



CHINESE ESTATES HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

Interim Report
For The Six Months
Ended 30th June, 2001

CORPORATE INFORMATION

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Joseph Lau, Luen-hung

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INDEPENDENT REVIEW REPORT

TO THE BOARD OF DIRECTORS OF CHINESE ESTATES HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Introduction

We have been instructed by the Directors of the Company to review the interim financial report set out on pages 2 to 11.

Directors' responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants. However, the Listing Rules permit departure from SSAP 25 in that comparative figures are not required for the first condensed consolidated cash flow statement to be included in the interim financial report relating to accounting periods ended on or after 1st July, 2000. The interim financial report is the responsibility of, and has been approved by, the Directors.

Review work performed

We conducted our review in accordance with Statement of Auditing Standard 700 "Engagements To Review Interim Financial Reports" ("SAS 700") issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th June, 2001.

Without modifying our review conclusion, we draw to your attention that the comparative condensed consolidated income statement and condensed consolidated statement of recognised gains and losses for the six months ended 30th June, 2000 disclosed in the interim financial report have not been reviewed in accordance with SAS 700.

Deloitte Touche Tohmatsu
Certified Public Accountants

7th September, 2001

RESULTS

On behalf of the Board of Directors of Chinese Estates Holdings Limited (the “Company”), I present the following unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June, 2001 together with the comparative figures for the corresponding period last year as follows: –

CONDENSED CONSOLIDATED INCOME STATEMENT For the six months ended 30th June, 2001

	Six months ended 30th June,	
	2001	2000
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Turnover (Note 4)	332,311	305,181
Cost of sales	(18,845)	(10,507)
Gross profit	313,466	294,674
Other revenue (Note 9)	36,656	64,299
Administrative expenses	(81,211)	(77,325)
Other operating expenses (Note 10)	(2,797)	(6,900)
Profit on disposal of investment and other properties	5,578	15,067
Other losses (Note 11)	(15,103)	–
Impairment loss recognised in respect of properties under development (Note 12)	(277,755)	(27,785)
(Loss) profit from operations	(21,166)	262,030
Finance costs	(168,152)	(158,499)
Investment income (loss) (Note 13)	5,595	(150)
Provision for impairment loss of goodwill arising on acquisition of additional interest in a subsidiary	(4,469)	–
Provision for advances to associates (Note 14)	(137,750)	(42,284)
Share of results of associates	(21,216)	17,752
(Loss) profit before taxation	(347,158)	78,849
Taxation (Note 7)	504	(9,746)
(Loss) profit before minority interests	(346,654)	69,103
Minority interests	73,380	–
(Loss) profit attributable to shareholders	(273,274)	69,103
Interim dividend	–	–
Transfer to reserve	(273,274)	69,103
(Loss) earnings per share (Note 8)		
Basic	(11.5) cents	3.3 cents
Diluted	N/A	3.2 cents

CONDENSED CONSOLIDATED BALANCE SHEET
At 30th June, 2001

	30th June, 2001 HK\$'000 (Unaudited)	31st December, 2000 HK\$'000 (Restated and audited)
Non-current assets		
Investment properties (<i>Note 15</i>)	15,149,649	14,364,278
Property and other fixed assets (<i>Note 15</i>)	103,801	112,276
Properties under development (<i>Note 15</i>)	1,796,543	2,046,340
Interests in associates	1,862,055	2,072,726
Investments in securities	98,747	98,747
Advance to an investee company	136,555	130,851
Other assets	24,006	24,006
Pledged deposits	228,470	203,258
	<u>19,399,826</u>	<u>19,052,482</u>
Current assets		
Investments in securities	10,739	1,362
Stock of unsold properties	45,820	50,218
Debtors, deposits and prepayments (<i>Note 16</i>)	367,229	362,752
Current portion of long-term loans receivable	378,900	444,980
Loans and advances	4,101	72
Taxation recoverable	3,713	4,719
Time deposits, bank balances and cash	886,332	622,215
	<u>1,696,834</u>	<u>1,486,318</u>
Current liabilities		
Creditors, accruals and provisions (<i>Note 17</i>)	90,295	104,725
Deposits and receipts in advance	233,010	202,367
Taxation payable	123,467	107,495
Long-term borrowings, current portion	196,684	155,096
Bank loans, secured	329,000	495,856
	<u>972,456</u>	<u>1,065,539</u>
Net current assets	<u>724,378</u>	<u>420,779</u>
Non-current liabilities		
Long-term borrowings (<i>Note 18</i>)	3,852,838	2,851,354
Amounts due to associates	12,378	11,050
Amounts due to minority shareholders	414,801	408,080
	<u>4,280,017</u>	<u>3,270,484</u>
Minority interests	<u>(21,456)</u>	<u>58,938</u>
	<u>15,865,643</u>	<u>16,143,839</u>
Capital and reserves		
Share capital (<i>Note 19</i>)	238,148	238,148
Reserves (<i>Note 20</i>)	15,627,495	15,905,691
	<u>15,865,643</u>	<u>16,143,839</u>

CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES
For the six months ended 30th June, 2001

	Six months ended 30th June, 2001	2000
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revaluation deficit on investment properties held by the Group	–	(8,000)
Share of reserve movements of associates	772	25,404
Exchange gain on translation of overseas operations	343	3,901
	<hr/>	<hr/>
Net gains not recognised in the consolidated income statement	1,115	21,305
(Loss) profit attributable to shareholders	(273,274)	69,103
	<hr/>	<hr/>
Total recognised (losses) gains	<u>(272,159)</u>	<u>90,408</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
For the six months ended 30th June, 2001

	HK\$'000
	(Unaudited)
Net cash inflow from operating activities	249,604
Net cash outflow from returns on investments and servicing of finance	(154,691)
Taxation refunded	4,737
Net cash outflow from investing activities	(249,546)
	<hr/>
Net cash outflow before financing	(149,896)
Net cash inflow from financing	411,765
	<hr/>
Increase in cash and cash equivalents	261,869
Cash and cash equivalents at beginning of the period	622,215
Effect of foreign exchange rate changes	2,248
	<hr/>
Cash and cash equivalents at end of the period	<u>886,332</u>
	<hr/>
Analysis of the balances of cash and cash equivalents	
Time deposits, bank balances and cash	<u>886,332</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. Basis of preparation

The condensed financial statements have been prepared in accordance with SSAP 25 “Interim Financial Reporting” (SSAP 25) issued by the Hong Kong Society of Accountants, except that, no comparative figures are presented for the cash flow statement, being the cash flow statement to be included in the first interim financial report relating to accounting periods ended on or after 1st July, 2000. Such departures from SSAP 25 are permitted under the Listing Rules.

2. Accounting policies

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties and investments in securities.

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st December, 2000, except that in the current period, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, which has resulted in the following changes in accounting policies. Certain comparative figures in the condensed consolidated income statement has been reclassified to conform with the presentation of the current period.

Segment reporting

The Group has chosen to adopt SSAP 26 “Segment Reporting” for the first time in this interim reporting period. In previous years, segment disclosures have been presented in accordance with the disclosure requirements of the Listing Rules. For the purposes of this interim financial report, the adoption of SSAP 26 has resulted in a re-specification of some reportable segments. Segment disclosures for the six months ended 30th June, 2000 have been amended so that they are presented on a consistent basis.

Goodwill

In the current period, the Group has adopted SSAP 30 “Business Combinations” and has elected to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. Accordingly, the amount of such goodwill (negative goodwill) has been remeasured in accordance with the requirements of SSAP 30. Accumulated amortisation and impairment losses in respect of goodwill between the date of acquisition of the relevant associate or subsidiary and the date of adoption of SSAP 30 have been recognised retrospectively. Negative goodwill which would have been recognised as income between the date of acquisition of the relevant subsidiary or associate and the date of adoption of SSAP 30 has been recognised retrospectively. The effect of these adjustments is summarised in Note 3. Following restatement, goodwill is presented as an asset in the balance sheet and negative goodwill is presented as a deduction from assets. Goodwill is amortised over its estimated useful life, i.e. over periods ranging between 5 and 20 years. Negative goodwill will be released to income based on an analysis of the circumstances from which the balance was resulted.

3. Prior period adjustments

The financial effect of the adoption of the new accounting policies described in Note 2 is summarised below:

	Capital reserve <i>HK\$'000</i>	Special reserve* <i>HK\$'000</i>	Investment properties revaluation reserve <i>HK\$'000</i>	Accumulated profits <i>HK\$'000</i>
Balance at 1st January 2000				
As originally stated	3,042,666	–	7,563,944	2,840,370
Retrospective recognition of impairment of goodwill held in reserves	6,123	–	–	(6,123)
Restatement of negative goodwill held in reserves with retrospective release to income	(372,874)	–	–	372,874
Adjust the amount of goodwill arising on acquisition of additional interest in an associate according to SSAP 30	(98,446)	–	–	7,000
Reclassification of reserve arising on scheme of arrangement	(2,499,685)	2,499,685	–	–
Adjust the amount of goodwill arising on acquisition of subsidiaries according to SSAP 30	(77,784)	–	20,444	–
As restated	<u>–</u>	<u>2,499,685</u>	<u>7,584,388</u>	<u>3,214,121</u>

The effect of these changes in accounting policy on the results for the current and prior periods is as follows:

	6 months ended 30.6.2001 <i>HK\$'000</i>	12 months ended 31.12.2000 <i>HK\$'000</i>	6 months ended 30.6.2000 <i>HK\$'000</i>
Reduction in impairment required (<i>Note</i>)	43,064	36,593	–
Impairment loss of goodwill	(4,469)	(130,361)	–
	<u>38,595</u>	<u>(93,768)</u>	<u>–</u>

* Special reserve represents the difference arising from the aggregate of the share capital and premium amount of the former holding company and the Company upon redomicile of the holding company as a Bermuda Company in 1989 and is non-distributable.

Note: Reduction in impairment required as a result of the revised fair value of the relevant asset acquired on acquisition of associates/subsidiaries according to SSAP 30.

4. Turnover

Turnover represents the aggregate of amounts received and receivable from the sales of securities investment, property rental income, dividend income and interest income from loan financing.

5. Segment information

Business segments

	Property leasing		Property development		Securities investment and investment holding		Money lending		Consolidated	
	Six months ended 30th June, 2001		Six months ended 30th June, 2000		Six months ended 30th June, 2001		Six months ended 30th June, 2000		Six months ended 30th June, 2001	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
REVENUE										
Revenue from external customers	<u>317,006</u>	<u>270,659</u>	<u>-</u>	<u>-</u>	<u>5,820</u>	<u>8,024</u>	<u>9,485</u>	<u>26,498</u>	<u>332,311</u>	<u>305,181</u>
RESULT										
Segment result	<u>298,161</u>	<u>260,152</u>	<u>(277,755)</u>	<u>(27,785)</u>	<u>5,820</u>	<u>8,024</u>	<u>9,485</u>	<u>26,498</u>	<u>35,711</u>	<u>266,889</u>
Unallocated operating expenses									(56,877)	(4,859)
(Loss) profit from operations									<u>(21,166)</u>	<u>262,030</u>

Geographical market segments

Substantially all of the activities of the Group during the periods were carried out in Hong Kong. Accordingly, a geographical analysis is not included.

6. Staff expenses and depreciation

	Six months ended 30th June,	
	2001	2000
	HK\$'000	HK\$'000
Staff expenses including Directors' emoluments		
Administrative expenses	41,661	39,896
Others	2,731	2,786
	<u>44,392</u>	<u>42,682</u>
Depreciation		
Administrative expenses	7,412	12,281
Others	120	189
	<u>7,532</u>	<u>12,470</u>

7. Taxation

	Six months ended 30th June,	
	2001	2000
	HK\$'000	HK\$'000
The (credit) charge comprises:		
Company and subsidiaries		
Hong Kong Profits Tax	9,452	7,140
Associates		
Hong Kong Profits Tax	(11,577)	1,543
Other jurisdictions	1,621	1,063
	<u>(504)</u>	<u>9,746</u>

Hong Kong Profits Tax is calculated at 16% of the estimated assessable profits of the individual companies comprising the Group for the period. Taxation on profits of subsidiaries and associates in other jurisdictions has been provided for in accordance with the relevant local law.

A deferred taxation asset has not been recognised in the financial statements as it is not certain that the benefit will realise in the foreseeable future.

No deferred tax is provided on the revaluation surplus arising on valuation of investment properties as future profits arising on the disposal of these assets would not be subject to tax. The revaluation therefore does not constitute a timing difference for tax purposes.

8. (Loss) earnings per share

The calculation of the basic (loss) earnings per share is based on the loss attributable to shareholders for the period of HK\$273,274,000 (period ended 30th June, 2000: profit of HK\$69,103,000) and on the weighted average number of 2,381,481,464 (period ended 30th June, 2000: 2,099,960,771) ordinary shares in issue throughout the period.

No diluted loss per share has been presented for the period as the effect of the exercise of the convertible bonds is anti-dilutive. The diluted earnings per share for 2000 was calculated based on the profit attributable to shareholders for the period ended 30th June, 2000 of HK\$69,103,000 and on adjusted weighted average number of 2,129,410,611 ordinary shares adjusted for the effect of dilutive potential ordinary shares upon exercise of the 2000 warrants.

9. Other revenue

	Six months ended 30th June,	
	2001	2000
	HK\$'000	HK\$'000
Included in other revenue are:		
Interest income	19,125	54,271
Net management fee income	1,169	3,539
Written back of general provisions no longer required	10,663	–
	<u>19,125</u>	<u>57,810</u>

10. Other operating expenses

	Six months ended 30th June,	
	2001	2000
	HK\$'000	HK\$'000
Included in other operating expenses are:		
Impairment loss recognised in respect of stock of unsold properties	2,197	–
Loss on disposal of subsidiaries	57	6,231
	<u>2,254</u>	<u>6,231</u>

11. Other losses

	Six months ended 30th June	
	2001	2000
	HK\$'000	HK\$'000
Loss on disposal of listed shares and warrants in Chi Cheung Investment Company, Limited to comply with Listing Rule requirements	15,103	–
	<u>15,103</u>	<u>–</u>

12. Impairment loss recognised in respect of properties under development

Upon an internal review of development value, an impairment loss was made in respect of the properties located at Tai Yuen Street, 31 Barker Road, 145-151A Kau Pui Lung Road and 253-265 Queen's Road Central in the sum of HK\$227,660,000, HK\$43,566,000, HK\$1,529,000 and HK\$5,000,000 respectively. The minority interest's share of impairment loss in respect of Tai Yuen Street and 253-265 Queen's Road Central in the aggregate sum of HK\$72,616,000 was recorded in minority interest.

13. Investment income (loss)

Investment income (loss) represents unrealised holding gain (loss) on listed investment of HK\$5,595,000 (period ended 30th June, 2000: loss of HK\$150,000).

14. Provision for advances to associates

Provision for advances to associates represents impairment loss on a development project of Shiu Fai Terrace of HK\$137,750,000, upon an internal review of the development value of the project.

15. Movements in investment properties, property and other fixed assets and properties under development.

	Investment properties <i>HK\$'000</i>	Property and other fixed assets <i>HK\$'000</i>	Properties under development <i>HK\$'000</i>
COSTS OR VALUATION			
At 1st January, 2001	14,364,278	312,999	2,046,340
New subsidiary	668,000	–	–
Additions	135,371	675	27,958
Disposals	(18,000)	(2,710)	–
Provision for impairment loss	–	–	(277,755)
	<u>15,149,649</u>	<u>310,964</u>	<u>1,796,543</u>
At 30th June, 2001			
DEPRECIATION			
At 1st January, 2001	–	200,723	–
Provided for the period	–	7,532	–
Eliminated on disposals	–	(1,092)	–
	<u>–</u>	<u>207,163</u>	<u>–</u>
At 30th June, 2001			
NET BOOK VALUE			
At 30th June, 2001	<u>15,149,649</u>	<u>103,801</u>	<u>1,796,543</u>

16. Debtors, deposits and prepayments

Included in debtors, deposits and repayments are trade debtors of HK\$22,484,000 (at 31st December, 2000: HK\$15,011,000) comprising mainly of rental receivables which are billed in advance and settlements are expected upon receipts of billings.

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

	30th June, 2001 <i>HK\$'000</i>	31st December, 2000 <i>HK\$'000</i>
0-30 days	6,159	4,751
31-60 days	3,088	676
61-90 days	2,150	472
Over 90 days	11,087	9,112
	<u>22,484</u>	<u>15,011</u>

17. Creditors, accruals and provisions

Included in creditors, accruals and provisions are trade payables of HK\$Nil (at 31st December, 2000: HK\$687,000).

The following is an aged analysis of trade creditors at the reporting date:

	30th June, 2001 <i>HK\$'000</i>	31st December, 2000 <i>HK\$'000</i>
0-90 days	–	675
Over 90 days	–	12
	<u>–</u>	<u>687</u>

18. Borrowings

	30th June, 2001 HK\$'000	31st December, 2000 HK\$'000
Bank loans	2,437,522	1,721,306
Other loans	1,741,000	1,781,000
Convertible bonds	200,000	–
	<u>4,378,522</u>	<u>3,502,306</u>
Secured	4,378,522	3,502,306
Unsecured	–	–
	<u>4,378,522</u>	<u>3,502,306</u>
<p>The maturity of the borrowings is as follows:</p>		
On demand or within one year	525,684	650,952
More than one year but not exceeding two years	484,328	328,850
More than two years but not exceeding five years	3,083,163	2,427,919
More than five years	285,347	94,585
	<u>4,378,522</u>	<u>3,502,306</u>
Less: Amount due within one year shown under current liabilities	<u>(525,684)</u>	<u>(650,952)</u>
Amount due after one year	<u>3,852,838</u>	<u>2,851,354</u>

19. Share capital

	Number of ordinary shares	Nominal value HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 31st December, 2000 and 30th June, 2001	<u>3,100,000,000</u>	<u>310,000</u>
Issued and fully paid:		
At 31st December, 2000 and 30th June, 2001	<u>2,381,481,464</u>	<u>238,148</u>

There were no movements in the Company's share capital during the period ended 30th June, 2001.

20. Reserves

	Share premium <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Investment properties revaluation reserve <i>HK\$'000</i>	Hotel property revaluation reserve <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Accumulated profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP								
At 1st January, 2000								
– As original stated	2,187,359	–	3,042,666	7,563,944	30,880	60,526	2,840,370	15,725,745
– Prior period adjustments (note 3)	–	2,499,685	(3,042,666)	20,444	–	–	373,751	(148,786)
– As restated	2,187,359	2,499,685	–	7,584,388	30,880	60,526	3,214,121	15,576,959
Exchange adjustments	–	–	–	–	–	–	3,532	3,532
Cancellation on repurchase of own shares	(12,229)	–	–	–	–	838	–	(11,391)
Share issue on exercise of warrants	88,558	–	–	–	–	–	–	88,558
Placement of shares	148,610	–	–	–	–	–	–	148,610
Share issue expenses	(1,223)	–	–	–	–	–	–	(1,223)
Revaluation surplus	–	–	–	506,652	–	–	–	506,652
Deficit realised on disposals	–	–	–	176	–	–	–	176
Surplus realised on disposal of investment properties of an associate	–	–	–	(969)	–	–	–	(969)
Share of associates' reserves movements during the year	–	–	–	79,359	(11,974)	–	–	67,385
Loss for the year	–	–	–	–	–	–	(472,598)	(472,598)
At 31st December, 2000	2,411,075	2,499,685	–	8,169,606	18,906	61,364	2,745,055	15,905,691
Exchange adjustments	–	–	–	–	–	–	343	343
Surplus realised on disposal	–	–	–	(6,037)	–	–	–	(6,037)
Loss for the period	–	–	–	–	–	–	(273,274)	(273,274)
Share of associates' reserves movements during the period	–	–	–	772	–	–	–	772
At 30th June, 2001	2,411,075	2,499,685	–	8,164,341	18,906	61,364	2,472,124	15,627,495

21. Acquisition of a subsidiary

On 21st March, 2001, the Group acquired 100% of the issued share capital of Gold Horse Limited for a consideration of HK\$400,603,000. This transaction has been accounted for using the purchase method of accounting.

The effect of the acquisition is summarised as follows:

	<i>HK\$'000</i>
Net assets acquired	<u>43,343</u>
Satisfied by:	
2003 3% convertible bonds of the Company	200,000
Cash consideration	200,603
Less: Assignment of shareholders' loan	(357,260)
	<u>43,343</u>
Net cash outflow arising on acquisition	
Cash consideration	(200,603)
Bank balances and cash acquired	11,691
	<u>(188,912)</u>

Gold Horse Limited did not make any significant contribution to the results of the Group during the interim period.

22. Commitments and contingent liabilities

At as 30th June, 2001, the Group had the following commitments and contingent liabilities not provided for in the financial statements:

	30th June, 2001 HK\$'000	31st December, 2000 HK\$'000
(a) Capital commitments		
Authorised and contracted for		
– Development expenditure of properties	<u>79,603</u>	<u>71,544</u>
Authorised but not contracted for		
– Development expenditure of properties	<u>1,609,333</u>	<u>1,534,997</u>
(b) Contingent liabilities		
Guarantees given to banks, in respect		
of banking facilities utilised by:		
– Associates	150,000	150,000
– Investee company	250,400	250,400
	<u>400,400</u>	<u>400,400</u>

23. Related party transactions

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

	Six months ended 30th June,	
	2001	2000
	HK\$'000	HK\$'000
Income received from associates		
Office rental	296	529
Building management fee	98	93
Interest income	6,410	13,524
Interest paid to a private company under a discretionary trust in which certain family members of a Director has beneficial interest	1,509	–
Interest paid to a private company controlled by a Director	168	–
Income received from a private company controlled by a Director		
Office rental	682	286
Building management fee	<u>166</u>	<u>119</u>

Office rental and building management fee were determined on terms similar to those applicable to transactions with unrelated parties.

24. Post balance sheet event

On 7th August, 2001, the Group has announced a scheme of arrangement for the proposed privatisation of Evergo China Holdings Limited (“ECHL”). The Group will offer 130 shares of Chinese Estates Holdings Limited (subject to adjustment) for every 1,000 shares of ECHL or HK\$0.18 for every share of ECHL. The scheme is subject to the approval of the majority shareholders and relevant authorities.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the period ended 30th June, 2001 (30th June, 2000: Nil).

FINANCIAL OPERATION REVIEW

Turnover for the period ended 30th June, 2001 (the "Period") amounted to HK\$332.3 million, a 8.9% increase from the previous period. It was mainly due to the increase in rental income. Gross profit for the Period amounted to HK\$313.5 million, a 6.4% increase as compared with the same period last year. During the Period, the Causeway Place has contributed a full period rental income after renovation and since the addition of various commercial space at the Excelsior Plaza in March 2001, rental income has been strengthened. Loss for the Period was HK\$273.3 million as compared to a profit of HK\$69.1 million for the same period last year. The turnaround was mainly attributable to impairment loss of HK\$277.8 million recognised in respect of properties under development and impairment loss of HK\$137.8 million for a development project held through associates. The Group's investment properties have generated steady profit and cashflow during the Period, whereas due to downward adjustment in market value of development properties, provision for impairment loss was made to reflect the changes in the Period. Loss per share was 11.5 cents (30th June, 2000: earnings per share 3.3 cents).

Other revenue recorded a decrease of 43.0% to HK\$36.7 million when compared with the same period last year due to a decrease in interest income. Share of results of associates for the Period was mainly attributable to loss derived from The Kwong Sang Hong International Limited ("Kwong Sang Hong") and Primasia Securities Co., Ltd.

Net Asset Value

As at 30th June, 2001, the Group's total net asset amounted to approximately HK\$15,866 million (31st December, 2000: HK\$16,144 million), a decrease of HK\$278 million or 1.7% when compared with 31st December, 2000. With the total number of ordinary shares in issue of 2,381,481,464 as at 30th June, 2001, the net asset value per share was HK\$6.7, a decrease of 1.5% over 31st December, 2000 (HK\$6.8). The decrease in net asset value per share was mainly due to the loss for the Period.

Equity

The number of issued ordinary shares as at 30th June, 2001 and 31st December, 2000 was 2,381,481,464.

Debt and Gearing

As at 30th June, 2001, the Group's bank and other borrowings amounted to HK\$4,379 million (31st December, 2000: HK\$3,502 million). Cash and deposit at bank amounted to HK\$1,115 million (31st December, 2000: HK\$825 million) and net borrowings amounted to HK\$3,264 million (31st December, 2000: HK\$2,677 million).

Total debt to equity ratio was 27.6% (31st December, 2000: 21.7%) and net debt to equity ratio was 20.6% (31st December, 2000: 16.6%), which are expressed as a percentage of bank and other borrowings, and net borrowings respectively, over the total net asset of HK\$15,866 million (31st December, 2000: HK\$16,144 million).

The increase of the total and net debt to equity ratio was mainly due to an increase in bank and other borrowings.

At the balance sheet date, all of the Group's bank and other borrowings are denominated in Hong Kong dollars. Of the Group's total bank and other borrowings HK\$4,379 million, 12.0%, 11.1%, 70.4% and 6.5% are repayable within 1 year, 1 to 2 years, 2 to 5 years and over 5 years respectively. Among the Group's borrowings, HK\$1,741 million are either carried at fixed interest rate or carried at floating rate with hedging through interest rate swap. The remaining Group's bank borrowings carry interest rates mainly calculated with reference to HIBOR and PRIME.

Pledge of Assets

As at 30th June, 2001, the Group's investment properties, stock of unsold property and time deposits with their respective book value of approximately HK\$13,799.0 million (31st December, 2000: HK\$13,617.0 million), HK\$Nil (31st December, 2000: HK\$2.2 million) and HK\$228.5 million (31st December, 2000: HK\$203.3 million) were pledged to secure general banking facilities of the Group.

Financial and Interest Income/Expenses

Interest income was included in turnover and other revenue. Finance cost included interest expenses on bank and other loans, arrangement and commitment fee expenses. Interest income for the Period was HK\$28.6 million, representing a decrease of 64.6% from that of 30th June, 2000 (HK\$80.8 million). A decrease of interest income was mainly attributable to decrease on interest generated from money lending and bank deposit interest. Interest expenses for the Period amounted to HK\$150.5 million, representing a 5.6% increase over the interest expenses of HK\$142.5 million recorded for last period. The increase in interest expenses was due to an increase in the level of bank borrowings during the Period.

Remuneration Policies and Share Option Scheme

Remuneration packages comprised salary and year-end bonus based on individual merits. No share option scheme was adopted for the Period.

The Kwong Sang Hong International Limited

During the Period, the Group had an effective interest of 26.76% in the listed shares of Kwong Sang Hong.

Kwong Sang Hong had total asset and net asset of HK\$2,205.2 million and HK\$1,702.6 million respectively at 31st May, 2001.

BUSINESS REVIEW

Hong Kong Investment Properties

The Group's gross rental income from its investment properties was HK\$317.0 million for the period under review, representing an increase of 17.1% compared to the corresponding period in 2000. The increase in rental was mainly attributable to the additional rental generated from the Causeway Place which comprises more than 160 retail shops and was re-opened in December 2000 after major renovation and the additional shops in the Excelsior Plaza acquired in the second half of 2000.

Despite the sudden downturn in the economy, which has impacted the demand for both office and retail space, the Group has managed to improve the occupancy rates of its investment properties. For the Period under review, the occupancy rates of the MassMutual Tower and the Harcourt House have improved to 93.7% and 90.5% respectively as compared with 90.1% and 74.8% last year. Apart from an increase in new lettings, the Group has managed to secure the renewal of several major existing tenancies including, inter alia, the lease renewal of 4 floors of the MassMutual Tower by an insurance company, for a further term of 3 years commencing from November 2001 and the tenancy renewal of more than 28,000 square feet at the MassMutual Tower by a shipping group, for a further 3 years from January 2002.

With regard to the Group's continuous efforts to strengthen its property interests in the heart of Causeway Bay, the Group had acquired more than 15 units of shops in the Excelsior Plaza with total gross floor area of retailing spaces of approximately 52,000 square feet. The management considered the acquisitions as an important strategic move to enhance its prominence in the traditional prime shopping district. The Group now holds an investment portfolio of over 499,000 square feet of prominent retail space in Causeway Bay, comprising the Excelsior Plaza, the Windsor House and the Causeway Place, plus gross floor area of approximately 407,000 square feet of grade A office space in the Windsor House.

Sale activities for the Group's non-core investment properties are still low. For the Period, the Group had contracted to dispose of its investment in 6 Perkins Road and the sale would be completed in October 2001. The Group intends to continue to dispose of its non-core investment properties if the pricing is satisfactory.

Hong Kong Development Properties

For the Group's 82% attributable interest in the joint-venture redevelopment project undertaken with the Urban Renewal Authority (the successor of Land Development Corporation) at Tai Yuen Street/Wanchai Road, vacant possession of the site was obtained in October 2000. Demolition work of Phase I was completed. Foundation works of Phase I are expected to commence in the last quarter of 2001. Land premium offer issued by The Government of the Hong Kong Special Administrative Region is being considered by the management and the Urban Renewal Authority. Together with the joint venture partners, the Group is reviewing the whole project and negotiating with the Urban Renewal Authority for further enhancement of the redevelopment.

Site formation and foundation works of the Shiu Fai Terrace project (50% interest) are expected to be completed in September 2001. Superstructure construction is expected to commence in late 2001 with pre-sales scheduled to start in late 2002.

Site formation works of the Conduit Road project (70% interest) are expected to commence in early 2002 and the estimated completion date of the whole project is scheduled in late 2003. Site formation and foundation works of 31 Barker Road (100% interest) are in progress and are expected to be completed in early 2002. Superstructure construction is expected to commence in the first quarter of 2002. It is scheduled that the project will be completed in late 2002.

Approval of General Building Plans, Demolition Plans and Foundation Plans in respect of the residential development project at Kau Pui Lung Road (100% interest) have been obtained from the Buildings Department. Demolition and foundations works are expected to commence soon and completion of this project is scheduled in late 2003 with pre-sales scheduled in mid 2002. This project has development potential of gross floor area of approximately 46,000 square feet of a mixed residential/commercial spaces.

The site formation and foundation works in respect of the re-development of the former Military Hospital in King's Park Kowloon (10% interest) are expected to commence in September 2001. This project occupies a site area of approximately 387,568 square feet with a total development potential of approximately 904,168 square feet gross floor area of 8 blocks of luxurious residential units. Pre-sale is expected to take place in late 2002 and the whole project is scheduled to be completed by mid-2004.

PRC Properties

The Group holds its PRC property interests through its investment in the listed shares of Evergo China Holdings Limited ("Evergo China"). The Group's direct interest in Evergo China was 46.62%.

Evergo China had total asset and net asset of HK\$2,012.9 million and HK\$1,819.3 million respectively as at 30th June, 2001.

CORPORATE INFORMATION

Connected and Share Transaction

During the Period, with the approval of the independent shareholders of the Company, the Company completed a connected and share transaction relating to the acquisition of retailing shops of 45,883 square feet occupied by the New Face by Sogo in the Excelsior Plaza in Causeway Bay. Part of the consideration for the acquisition was satisfied by the Company's issue of 3% interest convertible bonds due in 2003 in the aggregate principal amount of HK\$200 million with conversion price of HK\$1.08 per share.

Proposed Privatisation of Evergo China

In light of the shares of Evergo China trading at a substantial discount to its net asset value and at thin trading volume, the Company put forward a proposal to shareholders of Evergo China (other than the Group) regarding the privatisation of Evergo China by way of a scheme of arrangement in August 2001. It is proposed that the scheme shareholders may receive HK\$0.18 in cash for each share of Evergo China or 130 shares of the Company (subject to adjustment) for every 1,000 shares of Evergo China. It is expected if the scheme is successfully approved by the scheme shareholders and the court of Bermuda, the scheme would become effective in late 2001.

PROSPECTS

Under the pressure of the recent slowdown in global economy, the outlook for Hong Kong economy would continue to be weak for the second half of 2001. For the local property market, the increased availability of spaces due to companies downsizing amid of negative economic environment would put pressure on office rent. The China's anticipated economic and infrastructure growth, its eventual entry to the World Trade Organisation and its participation in Olympic Games in 2008, all would have a positive impact on the pace of establishment or expansion of multinational firms in Hong Kong thus alleviating the current sluggishness of the office market.

For Hong Kong's retailing, the Government has explicitly expressed its commitment to boost the tourism of Hong Kong. With tourist spending projected to rise, prime retail premises would prove popular among investors and retailers. The Group believes that its considerable retail portfolio in tourist favored shopping districts, such as Causeway Bay, Tsim Sha Tsui and Mongkok, will continue to enjoy high demand and yield.

With mortgage rates reaching historical low, residential prices can maintain at affordable level for end users and at improved rental yield for investors. The Government's stand firm in its housing policies in reducing subsidized housing would restore market confidence in the property sector. Property prices is believed to be stabilised and bottomed out for slow but steady growth in the next couple of quarters.

DIRECTORS' INTERESTS IN THE SECURITIES OF THE COMPANY AND ASSOCIATED CORPORATIONS

As at 30th June, 2001, the interests of the Directors of the Company in the equity or debt securities of the Company and its associated corporations as recorded in the register kept by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

I. The Company

Name of Director	Number of Shares	Amount of 2003 3% Convertible Bonds (note 1)
Mr. Joseph Lau, Luen-hung		
– Personal interests	381,504,119	–
– Other interests	987,933,549	HK\$180,000,000 (note 2)
	<u>1,369,437,668</u>	<u>HK\$180,000,000</u>
Mr. Thomas Lau, Luen-hung		
– Corporate interests	3,000,000	HK\$20,000,000
– Other interests	206,379,187	– (note 3)
	<u>209,379,187</u>	<u>HK\$20,000,000</u>

Notes:

1. Subject to the overriding right of redemption by the Company, holders of the convertible bonds are entitled to convert one fully paid share of the Company at conversion price of HK\$1.08 before the close of business on the business day immediately preceding 20th March, 2003.
2. These securities were indirectly owned by the respective discretionary trusts of which certain family members of Mr. Joseph Lau, Luen-hung were eligible beneficiaries.
3. These shares were indirectly owned by another discretionary trust of which certain family members of Mr. Thomas Lau, Luen-hung are eligible beneficiaries.

II. Associated Corporations of the Company

Associated Corporation	Name of Director	Number of Shares	Unit of Warrants
1. Chi Cheung Investment Company, Limited (“Chi Cheung”)	Mr. Joseph Lau, Luen-hung – Corporate interests	2,159,475,904 (note 1)	383,527,348 (note 2)
2. Evergo China Holdings Limited (“Evergo China”)	Mr. Joseph Lau, Luen-hung – Corporate interests	1,112,582,621 (note 3)	N/A
3. The Kwong Sang Hong International Limited (“Kwong Sang Hong”)	Mr. Joseph Lau, Luen-hung – Corporate interests	513,746,047 (note 1)	N/A

Notes:

1. Mr. Joseph Lau, Luen-hung by virtue of his 57.50% interest in the share capital of the Company as disclosed in paragraph I above is deemed to be interested in the shares of Kwong Sang Hong and securities of Chi Cheung.
2. Holders of every unit of the warrants are entitled to subscribe for one fully-paid share of Chi Cheung at HK\$0.10 each during the period from 21st November, 2000 to 20th November, 2003.
3. Mr. Joseph Lau, Luen-hung by virtue of his 57.50% and 53.52% deemed interests in the respective share capital of the Company and Kwong Sang Hong as disclosed in paragraphs I and II3 respectively is deemed to be interested in the shares of Evergo China.

Save as disclosed herein, none of the other Directors of the Company had or were deemed under the SDI Ordinance to have any interest in the securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) as at 30th June, 2001, and none of the Directors 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 during the six months ended 30th June, 2001.

SUBSTANTIAL SHAREHOLDERS’ INTERESTS IN THE COMPANY

As at 30th June, 2001, so far as are known to the Directors, the following parties (other than a Director or Chief Executive of the Company) were recorded in the register kept by the Company under Section 16(1) of the SDI Ordinance as being directly or indirectly interested in 10% or more of the nominal value of the issued share capital of the Company:

Name	Number of Shares
Golden Game Overseas Limited	987,933,549 (note)
Credit Suisse Trust Limited as trustee	987,933,549 (note)

Note: Credit Suisse Trust Limited as trustee of a family trust is the holding company of Golden Game Overseas Limited and therefore was regarded as interested in the same parcel of shares held by Golden Game Overseas Limited.

These shares are the same parcel of shares referred to in “other interests” of Mr. Joseph Lau, Luen-hung under “Directors’ Interests in the Securities of the Company and Associated Corporations”.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30th June, 2001, neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company’s listed securities.

OBLIGATIONS UNDER BANKING FACILITIES DOCUMENTATION

As at 30th June, 2001, circumstance which will trigger events of default of the Company under various banking facilities documents as far as the obligation of the controlling shareholders is concerned is as follows:

- A change of the shareholdings in or ownership or control (direct and indirect) of the borrower, a wholly owned subsidiary of the Company.

The aggregate amount of outstanding banking facilities having the above covenant was HK\$605 million as at 30th June, 2001 (31st December, 2000: HK\$623 million) with maturity within three years.

CODE OF BEST PRACTICE

The Audit Committee comprising two Independent Non-executive Directors of the Company has reviewed the details of the interim report for the period ended 30th June, 2001.

Except that the Independent Non-executive Directors are not appointed for any specific terms as they are subject to retirement by rotation in accordance with Bye-law 111 of the Company's Bye-laws, none of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30th June, 2001 in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

APPRECIATION

I take this opportunity to thank our shareholders, my fellow directors and our staff for their dedication and support.

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

Hong Kong, 7th September, 2001