



保利(香港)投資有限公司
Poly (Hong Kong) Investments Limited
Stock Code: 119



INTERIM REPORT 2011



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CORPORATE INFORMATION

Board of directors

Executive directors

CHEN Hong Sheng
WANG Xu
XUE Ming (*Chairman and
Managing Director*)
ZHANG Wan Shun
YE Li Wen

Non-executive director

IP Chun Chung, Robert*

Independent non-executive directors

YAO Kang, J.P.*
CHOY Shu Kwan*
LEUNG Sau Fan, Sylvia*

* *members of the Audit Committee*

Company secretary

TAI Kar Lei

Registered office

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18 Harcourt Road
Hong Kong

Auditor

PKF

Investor relations consultant

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Share registrars and transfer office

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Investor Services Limited
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183 Queen's Road East
Hong Kong

Stock code

119

Company website

www.polyhongkong.com.hk
www.irasia.com/listco/hk/polyhk





MANAGEMENT DISCUSSION AND ANALYSIS

Overall Operating Conditions

For the first half of year 2011, Poly (Hong Kong) Investments Limited (the “Company”) and its subsidiaries (the “Group”) recorded a turnover of HK\$4,197 million (corresponding period in 2010: HK\$2,765 million), representing an increase of HK\$1,432 million or 51.8% as compared with the corresponding period last year. Profit attributable to shareholders amounted to HK\$893 million (corresponding period in 2010: HK\$736 million), representing an increase of HK\$157 million or 21.3% as compared with the corresponding period last year. Basic earnings per share was HK24.74 cents (corresponding period in 2010: HK23.91 cents), representing an increase of HK0.83 cents or 3.5% as compared with the corresponding period last year, while diluted earnings per share was HK24.59 cents (corresponding period in 2010: HK23.62 cents), representing an increase of 4.1% as compared with the corresponding period last year. As at 30th June, 2011, our shareholders’ equity amounted to HK\$22,575 million (31st December, 2010: HK\$22,010 million), a growth of 3.0% as compared with the end of last year, and net book asset value per share was HK\$6.3 (31st December, 2010: HK\$6.1), a growth of 3.3% as compared with the end of last year.

Business Review

In the first half of year 2011, the real estate market continued to experience austerity measures introduced last year. The Central and local governments increased and strengthened efforts in tightening measures showing noticeable results. Speculative and investment demand were reined and rising property prices were curbed by the reinforcement of combined measures including administrative, taxation and credit tightening.

Amid the market volatility and adjustment brought by the tightening measures, the Group was able to maintain stable and healthy business development. This was supported by identifying and responding through adopting a scientific and rational approach. In turn, this allowed to being more receptive to challenges and proactive in capturing opportunities hence turning adverse factors into more favourable ones. As such, the Group was greatly responsive to the changing market trends, focusing on developing small- to medium-size residential apartments as core product and maintaining a decent selling pace on the back of flexible sales strategy. The Group also held on to prudent investment and a more conservative approach to expand its land bank at reasonable cost, which ensures sustainable business growth in the next few years. To optimize the operational capability, the Group highly prioritized operational risks securing its solid and sound development. Holding on to the principle “cash is king”, the Group maintained adequate fund to support steady business operation as well as to capitalise on the growth opportunities that may emerge from market adjustments.



Contract Sales

During the period, the pre-sale and sold area of the Group amounted to 1,100,000 square meters, representing an increase of 69% as compared with previous year. The Group correspondingly recorded contract sales of approximately RMB8.0 billion, achieving nearly 45% of its full-year contract sales target of RMB18 billion.

Standing up to a series of austerity measures including differentiated housing loans, tax policy and home purchase restrictions, the Group's persistency in rapid-rolling development of small- to medium-size of residential projects for the mass market offered favourable sales niche. The Group continued to launch residential products catering the genuine housing demand for home buyers with price reasonably set in proactive response to evolving market conditions. Also, the Group highlighted the excellence of price-for-value products and attracted customers by providing high quality product and property management services. The new projects launched are highly competitive in the market. With the support of various strategies, the contract sales pace and progress were in line to the sales initiatives set at the beginning of the year.

The Group launched a total of 29 projects for sale in the first half of the year, of which 5 were new projects, including Suzhou Poly Lake Mansion, Foshan Poly Prestige City, Guiyang Poly Park 2010, Liuzhou Poly Merization World and Nanning Poly Sincere Garden, all with subscription rate of more than 80%. Liuzhou Poly Merization World introduced 285 furnished residential units on 29th May and all of the units were nearly sold on the debut. Also, the launch of Suzhou Poly Lake Mansion was well-received, more than 200 residential units were almost sold out within two hours.

For the contract sales of commodity housing, the Yangtze River Delta region covered 22%, the Pearl River Delta region took up 15%, the southwestern region and other cities accounted for 40% and 23% respectively.

In the second half of the year, the Group plans to launch not less than 9 new residential projects, including Suzhou Poly West Bank Villa, Hangzhou Poly Origin, Shenzhen Poly Upper Town, Jinan Poly Hyde Mansion, Wuhan Blue Ocean District of Poly, Harbin The Tsinghua Summer Palace of Poly, Nanning Poly City and Zunyi Poly Metropolis of Future, etc.

It is expected that the austerity measures and policies will not be relaxing in the second half of the year. Home purchase restrictions may further expand to more regions. However, the demand of genuine home buyers in the restricted areas was seen strong amid the contract sales progressed in the first half of the year. The Group will still continue to launch small- to medium-size apartments as core products and is confident in realising the sales initiatives and achieving the full-year sales target.

New project commencement

In the first half of the year, construction works with a gross floor area of approximately 3,900,000 square meters were commenced, including 9 new projects, namely Shanghai Jiading Xincheng (C10-6, C14-2) Project, Ningbo Zhenhai Xincheng Project, Guangzhou Poly Zephyr City, Huizhou Project, Wuhan Blue Ocean District of Poly, Guiyang Poly Park 2010, Nanning Poly Sincere Garden, Nanning Poly City and Harbin The Tsinghua Summer Palace of Poly. As of 30th June, the Group had 40 projects under construction with a gross floor area of approximately 8,570,000 square meters.

| | Gross floor area commenced construction ('000 square meters) | Percentage (%) |
|--------------------------------------|---|--------------------------|
| Yangtze River Delta Regions | 829 | 21.2% |
| Pearl River Delta Regions | 436 | 11.1% |
| Southwestern Regions | 1,649 | 42.2% |
| Other Regions | 999 | 25.5% |
| Total for the first half of the year | 3,913 | 100.0% |

Summary of new projects

1. *Shanghai Jiading Xincheng (C10-6, C14-2) Project*

Located at the centre of Jiading Xincheng, Shanghai Jiading Xincheng (C10-6, C14-2) Project neighbours to the administrative centre, schools and the core business district of Jiading Xincheng. It is a prime site with comprehensive commercial amenities nearby. The project is also close to Baiyin Road Station of Metro Line 11 and the central landscape Yuanxiang Lake. The project covers a total site area of approximately 66,000 square meters, with a planned gross floor area of approximately 165,000 square meters. It will be developed into a residential community mainly comprising high-rise residential buildings.



2. *Ningbo Zhenhai Xincheng Project*

The project is located in the core area of Zhenhai Xincheng, north of Ningbo's downtown, which is also the integrated transport hub in the north of the city. It enjoys high accessibility with the planned stations of both Ningbo Metro Line 3 and Line 5 of Ningbo Metro locating in proximity. The project covers a total site area of approximately 326,000 square meters, with a planned gross floor area of approximately 860,000 square meters. It is planned to be an integrated real estate development project comprising high-rise residential buildings, retail spaces, office building, serviced property, hotels, conference centres and business trading centres.

3. *Guangzhou Poly Zephyr City*

Located at the centre of Xinhua Town, Huadu District, Guangzhou Poly Zephyr City is adjacent to the district government to the east, Shiling South Station of Guangzhou-Qingyuan Light Rail, Guangqing Expressway and Wuhan-Guangzhou Railway to the west. The project is greatly accessible. It will take 15 minutes drive to the Guangzhou Baiyun International Airport and 40 minutes drive to the centre of Guangzhou. Surrounded by scenic greenery, the project is a large residential development in the area with a total site area of approximately 254,000 square meters and a gross floor area of approximately 472,000 square meters.

4. *Huizhou Project*

The Huizhou project is located in Huiyang District of Huizhou, Guangdong Province and is adjacent to the Shenshan Expressway. Neighbouring to the Palm Island Golf Course to the east and New World Water Park to the north, the project enjoys high accessibility as well as ancillary facilities nearby. It covers a site area of approximately 66,000 square meters and a planned gross floor area of approximately 238,000 square meters. The project is positioned as a large comprehensive medium to high-end residential community in the new centre of Huiyang, comprising low-density town houses, high-rise residential buildings, apartments and commercial facilities.

5. *Wuhan Blue Ocean District of Poly*

Wuhan Blue Ocean District of Poly is located in the centre of Wuchang District, Wuhan. Standing at the north shore of the South Lake, it boasts the unparalleled panoramic views of natural scenery and the scenic Lion Hill. The project enjoys a convenient transportation network. It is adjacent to Yangjiawan Station of Metro Line 2 to the east, the Luoshilu section in the second ring to the west, and the main Xiongchu Road of Wuchang to the north. It covers a site area of approximately 92,000 square meters and a gross floor area of approximately 380,000 square meters. It is planned to develop into a large residential project mainly comprising high-rise residential buildings.



6. *Guiyang Poly Park 2010*

Located in the Wudang District, Guiyang, Guiyang Poly Park 2010 is adjacent to Wudang Administration Centre and is surrounded by heaps of greenery. The project has a total site area of approximately 2,261,000 square meters and a gross floor area of approximately 1,642,000 square meters. It is positioned as a high-end integrated community consisting of a standard 18-hole golf course, villas, townhouse and high-rise residences.

7. *Nanning Poly Sincere Garden*

Nanning Poly Sincere Garden is located in Qingxiu District, Nanning. It stands at a prime location with about 2 kilometers away from the Nanning International Convention and Exhibition Center and is connected to the exit of the planned Light Railway Line 1. The project has a total site area of approximately 35,000 square meters and a gross floor area of approximately 191,000 square meters. It will be developed into a residential community mainly comprising high-rise residential buildings.

8. *Nanning Poly City*

Nanning Poly City is located in Jiangnan District in Nanning, which is a newly developed residential area with well-equipped amenities in the neighbourhood next to Yongjiang River. It is highly accessible with about 15 minutes ride to the downtown of Nanning. It is adjacent to the Wuyixi Road, which is the key route connecting to downtown on the south. The project has a total site area of approximately 66,000 square meters and a gross floor area of approximately 344,000 square meters. It is planned to develop into a residential community mainly comprising high-rise residential buildings.

9. *Harbin The Tsinghua Summer Palace of Poly*

Located in the south-west to the downtown of Harbin, Harbin The Tsinghua Summer Palace of Poly is in close proximity to the Harbin West Commercial Circle. The project stands at a modern water-front area featuring ecological and contemporary urban living landscape. It benefits from the well-developed transport network with walking distance to Dianbiaochang Station of Harbin Metro Line 1. The project has a total site area of approximately 78,000 square meters and a gross floor area of approximately 336,000 square meters. It will be developed into a residential community mainly comprising high-rise residential buildings.

Projects Sales Recognised

In the first half of the year, the sales amount of RMB3.38 billion from property development was recognized and the recognized area was approximately 350,000 square meters. The breakdown of the recognised amount for each project as follows:

| | Projects sales amount recognised in the first half of 2011 (RMB million) | Percentage of the total projects sales amount recognised (%) |
|--|---|---|
| Yangtze River Delta Regions | 1,748 | 51.7% |
| 1. Shanghai Poly Plaza | 6 | |
| 2. Shanghai Poly Noble Duke | 64 | |
| 3. Shanghai Poly Town | 1,172 | |
| 4. Shanghai Poly Lakeside Garden | 175 | |
| 5. Shanghai Poly Villa Garden | 331 | |
| Southwestern Regions | 795 | 23.5% |
| 6. Nanning Poly Century | 30 | |
| 7. Nanning Poly Landscape | 607 | |
| 8. Nanning Poly Upper House | 29 | |
| 9. Guiyang Poly Clouds Hill International | 109 | |
| 10. Guiyang Poly Hot Spring Newisland | 20 | |
| Other Regions | 841 | 24.8% |
| 11. Wuhan Poly Royal Palace | 695 | |
| 12. Harbin Poly Yi He Homeland Southern District | 1 | |
| 13. Poly Harbin Contemporary No. 9 Park Life | 24 | |
| 14. Harbin Poly The Water's Fragrant Dike | 121 | |
| Total: | 3,384 | 100.0% |

Land Reserves

The Group has maintained a more prudent investment strategy and added six land parcels with a total site area of approximately 2,000,000 square meters and a planned gross floor area of approximately 6,600,000 square meters by various means other than auctions. Through these acquisitions, the Group was able to gain the foothold in more developed second-tier and third-tier cities with great potential for development including the new presence in Yantai and Weihai in Shandong Province, and further enhanced the Group's regional portfolio. Likewise, the land costs of the first project in Zunyi, Huizhou Project in the Pearl River Delta region and Guiyang project in the southwestern regions are kept at a relatively low level, which will bring more attractive return in the future.

| Land reserves | Proposed properties under planning | Total site area ('000 square meters) | Total planned gross floor area ('000 square meters) | Interests attributable to the Group |
|------------------------------------|------------------------------------|---|--|-------------------------------------|
| 1. Huizhou Project | Residential | 66 | 238 | 70% |
| 2. Ningbo Project | Residential and commercial | 208 | 554 | 100% |
| 3. Guiyang Poly Xihu | Residential and commercial | 291 | 897 | 51% |
| 4. Zunyi Poly Metropolis of Future | Residential and commercial | 1,326 | 4,432 | 35.7% |
| 5. Poly Champs Elysees Mansion | Residential | 100 | 280 | 80% |
| 6. Weihai Poly Triumph Mansion | Residential | 89 | 221 | 100% |
| Total: | | 2,080 | 6,622 | |

Additionally, the Group's Wuhan Yangyuan Project has transformed the land usage from initially industrial use to commercial-cum-residential use. The project has a total site area of approximately 30,000 square meters and a gross floor area of approximately 130,000 square meters. The Group holds 51% interests in the project.

The Group currently has a total site area of approximately 10,800,000 square meters and a planned gross floor area of approximately 24,000,000 square meters. Land Use Rights Certificates or Confirmation of Transaction Notices was obtained for each land parcel acquired.

Investment Properties

The Group has various investment properties and hotels locating in the first-tier cities and second-tier provincial capitals. The gross floor area is approximately 489,000 square meters, of which 418,000 square meters are owned by the Group.

The occupancy rate of the Group's office buildings and shopping malls remained stable in the first half of 2011. Both occupancy rate and rental rates further improved as compared with the corresponding period last year. As for hotel operations, Beijing Poly Plaza, Hubei Poly White Rose Hotel and Radegast Resort Guiyang Poly also maintained satisfactory occupancy rates.

| Location | Project | Gross floor area ('000 square meters) | Interests attributable to the Group (%) | Property category |
|-----------|--|--|---|--|
| Shanghai | Shanghai Stock Exchange Building (portion) | 48 | 100% | Office building |
| Shanghai | Shanghai Poly Plaza (main building and basement) | 76 | 90% | Office building and commercial |
| Beijing | Beijing Poly Plaza | 95 | 75% | Office building, hotel and theatre |
| Beijing | Beijing Legend Garden Villas (portion) | 24 | 51% | Apartment, villa and commercial centre, etc. |
| Guangzhou | Guangzhou Citic Plaza (portion) | 38 | 60% | Office building |
| Shenzhen | * Shenzhen Poly Cultural Plaza (portion) | 135 | 100% | Shopping mall, cinema and theatre, etc. |
| Wuhan | Hubei Poly White Rose Hotel | 34 | 100% | Hotel |
| Guiyang | Radegast Resort Guiyang Poly | 39 | 66.5% | Hotel |
| | Total: | 489 | | |

* Shenzhen Poly Cultural Plaza project has a gross floor area of 148,000 square meters, of which 13,000 square meters are held by the minority owners.

Property Management

The Group holds various property management companies engaging in the management of residential properties, hotels and high-end properties. The companies have received numerous titles and honors including the honorary titles of quality, services and integrity of model unit.

In the first half of 2011, the property companies realized an income of RMB31,190,000 and managed 72 property projects with an aggregate gross floor area of 10,890,000 square meters, covering office buildings, hotels, shopping malls, villas and residences.



FINANCIAL REVIEW

Liquidity and Capital Structure

As at 30th June, 2011, the shareholders' equity of the Group amounted to HK\$22,575,476,000 (31st December, 2010: HK\$22,010,167,000), while the net asset value per share was HK\$6.3 (31st December, 2010: HK\$6.1). As at 30th June, 2011, the Group's gearing ratio (on the basis of the amount of total liabilities divided by total assets) was 72% (31st December, 2010: 68%).

As at 30th June, 2011, the Group had outstanding bank and other borrowings of HK\$38,769,369,000. In terms of maturity, the outstanding bank and other borrowings can be divided into HK\$16,528,395,000 (43%) to be repaid within one year, HK\$12,870,666,000 (33%) to be repaid after one year but within two years, HK\$7,296,165,000 (19%) to be repaid after two years but within five years and HK\$2,074,143,000 (5%) to be repaid after five years. In terms of currency denomination, the outstanding bank and other borrowings can be divided into HK\$35,259,369,000 (91%) in Renminbi and HK\$3,510,000,000 (9%) in United State dollars.

27% of the bank and other borrowings of the Group are subject to fixed interest rates and the remaining 73% are subject to floating interest rates. Therefore, under circumstances of interest rates uncertainty or fluctuations or otherwise as appropriate, the Group will consider the use of hedging instruments (including interest rates swaps), in order to manage interest rate risks.

As at 30th June, 2011, the Group had net current assets of HK\$35,797,381,000 and total bank balances of HK\$14,324,870,000 (31st December, 2010: HK\$33,539,008,000 and HK\$16,054,674,000 respectively). With the available banking facilities and cash revenue from business operations, it is believed that the Group has sufficient resources to meet the foreseeable working capital demands and capital expenditure.

The monetary assets and liabilities and business transactions of the Group are mainly carried and conducted in Hong Kong dollars, United State dollars and Renminbi. The Group maintains a prudent strategy in its foreign exchange risk management, where foreign exchange risks are minimised via balancing the monetary assets versus monetary liabilities, and foreign exchange revenue versus foreign exchange expenditures. The management believes that the foreign exchange rate between Hong Kong dollars and United State dollars is relatively stable. On the other hand, despite the recent mild appreciation of the Renminbi exchange rate, the Board believes that the Renminbi exchange rate will only gradually appreciate by a small percentage in the foreseeable future. In this regard, the Group believes that its exposure to foreign exchange risks is immaterial.



Pledge of Assets

As at 30th June, 2011, bank deposits amounted to HK\$294,202,000 (31st December, 2010: HK\$181,864,000), certain of the Group's properties under development of approximately HK\$16,754,037,000 (31st December, 2010: approximately HK\$10,969,486,000), certain of the Group's properties held for sale of approximately HK\$1,635,875,000 (31st December, 2010: approximately HK\$1,976,672,000), certain of the Group's investment properties of approximately HK\$1,462,173,000 (31st December, 2010: approximately HK\$1,462,914,000), hotel properties, prepaid lease payments, other property, plant and equipment with an aggregate net book value of approximately HK\$1,749,433,000 (31st December, 2010: HK\$1,550,155,000) were pledged to secure credit facilities granted to the Group.

Contingent Liabilities

The Group arranged mortgage loan facilities with certain banks for purchasers of property units and provided guarantees to banks to secure obligations of such purchasers of repayment. The maximum guarantees given to banks amount to HK\$8,460,561,000 as at 30th June, 2011 (31st December, 2010: HK\$8,306,183,000). Such guarantees terminate upon the earlier of (i) issue of the real estate ownership certificate and (ii) the satisfaction of the mortgage loans by the buyers of the properties. The Group has not recognised any deferred income in respect of these guarantees as its fair value is considered to be minimal by the directors. The directors also consider that the fair value of the underlying properties is able to cover the outstanding mortgage loans guaranteed by the Group in the event the purchasers default payments to the banks.

STAFF

As at 30th June, 2011, the Group employed about 5,519 (30th June, 2010: 4,481) staff with remuneration for the period amounted to approximately HK\$204,761,000. The Group provides its staff with various benefits including year-ended double-pay, discretionary bonus, contributory provident fund, share options and medical insurance. Staff training is also provided as and when required.

INTERIM RESULTS

The directors (the “Directors”) of Poly (Hong Kong) Investments Limited (the “Company”) hereby announce the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June, 2011 with comparative figures for the six months ended 30th June, 2010 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

| | Notes | Six months ended 30th June, | |
|---|-------|---------------------------------|---------------------------------|
| | | 2011 HK\$'000 (Unaudited) | 2010 HK\$'000 (Unaudited) |
| Revenue | 3 | 4,196,720 | 2,765,465 |
| Cost of sales | | (2,407,167) | (1,698,987) |
| Gross profit | | 1,789,553 | 1,066,478 |
| Other income | | 258,408 | 271,038 |
| Selling expenses | | (184,600) | (120,806) |
| Administrative expenses | | (376,729) | (259,927) |
| Net decrease in fair value of held-for-trading investments | | (909) | (3,352) |
| Net increase in fair value of investment properties | | 16,471 | – |
| Gain on disposal of available-for-sale investments | | 151,975 | – |
| Gain on disposal of interests in subsidiaries | | – | 176,867 |
| Discount on acquisition of interests in subsidiaries | | – | 81,110 |
| Gain on disposal of interest in an associate | | 95,249 | – |
| Finance costs | | (190,777) | (47,776) |
| Share of results of jointly controlled entities | | (2,534) | (3,411) |
| Share of results of associates | | 5,086 | 5,094 |
| Profit before taxation | 4 | 1,561,193 | 1,165,315 |
| Income tax expense | 5 | (638,783) | (302,487) |
| Profit for the period | | 922,410 | 862,828 |
| Attributable to: | | | |
| Owners of the Company | | 892,871 | 735,819 |
| Non-controlling interests | | 29,539 | 127,009 |
| | | 922,410 | 862,828 |
| Dividends | 6 | 559,308 | 140,938 |
| Earnings per share | 7 | | |
| – Basic | | 24.74 cents | 23.91 cents |
| – Diluted | | 24.59 cents | 23.62 cents |

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Six months ended 30th June, | |
|---|---------------------------------|---------------------------------|
| | 2011 HK\$'000 (Unaudited) | 2010 HK\$'000 (Unaudited) |
| Profit for the period | 922,410 | 862,828 |
| Other comprehensive income | | |
| Exchange differences arising on translation of foreign operations | 209,904 | 121,636 |
| Change in fair value of available-for-sale investments | 80,369 | (111,877) |
| Surplus arising on revaluation of properties | 7,332 | 6,682 |
| Investment revaluation reserve released on disposal of available-for-sale investments | (36,535) | – |
| Other comprehensive income before tax effect | 261,070 | 16,441 |
| Deferred tax liability arising on revaluation of properties | (1,833) | (1,670) |
| Other comprehensive income for the period, net of tax | 259,237 | 14,771 |
| Total comprehensive income for the period | 1,181,647 | 877,599 |
| Attributable to: | | |
| Owners of the Company | 1,124,621 | 736,492 |
| Non-controlling interests | 57,026 | 141,107 |
| | 1,181,647 | 877,599 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | <i>Notes</i> | 30th June, 2011 HK\$'000 (Unaudited) | 31st December, 2010 HK\$'000 (Audited) |
|---|--------------|---|---|
| Non-Current Assets | | | |
| Investment properties | 9 | 5,107,271 | 5,025,391 |
| Property, plant and equipment | 9 | 1,805,882 | 1,751,532 |
| Prepaid lease payments – non-current portion | | 371,672 | 385,060 |
| Goodwill | | 784,741 | 785,299 |
| Interests in associates | | 88,162 | 135,480 |
| Interests in a jointly controlled entity | | 1,399 | 1,515 |
| Available-for-sale investments | | 310,508 | 419,166 |
| Club membership | | 1,188 | 1,169 |
| Deposits paid for acquisition of land use rights | | 2,997,385 | 2,611,577 |
| Deposits paid for acquisition of subsidiaries | | 239,234 | 235,294 |
| Deferred tax assets | | 161,569 | 158,001 |
| | | 11,869,011 | 11,509,484 |
| Current Assets | | | |
| Properties under development | | 53,028,276 | 37,990,453 |
| Properties held for sale | | 4,091,780 | 5,495,438 |
| Other inventories | | 44,600 | 42,237 |
| Trade and other receivables | 10 | 1,551,052 | 1,215,033 |
| Prepaid lease payments – current portion | | 10,278 | 10,621 |
| Short-term loan receivables | | 179,426 | 176,471 |
| Held-for-trading investments | | 655 | 11,002 |
| Deposits paid for acquisition of property development projects | | – | 976,544 |
| Amounts due from fellow subsidiaries | 11(a) | 33,105 | 34,015 |
| Amount due from a jointly controlled entity | | 3,828 | 2,582 |
| Amounts due from non-controlling shareholders of subsidiaries | | 757,204 | 189,012 |
| Amounts due from related companies | | 20,137 | 17,431 |
| Taxation recoverable | | 326,018 | 136,366 |
| Pledged bank deposits | | 294,202 | 181,864 |
| Bank balances, deposits and cash | | 14,030,668 | 15,872,810 |
| | | 74,371,229 | 62,351,879 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | <i>Notes</i> | 30th June, 2011 HK\$'000 (Unaudited) | 31st December, 2010 HK\$'000 (Audited) |
|---|--------------|---|---|
| Current Liabilities | | | |
| Trade and other payables | 12 | 2,892,595 | 3,881,360 |
| Pre-sale deposits | | 11,204,686 | 8,884,824 |
| Property rental deposits | | 69,097 | 67,622 |
| Amount due to the ultimate holding company | 11(c) | 653,184 | 98,635 |
| Amount due to an intermediate holding company | 11(b) | 2,658,062 | 2,625,820 |
| Amounts due to fellow subsidiaries | 11(a) | 768,438 | 1,407,760 |
| Amounts due to non-controlling shareholders of subsidiaries | | 2,483,227 | 1,018,110 |
| Amounts due to an associate | | 71,770 | 70,588 |
| Taxation payable | | 1,244,394 | 1,235,521 |
| Bank and other borrowings – due within one year | 13 | 16,528,395 | 9,522,631 |
| | | 38,573,848 | 28,812,871 |
| Net Current Assets | | 35,797,381 | 33,539,008 |
| Total Assets Less Current Liabilities | | 47,666,392 | 45,048,492 |
| Capital and Reserves | | | |
| Share capital | 14 | 1,804,219 | 1,804,219 |
| Reserves | | 20,771,257 | 20,205,948 |
| Equity attributable to owners of the Company | | 22,575,476 | 22,010,167 |
| Non-controlling interests | | 1,903,267 | 1,819,329 |
| Total Equity | | 24,478,743 | 23,829,496 |
| Non-Current Liabilities | | | |
| Bank and other borrowings – due after one year | 13 | 22,240,974 | 20,300,639 |
| Loan from a fellow subsidiary | | 197,375 | 188,470 |
| Deferred tax liabilities | | 749,300 | 729,887 |
| | | 23,187,649 | 21,218,996 |
| | | 47,666,392 | 45,048,492 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2011

| | Attributable to owners of the Company | | | | | | | | | | | | | | |
|--|---------------------------------------|---------------------------|----------------------------------|--|---------------------------------|--|------------------------------------|--|-----------------------------------|---------------------------------------|---------------------------|---------------------------------|-------------------|---------------------------------------|-------------------|
| | Share capital HK\$'000 | Share premium HK\$'000 | Share option reserve HK\$'000 | Hotel properties revaluation reserve HK\$'000 | Translation reserve HK\$'000 | Capital redemption reserve HK\$'000 | PRC statutory reserves HK\$'000 | Investment revaluation reserve HK\$'000 | Other capital reserve HK\$'000 | Asset revaluation reserve HK\$'000 | Other reserve HK\$'000 | Accumulated profits HK\$'000 | Total HK\$'000 | Non-controlling interests HK\$'000 | Total HK\$'000 |
| At 1st January, 2011 | 1,804,219 | 15,621,564 | 42,177 | 80,413 | 756,525 | 23,917 | 291,177 | 74,502 | 307,485 | 21,446 | (74,496) | 3,059,238 | 22,010,167 | 1,819,329 | 23,829,496 |
| Total comprehensive income for the period | - | - | - | 4,382 | 183,534 | - | - | 43,834 | - | - | - | 892,871 | 1,124,621 | 57,026 | 1,181,647 |
| Share issue expenses | - | (4) | - | - | - | - | - | - | - | - | - | - | (4) | - | (4) |
| Dividends paid | - | - | - | - | - | - | - | - | - | - | - | (559,308) | (559,308) | - | (559,308) |
| Dividends paid to non-controlling shareholders of subsidiaries | - | - | - | - | - | - | - | - | - | - | - | - | - | (40,072) | (40,072) |
| Changes in ownership interests in subsidiaries | - | - | - | - | - | - | - | - | - | - | - | - | - | 2,630 | 2,630 |
| Capital contribution by non-controlling shareholders | - | - | - | - | - | - | - | - | - | - | - | - | - | 64,354 | 64,354 |
| At 30th June, 2011 | 1,804,219 | 15,621,560 | 42,177 | 84,795 | 940,059 | 23,917 | 291,177 | 118,336 | 307,485 | 21,446 | (74,496) | 3,392,801 | 22,575,476 | 1,903,267 | 24,478,743 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2010

| | Attributable to owners of the Company | | | | | | | | | | | | | Non-controlling interests | Total |
|---|---------------------------------------|---------------|----------------------|--------------------------------------|---------------------|----------------------------|------------------------|--------------------------------|-----------------------|---------------------------|---------------------|------------|-----------|---------------------------|----------|
| | Share capital | Share premium | Share option reserve | Hotel properties revaluation reserve | Translation reserve | Capital redemption reserve | PRC statutory reserves | Investment revaluation reserve | Other capital reserve | Asset revaluation reserve | Accumulated profits | Total | 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 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1st January, 2010 | 1,491,996 | 10,587,718 | 42,694 | 30,829 | 474,811 | 23,917 | 149,172 | 1,716 | 307,485 | 5,798 | 1,503,814 | 14,619,950 | 1,518,950 | 16,138,900 | |
| Total comprehensive income for the period | - | - | - | 3,963 | 108,587 | - | - | (111,877) | - | - | 735,819 | 736,492 | 141,107 | 877,599 | |
| Exercise of share options | 150 | 1,546 | (259) | - | - | - | - | - | - | - | - | 1,437 | - | 1,437 | |
| Issue of shares for acquisition of Rapid Bloom Limited and its subsidiaries | 109,423 | 1,801,103 | - | - | - | - | - | - | - | - | - | 1,910,526 | - | 1,910,526 | |
| Share issue expenses | - | 355 | - | - | - | - | - | - | - | - | - | 355 | - | 355 | |
| Transfer | - | - | - | - | - | - | 6,354 | - | - | - | (6,354) | - | - | - | |
| Dividends paid | - | - | - | - | - | - | - | - | - | - | (140,938) | (140,938) | - | (140,938) | |
| Dividends paid to non-controlling shareholders of a subsidiary | - | - | - | - | - | - | - | - | - | - | - | - | (65,059) | (65,059) | |
| Upon disposal of a subsidiary | - | - | - | - | - | - | - | - | - | - | - | - | (5,449) | (5,449) | |
| Acquisition of a subsidiary | - | - | - | - | - | - | - | - | - | - | - | - | 42,621 | 42,621 | |
| Changes in ownership interests in subsidiaries | - | - | - | - | - | - | - | - | - | - | - | - | 175 | 175 | |
| Capital contribution by non-controlling shareholders | - | - | - | - | - | - | - | - | - | - | - | - | 81,609 | 81,609 | |
| At 30th June, 2010 | 1,601,569 | 12,390,722 | 42,435 | 34,792 | 583,398 | 23,917 | 155,526 | (110,161) | 307,485 | 5,798 | 2,092,341 | 17,127,822 | 1,713,954 | 18,841,776 | |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

| | Six months ended 30th June, | |
|--|---------------------------------|---------------------------------|
| | 2011 HK\$'000 (Unaudited) | 2010 HK\$'000 (Unaudited) |
| Net cash used in operating activities | (10,945,491) | (10,502,238) |
| Net cash (used in)/from investing activities | (263,777) | 748,369 |
| Net cash from financing activities | 9,173,089 | 10,556,699 |
| Net (decrease)/increase in cash and cash equivalents | (2,036,179) | 802,830 |
| Cash and cash equivalents at beginning of the period | 15,872,810 | 10,100,429 |
| Effect of foreign exchange rate change | 194,037 | 80,068 |
| Cash and cash equivalents at end of the period | 14,030,668 | 10,983,327 |
| Analysis of the balance of cash and cash equivalents, represented by – bank balances, deposits and cash | 14,030,668 | 10,983,327 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The condensed 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 No. 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

2. Principal accounting policies

The condensed financial statements have been prepared under the historical cost convention, except for certain properties and financial instruments, which are measured at fair values or revalued amounts, as appropriate.

A number of new or revised standards, amendments and interpretations are effective for the financial year beginning on 1st January, 2011. Except as described below, the same accounting policies, presentation and methods of computation have been followed in these condensed consolidated financial statements as were applied in the preparation of the Group’s financial statements for the year ended 31st December, 2010.

In the current interim period, the Group has applied the following new and revised standards, amendments and interpretations issued by the HKICPA, which are effective for the Group’s financial year beginning 1st January, 2011.

| | |
|----------------------------------|---|
| HKAS 24 (Revised) | Related Party Disclosures |
| HK(IFRIC) – Int 19 | Extinguishing Financial Liabilities with Equity Instruments |
| Amendments to HKAS 32 | Classification of Rights Issues |
| Amendments to HK(IFRIC) – Int 14 | Prepayments of a Minimum Funding Requirement |
| HKFRSs | Improvements to HKFRSs 2010 |

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

| | |
|-----------------------|--|
| HKFRS 9 | Financial Instruments ³ |
| Amendments to HKAS 12 | Deferred Tax: Recovery of Underlying Assets ² |
| Amendments to HKFRS 7 | Disclosures – Transfers of Financial Assets ¹ |

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

² Effective for annual periods beginning on or after 1st January, 2012

³ Effective for annual periods beginning on or after 1st January, 2013

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group’s financial statements.

3. Revenue and segment information

The Group's reportable segments under HKFRS 8 are as follows:

For the six months ended 30th June, 2011

| | Property development business HK\$'000 | Property investment and management HK\$'000 | Hotel operations HK\$'000 | Other operations HK\$'000 | Elimi- nations HK\$'000 | Total HK\$'000 |
|--|---|---|---------------------------------|---------------------------------|-------------------------------|-------------------|
| REVENUE | | | | | | |
| External revenue | 3,819,215 | 231,814 | 86,909 | 58,782 | – | 4,196,720 |
| Inter-segment revenue* | 1,976 | 1,104 | – | 322,809 | (325,889) | – |
| Total revenue | <u>3,821,191</u> | <u>232,918</u> | <u>86,909</u> | <u>381,591</u> | <u>(325,889)</u> | <u>4,196,720</u> |
| SEGMENT RESULT | <u>1,201,200</u> | <u>112,914</u> | <u>3,728</u> | <u>166,087</u> | <u>–</u> | <u>1,483,929</u> |
| Unallocated income | | | | | | 212,308 |
| Unallocated expenses | | | | | | (42,068) |
| Gain on disposal of interest in an associate | 95,249 | | | | | 95,249 |
| Finance costs | | | | | | (190,777) |
| Share of results of jointly controlled entities | | | | (2,534) | | (2,534) |
| Share of results of associates | 5,086 | | | | | <u>5,086</u> |
| Profit before taxation | | | | | | 1,561,193 |
| Income tax expense | | | | | | <u>(638,783)</u> |
| Profit for the period | | | | | | <u>922,410</u> |

* *Inter-segment revenue were charged with reference to prices charged to external parties for similar services and products.*

For the six months ended 30th June, 2010

| | Property development business HK\$'000 | Property investment and management HK\$'000 | Hotel operations HK\$'000 | Other operations HK\$'000 | Elimi- nations HK\$'000 | Total HK\$'000 |
|---|---|---|---------------------------------|---------------------------------|-------------------------------|-------------------|
| REVENUE | | | | | | |
| External revenue | 2,434,621 | 209,087 | 64,907 | 56,850 | – | 2,765,465 |
| Inter-segment revenue* | – | 1,507 | – | 143,185 | (144,692) | – |
| Total revenue | 2,434,621 | 210,594 | 64,907 | 200,035 | (144,692) | 2,765,465 |
| SEGMENT RESULT | | | | | | |
| | 624,588 | 90,423 | 3,359 | 191,292 | – | 909,662 |
| Unallocated income | | | | | | 78,356 |
| Unallocated expenses | | | | | | (34,587) |
| Gain on disposal of interests in subsidiaries | 176,867 | | | | | 176,867 |
| Discount on acquisition of interests in subsidiaries | 81,110 | | | | | 81,110 |
| Finance costs | | | | | | (47,776) |
| Share of results of jointly controlled entities | | | | (3,411) | | (3,411) |
| Share of results of associates | 5,094 | | | | | 5,094 |
| Profit before taxation | | | | | | 1,165,315 |
| Income tax expense | | | | | | (302,487) |
| Profit for the period | | | | | | 862,828 |

* *Inter-segment revenue were charged with reference to prices charged to external parties for similar services and products.*

4. Profit before taxation

| | Six months ended | |
|--|----------------------------|----------------------------|
| | 30th June, 2011 | 30th June, 2010 |
| | HK\$'000 | HK\$'000 |
| Profit before taxation has been arrived at after charging: | | |
| Amortisation of prepaid lease payments | 4,542 | 4,350 |
| Depreciation and amortisation of property, plant and equipment | 40,427 | 36,982 |
| Share of tax of associates (included in share of results of associates) | – | – |

5. Income tax expense

| | Six months ended | |
|--|---|---|
| | 30th June, 2011 HK\$'000 | 30th June, 2010 HK\$'000 |
| The charge comprises: | | |
| Hong Kong profits tax calculated at 16.5% (six months ended 30th June, 2010: 16.5%) of the estimated assessable profits for the period | – | – |
| PRC enterprise income tax | 384,699 | 156,457 |
| | 384,699 | 156,457 |
| Land appreciation tax | 247,988 | 140,904 |
| Deferred taxation | 6,096 | 5,126 |
| | 638,783 | 302,487 |

Hong Kong profits tax has not been provided as the Group has no estimated assessable profits which were earned in or derived from Hong Kong during the period.

PRC enterprise income tax is calculated in accordance with the relevant laws and regulations in the PRC.

6. Dividends

| | Six months ended | |
|---|---|---|
| | 30th June, 2011 HK\$'000 | 30th June, 2010 HK\$'000 |
| 2010 final dividend of HK\$0.155 (2009: HK\$0.044) per share | 559,308 | 140,938 |

The Directors have decided not to declare any interim dividend for the six months ended 30th June, 2011 (2010: HK\$nil).

7. Earnings per share

The calculation of basic and diluted earnings per share for the six months ended 30th June, 2011 is based on the following data:

| | Six months ended | |
|---|--------------------------------|--------------------------------|
| | 30th June, 2011 HK\$'000 | 30th June, 2010 HK\$'000 |
| Earnings: | | |
| Profit for the period attributable to owners of the Company | 892,871 | 735,819 |
| | | |
| | Six months ended | |
| | 30th June, 2011 | 30th June, 2010 |
| Number of shares: | | |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 3,608,437,046 | 3,077,363,101 |
| Effect of dilutive potential ordinary shares on share options | 23,075,411 | 37,854,423 |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | 3,631,512,457 | 3,115,217,524 |

8. Transfer to and from reserves

During the six months ended 30th June, 2011, the Group's subsidiaries in the PRC did not appropriate any amount net of non-controlling interests' share out of accumulated profits to the PRC statutory reserves (2010: HK\$6,354,000).

9. Movements in investment properties and property, plant and equipment

During the period, the additions to the Group's property, plant and equipment amounted to approximately HK\$60 million, which included capital expenditure paid for construction in progress, renovation work and additions of motor vehicles and furniture and fixture. The additions were offset by HK\$40 million depreciation charged during the current period.

Renminbi appreciated against Hong Kong dollars during the period ended 30th June, 2011 generated HK\$26 million and HK\$66 million increase in property, plant and equipment and investment properties respectively.

The Group's investment properties and hotel properties at 30th June, 2011 were fair valued by AA Property Services Limited, an independent professional surveyor and property valuer not connected with the Group. AA Property Services Limited is a member of the Hong Kong Institute of Surveyors and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation was arrived by reference to comparable sales transactions as available in the relevant market. At 30th June, 2011, net increase in fair value of investment properties amounted to HK\$16 million.

10. Trade and other receivables

The credit terms in connection with sales of properties granted to the customers are set out in the sale and purchase agreements and vary from agreements. There is no concentration of credit risk with respect to trade receivables arise from sales of properties as the Group has numerous customers. In respect of sales of goods granted to trade customers, the Group allows an average credit periods ranging from 30 days to 90 days. The following is an aged analysis of trade receivables net of allowance for doubtful debts at the end of the reporting period:

| | 30th June, 2011 HK\$'000 | 31st December, 2010 HK\$'000 |
|-------------------------|---|------------------------------------|
| 0 to 30 days | 155,551 | 204,802 |
| 31 to 90 days | 3,363 | 27,471 |
| More than 90 days | 23,107 | 17,927 |
| Total trade receivables | 182,021 | 250,200 |
| Bills receivable | 124,402 | 100,000 |
| Other receivables | 1,244,629 | 864,833 |
| | 1,551,052 | 1,215,033 |

11. Amount(s) due from (to) fellow subsidiaries/the ultimate holding company/an intermediate holding company

| | 30th June, 2011 HK\$'000 | 31st December, 2010 HK\$'000 |
|--|---|------------------------------------|
| (a) Amounts due from (to) fellow subsidiaries | | |
| Amount due from fellow subsidiaries:- | | |
| – Interest-free | 33,105 | 34,015 |
| Amount due to fellow subsidiaries:- | | |
| – Interest-free | 768,438 | 1,407,760 |
| The amounts are unsecured and repayable on demand. | | |
| (b) Amount due to an intermediate holding company | | |
| – Interest-free | 2,014,236 | 1,992,598 |
| – Benchmark rate in the PRC plus 0.5% | 575,007 | 565,536 |
| – Benchmark rate in the PRC plus 1% | 68,819 | 67,686 |
| | 2,658,062 | 2,625,820 |

The amounts are unsecured and repayable within one year except HK\$22,734,000 (31st December 2010: HK\$1,097,000) are repayable on demand.

11. Amount(s) due from (to) fellow subsidiaries/the ultimate holding company/an intermediate holding company (Continued)

| | 30th June, 2011 HK\$'000 | 31st December, 2010 HK\$'000 |
|--|--------------------------------|------------------------------------|
| (c) Amount due to the ultimate holding company | | |
| – Interest-free | 22,916 | 66,983 |
| – Benchmark rate in the PRC plus 1% | 630,268 | 31,652 |
| | 653,184 | 98,635 |

The amounts are unsecured and repayable within one year except HK\$22,916,000 (31st December 2010: HK\$66,983,000) are repayable on demand.

12. Trade and other payables

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

| | 30th June, 2011 HK\$'000 | 31st December, 2010 HK\$'000 |
|----------------------|--------------------------------|------------------------------------|
| 0 to 30 days | 1,144,108 | 1,936,817 |
| 31 to 90 days | 62,718 | 15,453 |
| More than 90 days | 387,696 | 349,343 |
| Total trade payables | 1,594,522 | 2,301,613 |
| Other payables | 1,298,073 | 1,579,747 |
| | 2,892,595 | 3,881,360 |

13. Bank and other borrowings

During the period, the Group obtained new bank and other borrowings of the amount of HK\$12,684 million, which bear interest at market rates. The Group also repaid approximately HK\$4,179 million during the period.

Renminbi appreciated against Hong Kong dollars during the period ended 30th June 2011 generated HK\$441 million increase in bank and other borrowings.

14. Share capital

| | Number of ordinary shares | Amount HK\$'000 |
|--|------------------------------|--------------------|
| Ordinary shares of HK\$0.50 each | | |
| Authorised: | | |
| At 1st January, 2011 | 4,000,000,000 | 2,000,000 |
| Increase | <u>4,000,000,000</u> | <u>2,000,000</u> |
| At 30th June, 2011 | <u>8,000,000,000</u> | <u>4,000,000</u> |
| Issued and fully paid: | | |
| At 1st January, 2011 and 30th June, 2011 | <u>3,608,437,046</u> | <u>1,804,219</u> |

15. Acquisition of subsidiaries

On 5th January, 2010, the Group entered into two sale and purchase agreements to acquire 35% and 20% interest of 武漢眾和置業有限公司, which is engaged in property development business. The acquisition was completed on 5th January, 2010 and the aggregate consideration was HK\$52,092,000.

On 15th April, 2010, the Group completed the acquisition of the entire interest and shareholder's loan of HK\$3,983,754,000 of Rapid Bloom Limited with Cedar Key Limited (a wholly-owned subsidiary of Poly (Hong Kong) Holdings Limited ("Poly Holdings"), which is a wholly-owned subsidiary of China Poly Group Corporation, the ultimate holding company of the Company) at a total consideration which was determined at after arm's length negotiations. The consideration of HK\$3,902,027,000 was satisfied by amount due to an intermediate holding company of HK\$1,991,501,000 and issuing 218,846,000 shares of the Company to Poly Holdings at HK\$8.73 per share, representing the market price of the share at the date of completion. Details of the acquisition were set out in a circular of the Company dated 26th March, 2010. The acquisition was approved by the shareholders of the Company in the extraordinary general meeting held on 15th April, 2010.

15. Acquisition of subsidiaries (Continued)

The net assets acquired in above acquisition are as follow:

| | Rapid Bloom Limited HK\$'000 | 武漢眾和置業 有限公司 HK\$'000 | Subtotal HK\$'000 | Fair value adjustments HK\$'000 | Total HK\$'000 |
|---|------------------------------------|----------------------------|----------------------|---------------------------------------|-------------------|
| Net assets acquired:- | | | | | |
| Investment properties | - | 8,832 | 8,832 | 9,328 | 18,160 |
| Property, plant and equipment | - | 8 | 8 | - | 8 |
| Deposits paid for acquisition of subsidiaries | 1,316,211 | - | 1,316,211 | - | 1,316,211 |
| Deposits paid for acquisition of land use rights | 2,666,627 | - | 2,666,627 | - | 2,666,627 |
| Property under development | - | 88,336 | 88,336 | 22,480 | 110,816 |
| Properties held for sale | - | 1,051 | 1,051 | - | 1,051 |
| Other receivables | - | 2 | 2 | - | 2 |
| Bank balances, deposits and cash | 299 | 500 | 799 | - | 799 |
| Other payables | - | (26,757) | (26,757) | - | (26,757) |
| Amount due to intermediate holding company | (3,983,754) | - | (3,983,754) | - | (3,983,754) |
| Pre-sale deposits | - | (1,115) | (1,115) | - | (1,115) |
| Deferred tax liabilities | - | - | - | (7,952) | (7,952) |
| | (617) | 70,857 | 70,240 | 23,856 | 94,096 |
| Non-controlling interests | - | (31,886) | (31,886) | (10,735) | (42,621) |
| | (617) | 38,971 | 38,354 | 13,121 | 51,475 |
| Discount on acquisition of interests in subsidiaries | | | | | (81,110) |
| Total consideration | | | | | (29,635) |
| Total consideration satisfied by:- | | | | | |
| 218,846,000 consideration shares issued upon completion | | | | | 1,910,526 |
| Amount due to an intermediate holding company | | | | | 1,991,501 |
| Cash consideration | | | | | 52,092 |
| Assignment of amount due to intermediate holding company | | | | | (3,983,754) |
| Total consideration | | | | | (29,635) |
| Net cash outflow arising on acquisition:- | | | | | |
| Cash consideration paid | - | (52,092) | (52,092) | - | (52,092) |
| Bank balances, deposits and cash acquired | 299 | 500 | 799 | - | 799 |
| | 299 | (51,592) | (51,293) | - | (51,293) |

16. Disposal of subsidiaries

On 3rd March, 2010, the Group entered into a sale and purchase agreement to dispose of its 51% equity interest of 深圳市祥瑞實業發展有限公司, which is engaged in property development business. The disposal was completed on 9th April, 2010.

On 28th June, 2010, the Group entered into a sale and purchase agreement to dispose of its entire interest in Starry Joy Properties Investment Ltd, which is an investment holding company. The disposal was completed on 28th June, 2010.

The net assets of subsidiaries at the date of disposal were as follows:-

| | 深圳市 祥瑞實業發展 有限公司 HK\$'000 | Starry Joy Properties Investment Ltd HK\$'000 | Total HK\$'000 |
|--|-----------------------------------|---|-------------------|
| Net assets disposed of | 5,672 | 180,703 | 186,375 |
| Gain on disposal | 6,682 | 170,185 | 176,867 |
| Total consideration | 12,354 | 350,888 | 363,242 |
| Total consideration satisfied by:- | | | |
| Cash consideration | - | 350,888 | 350,888 |
| Other receivables | 12,354 | - | 12,354 |
| | 12,354 | 350,888 | 363,242 |
| Net cash inflow arising on disposal:- | | | |
| Cash consideration | - | 350,888 | 350,888 |
| Bank balances, deposits and cash disposed of | (7,985) | - | (7,985) |
| | (7,985) | 350,888 | 342,903 |

17 Disposal of an associate

On 3rd June, 2011, the Group disposed 25% equity interest in 上海盛奕資產經營管理有限公司 with carrying amount of HK\$55 million at a consideration of HK\$150 million resulting in a gain of HK\$95 million.

18. Contingent liabilities

The Group arranged mortgage loan facilities with certain banks for purchasers of property units and provided guarantees to banks to secure obligations of such purchasers of repayment. The maximum guarantees given to banks amount to HK\$8,460,561,000 as at 30th June, 2011 (31st December, 2010: HK\$8,306,183,000). Such guarantees terminate upon the earlier of (i) issue of the real estate ownership certificate; and (ii) the satisfaction of the mortgage loans by the buyers of the properties. The Group has not recognised any deferred income in respect of these guarantees as its fair value is considered to be minimal by the Directors. The Directors also consider that the fair value of the underlying properties is able to cover the outstanding mortgage loans guaranteed by the Group in the event the purchasers default payments to the banks.

19. Capital commitments

| | 30th June, 2011 HK\$'000 | 31st December, 2010 HK\$'000 |
|---|---|------------------------------------|
| Capital expenditure contracted for but not provided in the consolidated financial statements in respect of: | | |
| – property development expenditures | 8,575,056 | 5,768,531 |
| – acquisition of land use rights | 2,752,722 | 2,448,512 |
| – acquisition of property development projects | – | 98,244 |
| | 11,327,778 | 8,315,287 |

The Group did not have any capital expenditure authorised but not contracted for in the consolidated financial statements as at 30th June, 2011 and 31st December, 2010.

20. Related party transactions

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

| | Six months ended | |
|---|--------------------------------|--------------------------------|
| | 30th June, 2011 HK\$'000 | 30th June, 2010 HK\$'000 |
| Property rental income (<i>note a</i>) | 5,232 | 5,534 |
| Imputed interest expenses (<i>note b</i>) | 5,721 | 5,211 |
| Theatre operating expenses (<i>note c</i>) | 5,375 | 6,477 |
| Construction fee paid (<i>note d</i>) | 1,309,667 | 1,015,268 |
| Interest expenses (<i>note e</i>) | 120,236 | 55,548 |
| Guarantee charges (<i>note f</i>) | 4,762 | 10,568 |
| Acquisition of subsidiaries (<i>note g</i>) | – | 3,902,027 |

Notes:

- (a) The property rental income received from subsidiaries of the ultimate holding company, which were charged in accordance with the relevant tenancy agreement.
- (b) The imputed interest expenses derived from the loans advanced from a subsidiary of the ultimate holding company and a substantial shareholder of subsidiary of the Company, which carried at the effective interest rate of 6%.
- (c) The theatre operating expenses were paid to a jointly controlled entity and a fellow subsidiary for the operation and management of a theatre.
- (d) The construction fee paid to a subsidiary of the ultimate holding company, which were charged at market rate.
- (e) The interest expenses derived from the loans advanced from an intermediate holding company, the ultimate holding company and non-controlling shareholders of subsidiaries, which carried interest at fixed rate of 6.81% to 12% and benchmark rate in the PRC plus 0.5% to 2.6%.
- (f) The guarantee charges paid to the ultimate holding company and a subsidiary of the ultimate holding company for acting as a guarantor of bank loans borrowed by subsidiaries of the Group and it was charged at 1% on the maximum guarantee amount.
- (g) Details of the transaction are set out in note 15.

INTERIM DIVIDEND

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30th June, 2011 (corresponding period in 2010: HK\$nil).

SHARE OPTION SCHEME

The Company had adopted a share option scheme (the “Former Scheme”) pursuant to an ordinary resolution passed on 16th June, 1993. At the annual general meeting of the Company held on 28th May, 2003, ordinary resolutions were passed by the shareholders to adopt a new share option scheme (the “New Scheme”) and terminate the Former Scheme. Under the two Schemes, the Directors may, at their discretion, invite all eligible employees (i.e. employee including directors of the Company or any subsidiary as defined in the two Schemes) to subscribe for shares of HK\$0.50 each (the “Share(s)”) in the Company (“Poly HK Options”) subject to the terms and conditions stipulated therein.

The Company considered that it is essential to its continued success that it is able to attract and motivate eligible employees of the right calibre and with the necessary experience to work for the Company. The adoption of the two Schemes will enable the Group to provide incentive to the eligible employees of the Group by offering them an opportunity to participate in the growth of the Group.

At 30th June, 2011, all options granted under the Former Scheme were either exercised or lapsed.

The following table discloses details of the Company’s options under the New Scheme held by employees (including directors) and movement in such holdings during the period:

| | Option type | Outstanding at 1.1.2011 | Granted during the period | Exercised during the period | Cancelled during the period | Lapsed during the period | Outstanding at 30.6.2011 |
|----------------------------|-------------|-------------------------|---------------------------|-----------------------------|-----------------------------|--------------------------|--------------------------|
| Category 1: Directors | | | | | | | |
| Chen Hong Sheng | 2005 | 8,000,000 | – | – | – | – | 8,000,000 |
| | 2008 | 3,500,000 | – | – | – | – | 3,500,000 |
| Wang Xu | 2008 | 3,000,000 | – | – | – | – | 3,000,000 |
| | 2008 | 2,650,000 | – | – | – | – | 2,650,000 |
| Han Qing Tao <i>(Note)</i> | 2008 | 1,600,000 | – | – | – | – | 1,600,000 |
| Ye Li Wen | 2008 | 1,600,000 | – | – | – | – | 1,600,000 |
| Yao Kang, <i>J.P.</i> | 2008 | 500,000 | – | – | – | – | 500,000 |
| Choy Shu Kwan | 2005 | 300,000 | – | – | – | – | 300,000 |
| | 2008 | 300,000 | – | – | – | – | 300,000 |
| | | <u>21,450,000</u> | <u>–</u> | <u>–</u> | <u>–</u> | <u>–</u> | <u>21,450,000</u> |
| Category 2: Employees | | | | | | | |
| | 2005 | 8,900,000 | – | – | – | – | 8,900,000 |
| | 2008 | 22,750,000 | – | – | – | – | 22,750,000 |
| | | <u>31,650,000</u> | <u>–</u> | <u>–</u> | <u>–</u> | <u>–</u> | <u>31,650,000</u> |
| Total all categories | | <u>53,100,000</u> | <u>–</u> | <u>–</u> | <u>–</u> | <u>–</u> | <u>53,100,000</u> |

Note: Mr. Han Qing Tao resigned as director of the Company with effect from 8th August, 2011.

Details of specific categories of Poly HK Options are as follows:

| Option type | Date of grant | Vesting period | Exercise period | Exercise price HK\$ |
|-------------|---------------|-----------------------|-----------------------|---------------------|
| 2005 | 14.7.2005 | 14.7.2005 – 13.7.2015 | 14.7.2005 – 13.7.2015 | 1.270 |
| 2008 | 29.4.2008 | 29.4.2008 – 28.4.2013 | 29.4.2008 – 28.4.2013 | 4.790 |

DIRECTORS' INTERESTS IN SECURITIES

At 30th June, 2011, according to the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Appendix 10 Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange, the interests of the Directors in the Shares and underlying Shares of the Company were as follows:

Long position

Share options of the Company

| Name of director | Capacity | Number of options held | Number of underlying Shares |
|------------------------------|------------------|------------------------|-----------------------------|
| Chen Hong Sheng | Beneficial owner | 11,500,000 | 11,500,000 |
| Wang Xu | Beneficial owner | 3,000,000 | 3,000,000 |
| Xue Ming | Beneficial owner | 2,650,000 | 2,650,000 |
| Han Qing Tao (<i>Note</i>) | Beneficial owner | 1,600,000 | 1,600,000 |
| Ye Li Wen | Beneficial owner | 1,600,000 | 1,600,000 |
| Yao Kang, <i>J.P.</i> | Beneficial owner | 500,000 | 500,000 |
| Choy Shu Kwan | Beneficial owner | 600,000 | 600,000 |
| | | 21,450,000 | 21,450,000 |

Note: Mr. Han Qing Tao resigned as director of the Company with effect from 8th August, 2011.

Save as disclosed above, at 30th June, 2011, none of the Directors, chief executives or their associates had any personal, family, corporate or other interests and short positions in the securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which is required to be recorded in the register maintained under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code in the Listing Rules and none of the Directors, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the period.

SUBSTANTIAL SHAREHOLDERS

At 30th June, 2011, according to the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company:

| Name of shareholder | Beneficial owner | Number of Shares | | Custodian/ Approved lending agent | Person having a security interest in Shares | Total number of Shares | Approximate percentage of the issued share capital of the Company |
|-----------------------------------|------------------|-----------------------|---|---|---|---------------------------|--|
| | | Investment manager | Held by controlled corporation(s) | | | | |
| Long position | | | | | | | |
| Congratulations Company Ltd. | 1,037,975,080 | - | - | - | - | 1,037,975,080 | 28.77% |
| Source Holdings Limited | 228,398,760 | - | 100,086,800 | - | - | 328,485,560 | 9.10% |
| | | | | | | (Note 1) | |
| Ting Shing Holdings Limited | - | - | 1,366,460,640 | - | - | 1,366,460,640 | 37.87% |
| | | | (Note 2) | | | | |
| Poly (Hong Kong) Holdings Limited | 112,410,476 | - | 1,366,460,640 | - | - | 1,478,871,116 | 40.98% |
| | | | (Note 3) | | | | |
| Poly Southern Group Limited | 253,788,246 | - | - | - | - | 253,788,246 | 7.03% |
| China Poly Group Corporation | - | - | 1,732,659,362 | - | - | 1,732,659,362 | 48.02% |
| | | | (Note 4) | | | | |
| JP Morgan Chase & Co. | 16,139,500 | 253,316,000 | - | 87,794,257 | - | 357,249,757 | 9.90% |
| Deutsche Bank Aktiengesellschaft | 15,785,141 | - | - | - | 236,943,000 | 252,728,141 | 7.00% |
| Short position | | | | | | | |
| JP Morgan Chase & Co. | 12,352,500 | - | - | - | - | 12,352,500 | 0.34% |
| Deutsche Bank Aktiengesellschaft | 1,838,559 | - | - | - | 184,438,000 | 186,276,559 | 5.16% |
| Lending pool | | | | | | | |
| JP Morgan Chase & Co. | - | - | - | 87,794,257 | - | 87,794,257 | 2.43% |

Notes:

1. Source Holdings Limited is deemed by the SFO to be interested in 328,485,560 Shares of the Company as a result of its direct holding of 228,398,760 Shares and indirect holding of 100,086,800 Shares through its wholly-owned subsidiaries, Musical Insight Holdings Limited and Wincall Holding Limited of 44,658,800 Shares and 55,428,000 Shares respectively.
2. Ting Shing Holdings Limited is deemed by the SFO to be interested in 1,366,460,640 Shares as a result of its indirect holding of 1,366,460,640 Shares through its subsidiaries, Source Holdings Limited and Congratulations Company Ltd. of 328,485,560 Shares and 1,037,975,080 Shares, respectively.



3. Poly (Hong Kong) Holdings Limited is deemed by the SFO to be interested in 1,478,871,116 Shares as a result of its direct holding of 112,410,476 Shares and indirect holding of 1,366,460,640 Shares through its wholly-owned subsidiary, Ting Shing Holdings Limited.
4. China Poly Group Corporation owns 100% of Poly (Hong Kong) Holdings Limited and Poly Southern Group Limited and is accordingly deemed by the SFO to be interested in the Shares directly and indirectly owned by Poly (Hong Kong) Holdings Limited and Poly Southern Group Limited.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 30th June, 2011.

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

During the six months period ended 30th June, 2011, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CODE ON CORPORATE GOVERNANCE PRACTICES

Under code provision A.2.1 of the Code on Corporate Governance Practices ("CG Code"), the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. However, the roles of Chairman and Chief Executive Officer of the Company have been performed by Mr. Xue Ming since 29th April, 2010. The Board believes that the roles of Chairman and Chief Executive Officer performed by Mr. Xue Ming provide the Group with strong and consistent leadership and are beneficial to the Group especially in planning and execution of business strategies. The Board also believes that the present arrangement is beneficial to the Company and the shareholders as a whole.

Except as aforesaid, the Company has complied throughout the six months ended 30th June, 2011 with the code provisions set out in the CG Code contained in Appendix 14 of the Listing Rules on the Stock Exchange.



COMPLIANCE WITH THE MODEL CODE SET OUT IN APPENDIX 10 OF THE LISTING RULES

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in Appendix 10 the Model Code of the Listing Rules. Having made specific enquiry of all Directors, all Directors have complied with the Model Code for the six months ended 30th June, 2011.

AUDIT COMMITTEE

The members of the Audit Committee have reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited financial statements.

By Order of the Board

XUE Ming

Chairman and Managing Director

Hong Kong, 26th August, 2011