



# CHINESE ESTATES HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 127)**

**Interim Report  
For The Six Months  
Ended 30th June, 2007**

## CORPORATE INFORMATION

### Directors

#### *Executive Directors:*

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

#### *Non-executive Director:*

Amy Lau, Yuk-wai

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

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

### Audit Committee

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

### Remuneration Committee

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

### Company Secretary and Qualified Accountant

Lam, Kwong-wai

### Solicitors

Sidley Austin  
Sit, Fung, Kwong & Shum

### Auditors

HLB Hodgson Impey Cheng

### Principal Bankers and Financial Institutions

Bank of China (Hong Kong) Limited  
China Construction Bank Corporation  
Chong Hing Bank Limited  
Citibank, N.A.  
DBS Bank (Hong Kong) Limited  
Hang Seng Bank Limited  
Industrial and Commercial Bank of China Limited  
Oversea-Chinese Banking Corporation Limited  
Standard Chartered Bank (Hong Kong) Limited  
The Bank of East Asia, Limited  
The Bank of Tokyo-Mitsubishi UFJ, Ltd.

### Registered Office

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

### Principal Office in Hong Kong

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

### Principal Registrar and Transfer Office

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

### Branch Registrar and Transfer Office in Hong Kong

Computershare Hong Kong Investor Services Limited  
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Wanchai, Hong Kong

### Offices in the People's Republic of China

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### Website

<http://www.chineseestates.com>

### Stock Code

127 (Ordinary Shares)  
2516 (Convertible Bonds due 2010)

### Board Lot

2,000 Shares (Ordinary Shares)  
HK\$10,000 nominal (Convertible Bonds due 2010)

### 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 consolidated interim results of the Company and its subsidiaries (together, the “Group”) for the six months ended 30th June, 2007 (the “Period”) together with the comparative figures for 2006:–

### CONDENSED CONSOLIDATED INCOME STATEMENT

*For the six months ended 30th June, 2007*

	<i>Notes</i>	<b>Six months ended</b>	
		<b>30th June,</b>	
		<b>2007</b>	2006
		<b>HK\$'000</b>	HK\$'000
		<b>(Unaudited)</b>	(Unaudited)
Turnover	3	<b>2,534,962</b>	2,226,166
Cost of sales		<b>(1,646,723)</b>	(1,799,254)
Gross profit		<b>888,239</b>	426,912
Other income	5	<b>17,604</b>	15,831
Investment income, net	6	<b>264,210</b>	364,377
Administrative expenses		<b>(124,597)</b>	(94,875)
Other expenses	7	–	(287)
Gain on disposals of property and other fixed assets		<b>3,084</b>	567
Gain on disposals of investment properties		<b>7</b>	–
Fair value changes on investment properties		<b>1,332,437</b>	5,079,574
Finance costs	9	<b>(253,033)</b>	(261,171)
Other gains and losses, net	10	<b>(77,724)</b>	71,362
Share of results of associates		<b>357,624</b>	345,301
Profit before tax		<b>2,407,851</b>	5,947,591
Income tax expense	11	<b>(284,066)</b>	(951,983)
Profit for the period	8	<b><u>2,123,785</u></b>	<u>4,995,608</u>
Attributable to:			
Equity holders of the parent		<b>2,052,396</b>	4,997,641
Minority interests		<b>71,389</b>	(2,033)
		<b><u>2,123,785</u></b>	<u>4,995,608</u>
Dividends	12	<b><u>406,869</u></b>	<u>266,767</u>
Earnings per share (HK cents)	13		
Basic		<b><u>90.7</u></b>	<u>231.6</u>
Diluted		<b><u>N/A</u></b>	<u>226.4</u>

**CONDENSED CONSOLIDATED BALANCE SHEET**  
**At 30th June, 2007**

		<b>30th June, 2007</b>	31st December, 2006
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
		<b>(Unaudited)</b>	<b>(Audited)</b>
<b>Non-current assets</b>			
Investment properties	14	33,223,880	31,771,870
Property and other fixed assets		76,266	81,357
Prepaid lease payments		249,193	249,497
Property interests held for future development		–	–
Intangible assets		14,300	–
Goodwill		–	–
Interests in associates	15	1,449,943	1,396,351
Advances to associates	16	977,220	931,661
Available-for-sale investments	17	9,683,819	8,532,632
Equity-linked notes		–	147,827
Advances to investee companies		301,956	1,518
Loans receivable, due after one year		62,202	63,079
Deferred tax assets		75,019	73,647
Advance to a minority shareholder		9,672	9,436
Pledged deposits		75,953	71,606
		<u>46,199,423</u>	<u>43,330,481</u>
<b>Current assets</b>			
Stock of properties		6,016,186	4,851,504
Investments held-for-trading		1,886,459	142,218
Equity-linked notes		197,483	75,725
Derivative financial instruments	18	10,849	–
Loans receivable, due within one year		557	224
Inventories for cosmetic		1,544	–
Debtors, deposits and prepayments	19	605,441	364,749
Securities trading receivable and deposits		160,472	276,829
Application proceeds for Initial Public Offering shares for brokerage clients	21	4,386,726	–
Tax recoverable		634	4,083
Pledged deposits		348,388	1,014,351
Time deposits, bank balances and cash		1,798,673	7,034,820
Presale proceeds held by stakeholders		239,231	530,005
		<u>15,652,643</u>	<u>14,294,508</u>
Asset classified as held for sale		–	9,338
		<u>15,652,643</u>	<u>14,303,846</u>

**CONDENSED CONSOLIDATED BALANCE SHEET** *(continued)*  
**At 30th June, 2007**

	<i>Notes</i>	<b>30th June, 2007 HK\$'000 (Unaudited)</b>	31st December, 2006 HK\$'000 (Audited)
<b>Current liabilities</b>			
Derivative financial instruments	18	<b>104,919</b>	168,644
Creditors and accruals	20	<b>414,754</b>	452,544
Securities trading and margin payable		<b>138,550</b>	191,206
Deposits and receipts in advance		<b>270,724</b>	761,900
Tax liabilities		<b>107,403</b>	88,662
Borrowings for application proceeds for Initial Public Offering shares for brokerage clients			
– due within one year	21	<b>4,100,000</b>	–
Borrowings – due within one year	21	<b>9,161,756</b>	11,004,204
Provisions		<b>16,017</b>	16,017
		<b>14,314,123</b>	12,683,177
<b>Net current assets</b>		<b>1,338,520</b>	1,620,669
<b>Total assets less current liabilities</b>		<b>47,537,943</b>	44,951,150
<b>Non-current liabilities</b>			
Financial guarantee liabilities		<b>618</b>	328
Borrowings – due after one year	21	<b>3,594,770</b>	3,709,340
Convertible bonds	22	–	279,689
Amounts due to associates	23	<b>14,235</b>	13,732
Amounts due to minority shareholders	23	<b>553,319</b>	523,489
Deferred tax liabilities		<b>4,711,059</b>	4,461,938
		<b>8,874,001</b>	8,988,516
<b>Total assets and liabilities</b>		<b>38,663,942</b>	35,962,634
<b>Capital and reserves</b>			
Share capital	24	<b>228,421</b>	225,981
Reserves		<b>37,998,003</b>	35,306,717
<b>Equity attributable to equity holders of the parent</b>		<b>38,226,424</b>	35,532,698
<b>Minority interests</b>		<b>437,518</b>	429,936
<b>Total equity</b>		<b>38,663,942</b>	35,962,634

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**For the six months ended 30th June, 2007**

Attributable to equity holders of the parent

	Share capital		Convertible bonds- equity reserve		Securities investments reserve		Statutory reserve	Other reserve	Special reserve	Capital redemption reserve		Retained profits	Total	Minority interest	Total
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000				HK\$ '000	HK\$ '000				
At 1st January, 2006	209,151	2,007,667	234,941	580,658	-	(78,375)	2,499,685	96,597	17,751,196	23,301,520	401,177	23,702,697			
Share of associates' reserve movements during the period	-	-	-	5,640	-	52,879	-	-	-	58,519	-	58,519	-	-	58,519
Gains on fair value changes of available-for-sale investments	-	-	-	940,096	-	-	-	-	-	940,096	-	940,096	-	-	940,096
Exchange adjustments	-	-	-	-	-	-	-	-	1,413	1,413	-	1,413	-	-	1,413
Net income recognised directly in equity	-	-	-	945,736	-	52,879	-	-	1,413	1,000,028	-	1,000,028	-	-	1,000,028
Profit for the period	-	-	-	-	-	-	-	-	4,997,641	4,997,641	(2,033)	4,995,608	-	-	4,995,608
Total recognised income (expense) for the period	-	-	-	945,736	-	52,879	-	-	4,999,054	5,997,669	(2,033)	5,995,636	-	-	5,995,636
Acquisition of additional interests in subsidiaries	-	-	-	-	-	-	-	-	-	-	(265)	(265)	-	-	(265)
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	23	23	-	-	23
Deemed contribution from minority interests	-	-	-	-	-	-	-	-	-	-	11,033	11,033	-	-	11,033
Issue of ordinary shares from conversion of convertible bonds	13,490	963,597	(166,270)	-	-	-	-	-	-	810,817	-	810,817	-	-	810,817
Cancellation on repurchase of own shares	(336)	(26,268)	-	-	-	-	-	-	336	(26,268)	-	(26,268)	-	-	(26,268)
Issue of shares in lieu of 2005 final cash dividend	1,753	-	-	-	-	-	-	-	-	1,753	-	1,753	-	-	1,753
Premium on issue of shares upon 2005 final scrip dividend	-	156,886	-	-	-	-	-	-	-	156,886	-	156,886	-	-	156,886
Final dividend paid	-	-	-	-	-	-	-	-	(266,767)	(266,767)	-	(266,767)	-	-	(266,767)
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	-	-	(3,962)	(3,962)	-	-	(3,962)
At 30th June, 2006	224,058	3,101,882	68,671	1,526,394	-	(25,496)	2,499,685	96,933	22,483,483	29,975,610	405,973	30,381,583			
Share of associates' reserve movements during the period	-	-	-	4,470	-	(14,379)	-	-	-	(9,909)	-	(9,909)	-	-	(9,909)
Realisation of associates' reserve	-	-	-	-	-	4,673	-	-	(4,673)	-	-	-	-	-	-
Gains on fair value changes of available-for-sale investments	-	-	-	3,230,766	-	-	-	-	-	3,230,766	-	3,230,766	-	-	3,230,766
PRC statutory reserve	-	-	-	-	728	-	-	-	-	728	-	728	-	-	728
Exchange adjustments	-	-	-	-	-	-	-	-	97	97	-	97	-	-	97
Net income (expense) recognised directly in equity	-	-	-	3,235,236	728	(9,706)	-	-	(4,576)	3,221,682	-	3,221,682	-	-	3,221,682
Profit for the period	-	-	-	-	-	-	-	-	2,479,704	2,479,704	81,775	2,561,479	-	-	2,561,479
Total recognised income (expense) for the period	-	-	-	3,235,236	728	(9,706)	-	-	2,475,128	5,701,386	81,775	5,783,161	-	-	5,783,161
Deemed contribution from minority interests	-	-	-	-	-	-	-	-	-	-	(57,812)	(57,812)	-	-	(57,812)
Issue of ordinary shares from conversion of convertible bonds	1,105	78,113	(13,236)	-	-	-	-	-	-	65,982	-	65,982	-	-	65,982
Cancellation on repurchase of own shares	(1,429)	(137,359)	-	-	-	-	-	-	1,429	(137,359)	-	(137,359)	-	-	(137,359)
Issue of shares in lieu of 2006 interim cash dividend	2,247	-	-	-	-	-	-	-	-	2,247	-	2,247	-	-	2,247
Premium on issue of shares upon 2006 interim scrip dividend	-	193,702	-	-	-	-	-	-	-	193,702	-	193,702	-	-	193,702
Interim dividend paid	-	-	-	-	-	-	-	-	(268,870)	(268,870)	-	(268,870)	-	-	(268,870)
At 31st December, 2006	225,981	3,236,338	55,435	4,761,630	728	(35,202)	2,499,685	98,362	24,689,741	35,532,698	429,936	35,962,634			

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY** (continued)  
**For the six months ended 30th June, 2007**

	Attributable to equity holders of the parent											
	Share capital	Share premium	Convertible bonds- equity reserve	Securities investments reserve	Statutory reserve	Other reserve	Special reserve	Capital redemption reserve	Retained profits	Total	Minority interest	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31st December, 2006	225,981	3,236,338	55,435	4,761,630	728	(35,202)	2,499,685	98,362	24,689,741	35,532,698	429,936	35,962,634
Share of associates' reserve movements during the period	-	-	-	(17,445)	-	12,113	-	-	-	(5,332)	-	(5,332)
						(Note 1)						
Gains on fair value changes of available-for-sale investments (Note 2)	-	-	-	784,261	-	-	-	-	-	784,261	-	784,261
PRC statutory reserve	-	-	-	-	36	-	-	-	-	36	-	36
Exchange adjustments	-	-	-	-	-	-	-	-	43,412	43,412	-	43,412
Net income recognised directly in equity	-	-	-	766,816	36	12,113	-	-	43,412	822,377	-	822,377
Profit for the period	-	-	-	-	-	-	-	-	2,052,396	2,052,396	71,389	2,123,785
Total recognised income for the period	-	-	-	766,816	36	12,113	-	-	2,095,808	2,874,773	71,389	2,946,162
Deemed contribution from minority interests	-	-	-	-	-	-	-	-	-	-	962	962
Disposal of a subsidiary	-	-	-	-	-	-	-	-	-	-	(64,769)	(64,769)
Issue of ordinary shares from conversion of convertible bonds	57	4,106	(687)	-	-	-	-	-	-	3,476	-	3,476
Conversion of convertible bonds by cash settlement	-	-	(54,748)	-	-	-	-	-	-	(54,748)	-	(54,748)
Issue of shares in lieu of 2006 final cash dividend	2,383	-	-	-	-	-	-	-	-	2,383	-	2,383
Premium on issue of shares upon 2006 final scrip dividend	-	274,711	-	-	-	-	-	-	-	274,711	-	274,711
Final dividend paid	-	-	-	-	-	-	-	-	(406,869)	(406,869)	-	(406,869)
At 30th June, 2007	228,421	3,515,155	-	5,528,446	764	(23,089)	2,499,685	98,362	26,378,680	38,226,424	437,518	38,663,942

**Notes:**

- (1) The other reserve represented the share of an associate's reserve of the Group, which was the release of the negative reserve upon the disposals of the relevant properties during the period.
- (2) The gains on fair value changes of available-for-sale investments included the gain on fair value changes of listed securities investment of approximately HK\$821,063,000.



**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**  
*For the six months ended 30th June, 2007*

	<b>Six months ended</b>	
	<b>30th June,</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Unaudited)
Net cash (used in) generated from operating activities	<b>(592,179)</b>	3,703,219
Net cash used in investing activities	<b>(1,772,579)</b>	(2,055,078)
Net cash used in financing activities	<b>(2,874,884)</b>	(1,003,512)
	<hr/>	<hr/>
Net (decrease) increase in cash and cash equivalents	<b>(5,239,642)</b>	644,629
Cash and cash equivalents at 1st January,	<b>7,034,820</b>	1,136,267
Effect of foreign exchange rate changes	<b>3,495</b>	(1)
	<hr/>	<hr/>
Cash and cash equivalents at 30th June,	<b><u>1,798,673</u></b>	<u>1,780,895</u>
	<hr/>	<hr/>
Analysis of cash and cash equivalents		
Time deposits, bank balances and cash	<b><u>1,798,673</u></b>	<u>1,780,895</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### For the six months ended 30th June, 2007

#### 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 and with Hong Kong Accounting Standard (the “HKAS”) 34 “Interim Financial Reporting”, issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

#### 2. Principal Accounting Policies

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

The accounting policies adopted in the unaudited condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st December, 2006 except as described below.

In the current interim period, the Group has applied, for the first time, the following new standard, amendment and interpretations (the “new HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial year beginning 1st January, 2007.

HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKFRS 7	Financial Instruments: Disclosures <sup>1</sup>
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>2</sup>
HK(IFRIC)-Int 8	Scope of HKFRS 2 <sup>3</sup>
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives <sup>4</sup>
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment <sup>5</sup>

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

<sup>2</sup> Effective for annual periods beginning on or after 1st March, 2006

<sup>3</sup> Effective for annual periods beginning on or after 1st May, 2006

<sup>4</sup> Effective for annual periods beginning on or after 1st June, 2006

<sup>5</sup> Effective for annual periods beginning on or after 1st November, 2006

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

The Group has not early applied the following new standards or interpretations that have been issued but are not yet effective.

HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions <sup>2</sup>
HK(IFRIC) – Int 12	Service Concession Arrangements <sup>3</sup>

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

<sup>2</sup> Effective for annual periods beginning on or after 1st March, 2007

<sup>3</sup> Effective for annual periods beginning on or after 1st January, 2008

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

### 3. Turnover

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

### 4. Business and Geographical Segments

#### *Business segments*

For management purposes, the Group is currently organised into five operating divisions – property development and trading, property leasing, money lending, listed securities investments and treasury products and unlisted securities investments, investment holding and brokerage. These divisions are the basis on which the Group reports its primary segments information.

Principal activities are as follows:

Property development and trading	–	Property development and sales of properties
Property leasing	–	Property rental
Money lending	–	Loan financing
Listed securities investments and treasury products	–	Listed securities investments and trading, over-the-counter trading and structured products
Unlisted securities investments, investment holding and brokerage	–	Unlisted securities investments, trading and brokerage

Segment information about these businesses is presented below.

#### **For the six months ended 30th June, 2007**

	Property development and trading <i>HK\$'000</i>	Property leasing <i>HK\$'000</i>	Money lending <i>HK\$'000</i>	Listed securities investments and treasury products <i>HK\$'000</i>	Unlisted securities investments, and investment holding and brokerage <i>HK\$'000</i>	Other operations/ unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>Turnover</b>							
Turnover from external customers	<u>1,506,756</u>	<u>361,033</u>	<u>4,792</u>	<u>619,392</u>	<u>42,965</u>	<u>24</u>	<u>2,534,962</u>
<b>Result</b>							
Segment result	<u>440,401</u>	<u>1,664,942</u>	<u>4,792</u>	<u>196,349</u>	<u>178,400</u>	<u>9</u>	2,484,893
Unallocated corporate expenses, net							(103,909)
Finance costs on listed securities investments and treasury products	–	–	–	(45,994)	–	–	(45,994)
Other finance costs	–	–	–	–	–	–	(207,039)
Other gains and losses, net	–	(860)	–	–	–	(76,864)	(77,724)
Share of results of associates	244,652	41,968	138	–	66,328	4,538	<u>357,624</u>
Profit before tax							2,407,851
Income tax expense							<u>(284,066)</u>
Profit for the period							<u>2,123,785</u>

#### 4. Business and Geographical Segments (continued)

##### Business segments (continued)

For the six months ended 30th June, 2006

	Property development and trading <i>HK\$'000</i>	Property leasing <i>HK\$'000</i>	Money lending <i>HK\$'000</i>	Listed securities investments and treasury products <i>HK\$'000</i>	Unlisted securities investments, investment holding and brokerage <i>HK\$'000</i>	Other operations/ unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>Turnover</b>							
Turnover from external customers	<u>10,700</u>	<u>330,356</u>	<u>3,850</u>	<u>1,870,187</u>	<u>11,073</u>	<u>–</u>	<u>2,226,166</u>
<b>Result</b>							
Segment result	<u>5,238</u>	<u>5,384,649</u>	<u>3,850</u>	<u>345,165</u>	<u>131,961</u>	<u>–</u>	<u>5,870,863</u>
Unallocated corporate expenses, net							(78,764)
Finance costs on listed securities investments and treasury products	–	–	–	(96,685)	–	–	(96,685)
Other finance costs	–	–	–	–	–	–	(164,486)
Other gains and losses, net	–	70,366	–	–	–	996	71,362
Share of results of associates	299,146	45,221	257	–	–	677	<u>345,301</u>
Profit before tax							5,947,591
Income tax expense							<u>(951,983)</u>
Profit for the period							<u><u>4,995,608</u></u>

##### Geographical segments

No further geographical segment information is presented as the activities of the Group carried out in Hong Kong is the only major geographical segment of the Group.

#### 5. Other Income

	<b>Six months ended</b>	
	<b>30th June,</b>	
	<b>2007</b>	<b>2006</b>
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
Included in other income are:		
Building management fee income, net	<b>8,402</b>	9,355
Exchange gain, net	<b><u>5,055</u></b>	<u>–</u>

## 6. Investment Income, Net

	Six months ended	
	30th June,	
	2007	2006
	HK\$'000	HK\$'000
Fair value changes on investments held-for-trading	5,463	(2,628)
Fair value changes on equity-linked notes & bonds	(26,069)	(88,105)
Fair value changes on derivative financial instruments	18,152	(101,283)
Realised gain on available-for-sale investments	–	194,634
Realised loss on equity-linked notes	–	(20,366)
Realised gain on derivative financial instruments	56,422	–
Other investment income	–	9,246
Dividend income on:		
Listed investments	26,109	34,323
Unlisted investments	41,513	48,100
Interest income	125,848	254,814
Imputed interest on:		
Advances to associates	16,536	35,642
Advances to minority shareholders	236	–
	<u>264,210</u>	<u>364,377</u>

Included in interest income are interest from equity-linked notes & bonds and derivative financial instruments amounted to approximately HK\$11 million (2006: HK\$150 million) and approximately HK\$34 million (2006: HK\$75 million) respectively.

## 7. Other Expenses

	Six months ended	
	30th June,	
	2007	2006
	HK\$'000	HK\$'000
Included in other expenses is:		
Impairment loss recognised in respect of account receivable	–	287
	<u>–</u>	<u>287</u>

## 8. Profit for the Period

	<b>Six months ended</b>	
	<b>30th June,</b>	
	<b>2007</b>	<b>2006</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Profit for the period has been arrived at after (charging) crediting:		
Total staff costs:		
Staff costs, including Directors' emoluments	(42,205)	(40,775)
Retirement benefits scheme contributions, net of forfeited contributions of HK\$152,000 (2006: HK\$304,000)	<u>(1,839)</u>	<u>(1,582)</u>
	<u>(44,044)</u>	<u>(42,357)</u>
Auditors' remuneration	<u>(1,075)</u>	<u>(2,075)</u>
Depreciation and amortisation	<u>(7,543)</u>	<u>(7,135)</u>
Gain on disposals of investments held-for-trading included in gross profit:		
Increase in market value of investments held-for-trading	72,913	93,675
Realised exchange (loss) gain on translation of investments held-for-trading	<u>(1,404)</u>	<u>10,456</u>
	<u>71,509</u>	<u>104,131</u>
Gross rental income from investment properties	361,033	330,356
Less: Direct operating expenses from investment properties that generated rental income during the period	(21,539)	(19,885)
Direct operating expenses from investment properties that did not generate rental income during the period	<u>(6,996)</u>	<u>(5,396)</u>
	<u>332,498</u>	<u>305,075</u>
Share of tax of associates (included in share of results of associates)	<u>(49,642)</u>	<u>(61,474)</u>

## 9. Finance Costs

	Six months ended 30th June,	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on:		
Bank loans wholly repayable within five years	252,370	172,922
Bank loans wholly repayable over five years	822	903
Other loans wholly repayable within five years	45,994	75,276
	<u>299,186</u>	<u>249,101</u>
Imputed interest on:		
Amounts due to associates	503	482
Amounts due to minority shareholders	96	22,718
Convertible bonds	4,050	14,519
	<u>4,649</u>	<u>37,719</u>
Total interest	303,835	286,820
Exchange loss on translation of foreign currency loans	–	21,409
Other finance costs	1,409	228
	<u>305,244</u>	<u>308,457</u>
<i>Less: Interest capitalised to stock of properties under development</i>	<i>(23,166)</i>	<i>(19,326)</i>
<i>Less: Interest capitalised to investment properties under development</i>	<i>(29,045)</i>	<i>(27,960)</i>
	<u><u>253,033</u></u>	<u><u>261,171</u></u>

## 10. Other Gains and Losses, Net

	Six months ended 30th June,	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Included in other gains and losses, net are:		
Impairment loss reversed in respect of advances to associates	975	897
Impairment loss recognised in respect of advance to an associate	(860)	–
Gain on disposal of a subsidiary ( <i>Note</i> )	158,212	–
Gain on disposal of an associate	–	70,366
Loss on conversion of convertible bonds by cash settlement	(236,705)	–
	<u>(236,705)</u>	<u>–</u>

*Note:* Gain on disposal of a subsidiary was arising from disposal of 15.11% interest in G-Prop (Holdings) Limited (“G-Prop”) by placing on 7th June, 2007.

## 11. Income Tax Expense

	Six months ended 30th June,	
	2007 HK\$'000	2006 HK\$'000
The charge comprises:		
Current tax:		
Hong Kong Profits Tax	29,705	47,826
Other than Hong Kong	4,363	1,697
	<u>34,068</u>	<u>49,523</u>
Deferred tax	249,998	902,460
	<u>284,066</u>	<u>951,983</u>

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profits for the both periods. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

On 16th March, 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax by Order No. 63 of the President of the People's Republic of China, which will change the tax rate from 33% to 25% for certain subsidiaries from 1st January, 2008. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

The major deferred tax liabilities recognised by the Group is deferred tax on fair value changes on investment properties of HK\$246,644,000 (2006: HK\$894,381,000) for the period.

## 12. Dividends

	Six months ended 30th June,	
	2007 HK\$'000	2006 HK\$'000
(a) Interim dividend for 2007 declared after interim period end		
Interim dividend declared of HK13.5 cents (2006: HK12 cents) per share with scrip dividend option	<u>308,369</u>	<u>268,870</u>
(b) Final dividend for 2006 paid on 15th June, 2007 of HK18 cents (2005: HK12 cents) per share		
Cash	129,774	108,128
Share alternative under scrip dividend scheme	277,095	158,639
Total dividends paid	<u>406,869</u>	<u>266,767</u>



### 13. Earnings Per Share

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

	<b>Six months ended</b>	
	<b>30th June,</b>	
	<b>2007</b>	<b>2006</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Earnings:		
Earnings for the purposes of basic earnings per share (profit for the period attributable to equity holders of the parent)	<u><b>2,052,396</b></u>	4,997,641
Effect of dilutive potential ordinary shares:		
Imputed interest on convertible bonds		<u>14,519</u>
Earnings for the purposes of diluted earnings per share		<u><b>5,012,160</b></u>
Number of shares:	<b>Number of shares</b>	
Weighted average number of ordinary shares for the purposes of basic earnings per share	<u><b>2,262,396,351</b></u>	2,157,486,459
Effect of dilutive potential ordinary shares:		
Convertible bonds		<u>56,506,365</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share		<u><b>2,213,992,824</b></u>

Diluted earnings per share for the six months ended 30th June, 2007 is not presented as there was no potential dilution of earnings per share.

### 14. Investment Properties

	<i>HK\$'000</i>
At 1st January, 2007	31,771,870
Additions	166,184
Disposals	(11,011)
Disposal of a subsidiary	(35,600)
Increase in fair value recognised in the income statement	<u>1,332,437</u>
At 30th June, 2007	<u><b>33,223,880</b></u>

The fair value of the Group's investment properties at 30th June, 2007 has been arrived at on the basis of valuation carried out on that date by Messrs. Norton Appraisals Limited ("Norton Appraisals"), independent qualified professional valuers not connected with the Group. Norton Appraisals has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. 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 open market value basis.

## 15. Interests in Associates

	<b>30th June, 2007 HK\$'000</b>	31st December, 2006 HK\$'000
Cost of investment in an associate, listed	42,665	–
Cost of investment in associates, unlisted	308,254	307,926
Share of post-acquisition profits, net of dividend received	1,099,024	1,088,425
	<u>1,449,943</u>	<u>1,396,351</u>

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

The investment properties of the Group's principal associates were revalued at 30th June, 2007 by Norton Appraisals. The valuation, which conforms to The Hong Kong Institute of Surveyors Valuation Standards on Properties (1st Edition 2005) published by the Hong Kong Institute of Surveyors, was based on open market value basis.

## 16. Advances to Associates

	<b>30th June, 2007 HK\$'000</b>	31st December, 2006 HK\$'000
Interest bearing advances to associates	173,139	166,056
Interest-free advances to associates	804,081	765,605
	<u>977,220</u>	<u>931,661</u>

The advances to associates are unsecured. An approximately HK\$793,541,000 was expected to be repayable in 2010 and the amount is therefore shown as non-current. For the remaining HK\$183,679,000, the Group will not demand repayment within one year from the balance sheet date and the amounts are therefore shown as non-current. The interest bearing advances to associates bear interest at the prevailing market rate. The Directors consider that the fair value of the interest-free advances as at the balance sheet date, determined based on the present values of the estimated future cash flows discounted using the prevailing market rates at the balance sheet date approximate their carrying amounts.

## 17. Available-for-sale Investments

	<b>30th June, 2007 HK\$'000</b>	31st December, 2006 HK\$'000
Listed investments:		
Equity securities listed in Hong Kong	9,367,169	8,179,251
Unlisted investments:		
Equity securities incorporated in Hong Kong	222,038	258,549
Equity securities incorporated elsewhere	78,881	78,881
	<u>9,668,088</u>	<u>8,516,681</u>
Club debentures	15,731	15,951
Total	<u>9,683,819</u>	<u>8,532,632</u>

## 18. Derivative Financial Instruments

	<b>30th June, 2007 HK\$'000</b>	31st December, 2006 HK\$'000
<b>ASSETS</b>		
Financial assets, held for trading		
Equity-linked swap	<u>10,849</u>	<u>–</u>
<b>LIABILITIES</b>		
Financial liabilities, held for trading		
Interest rate swap	104,919	102,776
Equity-linked swaps	<u>–</u>	<u>65,868</u>
	<u>104,919</u>	<u>168,644</u>

## 19. Debtors, Deposits and Prepayments

Included in debtors, deposits and prepayments are trade receivables of approximately HK\$483,576,000 (31st December, 2006: HK\$22,138,000) comprising mainly rental receivables which are billed in advance and settlements are expected upon receipts of billings and properties sales proceeds receivable.

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

	<b>30th June, 2007 HK\$'000</b>	31st December, 2006 HK\$'000
0 – 30 days	464,488	7,923
31 – 60 days	1,268	1,464
61 – 90 days	941	660
Over 90 days	<u>16,879</u>	<u>12,091</u>
	<u>483,576</u>	<u>22,138</u>

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

## 20. Creditors and Accruals

Included in creditors and accruals are trade payables of approximately HK\$46,879,000 (31st December, 2006: HK\$13,599,000).

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

	<b>30th June, 2007 HK\$'000</b>	31st December, 2006 HK\$'000
0 – 90 days	39,497	11,605
Over 90 days	<u>7,382</u>	<u>1,994</u>
	<u>46,879</u>	<u>13,599</u>

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

## 21. Borrowings

	<b>30th June, 2007 HK\$'000</b>	31st December, 2006 HK\$'000
Bank loans, secured	<b>13,877,581</b>	10,788,853
Other loans, secured	<b>2,978,945</b>	3,924,691
	<b>16,856,526</b>	14,713,544
<i>Less:</i> Amounts due within one year and shown under current liabilities:		
Borrowings for application proceeds for initial public offering shares for brokerage clients	<b>4,100,000</b>	–
Other borrowings	<b>9,161,756</b>	11,004,204
Amount due after one year	<b>3,594,770</b>	3,709,340

At 30th June, 2007, the Group has applied the subscription of initial public offering shares on behalf of its brokerage clients through its brokerage vehicle, Fair Eagle Securities Company Limited, in amount of HK\$4,386,726,000 presented in “Current Assets”, of which HK\$4,100,000,000 were financed by short term bank loans.

## 22. Convertible Bonds

In April and May 2005, the Company has issued zero coupon Convertible Bonds (the “Bonds”) with a maturity date on 2010 in an principal amount of HK\$1,750,000,000 and a further principal amount of HK\$60,000,000.

The Bonds are convertible on or after 20th May, 2005 up to and including 20th March, 2010 into fully paid ordinary shares with a par value of HK\$0.10 each of the Company at an initial price of HK\$7.37 per share, subject to adjustment. Unless previously redeemed, converted or purchased and cancelled, the Bonds will be redeemed at 100 per cent of their principal amount on 20th April, 2010.

The Bonds contain two components, liability and equity elements. Upon the application of HKAS 32, the Bonds were split between liability and equity elements. The equity element is presented in equity heading “Convertible bonds – equity reserve”. The effective interest rate of the liability component is 4.38%.

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

	<i>HK\$'000</i>
Liability component at 1st January, 2007	279,689
Converted to ordinary shares	(3,475)
Imputed interest expense for the period	4,050
Conversion of convertible bonds by cash settlement	(280,264)
	<u>–</u>

During the period, HK\$4.0 million in principal of the Bonds has been converted into 573,888 ordinary shares and HK\$318.5 million in principal of the remaining Bonds had executed the right to convert the Bonds into shares of the Company (the “Conversion Right”). The Company took the option by cash settlement to satisfy the Conversion Right in HK dollars in full. Accordingly, the remaining outstanding Bonds were settled by cash of approximately HK\$571.7 million in May and June 2007. As at 30th June, 2007, there is no outstanding Bonds.

## 23. Amounts due to Associates and Minority Shareholders

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

## 24. Share Capital

	Number of shares	Share Capital HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1st January, 2006, 31st December, 2006 and 30th June, 2007	5,000,000,000	500,000
Issued and fully paid:		
At 1st January, 2006	2,091,506,780	209,151
Repurchased and cancelled	(17,648,000)	(1,765)
Issue of ordinary shares from conversion of convertible bonds	145,955,274	14,595
Issue of ordinary shares in lieu of cash dividend	39,995,429	4,000
At 31st December, 2006	2,259,809,483	225,981
Issue of ordinary shares from conversion of convertible bonds	573,888	57
Issue of ordinary shares in lieu of cash dividend	23,829,941	2,383
At 30th June, 2007	2,284,213,312	228,421

## 25. Capital Commitments and Contingent Liabilities

### (a) Capital commitments:

	30th June, 2007 HK\$'000	31st December, 2006 HK\$'000
Authorised and contracted for:		
Development expenditure of properties in Hong Kong	668,330	513,922
Development expenditure of properties in Macau	32,742	36,802
Development expenditure of properties in Mainland China	53,587	–
Acquisition of land ( <i>Note i</i> )	–	510,270
Acquisition of an investment property ( <i>Note ii</i> )	10,300	–
Renovation of properties	184,904	282,467
	<u>949,863</u>	<u>1,343,461</u>
Authorised but not contracted for:		
Development expenditure of properties in Hong Kong	161,110	164,814
Development expenditure of properties in Macau	360	–
Renovation of properties	257	1,200
	<u>161,727</u>	<u>166,014</u>

### Notes:

- (i) As at 31st December, 2006, the Group committed to pay approximately HK\$510,270,000 for balance of land costs in respect of an acquisition of two pieces of land in Chengdu of the Mainland China.
- (ii) As at 30th June, 2007, the Group, through a 61.96% indirect subsidiary, committed to acquire the remaining of 50% interest in an investment property. Details of the acquisition are set out in the announcement of Chi Cheung Investment Company, Limited dated 23rd March, 2007.

## 25. Capital Commitments and Contingent Liabilities (continued)

(b) Contingent liabilities:

	30th June, 2007 HK\$'000	31st December, 2006 HK\$'000
Guarantees given to bank, in respect of banking facilities utilised by associates	1,068,400	740,500
Guarantee given to third parties in respect of those rent of disposed properties previously held by a subsidiary	2,031	7,204
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
	<u>1,080,431</u>	<u>757,704</u>

## 26. Related Party Transactions

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

	Six months ended 30th June, 2007 HK\$'000	2006 HK\$'000
Income received from associates:		
Office and retail rental	550	479
Building management fee	36	65
Interest income	4,001	3,468
Management fee	36	1,104
Accountancy fee	60	60
Rent and rates paid to associates	406	259
Consideration paid to an associate for acquisition of a subsidiary	–	388,591
Consideration paid to an associate for acquisition of cosmetic business	20,000	–
	<u>20,000</u>	<u>–</u>

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

Details of the balances with related parties as at the balance sheet date are set out in notes 16 and 23 above.

## 27. Post Balance Sheet Events

- (a) On 26th June, 2007, three wholly-owned subsidiaries of the Company, entered into a sale and purchase agreement with G-Prop, a 34.99% associate of the Company, relating to the disposals of two lots of car parks, including 25 carparking spaces at Bank of East Asia Harbour View Centre and 6 carparking spaces and carport basement at No. 9 Queen's Road Central. The disposal was completed on 31st July, 2007. Details of the disposal was disclosed in the G-Prop's announcement dated 26th June, 2007.
- (b) The Group, through its proposal of joint venture with Sino Group and CC Land Holdings Limited, has acquired one piece of land for residential and school purposes at Huaxin Street of Jiangbei District in Chongqing in July 2007 for a consideration of RMB4.18 billion. A formal joint venture agreement for the development project will be executed among the parties in due course.

## **INTERIM DIVIDEND**

The Board has declared an interim dividend of HK13.5 cents per share for the Period (2006: HK12 cents) and give shareholders the option of receiving part or all of the interim dividend in form of new shares (“Scrip Dividend”) in lieu of cash dividend.

The Scrip Dividend proposal (the “Proposal”) will be conditional on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) granting a listing of and permission to deal in the shares to be issued pursuant to the Proposal. For the purpose of determining the number of new shares to be allotted, the market value of new shares will be calculated as the average of the closing prices of the existing shares of the Company on the Stock Exchange for the five trading days commencing on 20th August, 2007, the first day on which the shares were traded ex dividend. A circular containing the details of the Proposal together with a form of election will be despatched to shareholders on or about 4th September, 2007.

Dividend warrants or new share certificates will be posted on or about 3rd October, 2007 to shareholders whose names appear on the register of members of the Company on 27th August, 2007.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members will be closed from 22nd August, 2007 to 27th August, 2007, both days inclusive. In order to qualify for the interim dividend, all share transfers documents accompanied by the relevant share certificates must be lodged with the Company’s Branch Share Registrar in Hong Kong, namely Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 21st August, 2007.

## **FINANCIAL OPERATION REVIEW**

### **Results**

Turnover for the Period amounted to HK\$2,535.0 million (six months ended 30th June, 2006: HK\$2,226.2 million), a 13.9% increase over the same period last year. It was mainly due to the sales proceeds recognised from the Phase 1 of The Zenith in Wanchai, even though there is a decrease in the turnover of securities investments.

For property leasing, the Period recorded an increase of 9.3% in rental income as compared with the corresponding period in 2006, amounting HK\$361.0 million (2006: HK\$330.4 million). During the review period, the lower portion of Windsor House and cinema portion of Silvercord had been vacant for renovation since late 2006 and are scheduled to complete by the second half year of 2007. LaForet in Excelsior Plaza had had a contribution since its re-opening in July 2006. Other than the above, rental income has shown a satisfactory increase during the Period.

In relation to property development, presale and sale of The Zenith in Wanchai (87.5% interest) had been successful since last year. The sales was recognised during the Period and had contributed a profit of approximately HK\$370.8 million. Miami Crescent in Sheung Shui (50% interest), Indihome in Tsuen Wan (50% interest) and Mount Beacon in Kowloon Tong (33.33% interest) continuously had generated profit of HK\$20.3 million (six months ended 30th June, 2006: HK\$86.6 million), HK\$9.1 million (six months ended 30th June, 2006: HK\$244.0 million) and HK\$181.2 million (six months ended 30th June, 2006: nil) respectively during the Period, all of which were included in share of results of associates. For the sale of Parc Palais in Homantin (10% interest), a contribution of HK\$22.5 million (six months ended 30th June, 2006: HK\$29.5 million) was recorded in investment income.

## FINANCIAL OPERATION REVIEW *(continued)*

### Results *(continued)*

In respect of the performance of listed securities investments and treasury products, the Group has recorded profit of HK\$196.4 million (six months ended 30th June, 2006: HK\$345.1 million) and HK\$150.4 million (six months ended 30th June, 2006: HK\$248.4 million) before and after finance costs respectively. The components in the income statement for the Period were gross profit of HK\$71.5 million (six months ended 30th June, 2006: HK\$104.1 million), loss on fair value changes of HK\$2.4 million (six months ended 30th June, 2006: HK\$192.0 million), no realised gain on disposals of available-for-sale investments (six months ended 30th June, 2006: gain of HK\$194.6 million), gain on other treasury products, dividend and interest income of HK\$127.3 million (six months ended 30th June, 2006: HK\$238.4 million). Finance costs of HK\$46.0 million was interest expenses (six months ended 30th June, 2006: HK\$96.7 million including interest expense and exchange loss in the sum of HK\$75.3 million and HK\$21.4 million respectively). In addition to profit recognised in the income statement, gains on fair value changes on available-for-sale investments amounted to HK\$821.1 million (six months ended 30th June, 2006: HK\$948.4 million) was recognised in equity during the Period.

Other income recorded an increase of 11.2% to HK\$17.6 million when compared with the same period last year. Administrative expenses increased by 31.3% to HK\$124.6 million as compared with the same period last year. Finance costs recorded a decrease of 3.1% to HK\$253.0 million as compared with the same period last year.

Other gains and losses recorded a net loss of HK\$77.7 million (six months ended 30th June, 2006: net gains of HK\$71.4 million), including the gain on disposal of 15.11% in G-Prop (Holdings) Limited (“G-Prop”) and the loss on cash redemption of the zero coupon convertible bonds.

The share of results of associates for the Period increased by 3.6% to HK\$357.6 million as compared with the same period last year (six months ended 30th June, 2006: HK\$345.3 million), including fair value gains on investment properties and profits on disposals of Miami Crescent, Indihome and Mount Beacon.

Profit attributable to equity holders of the parent for the Period was HK\$2,052.4 million as compared to HK\$4,997.6 million for the same period last year. The profit for the Period was mainly attributable from the fair value gains on investment properties, profit on sales of development properties and the share of results of associates generated from the sales of development properties. Earnings per share was HK90.7 cents (six months ended 30th June, 2006: HK231.6 cents).

If the fair value gains on investment properties and their respective deferred tax of HK\$1,108.0 million (2006: HK\$4,204.5 million) are excluded, profit attributable to equity holders of the parent for the Period will become HK\$944.4 million (2006: HK\$793.1 million) and earnings per share will become HK41.7 cents (2006: HK36.8 cents), an increase of 19.1% and 13.3% over 2006 respectively.

A final dividend of HK18 cents per share for the year ended 31st December, 2006 (year ended 31st December, 2005: HK12 cents) was paid during the Period.

An interim dividend of HK13.5 cents (2006: HK12 cents) per share for the Period is declared, representing a dividend payout of 14.9% (2006: 5.2%) for the Period. If the revaluation gains on investment properties and their respective deferred tax of HK\$1,108.0 million are excluded, the dividend payout will become 32.4% (2006: 32.6%).



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

### **Net Asset Value**

As at 30th June, 2007, the Group's total net asset to equity holders of the parent amounted to approximately HK\$38,226 million (31st December, 2006: HK\$35,533 million), an increase of HK\$2,693 million or 7.6% when compared with 31st December, 2006. With the total number of ordinary shares in issue of 2,284,213,312 as at 30th June, 2007 (31st December, 2006: 2,259,809,483 shares), the net asset value per share to equity holders of the parent was HK\$16.74, an increase of 6.5% over 31st December, 2006 (HK\$15.72). The increase in net asset value per share was mainly due to the fair value gains on listed securities investments and the profit retained for the Period, including the fair value gains on investment properties.

Included in the total net asset is deferred tax liabilities of HK\$4,512 million on fair value gains on investment properties. If the deferred tax liabilities are excluded, the total net asset to equity holders of the parent will become HK\$42,738 million or HK\$18.7 per share.

During the Period, the Group had further acquired an additional land in Chengdu for development, acquired the remaining 50% cosmetic business, bought and sold listed securities investments and disposal of 15.11% interest in G-Prop. Other than the existing projects and those disclosed in the interim report, the Group did not have any future plans for material investment or capital assets.

### **Securities Investments**

As at 31st December, 2006, the listed securities investments and treasury products was HK\$8,376.4 million. During the Period, the portfolio was increased by a net purchase of HK\$2,105.6 million (an increase of 25.1% over 2006) and the release of the fair value loss on the knocked out derivative financial instruments of HK\$56.4 million. After adding the fair value gains of HK\$818.6 million for the Period, the listed securities investments portfolios of the Group reached HK\$11,357.0 million at 30th June, 2007, representing 18.4% (31st December, 2006: 14.5%) of the total assets, which formed part of the Group's cash management activities.

### **Risk Management**

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

### **Equity**

The number of issued ordinary shares as at 30th June, 2007 and 31st December, 2006 were 2,284,213,312 and 2,259,809,483 respectively.

## FINANCIAL OPERATION REVIEW *(continued)*

### Convertible Bonds

During the Period, HK\$4.0 million in principal of the zero coupon convertible bonds (the “Bonds”) has been converted into 573,888 ordinary shares. In accordance with Condition 8 of the Terms and Conditions of the Bonds, the Company has an option to redeem the outstanding Bonds on 21st May, 2007 at 100% of the principal amount. On 20th April, 2007, the Company had given the notice to the bondholders of the outstanding Bonds to request the early redemption. All outstanding Bonds in principal of HK\$318.5 million had executed the right to convert the Bonds into shares of the Company (the “Conversion Right”). The Company took the option by cash settlement to satisfy the Conversion Right in HK dollars in full. Accordingly, all outstanding Bonds were settled by cash of approximately HK\$571.7 million in May and June 2007. As at 30th June, 2007, there is no outstanding convertible bonds.

### Debt and Gearing

As at 30th June, 2007, the Group has applied the subscription of initial public offering shares on behalf of its brokerage clients through its brokerage vehicle, Fair Eagle Securities Company Limited, in amount of HK\$4,387 million, of which HK\$4,100 million were financed by short term bank loans.

At the balance sheet date, the Group’s bank and other borrowings amounted to HK\$16,857 million (31st December, 2006: HK\$14,993 million). Cash and deposit at bank amounted to HK\$2,223 million (31st December, 2006: HK\$8,121 million) and net borrowings amounted to HK\$14,634 million (31st December, 2006: HK\$6,872 million).

Total debt to equity ratio was 43.6% (31st December, 2006: 41.7%) and net debt to equity ratio was 37.8% (31st December, 2006: 19.1%), which are expressed as a percentage of bank and other borrowings, and net borrowings respectively, over the total equity of HK\$38,664 million (31st December, 2006: HK\$35,963 million). The increase in net borrowings mainly due to payment of land costs for development properties and purchase of listed securities investments for purpose of cash management.

Furthermore, if the listed securities investments and treasury products of HK\$11,357 million (31st December, 2006: HK\$8,376 million) are included, the net debt to equity ratio will be further reduced to 8.5% (31st December, 2006: net cash position of HK\$1,504 million).

At the balance sheet date, all of the Group’s bank and other borrowings were denominated in Hong Kong dollars. Of the Group’s bank and other borrowings of HK\$16,857 million, 78.6%, 2.9%, 18.4% and 0.1% were repayable within 1 year, 1 to 2 years, 2 to 5 years and over 5 years respectively. The Group’s bank and other borrowings carrying interest rates were calculated mainly with reference to HIBOR. No hedging for interest rate was subsisted at the end of the period.

### Pledge of Assets

As at 30th June, 2007, the Group had pledged the following assets:

- (a) The Group’s investment properties, property and other fixed assets, prepaid lease payments, stock of properties and time deposits with their respective book value of approximately HK\$31,426.8 million (31st December, 2006: HK\$30,062.6 million), HK\$48.4 million (31st December, 2006: HK\$49.1 million), HK\$239.5 million (31st December, 2006: HK\$239.8 million), HK\$288.5 million (31st December, 2006: HK\$2,829.5 million) and HK\$424.3 million (31st December, 2006: HK\$1,086.0 million) were pledged to the Group’s bankers to secure general banking and loan facilities granted to the Group.

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

### **Pledge of Assets** *(continued)*

- (b) The Group's investments held-for-trading, available-for-sale investments and equity-linked notes with an aggregate carrying amount of approximately HK\$9,210.0 million (31st December, 2006: HK\$7,258.5 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\$2,978.9 million (31st December, 2006: HK\$3,924.7 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 associate and investee of approximately HK\$1,111.3 million (31st December, 2006: HK\$802.1 million) to financial institutions to secure banking general credit facilities granted to associates.

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

Interest income was included in turnover and investment income. Finance costs included interest expenses on bank and other loans, imputed interest expenses, and arrangement, facility and commitment fee expenses. Interest income for the Period was HK\$151.4 million, representing a decrease of 41.7% from that of 30th June, 2006 (HK\$259.7 million). Interest capitalised for the Period was HK\$52.2 million as compared to HK\$47.3 million for the same period last year. Excluding imputed interest, interest expenses for the Period amounted to HK\$247.1 million, representing a 22.4% increase over the interest expenses of HK\$201.8 million recorded for the same period last year. The increase in interest expenses was mainly due to increase in borrowings during the Period. The average interest rate over the period under review was 4.57% (2006: 4.73%), which was expressed as a percentage of total interest expenses over the average total borrowings.

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

During the period under review, the Group employed a total of 294 staff (six months ended 30th June, 2006: 276 staff) (excluding about a total of 264 staff (six months ended 30th June, 2006: 243 staff) for estate management employed under the Group's estate management company, Perfect World Company Limited).

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

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

### **Mainland China and Macau**

Profit contribution from the Group's investment in the Mainland China (including gross profit, fair value changes on investment properties and share of results of associates) for the Period amounted to HK\$64 million representing 3.1% of the profits attributable to equity holders of the parent (six months ended 30th June, 2006: HK\$104 million). The Group's net investment in the Mainland China as at 30th June, 2007 amounted to HK\$2,717 million (31st December, 2006: HK\$1,345 million) representing approximately 3.8% of the Group's total asset value and 7.0% of the Group's net asset value. Further the Group's net investment in Macau as at 30th June, 2007 amounted to HK\$1,484 million (31st December, 2006: HK\$1,300 million) representing approximately 2.1% of the Group's total asset value.

### **Listed Subsidiary**

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

### **Listed Associate**

On 4th June, 2007, the Company, through its wholly owned subsidiary, made a placing of 120,000,000 shares of G-Prop (the "Shares") at a placing price of HK\$1.50 per Share to independent third parties (the "Placing"). Immediately upon completion of the Placing, the Shares owned by the Group were reduced from 397,858,761 Shares, representing approximately 50.10%, to 277,858,761 Shares, representing approximately 34.99%. G-Prop become an associate of the Group since 7th June, 2007.

### **Property Valuation**

A property valuation has been carried out by Messrs. Norton Appraisals Limited, independent qualified professional valuers, in respect of the Group's investment properties as at 30th June, 2007 and that valuation was used in preparing 2007 interim results. The Group's investment properties were valued at HK\$33,224 million (31st December, 2006: HK\$31,725 million), a 4.7% increase over 2006 after adjusted for additions and disposals of investment properties during the Period. The increase in fair value of approximately HK\$1,332.4 million was credited to the income statement for the Period. The Group also shared an increase in fair value changes on investment properties of the associates of HK\$34.8 million (net of deferred tax of HK\$3.8 million) for the Period. Development properties and non-investment properties of the Group were stated at cost less impairment, if any, in the financial statements.

## **BUSINESS REVIEW**

### **Hong Kong Property Investment**

Rentals from investment properties continued to be one of the major sources of our income. The overall occupancy rate of the Group's retail portfolio was 80.3% during the first half of 2007 due to the renovation of Windsor House and Silvercord. The occupancy rate jumped to 95.0% if Windsor House and Silvercord are excluded. Such sustainable high occupancy rate is attributable to the prime locations of the majority of the Group's retail properties. Retail rents were generally raised due to the increase in tenants' business turnover benefited from the growth of both tourists' and local consumption.

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

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

Although the Group recorded a rental loss of HK\$41,505,000 in the first half of 2007 due to the renovation works of Windsor House and Silvercord, the Group was able to sustain a gross rental growth by 9.3% with rental income of HK\$361.0 million for the Period as compared with the corresponding period of last year. The increase in gross rental income is mainly attributable to the high reversionary rental rate of the office properties and re-opening of Excelsior Plaza – Laforet in July 2006. If the renovated properties are excluded, gross rental income would be increased by approximately 27.2% over the corresponding period of last year, and the respective increases in retail and non-retail portion have been 29.9% and 22.6%.

The renovation works of Laforet was completed in July 2006. The enhancement includes relocation of escalators and change in internal layout to improve pedestrian flow, the installation of two LED (light-emitting diode) electronic display screens and the refurbishment of the covered walkway. The revamped Laforet, consisting of small shops and a restaurant with area ranging from 150 to 5,100 square feet, specially targets at the young and trendy customers. As at 30th June, 2007, its occupancy rate was 98.3% and if fully leased out, the rental is expected to increase by 74.8% as compared with the previous lease.

The renovation works of Windsor House was commenced in 2006. The scope of work includes re-layout of basement, ground and first floor, sub-dividing the retail space previously occupied by supermarket, department store and an anchor tenant to provide greater varieties of prime retail shops and specialty restaurants. The renovation will be completed by the fourth quarter of 2007. The revamped Windsor House will have improved and diversified trade mix while the rental income is expected to rise substantially.

As for Silvercord, the first phase of converting the existing bubble lifts to shops was completed in December 2006 with the second phase to be completed in the third quarter of 2007, the works of which commenced in late 2006. The conversion of the cinema to shops commenced in the fourth quarter of 2006 with the scheduled completion date in the third quarter of 2007. The renovated Silvercord will have more quality brands while the rental income is expected to rise significantly.

The occupancy rate for the Group's office properties maintained at a high level throughout the first half of 2007. As at 30th June, 2007, the average occupancy rates of Windsor House, MassMutual Tower and Harcourt House were approximately 92.8%, 94.0% and 84.2% respectively, bringing the approximate occupancy rate of the overall office portfolio to 91.1%.

In general, it is expected that both the occupancy rate in retail and office properties will remain at high level while their rental rates will have room for increment this year.

The foundation and basement excavation works of the redevelopment of Tung Ying Building in Tsim Sha Tsui started in December 2006. Completion of the redevelopment is expected to be in early 2010.

Tung Sang Building in Wanchai has also commenced its foundation work and will be redeveloped as a brand new residential/retail composite building with completion date rescheduled to end of 2008.

The Group won a tender last year at approximately HK\$234 million for Sun Fair Mansions at 12 Shiu Fai Terrace, a residential site in mid-level East, which is a traditional prestigious location for luxury residential project in Hong Kong. The site area is about 12,000 square feet that can provide a total residential gross floor area of around 39,700 square feet. The site is planned to be redeveloped into a luxury residential project in end 2008.

## **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.

The residential development of Indihome, Tsuen Wan (50% interest) was completed in January 2006, 583 presold units had been handed over to the purchasers. A further 318 units were sold up to 30th June, 2007 and 93.9% of the total units were already sold.

As at 30th June, 2007, the units of Parc Palais, Homantin (10% interest) were substantially sold, representing 99.0% of total units; 79.5% of houses of Miami Crescent, Sheung Shui (50% interest) were already sold.

The certificate of compliance of Mount Beacon, Kowloon Tong (33.33% interest) was issued in July 2006. As at 30th June, 2007, 86.3% of apartments and 86.4% of houses were sold.

The construction work of phase I of the residential development project – The Zenith (87.5% interest) was completed. This is a redevelopment project at Tai Yuen Street, Wanchai undertaken with the Urban Renewal Authority. Phase I comprises 3 residential tower blocks having 652 units with flat size ranging from gross floor area of approximate 605 square feet to 879 square feet. The pre-sale consent was received in September 2006 and 308 units were sold up to 30th June, 2007. The commencement of construction work of phase II is re-scheduled to early 2008 and the construction work is expected to be completed in mid 2011.

The Group has also formed two other joint venture projects with the Urban Renewal Authority, one is located at the junction of Reclamation Street and Arran Street in Mongkok, foundation work of which was completed in the first quarter of 2006 and the whole project is expected to be completed in end of 2007; the other one is located at Larch Street / Bedford Road in Tai Kok Tsui, the superstructure work of which started in March 2007 and the whole project is expected to be completed in end of 2008.

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

In May 2007, the Group acquired a site at the junction of Hoi Wang Road, Yan Cheung Road and Yau Cheung Road, West Kowloon Reclamation Area (15% interest). The acquisition was completed in June 2007. The total site area is approximately 86,758 square feet. Residential and retail properties with a total gross floor area of 650,684 square feet will be developed.

### **Macau Property Development**

In December 2005, the Group acquired 5 parcels of adjoining land in Taipa, Macau (70.01% interest). The acquisition was completed in early 2006. The total site area is approximately 848,000 square feet and will be developed by four phases. Master layout plan has been submitted to the relevant authorities for approval. Foundation work of phase I is expected to commence in late 2007. The launching of phase I of this project is currently expected in late 2007.

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

### **Mainland China Property Investment**

Evergo Tower, located at Central Huaihai Road in Shanghai, is a 23-storey office/shopping complex including a 2-storey basement and has a total gross floor area of 263,708 square feet for leasing purpose. The average occupancy rates of the office and retail spaces of the tower were about 88% and 99% respectively for the Period.

Hilton Beijing (50% interest) maintained an average occupancy rate of 86.16% and achieved a gross operating profit of HK\$50.88 million for the Period. Hilton Beijing is expanding by converting the adjacent auditorium into an executive tower. The construction work of the executive tower commenced in November 2006 and is expected to be completed in early 2008.

Oriental Place (50% interest), a 10-storey office building next to Hilton Beijing, was 89.56% let out as of June 2007.

The occupancy rate of the 79 retail outlets with a total area of approximately 29,000 square feet in Lowu Commercial Plaza, Shenzhen in June 2007 was 97.25%.

The Group acquired two pieces of residential land at Dongda Street of Jinjiang District as well as Yingbin Road of Jinniu District in Chengdu in October 2006, having site area of 194,410 square feet and 795,625 square feet with respective gross floor area of 1.555 million square feet completed in 2009 and 3.76 million square feet completed in 2010. The land use rights were granted in May 2007 upon full settlement of land cost.

In January 2007, the Group further obtained a commercial and residential land at South Taisheng Road of Qingyang District in Chengdu, having site area of 404,264 square feet with a development scale of 3.2 million square feet to be completed in 2011. The land use right was granted in May 2007 upon full settlement of land cost.

The acquisitions reflect the Group's confidence in Chengdu's economy and its property market.

### **Acquisition of Cosmetics Business**

On 29th June, 2007, Daily Best Limited, being an indirect wholly-owned subsidiary of the Company, acquired from Power Jade Limited ("Power Jade"), being an indirect 50% owned associate of the Company, one share in the capital of The House of Kwong Sang Hong International Limited ("KSH"), representing the entire issued share capital of KSH, and the respective shareholder's loan owing by KSH to Power Jade at a total consideration of HK\$20 million (the "Acquisition"). KSH and its subsidiaries (the "KSH Group") are principally engaged in manufacturing and retailing of cosmetic products. Some of the members of the KSH Group are the registered owners of trademarks or trademark applications in various countries in relation to the brand known as "Two Girls Brand". As a result of the Acquisition, the Company obtains 100% control over the KSH Group's cosmetics business. The Acquisition constitutes a connected transaction for the Company.

## **POST BALANCE SHEET EVENTS**

### **Disposal of carparking spaces**

On 26th June, 2007, a sale and purchase agreement was entered into between Fine Pacific Limited and Top Cliff Ltd. as vendors (both being indirect wholly-owned subsidiaries of the Company), Paul Y. Holdings Company Limited as debt vendor (being a wholly-owned subsidiary of the Company) and Gold Long Enterprises Limited as purchaser (being a wholly-owned subsidiary of G-Prop) in respect of the entire issued share capital of Remson Investment Limited and Minkind Development Limited together with certain loans at a total consideration of approximately HK\$29 million. Grow Wealth Company Ltd, a wholly-owned subsidiary of Remson Investment Limited, and Minkind Development Limited respectively owns 25 carparking spaces at Bank of East Asia Harbour View Centre, No.56 Gloucester Road, Hong Kong (together with the right to use 5 adjoining spaces) and 6 carparking spaces and carport basement at No. 9 Queen's Road Central, Hong Kong. The disposal was formally completed on 31st July, 2007.

### **Acquisition of land in Mainland China**

The Group, through its proposal of joint venture with Sino Group and CC Land Holdings Limited, has acquired one piece of land for residential and school purposes at Huaxin Street of Jiangbei District in Chongqing in July 2007 for a consideration of RMB4.18 billion. The land, at the north bank of the Jialing River, has a site area of 2,207,587 square feet and a gross floor area of 11 million square feet. A formal joint venture agreement for the development project will be executed among the parties in due course.

## **OTHER INFORMATION**

### **Convertible Bonds and Issued Shares**

In April and May 2005, the Company issued zero coupon Convertible Bonds in a principal amount of HK\$1,810,000,000, due 2010 with a call and put option in May 2007 ("Convertible Bonds").

In January 2007, Convertible Bonds with a total value of HK\$4,000,000 were converted into 573,888 shares at the conversion price of HK\$6.97.

On 20th April, 2007, the Company gave a notice to bondholders that it would redeem all outstanding Convertible Bonds with a total value of HK\$318,500,000 on 21st May, 2007 pursuant to the terms and conditions of the Convertible Bonds. From 26th April, 2007 to 4th May, 2007, all the remaining bondholders exercised their conversion rights and accordingly the Company exercised its cash settlement option to the relevant bondholders pursuant to the terms and conditions of the Convertible Bonds.

There was no outstanding Convertible Bonds before the redemption date on 21st May, 2007. Application for withdrawal of listing of the Convertible Bonds on the Stock Exchange shall be made to the Stock Exchange by the Company.

The total number of issued shares of the Company as at 30th June, 2007 is 2,284,213,312.



## **OTHER INFORMATION** *(continued)*

### **Disposal of shares in G-Prop**

On 7th June, 2007, Million Point Limited, being an indirect wholly-owned subsidiary of the Company, placed 120,000,000 shares in the capital of G-Prop to third parties. As a result, the deemed interests of the Company and its associates in G-Prop have been reduced from approximately 50.10% to 34.99%. G-Prop therefore ceased to be a subsidiary of the Company and become an associated corporation of the Company.

### **Possible Offer**

Reference is made to the announcements of the Company dated 3rd and 4th July, 2007 regarding expressions of interest in relation to the possible acquisition of the Company received from a number of third parties and the subsequent announcement dated 1st August, 2007 regarding termination of talks with all third parties, the offer period pursuant to the Hong Kong Code on Takeovers and Mergers ended on 1st August, 2007.

### **PROSPECTS**

The global economy is generally positive and is projected for the year 2007. The stabilisation of interest rate and improving employment conditions could provide a favourable environment for our commercial and residential property investment business in Hong Kong. In general, the property markets of Macau and Mainland China should continue to be satisfactory in the near future.

The Group will continue to strengthen the value of its investment properties and enhance returns through redevelopment and renovation works such as Tung Ying Building, Tung Sang Building, Silvercord, Windsor House etc. It is expected that the Group will enjoy substantial rental growth from the future new leases.

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

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

As at 30th June, 2007, 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 Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") are as follows:-

### I The Company

Name of Directors	Number of Shares (ordinary share)	Note	Capacity	Percentage of Issued Share Capital
Joseph Lau, Luen-hung ("Mr. Joseph Lau")	228,312,074	(1)	Founder of trust	
	851,933,823	(2)	Founder of trust	
	<u>1,080,245,897</u>			47.29%
Lau, Ming-wai ("Mr. MW Lau")	228,312,074	(1)	Beneficiary of trust	
	851,933,823	(2)	Beneficiary of trust	
	<u>4,000</u>	(3)	Other interests	
	<u>1,080,249,897</u>			47.29%

#### Notes:

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

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

**II Associated Corporations of the Company**

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

<b>Name of Director</b>	<b>Number of Shares (ordinary share)</b>	<b>Note</b>	<b>Capacity</b>	<b>Percentage of Issued Share Capital</b>
Joseph Lau, Luen-hung (“Mr. Joseph Lau”)	209,931,186	(i)	Interest in controlled corporation	61.96%

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

<b>Name of Director</b>	<b>Number of Shares (ordinary share)</b>	<b>Note</b>	<b>Capacity</b>	<b>Percentage of Issued Share Capital</b>
Joseph Lau, Luen-hung (“Mr. Joseph Lau”)	277,858,761	(ii)	Interest in controlled corporation	34.99%

*Notes:*

- (i) Mr. Joseph Lau by virtue of his 47.29% 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 directly by Billion Up Limited, a wholly-owned subsidiary of Lucky Years Ltd. which in turn was the wholly-owned subsidiary of the Company.
- (ii) Mr. Joseph Lau by virtue of his 47.29% interests in the issued share capital of the Company as disclosed in paragraph I above, was deemed to be interested in 277,858,761 shares of G-Prop under the provisions of the SFO. The Company was interested in 277,858,761 shares of G-Prop of which 50,000,000 shares, 113,818,911 shares, 37,162,165 shares and 76,877,685 shares were issued shares respectively held by Million Point Limited (“Million Point”), Paul Y. Holdings Company Limited (“Paul Y.”), Great Empire International Ltd. (“Great Empire”) and Luckpoint Investment Limited (“Luckpoint”).

The Company was deemed to be interested in the 50,000,000 shares of G-Prop by virtue of the SFO as the Company owned the entire issued share capital of Chinese Estates, Limited, which owned the entire issued share capital of Cosmos Success Limited which in turn owned the entire issued share capital of Million Point.

The Company was also deemed to be interested in the 113,818,911 shares of G-Prop by virtue of the SFO as the Company owned the entire issued share capital of Paul Y.

The Company was also deemed to be interested in the 37,162,165 shares of G-Prop by virtue of the SFO as the Company owned the entire issued share capital of Paul Y., which owned the entire issued share capital of Goldstance Group Limited, which in turn owned the entire issued share capital of Great Empire.

The Company was also deemed to be interested in the 76,877,685 shares of G-Prop by virtue of the SFO as the Company owned the entire issued share capital of China Entertainment and Land Investment Company, Limited, which in turn owned the entire issued share capital of Luckpoint.

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

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

All the interests stated above represent long positions. The percentage shown was the number of shares the relevant Directors of the Company were interested in expressed as a percentage of the number of issued shares as at 30th June, 2007.

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 interest or short position 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, 2007.

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, 2007, so far as are known to the Directors, the following parties (other than a Director or a chief executive of the Company) were recorded in the register kept by the Company under section 336 of the SFO as being directly or indirectly interested or deemed to be interested in 5% or more of the issued share capital of the Company:

<b>Name of Substantial Shareholders</b>	<b>Number of Shares (ordinary share)</b>	<b>Capacity</b>	<b>Percentage of Issued Share Capital</b>
GZ Trust Corporation	1,080,245,897 <i>(notes 1 &amp; 2)</i>	Trustee, beneficiary of a trust and interest in controlled corporation	47.29%
Global King Ltd.	851,933,823 <i>(note 1)</i>	Trustee	37.29%
Joseph Lau Luen Hung Investments Limited	228,312,074 <i>(note 2)</i>	Beneficial owner	9.99%
The Children's Investment Fund Management (UK) LLP	177,965,187 <i>(note 3)</i>	Investment manager	7.79%
The Children's Investment Master Fund	177,965,187 <i>(note 3)</i>	Beneficial owner	7.79%
Favor Gain Limited ("Favor Gain")	150,036,697 <i>(note 4)</i>	Beneficial owner	6.56%
Thomas Lau, Luen-hung ("Mr. Thomas Lau")	150,036,697 <i>(note 4)</i>	Interest in controlled corporation	6.56%

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

*(continued)*

*Notes:*

1. GZ Trust Corporation as trustee of a discretionary trust held units in a unit trust of which Global King Ltd. was the trustee and therefore was regarded as interested in the same parcel of shares held by Global King Ltd. These shares were the same parcel of 851,933,823 shares of the Company referred to in "Founder of trust" and "Beneficiary of trust" of Mr. Joseph Lau and Mr. MW Lau 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 228,312,074 shares of the Company referred to in "Founder of trust" and "Beneficiary of trust" of Mr. Joseph Lau and Mr. MW Lau under "Directors' and Chief Executives' Interests in the Securities of the Company and Associated Corporations" as disclosed in paragraph I above.
3. The Children's Investment Fund Management (UK) LLP as investment manager of The Children's Investment Master Fund ("TCI") held the 177,965,187 shares of the Company for the benefit of TCI.
4. Mr. Thomas Lau was deemed to be interested in the 150,036,697 shares of the Company by virtue of the SFO as he owned the entire issued share capital of Favor Gain.

All the interests stated above represent long positions. As at 30th June, 2007, no short positions were recorded in the register kept by the Company under section 336 of the SFO.

### **AUDIT COMMITTEE REVIEW**

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

### **INTERNAL CONTROL**

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

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

## **CORPORATE GOVERNANCE**

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

- the roles of Chairman and Chief Executive Officer (the “CEO”) were not segregated as Mr. Joseph Lau, the CEO was also designated as the Chairman on 15th December, 2006. The Board considers that this structure will not impair the balance of power and authority of the Board. It currently comprises two Executive Directors, one Non-executive Director and three INEDs, with INEDs representing 50% of the Board, which is higher than the Best Practices. Such a high percentage of INEDs in the Board could ensure their views carry significant weight and it reflects a strong independence element in the composition of the Board. At present, the Board also believes that under the leadership of Mr. Joseph Lau as the Chairman and CEO, the Board’s decision could be made effectively and it is beneficial to the management and development of the Group’s businesses. The Board would still consider segregation of the roles of Chairman and CEO if and when appropriate.

To ensure better compliance with the Code, relevant amendments to the Company’s Bye-laws were approved by shareholders at the annual general meeting held on 15th May, 2007 to provide that no Director (save for any executive chairman and managing director) shall hold office for a continuous period in excess of three years, or past the third annual general meeting, following the Directors’ appointment or re-election, whichever is longer, without submitting himself/herself for re-election at the annual general meeting of the shareholders. As a result, Directors (save for any executive chairman and managing director) shall retire by rotation at least once every three years and a specific term of office has been fixed for appointment of Directors (save for any executive chairman and managing director). According to the Private Act for incorporating the Company as an exempted company under the law of Bermuda in 1989, it is stipulated that the executive chairman and any managing director should not be required to retire by rotation. As the Company is bound by the provisions of the Private Act, the Bye-laws cannot be amended to fully reflect the requirements of the Code. However, in order to comply with the Code Provisions, the Chairman and CEO of the Company is willing to voluntarily retire from his directorship at future annual general meetings of the Company at least once every three years, and being eligible, will offer himself for re-election at the relevant annual general meetings. Every Director will therefore retire either by rotation under the Bye-laws or voluntarily at least once every three years and will subject himself/herself to the absolute and free choice of the shareholders for re-election at the annual general meetings.

## **MODEL CODE FOR DIRECTORS’ SECURITIES TRANSACTION**

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code contained in Appendix 10 to the Listing Rules. All Directors, after specific enquiries by the Company, confirmed they have complied with the required standard set out in the Model Code and the said code of conduct during the Period.

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

Save as disclosed in the paragraph "Convertible Bonds and Issued Shares" under "Other Information" section, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Period.

## **APPRECIATION**

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

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

Hong Kong, 3rd August, 2007