HL GROUP 恒力房地產集團

HENGLI PROPERTIES DEVELOPMENT (GROUP) LIMITED

恒 力 房 地 產 發 展（集 團）有 限 公 司

(Incorporated in Bermuda with limited liability)

2009
INTERIM REPORT

Stock Code : 169

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Chen Chang Wei
(Chairman & Managing Director)
Ms. Chan Sheung Ni
Ms. Chen Dongxue

Independent Non-executive Directors

Ms. Lin Wen Feng
Mr. Ma Ving Lung
Mr. Yip King Keung, Pony

AUDIT COMMITTEE

Mr. Ma Ving Lung *(Chairman)*
Mr. Yip King Keung, Pony
Ms. Lin Wen Feng

REMUNERATION COMMITTEE

Mr. Yip King Keung, Pony *(Chairman)*
Mr. Ma Ving Lung
Ms. Lin Wen Feng

NOMINATION COMMITTEE

Mr. Yip King Keung, Pony *(Chairman)*
Mr. Ma Ving Lung
Ms. Lin Wen Feng

COMPANY SECRETARY

Ms. Hui Wai Man, Shirley

PRINCIPAL BANKERS

China Construction Bank
Chiyu Banking Corporation Limited
Bank of China

AUDITORS

KPMG

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

PRINCIPAL OFFICE IN HONG KONG

Unit 3401, 34th Floor
Tower Two, Lippo Centre
89 Queensway, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group
(Bermuda) Limited
Rosebank Centre, 4th Floor
11 Bermudiana Road
Pembroke, HM 08 Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Standard Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

STOCK CODE

169

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2009	2008	
	HK$'000	HK$'000	Change %
Turnover			
Property letting	**1,147**	10,059	**-88.6**
Sales of land use rights	**—**	122,509	**-100**
Sales of developed properties	**236,583**	650	**+36297.4**
Total turnover	**237,730**	133,218	**+78.5**
Gain/(loss) on changes in fair value of investment properties	**438**	(412)	**+206.3**
Profit from operations	**68,834**	60,011	**+14.7**
Profit before taxation	**16,847**	5,943	**+183.5**
Loss attributable to equity shareholders of the Company	**(31,222)**	(24,887)	**+25.5**
Loss per share (cents)			
Basic	**(2.81)**	(3.77)	**-25.5**
Diluted	**N/A**	N/A	**N/A**

INTERIM RESULTS

The board of directors (the "Board") presents to the shareholders of Hengli Properties Development (Group) Limited (the "Company") the interim financial report of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2009 together with the comparative figures on pages 13 to 34. The interim financial report is unaudited, but has been reviewed by the Group's audit committee. It has also been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the six months ended 30 June 2009, the Group's turnover amounted to HK$237,730,000, representing an increase of 78.5% as compared to the corresponding period in 2008. Included in the turnover were sales of developed properties and rental income from property letting, which were mainly derived from the sales of Wonderful Garden (盛世嘉苑) and leasing of the investment properties in Ningbo City, Zhejiang Province. Loss attributable to equity shareholders of the Company for the period ended 30 June 2009 was approximately HK$31,222,000, representing a increase of 25.5% as compared to the corresponding period in 2008. This was mainly due to the decrease in exchange gains of HK$6,420,000.

The construction of a commercial property project named 姚江新都大廈 located in Hongtang Zhong Road, Jiangbei District, Ningbo is currently in progress. The project involves the development of a commercial property with a total gross area of approximately 46,000 sq.m. and is expected to be completed in September 2009. The project was launched for pre-sale at the end of 2008.

The property named as 恒力城 (previously named as 中旅城二期), located in the financial district of Fuzhou, Fujian Province, is still under development. The property is being developed into a residential, office and retail development with a total gross floor area of around 242,268 sq.m. Under the current plan, which has been approved by the building authorities, the property will have upon completion one block of 40-storey office building and three blocks of 46-storey residential buildings, commonly erected on top of a 7-storey commercial podium accommodating clubhouse facilities and retail spaces. Under the commercial podium, there will be 4 levels of basement car parking spaces. The development of these properties is expected to provide the growth engine for the Group in the next few years.

In addition, a piece of land located at Gulou District, Fuzhou City, with an area of around 6,035 sq.m was acquired by the Group in March 2008. This piece of land would be used to develop high-end commercial properties, temporarily named as 恒力金融中心, in the future. The piece of land is located near 恒力城 and creates a synergy effect, which would enhance the strategic advantage of the Group in the central commercial district of Fuzhou, Fujian Province.

In view of the change in the political atmosphere of Taiwan and the positioning of Fujian Province by the PRC government as Strait West Coast Economic Zone, the Board believes that the real estate industry in Fuzhou would be further developed in the long run.

FINANCIAL REVIEW

Net assets and equity attributable to equity holders

As at 30 June 2009, the Group recorded total assets and total liabilities of approximately HK$3,966,578,000 and HK$3,782,831,000 respectively. The Group had net assets as at 30 June 2009 approximately HK$183,747,000 as compared to approximately HK$224,792,000 as at 31 December 2008. As at 30 June 2009, the equity attributable to equity holders of the Company was approximately HK$74,116,000 as compared with HK$135,942,000 as at 31 December 2008.

Liquidity and financial ratios

The Group had total bank and cash balances of approximately HK$132,375,000 as at 30 June 2009 as compared with HK$89,133,000 as at 31 December 2008. As at 30 June 2009, the current ratio was 4.8 as compared with 4.2 as at 31 December 2008. The gearing ratio was 95.4% as at 30 June 2009 as compared with 94.4% as at 31 December 2008. The bank borrowings to equity attributable to the Company's equity shareholders was recorded at 1,416.6% as at 30 June 2009 as compared with 657.4% as at 31 December 2008.

Borrowings

The Group had interest bearing borrowings of approximately HK$1,049,947,000 as at 30 June 2009 (31 December 2008: HK$893,696,000), representing an increase of approximately 17.5% over the amount as at 31 December 2008. Borrowings were denominated in both Renminbi ("RMB") and Hong Kong Dollar ("HK$"). Approximately 15.2% of the borrowing is repayable within one year and the rest representing the bank loans repayable after one year of HK$890,541,000.

Foreign currency exposure

Although significant portions of the Group's borrowings, turnover and construction costs are primarily denominated in RMB, the Directors consider that the Group has no significant exposure to foreign exchange fluctuations in view of the stability of the RMB. The Directors also consider that there will be sufficient cash resources denominated in both HK$ and RMB for the repayment of its borrowings. During the period under review, the Group did not use any financial instrument for hedging purposes and the Group did not have hedging instrument outstanding as at 30 June 2009.

PLEDGE OF ASSETS

As at 30 June 2009, the Group pledged certain of its investment properties, other properties, prepaid lease payment, properties under developments and restricted bank deposits to banks in the PRC to secure the bank loans of approximately HK$968,513,000 (2008: HK$800,454,000) granted by these banks. The aggregate carrying value of the investment properties, other properties, prepaid lease payments, properties under development and restricted bank deposits as at 30 June 2009 amounted to approximately HK$20,020,000, HK$5,942,000, HK$8,153,000, HK$2,860,835,000 and HK$22,676,000 (2008: HK$23,794,000, HK$1,552,000, HK$8,185,000, HK$2,686,427,000 and HK$ Nil) respectively.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2009, the Group employed approximately 46 full time staffs in PRC and Hong Kong. The Group remunerates its employees based on their performance, experience and prevailing market price while performance bonuses are granted on a discretionary basis. Other employee benefits include insurance and medical cover, subsidized educational and training programs as well as share option scheme.

OUTLOOK

During the period under review, the economy in the PRC showed signs of stabilization and steady growth. The Central Government of the PRC has committed to a moderately loose monetary policy, easy bank credit and revitalization of the pillar industries to sustain growth and facilitate development. The real estate market showed signs of recovery both in terms of sales price and transaction volume. With the launch of a series of home-ownership incentives by the Central Government and the efforts made by the local governments through introducing various subsidized home ownership schemes, home buyers began to resume their buying interest. The series of preferential policies have helped restore market confidence.

The Group has developed and acquired land for projects with a prudent attitude since its listing. The Group will stay flexible and adjust its property development strategies and strengthen its development business over time. The project 恒力城 is under development and will be launched for pre-sale in October 2009. The land acquired by the Group in March 2008 would be used to develop high-end commercial properties, temporarily named as 恒力金融中心, which is expected to be introduced to the market in 2010. The Group will apply different sales and marketing strategies according to stages of development and characteristics of different projects with an aim to achieve better sales performance.

In February of this year, the Group successfully won the bid for a land of approximately 33,136 sq.m. located in 創業投資中心 in Jiangbei district, Ningbo City. The Group will continue to grasp desirable opportunities in the future to increase its landbank to provide satisfactory return to the Group.

OTHER INFORMATION

DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2009, the interests of the directors and their associates in the ordinary shares of the Company and its associated corporations, as recorded in 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long position in ordinary shares of HK$0.10 each of the Company

Name of directors	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Chen Chang Wei	Beneficial owner and held by controlled corporation (1)	272,747,000	24.38%
Ms. Chan Sheung Ni	Beneficial owner (2)	300,000	0.03%
Ms. Chen Dongxue	Beneficial owner (3)	43,774,000	3.91%

(1) As at 30 June 2009, Mr. Chen Chang Wei ("Mr. Chen") was deemed to be interested in 272,747,000 shares of the Company, of which (1) 4,570,000 shares were directly held by Mr. Chen, (2) 86,000,000 shares were held in trust for him by Ever Good Luck Limited (a company incorporated in the British Virgin Islands ("BVI") of which the entire issued share capital is beneficially owned by Mr. Chen), and (3) 182,177,000 shares were beneficially owned by Ever Good Luck Limited.

(2) Ms. Chan Sheung Ni is the spouse of Mr. Chen and sister-in-law of Ms. Chen Dongxue.

(3) Ms. Chen Dongxue is the sister of Mr. Chen and sister-in-law of Ms. Chan Sheung Ni.

Save as disclosed above, none of the directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 30 June 2009.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2009, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interest required to be kept by the Company pursuant to Section 336 of SFO:

Long Positions:

Name	Long position/ Short position	Capacity/ Nature of interest	Number of shares held	Approximate percentage of shareholding
Ever Good Luck Limited	Long	Beneficial interest (1)	182,177,000	16.29%
New Double Good Limited	Long	Beneficial interest (2)	200,000,000	17.88%
Glories Structure Limited	Long	Beneficial interest (3)	170,000,000	15.20%
Golden Mount Limited	Long	Beneficial interest (4)	137,430,000	12.29%

(1) Ever Good Luck Limited is a company incorporated in the BVI, the entire issued share capital of which is ultimately held by Mr. Chen Chang Wei.

(2) New Double Good Limited is a company incorporated in the BVI.

(3) Glories Structure Limited is a company incorporated in the BVI.

(4) Golden Mount Limited is a company incorporated in the BVI.

Save as disclosed above, as at 30 June 2009, no person, other than the director and his associated corporations stated under the paragraph headed "Directors' interests in securities" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of SFO.

SHARE OPTIONS SCHEME

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 15 May 2002 for the primary purpose of providing incentives to directors and eligible employees. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 30% of the issued shares of the Company from time to time. During the period under review, no shares options were granted to the Directors or staffs. And there are no outstanding options as at 30 June 2009.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the period under review, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee was established in accordance with the requirements of the Code for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee comprises three independent non-executive Directors, Mr. Ma Ving Lung, Mr. Yip King Keung, Pony and Ms. Lin Wen Feng.

The Audit Committee meets regularly with the Company's senior management and the Company's auditors to consider the Company's financial reporting process, the effectiveness of internal controls, the audit process and risk management.

The interim results of the Group for the Period have not been audited, but have been reviewed by the Company's auditors, KPMG, and the Audit Committee.

CORPORATE GOVERNANCE

In the opinion of the Board, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the six months ended 30 June 2009, except the following deviation:

Code Provision A.2.1 — this Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The position of the Chairman of the Board is currently held by Mr. Chen Chang Wei, and the Company does not have any chief executive officer. As such, the roles of chairman and chief executive officer are performed by the same person. The Board considers that this structure is beneficial to the Company as it enables the Company to make prompt and efficient decisions. The Board comprises of experienced and high calibre individuals who meet regularly to discuss issues and make decisions on transactions that are material in nature to the Company. Hence, the operations of the Board ensure the balance of power and authority. The corporate governance principles of the Company emphasize a quality Board and accountability to all shareholders.

By Order of the Board
Chen Chang Wei
Chairman

Hong Kong, 23 September 2009

CONSOLIDATED INCOME STATEMENT

for the six months ended 30 June 2009 — unaudited

(Expressed in Hong Kong Dollars)

		Six months ended 30 June	
		2009	2008
	Note	**$'000**	$'000
Turnover	3	**237,730**	133,218
Cost of sales	4(b)	**(159,609)**	(61,695)
Gross profit		**78,121**	71,523
Other revenue		**12,617**	16,694
Other net income		**539**	343
Selling, administrative and other operating expenses		**(22,881)**	(28,137)
Gain/(loss) on changes in fair value of investment properties		**438**	(412)
Profit from operations		**68,834**	60,011
Finance costs	4(a)	**(51,987)**	(54,068)
Profit before taxation	4	**16,847**	5,943
Income tax	5	**(24,258)**	(26,801)
Loss for the period		**(7,411)**	(20,858)
Attributable to:			
Equity shareholders of the Company		**(31,222)**	(24,887)
Minority interests		**23,811**	4,029
Loss for the period		**(7,411)**	(20,858)
Loss per share (cents)	6		
Basic		**(2.81)**	(3.77)
Diluted		**N/A**	N/A

The notes on pages 19 to 34 form part of this interim financial report. Details of dividends of the Company are set out in note 17.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2009 — unaudited

(Expressed in Hong Kong Dollars)

	Note	Six months ended 30 June	
		2009	2008
		$'000	$'000
Loss for the period		**(7,411)**	(20,858)
Other comprehensive income for the period:			
Exchange differences on translation of financial statements of subsidiaries in the mainland of People's Republic of China (the "PRC")		**27**	11,275
Surplus/(deficit) on revaluation of fixed assets	7(b)	**1**	(5,547)
		28	5,728
Total comprehensive deficit for the period		**(7,383)**	(15,130)
Attributable to:			
Equity shareholders of the Company		**(30,175)**	(18,715)
Minority interests		**22,792**	3,585
Total comprehensive deficit for the period		**(7,383)**	(15,130)

The notes on pages 19 to 34 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET

at 30 June 2009 — unaudited

(Expressed in Hong Kong Dollars)

	Note	30 June 2009 $'000	31 December 2008 $'000
Non-current assets			
Fixed assets	7		
— Investment properties		**24,297**	23,794
— Other property, plant and equipment		**16,571**	12,731
		40,868	36,525
Prepaid lease payments		**27,496**	27,548
Goodwill		**95,782**	95,782
Available-for-sale investment		**2,267**	2,265
Loan to a shareholder	8	**286,699**	—
Deferred tax assets		**20,882**	9,358
		473,994	171,478
Current assets			
Properties under development	9	**3,015,440**	3,166,058
Properties held for sales		**105,551**	21,232
Trade and other receivables	10	**212,541**	537,768
Tax recoverable		**4,001**	11,763
Restricted bank deposits		**22,676**	—
Cash at bank and in hand	11	**132,375**	89,133
		3,492,584	3,825,954
Current liabilities			
Trade and other payables	12	**324,534**	340,577
Receipts in advance		**83,727**	216,761
Promissory notes	13	**59,751**	108,691
Bank loans	14	**159,406**	168,691
Current taxation		**95,812**	84,228
		723,230	918,948

CONSOLIDATED BALANCE SHEET (continued)

at 30 June 2009 — unaudited

(Expressed in Hong Kong Dollars)

	Note	30 June 2009 $'000	31 December 2008 $'000
Net current assets		**2,769,354**	2,907,006
Total assets less current liabilities		**3,243,348**	3,078,484
Non-current liabilities			
Bank loans	14	**890,541**	725,005
Convertible bonds	15	**1,218,695**	1,178,409
Deferred tax liabilities		**950,365**	950,278
		3,059,601	2,853,692
NET ASSETS		**183,747**	224,792
CAPITAL AND RESERVES			
Share capital	16	**111,851**	109,251
Reserves		**(37,735)**	26,691
Total equity attributable to equity shareholders of the Company		**74,116**	135,942
Minority interests		**109,631**	88,850
TOTAL EQUITY		**183,747**	224,792

Approved and authorised for issue by the board of directors on 23 September 2009.

Chen Chang Wei
Chairman

Chan Sheung Ni
Executive Director

The notes on pages 19 to 34 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2009 — unaudited

(Expressed in Hong Kong Dollars)

	Note	Attributable to equity shareholders of the Company									Minority interests $'000	Total equity $'000
		Share capital $'000	Share premium $'000	Capital reserve $'000	Special reserve $'000	Exchange reserve $'000	Property revaluation reserve $'000	Convertible bonds equity reserve $'000	Retained profits/ (Accumulated losses) $'000	Total $'000		
Balance at 1 January 2008		29,633	34,708	7,324	44,144	22,858	7,862	–	147,859	294,388	62,950	357,338
Changes in equity for the six months ended 30 June 2008												
Issue of convertible bonds		–	–	–	–	–	–	157,393	–	157,393	–	157,393
Convertible bonds exercised		53,800	86,470	–	–	–	–	(15,671)	–	124,599	–	124,599
Issue of shares	16	11,418	44,528	–	–	–	–	–	–	55,946	–	55,946
Acquisition of subsidiaries		–	–	–	–	–	–	–	–	–	75,551	75,551
Dividends paid to minority equity holders of a subsidiary		–	–	–	–	–	–	–	–	–	(7,396)	(7,396)
Total comprehensive income/(deficit) for the period		–	–	–	–	8,427	(2,255)	–	(24,887)	(18,715)	3,585	(15,130)
Balance at 30 June 2008 and 1 July 2008		94,851	165,706	7,324	44,144	31,285	5,607	141,722	122,972	613,611	134,690	748,301
Changes in equity for the six months ended 31 December 2008												
Convertible bonds exercised		14,400	26,525	–	–	–	–	(4,195)	–	36,730	–	36,730
Disposal of subsidiaries		–	–	(4,286)	–	(28,191)	–	–	–	(32,477)	(15,296)	(47,773)
Total comprehensive income/(deficit) for the period		–	–	–	–	1,454	(4,740)	–	(478,636)	(481,922)	(30,544)	(512,466)
Balance at 31 December 2008		109,251	192,231	3,038	44,144	4,548	867	137,527	(355,664)	135,942	88,850	224,792
Balance at 1 January 2009		**109,251**	**192,231**	**3,038**	**44,144**	**4,548**	**867**	**137,527**	**(355,664)**	**135,942**	**88,850**	**224,792**
Changes in equity for the six months ended 30 June 2009:												
Convertible bonds exercised	15	**2,600**	**4,734**	**–**	**–**	**–**	**–**	**(757)**	**–**	**6,577**	**–**	**6,577**
Deemed distribution	8	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(38,228)**	**(38,228)**	**(2,011)**	**(40,239)**
Total comprehensive income/(deficit) for the period		**–**	**–**	**–**	**–**	**1,046**	**1**	**–**	**(31,222)**	**(30,175)**	**22,792**	**(7,383)**
Balance at 30 June 2009		**111,851**	**196,965**	**3,038**	**44,144**	**5,594**	**868**	**136,770**	**(425,114)**	**74,116**	**109,631**	**183,747**

The notes on pages 19 to 34 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2009 — unaudited
(Expressed in Hong Kong Dollars)

	Note	Six months ended 30 June 2009 $'000	Six months ended 30 June 2008 $'000
Cash (used in)/generated from operations		**(32,989)**	35,862
Tax paid, net		**(2,985)**	(151,301)
Net cash used in operating activities		**(35,974)**	(115,439)
Net cash generated from/(used in) investing activities		**821**	(632)
Net cash generated from financing activities		**78,513**	162,778
Net increase in cash and cash equivalents		**43,360**	46,707
Cash and cash equivalents at 1 January		**88,915**	23,398
Effect of foreign exchange rates changes		**100**	13,280
Cash and cash equivalents at 30 June	11	**132,375**	83,385

The notes on pages 19 to 34 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong Dollars unless otherwise indicated)

1 BASIS OF PREPARATION

(a) Basis of presentation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, "Interim financial reporting", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2008 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2009 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of Hengli Properties Development (Group) Limited (the "Company") and its subsidiaries ("the Group") since the 2008 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with HKFRSs.

The interim financial report has been prepared on a going concern basis, notwithstanding a net loss of $7,411,000 for the six months ended 30 June 2009 (six months ended 30 June 2008: $20,858,000) and consistent net operating cash outflow. The directors have been reviewing the operating performance and projections of future cash flows of the Group and concluded that the Group would have sufficient working capital to finance its operations in the next 12 months and remain as a going concern. Accordingly, the directors are of the opinion that, after taking account of the effect of the existing internal financial resources, undrawn available banking facilities and financial support from a shareholder, it is appropriate to prepare the consolidated financial statements on a going concern basis.

The interim financial report is unaudited, but has been reviewed by the Group's audit committee. It has also been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information performed by the independent auditor of the entity", issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on page 35 to 36.

1 BASIS OF PREPARATION (continued)

(a) Basis of presentation (continued)

The financial information relating to the year ended 31 December 2008 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2008 are available from the Company's registered office. The auditors (previously Grant Thornton) have expressed an unqualified opinion on those financial statements in their report dated 28 April 2009.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued one new HKFRS, a number of amendments to HKFRSs and new Interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 8, *Operating segments*
- HKAS 1 (revised 2007), *Presentation of financial statements*
- Improvements to HKFRSs (2008)
- Amendments to HKAS 27, *Consolidated and separate financial statements — cost of an investment in a subsidiary, jointly controlled entity or associate*
- Amendments to HKFRS 7, *Financial instruments: Disclosures — improving disclosures about financial instruments*
- HKAS 23 (revised 2007), *Borrowing costs*
- HK(IFRIC) 15, *Agreements for the construction of real estate*
- HK(IFRIC) 16, *Hedges of a net investment in a foreign operation*

2 CHANGES IN ACCOUNTING POLICIES (continued)

The amendments to HKAS 23 and Interpretations HK(IFRIC) 15 and HK(IFRIC) 16 have had no material impact on the Group's financial statements as the amendments and interpretations are consistent with policies already adopted by the Group. In addition, the amendments to HKFRS 7 do not contain any additional disclosure requirements specifically applicable to the interim financial report. The impact of the remainder of these developments on the interim financial report is as follows:

- HKFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on related products and services and on geographical areas. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management, and has resulted in a change of reportable segments being identified and presented (see note 3). As this is the first period in which the Group has presented segment information in accordance with HKFRS 8, additional explanation has been included in the interim financial report which explains the basis of preparation of the information. Corresponding amounts have also been provided on a basis consistent with the revised segment information.

- As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. The new format for the consolidated statement of comprehensive income and the consolidated statement of changes in equity has been adopted in this interim financial report and corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any of the periods presented.

- The "Improvements to HKFRSs (2008)" comprise a number of minor and non-urgent amendments to a range of HKFRSs which the HKICPA has issued as an omnibus batch of amendments. Of these, as a result of amendments to HKAS 40, "Investment property", investment property which is under construction will be carried at fair value at the earlier of when the fair value first becomes reliably measurable and the date of completion of the property. Any gain or loss will be recognised in profit or loss, consistent with the policy adopted for all other investment properties carried at fair value. Previously such property was carried at cost until the construction was completed, at which time it was fair valued with any gain or loss being recognised in profit or loss. As the Group does not currently have any investment property under construction, this change in policy has no impact on net assets or profit or loss for any of the periods presented.

2 CHANGES IN ACCOUNTING POLICIES (continued)

- The amendments to HKAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009 all dividends receivable from subsidiaries, associates and jointly controlled entities, whether out of pre- or post-acquisition profits, will be recognised in the Company's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the Company would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

3 SEGMENT REPORTING

The Group manages its businesses by projects in different region within the People's Republic of China (the "PRC"). On first-time adoption of HKFRS 8, "Operating segments" and in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following reportable segments.

Projects in Fujian Province: this segment engages in the development of residential and commercial properties for sales in Fujian Province.

Projects in Zhejiang Province: this segment engages in the development of residential and commercial properties for sales as well as leasing of properties to earn rental income in Zhejiang Province.

Projects in Jilin Province: this segment engaged in property development in Jilin Province. This segment was disposed of in 2008.

(a) Segment results, assets and liabilities

In accordance with HKFRS 8, segment information disclosed in the interim financial report has been prepared in a manner consistent with the information used by the Group's most senior executive management for the purposes of assessing segment performance and allocating resources between segments. In this regard, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following basis:

Segment assets include all tangible, intangible assets and current assets with the exception of investments in financial assets and other corporate assets. Segment liabilities include current liabilities, bank borrowings managed directly by the segments and deferred tax liabilities.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

3 SEGMENT REPORTING (continued)

(a) Segment results, assets and liabilities (continued)

The measure used for reporting segment profit is "Profit before tax".

	Projects in Fujian Province $'000	**Projects in Zhejiang Province $'000**	**Total $'000**
For the six months ended 30 June 2009			
Revenue from external customers	**—**	**237,730**	**237,730**
Reportable segment profit	**10,345**	**59,162**	**69,507**
At 30 June 2009			
Reportable segment assets	**3,348,642**	**497,376**	**3,846,018**
Reportable segment liabilities	**1,925,792**	**450,655**	**2,376,447**

	Projects in Fujian Province $'000	Projects in Zhejiang Province $'000	Projects in Jilin Province $'000	Total $'000
For the six months ended 30 June 2008				
Revenue from external customers	—	1,938	131,280	133,218
Reportable segment profit/(loss)	7,390	(3,024)	113,444	117,810
At 31 December 2008				
Reportable segment assets	3,237,205	606,662	—	3,843,867
Reportable segment liabilities	1,793,544	575,733	—	2,369,277

3 SEGMENT REPORTING (continued)

(b) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

Revenue	Six months ended 30 June 2009 $'000	2008 $'000
Reportable segment and consolidated revenue	**237,730**	133,218

Profit	Six months ended 30 June 2009 $'000	2008 $'000
Reportable segment profit	**69,507**	117,810
Unallocated head office and corporate results	**(52,660)**	(111,867)
Consolidated profit	**16,847**	5,943

Assets	30 June 2009 $'000	31 December 2008 $'000
Reportable segment assets	**3,846,018**	3,843,867
Elimination of inter-segment receivables	**(72,693)**	(186,767)
Unallocated head office and corporate assets	**193,253**	340,332
Consolidated total assets	**3,966,578**	3,997,432

Liabilities	30 June 2009 $'000	31 December 2008 $'000
Reportable segment liabilities	**2,376,447**	2,369,277
Elimination of inter-segment payables	**(72,693)**	(186,767)
Deferred tax liabilities	**2,320**	2,320
Unallocated head office and corporate liabilities	**1,476,757**	1,587,810
Consolidated total liabilities	**3,782,831**	3,772,640

4 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

		Six months ended 30 June	
		2009	2008
		$'000	$'000
(a)	Finance costs:		
	Interest on bank loans	**27,738**	26,277
	Interest on convertible bonds	**46,863**	42,791
	Interest on promissory notes	**1,060**	8,515
		75,661	77,583
	Less: Interest expenses capitalised into properties under development	**(23,674)**	(23,515)
	Total finance costs	**51,987**	54,068

		Six months ended 30 June	
		2009	2008
		$'000	$'000
(b)	Other items:		
	Amortisation and depreciation	**655**	2,886
	Cost of properties sold	**159,609**	61,695

5 INCOME TAX

	Six months ended 30 June	
	2009	2008
	$'000	$'000
Current tax		
PRC Corporate Income Tax (ii)	**16,060**	17,578
PRC Land Appreciation Tax (iii)	**6,192**	12,436
	22,252	30,014
Deferred taxation	**2,006**	(3,213)
Total income tax	**24,258**	26,801

(i) No Hong Kong Profits Tax has been provided for as the Group has no estimated assessable profits arising in Hong Kong.

(ii) PRC Corporate Income Tax ("CIT")

The provision for CIT is based on the respective applicable rates on the estimated assessable income of the Group's subsidiaries in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC.

(iii) PRC Land Appreciation Tax ("LAT")

LAT is levied on properties developed by the Group for sale, at progressive rates ranging from 30% to 60% on the appreciation of land value, which under the applicable regulations is calculated based on the proceeds of sales of properties less deductible expenditures including lease charges of land use rights, borrowing costs and relevant development expenditure.

6 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to equity shareholders of the Company of $31,222,000 (six months ended 30 June 2008: $24,887,000) and the weighted average number of ordinary shares of 1,109,600,923 (2008: 659,993,044 shares) in issue during the interim period.

(b) Diluted loss per share

The diluted loss per share for the six months ended 30 June 2008 and 2009 is not presented as the potential ordinary shares had anti-dilutive effect on loss per share.

7 FIXED ASSETS

(a) Acquisitions and disposals

During the six months ended 30 June 2009, the Group acquired items of property, plant and equipment with a cost of $4,597,000 (six months ended 30 June 2008: $2,842,000). There were no disposals of property, plant and equipment during the six months ended 30 June 2009 (six months ended 30 June 2008: nil).

(b) Valuation

Investment properties and land and buildings held for own use carried at fair value were revalued at 30 June 2009 at their open market value. The valuations of the investment properties and the land and buildings held for own use were carried out by independent firm of surveyors, Savills Valuation and Professional Services Limited and RHL Appraisal Limited respectively. Both of them have recent experience in the respective location and category of property being valued. As a result of the update, a net gain of $438,000 (six months ended 30 June 2008: loss of $412,000) has been recognised in profit or loss for the period in respect of investment properties and a net-of-tax surplus amount of $1,000 (six months ended 30 June 2008: deficit of $5,547,000) has been recognised in other comprehensive income for the period in respect of land and buildings held for own use.

8 LOAN TO A SHAREHOLDER

On 19 June 2009, Fujian Zhonglu Real Estate Development Co., Ltd. ("Fujian Zhonglu") and Mr. Chen Chang Wai ("Mr. Chen"), a shareholder and director of the Group, entered into an agreement pursuant to which Fujian Zhonglu agreed to extend the repayment date of a loan to Mr. Chen to 31 December 2011 from 20 June 2009. The extension constitutes a major and connected transaction for the Company under the Listing Rules and was approved by the independent shareholders at the special general meeting of the Company in July 2009. As the loan is non-interest bearing and repayable at 31 December 2011, the fair value of the loan at 19 June 2009 was estimated and the difference of the fair value and the face value of the loan was accounted for as a deemed distribution. The loan was initially recognised based on a discount rate of 5.4% per annum.

9 PROPERTIES UNDER DEVELOPMENT

During the six months ended 30 June 2008, there were additions to properties under development of approximately $2,741,538,000 arising from a business combination.

10 TRADE AND OTHER RECEIVABLES

	30 June 2009 $'000	31 December 2008 $'000
Trade receivables	**2,297**	1,611
Prepayments, other receivables and deposits	**210,166**	172,189
Prepaid lease payments (current portion)	**78**	78
Loan to a shareholder	**–**	363,869
Amounts due from related companies	**–**	21
	212,541	537,768

The following is the aging analysis of trade receivables as of the balance sheet date:

	30 June 2009 $'000	31 December 2008 $'000
Current or less than 1 months past due	**2,297**	11
More than 3 months but less than 12 months past due	**–**	1,566
More than 12 months past due	**–**	34
Total trade receivables	**2,297**	1,611

In respect of trade receivables of mortgage sales, no credit terms will be granted to the purchasers. The Group normally arranges bank financing for purchasers of properties up to 70% of the total purchase price of the property and provides guarantee to secure repayment obligations of such purchasers. The Group's guarantee periods commence from the dates of grants of relevant mortgage loans and end upon completion of construction and the mortgage registration documents are delivered to the relevant banks after the issue of the building ownership certificate. If there is default in payments by these purchasers, the Group is responsible to repay the outstanding mortgage loans together with any accrued interests and penalties owed by the defaulted purchasers to banks. Under such circumstances, the Group is able to retain the customer's deposit, take over the ownership of relevant properties and sell the properties to recover any amounts paid by the Group to the banks since the Group has not applied for individual building ownership certificates for these purchasers until full payment are received.

Included in prepayments, other receivables and deposits were partial payments for acquisition of a leasehold land of $160,830,000 (31 December 2008: $123,611,000).

11 CASH AND CASH EQUIVALENTS

	30 June 2009 $'000	31 December 2008 $'000
Cash at bank and in hand	**132,375**	89,133
Bank overdrafts	**—**	(218)
Cash and cash equivalents in the cash flow statement	**132,375**	88,915

12 TRADE AND OTHER PAYABLES

	30 June 2009 $'000	31 December 2008 $'000
Trade payables	**124,394**	187,796
Other creditors and accrued charges	**142,287**	118,211
Amounts due to shareholders	**51,112**	18,889
Amounts due to minority shareholder	**6,741**	12,283
Amounts due to related companies	**—**	3,398
	324,534	340,577

The following is the aging analysis of trade payables as of the balance sheet date:

	30 June 2009 $'000	31 December 2008 $'000
Due within 3 months or on demand	**118,166**	84,927
Due after 3 months but within 12 months	**—**	68
Due over 12 months	**6,228**	102,801
Total trade payables	**124,394**	187,796

13 PROMISSORY NOTES

On 21 January 2008, the Company issued promissory notes with an aggregate principal amount of $250,000,000 to Mr. Chen as part of consideration for the acquisition of Amazing Wise Limited and its subsidiaries. The promissory notes were originally repayable in 2008 but its maturity was extended to 30 June 2009. During the six months ended 30 June 2009, the Company repaid principal value of promissory notes of $50 million. The outstanding balance of the promissory notes at 30 June 2009 are unsecured, interest-free and repayable on demand. The directors expected that the amount would be repaid within the next 12 months.

14 BANK LOANS

At 30 June 2009, bank loans are analysed as below:

	30 June 2009 $'000	31 December 2008 $'000
Secured (note a)	**134,922**	144,791
Unsecured (note b)	**24,484**	23,900
Repayable within one year	**159,406**	168,691
Secured (note a)	**833,591**	655,663
Unsecured (note b)	**56,950**	69,342
Repayable after one year	**890,541**	725,005
	1,049,947	893,696

(a) These bank loans were secured by assets of the Group as follows:

	30 June 2009 $'000	31 December 2008 $'000
Investment properties	**20,020**	23,794
Other property, plant and equipment	**5,942**	1,522
Prepaid lease payments	**8,153**	8,185
Properties under development	**2,860,835**	2,686,427
Restricted bank deposits	**22,676**	—
	2,917,626	2,719,928

(b) These bank loans were guaranteed by Mr. Chen and Ms. Chan Sheung Ni and were secured by certain of their personal properties. Both of them are shareholders and directors of the Company.

15 CONVERTIBLE BONDS

On 21 January 2008, the Company issued $2,701,711,500 zero coupon convertible bonds at 100% of principal amount to Mr. Chen as part of the consideration for the acquisition of Amazing Wise Limited and its subsidiaries. The convertible bonds are secured by the shares of Amazing Wise Limited held by the Group. Unless previously converted, the Company will redeem the convertible bonds on 20 January 2018.

The convertible bonds recognised in the balance sheet are analysed for as follows:

	Liability component $'000	**Equity component** $'000
Net carrying amounts at 31 December 2008	1,178,409	137,527
Interest expenses	46,863	—
Exercise of conversion rights	(6,577)	(757)
Net carrying amounts at 30 June 2009	**1,218,695**	**136,770**

Interest expense on the convertible bonds is calculated using the effective interest method by applying the effective interest rate of 8% to the liability component.

16 SHARE CAPITAL

The share capital as at 30 June 2009 is as follows:

	30 June 2009		31 December 2008	
	No. of shares '000	**Amount $'000**	No. of shares '000	Amount $'000
Authorised:				
Ordinary shares of $0.1 each	**10,000,000**	**1,000,000**	10,000,000	1,000,000
Issued and fully paid:				
Ordinary shares of $0.1 each				
At 1 January	**1,092,507**	**109,251**	296,330	29,633
Shares issued upon acquisition of subsidiaries	**–**	**–**	114,177	11,418
Exercise of convertible bonds (note 15)	**26,000**	**2,600**	682,000	68,200
At 30 June 2009/ 31 December 2008	**1,118,507**	**111,851**	1,092,507	109,251

17 DIVIDENDS

The Directors of the Company did not recommend the payment of an interim dividend for the six months ended 30 June 2009 (six months ended 30 June 2008: nil).

18 LIQUIDITY RISK

In the opinion of the directors, the Group does not have any significant liquidity risk exposure. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The directors have been reviewing projections of future cash flows and are confident that taking into account of internal financial resources and undrawn available banking facilities, the Group is not exposed to significant liquidity risk. As at 30 June 2009, the Group has undrawn available banking facilities amounting to $147,392,000 (31 December 2008: $98,528,000). In addition, continued financial support has been obtained from Mr. Chen whereby he undertakes to support the Group so as to enable it to meet its obligations and liabilities as and when they fall due and to continue its day-to-day business operations as a viable going concern.

19 COMMITMENTS OUTSTANDING NOT PROVIDED FOR IN THE INTERIM FINANCIAL REPORT

	30 June 2009 $'000	31 December 2008 $'000
Contracted for land and development costs for the Group's properties under development	**596,609**	896,826

20 CONTINGENT LIABILITIES

The Group provided guarantees in respect of mortgage facilities granted by certain banks in connection with the mortgage loans entered into by purchasers of the Group's properties. Pursuant to the terms of the guarantees, if there is default of the mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage loans together with any accrued interests and penalties owed by the defaulted purchasers to banks. The Group's guarantee periods commence from the dates of grants of the relevant mortgage loans and end after the purchasers have obtained the individual property ownership certificate of the property purchased. The amount of guarantees given to banks for mortgage facilities granted to the purchasers of the Group's properties at the balance sheet date is as follows:

	30 June 2009 $'000	31 December 2008 $'000
Guarantees given to banks for mortgage facilities granted to purchasers of the Group's properties	**107,255**	72,190

The directors do not consider it probable that the Group will sustain a loss under these guarantees during the periods under guarantees as the Group has not applied for individual building ownership certificates for these purchasers and can take over the ownerships of the related properties and sell the properties to recover any amounts paid by the Group to the banks. 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 market value of the underlying properties is able to cover the outstanding mortgage loans in the event of default payments by the purchasers to the banks.

21 MATERIAL RELATED PARTY TRANSACTIONS

(a) Particulars of material transactions between the Group and the related parties during the six months ended 30 June 2009 and 2008 are as follows:

	Six months ended 30 June	
	2009	2008
	$'000	$'000
Interest income from Mr. Chen	**12,266**	9,870

The outstanding balances with related parties have been set out in note 8, 10, 12, 13, and 15.

Guarantees provided by related parties have been set out in note 14.

(b) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors and senior management, are as follows:

	Six months ended 30 June	
	2009	2008
	$'000	$'000
Short-term employee benefits	**1,208**	1,880

22 COMPARATIVE FIGURES

As a result of the application of HKAS 1 (revised 2007), "Presentation of financial statements", and HKFRS 8, "Operating segments", certain comparative figures have been adjusted to conform to current period's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in note 2.

KPMG

Review report to the board of directors of
Hengli Properties Development (Group) Limited
(Incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 13 to 34 which comprises the consolidated balance sheet of Hengli Properties Development (Group) Limited ("the Company") as of 30 June 2009 and the related consolidated income statement, statement of comprehensive income and the statement of changes in equity and condensed consolidated statement of cash flows for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, "Interim financial reporting", issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity", issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2009 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, "Interim financial reporting".

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

23 September 2009