share of results of associates. For the sale of Parc Palais in Homantin (10% interest), a contribution of HK\$19.0 million (six months ended 30th June, 2007: HK\$22.5 million) was recorded in investment income.

During the Period, the Group had disposed certain listed securities investments included in available-for-sale investments. A gain of HK\$1,445.2 million (six months ended 30th June, 2007: nil) was recognised as net investment income, after deducting selling expenses of HK\$3.3 million (six months ended 30th June, 2007: nil), which was transferred from a cumulative gain of HK\$1,448.5 million (six months ended 30th June, 2007: nil) in equity as securities investments reserve. Together with the respective dividend income of HK\$90.5 million (six months ended 30th June, 2007: HK\$24.3 million), the total gains of HK\$1,535.7 million (six months ended 30th June, 2007: HK\$24.3 million) were recognised for the Period. In addition to the profit recognised in the income statement, a deduction of fair value changes on listed available-for-sale investments of HK\$2,546.4 million (six months ended 30th June, 2007: addition of HK\$821.1 million) was recognised to the securities investments reserve during the Period.

## **FINANCIAL OPERATION REVIEW** *(continued)*

### **Results** *(continued)*

#### *Continuing Operations (continued)*

In respect of the performance of other listed held-for-trading investments and treasury products, the Group had recorded losses of HK\$53.1 million (six months ended 30th June, 2007: profit of HK\$172.1 million) and HK\$74.1 million (six months ended 30th June, 2007: profit of HK\$126.1 million) before and after finance costs respectively. The components in the income statement for the Period were gross loss of HK\$13.8 million (six months ended 30th June, 2007: profit of HK\$71.5 million), unrealised loss of HK\$31.2 million (six months ended 30th June, 2007: HK\$2.4 million), realised loss on equity-linked note of HK\$16.2 million (six months ended 30th June, 2007: realised gain on derivative financial instruments of HK\$56.4 million) and dividend and interest income of HK\$8.1 million (six months ended 30th June, 2007: HK\$46.6 million). Finance costs of HK\$21.0 million (six months ended 30th June, 2007: HK\$46.0 million) included interest expense and exchange loss in the sum of HK\$2.5 million (six months ended 30th June, 2007: HK\$46 million) and HK\$18.5 million (six months ended 30th June, 2007: nil) respectively.

Other income recorded an increase of 9.9% to HK\$19.3 million when compared with the same period last year. Administrative expenses decreased by 7.0% to HK\$115.8 million as compared with the same period last year. Finance costs recorded a decrease of 35.5% to HK\$163.2 million as compared with the same period last year.

Other gains and losses recorded a net losses of HK\$0.2 million (six months ended 30th June, 2007: HK\$77.7 million), including gain on acquisition of 36.51% interest in G-Prop (Holdings) Limited (“G-Prop”) and loss on purchase of convertible bonds of G-Prop.

The share of results of associates for the Period decreased by 80.9% to HK\$68.2 million as compared with the same period last year (six months ended 30th June, 2007: HK\$357.6 million), it was mainly due to the decrease in contribution from sales of development properties.

#### *Discontinued Operation*

On 1st February, 2008, G-Prop entered into a conditional agreement with Fame Ascent Investments Limited to dispose the operation in production and sale of methanol (the “Methanol Project”) for approximately HK\$183.7 million. The disposal was completed in July 2008, following the disposal, the results of Methanol Project was reported as a discontinued operation and presented separately in the income statement in accordance with Hong Kong Financial Reporting Standard 5 “Non-current Assets Held for Sale and Discontinued Operations”.

### **Profit and Dividends**

Profit attributable to equity holders of the parent for the Period (from continuing and discontinued operations) was HK\$3,522.8 million as compared to HK\$2,052.4 million for the same period last year. The profit for the Period was mainly attributable from the fair value gains on investment properties and gains on disposals of listed available-for-sale investments. Earnings per share was HK\$1.53 (six months ended 30th June, 2007: HK\$0.91).

## FINANCIAL OPERATION REVIEW *(continued)*

### Profit and Dividends *(continued)*

If the major non-cash items of HK\$1,657.9 million (six months ended 30th June, 2007: HK\$1,108.0 million) is excluded, core profit attributable to equity holders of the parent for the Period will become HK\$1,864.9 million (six months ended 30th June, 2007: HK\$944.4 million) and core earnings per share will become HK\$0.81 (six months ended 30th June, 2007: HK\$0.42), an increase of 97.5% and 92.9% over 2007 respectively.

The major non-cash items are fair value gains on investment properties together with their respective deferred tax expenses of HK\$1,365.5 million (six months ended 30th June, 2007: HK\$1,108.0 million) and effect of deferred tax on change in tax rate in respect of the fair value changes on investment properties of HK\$292.4 million.

A final dividend of HK22.5 cents per share in amount of HK\$517.2 million for the year ended 31st December, 2007 (year ended 31st December, 2006: HK18 cents) was paid in cash and in form of new shares in lieu of cash (scrip dividend) during the Period. 90.7% and 9.3% were paid in cash and in scrip dividend respectively for the final dividend.

In March 2008, the Board proposed a final dividend for the year 2007. During the period from March to July 2008, the Company has utilised HK\$418.2 million in repurchase of the Company's shares, such amount is equivalent to HK18.2 cents per share, calculated on the basis of the weighted average number of shares during the Period.

Based on (a) the core profit for the Period of HK\$1,864.9 million (six months ended 30th June, 2007: HK\$944.4 million) or HK\$0.81 (six months ended 30th June, 2007: HK\$0.42) per share; (b) the amount utilised for share repurchases during March to July 2008 of HK\$418.2 million or HK18.2 cents per share; and (c) cash/scrip interim dividend of HK13.5 cents (six months ended 30th June, 2007: HK13.5 cents) per share declared for the Period, the ratio of such cash payment to the core profit is 39.1% (2007: 32.4%).

### Net Asset Value

As at 30th June, 2008, the Group's total net asset to equity holders of the parent amounted to approximately HK\$46,251 million (31st December, 2007: HK\$47,162 million), a decrease of HK\$911 million or 1.9% when compared with 31st December, 2007. With the total number of ordinary shares in issue of 2,296,889,624 as at 30th June, 2008 (31st December, 2007: 2,300,443,378 shares), the net asset value per share to equity holders of the parent was HK\$20.14, a decrease of 1.8% over 31st December, 2007 (HK\$20.50). The movement in net asset value was mainly due to (a) profit retained for the Period of HK\$3,522.8 million; and (b) reduction in the reserve for the listed available-for-sale investments of HK\$3,994.9 million.

As at 31st December, 2007, the carrying amount of the cumulative gain on fair value changes of listed available-for-sale investments in equity as securities investments reserve (the "Listed Securities Investments Reserve") was approximately HK\$8,157.1 million. A cumulative gain of approximately HK\$1,448.5 million (six months ended 30th June, 2007: nil) was transferred to income statement upon disposal and a reduction on fair value changes of the listed available-for-sale investments of approximately HK\$2,546.4 million (six months ended 30th June, 2007: addition of approximately HK\$821.1 million) after adjustment of minority interests of HK\$0.5 million, was recognised for the Period. The carrying amount of the Listed Securities Investments Reserve as at 30th June, 2008 amounted to approximately HK\$4,162.2 million.

## **FINANCIAL OPERATION REVIEW** *(continued)*

### **Net Asset Value** *(continued)*

Included in the total net asset is deferred tax liabilities of HK\$5,301 million on fair value gains of investment properties. If the deferred tax liabilities are excluded, the total net asset to equity holders of the parent will become HK\$51,552 million or HK\$22.4 per share.

During the Period, the Group had acquired additional 36.51% interest in G-Prop and certain convertible bonds of G-Prop, disposals of certain investment properties and bought and sold listed securities investments. Other than the existing projects and those disclosed in the interim report, the Group did not have any future plans for material investment or capital assets.

### **Securities Investments**

As at 31st December, 2007, the listed securities investments and treasury products was HK\$11,808.0 million. During the Period, the portfolio was reduced by a net disposal of HK\$3,686.3 million (including fair value change on the disposed listed available-for-sale investments during the Period) (a decrease of 31.2% over 2007). After deducting the fair value change of HK\$1,874.9 million (six month ended 30th June, 2007: adding of HK\$818.6 million) on the remaining securities for the Period, the listed securities investments portfolios of the Group reached HK\$6,246.8 million at 30th June, 2008, representing 9.4% (31st December, 2007: 17.7%) of the total assets, which formed part of the Group's cash management activities.

### **Risk Management**

The Group has established adequate risk management procedures that enable it to identify, measure, monitor and control various types of risk it faces. This is supplemented by active management involvement, effective internal controls and adequate internal audit in the best interests of the Group.

### **Equity**

The number of issued ordinary shares as at 30th June, 2008 and 31st December, 2007 were 2,296,889,624 and 2,300,443,378 respectively.

### **Convertible Bonds**

The zero-coupon convertible bonds (the "Bonds") were issued by G-Prop, a 50.20% subsidiary of the Company, on 25th October, 2007 in a face value of HK\$180,000,000, due in 2010. The Bonds are convertible on or after 25th October, 2007 into the fully paid ordinary shares of G-Prop at a conversion price of HK\$0.162 per share. No conversion was made during the Period. After eliminating the Bonds with face value HK\$108,000,000 held by a wholly-owned subsidiary of the Company, the face value and fair value of the Bonds outstanding to the Group as at 30th June, 2008 were HK\$72,000,000 and HK\$59,828,000 respectively.

### **Debt and Gearing**

As at 30th June, 2008, the Group's bank and other borrowings and Bonds amounted to HK\$12,602 million (31st December, 2007: HK\$12,330 million). Cash and deposit at bank amounted to HK\$10,088 million (31st December, 2007: HK\$6,654 million) and net borrowings amounted to HK\$2,514 million (31st December, 2007: HK\$5,676 million).

## FINANCIAL OPERATION REVIEW *(continued)*

### Debt and Gearing *(continued)*

Total debt to equity ratio was 26.9% (31st December, 2007: 25.9%) and net debt to equity ratio was 5.4% (31st December, 2007: 11.9%), which are expressed as a percentage of total borrowings, and net borrowings respectively, over the total equity of HK\$46,919 million (31st December, 2007: HK\$47,666 million).

The decrease in net debt to equity ratio was due to an increase in cash and deposit balances. Increase of cash and deposit balances was mainly due to the disposals of listed available-for-sale investments.

Furthermore, if the listed securities investments and treasury products of HK\$6,247 million (31st December, 2007: HK\$11,808 million) are included, there will be net cash position of HK\$3,733 million (31st December, 2007: HK\$6,132 million).

Excluding outstanding Bonds, at the balance sheet date, the Group's bank and other borrowings were denominated in Hong Kong dollars (98.4%) and Swiss Franc (1.6%). Of the Group's bank and other borrowings of HK\$12,542 million, 24.5%, 22.9%, 50.9% and 1.7% were repayable within 1 year, 1 to 2 years, 2 to 5 years and over 5 years respectively. The Group's bank and other borrowings carrying interest rates were calculated mainly with reference to HIBOR and the inter-bank rate. No hedging for interest rate was subsisted at the end of the year.

### Pledge of Assets

As at 30th June, 2008, the Group had pledged the following assets:

- (a) The Group's investment properties, property and other fixed assets, prepaid lease payments, stock of properties and time deposits with their respective carrying amount of approximately HK\$37,170.2 million (31st December, 2007: HK\$37,048.5 million), HK\$46.9 million (31st December, 2007: HK\$47.6 million), HK\$238.9 million (31st December, 2007: HK\$239.2 million), HK\$2,979.6 million (31st December, 2007: HK\$561.9 million) and HK\$475.6 million (31st December, 2007: HK\$485.7 million) were pledged to the Group's bankers to secure general banking and loan facilities granted to the Group.
- (b) The Group's investments held-for-trading and certain cash deposit with carrying amount of approximately HK\$254.3 million (31st December, 2007: HK\$194.7 million) were pledged to the Group's financial institutions to secure margin and securities facilities granted to the Group in respect of securities transactions and utilised by the Group as borrowings due within one year of approximately HK\$197.8 million (31st December, 2007: HK\$177.5 million).
- (c) Interests in certain subsidiaries of the Company have been pledged as part of the security to secure certain bank borrowings granted to the Group.
- (d) The Group has subordinated and assigned its advances to associates and advance to an investee company of approximately HK\$1,211.4 million (31st December, 2007: HK\$1,152.0 million) to financial institutions to secure banking general credit facilities granted to associates and investee company.

## **FINANCIAL OPERATION REVIEW** *(continued)*

### **Financial and Interest Income/Expenses**

Interest income was included in turnover and investment income. Interest income for the Period was HK\$92.0 million, representing a decrease of 39.2% from that of 30th June, 2007 (HK\$151.4 million). Finance costs included interest expenses on bank and other loans, imputed interest expenses, exchange difference on foreign currency loans and arrangement, facility and commitment fee expenses. Excluding imputed interest, interest expenses for the Period amounted to HK\$138.2 million, representing a 44.1% decrease over the interest expenses of HK\$247.1 million recorded for the same period last year. The decrease in interest expenses was mainly due to decrease in interest rate during the Period. Interest capitalised for the Period was HK\$25.5 million as compared to HK\$52.1 million for last year. The average interest rate over the six months under review was 2.61% (2007: 4.57%), which was expressed as a percentage of total interest paid over the average total borrowings.

### **Remuneration Policies and Share Option Scheme**

During the period under review, the Group employed a total of 310 staff (six months ended 30th June, 2007: 294 staff) (excluding about a total of 294 staff (six months ended 30th June, 2007: 264 staff) for estate management employed under the Group's estate management company, Perfect World Company Limited).

Employees were remunerated on the basis of their performance, experience and prevailing industry practice. Remuneration packages comprised salary and year-end discretionary bonus based on market conditions and individual performance. The Executive Directors continued to review employees' contributions and to provide them with necessary incentives and flexibility for their better commitment and performance. No share option scheme was adopted for the Period.

### **Mainland China and Macau**

Excluding the discontinued operation in the Mainland China, profit contribution from the Group's investment (including gross profit, fair value changes on investment properties and share of results of associates) for the Period amounted to HK\$199.7 million (six months ended 30th June, 2007: HK\$64.0 million) representing 5.7% (six months ended 30th June, 2007: 3.1%) of the profits attributable to equity holders of the parent. The Group's net investment as at 30th June, 2008 amounted to HK\$7,282.9 million (31st December, 2007: HK\$4,295.4 million) representing approximately 11.0% of the Group's total asset value and 15.7% of the Group's net asset value.

Further, the Group's net investment in Macau as at 30th June, 2008 amounted to HK\$1,655.5 million (31st December, 2007: HK\$1,660.7 million) representing approximately 2.5% of the Group's total asset value.

### **Listed Subsidiaries**

At the period end date, the Group owned 61.96% interest in Chi Cheung Investment Company, Limited.

On 5th February, 2008, the Group acquired of 740,518,325 shares of G-Prop, representing 36.51% shareholding, at a consideration of approximately HK\$120,800,000. Accordingly, the Group holds 50.20% shareholding of G-Prop and G-Prop became a subsidiary of the Company.

## **FINANCIAL OPERATION REVIEW** *(continued)*

### **Property Valuation**

A property valuation has been carried out by Messrs. Norton Appraisals Limited, independent qualified professional valuers, in respect of the Group's investment properties as at 30th June, 2008 and that valuation was used in preparing 2008 interim results. The Group's investment properties were valued at HK\$39,181 million (31st December, 2007: HK\$38,498 million), a 3.2% increase over 2007 after adjusted for additions and disposals of investment properties during the Period. The increase in fair value of approximately HK\$1,540 million was credited to the income statement for the Period. The Group also shared an increase in fair value changes on investment properties of the associates of HK\$14 million (net of deferred tax of HK\$4 million) for the Period. Development properties and non-investment properties of the Group were stated at cost less impairment, if any, in the financial statements.

### **BUSINESS REVIEW**

#### **Hong Kong Property Investment**

Rentals from investment properties continued to be one of the major sources of our income. The overall occupancy rate of the Group's retail portfolio was 90.61% during the first half of 2008 excluding the renovation area of Windsor House. The occupancy rate achieved 95.10% if non-core and disposed properties are excluded. Such sustainable high occupancy rate is attributable to the prime locations of the majority of the Group's retail properties. Retail rents were generally raised due to the increase in tenants' business turnover benefited from the growth of both tourists' and local consumption. It is expected that rental rates will have room for increment.

The Group's gross rental growth was 27.9% with rental income of HK\$461.8 million for the Period as compared with the corresponding period of last year, and the respective increases in retail and non-retail portion have been 27.8% and 28.2%. The increase in gross rental income is mainly attributable to the high reversionary rental rate of the office properties and the completion of renovation works of Silvercord and the first phase of Windsor House in the third quarter of 2007.

During the Period, the average occupancy rates of all the shops of Excelsior Plaza – Laforet and Causeway Place were approximately 99.40% and 97.57% respectively.

The first phase renovation works of Windsor House were commenced in 2006. The scope of works include re-layout of basement, ground and first floor, sub-dividing the retail space previously occupied by supermarket, department store and an anchor tenant to provide greater varieties of prime retail shops and specialty restaurants. The first phase renovation was completed in the third quarter of 2007 and the second phase renovation commenced in March 2008 is in progress. It is anticipated that the works will be completed by early 2010. The revamped Windsor House will have improved and diversified trade mix while the rental income is expected to rise substantially.

The renovation works of Silvercord were completed in the third quarter of 2007. The enhancement involves the conversion of the bubble lifts and cinema to shops. The overall rental income of Silvercord was raised almost 100% as compared with the corresponding period of last year due to the increase in more quality brands, and its average occupancy rate was 93.85% during the Period.

The occupancy rate for the Group's office properties sustained at a high level throughout the first half of 2008. During the Period, the average occupancy rates of Windsor House, MassMutual Tower and Harcourt House were approximately 91.19%, 95.25% and 87.49% respectively, bringing the approximate occupancy rate of the overall office portfolio to 91.64%.

## **BUSINESS REVIEW** *(continued)*

### **Hong Kong Property Investment** *(continued)*

The basement construction works of the redevelopment project of Tung Ying Building in Tsim Sha Tsui are scheduled to be completed by October 2008. The superstructure works are expected to be commenced in October 2008. MTR Corporation Limited commissioned to construct a pedestrian subway linking the existing Tsim Sha Tsui MTR Station to, amongst other exits, the future Tung Ying Building under redevelopment. Our redevelopment will benefit from this pedestrian subway and this direct path to the MTR Station will provide a highly accessible link for the shoppers to our redevelopment. Tung Ying Building is to be redeveloped into an integrated shopping and entertainment complex and is expected to be a landmark shopping arcade in Tsim Sha Tsui upon completion scheduled in 2010.

Sun Fair Mansions, 12 Shiu Fai Terrace, a residential site in Mid-Levels East, which is a traditional prestigious location for luxury residential project in Hong Kong. The site area is about 12,000 square feet that can provide a total residential gross floor area of around 39,700 square feet. The site is planned to be redeveloped into a luxury residential project in end 2008.

### **Hong Kong Property Development**

In general, the Group's development projects have been progressing satisfactorily and the sales have been achieving pleasing results.

The foundation work of York Place, i.e. the former Tung Sang Building, Wanchai, was completed in end 2007 and its superstructure work is in progress. York Place is a brand new residential/retail composite building having 94 units with flat size ranging from gross floor area of approximate 576 square feet to 2,037 square feet. The sale is in progress and 23 units were presold up to 30th June, 2008.

The Zenith (87.5% interest) is a two-phase redevelopment project at Tai Yuen Street, Wanchai undertaken with the Urban Renewal Authority. 650 units of phase I were sold up to 30th June, 2008, representing 99.69% of total units. For phase II redevelopment, the master layout plan for the core elements preservation of the existing Wanchai Market has been approved on 4th July, 2008 by the Town Planning Board. The commencement of construction work of phase II is currently scheduled in end 2008 and is expected to be completed in mid 2012.

MOD 595 is a joint venture project with the Urban Renewal Authority located at Reclamation Street, Mongkok. It provides a single residential tower block comprises 85 units with flat size ranging from gross floor area of approximate 480 square feet to 1,100 square feet. The project was launched in April 2008. As at 30th June, 2008, 60 units were sold, representing 70.58% of total units. The occupation permits has been obtained in August 2007 and the certificate of compliance was issued in March 2008.

Another joint venture project with Urban Renewal Authority is located at Larch Street/Bedford Road in Tai Kok Tsui. It provides a single residential tower block comprises 182 units with flat size ranging from saleable floor area of approximate 400 square feet to 1,080 square feet. The whole project will be completed in the fourth quarter of 2008. The pre-sale consent is being applied and the launching of this project is currently expected in the fourth quarter of 2008.

The Group has two joint venture development projects in West Kowloon Reclamation Area. One is located at Hoi Ting Road and junction of Hoi Wang Road and Hoi Ting Road (25% interest). Its foundation work has commenced. Residential and retail properties with a total gross floor area of around 1,095,980 square feet will be developed and the whole project is expected to be completed in mid 2010.

## **BUSINESS REVIEW** *(continued)*

### **Hong Kong Property Development** *(continued)*

The other one is located at the junction of Hoi Wang Road, Yan Cheung Road and Yau Cheung Road (15% interest). Its foundation work has commenced. Residential and retail properties with a total gross floor area of about 650,684 square feet will be developed. The whole project is expected to be completed in end 2010.

No.55 Conduit Road (70% interest), a residential site in Mid-Levels with site area about 36,000 square feet which can provide a total residential gross floor area of around 87,770 square feet. This site will be developed into a luxury residential project. Site formation works were substantially completed. The design proposal for the foundation works has been submitted for government's approval.

### **Macau Property Development**

The Group is planned to develop the site at Avenida Wai Long, Taipa, Macau (70.01% interest) into a high-end residential project with total gross floor area of approximately 5,786,242 square feet (excluding basement car park). It will comprise 26 residential tower blocks and will be developed by four to five phases. The proposal for site formation and basement excavation works of phase I have been submitted for government's approval.

### **Mainland China Property Investment**

Evergo Tower, located at Central Huaihai Road in Shanghai, is a 23-storey office/shopping complex including a 2-storey basement and has a total gross floor area of around 263,708 square feet for leasing purpose. The average occupancy rates of the office and retail spaces were 92.49% and 84.13% respectively for the Period.

Hilton Beijing (50% interest) maintained an average occupancy rate of 82.23% and achieved a gross operating profit of HK\$87 million for the Period. The expansion of Hilton Beijing by redeveloping the adjacent auditorium into an executive tower was completed in June 2008. The tower has operated since 1st July, 2008.

Oriental Place (50% interest), a 10-storey office building next to Hilton Beijing, was fully let out as of June 2008.

The average occupancy rate of the 79 retail outlets with a total area of approximately 29,000 square feet in Lowu Commercial Plaza, Shenzhen was 93.73% for the Period.

### **Mainland China Property Development**

Metropolis Height and Splendid City are residential projects at Dongda Street of Jinjiang District and Yingbin Road of Jinniu District in Chengdu, with respective site area of approximately 194,411 square feet and 795,625 square feet and corresponding gross floor area of approximately 1.65 million square feet and 3.74 million square feet. Metropolis Height is at design stage while Splendid City is in site formation processes, the projects are expected to be completed in mid 2011 and mid 2010 respectively.

The commercial and residential project at South Taisheng Road of Qingyang District in Chengdu has a site area of about 404,267 square feet with a development scale of around 3.2 million square feet. The project is at design stage and is expected to be completed in early 2012.

## **BUSINESS REVIEW** *(continued)*

### **Mainland China Property Development** *(continued)*

The residential project at Huaxinjie Street of Jiangbei District in Chongqing (25% interest), with a site area of 2,207,546 square feet and a gross floor area of approximately 11.08 million square feet, is also at design stage. In the schedule of this ten-phase development, the first phase is expected to commence in end 2008 and to be completed in end 2010 respectively.

As the projects in Chengdu and Chongqing are in preliminary stage, development schedules have not been affected and no estimated loss has been incurred to the Group as a result of the Sichuan earthquake in May 2008.

## **OTHER INFORMATION**

### **Proposed Transaction with Chi Cheung Investment Company, Limited (“Chi Cheung”)**

As announced jointly with Chi Cheung on 17th January, 2008, the Group has entered into a conditional sale and purchase agreement, in relation to the acquisition of share interests in and loans to certain subsidiaries of Chi Cheung, subject to the fulfilment of certain conditions precedent on or before 30th June, 2008, or such other date as the parties to the agreement may agree in writing (“Conditions Date”). As all conditions precedent cannot be fulfilled on 30th June, 2008, the Company and Chi Cheung has announced jointly on 2nd July, 2008, that they have agreed to extend the Conditions Date to 30th September, 2008, or such other date as the parties to the agreement may agree in writing.

## **PROSPECTS**

Despite the uncertainties of the global economies and the equity markets, the Group is cautiously optimistic on the property markets of Hong Kong, Macau and Mainland China in the near future.

The Group expects its property development business in Hong Kong will be optimistic which benefit from low interest rate, improved housing affordability and particularly prime locations of its main properties for sale.

Under the strong demand in office and shopping space in the coming years, the Group sees sustained growth in its property investment business in Hong Kong. The Group will continue to strengthen the value of its investment properties and enhance returns through redevelopment and renovation works such as Tung Ying Building and Windsor House.

In addition, the Group will continue to capture opportunities for replenishing its land bank for development projects in Hong Kong and the Mainland China.

The Board will review the share price of the Company and its underlying net asset value regularly and continue to repurchase its shares on the Stock Exchange, when the share price represents a significant discount to its net asset value.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SECURITIES OF THE COMPANY AND ASSOCIATED CORPORATIONS

As at 30th June, 2008, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Appendix 10 of Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:–

### I The Company

Name of Directors	Number of Shares Held	Note	Capacity	Percentage of Issued Share Capital
Joseph Lau, Luen-hung ("Mr. Joseph Lau")	230,984,820	(1)	Founder and beneficiary of trust	
	999,916,030	(2)	Founder and beneficiary of trust	
	<u>1,230,900,850</u>			53.58%
Lau, Ming-wai ("Mr. MW Lau")	230,984,820	(1)	Beneficiary of trust	
	999,916,030	(2)	Beneficiary of trust	
	4,000	(3)	Other interests	
	<u>1,230,904,850</u>			53.59%

#### Notes:

- (1) These shares were indirectly owned by a discretionary trust of which Mr. Joseph Lau was the founder. Mr. Joseph Lau, Mr. MW Lau and certain other family members of Mr. Joseph Lau were eligible beneficiaries of that trust.
- (2) These shares were held by a unit trust of which Mr. Joseph Lau was one of the unit holders. The rest of the units in the unit trust were held by a discretionary trust of which Mr. Joseph Lau was the founder. Mr. MW Lau and certain other family members of Mr. Joseph Lau were eligible beneficiaries of the discretionary trust.
- (3) These shares were held under the estate of Ms. Theresa Po, Wing-kam, the late mother of Mr. MW Lau, of which Mr. MW Lau is the executor.

**DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SECURITIES OF THE COMPANY AND ASSOCIATED CORPORATIONS** *(continued)*

**II Associated Corporations of the Company**

**1. Chi Cheung Investment Company, Limited (“Chi Cheung”)**

Name of Director	Number of Shares Held	Note	Capacity	Percentage of Issued Share Capital
Mr. Joseph Lau	209,931,186	(1)	Founder of trust, beneficiary of trust and interest in controlled corporation	61.96%

**2. G-Prop (Holdings) Limited (“G-Prop”)**

Name of Director		Number of Shares Held	Note	Number of Underlying Shares Held	Note	Capacity	Percentage of Issued Share Capital
Mr. Joseph Lau	(i)	1,018,380,590	(2)	666,666,666	(3)	Founder of trust, beneficiary of trust and interest in controlled corporation	
	(ii)	493,678,883	(4)	444,444,444	(5)	Interest in controlled corporation	
		<u>1,512,059,473</u>		<u>1,111,111,110</u>			129.33%

*Notes:*

- (1) Mr. Joseph Lau by virtue of his 53.58% interests in the issued share capital of the Company as disclosed in paragraph I above, was deemed to be interested in 209,931,186 shares of Chi Cheung held by Billion Up Limited, an indirect wholly-owned subsidiary of the Company.
- (2) Mr. Joseph Lau by virtue of his 53.58% interests in the issued share capital of the Company as disclosed in paragraph I above, was deemed to be interested in 1,018,380,590 shares of G-Prop under the provisions of the SFO. The Company was interested in 1,018,380,590 shares of G-Prop of which 50,000,000 shares, 113,818,911 shares, 37,162,165 shares, 76,877,685 shares and 740,521,829 shares were issued shares respectively held by Million Point Limited, High Victory Limited, Great Empire International Ltd., Luckpoint Investment Limited and Mass Rise Limited (“Mass Rise”), all of which are indirect wholly-owned subsidiaries of the Company.

**DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SECURITIES OF THE COMPANY AND ASSOCIATED CORPORATIONS** *(continued)*

**II Associated Corporations of the Company** *(continued)*

*Notes: (continued)*

- (3) Mr. Joseph Lau by virtue of his 53.58% interests in the issued share capital of the Company as disclosed in paragraph I above, was deemed to be interested in 666,666,666 underlying shares of G-Prop held by Mass Rise, an indirect wholly-owned subsidiary of the Company. Such underlying shares in G-Prop are derived from the zero coupon convertible bonds due 2010 issued by G-Prop.
- (4) Such interests are held by a company of which Mr. Joseph Lau is interested indirectly in its entire issued share capital.
- (5) Such underlying share interests are held by a company of which Mr. Joseph Lau is interested indirectly in its entire issued share capital. They are derived from the zero coupon convertible bonds due 2010 issued by G-Prop.

All the interests stated above represent long positions. The percentage shown was the number of shares the relevant Directors were interested in expressed as a percentage of the number of issued shares as at 30th June, 2008.

Save as disclosed above, none of the other Directors and chief executives of the Company had or were deemed under the SFO to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as at 30th June, 2008.

During the Period, none of the Directors and chief executives of the Company nor their spouses or children under 18 years of age were granted or had exercised any right to subscribe for any securities of the Company or any of its associated corporations.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SECURITIES OF THE COMPANY

As at 30th June, 2008, so far as are known to any Directors or chief executives of the Company, the following parties (other than Directors or chief executives of the Company) were recorded in the register kept by the Company under section 336 of the SFO, or as otherwise notified to the Company, as being directly or indirectly interested or deemed to be interested in 5% or more of the issued share capital of the Company:—

Name of Substantial Shareholders	Number of Shares Held	Note	Capacity	Percentage of Issued Share Capital
GZ Trust Corporation	1,230,900,850	(1 & 2)	Trustee, beneficiary of a trust and interest in controlled corporation	53.58%
Global King Ltd. (name changed to Global King (PTC) Ltd. on 1st August, 2008)	999,916,030	(1)	Trustee	43.53%
Joseph Lau Luen Hung Investments Limited	230,984,820	(2)	Beneficial owner	10.05%
The Children's Investment Fund Management (UK) LLP	204,371,418	(3)	Investment manager	8.89%
The Children's Investment Master Fund	204,371,418	(3)	Beneficial owner	8.89%
Favor Gain Limited ("Favor Gain")	150,036,697	(4)	Beneficial owner	6.53%
Thomas Lau, Luen-hung ("Mr. Thomas Lau")	150,036,697	(4)	Interest in controlled corporation	6.53%

### Notes:

- (1) GZ Trust Corporation as trustee of a discretionary trust held units in a unit trust of which Global King Ltd. was the trustee and therefore was regarded as interested in the same parcel of shares held by Global King Ltd. These shares were the same parcel of 999,916,030 shares of the Company referred to in both "Founder and beneficiary of trust" and "Beneficiary of trust" of Mr. Joseph Lau and Mr. MW Lau respectively under "Directors' and Chief Executives' Interests in the Securities of the Company and Associated Corporations" as disclosed in paragraph I above.
- (2) GZ Trust Corporation as trustee of another discretionary trust held the entire issued share capital of Joseph Lau Luen Hung Investments Limited and therefore was regarded as interested in the same parcel of shares held by Joseph Lau Luen Hung Investments Limited. These shares were the same parcel of 230,984,820 shares of the Company referred to in both "Founder and beneficiary of trust" and "Beneficiary of trust" of Mr. Joseph Lau and Mr. MW Lau respectively under "Directors' and Chief Executives' Interests in the Securities of the Company and Associated Corporations" as disclosed in paragraph I above.
- (3) The Children's Investment Fund Management (UK) LLP as investment manager of The Children's Investment Master Fund ("TCI") held the 204,371,418 shares of the Company for the benefit of TCI.
- (4) Mr. Thomas Lau was deemed to be interested in the 150,036,697 shares of the Company by virtue of the SFO as he owned the entire issued share capital of Favor Gain.

All the interests stated above represent long positions. As at 30th June, 2008, no short positions were recorded in the register kept by the Company under section 336 of the SFO.

## **AUDIT COMMITTEE REVIEW**

The interim results for the Period are unaudited and have not been reviewed by the auditors of the Company. The Audit Committee of the Company, comprised of Mr. Chan, Kwok-wai, Mr. Cheng, Kwee and Ms. Phillis Loh, Lai-ping, the Independent Non-executive Directors (“INEDs”), has reviewed with management the accounting principles and practices adopted by the Group and the unaudited consolidated financial statements for the Period.

## **INTERNAL CONTROL**

The Board is responsible for maintaining an adequate system of internal control in the Company and reviewing its effectiveness through the Audit Committee. The senior management is responsible to the implementation of such system of internal control. The internal auditors are responsible to review relevant financial, operational and compliance controls and risk management functions and report their findings and advice to the Audit Committee.

During the Period, the Audit Committee and the Board are satisfied with the effectiveness of the system of internal control of the Group.

## **CORPORATE GOVERNANCE**

The Company is committed to maintaining high standards of corporate governance so as to ensure better transparency and protection of interest of the shareholders and the Company as a whole. Throughout the Period, the Company has applied the principles of the Code on Corporate Governance Practices (the “Code”) and complied with the code provisions and certain recommended best practices (the “Best Practices”) set out in the Code contained in Appendix 14 to the Listing Rules, except the following deviations:–

### **Chairman and Chief Executive Officer**

Mr. Joseph Lau acts as both the chairman (the “Chairman”) and chief executive officer (the “CEO”) of the Company since December 2006. The Board considers that this structure will not impair the balance of power and authority of the Board. It currently comprises two Executive Directors, one Non-executive Director and three INEDs, with INEDs representing 50% of the Board, which is higher than the Best Practices. Such a high percentage of INEDs in the Board could ensure their views carry significant weight and it reflects a strong independence element in the composition of the Board. At present, the Board also believes that under the leadership of Mr. Joseph Lau as the Chairman and CEO, the Board’s decision could be made effectively and it is beneficial to the management and development of the Group’s businesses. The Board would still consider segregation of the roles of Chairman and CEO if and when appropriate.

### **Chairman Attending Annual General Meeting**

Mr. Joseph Lau, the Chairman of the Board, suffered from illness and therefore could not attend the Annual General Meeting of the Company held on 15th May, 2008 (“AGM”). Mr. MW Lau, Executive Director of the Company, was elected as the chairman of the AGM and Mr. Chan, Kwok-wai, chairman of Audit and Remuneration Committees, had attended the AGM to ensure effective communication with shareholders of the Company.

## SECURITIES TRANSACTION

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code. All Directors, after specific enquiries by the Company, confirmed they have complied with the required standard set out in the Model Code and the said code of conduct during the Period.

The Company has also adopted a code of conduct regarding securities transactions by relevant employees on terms no less exacting than the required standard set out in the Model Code. All the relevant employees (“Relevant Employees”) who, because of office or employment is likely to be in possession of unpublished price sensitive information in relation to the Group or its respective subsidiaries’ securities have been requested to follow such code when dealing in the securities of the Company. All Relevant Employees, after specific enquiries by the Company, confirmed they have complied with the required standard set out in the said code during the Period.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

During the period from 1st January, 2008 to 31st July, 2008, the Company purchased a total of 36,213,000 ordinary shares of HK\$0.10 each on the Stock Exchange at an aggregate consideration of HK\$418,161,820. All of the purchased shares were cancelled.

<b>Month of the purchases</b>	<b>Total number of the ordinary shares purchased</b>	<b>Highest price paid per share <i>HK\$</i></b>	<b>Lowest price paid per share <i>HK\$</i></b>	<b>Aggregate consideration <i>HK\$</i></b>
March 2008	1,959,000	11.70	11.40	22,810,560
May 2008	2,820,000	13.30	13.10	37,355,040
June 2008	11,888,000	11.80	10.72	134,170,860
July 2008	<u>19,546,000</u>	12.12	11.16	<u>223,825,360</u>
	<u><u>36,213,000</u></u>			<u><u>418,161,820</u></u>

The Directors considered that the aforesaid shares were purchased at a discount to the net asset value per share and resulted in an increase in the net asset value per share then in issue.

Save as disclosed herein, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities during the Period.

## APPRECIATION

I would like to take this opportunity to thank the shareholders for their continuing support. I also thank my fellow directors and staff members for their dedication and hard work.

On behalf of the Board  
**Joseph Lau, Luen-hung**  
*Chairman*

Hong Kong, 7th August, 2008