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漢國置業有限公司

Hon Kwok Land Investment Company, Limited

(Incorporated in Hong Kong with limited liability)

(Stock Code: 160)

2010-11 INTERIM RESULTS ANNOUNCEMENT

RESULTS

The directors (the "Directors") of Hon Kwok Land Investment Company, Limited (the "Company") are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2010 together with comparative figures for the corresponding period in the prior year as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended	
		30 September	
		2010	2009
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
Revenue	2	71,588	441,620
Cost of sales		(43,644)	(361,611)
Gross profit		27,944	80,009
Other income	3	4,970	3,258
Fair value gains on investment properties, net		128,893	249,680
Gain on disposal of a jointly-controlled entity		-	76,922
Administrative expenses		(25,259)	(23,026)
Other operating expenses, net		(7,898)	(4,432)
Finance costs	4	(19,879)	(10,922)
Share of profits and losses of jointly-controlled entities		211	(930)
Profit before tax	5	108,982	370,559
Income tax expense	6	(32,559)	(63,225)
Profit for the period		76,423	307,334
Attributable to:			
Owners of the Company		76,136	285,536
Non-controlling interests		287	21,798
		76,423	307,334
Earnings per share attributable to ordinary equity holders of the Company	7		
Basic		15.85 HK cents	59.45 HK cents
Diluted		15.11 HK cents	51.72 HK cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 September	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Profit for the period	76,423	307,334
Other comprehensive income for the period		
Exchange differences on translation of foreign operations	<u>81,755</u>	<u>3,621</u>
Total comprehensive income for the period	<u>158,178</u>	<u>310,955</u>
Attributable to:		
Owners of the Company	153,945	289,035
Non-controlling interests	<u>4,233</u>	<u>21,920</u>
	<u>158,178</u>	<u>310,955</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	At 30 September 2010 (Unaudited) <i>HK\$'000</i>	At 31 March 2010 (Audited) <i>HK\$'000</i>
<i>Notes</i>		
NON-CURRENT ASSETS		
Property, plant and equipment	45,888	41,995
Properties under development	1,352,025	1,407,522
Investment properties	4,189,769	3,746,995
Interests in jointly-controlled entities	274	63
	5,587,956	5,196,575
TOTAL non-current assets		
	5,587,956	5,196,575
CURRENT ASSETS		
Amounts due from jointly-controlled entities	31	25
Tax recoverable	7	988
Properties held for sale	285,411	148,273
Trade receivables	7,305	18,899
Prepayments, deposits and other receivables	50,198	40,904
Pledged deposits	91,200	91,200
Cash and cash equivalents	841,285	542,704
	1,275,437	842,993
TOTAL current assets		
	1,275,437	842,993
CURRENT LIABILITIES		
Trade payables and accrued liabilities	98,121	183,492
Interest-bearing bank borrowings	196,316	213,655
Promissory note payable	20,000	20,000
Customer deposits	405,965	7,200
Convertible bonds	104,556	-
Tax payable	62,930	71,518
	887,888	495,865
TOTAL current liabilities		
	887,888	495,865
NET CURRENT ASSETS		
	387,549	347,128
TOTAL ASSETS LESS CURRENT LIABILITIES		
	5,975,505	5,543,703
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	1,890,316	1,515,409
Convertible bonds	-	100,900
Deferred tax liabilities	343,069	283,416
	2,233,385	1,899,725
TOTAL non-current liabilities		
	2,233,385	1,899,725
Net assets		
	3,742,120	3,643,978

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

	At 30 September 2010 (Unaudited) HK\$'000	At 31 March 2010 (Audited) HK\$'000
EQUITY		
Equity attributable to owners of the Company		
Issued capital	480,286	480,286
Equity component of convertible bonds	7,802	7,802
Reserves	3,076,912	2,922,967
Proposed final dividend	-	60,036
	<u>3,565,000</u>	<u>3,471,091</u>
Non-controlling interests	<u>177,120</u>	<u>172,887</u>
Total equity	<u>3,742,120</u>	<u>3,643,978</u>

Notes:

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

The unaudited condensed interim consolidated financial statements for the six months ended 30 September 2010 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The unaudited condensed interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 March 2010.

Accounting policies

The accounting policies and basis of preparation adopted in the preparation of this unaudited condensed interim financial statements are consistent with those adopted in the annual financial statements for the year ended 31 March 2010 except the Group has adopted the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA which are effective for the Group’s financial year beginning on or after 1 April 2010.

HKFRS 1 (Revised)	<i>First-time Adoption of Hong Kong Financial Reporting Standards</i>
HKFRS 1 Amendments	<i>Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters</i>
HKFRS 2 Amendments	<i>Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions</i>
HKFRS 3 (Revised)	<i>Business Combinations</i>
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i>
HKAS 32 Amendments	<i>Amendments to HKAS 32 Financial Instruments: Presentation – Classification of Rights Issues</i>
HKAS 39 Amendment	<i>Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items</i>

HK(IFRIC)-Int 17	<i>Distributions of Non-cash Assets to Owners</i>
Amendments to HKFRS 5 included in <i>Improvements to HKFRSs</i> issued in October 2008	Amendments to HKFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary</i>
HK Interpretation 4 (Revised in December 2009)	<i>Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i>
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs

HKFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring since 1 April 2010. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will they give rise to gains or losses. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. These revised standards were applied by the Group prospectively.

Except for the adoption of HKFRS 3 (Revised) and HKAS 27 (Revised), the adoption of the new and amended HKFRSs has had no significant financial effect on these interim financial statements and there have been no significant changes to the accounting policies applied in these interim financial statements.

2. OPERATING SEGMENT INFORMATION

The Group is principally engaged in property development, property investment and property related activities. The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Operating segments are reported in a manner consistent with the internal reporting provided to key management personnel. An analysis of the Group's revenue and results by operating segments is as follows:

	Six months ended 30 September 2010 (Unaudited)			
	Property development HK\$'000	Property investment HK\$'000	Others HK\$'000	Total HK\$'000
Segment revenue:				
Sales to external customers	<u>24,122</u>	<u>31,225</u>	<u>16,241</u>	<u>71,588</u>
Segment results	<u>638</u>	<u>147,060</u>	<u>(1,122)</u>	<u>146,576</u>
<i>Reconciliation:</i>				
Interest income				1,261
Unallocated expenses				(19,187)
Finance costs				(19,879)
Share of profits and losses of jointly-controlled entities				<u>211</u>
Profit before tax				<u><u>108,982</u></u>

	Six months ended 30 September 2009 (Unaudited)			
	Property development HK\$'000	Property investment HK\$'000	Others HK\$'000	Total HK\$'000
Segment revenue:				
Sales to external customers	<u>405,552</u>	<u>18,638</u>	<u>17,430</u>	<u>441,620</u>
Segment results	<u>56,420</u>	<u>258,452</u>	<u>3,355</u>	<u>318,227</u>
<i>Reconciliation:</i>				
Interest income				556
Unallocated expenses				(13,294)
Gain on disposal of a jointly-controlled entity				76,922
Finance costs				(10,922)
Share of profits and losses of jointly-controlled entities				<u>(930)</u>
Profit before tax				<u><u>370,559</u></u>

3. OTHER INCOME

	Six months ended 30 September	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Bank interest income	1,261	556
Exchange gain	-	123
Gain on disposal of investment properties, net	860	853
Others	2,849	1,726
	<u>4,970</u>	<u>3,258</u>

4. FINANCE COSTS

	Six months ended 30 September	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank loans, overdrafts and other loans (including convertible bonds) wholly repayable within five years	28,828	29,747
Interest on bank loans wholly repayable after five years	2,144	-
	<u>30,972</u>	<u>29,747</u>
Less: Interest capitalized under property development projects	<u>(11,093)</u>	<u>(18,825)</u>
	<u>19,879</u>	<u>10,922</u>

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Six months ended 30 September	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation	1,753	1,532
Employee benefits expense (including directors' remuneration)	13,970	12,947
Less: Amounts capitalized under property development projects	<u>(2,700)</u>	<u>(2,984)</u>
	<u>11,270</u>	<u>9,963</u>

6. INCOME TAX

	Six months ended	
	30 September	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Group:		
Current – Outside Hong Kong	5,571	21,905
Deferred	26,988	41,320
Total tax charge for the period	32,559	63,225

No Hong Kong profits tax has been provided as the Group companies have available tax losses brought forward from prior years to offset the assessable profits generated during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the Company and the number of ordinary shares in issue during the period.

The calculation of diluted earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the Company, adjusted to reflect the interest on the convertible bonds, net of tax and interest capitalization, if any. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued on the deemed conversion of all outstanding convertible bonds into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	2010	2009
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	76,136	285,536
Interest on convertible bonds, net of tax and interest capitalization	-	-
Profit attributable to ordinary equity holders of the Company before interest on convertible bonds	76,136	285,536

	Number of shares	
	2010	2009
	(Unaudited)	(Unaudited)
Shares		
Number of ordinary shares in issue during the period used in the basic earnings per share calculation	480,286,201	480,286,201
Effect of dilution – weighted average number of ordinary shares:		
Convertible bonds	23,466,667	71,794,872
	503,752,868	552,081,073

8. TRADE RECEIVABLES

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice/contract date, is as follows:

	At 30 September 2010 (Unaudited) HK\$'000	At 31 March 2010 (Audited) HK\$'000
Within 30 days	6,336	18,154
31 to 60 days	408	420
61 to 90 days	278	311
Over 90 days	283	14
	<hr/>	<hr/>
Total	7,305	18,899

Monthly rent in respect of leased properties is payable in advance by the tenants pursuant to the terms of the tenancy agreements. The balance of the consideration in respect of sold properties is payable by the purchasers pursuant to the terms of the sale and purchase agreements. Overdue trade debts are monitored closely by management and are provided for in full in case of non-recoverability. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

9. TRADE PAYABLES AND ACCRUED LIABILITIES

Included in the trade payables and accrued liabilities are trade payables of HK\$15,468,000 (at 31 March 2010: HK\$29,689,000). An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	At 30 September 2010 (Unaudited) HK\$'000	At 31 March 2010 (Audited) HK\$'000
Within 30 days	15,468	29,689

10. CONTINGENT LIABILITIES

As at 30 September 2010, the Group has given guarantees of HK\$320,123,000 (as at 31 March 2010 (audited): HK\$251,634,000) to banks for housing loans extended by the banks to the purchasers of the Group's properties for a period from the date the loans are granted to the purchasers up to the date of issuance of property title certificates to the purchasers.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2010.

CORPORATE GOVERNANCE

Compliance with Model Code for Securities Transactions By Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct for directors' securities transactions. Having made specific enquiry, all the directors have confirmed that they have complied with the required standard as set out in the Model Code during the six months ended 30 September 2010.

Compliance with the Code on Corporate Governance Practices

In the opinion of the Directors, the Company has complied with the applicable code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules for the six months ended 30 September 2010, except for the following deviations:

1. CG Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Currently, Mr. James Sai-Wing Wong is the Chairman of the Company and assumes the role of the Chairman and also the chief executive officer. Given the nature of the Group's businesses which require considerable market expertise, the Board believes that the vesting of the two roles for the time being provides the Group with stable and consistent leadership and allows for more effective planning and implementation of long term business strategies. The Board will continuously review the effectiveness of the structure to balance the power and authority of the Board and the management.

2. CG Code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election and CG Code provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election in accordance with the articles of association of the Company (the "Articles of Association"). The Articles of Association do not require the directors to retire by rotation at least once every three years. However, in accordance with article 104 of the Articles of Association, at each annual general meeting of the Company, one-third of the directors for the time being (or, if their number is not three or a multiple of three, then the number nearest one-third), other than the one who holds the office as executive chairman or managing director, shall retire from office by rotation. The Board will ensure the retirement of each director, other than the one who holds the office as executive chairman or managing director, by rotation at least once every three years in order to comply with the CG Code provisions.

The Chairman will not be subject to retirement by rotation as stipulated in CG Code provision A.4.2 as the Board considers that the continuity of office of the Chairman provides the Group with a strong and consistent leadership and is of great importance to the smooth operations of the Group.

All directors appointed to fill a casual vacancy is subject to re-election by shareholders at the next following annual general meeting of the Company instead of at the first general meeting after their appointment as stipulated in CG Code provision A.4.2.

3. CG Code provision B.1.3 stipulates that the terms of reference of the remuneration committee should include, as a minimum, those specific duties as set out in the CG Code provisions. The Company adopted the terms of reference of the remuneration committee on 16 December 2005 with certain deviations from the CG Code provisions. Pursuant to the terms of reference, the remuneration committee should review (as opposed to determine) and make recommendations to the Board on the remuneration of directors (as opposed to directors and senior management).
4. The terms of reference of the remuneration committee and audit committee of the Company are available from the Company Secretary on request and not yet ready on the Company's website as stipulated in CG Code provisions B.1.4 and C.3.4.

Audit Committee

Regular meetings have been held by the Audit Committee of the Company since its establishment and it meets at least twice each year to review and supervise the Group's financial reporting process and internal control. The Company's interim results for the six months ended 30 September 2010 has not been audited, but has been reviewed by the Audit Committee.

FINANCIAL REVIEW

Liquidity and financial resources

The total interest-bearing debts of the Group amounted to approximately HK\$2,191 million as at 30 September 2010 (as at 31 March 2010: HK\$1,830 million), of which approximately 14% (as at 31 March 2010: 12%) of the debts were due and repayable within one year.

Total cash and bank balances including time deposits were approximately HK\$932 million as at 30 September 2010 (as at 31 March 2010: HK\$634 million). The Group had a total of approximately HK\$791 million committed but undrawn banking facilities at period end available for its working capital purpose.

Total shareholders' funds as at 30 September 2010 were approximately HK\$3,565 million (as at 31 March 2010: HK\$3,471 million).

The gearing ratio of the Group, as measured by the net interest-bearing debts of approximately HK\$1,259 million (as at 31 March 2010: HK\$1,196 million) over the shareholders' funds plus non-controlling interests totalling of approximately HK\$3,742 million (as at 31 March 2010: HK\$3,644 million), was 34% as at 30 September 2010 (as at 31 March 2010: 33%).

Funding and treasury policies

There are no significant changes in the Group's funding and treasury policies. As at 30 September 2010, the Group had no material exposure under foreign exchange contracts or any other hedging instruments.

Pledge of assets

Properties and bank balances with an aggregate carrying value of approximately HK\$3,779 million as at 30 September 2010 were pledged to secure certain banking facilities of the Group.

Employees and remuneration policies

The Group, not including its jointly-controlled entities, employed approximately 360 employees as at 30 September 2010. There have been no significant changes in the remuneration policies and benefits to the employees of the Group.

FINANCIAL RESULTS

The Group's unaudited consolidated turnover and net profit attributable to shareholders for the six months ended 30 September 2010 amounted to HK\$72 million (2009: HK\$442 million) and HK\$76 million (2009: HK\$286 million), respectively, decrease was mainly because the property units already pre-sold have yet to be recognized for the period under review. Basic earnings per share were 15.85 Hong Kong cents (2009: 59.45 Hong Kong cents). As at 30 September 2010, the shareholders' equity amounted to HK\$3,565 million (as at 31 March 2010: HK\$3,471 million) and net assets per share attributable to shareholders were HK\$7.42 (as at 31 March 2010: HK\$7.23).

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2010 (2009: Nil).

BUSINESS REVIEW

Property Development and Sales

Botanica Phase 2 寶翠園二期, Guangzhou, PRC

The **Botanica 寶翠園**, situated in the greenery zone of Tian He District near the Botanical Garden, comprises 39 blocks of high-rise residential building and is scheduled for development and pre-sale by phases. All eight blocks of 332 units had been delivered to purchasers of **Botanica Phase 1 寶翠園一期** during the last financial year.

Botanica Phase 2 寶翠園二期, also comprises eight blocks totalled 420 residential units, are under construction and scheduled to be completed in two stages during the forthcoming year 2011. Pre-sale of the first four blocks of 221 units commenced in April 2010 and all have been sold out during the period under review, generated sales proceeds amounting to RMB287 million. The remaining four blocks of 199 units have also been launched to the market for pre-sale in September 2010 and approximately 85% have been pre-sold up to the date of this announcement, generated sales proceeds exceeding RMB280 million.

Yayao Oasis 雅瑤綠洲, Nanhai, PRC

The project, situated in Da Li District with a total gross floor area of approximately 273,000 sq.m. (excluding carparking spaces), is scheduled for development by phases. Phase I comprises town houses of about 18,000 sq.m. and high-rise apartments of about 116,000 sq.m. Construction works of the town houses are in progress and scheduled to be completed in the first quarter of 2011.

Dong Guan Zhuan Road and Beijing Nan Road projects, Guangzhou, PRC

The design of the conceptual development layout in respect of the project site at Dong Guan Zhuan Road, Tian He District with a total gross floor area of approximately 266,000 sq.m. is in progress. On the other hand, vacant possession of the development sites at 45-107 Beijing Nan Road, Yue Xiu District has been completed and planning for redevelopment is under progress.

Property Investment

Shenzhen, PRC

Foundation works of **Hon Kwok City Commercial Centre 漢國城市商業中心**, a commercial/residential tower with 128,000 sq.m. situated at the junction of Shen Nan Zhong Road and Fu Ming Road, Futian District, have been commenced in September 2010. Upon completion of construction of this 80-storey signature building which is expected to be in 2014, the Group intends to hold it for recurrent rental income.

Renovation works of **The Bauhinia Hotel (Shenzhen) 寶軒酒店(深圳)**, a 159-room hotel at levels 3 to 5 of the commercial podium of **City Square 城市天地廣場** situated at Jia Bin Road, Luo Hu District, are scheduled to be completed by the end of this year. Soft opening of this hotel is expected to be in the first quarter of 2011. Majority of the retail shops at ground level and the entire level 2 of the podium have been leased out. The occupancy rate of **City Suites 寶軒公寓**, our 64-unit serviced apartments situated on top of the podium, maintains at a satisfactory level.

Guangzhou, PRC

As disclosed in our 2009/10 Annual Report, the Group completed in April 2010, the acquisition of **Ganghui Dasha 港滙大廈**, a 20-storey commercial and office building situated at the junction of Beijing Road, Nanti Er Road and Baqi Er Road, Yue Xiu District. Occupancy rate is currently about 85%.

Renovation works of **The Bauhinia Hotel (Guangzhou) 寶軒酒店(廣州)**, a 166-room hotel leased by the Group and situated at Jie Fang Nan Road, Yue Xiu District, have been completed pending issuance of hotel licence by the relevant authorities after the close of Asian Games hosted by Guangzhou. Its soft opening is expected to be held by the end of this year.

Chongqing, PRC

Chongqing Hon Kwok Centre 重慶漢國中心, situated in Bei Bu Xin Qu, is a 22-storey twin-tower retail/commercial complex atop of a 3-storey podium with a total gross floor area of 107,802 sq.m. All three podium floors have been leased out. Leasing for one of the two towers has reached 60%.

The master development layout of the **Phase 2 Project 重慶二期項目** with a total gross floor area of 133,502 sq.m. has been approved and detailed design is in progress. This project, adjacent to **Chongqing Hon Kwok Centre 重慶漢國中心**, will be developed into a grade A office tower and a 5-star hotel with serviced apartments on top of a retail/commercial podium.

Hong Kong

Conversion works of the four office podium floors at Des Voeux Road Central to a 42-room boutique hotel named as "**The Bauhinia Hotel (Central) 寶軒酒店(中環)**" have been completed pending issuance of hotel licence by the relevant authorities. Its soft opening is scheduled to be in early 2011. Over 90% of the ground floor areas have also been leased out. Rental rate of **The Bauhinia 寶軒**, a 171-room serviced apartments atop of the above hotel, has recently been raised in view of the gradual recovery of the global economy and completion of interior refurbishment. Occupancy rate currently approximates 90%.

The Bauhinia Hotel (TST) 寶軒酒店 (尖沙咀), a 44-room boutique hotel at nine upper floors of **Knutsford Place 諾士佛廣場** situated at Observatory Court, Tsim Sha Tsui, has been opened for business in September 2010. The initial occupancy and room rate are satisfactory and both of which are expected to rise further given the recent trend of increase number of visitor arrivals from various sectors. After opening of the hotel, the commercial and office floors are currently being launched to the market for lease in order to enhance the overall rental yield on this upgraded property.

The occupancy rate of **Hon Kwok Jordan Centre 漢國佐敦中心**, a 23-storey commercial and office building situated at Hillwood Road, Tsim Sha Tsui, is encouraging. To sustain a higher rental yield, its tenant mix already includes bars, private clubs and learning centres etc.

OUTLOOK

The U.S. Federal Reserve announced earlier this month the second phase of quantitative easing amounting to US\$600 billion to stimulate its stagnant economy. However, it is the general observations that the likely consequences of such quantitative easing could result in the proliferation of liquidity and exporting inflation to the emerging nations which inevitably would disrupt currency exchange and interest rates, thus exacerbate asset bubbles in developing countries, Hong Kong in particular.

Mainland China, on the other hand, surpassed Japan as the world's second-largest economy according to the economic output data in the second quarter of 2010 and its gross domestic product recorded a growth of 9.6% in the third quarter. Nevertheless, inflation rate reached 4.4% in October against September's 3.6%, the fastest upsurge in two years and well above the government's target rate of 3%.

In order to curb the rising inflation and soaring property prices, the People's Bank of China raised the benchmark lending rate by 0.25% last month for the first time in almost three years. In addition, the newly raise of reserve requirement ratio by 0.5% twice within ten days to 18.5% for major banks and coupled with the recent promulgation by the Central Government of tougher measures such as tightening of property lending and proposal to levy property taxes shortly throughout the country, resulted in significant drop in property transactions across major cities. However, property prices stubbornly remained at the present level albeit with significantly reduced transactions.

Barring introduction of further austerity measures by the Central Government, property prices are not expected to decrease substantively. In anticipation of progressive appreciation of Renminbi as well as enormous domestic demand, the Board remains optimistic to the property market in Mainland China and intends to replenish the Group's land bank there when appropriate opportunities arise.

James Sai-Wing Wong
Chairman

Hong Kong, 24 November 2010

At the date hereof, the directors of the Company are Mr. James Sai-Wing Wong, Ms. Madeline May-Lung Wong, Mr. Herman Man-Hei Fung, Mr. Yuen-Keung Chan and Mr. Xiao-Ping Li and the independent non-executive directors are Dr. Daniel Chi-Wai Tse, Mr. Kenneth Kin-Hing Lam and Professor Hsin-Kang Chang.