



CHINESE ESTATES HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 127)

Interim Report For The Six Months Ended 30th June, 2010

CORPORATE INFORMATION

Directors

Executive Director:

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

Non-executive Directors:

Lau, Ming-wai
Amy Lau, Yuk-wai

Independent Non-executive Directors:

Chan, Kwok-wai
Phillis Loh, Lai-ping
Ma, Tsz-chun

Audit Committee

Chan, Kwok-wai (*Chairman*)
Phillis Loh, Lai-ping
Ma, Tsz-chun

Remuneration Committee

Chan, Kwok-wai (*Chairman*)
Phillis Loh, Lai-ping
Ma, Tsz-chun

Company Secretary

Lam, Kwong-wai

Solicitors

Sidley Austin
Sit, Fung, Kwong & Shum

Auditors

HLB Hodgson Impey Cheng

Bankers

(*Listed in alphabetical order*)

Agricultural Bank of China Limited
Chengdu Zongfu Sub-Branch
Bank of China (Hong Kong) Limited
Bank of Communications Co., Ltd.
Bank SinoPac
BNP Paribas
Cathay United Bank Company, Limited
Chiyu Banking Corporation Limited
Chong Hing Bank Limited
Citibank, N.A.
Dah Sing Bank, Limited
DBS Bank Ltd.
DBS Bank (China) Limited Shanghai Branch
E. Sun Commercial Bank, Ltd.
Hang Seng Bank, Limited
Hang Seng Bank (China) Limited Kunming Branch
Hua Nan Commercial Bank, Ltd.
Industrial and Commercial Bank of China
(Asia) Limited
Malayan Banking Berhad
Nanyang Commercial Bank, Limited
Oversea-Chinese Banking Corporation Limited
Shanghai Commercial Bank Limited
Standard Chartered Bank (Hong Kong) Limited
Sumitomo Mitsui Banking Corporation
Tai Fung Bank Limited
The Bank of East Asia, Limited
The Bank of Tokyo-Mitsubishi UFJ, Ltd.
Wing Hang Bank, Limited
Wing Lung Bank, Limited

Registered Office

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

Principal Office in Hong Kong

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38 Gloucester Road
Wanchai, Hong Kong

Principal Registrar and Transfer Office

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Pembroke HM 08, Bermuda

Branch Registrar and Transfer Office in Hong Kong

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Services Limited
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Wanchai, Hong Kong

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Website

<http://www.chineseestates.com>

Stock Code

127

Board Lot

500 shares

Investor Relations

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RESULTS

The board of directors (the “Board”) of Chinese Estates Holdings Limited (the “Company”) would like to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (together, the “Group”) for the six months ended 30th June, 2010 (the “Period”) together with the comparative figures for 2009:–

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th June, 2010

| | | Six months ended 30th June, | |
|--|--------------|------------------------------------|--------------------|
| | | 2010 | 2009 |
| | <i>Notes</i> | HK\$'000 | HK\$'000 |
| | | (Unaudited) | (Unaudited) |
| Revenue | 3 | 692,466 | 1,365,970 |
| Cost of sales | | (273,201) | (555,621) |
| Gross profit | | 419,265 | 810,349 |
| Other income | 5 | 97,521 | 23,048 |
| Investment (expense) income, net | 6 | (122,959) | 44,603 |
| Administrative expenses | | (120,342) | (97,855) |
| Other expenses | 7 | (2,401) | (1,780) |
| Gain on disposals of property and other fixed assets | | 2 | 95 |
| Loss on disposals of investment properties | | (4) | – |
| Fair value changes on investment properties | | (4,064,502) | 2,902,465 |
| Finance income (costs) | 9 | 34,486 | (47,139) |
| Other gains and losses, net | 10 | (48,962) | 35,125 |
| Share of results of associates | | (23,456) | 40,138 |
| (Loss) profit before tax | | (3,831,352) | 3,709,049 |
| Income tax credit (expense) | 11 | 642,769 | (497,000) |
| (Loss) profit for the period | 8 | (3,188,583) | 3,212,049 |
| Other comprehensive (expenses) income | | | |
| Fair value changes on available-for-sale investments | | (207,545) | 12,151 |
| Exchange differences on translation of foreign operations | | 38,345 | (1,515) |
| Share of other comprehensive income of associates | | 11,176 | 23 |
| Other comprehensive (expenses) income for the period (net of tax) | | (158,024) | 10,659 |
| Total comprehensive (expenses) income for the period | | (3,346,607) | 3,222,708 |
| (Loss) profit for the period attributable to: | | | |
| Owners of the Company | | (3,207,096) | 3,203,323 |
| Non-controlling interests | | 18,513 | 8,726 |
| | | (3,188,583) | 3,212,049 |
| Total comprehensive (expenses) income for the period attributable to: | | | |
| Owners of the Company | | (3,367,125) | 3,203,595 |
| Non-controlling interests | | 20,518 | 19,113 |
| | | (3,346,607) | 3,222,708 |
| (Loss) earnings per share (HK\$) | <i>13</i> | | |
| – Basic and diluted | | (1.65) | 1.57 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June, 2010

| | <i>Notes</i> | 30th June, 2010 <i>HK\$'000</i> (Unaudited) | 31st December, 2009 <i>HK\$'000</i> (Audited) (restated) |
|--|--------------|---|--|
| Non-current assets | | | |
| Investment properties | 14 | 37,234,384 | 40,708,482 |
| Property and other fixed assets | | 414,722 | 418,226 |
| Property interests held for future development | | – | – |
| Intangible assets | | 5,720 | 7,150 |
| Goodwill | | 6,941 | 6,941 |
| Interests in associates | 15 | 1,021,187 | 1,018,346 |
| Advances to associates | 16 | 2,674,844 | 1,931,121 |
| Interests in jointly controlled entities | | – | – |
| Available-for-sale investments | 17 | 1,664,029 | 1,787,348 |
| Advances to investee companies | | 336,731 | 328,478 |
| Loans receivable, due after one year | | 100 | 240 |
| Deferred tax assets | | 71,541 | 70,905 |
| Advance to a non-controlling shareholder | | 14,744 | 14,580 |
| Pledged deposits | | 321,652 | 27,840 |
| | | 43,766,595 | 46,319,657 |
| Current assets | | | |
| Stock of properties | | 4,545,219 | 4,563,177 |
| Investments held-for-trading | | 295,215 | 643,954 |
| Financial assets designated as at fair value through profit or loss | | 3,905,614 | 728,238 |
| Loans receivable, due within one year | | 41 | 59,889 |
| Inventories for cosmetic products | | 3,116 | 2,993 |
| Debtors, deposits and prepayments | 18 | 371,448 | 371,742 |
| Securities trading receivables and deposits | | 77,043 | 399,313 |
| Tax recoverable | | 1,269 | 659 |
| Pledged deposits | | 78,748 | 1,088,845 |
| Time deposits, bank balances and cash | | 4,327,276 | 5,200,666 |
| Sales proceeds held by stakeholders | | 35,465 | 35,950 |
| | | 13,640,454 | 13,095,426 |
| Current liabilities | | | |
| Derivative financial instruments | 19 | – | 3,238 |
| Creditors and accruals | 20 | 416,307 | 503,723 |
| Securities trading and margin payable | | 21,351 | 65,162 |
| Deposits and receipts in advance | | 1,279,623 | 657,412 |
| Tax liabilities | | 103,409 | 84,271 |
| Borrowings – due within one year | 22 | 3,953,384 | 3,714,963 |
| Provisions | | 16,054 | 16,054 |
| Financial guarantee liabilities | | 366 | 76 |
| | | 5,790,494 | 5,044,899 |
| Net current assets | | 7,849,960 | 8,050,527 |
| Total assets less current liabilities | | 51,616,555 | 54,370,184 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

At 30th June, 2010

| | | 30th June, 2010 | 31st December, 2009 |
|---|--------------|----------------------------|-------------------------|
| | <i>Notes</i> | HK\$'000 | HK\$'000 |
| | | (Unaudited) | (Audited) (restated) |
| Equity attributable to owners of the Company | | | |
| Share capital | 21 | 191,074 | 195,000 |
| Share premium | | – | 9,325 |
| Treasury stock | | (25) | – |
| Properties revaluation reserve | | – | 704 |
| Securities investments reserve | | (20,021) | 189,529 |
| Statutory reserve | | 6,626 | 6,626 |
| Other reserve | | (7,365) | (7,681) |
| Special reserve | | 2,499,685 | 2,499,685 |
| Capital redemption reserve | | 137,775 | 133,824 |
| Translation reserve | | 430,000 | 380,795 |
| Retained profits | | | |
| – proposed dividend | | 763,048 | 19,500 |
| – others | | 30,750,091 | 35,205,605 |
| | | 34,750,888 | 38,632,912 |
| Non-controlling interests | | 816,918 | 798,966 |
| Total equity | | 35,567,806 | 39,431,878 |
| Non-current liabilities | | | |
| Financial guarantee liabilities | | – | 290 |
| Borrowings – due after one year | 22 | 11,280,350 | 9,500,018 |
| Amounts due to associates | 23 | 9,491 | 11,859 |
| Amounts due to non-controlling shareholders | 23 | 89,020 | 80,098 |
| Deferred tax liabilities | | 4,669,888 | 5,346,041 |
| | | 16,048,749 | 14,938,306 |
| | | 51,616,555 | 54,370,184 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2010

| | Attributable to Owners of the Company | | | | | | | | | | | | Non-controlling interests HK\$'000 | Total Equity HK\$'000 |
|--|---------------------------------------|---------------------------|----------------------------|--|--|-------------------------------|---------------------------------------|-----------------------------|--|---------------------------------|------------------------------|-------------------|---------------------------------------|-----------------------------|
| | Share capital HK\$'000 | Share premium HK\$'000 | Treasury stock HK\$'000 | Properties revaluation reserve HK\$'000 | Securities investments reserve HK\$'000 (Note 2) | Statutory reserve HK\$'000 | Other reserve HK\$'000 (Note 1) | Special reserve HK\$'000 | Capital redemption reserve HK\$'000 | Translation reserve HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 | | |
| At 1st January, 2009 (audited) | 207,775 | 1,463,018 | - | 704 | 162,775 | 4,367 | (7,945) | 2,499,685 | 121,049 | 346,526 | 29,852,639 | 34,650,593 | 652,056 | 35,302,649 |
| Profit for the period | - | - | - | - | - | - | - | - | - | - | 3,203,323 | 3,203,323 | 8,726 | 3,212,049 |
| Other comprehensive income (expenses) for the period | - | - | - | - | 1,764 | - | 25 | - | - | (1,515) | - | 274 | 10,387 | 10,661 |
| Total comprehensive income (expenses) for the period | - | - | - | - | 1,764 | - | 25 | - | - | (1,515) | 3,203,323 | 3,203,597 | 19,113 | 3,222,710 |
| PRC statutory reserve (Note 3) | - | - | - | - | - | (2) | - | - | - | - | - | (2) | - | (2) |
| Deemed contribution from non-controlling interests | - | - | - | - | - | - | - | - | - | - | - | - | 22 | 22 |
| Deemed partially disposal of a subsidiary | - | - | - | - | - | - | - | - | - | - | - | - | 108,966 | 108,966 |
| Cancellation on repurchase of own shares | (7,775) | (1,040,228) | (1,951) | - | - | - | - | - | 9,726 | - | - | (1,040,228) | - | (1,040,228) |
| Dividend paid to non-controlling shareholders | - | - | - | - | - | - | - | - | - | - | - | - | (1,288) | (1,288) |
| Final dividend paid | - | - | - | - | - | - | - | - | - | - | (2,006,305) | (2,006,305) | - | (2,006,305) |
| At 30th June, 2009 (unaudited) | 200,000 | 422,790 | (1,951) | 704 | 164,539 | 4,365 | (7,920) | 2,499,685 | 130,775 | 345,011 | 31,049,657 | 34,807,655 | 778,869 | 35,586,524 |
| Profit for the period | - | - | - | - | - | - | - | - | - | - | 5,445,404 | 5,445,404 | 14,819 | 5,460,223 |
| Other comprehensive income for the period | - | - | - | - | 24,990 | - | 239 | - | - | 35,784 | - | 61,013 | 6,784 | 67,797 |
| Total comprehensive income for the period | - | - | - | - | 24,990 | - | 239 | - | - | 35,784 | 5,445,404 | 5,506,417 | 21,603 | 5,528,020 |
| PRC statutory reserve (Note 3) | - | - | - | - | - | 2,261 | - | - | - | - | (2,259) | 2 | - | 2 |
| Deemed contribution from non-controlling interests | - | - | - | - | - | - | - | - | - | - | - | - | (219) | (219) |
| Deemed partially disposal of a subsidiary | - | - | - | - | - | - | - | - | - | - | - | - | 1 | 1 |
| Cancellation on repurchase of own shares | (5,000) | (413,465) | 1,951 | - | - | - | - | - | 3,049 | - | - | (413,465) | - | (413,465) |
| Dividend paid to non-controlling shareholders | - | - | - | - | - | - | - | - | - | - | - | - | (1,288) | (1,288) |
| Interim dividend paid | - | - | - | - | - | - | - | - | - | - | (39,197) | (39,197) | - | (39,197) |
| Special dividend paid | - | - | - | - | - | - | - | - | - | - | (1,228,500) | (1,228,500) | - | (1,228,500) |
| At 31st December, 2009 (audited) | 195,000 | 9,325 | - | 704 | 189,529 | 6,626 | (7,681) | 2,499,685 | 133,824 | 380,795 | 35,225,105 | 38,632,912 | 798,966 | 39,431,878 |
| Loss for the period | - | - | - | - | - | - | - | - | - | - | (3,207,096) | (3,207,096) | 18,513 | (3,188,583) |
| Other comprehensive (expenses) income for the period | - | - | - | - | (209,550) | - | 316 | - | - | 49,205 | - | (160,029) | 2,005 | (158,024) |
| Total comprehensive (expenses) income for the period | - | - | - | - | (209,550) | - | 316 | - | - | 49,205 | (3,207,096) | (3,367,125) | 20,518 | (3,346,607) |
| Deemed contribution from non-controlling interests | - | - | - | - | - | - | - | - | - | - | - | - | 132 | 132 |
| Reclassification relating to disposal of investment property | - | - | - | (704) | - | - | - | - | - | - | 704 | - | - | - |
| Cancellation on repurchase of own shares | (3,926) | (9,325) | (25) | - | - | - | - | - | 3,951 | - | (486,074) | (495,399) | - | (495,399) |
| Dividend paid to non-controlling shareholders | - | - | - | - | - | - | - | - | - | - | - | - | (2,698) | (2,698) |
| Final dividend paid | - | - | - | - | - | - | - | - | - | - | (19,500) | (19,500) | - | (19,500) |
| At 30th June, 2010 (unaudited) | <u>191,074</u> | <u>-</u> | <u>(25)</u> | <u>-</u> | <u>(20,021)</u> | <u>6,626</u> | <u>(7,365)</u> | <u>2,499,685</u> | <u>137,775</u> | <u>430,000</u> | <u>31,513,139</u> | <u>34,750,888</u> | <u>816,918</u> | <u>35,567,806</u> |

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 disposals of the relevant properties.

(2) As at 30th June, 2010, the carrying amount of the cumulative loss on fair value changes of listed equity securities investments in securities investment reserve is HK\$140,252,000 (31st December, 2009: gain of HK\$41,441,000).

(3) The statutory reserve of the Group refers to the PRC statutory reserve fund. Appropriations to such reserve fund are made out of profit after tax as recorded in the statutory financial statements of the PRC subsidiaries. The amount should not be less than 10% of the profit after tax as recorded in the statutory financial statements unless aggregate amount exceeds 50% of the registered capital of the PRC subsidiaries. The statutory reserve can be used to make up prior years' losses, if any, and can be applied in conversion into the PRC subsidiaries' capital by means of capitalisation issue.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30th June, 2010

| | Six months ended 30th June, 2010 | 2009 |
|--|---|-------------|
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Net cash used in operating activities | (1,672,702) | (1,260,049) |
| Net cash used in investing activities | (644,346) | (614,827) |
| Net cash generated from (used in) financial activities | 1,425,548 | (2,519,952) |
| | <hr/> | <hr/> |
| Net decrease in cash and cash equivalents | (891,500) | (4,394,828) |
| Cash and cash equivalents at 1st January | 5,200,666 | 10,418,877 |
| Effect of foreign exchange rate changes | 18,110 | (752) |
| | <hr/> | <hr/> |
| Cash and cash equivalents at 30th June | 4,327,276 | 6,023,297 |
| | <hr/> <hr/> | <hr/> <hr/> |
| Analysis of the balances of cash and cash equivalents | | |
| Time deposits, bank balances and cash | 4,327,276 | 6,023,297 |
| | <hr/> <hr/> | <hr/> <hr/> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2010

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”).

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 their fair values.

2. Application of New and Revised Hong Kong Financial Reporting Standards (the “HKFRSs”)

The accounting policies adopted in the unaudited condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31st December, 2009 except as described below.

In the current period, the Group has applied the following new or revised standards, amendments and interpretations (the “new HKFRSs”) issued by the HKICPA, which are effective for current accounting period of the Group. The new HKFRSs adopted by the Group in the unaudited condensed consolidated financial statements are set out below:

| | |
|---------------------|--|
| HKFRSs (Amendments) | Improvements to HKFRS 1 and HKFRS 5 as a part of Improvements to HKFRSs issued in 2008 |
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2009 |
| HKFRS 2 (Amendment) | Group Cash-settled Share-based Payment Transactions |
| HKFRS 3 (Revised) | Business Combinations |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements |
| HKAS 39 (Amendment) | Eligible Hedged Items |
| HK(IFRIC) – Int 17 | Distributions of Non-cash Assets to Owners |

The adoption of HKAS 27 (Revised), “Consolidated and Separate Financial Statements” affects the accounting treatment for changes in the Group’s ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

The adoption of HKFRS 3 (Revised), “Business Combinations” affects the accounting for business combination for which the acquisition date is on or after 1st January, 2010.

Improvements to HKFRSs issued in 2009 contain amendments to HKAS 17 (Amendment) “Leases”, which has resulted in a change in accounting policy for the classification of leasehold land of the Group. Previously, the Group’s interests in leasehold land were accounted for as prepaid operating leases which were amortised and recognised in the audited consolidated statement of comprehensive income over the unexpired lease terms using the straight-line method. As substantially all risks and rewards of the leasehold land are considered having been transferred to the Group based on HKAS 17 (Amendment), the Group’s interests in leasehold land are now accounted for as assets held under finance leases and are stated at cost less accumulated depreciation. The amendment has been applied retrospectively to unexpired leases since 1st January, 2010 on the basis of information existing at the inception of the leases. The amendment does not apply to the leasehold land disposed of by the Group in prior years.

2. Application of New and Revised Hong Kong Financial Reporting Standards (the “HKFRSs”) (continued)

Effect of change in accounting policy on unaudited condensed consolidated statement of financial position:

| | At 31st December, 2009 | | | At 1st January, 2009 | | |
|---------------------------------|------------------------|----------------------|----------|----------------------|----------------------|----------|
| | Originally stated | Amendment to HKAS 17 | Restated | Originally stated | Amendment to HKAS 17 | Restated |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Property and other fixed assets | 90,045 | 328,181 | 418,226 | 104,739 | 328,971 | 433,710 |
| Prepaid lease payments | | | | | | |
| – leasehold land in Hong Kong | 328,181 | (328,181) | – | 328,971 | (328,971) | – |
| Total effect | 418,226 | – | 418,226 | 433,710 | – | 433,710 |

Save as described above, there is no material effect on the unaudited condensed consolidated financial statements of the Group for the current or prior accounting periods by adopting the new HKFRSs, thus no prior period adjustment has been required.

The Group has not early adopted the following new HKFRSs that have been issued but are not yet effective.

| | |
|--------------------------------|--|
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2010 ⁴ |
| HKFRS 9 | Financial Instruments ⁵ |
| HKAS 24 (Revised) | Related Party Disclosures ³ |
| HKAS 32 (Amendment) | Classification of Rights Issues ¹ |
| HK(IFRIC) – Int 14 (Amendment) | Prepayments of a Minimum Funding Requirement ³ |
| HK(IFRIC) – Int 19 | Extinguishing Financial Liabilities with Equity Instruments ² |

¹ Effective for annual periods beginning on or after 1st February, 2010

² Effective for annual periods beginning on or after 1st July, 2010

³ Effective for annual periods beginning on or after 1st January, 2011

⁴ Effective for annual periods beginning on or after 1st July, 2010 or 1st January, 2011, as appropriate

⁵ Effective for annual periods beginning on or after 1st January, 2013

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

3. Revenue

Revenue represents the aggregate of amounts received and receivable from the gains/losses from 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.

During the Period, the loss from the sales of investments held-for-trading in “Revenue” on a net basis is HK\$203.9 million (six months ended 30th June, 2009: gains of HK\$346.5 million).

4. Operating Segments

The Group determines its operating segments based on the reports reviewed by the chief operating decision-makers that are used to make strategic decisions.

The Group has seven reportable segments – property development and trading, property leasing for retail, property leasing for non-retail, listed available-for-sale equity investments, listed held-for-trading investments and treasury products, floating rate and fixed rate notes 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 | | |
| – Retail | – | Property leasing from retail properties |
| – Non-retail | – | Property leasing from non-retail properties |
| Listed securities | | |
| – Available-for-sale equity investments | – | Listed equity securities in available-for-sale investments |
| – Held-for-trading investments and treasury products | – | Listed securities investments in investments held-for-trading, over-the-counter trading and structured products |
| Floating rate and fixed rate notes | – | Listed and unlisted floating rate notes and fixed rate notes in available-for-sale investments |
| 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 non-controlling 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. No intersegment revenue is accounted for as the intersegment revenue is mainly the rental income for administrative purpose.

The Group's reportable segments are strategic business units that operate different activities. They are managed separately because each business units 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)

Operating segment information is presented below:

Condensed Consolidated Statement of Comprehensive Income For the six months ended 30th June, 2010

| | Property leasing | | Listed securities | | Floating rate and fixed rate notes HK\$'000 | Unlisted investments, investment holding and brokerage HK\$'000 | All other segments HK\$'000 | Consolidated HK\$'000 |
|--|--|--------------------|------------------------|---|--|--|--------------------------------|--------------------------|
| | Property development and trading HK\$'000 | Retail HK\$'000 | Non-retail HK\$'000 | Available-for-sale equity investments HK\$'000 | | | | |
| Major cash items excluding in revenue | | | | | | | | |
| - Hong Kong | - | - | - | - | 331,745 | - | - | 331,745 |
| - other countries | - | - | - | - | 726,030 | - | - | 726,030 |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,057,775</u> | <u>-</u> | <u>-</u> | <u>1,057,775</u> |
| Revenue | | | | | | | | |
| Revenue from external customers | | | | | | | | |
| - Hong Kong | 379,373 | 303,499 | 162,349 | - | (209,660) | 6,139 | 5,371 | 647,071 |
| - PRC | - | 20,867 | 18,728 | - | - | - | - | 39,595 |
| - other countries | - | - | - | - | 5,800 | - | - | 5,800 |
| | <u>379,373</u> | <u>324,366</u> | <u>181,077</u> | <u>-</u> | <u>(203,860)</u> | <u>6,139</u> | <u>5,371</u> | <u>692,466</u> |
| Revenue from external customers after non-controlling interests | 350,167 | 323,746 | 180,026 | - | (203,860) | - | 6,139 | 661,589 |
| Attributable property sales from associates | | | | | | | | |
| - Hong Kong | 20,040 | - | - | - | - | - | - | 20,040 |
| Attributable rental revenue from associates | | | | | | | | |
| - Hong Kong | - | 1,505 | 11,498 | - | - | - | - | 13,003 |
| - PRC | - | 33,632 | 12,214 | - | - | - | - | 45,846 |
| | <u>370,207</u> | <u>358,883</u> | <u>203,738</u> | <u>-</u> | <u>(203,860)</u> | <u>6,139</u> | <u>5,371</u> | <u>740,478</u> |
| Result | | | | | | | | |
| Segment result | | | | | | | | |
| - Hong Kong | 137,800 | 292,165 | 157,414 | 23,625 | (225,079) | (615) | 49,487 | 453,329 |
| - PRC | - | 18,234 | 16,469 | - | - | - | 2,009 | 36,712 |
| - other countries | - | - | - | - | (237,518) | - | - | (237,518) |
| | <u>137,800</u> | <u>310,399</u> | <u>173,883</u> | <u>23,625</u> | <u>(462,597)</u> | <u>(615)</u> | <u>51,496</u> | <u>252,523</u> |
| Other income, net | 398 | - | - | - | - | - | 100 | 498 |
| Share of results of associates | | | | | | | | |
| - attributable property sales, net | | | | | | | | |
| - Hong Kong | 8,075 | - | - | - | - | - | - | 8,075 |
| - attributable gross rental income | | | | | | | | |
| - Hong Kong | - | 1,505 | 11,498 | - | - | - | - | 13,003 |
| - PRC | - | 33,632 | 12,214 | - | - | - | - | 45,846 |
| - attributable operating cost | | | | | | | | |
| - Hong Kong | - | (703) | (3,928) | - | - | - | - | (4,631) |
| - PRC | - | (19,120) | (6,528) | - | - | - | (25,991) | (51,639) |
| - others | - | - | - | - | - | - | 945 | (12,426) |
| Non-controlling interests - allocated | (22,105) | - | - | - | - | 925 | - | (21,180) |
| Finance income on listed securities investments and treasury products, net | - | - | - | - | 84,596 | - | - | 84,596 |
| | <u>124,168</u> | <u>325,713</u> | <u>187,139</u> | <u>23,625</u> | <u>(378,001)</u> | <u>310</u> | <u>52,541</u> | <u>314,665</u> |
| Loss on disposal of investment property | - | - | (4) | - | - | - | (20,830) | (4) |
| Other gains and losses, net | | | | | | | | |
| - discount on acquisition of a subsidiary | - | 6,077 | - | - | - | - | - | 6,077 |
| | <u>124,168</u> | <u>331,790</u> | <u>187,135</u> | <u>23,625</u> | <u>(378,001)</u> | <u>310</u> | <u>(20,830)</u> | <u>320,738</u> |
| Unallocated items | | | | | | | | |
| Unallocated other gains and losses, net | | | | | | | | (9) |
| Unallocated corporate expenses, net | | | | | | | | (36,965) |
| Unallocated finance costs | | | | | | | | (50,110) |
| Income tax expense | | | | | | | | (35,391) |
| Unallocated non-controlling interests | | | | | | | | 1,104 |
| Core profit (excluding major non-cash items) | | | | | | | | 199,367 |
| Major non-cash items | | | | | | | | |
| - fair value changes on investment properties (including share of results of associates and non-controlling interests) | | | | | | | | (4,084,623) |
| - deferred tax credit | | | | | | | | 678,160 |
| Loss for the period attributable to owners of the Company | | | | | | | | <u>(3,207,096)</u> |

4. Operating Segments (continued)

Condensed Consolidated Statement of Financial Position

At 30th June, 2010

| | Property leasing | | Listed securities | | | Floating rate and fixed rate notes | Unlisted investments, investment holding and brokerage | All other segments | Consolidated |
|--|--|--------------------|------------------------|---|---|--|--|-----------------------|-------------------|
| | Property development and trading HK\$'000 | Retail HK\$'000 | Non-retail HK\$'000 | Available- for-sale equity investments HK\$'000 | Held- for-trading investments and treasury products HK\$'000 | | | | |
| Assets | | | | | | | | | |
| Segment assets | | | | | | | | | |
| - Hong Kong | 1,208,659 | 27,036,049 | 9,484,465 | 1,218,316 | 86,988 | 270,266 | 485,624 | 57,117 | 39,847,484 |
| - PRC | 6,460,691 | 626,540 | 764,290 | - | - | - | - | - | 7,851,521 |
| - other countries | 1,709,864 | - | - | - | 4,214,596 | - | - | - | 5,924,460 |
| Interests in associates | | | | | | | | | |
| - Hong Kong | 122,724 | 79,845 | 623,149 | - | - | - | - | 377 | 826,095 |
| - PRC | 35,996 | 146,933 | 12,163 | - | - | - | - | - | 195,092 |
| Advances to associates | | | | | | | | | |
| - Hong Kong | 1,164,349 | 118 | 29,097 | - | - | - | - | 1,394 | 1,194,958 |
| - PRC | 949,300 | 79,181 | 451,405 | - | - | - | - | - | 1,479,886 |
| Reportable segment assets | <u>11,651,583</u> | <u>27,968,666</u> | <u>11,364,569</u> | <u>1,218,316</u> | <u>4,301,584</u> | <u>270,266</u> | <u>485,624</u> | <u>58,888</u> | <u>57,319,496</u> |
| Unallocated corporate assets | | | | | | | | | 87,553 |
| Consolidated total assets | | | | | | | | | <u>57,407,049</u> |
| Liabilities | | | | | | | | | |
| Segment liabilities | | | | | | | | | |
| - Hong Kong | 96,036 | 531,547 | 153,632 | 5 | 807,881 | 746 | 23,680 | 12,407 | 1,625,934 |
| - PRC | 885,817 | 16,094 | 13,643 | - | - | - | - | - | 915,554 |
| - other countries | 138 | - | - | - | 14 | - | - | - | 152 |
| Reportable segment liabilities | <u>981,991</u> | <u>547,641</u> | <u>167,275</u> | <u>5</u> | <u>807,895</u> | <u>746</u> | <u>23,680</u> | <u>12,407</u> | <u>2,541,640</u> |
| Unallocated corporate liabilities | | | | | | | | | 19,297,603 |
| Consolidated total liabilities | | | | | | | | | <u>21,839,243</u> |
| Additions to non-current assets (other than financial instruments and deferred tax assets) | <u>479,744</u> | <u>434,016</u> | <u>560,035</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>79</u> | |

Other Material Items

For the six months ended 30th June, 2010

| | Reportable segments total HK\$'000 | Adjustments for unallocated | Adjustments for major non-cash items HK\$'000 | Consolidated statement of comprehensive income total HK\$'000 |
|---|---|--------------------------------|--|---|
| Interest income | 74,161 | - | - | 74,161 |
| Finance income (costs) | 84,596 | (50,110) | - | 34,486 |
| Net income (expenses) | 158,757 | (50,110) | - | 108,647 |
| Depreciation | - | (9,955) | - | (9,955) |
| Fair value changes on investment properties | - | - | (4,064,502) | (4,064,502) |
| Share of results of associates | (1,772) | - | (21,684) | (23,456) |
| Income tax (expense) credit | - | (35,391) | 678,160 | 642,769 |
| Non-controlling interests | <u>(21,180)</u> | <u>1,104</u> | <u>1,563</u> | <u>(18,513)</u> |

4. Operating Segments (continued)

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30th June, 2009

| | Property leasing | | Listed securities | | Floating rate and fixed rate notes HK\$'000 | Unlisted investments, investment holding and brokerage HK\$'000 | All other segments HK\$'000 | Consolidated HK\$'000 |
|--|--|--------------------|------------------------|---|--|--|--------------------------------|--------------------------|
| | Property development and trading HK\$'000 | Retail HK\$'000 | Non-retail HK\$'000 | Available-for-sale equity investments HK\$'000 | | | | |
| Major cash items excluding in revenue | | | | | | | | |
| - Hong Kong | - | - | - | - | 2,500,258 | - | - | 2,500,258 |
| - other countries | - | - | - | - | 1,844,472 | - | - | 1,844,472 |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>4,344,730</u> | <u>-</u> | <u>-</u> | <u>4,344,730</u> |
| Revenue | | | | | | | | |
| Revenue from external customers | | | | | | | | |
| - Hong Kong | 487,250 | 313,945 | 165,606 | - | 256,450 | - | 8,903 | 1,240,163 |
| - PRC | - | 17,215 | 18,552 | - | - | - | - | 35,767 |
| - other countries | - | - | - | - | 90,040 | - | - | 90,040 |
| | <u>487,250</u> | <u>331,160</u> | <u>184,158</u> | <u>-</u> | <u>346,490</u> | <u>-</u> | <u>8,903</u> | <u>1,365,970</u> |
| Revenue from external customers after non-controlling interests | 484,873 | 330,627 | 183,235 | - | 346,490 | - | 8,903 | 1,362,137 |
| Attributable property sales from associates | | | | | | | | |
| - Hong Kong | 3,905 | - | - | - | - | - | - | 3,905 |
| Attributable rental revenue from associates | | | | | | | | |
| - Hong Kong | - | 1,579 | 11,860 | - | - | - | - | 13,439 |
| - PRC | - | 24,999 | 2,022 | - | - | - | - | 27,021 |
| | <u>488,778</u> | <u>357,205</u> | <u>197,117</u> | <u>-</u> | <u>346,490</u> | <u>-</u> | <u>8,903</u> | <u>1,406,502</u> |
| Result | | | | | | | | |
| Segment result | | | | | | | | |
| - Hong Kong | (36,134) | 302,092 | 159,613 | 1,396 | 186,865 | 7,458 | 59,668 | 699,996 |
| - PRC | - | 13,407 | 16,083 | - | - | - | 2,919 | 32,409 |
| - other countries | - | - | - | - | 137,164 | - | - | 137,164 |
| | <u>(36,134)</u> | <u>315,499</u> | <u>175,696</u> | <u>1,396</u> | <u>324,029</u> | <u>7,458</u> | <u>62,587</u> | <u>869,569</u> |
| Other income, net | 4,303 | - | - | - | - | - | - | 4,303 |
| Share of results of associates | | | | | | | | |
| - attributable property sales, net | | | | | | | | |
| - Hong Kong | 1,238 | - | - | - | - | - | - | 1,238 |
| - attributable gross rental income | | | | | | | | |
| - Hong Kong | - | 1,579 | 11,860 | - | - | - | - | 13,439 |
| - PRC | - | 24,999 | 2,022 | - | - | - | - | 27,021 |
| - attributable operating cost | | | | | | | | |
| - Hong Kong | - | (931) | (3,374) | - | - | - | - | (4,305) |
| - PRC | - | (15,677) | (1,268) | - | - | - | (25,852) | (42,797) |
| - others | - | - | - | - | - | - | (11,351) | (11,351) |
| Non-controlling interests - allocated | (1,525) | - | - | - | - | (3,136) | - | (4,661) |
| Finance cost on listed securities investments and treasury products, net | - | - | - | - | (877) | - | - | (877) |
| | <u>(32,118)</u> | <u>325,469</u> | <u>184,936</u> | <u>1,396</u> | <u>323,152</u> | <u>4,322</u> | <u>62,587</u> | <u>851,579</u> |
| Unallocated items | | | | | | | | |
| Unallocated other gains and losses, net | | | | | | | | 35,125 |
| Unallocated corporate expenses, net | | | | | | | | (95,412) |
| Unallocated finance costs | | | | | | | | (46,262) |
| Income tax expense | | | | | | | | (15,793) |
| Unallocated non-controlling interests | | | | | | | | (662) |
| Core profit (excluding major non-cash items) | | | | | | | | 728,575 |
| Major non-cash items | | | | | | | | |
| - fair value changes on investment properties (including share of results of associates and non-controlling interests) | | | | | | | | 2,955,955 |
| - deferred tax expense | | | | | | | | (481,207) |
| Profit for the period attributable to owners of the Company | | | | | | | | <u>3,203,323</u> |

4. Operating Segments (continued)

Condensed Consolidated Statement of Financial Position

At 31st December, 2009

| | Property leasing | | Listed securities | | | Floating rate and fixed rate notes | Unlisted investments, holding and brokerage | All other segments | Consolidated |
|--|----------------------------------|-------------------|-------------------|---------------------------------------|--|------------------------------------|---|--------------------|-------------------|
| | Property development and trading | Retail | Non-retail | Available-for-sale equity investments | Held-for-trading investments and treasury products | | | | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Assets | | | | | | | | | |
| Segment assets | | | | | | | | | |
| - Hong Kong | 1,294,396 | 29,744,249 | 12,520,459 | 1,313,098 | 646,284 | 267,009 | 535,814 | 114,055 | 46,435,364 |
| - PRC | 5,596,973 | 703,550 | 855,537 | - | - | - | - | - | 7,156,060 |
| - other countries | 1,698,480 | - | - | - | 1,089,568 | - | - | - | 2,788,048 |
| Interests in associates | | | | | | | | | |
| - Hong Kong | 116,591 | 15,220 | 695,577 | - | - | - | - | 260 | 827,648 |
| - PRC | 26,964 | 148,542 | 15,192 | - | - | - | - | - | 190,698 |
| Advances to associates | | | | | | | | | |
| - Hong Kong | 1,079,136 | 23,587 | 37,718 | - | - | - | - | 5,655 | 1,146,096 |
| - PRC | 699,290 | 77,780 | 7,955 | - | - | - | - | - | 785,025 |
| Reportable segment assets | <u>10,511,830</u> | <u>30,712,928</u> | <u>14,132,438</u> | <u>1,313,098</u> | <u>1,735,852</u> | <u>267,009</u> | <u>535,814</u> | <u>119,970</u> | <u>59,328,939</u> |
| Unallocated corporate assets | | | | | | | | | 86,144 |
| Consolidated total assets | | | | | | | | | <u>59,415,083</u> |
| Liabilities | | | | | | | | | |
| Segment liabilities | | | | | | | | | |
| - Hong Kong | 114,374 | 347,954 | 159,283 | 6 | 1,237,290 | 466 | 68,008 | 17,962 | 1,945,343 |
| - PRC | 506,796 | 16,690 | 13,538 | - | - | - | - | - | 537,024 |
| - other countries | 71 | - | - | - | 16 | - | - | - | 87 |
| Reportable segment liabilities | <u>621,241</u> | <u>364,644</u> | <u>172,821</u> | <u>6</u> | <u>1,237,306</u> | <u>466</u> | <u>68,008</u> | <u>17,962</u> | <u>2,482,454</u> |
| Unallocated corporate liabilities | | | | | | | | | 17,500,751 |
| Consolidated total liabilities | | | | | | | | | <u>19,983,205</u> |
| Additions to non-current assets (other than financial instruments and deferred tax assets) | <u>293,542</u> | <u>769,920</u> | <u>236,952</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>648</u> | |

Other Material Items

For the six months ended 30th June, 2009

| | Reportable segments total | Adjustments for unallocated | Adjustments for major non-cash items | Consolidated statement of comprehensive income total |
|---|---------------------------|-----------------------------|--------------------------------------|--|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Interest income | 51,468 | - | - | 51,468 |
| Finance costs | (877) | (46,262) | - | (47,139) |
| Net income (expenses) | 50,591 | (46,262) | - | 4,329 |
| Depreciation | - | (11,505) | - | (11,505) |
| Fair value changes on investment properties | - | - | 2,902,465 | 2,902,465 |
| Share of results of associates | (16,755) | - | 56,893 | 40,138 |
| Income tax expense | (15,793) | - | (481,207) | (497,000) |
| Non-controlling interests | <u>(4,661)</u> | <u>(662)</u> | <u>(3,403)</u> | <u>(8,726)</u> |

5. Other Income

| | Six months ended 30th June, | |
|--|-----------------------------|------------|
| | 2010 | 2009 |
| | HK\$'000 | HK\$'000 |
| Included in other income are: | | |
| Building management fee income | 39,748 | 37,566 |
| Building management fee expenses | (23,246) | (22,967) |
| | 16,502 | 14,599 |
| Forfeiture of deposits received on sales of properties | 398 | 4,303 |
| Arrangement fee income | 66,116 | – |
| Management and maintenance service income | 6,064 | – |
| Exchange gain, net | – | 274 |
| | – | 274 |

6. Investment (Expense) Income, Net

| | Six months ended 30th June, | |
|--|-----------------------------|---------------|
| | 2010 | 2009 |
| | HK\$'000 | HK\$'000 |
| Financial assets at fair value through profit or loss classified as held-for-trading: | | |
| Unrealised loss arising on change in fair value of investments held-for-trading | (21,192) | (374,417) |
| Financial assets designated as at fair value through profit or loss: | | |
| Unrealised (loss) gain arising on change in fair value of bonds | (282,383) | 42,455 |
| Realised loss arising on change in fair value of bonds | (12,054) | – |
| Unrealised gain arising on change in fair value of credit-linked notes | – | 49,434 |
| Net (loss) gain arising on change in fair value of financial assets designated as at fair value through profit or loss | (294,437) | 91,889 |
| Financial liabilities at fair value through profit or loss classified as held-for-trading: | | |
| Unrealised loss arising on change in fair value of derivative financial instruments | – | (970) |
| Realised gain arising on change in fair value of derivative financial instruments | 3,238 | – |
| Net gain (loss) arising on change in fair value of financial liabilities at fair value through profit or loss classified as held-for-trading | 3,238 | (970) |
| Dividend income on: | | |
| Listed investments | | |
| – available-for-sale investments | 23,625 | 1,396 |
| – other listed investments | 10,686 | 252,544 |
| Unlisted investments | 74,348 | 14,955 |
| Interest income | 73,409 | 51,468 |
| Imputed interest income on: | | |
| Advances to associates | 7,200 | 7,574 |
| Advance to a non-controlling shareholder | 164 | 164 |
| | (122,959) | 44,603 |

Included in interest income are interests from bonds, listed floating rate notes and unlisted floating rate and fixed rate notes approximately HK\$43,989,000, HK\$590,000 and HK\$4,050,000 (six months ended 30th June, 2009: bonds HK\$352,000, credit-linked notes HK\$3,830,000, listed floating rate notes HK\$904,000 and unlisted floating rate and fixed rate notes HK\$4,836,000) respectively and interest expenses from derivative financial instruments of HK\$1,021,000 (six months ended 30th June, 2009: income of HK\$4,311,000).

9. Finance Income (Costs)

| | Six months ended 30th June, | |
|---|-----------------------------|------------------|
| | 2010 HK\$'000 | 2009 HK\$'000 |
| Interest on: | | |
| Bank loans wholly repayable within five years | (61,204) | (44,068) |
| Bank loans wholly repayable over five years | (1,302) | (1,633) |
| Other loans wholly repayable within five years | (2,319) | (287) |
| | <u>(64,825)</u> | <u>(45,988)</u> |
| Imputed interest on: | | |
| Amounts due to associates | (232) | (232) |
| Amounts due to non-controlling shareholders | (750) | (1,448) |
| | <u>(982)</u> | <u>(1,680)</u> |
| Total interest | (65,807) | (47,668) |
| Exchange gain (loss) on translation of foreign currency loans | 86,915 | (590) |
| Other finance costs | (6,459) | (8,679) |
| | <u>14,649</u> | <u>(56,937)</u> |
| Less: Interest capitalised to stock of properties under development | 15,829 | 5,710 |
| Interest capitalised to investment properties under development | 4,008 | 4,088 |
| | <u>34,486</u> | <u>(47,139)</u> |

10. Other Gains and Losses, Net

| | Six months ended 30th June, | |
|--|-----------------------------|------------------|
| | 2010 HK\$'000 | 2009 HK\$'000 |
| Included in other gains and losses, net are: | | |
| Discount on acquisition of a subsidiary (<i>Note 1</i>) | 6,077 | – |
| Impairment loss recognised in respect of interests in associates (<i>Note 2</i>) | (55,030) | – |
| Gain on deemed disposal of a subsidiary (<i>Note 3</i>) | – | 35,135 |
| | <u>–</u> | <u>35,135</u> |

Notes:

- Discount on acquisition of a subsidiary arose from acquisition of remaining 50% interest in an associate.
- Impairment loss of HK\$55,030,000 represents dividend declared and paid by associates to the Group during the Period. The corresponding dividend income received by the Group is included in dividend income from unlisted investments of HK\$74,348,000 under Investment (Expense) Income, Net.
- Gain on deemed disposal of a subsidiary arose from deemed disposal of 8.27% interest in G-Prop (Holdings) Limited (“G-Prop”) by placing on 17th June, 2009. The Group then holds 41.93% shareholding in G-Prop and G-Prop remained a subsidiary of the Company.

11. Income Tax Credit (Expense)

| | Six months ended 30th June, | |
|--|------------------------------------|------------------|
| | 2010 | 2009 |
| | HK\$'000 | HK\$'000 |
| The credit (charge) comprises: | | |
| Current tax: | | |
| Hong Kong Profits Tax | (27,914) | (9,501) |
| Other than Hong Kong | (5,575) | (4,656) |
| | (33,489) | (14,157) |
| Overprovision (underprovision) in prior years: | | |
| Hong Kong Profits Tax | 128 | 53 |
| Other than Hong Kong | 1 | (80) |
| | 129 | (27) |
| Deferred tax: | | |
| Current period | 676,129 | (482,816) |
| | 642,769 | (497,000) |

Hong Kong Profits Tax is calculated at 16.5% (2009: 16.5%) on the estimated assessable profits for the Period. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Deferred tax credit of HK\$676,129,000 included the deferred tax credit of HK\$678,160,000 (six months ended 30th June, 2009: expenses of HK\$481,207,000) on fair value changes on investment properties recognised for the Period.

12. Dividends

| | Six months ended 30th June, | |
|--|------------------------------------|------------------|
| | 2010 | 2009 |
| | HK\$'000 | HK\$'000 |
| (a) The Board has resolved not to declare any interim dividend (2009: HK2 cents per share) | — | 39,197 |
| (b) Special dividend for 2010 declared after interim period end Special dividend of HK40 cents (2009: nil) per share | 763,048 | — |
| (c) Final dividend for 2009 paid on 9th June, 2010 of HK1 cent (2008: final dividend of HK1 cent and special dividend of HK99 cents) per share | 19,500 | 2,006,305 |

13. (Loss) Earnings Per Share

The calculation of the basic and diluted (loss) earnings per share attributable to owners of the Company is based on the following data:

| | Six months ended 30th June, | |
|--|------------------------------------|----------------------|
| | 2010 | 2009 |
| | HK\$'000 | HK\$'000 |
| (Loss) earnings: | | |
| (Loss) earnings for the purposes of basic and diluted (loss) earnings per share ((loss) profit for the period attributable to owners of the Company) | <u>(3,207,096)</u> | <u>3,203,323</u> |
| | Number of shares | |
| Number of shares: | 2010 | 2009 |
| Weighted average number of ordinary shares for the purposes of basic and diluted (loss) earnings per share | <u>1,942,887,346</u> | <u>2,034,673,910</u> |

Diluted (loss) earnings per share for the six months ended 30th June, 2010 and 2009 were the same as the basic (loss) earnings per share as there were no diluting events during both periods.

14. Investment Properties

| | HK\$'000 |
|---|--------------------------|
| Cost or fair value | |
| At 1st January, 2009 | 30,302,580 |
| Additions | 130,220 |
| Construction cost incurred for investment properties | 803,557 |
| Disposals | (9,725) |
| Transfer from properties under development | 86,496 |
| Transfer from property and other fixed assets | 1,207,982 |
| Exchange adjustments | 3,570 |
| Increase in fair value recognised in the consolidated statement of comprehensive income | 8,564,301 |
| Disposal of subsidiaries | <u>(380,499)</u> |
| At 31st December, 2009 | 40,708,482 |
| Additions | 132,434 |
| Construction cost incurred for investment properties | 448,155 |
| Disposals | (1,930) |
| Exchange adjustments | 11,745 |
| Decrease in fair value recognised in the consolidated statement of comprehensive income | <u>(4,064,502)</u> |
| At 30th June, 2010 | <u>37,234,384</u> |

The market value of the Group's investment properties (included investment properties under construction at fair value) at 30th June, 2010 has been arrived at on the basis of valuation carried out on that date by Messrs. B.I. Appraisals Limited ("B.I. Appraisals"), independent qualified professional valuers not connected with the Group who has appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. The valuation report on the investment properties is signed by a director of B.I. 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.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes, are measured using the fair value model and are classified and accounted for as investment properties.

For the investment properties under construction at cost, when fair value of investment properties under construction at cost were not reliably measurable, the investment properties under construction at cost were measured at cost, less any impairment loss, until the earlier of the date of construction is completed and the date at which fair value become reliably measurable.

15. Interests in Associates

| | 30th June, 2010 <i>HK\$'000</i> | 31st December, 2009 <i>HK\$'000</i> |
|--|---|--|
| Cost of investment in associates, unlisted | 283,667 | 283,667 |
| Share of post-acquisition profits, net | 737,520 | 734,679 |
| | <u>1,021,187</u> | <u>1,018,346</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 Messrs. Norton Appraisals Limited, independent qualified professional valuer, and it was recognised as interests in associates and financial guarantee liabilities in the Group's consolidated statement of financial position.

The investment properties held by the Group's principal associates were revalued at 30th June, 2010 by B.I. 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.

16. Advances to Associates

| | 30th June, 2010 <i>HK\$'000</i> | 31st December, 2009 <i>HK\$'000</i> |
|---|---|--|
| Interest bearing advances to associates | 115,951 | 137,556 |
| Interest-free advances to associates | 2,558,893 | 1,793,565 |
| | <u>2,674,844</u> | <u>1,931,121</u> |

The advances to associates are unsecured. An approximately HK\$949,300,000 was expected to be repayable in 2011 and the amount is therefore shown as non-current. For the remaining HK\$1,725,544,000, the Group will not demand repayment within one year from the end of the reporting period 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 values of the interest-free advances as at the end of the reporting period, determined based on the present values of the estimated future cash flows discounted using the prevailing market rates at the end of the reporting period, approximate their carrying amounts.

17. Available-for-sale Investments

| | 30th June, 2010 <i>HK\$'000</i> | 31st December, 2009 <i>HK\$'000</i> |
|---|---|--|
| Available-for-sale investments comprise: | | |
| Listed investments: | | |
| – Equity securities listed in Hong Kong | 1,218,211 | 1,312,297 |
| Unlisted securities: | | |
| – Equity securities incorporated in Hong Kong | 170,766 | 204,375 |
| – Equity securities incorporated elsewhere | 3,899 | – |
| | <u>1,392,876</u> | <u>1,516,672</u> |
| Debt securities | 255,422 | 254,945 |
| Club debentures | 15,731 | 15,731 |
| Total | <u>1,664,029</u> | <u>1,787,348</u> |

18. Debtors, Deposits and Prepayments

Included in debtors, deposits and prepayments are trade receivables of approximately HK\$16,723,000 (31st December, 2009: HK\$21,530,000) comprised of rental receivables billed in advance and settlements from tenants are expected upon receipts of billings and properties sales proceeds receivables.

The following is an aged analysis of trade receivables (net of allowance for doubtful debts) at the end of the reporting period:

| | 30th June, 2010 <i>HK\$'000</i> | 31st December, 2009 <i>HK\$'000</i> |
|--------------|---|--|
| 0-30 days | 4,514 | 8,832 |
| 31-60 days | 384 | 1,982 |
| 61-90 days | 1,373 | 576 |
| Over 90 days | <u>10,452</u> | <u>10,140</u> |
| | <u>16,723</u> | <u>21,530</u> |

The Directors consider that the fair values of the Group's debtors, deposits and prepayments at the end of the reporting period approximate to their carrying amounts.

19. Derivative Financial Instruments

| | 30th June, 2010 <i>HK\$'000</i> | 31st December, 2009 <i>HK\$'000</i> |
|---|---|--|
| Liabilities | | |
| Financial liabilities, held-for-trading | | |
| Interest rate swap | <u>-</u> | <u>3,238</u> |

20. Creditors and Accruals

Included in creditors and accruals are trade payables of approximately HK\$129,740,000 (31st December, 2009: HK\$230,781,000).

The following is an aged analysis of trade payables at the end of the reporting period:

| | 30th June, 2010 <i>HK\$'000</i> | 31st December, 2009 <i>HK\$'000</i> |
|--------------|---|--|
| 0-90 days | 9,283 | 174,341 |
| Over 90 days | <u>120,457</u> | <u>56,440</u> |
| | <u>129,740</u> | <u>230,781</u> |

The Directors consider that the fair values of the Group's creditors and accruals at the end of the reporting period approximate to their carrying amounts.

21. Share Capital

| | Number of shares | Share Capital HK\$'000 |
|---|-----------------------------|---------------------------|
| Ordinary shares of HK\$0.10 each | | |
| Authorised: | | |
| At 1st January, 2009, 31st December, 2009 and 30th June, 2010 | <u>5,000,000,000</u> | <u>500,000</u> |
| Issued and fully paid: | | |
| At 1st January, 2009 | 2,077,750,079 | 207,775 |
| Repurchase of ordinary shares (<i>Note</i>) | <u>(127,750,000)</u> | <u>(12,775)</u> |
| At 31st December, 2009 | 1,950,000,079 | 195,000 |
| Repurchase of ordinary shares (<i>Note</i>) | <u>(39,259,000)</u> | <u>(3,926)</u> |
| At 30th June, 2010 | <u>1,910,741,079</u> | <u>191,074</u> |

Note: During the Period, the Company repurchased on the Stock Exchange a total of 39,509,000 (six months ended 30th June, 2009: 97,261,000) ordinary shares of the Company, at an aggregate consideration after expenses of approximately HK\$495,399,000 (six months ended 30th June, 2009: HK\$1,040,228,000), of which 39,259,000 (six months ended 30th June, 2009: 77,750,000) shares were immediately cancelled during the Period. The remaining 250,000 (six months ended 30th June, 2009: 19,511,000) shares were cancelled in July 2010 and was included in treasury stocks. The nominal value of all the shares was credited to capital redemption reserve and the aggregate consideration paid was debited to the share premium and retained profits of the Group.

22. Borrowings

| | 30th June, 2010 HK\$'000 | 31st December, 2009 HK\$'000 |
|-----------------------------------|-----------------------------|---------------------------------|
| Bank loans, secured | 14,098,875 | 11,652,801 |
| Other loans, secured | <u>1,134,859</u> | <u>1,562,180</u> |
| | 15,233,734 | 13,214,981 |
| Less: Amounts due within one year | <u>(3,953,384)</u> | <u>(3,714,963)</u> |
| Amounts due after one year | <u>11,280,350</u> | <u>9,500,018</u> |

23. Amounts due to Associates and Non-Controlling Shareholders

Both the amounts due to associates and non-controlling shareholders are unsecured. Except for the amount due to one non-controlling shareholder which is interest bearing at the prevailing market rate, the amounts due to associates and the remaining one non-controlling shareholder are interest-free. The associates and non-controlling shareholders will not demand for repayment within one year from 30th June, 2010 and the amounts are therefore shown as non-current. The Directors consider that the fair values of the interest-free amounts at the end of the reporting period determined based on the present values of the estimated future cash flows discounted using the prevailing market rates at the end of the reporting period approximate their carrying amounts.

24. Capital Commitments and Contingent Liabilities

| | 30th June, 2010 HK\$'000 | 31st December, 2009 HK\$'000 |
|---|-----------------------------|---------------------------------|
| (a) Capital commitments: | | |
| Authorised and contracted for: | | |
| Development expenditure of properties in Hong Kong | 327,989 | 555,149 |
| Development expenditure of properties in Mainland China | 1,785,572 | 1,685,418 |
| Development expenditure of properties in Macau | 48,071 | 27,685 |
| Shareholder's contribution | 487,500 | 97,800 |
| Share of commitment of an associate | 228,132 | 466,451 |
| Renovation of properties | 74,465 | 125,289 |
| | <u>2,951,729</u> | <u>2,957,792</u> |
| Authorised but not contracted for: | | |
| Development expenditure of properties in Hong Kong | <u>205,320</u> | <u>382,603</u> |
| (b) Contingent liabilities: | | |
| Guarantees given to banks, in respect of banking facilities utilised by associates and an investee company | 1,535,600 | 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 | 10,000 | 10,000 |
| Repurchase guarantee given to banks in respect of mortgages facilities given to property purchasers by a subsidiary | 392,388 | 114,103 |
| | <u>1,937,988</u> | <u>1,193,753</u> |

25. Material Related Party Transactions

During the Period, the Group had the following material transactions with related parties:

| | Six months ended 30th June, | |
|---|-----------------------------|------------------|
| | 2010 HK\$'000 | 2009 HK\$'000 |
| Income received from associates: | | |
| Office rental | 133 | 133 |
| Management fee | 24 | 24 |
| Interest income | 2,481 | 3,718 |
| Accountancy fee | 60 | 60 |
| Income received from a Director: | | |
| Management and maintenance service income | 5,976 | – |
| Expenses paid to associates: | | |
| Office rental | 577 | 332 |
| Building management fee | 268 | 222 |

Office rental and building management fee were determined on terms similar to those applicable to transactions with unrelated parties. Management fee and management and maintenance service income were charged at the terms agreed by both parties. Interest income was charged at the prevailing market rate based on outstanding balance during the Period. Accountancy fee were charged based on an appropriate allocation of costs incurred by central administrative departments of the Group.

Details of the balances with related parties at the end of the reporting period are set out in notes 16 and 23 above.

26. Event after the Financial Period End

Disposals of Subsidiaries and Assets to Related Parties

On 17th May, 2010, the Group entered into (a) various sale and purchase agreements with companies wholly-owned by a director of the Company, to dispose certain stock of properties and subsidiaries (the "Disposal") and to provide after-sale free leasing agency and management service in respect of the certain properties under the Disposal for a period of 3 years; and (b) property management agreements with companies wholly-owned by the same director of the Company, subject to completion of the Disposal, to provide property management services at an agreed fee to certain properties under the Disposal.

The properties under the Disposal mainly include (a) investment property comprises of various shops at Excelsior Plaza, Causeway Bay; (b) investment property comprises of a retail mall at Laforet, Excelsior Plaza, Causeway Bay; (c) stock of properties comprise of 2 shops at York Place, Wanchai; and (d) investment property comprises of a retail mall at Southorn Centre, Wanchai.

The stock of properties and investment properties under the Disposal were valued at HK\$120 million and HK\$3,278 million respectively as at 17th May, 2010. After deducting a bank loan and other net liabilities (other than deferred tax liabilities) held by the subsidiaries under the Disposal, the provisional consideration of the Disposal was approximately HK\$2,587.4 million.

The Group received the provisional consideration in cash upon completion of the Disposal which took place in July and August 2010 respectively. Adjustment of the provisional consideration to final consideration will be made in October and November 2010.

27. Comparative figures

Certain comparative figures have been reclassified to conform with the current period's presentation.

DIVIDEND AND SHARE REPURCHASE

Interim Dividend

The Board has resolved not to declare any interim dividend for the Period (2009: HK2 cents per share).

Special Dividend

The Board has declared a special dividend of HK40 cents per share (the “Special Dividend”), representing an amount of approximately HK\$763.0 million, with reference to the announcement dated 18th May, 2010 (the “Announcement”). According to the Announcement, the Company intended to propose the utilisation of part of the proceeds resulted from the discloseable and connected transactions regarding disposal of properties (the “Transactions”) for the declaration of the Special Dividend at the board meeting approving the interim results of the Group for the Period. As the Transactions were approved by independent shareholders at the special general meeting of the Company held on 7th July, 2010 and completed in July and August 2010 respectively, sales proceeds of approximately HK\$2,587.4 million had been received by the Company and thus the Board declared the Special Dividend.

During the Period, the Company has allocated an aggregate cash amount of approximately HK\$1,257.8 million (2009: HK\$1,079.4 million) (or HK65.5 cents per share (2009: HK53.1 cents)) which would be paid to shareholders. Out of such sum, (i) an amount of approximately HK\$763.0 million (2009: nil) (or HK40 cents per share (2009: nil)) would be applied for the payment of the Special Dividend; and (ii) an amount of approximately HK\$494.8 million (2009: HK\$1,040.2 million) (or HK25.5 cents per share (2009: HK51.1 cents)) has been utilised for the repurchase of the Company’s shares during the Period. With such a total cash sum of HK65.5 cents per share (2009: HK53.1 cents) and a core profit of HK10.3 cents per share (2009: HK35.8 cents), a ratio of 635.9% (2009: 148.3%) is recorded, which is summarised as follows: –

| | For the six months ended 30th June, | |
|---|--|-------------|
| | 2010 | 2009 |
| Core profit (HK\$m) | 199.4 | 728.6 |
| Share repurchase (HK\$m) | 494.8 | 1,040.2 |
| Interim Dividend (HK\$m) | – | 39.2 |
| Special Dividend (HK\$m) | 763.0 | – |
| <u>On a share basis</u> | | |
| Core profit (HK cents) | 10.3 | 35.8 |
| Share repurchase (HK cents) | 25.5 | 51.1 |
| Interim Dividend (HK cents) | – | 2.0 |
| Special Dividend (HK cents) | 40.0 | – |
| Share repurchase, Interim and Special Dividend (HK cents) | 65.5 | 53.1 |
| As a percentage of core profit | 635.9% | 148.3% |

Dividend warrants will be posted on or about 28th September, 2010 to shareholders whose names appear on the register of members of the Company on 17th September, 2010.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 14th September, 2010 to 17th September, 2010, both days inclusive. In order to qualify for the Special 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 13th September, 2010.

FINANCIAL OPERATION REVIEW

Results

Revenue

Revenue for the Period amounted to HK\$692.5 million (six months ended 30th June, 2009: HK\$1,366.0 million), a 49.3% decrease over last year. The decrease was mainly due to the loss in sale of held-for-trading investments.

The loss in the sales of held-for-trading investments on a net basis was HK\$203.9 million (six months ended 30th June, 2009: gain of HK\$346.5 million) was included in revenue.

Gross Profit

Gross profit for the Period amounted to HK\$419.3 million, a 48.3% decrease as compared with the same period last year.

Rental

For property leasing, the rental revenue in retail section dropped by 2.1% to HK\$324.3 million. Rental revenue from non-retail section had also shown a decrease of 1.7% to HK\$181.1 million during the Period. The Period recorded a decrease of 1.9% in total rental revenue to HK\$505.4 million as compared with the corresponding period in 2009 of HK\$515.3 million. Together with the attributable rental revenue generated from associates of HK\$58.8 million (six months ended 30th June, 2009: HK\$40.5 million), the total attributable rental revenue to the Group after non-controlling interests reached to approximately HK\$562.6 million (six months ended 30th June, 2009: HK\$554.3 million), which achieved a 1.5% increase over the same period last year.

Attributable net rental income for the Period showed HK\$512.9 million, a 0.5% increase over HK\$510.4 million in 2009.

Property Development and Trading

In relation to properties sales, an attributable profit of HK\$123.8 million (six months ended 30th June, 2009: loss of HK\$36.4 million) was recorded. The major components recorded in gross profit are sales of: MOD 595 in Mongkok resulting in loss of HK\$3.0 million (six months ended 30th June, 2009: profit of HK\$12.0 million); i-home in Tai Kok Tsui generated profit of HK\$43.9 million (six months ended 30th June, 2009: nil); and York Place in Wanchai generated profit of HK\$29.5 million (six months ended 30th June, 2009: loss of HK\$53.7 million). Profit represented sales revenue less cost. York Place was previously an investment property and was transferred to stock of properties in 2008 at its then market value. For the units sold and recognised in the Period, the cost included a valuation surplus of HK\$64.1 million (six months ended 30th June, 2009: HK\$284.6 million). If the valuation surplus is excluded from the cost, a profit of HK\$93.6 million (six months ended 30th June, 2009: HK\$230.9 million) would be resulted.

FINANCIAL OPERATION REVIEW *(continued)*

Results *(continued)*

Property Development and Trading (continued)

Certain units and parking spaces at Gemstar Tower in Hunghom (61.96% interest) and The Zenith in Wanchai (87.5% interest) sold during the Period had contributed an attributable profit to the Group of HK\$30.5 million (six months ended 30th June, 2009: HK\$2.5 million) and HK\$9.9 million (six months ended 30th June, 2009: nil) respectively.

In respect of properties held by an associate, Indihome in Tsuen Wan (50% interest), Miami Crescent in Sheung Shui (50% interest), Hing Wai Centre in Aberdeen (50% interest) and Park Mansion in Ngau Tau Kok (35% interest) continuously generated profit of HK\$0.7 million (six months ended 30th June, 2009: HK\$1.2 million), HK\$4.4 million (six months ended 30th June, 2009: nil), HK\$2.8 million (six months ended 30th June, 2009: nil) and HK\$0.4 million (six months ended 30th June, 2009: nil) respectively, the mentioned profits was reflected in the share of results of associates. For the sale of Parc Palais in Homantin (10% interest), a contribution of HK\$4.7 million (six months ended 30th June, 2009: HK\$1.6 million) was recorded in investment income.

During the period, the forfeited deposits received for Splendid City in Chengdu recorded in other income were HK\$0.4 million (six months ended 30th June, 2009: HK\$4.3 million being the forfeited deposits of York Place and i-home).

At 30th June, 2010, deposit received for stock of properties contracted to be sold and revenue to be recognised in late 2010 amounted to HK\$805.4 million. The presale recorded for Phase I of Splendid City in Chengdu at 30th June, 2010 was 1,004 units of RMB732.2 million, equivalent to HK\$838.8 million, profit of which is expected to be recognised in late 2010 and HK\$804.5 million deposit was received with an average selling price approximately RMB729,256 per unit. The presale recorded for The Hermitage (25% interest) at 30th June, 2010 was 231 units of HK\$2,834.2 million, and the attributable interest on sales to the Group was HK\$708.5 million.

In summary, the Group together with an associated company, executed properties sales agreements to third parties with an attributable amount of HK\$1,565.5 million (six months ended 30th June, 2009: HK\$1,000.3 million). Property sale and other property sale income in total recognised in the Period was HK\$124.2 million (six months ended 30th June, 2009: loss of HK\$32.1 million).

Listed Securities

During the Period, the total loss recognised on listed securities investments was HK\$354.4 million (six months ended 30th June, 2009: gain of HK\$324.5 million), comprised of gain on listed available-for-sale investments equity investments of HK\$23.6 million (six months ended 30th June, 2009: HK\$1.4 million), loss on listed held-for-trading investments and treasury products of HK\$378.0 million (six months ended 30th June, 2009: gain of HK\$323.1 million).

Listed Securities: Available-for-sale

The Group recorded dividend income of HK\$23.6 million (six months ended 30th June, 2009: HK\$1.4 million) for the Period and was recognised as an investment income.

FINANCIAL OPERATION REVIEW *(continued)*

Results *(continued)*

Listed Securities: Held-for-trading and Treasury Products

The listed held-for-trading investments and treasury products generated a loss before or after finance income of HK\$462.6 million and HK\$378.0 million respectively for the Period (six months ended 30th June, 2009: profit before/after finance costs of HK\$324.0 million/HK\$323.1 million).

Loss from the listed held-for-trading investments reflected in the consolidated statement of comprehensive income for the Period comprised of a gross loss of totaling HK\$203.9 million (six months ended 30th June, 2009: gross profit of HK\$346.5 million), an unrealised loss on fair value change amounted to HK\$303.6 million (six months ended 30th June, 2009: HK\$283.5 million), a realised loss on bonds of HK\$12.0 million (six months ended 30th June, 2009: nil), and realised gain on release of the fair value liability on the maturity of derivative financial instruments of HK\$3.2 million (six months ended 30th June, 2009: nil) and dividend and interest income of HK\$53.7 million (six months ended 30th June, 2009: HK\$261.0 million). Net gain on the relevant finance income for the Period of HK\$84.6 million (six months ended 30th June, 2009: finance cost of HK\$0.9 million) including interest expense and exchange gain of HK\$2.3 million (six months ended 30th June, 2009: HK\$0.3 million) and HK\$86.9 million (six months ended 30th June, 2009: exchange loss of HK\$0.6 million) respectively.

Listed Securities: Other Comprehensive Income from Available-for-sale Investments

The listed equity securities included in available-for-sale investments also bring a deduction of fair value of HK\$181.7 million (six months ended 30th June, 2009: addition of fair value of HK\$8.1 million) and was recognised as other comprehensive income as an equity transaction of securities investments reserve.

Other Income and Expenses

Other income mainly comes from net building management fee, arrangement fee and management and maintenance service income increased to HK\$97.5 million, representing an increase of 323.1% as compared with the same period last year.

During the Period, administrative expenses increased by 22.9% to HK\$120.3 million (six months ended 30th June, 2009: HK\$97.9 million) and finance cost decreased by 173.3% to net gain of HK\$34.5 million (six months ended 30th June, 2009: finance cost of HK\$47.1 million). Included in net gain was exchange gain of HK\$86.9 million on foreign currency loan hedged for foreign currency securities investment.

Other gains and losses recorded a net loss of HK\$49.0 million including gain from discount on acquisition of a subsidiary at HK\$6.1 million and impairment loss recognised in respect of interests in associates in total of HK\$55.0 million (six months ended 30th June, 2009: gain of HK\$35.1 million in respect of deemed disposal of a listed subsidiary through a placing exercise).

Associates

The share of results of associates for the Period was a loss of HK\$23.5 million as compared to profit of HK\$40.1 million for the same period last year, which was mainly due to the decrease of fair value on investment properties.

Fair Value Loss on Investment Properties

Investment properties of the Group were revalued as at 30th June, 2010 and recorded a decrease in fair value of HK\$4,064.5 million (six months ended 30th June, 2009: increase of HK\$2,902.5 million) as a result of fluctuations in fair value of the properties in Hong Kong and Mainland China.

FINANCIAL OPERATION REVIEW *(continued)*

Loss, Core Profit, Dividends, Repurchase and Cash Payment Ratio

Loss

Loss attributable to owners of the Company for the Period was HK\$3,207.1 million as compared to profit of HK\$3,203.3 million for the same period last year. The loss for the Period was mainly due to the fair value loss on investment properties. Loss per share was HK\$1.65 (six months ended 30th June, 2009: Earnings per share of HK\$1.57).

Core Profit

If the net loss on the major non-cash items of HK\$3,406.5 million (six months ended 30th June, 2009: gain of HK\$2,474.7 million) are excluded, the Group will have a core profit attributable to owners of the Company for the Period of HK\$199.4 million (six months ended 30th June, 2009: HK\$728.6 million) and a core earnings per share of HK10.3 cents (six months ended 30th June, 2009: HK35.8 cents), a decrease of 72.6% and 71.2% over 2009 respectively.

The major non-cash items were fair value loss on investment properties together with their respective deferred tax of HK\$3,406.5 million (six months ended 30th June, 2009: gain of HK\$2,474.7 million).

Dividends

A final dividend of HK1.0 cent (year ended 31st December, 2008: HK1.0 cent and special dividend of HK99.0 cents) per share in total amount of HK\$19.5 million for the year ended 31st December, 2009 was paid in cash on 9th June, 2010.

Repurchase

During the Period, the Company had utilised HK\$495.4 million (including transaction cost) (six months ended 30th June, 2009: HK\$1,040.2 million) in repurchase of the Company's shares, such amount is equivalent to HK25.5 cents (six months ended 30th June, 2009: HK51.1 cents) per share, calculated based on weighted average number of ordinary shares during the Period.

Cash Payment Ratio

Based on (a) the core profit for the Period of HK\$199.4 million (six months ended 30th June, 2009: HK\$728.6 million) or HK10.3 cents (six months ended 30th June, 2009: HK35.8 cents) per share; (b) the amount utilised for share repurchase during the Period of HK\$495.4 million (including transaction cost) (six months ended 30th June, 2009: HK\$1,040.2 million) or HK25.5 cents (six months ended 30th June, 2009: HK51.1 cents) per share and (c) no interim dividend (2009: HK2.0 cents) and special dividend of HK40.0 cents (2009: nil) per share declared for the Period, the ratio of such cash payment to the core profit is 635.9% (six months ended 30th June, 2009: 148.3%).

FINANCIAL OPERATION REVIEW *(continued)*

Net Asset Value

As at 30th June, 2010, the Group's total net asset to owners of the Company amounted to approximately HK\$34,750.9 million (31st December, 2009: HK\$38,632.9 million), a decrease of HK\$3,882.0 million or 10.0% when compared with 31st December, 2009. With the total number of ordinary shares in issue of 1,910,741,079 as at 30th June, 2010 (31st December, 2009: 1,950,000,079 shares), the net asset value per share to owners of the Company was HK\$18.19, a decrease of 8.2% over 31st December, 2009 (HK\$19.81 per share). The movement in net asset value was mainly due to (a) loss attributable to owners of the Company for the Period of HK\$3,207.1 million; (b) deduction in the reserve for the listed available-for-sale investments of HK\$181.7 million; (c) reduction in equity for share repurchase of HK\$495.4 million, and (d) payment of final dividend of HK\$19.5 million.

A deduction in fair value on the listed equity securities investments categorised as available-for-sales investments of approximately HK\$181.7 million (six months ended 30th June, 2009: addition of HK\$8.1 million) was recognised for the Period and the carrying amount of the Listed Equity Securities Investments Reserve as at 30th June, 2010 amounted to a deficit of approximately HK\$140.3 million (31st December, 2009: reserve of HK\$41.4 million).

Included in the total net asset is net deferred tax liabilities of HK\$4,542.1 million on fair value gain of investment properties. If the deferred tax liabilities are excluded, the total net asset to owners of the Company will become HK\$39,293.0 million or HK\$20.6 per share (31st December, 2009: HK\$22.5 per share).

Securities Investments

As at 31st December, 2009, the carrying amount of the listed securities and treasury products was HK\$2,681.2 million. During the Period, the portfolio was increased by a net purchase of HK\$3,219.7 million and was increased by the release of the fair value liability on the knocked-out derivative financial instruments of HK\$3.2 million. After deducting the fair value loss of HK\$485.3 million for the Period, the listed securities investments portfolios of the Group reached HK\$5,419.0 million as at 30th June, 2010 representing 9.4% of total assets, which formed part of the Group's cash management activities.

The portfolio of HK\$5,419.0 million (31st December, 2009: HK\$2,681.2 million) comprised of (a) equity securities (available-for-sale) of HK\$1,218.2 million (31st December, 2009: HK\$1,312.3 million); (b) equity securities (held-for-trading) of HK\$295.2 million (31st December, 2009: HK\$643.9 million); (c) bonds (financial assets designated as at fair value through profit or loss) of HK\$3,905.6 million (31st December, 2009: HK\$728.2 million); and (d) no derivative financial instrument (31st December, 2009: liabilities of HK\$3.2 million).

Notes held by Listed Subsidiaries

As at 30th June, 2010, the carrying amount of the floating rate and fixed rate notes amounted to HK\$255.4 million (31st December, 2009: HK\$254.9 million) representing 0.4% of the total assets of the Group at the Period end. The increase mainly represented fair value gain during the Period.

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.

FINANCIAL OPERATION REVIEW *(continued)*

Equity

The number of issued ordinary shares as at 30th June, 2010 and 31st December, 2009 were 1,910,741,079 and 1,950,000,079 respectively.

Debt and Gearing

As at 30th June, 2010, the Group's bank and other borrowings amounted to HK\$15,233.7 million (31st December, 2009: HK\$13,215.0 million). Cash and deposit at bank amounted to HK\$4,327.3 million (31st December, 2009: HK\$5,200.7 million), pledged deposit amounted to HK\$400.4 million (31st December, 2009: HK\$1,116.7 million) and net borrowings amounted to HK\$10,506.0 million (31st December, 2009: HK\$6,897.6 million).

Total debt to equity ratio was 42.8% (31st December, 2009: 33.5%) and net debt to equity ratio was 29.5% (31st December, 2009: 17.5%), which are expressed as a percentage of total borrowings, and net borrowings respectively, over the total equity of HK\$35,567.8 million (31st December, 2009: HK\$39,431.9 million).

The increase of net debt to equity ratio mainly due to the decrease of cash and deposit balances and increase of borrowings for the repurchase of the Company's shares, payment of dividends and additions to bond investments.

As at 30th June, 2010, the Group's bank and other borrowings were denominated in Hong Kong dollars (90.2%), United States dollars (2.1%), Renminbi (5.0%) and Euro (2.7%). Of the Group's bank and other borrowings of HK\$15,233.7 million, 25.9%, 15.7% and 58.4% were repayable within 1 year, 1 to 2 years and 2 to 5 years respectively. Euro investment securities were hedged by Euro borrowings. The Group's bank and other borrowings carrying interest rates were calculated mainly with reference to HIBOR and inter-bank rate. No hedging for interest rate as subsisted at the end of the reporting period.

Pledge of Assets

As at 30th June, 2010, the Group had pledged the following assets:

- (a) The Group's investment properties, property and other fixed assets, stock of properties and time deposits with their respective carrying amount of approximately HK\$33,913.0 million (31st December, 2009: HK\$37,844.3 million), HK\$375.9 million (31st December, 2009: HK\$377.2 million (restated)), HK\$1,861.1 million (31st December, 2009: HK\$1,242.8 million) and HK\$400.4 million (31st December, 2009: HK\$1,116.7 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, available-for-sale investments and bonds with carrying amount of approximately HK\$4,015.8 million (31st December, 2009: HK\$731.7 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\$807.9 million (31st December, 2009: HK\$1,236.5 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\$2,021.9 million (31st December, 2009: HK\$1,415.9 million) to financial institutions to secure banking general credit facilities granted to associates and an investee company.

FINANCIAL OPERATION REVIEW *(continued)*

Repurchase Guarantee

Certain mortgagee banks have provided end-user financing to purchasers of Splendid City and the Group has provided repurchase guarantees to these mortgagee banks for securing the obligations of such purchasers for repayments. Such guarantees will be terminated upon the earlier of (i) issuance of the real estate ownership certificate which will generally be available within one year upon the completion of guarantee registration; or (ii) the satisfaction of mortgaged loan by the purchasers of properties.

Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage principals together with any accrued interest and penalty owed by the defaulted purchasers to the mortgagee banks.

The total outstanding amount of repurchase guarantee as at 30th June, 2010 was RMB342.5 million (equivalent to HK\$392.4 million) (31st December, 2009: RMB100.4 million (equivalent to HK\$114.1 million)) and was disclosed in the contingent liabilities.

Financial and Interest Income/Expenses

Interest income was included in revenue and investment income. Other than imputed interest, interest income for the Period was HK\$74.2 million, representing an increase of 36.4% from that of 30th June, 2009 (HK\$54.4 million).

Finance costs included interest expenses on bank and other loans, imputed interest expenses, exchange difference on foreign currency loans, arrangement fee and facility and commitment fee expenses. Excluding imputed interest, interest expenses for the Period amounted to HK\$45.7 million, representing a 21.5% increase over the interest expenses of HK\$37.6 million recorded for the same period last year. The increase in interest expenses was mainly due to increase in bank loan during the Period. Interest capitalised for the Period was HK\$19.1 million as compared to HK\$8.4 million for the same period last year. The average interest rate over the period under review was 0.90% (2009: 0.79%), which was expressed as a percentage of total interest paid over the average total borrowings.

Remuneration Policies, Share Option Scheme and Share Award Scheme

During the period under review, the Group employed a total of 321 staff (six months ended 30th June, 2009: 291 staff) (excluding about a total of 318 staff (six months ended 30th June, 2009: 307 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 Director 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.

The Company had adopted a share award scheme (the "Scheme") in 2009. The Scheme is to recognise and reward certain employees for their contributions to the Group and to give long-term incentives for retaining them for the continued operations and development of the Group. Details of the Scheme were set out in the Company's circular dated 23rd December, 2008. No share was granted under the Scheme during the Period.

FINANCIAL OPERATION REVIEW *(continued)*

Mainland China and Macau

Loss contribution from the Group's investment in the Mainland China (including gross profit, fair value changes on investment properties, share of results of associates and taxation) for the Period amounted to HK\$21.6 million (six months ended 30th June, 2009: profit of HK\$41.3 million). The Group's net investment as at 30th June, 2010 amounted to HK\$7,123.5 million (31st December, 2009: HK\$6,355.3 million) representing approximately 12.4% of the Group's total asset value and 20.5% of the Group's net asset value.

Further, the Group's net investment in Macau as at 30th June, 2010 amounted to HK\$1,711.0 million (31st December, 2009: HK\$1,696.8 million) representing approximately 3.0% of the Group's total asset value.

Listed Subsidiaries

At the end of the reporting period, the Group owned 61.96% interest in Chi Cheung Investment Company, Limited and 41.93% interest in G-Prop (Holdings) Limited.

Property Valuation

A property valuation has been carried out by Messrs. B.I. Appraisals Limited, an independent qualified professional valuers, in respect of the Group's investment properties as at 30th June, 2010 and that valuation was used in preparing 2010 interim results. The Group's investment properties were valued at HK\$37,234.4 million (31st December, 2009: HK\$40,708.5 million), a 9.9% decrease over 2009 after adjusted for additions and disposals of investment properties during the Period. The decrease in fair value of approximately HK\$4,064.5 million was recognised in the consolidated statement of comprehensive income for the Period. The Group also shared a decrease in fair value of investment properties of the associates of HK\$21.7 million (net of deferred tax credit of HK\$10.4 million) for the Period. Development properties and non-investment properties of the Group were stated at cost less impairment, if any, in the consolidated financial statements. Investment property under development at Chinese Estates Plaza, Chengdu was stated at cost of HK\$1,516.4 million and will be carried at fair value when its fair value first become reliably measurable or the date of its completion of the property.

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 83.18% during the Period due to the renovation of Windsor House. The occupancy rate jumped to 94.60% if non-core properties and Windsor House are excluded. The satisfactory occupancy rate is attributable to the prime locations of the majority of the Group's retail properties.

Despite the economic turmoil in 2009, the Group's overall gross rental income recorded HK\$562.6 million for the Period, which increased 1.5% over the same period of last year. In first half 2010, some retail shops of Windsor House have been suspended business for renovation that caused a loss in rental income. Subsequent to the completion of Windsor House's renovation work in May 2010, in addition to the opening of the Group's brand new mall, The ONE, rental income is expected to be back on track in the second half of this year.

During the Period, the average occupancy rate of the shops of Excelsior Plaza - Laforet and Causeway Place were approximately 99.39% and 94.06% respectively.

The first phase renovation of Windsor House was completed in the third quarter of 2007 and the second phase renovation commenced in March 2008. Works include reconfiguration of the mall layout from basement level to 7th level to provide greater varieties of prime retail shops and specialty restaurants, addition of atrium void and introduction of skylight to provide a high-end shopping environment. Portions of the circulation areas and shops at ground floor and first floor have been re-opened in December 2008 and June 2009 respectively and the whole renovation work has been completed in May 2010. The revamped Windsor House provides shoppers a cozy shopping environment with a diversified trade mix.

As for Silvercord, its average occupancy rate was 93.87% during the Period. The occupancy rate, tenant mix and traffic flow of Silvercord have been enhanced after its renovation and repackaging in 2007. In order to further refine the configuration of the retail shops and restaurants at third floor, improvement works to third floor commenced in August 2010.

The ONE, i.e. the redevelopment project of the former Tung Ying Building in Tsim Sha Tsui, is a 29-storey integrated shopping, entertainment and food and beverage complex with more than 400,000 square feet of retail spaces. It is the tallest retail complex of its kind in Hong Kong and is one of the landmark shopping arcades in Tsim Sha Tsui. The redevelopment has been completed in July 2010. Pre-lease marketing has been commenced after the formal naming of The ONE in June 2009. Encouraging responses were received from prospective tenants and around 90% of shops were leased out with some of them are well-known brand names.

The occupancy rate for the Group's office properties maintained at a satisfactory level throughout the first half of 2010. During the Period, the average occupancy rates of Windsor House, MassMutual Tower and Harcourt House were approximately 85.13%, 99.48% and 83.57% respectively, bringing the approximate occupancy rate of the overall office portfolio to 89.61%.

BUSINESS REVIEW *(continued)*

Hong Kong Property Development

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

York Place is a high-end residential tower located in prime area of Wanchai, having 94 units with flat size ranging from gross floor area of approximate 576 square feet to 2,037 square feet. As at 30th June, 2010, 86 units were sold, representing 91.49% of total units.

i-home is a joint venture project with the Urban Renewal Authority located in Tai Kok Tsui. It provides a single residential tower block comprises 182 units with flat size ranging from gross floor area of approximate 462 square feet to 1,182 square feet. As at 30th June, 2010, 172 units were sold, representing 94.51% of total units.

MOD 595 is another joint venture project with the Urban Renewal Authority located in Mongkok. It provides a single residential tower block comprises 85 units with flat size ranging from gross floor area of approximate 483 square feet to 1,188 square feet. 98.82% of total units (i.e. 1 unit remaining) were sold up to 30th June, 2010.

Sun Fair Mansions, 12 Shiu Fai Terrace, located in Mid-Levels East, is a traditional prestigious location for luxury residential project in Hong Kong. A luxury residential tower which provides a total residential gross floor area of around 42,900 square feet will be redeveloped. Demolition work has been completed, site formation work is in progress. The whole project is expected to be completed in end 2012.

The Zenith (87.5% interest) is a two-phase redevelopment project at Tai Yuen Street, Wanchai undertaken with the Urban Renewal Authority. All residential units of Phase I were sold. Phase II will be a residential/commercial complex development with gross floor area of approximately 159,700 square feet. Redevelopment work with preservation of the core elements of Wanchai Market and foundation work are in progress. Completion of Phase II is scheduled for end 2012.

No. 55 Conduit Road (70% interest), a residential site in Mid-Levels with site area of about 36,000 square feet which provides a total residential gross floor area of around 87,800 square feet. This site will be developed into a luxury residential project. The first phase of the site formation work has been completed. Piling works and the associated substructure works are in progress.

The Hermitage (25% interest), is one of the Group's joint venture development projects in West Kowloon Reclamation Area. Its superstructure work is in progress. The Hermitage will comprise six residential tower blocks, which provides in aggregate 964 residential units and retail properties with a total gross floor area of around 1,095,980 square feet. The whole project is expected to be completed in end 2010. It has been launched in June 2010.

Another West Kowloon - joint venture development project is located at the junction of Hoi Wang Road, Yan Cheung Road and Yau Cheung Road (15% interest). Its superstructure work is in progress. Six residential tower blocks with residential and retail properties of a total gross floor area of approximately 650,600 square feet will be developed. Completion of the whole project is scheduled for end 2011.

BUSINESS REVIEW *(continued)*

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 a 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 in phases. The revised master layout plan of the whole development had been agreed by the government whereas detailed proposal for execution of the Phase I development is being formulated for the approval of the government. Site preparation works for the Phase I development commenced in May 2010.

Mainland China Property Investment

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 98.57% for the Period.

Evergo Tower, located at Central Huaihai Road in Shanghai, is a 21-storey office and shopping complex and has a gross floor area of around 263,708 square feet. The average occupancy rates of the office and retail spaces for the Period were 83.72% and 70.13% respectively.

Platinum (50% interest), a 20-storey Grade A office building located at Taicang Road of Luwan District in Shanghai, has a gross floor area of about 466,464 square feet. The occupancy rate as of June 2010 was 94.60%. The Group's interest in Platinum had increased from 30% to 50% in June 2010.

Hilton Beijing (50% interest), having 503 rooms, average occupancy rate was 70.70% for the Period.

Oriental Place (50% interest), a 10-storey office building next to Hilton Beijing, average occupancy rate was 94.15% for the Period.

Mainland China Property Development

Splendid City, a residential project located at Yingbin Road of Jinniu District in Chengdu, has a site area of approximately 795,625 square feet and a corresponding gross floor area of approximately 3.74 million square feet. Phase I of Splendid City is under superstructure construction and expected to be completed in end 2010. As at 30th June, 2010, 1,004 out of 1,226 units of Phase I launched (i.e. 81.89%) were presold.

The Metropolis is a residential project located at Dongda Street of Jinjiang District in Chengdu, with site area of approximately 194,411 square feet and corresponding gross floor area of approximately 1.65 million square feet. Phase I of The Metropolis is under superstructure construction and expected to be completed in end 2012. Its launching is scheduled for end 2010.

Chinese Estates Plaza, a 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 3.2 million square feet. Substructure construction works are in progress. Completion of the project is scheduled for end 2013.

The commercial and residential project at Huaxinjie Street of Jiangbei District in Chongqing (25% interest), has a site area of around 2,207,546 square feet and a gross floor area of approximately 11.08 million square feet, is at design stage.

OTHER INFORMATION AND EVENT AFTER THE FINANCIAL PERIOD END

Disposal of Subsidiaries and Assets

As announced on 18th May, 2010, the Group has on 17th May, 2010 entered into six sets conditional sale and purchase agreements (the “Agreements”), in relation to, inter alia, disposal of two shops of York Place and the Company’s wholly-owned subsidiaries that hold retail shops of Excelsior Plaza (include Laforet) and Southorn Centre (also known as Wanchai Computer Centre) (the “Properties”) to the companies wholly-owned by Mr. Joseph Lau, Luen-hung, the Chairman and Chief Executive Officer of the Company; and the subsequent provision of after-sale free leasing agency and management services in relation to the Properties, at an aggregate cash provisional consideration of approximately HK\$2,587.4 million (the “Transactions”). The Transactions constituted discloseable and connected transactions for the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) which are subject to the approval of the independent shareholders of the Company. The Transactions were subsequently approved by the independent shareholders of the Company at the special general meeting held on 7th July, 2010 and were completed in July and August 2010 respectively. The Transactions also constituted continuing connected transactions of the Company under the Listing Rules as it was provided in the Agreements that upon completion of the Transactions, property management agreements would be entered into between Perfect World Company Limited, the Company’s wholly-owned subsidiary, with the then owners of the Properties (except York Place) regarding the provision of property management services to the Properties (except York Place). Details of the Transactions were set out in the circular of the Company dated 18th June, 2010.

Acquisition of Platinum

On 18th December, 2009, the Group entered into a sale and purchase agreement (the “SP Agreement”) to acquire 3 non-voting shares in a joint venture (the “JV”) (representing 30% of the issued share capital of the JV) at a consideration of HK\$23.40 from an independent third party, contracted to acquire indirectly the property interest in a Grade A office building in Shanghai, namely Platinum. The acquisition of Platinum has been completed on 1st April, 2010.

As announced on 30th June, 2010, the Group has on 29th June, 2010 exercised the call option under the SP Agreement to further acquire 2 non-voting shares (“Call Option Shares”), representing 20% of the issued share capital of the JV at a consideration of HK\$15.60 and therefore, as a result, the Group’s interest in the JV and in turn Platinum has been increased from 30% to 50%. The aggregate pro-rata shareholder’s loan and corporate guarantee provided by the Group to the JV as at 30th June, 2010 was approximately HK\$935 million.

The Group has also on 29th June, 2010 further exercised its conversion right to require the JV to redeem its 5 non-voting shares held and convert into 5 ordinary shares, subject to the passing of an ordinary resolution by the shareholders of the holding company of the JV partner (the “Conversion”). The Conversion has been approved on 20th August, 2010, and thus all the 5 non-voting shares held by the Group have been redeemed by the JV and converted into 5 ordinary shares on the even date.

Pursuant to the SP Agreement, the JV partner is entitled to exercise the put option granted under the SP Agreement to require the Group to purchase their 50% interest in the JV, i.e. 5 voting shares (“Put Option Shares”), during the period from 29th June, 2010, being the date of completion of the sale and purchase of Call Option Shares, to the expiry of 180 days thereafter. In the event that the JV partner exercised the said put option and upon the completion of the sale and purchase of the Put Option Shares, the JV will become a wholly-owned subsidiary of the Company and the Group will have 100% indirect interest in Platinum.

PROSPECTS

The global economy has experienced significant fluctuations in the second quarter of this year, as it was clouded with uncertainties such as the confidence crises in European countries’ sovereign debts and the increasing of tension in the macro policies in Mainland China, which had affected the momentum of economic recovery. Nevertheless, the overall economy is likely maintaining sustainable growth.

PROSPECTS (continued)

The Group sees promising future in its core business. GDP growth of Mainland China continued to be robust in the first half of 2010. The slowing growth in new lending as a result of the Central Government's monitoring macro policies suggests that tension on tightening of such policies may ease in the second half of this year. Under the Central Government's policy of promoting the western and northern cities, we expect the sales of our Chengdu projects to continue to perform well.

Hong Kong office and retail property markets are expected to remain strong in the second half of 2010. The completion of renovation at Windsor House in Causeway Bay and the upcoming grand opening of our redevelopment project - The ONE in Tsim Sha Tsui are expected to lift the rental income of the Group.

Our Group has been monitoring the property markets of Hong Kong, Mainland China and overseas closely, and will replenish its land bank and expand its investment property portfolio at opportune times.

The Board will continue to review the share price of the Company and its underlying net asset value regularly and consider repurchase its shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), as and 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, 2010, 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 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 | |
| | 1,198,658,948 | (2) | Founder and beneficiary of trust | |
| | <u>1,429,643,768</u> | | | 74.82% |
| Lau, Ming-wai ("Mr. MW Lau") | 230,984,820 | (1) | Beneficiary of trust | |
| | 1,198,658,948 | (2) | Beneficiary of trust | |
| | <u>1,429,643,768</u> | | | 74.82% |

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.

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 | Capacity | Percentage of Issued Share Capital |
|-------------------------|------------------------------|-------------|---|---|
| Mr. Joseph Lau | 1,018,380,590 | (2) | Founder of trust, beneficiary of trust and interest in controlled corporation | |
| | 493,678,883 | (3) | Interest in controlled corporation | |
| | <u>1,512,059,473</u> | | | 62.26% |

Notes:

- (1) Mr. Joseph Lau, by virtue of his 74.82% 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 74.82% 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 held by Mass Rise Limited, an indirect wholly-owned subsidiary of the Company.
- (3) Such interests were held by a company of which Mr. Joseph Lau was the sole ultimate beneficial owner.

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, 2010.

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, 2010.

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, 2010, 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 | <i>Notes</i> | Capacity | Percentage of Issued Share Capital |
|--|------------------------------|--------------|--|---|
| GZ Trust Corporation | 1,429,643,768 | (1)&(2) | Trustee, beneficiary of a trust and interest in controlled corporation | 74.82% |
| Global King (PTC) Ltd. | 1,198,658,948 | (1) | Trustee | 62.73% |
| Joseph Lau Luen Hung Investments Limited | 230,984,820 | (2) | Beneficial owner | 12.08% |

Notes:

- (1) GZ Trust Corporation as trustee of a discretionary trust held units in a unit trust of which Global King (PTC) Ltd. was the trustee and therefore was regarded as interested in the same parcel of shares held by Global King (PTC) Ltd. These shares were the same parcel of 1,198,658,948 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.

All the interests stated above represent long positions. As at 30th June, 2010, no short positions were recorded in the register kept by the Company under section 336 of the SFO.

SHARE AWARD SCHEME

The Company had adopted a share award scheme (the “Share Award Scheme”) in 2009 . The Share Award Scheme is a long-term incentive arrangement for the selected employees. The purpose of the Share Award Scheme is to recognise and reward certain employees of the Group for their contributions to the Group and to give long-term incentives for retaining them for the continued operations and development of the Group. It also intends to attract suitable professional recruits to join the Group and assist in the further development of the Group. Details of the Share Award Scheme were set out in the circular of the Company dated 23rd December, 2008. No share was granted under the Share Award Scheme during the Period.

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 all the Independent Non-executive Directors (“INED(s)”), has reviewed with management the accounting principles and practices adopted by the Group and the unaudited condensed consolidated financial statements for the Period.

CORPORATE GOVERNANCE

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 set out in the Code contained in Appendix 14 to the Listing Rules, except (i) the roles of chairman and chief executive officer are not separate (which is required under code provision A.2.1), considered reasons were disclosed in page 35 of the Corporate Governance Report under the Company’s 2009 Annual Report; and (ii) the Chairman of the Board was unable to attend the Company’s annual general meeting held on 28th May, 2010 (“AGM”) (which is required under code provision E.1.2) as he had to deal with business issue and therefore Mr. Chan, Kwok-wai, an INED as well as the chairman of Audit Committee and Remuneration Committee, was elected as the chairman of the AGM to ensure effective communication with shareholders of the Company at the AGM.

SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms without deviation from the required standard set out in the Model Code. All Directors, after specific enquiries by the Company, confirmed that they had 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, are likely to be in possession of unpublished price-sensitive information in relation to the Group’s securities had been requested to follow such code when dealing in the securities of the Company. All Relevant Employees, after specific enquiries by the Company, confirmed that they had 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, the Company purchased a total of 39,509,000 ordinary shares of HK\$0.10 each on the Stock Exchange at an aggregate consideration of HK\$494,811,400. All of the purchased shares were cancelled.

| Month of the purchases | Total number of the ordinary shares purchased | Highest price paid per share <i>HK\$</i> | Lowest price paid per share <i>HK\$</i> | Aggregate consideration <i>HK\$</i> |
|-------------------------------|--|--|---|---|
| May 2010 | 25,355,500 | 12.86 | 11.44 | 307,433,050 |
| June 2010 | 14,153,500 | 13.72 | 12.64 | 187,378,350 |
| | <u>39,509,000</u> | | | <u>494,811,400</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.

DISCLOSURE OF CHANGE IN DIRECTORS' INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

In July 2010, annual assessments of remuneration of the INEDs and Non-executive Directors ("NEDs") had been carried out respectively.

In the annual assessment, the increase in volume of the works performed by the INEDs, the corresponding responsibilities borne by the INEDs and the prevailing market condition had been considered. The remuneration of each INED has been increased from HK\$220,000 to HK\$240,000 per annum for the financial year ending 31st December, 2010 as approved by the Board.

Upon considering the duties of and corresponding responsibilities borne by Mr. Lau, Ming-wai and Ms. Amy Lau, Yuk-wai, the NEDs, the Board had approved the increase of annual remuneration of each of the NEDs from HK\$220,000 to HK\$240,000 for the financial year ending 31st December, 2010.

APPRECIATION

We would like to take this opportunity to express our gratitude to the shareholders for their continuing support and staff members for their dedication and hard work.

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

Hong Kong, 30th August, 2010