HL GROUP 恆力房地產集團

HENGLI PROPERTIES DEVELOPMENT (GROUP) LIMITED

恆 力 房 地 產 發 展 (集 團) 有 限 公 司

(Incorporated in Bermuda with limited liability)

2010
INTERIM REPORT

Stock Code : 169

CONTENTS

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Ms. Hui Wai Man, Shirley

CHIEF FINANCIAL OFFICER

Ms. Wu Weilan

PRINCIPAL BANKERS

China Construction Bank
Chiyu Banking Corporation Limited
The Bank of East Asia, Limited

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 PRINCIPAL 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		
	2010	2009	
	$'000	$'000	Change %
Turnover			
Property letting	**1,533**	1,147	+33.7
Sales of developed properties	**64,069**	236,583	-73.0
Total turnover	**65,602**	237,730	-72.4
Gain on changes in fair value of investment properties	**4,435**	438	+912.6
Profit from operations	**24,697**	68,834	-64.1
(Loss)/profit before taxation	**(41,353)**	16,847	-345.5
Loss attributable to equity shareholders of the Company	**(37,896)**	(31,222)	+21.4
Loss per share			
Basic	**$(0.03)**	$(0.03)	—
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 2010 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 2010, the Group's turnover amounted to HK$65,602,000, representing a decrease of 72.4% as compared to the corresponding period in 2009. Included in the turnover were sales of developed properties and rental income from property letting, which were mainly derived from the sales of 盛世嘉苑一期 and 姚江新都大廈 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 2010 was approximately HK$37,896,000, representing an increase of 21.4% as compared to the corresponding period in 2009. This was mainly due to i) the decrease in gross profit of HK$45,698,000, ii) the increase in finance expenses of HK$14,063,000, and iii) the increase in tax credit of 39,606,000.

In February 2009, 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, Zhejiang Province. This land would be used to develop residential properties 盛世嘉苑二期 and the construction was commenced in December 2009.

The property named Hengli City (恒力城), 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 241,600 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 8-storey commercial podium accommodating clubhouse facilities and retail spaces and 3 levels of basement car parking spaces. The project was launched for pre-sales in September 2009. The development of these properties is expected to be completed by the end of 2011 and 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 land is used to develop high-end commercial properties and the construction was commenced in December 2009. The project is near to the location of Hengli City and creates a synergy effect, which would enhance the strategic advantage of the Group in the central commercial district of Fuzhou, Fujian Province.

FINANCIAL REVIEW

Net assets and equity attributable to equity holders

As at 30 June 2010, the Group recorded total assets and total liabilities of approximately HK$4,976,102,000 and HK$4,696,539,000 respectively. The Group had net assets as at 30 June 2010 approximately HK$279,563,000 as compared to approximately HK$276,200,000 as at 31 December 2009. As at 30 June 2010, the equity attributable to equity holders of the Company was approximately HK$106,080,000 as compared to HK$116,908,000 as at 31 December 2009.

Liquidity and financial ratios

The Group had total bank and cash balances of approximately HK$437,782,000 as at 30 June 2010 as compared with HK$336,485,000 as at 31 December 2009. As at 30 June 2010, the current ratio was 3.3 as compared with 3.6 as at 31 December 2009. The gearing ratio was 88.9% as at 30 June 2010 as compared with 88.8% as at 31 December 2009. The bank borrowings to equity attributable to the Company's equity shareholders was recorded at 1,250.9% as at 30 June 2010 as compared with 1,028.2% as at 31 December 2009.

Borrowings

The Group had interest bearing borrowings of approximately HK$ 1,326,959,000 as at 30 June 2010 (31 December 2009: HK$1,202,018,000), representing an increase of approximately 10.4% over the amount as at 31 December 2009. Borrowings were denominated in both Renminbi ("RMB") and Hong Kong Dollar ("HK$"). Approximately 18.8% of the borrowing is repayable within one year and the rest representing the bank loans repayable after one year of HK$ 1,077,696,000.

Foreign currency exposure

As a significant portion of the Group's borrowings, turnover and construction costs is 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 2010.

PLEDGE OF ASSETS

As at 30 June 2010, the Group pledged certain of its property, plant and equipment, prepaid lease payments, properties under developments and restricted bank deposits to banks in the PRC to secure the bank loans of approximately HK$1,266,257,000 (2009: HK$1,128,087,000) granted by these banks. The aggregate carrying value of the property, plant and equipment, prepaid lease payments, properties under development and restricted bank deposits as at 30 June 2010 amounted to approximately HK$1,431,000, HK$8,088,000, HK$3,361,177,000, and HK$240,612,000 (31 December 2009: HK$1,483,000, HK$8,153,000, HK$3,130,420,000 and HK$198,508,000) respectively.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2010, the Group employed approximately 123 full time staffs in the 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.

APPROPRIATIONS

The Directors of the Company did not recommend the payment of an interim dividend for the six months ended 30 June 2010 (six months ended 30 June 2009: nil).

OUTLOOK

Strong rebound in the mainland China property market in 2009 and the consolidation of the property prices at a higher level as well as the significant increase in land prices led to stricter tightening measures by the Chinese Government. In order to control residential prices and asset bubble, the Chinese Government has imposed some policies such as tightened credit for property from the beginning of 2010. The trend in the property market was eminently affected by government policies in the past few months with the transaction volumes reduced and prices for some of the projects in some cities lowered.

The Group expects the impact of the tightening measures towards property on the economy will come out more clearly in the second half of the year. The transaction volumes of property sales may come down further in the second half of the year. Nevertheless, the Group is optimistic about the medium and long term development of the mainland China property market. Coming through the global financial crisis, further balancing of Chinese regional economies and urbanization will inevitably be the trend of the next few years. Speeding up of urbanization throughout the country will provide great prospect for the real estate industry. Urbanization and industrialization brings demands not only for residential properties, but also for the office and the retail properties. Such urbanization also requests a comprehensive mix of property products to meet the needs for housing, employment and leisure.

The Group will not be over-optimistic and will follow closely the change in the trend of the macro economy and the regulatory environment and will address such changes effectively and in a timely manner. The Company will remain cautious on acquisitions. 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 Group will continue to grasp desirable opportunities in the future to increase its landbank to provide satisfactory return to the shareholders. 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 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.

OTHER INFORMATION

DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2010, 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 2010, 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 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.

Other than 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 2010.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2010, 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 2010, 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 2010.

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. The interim results have been reviewed by 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 2010, 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, 25 August 2010

CONSOLIDATED INCOME STATEMENT

for the six months ended 30 June 2010 — unaudited

(Expressed in Hong Kong Dollars)

		Six months ended 30 June	
	Note	**2010 $'000**	2009 $'000
Turnover	3	**65,602**	237,730
Cost of sales	4(b)	**(33,179)**	(159,609)
Gross profit		**32,423**	78,121
Other revenue		**8,823**	12,617
Other net income		**51**	539
Selling, administrative and other operating expenses		**(21,035)**	(22,881)
Valuation gain on investment properties		**4,435**	438
Profit from operations		**24,697**	68,834
Finance costs	4(a)	**(66,050)**	(51,987)
(Loss)/profit before taxation	4	**(41,353)**	16,847
Income tax credit/(expense)	5	**15,348**	(24,258)
Loss for the period		**(26,005)**	(7,411)
Attributable to:			
Equity shareholders of the Company		**(37,896)**	(31,222)
Non-controlling interests		**11,891**	23,811
Loss for the period		**(26,005)**	(7,411)
Loss per share	6		
Basic		**$(0.03)**	$(0.03)
Diluted		**N/A**	N/A

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2010 — unaudited

(Expressed in Hong Kong Dollars)

		Six months ended 30 June	
		2010	2009
	Note	**$'000**	$'000
Loss for the period		**(26,005)**	(7,411)
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")		**29,242**	27
Surplus on revaluation of property, plant and equipment	7(b)	**126**	1
		29,368	28
Total comprehensive income for the period		**3,363**	(7,383)
Attributable to:			
Equity shareholders of the Company		**(10,828)**	(30,175)
Non-controlling interests		**14,191**	22,792
Total comprehensive income for the period		**3,363**	(7,383)

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

CONSOLIDATED BALANCE SHEET

at 30 June 2010 — unaudited

(Expressed in Hong Kong Dollars)

	Note	30 June 2010 $'000	31 December 2009 $'000
Non-current assets			
Fixed assets	7		
— Investment properties		**93,645**	88,105
— Property, plant and equipment		**17,749**	18,255
		111,394	106,360
Prepaid lease payments		**28,471**	28,509
Goodwill		**96,872**	95,782
Available-for-sale investment		**2,300**	2,272
Loan to a shareholder	8	**306,897**	295,129
Deferred tax assets		**3,388**	8,838
		549,322	536,890
Current assets			
Properties under development	9	**3,754,803**	3,571,790
Properties held for sales		**138,423**	167,440
Trade and other receivables	10	**62,919**	31,420
Tax prepayments		**32,853**	4,549
Restricted bank deposits		**240,612**	198,508
Cash at bank and in hand		**197,170**	137,977
		4,426,780	4,111,684
Current liabilities			
Trade and other payables	11	**331,040**	383,938
Receipts in advance		**675,008**	394,353
Promissory notes	12	**30,000**	60,000
Bank loans	13	**249,263**	207,313
Current taxation		**71,672**	87,322
		1,356,983	1,132,926

CONSOLIDATED BALANCE SHEET (continued)

at 30 June 2010 — unaudited

(Expressed in Hong Kong Dollars)

	Note	30 June 2010 $'000	31 December 2009 $'000
Net current assets		**3,069,797**	2,978,758
Total assets less current liabilities		**3,619,119**	3,515,648
Non-current liabilities			
Bank loans	13	**1,077,696**	994,705
Convertible bonds	14	**1,317,857**	1,267,706
Deferred tax liabilities		**944,003**	977,037
		3,339,556	3,239,448
NET ASSETS		**279,563**	276,200
CAPITAL AND RESERVES			
Share capital	15	**111,851**	111,851
Accumulated losses		**(419,764)**	(381,868)
Other reserves		**413,993**	386,925
Total equity attributable to equity shareholders of the Company		**106,080**	116,908
Non-controlling interests		**173,483**	159,292
TOTAL EQUITY		**279,563**	276,200

Approved and authorised for issue by the board of directors on 25 August 2010

Chen Chang Wei	**Chan Sheung Ni**
Chairman	*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 2010 — unaudited

(Expressed in Hong Kong Dollars)

		Attributable to equity shareholders of the Company										
	Note	Share capital $'000	Share premium $'000	Capital reserve $'000	Special reserve $'000	Exchange reserve $'000	Property revaluation reserve $'000	Convertible bonds equity reserve $'000	Accumulated losses $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
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	–	–	–	–	–	–	–	(37,421)	(37,421)	(1,969)	(39,390)
Total comprehensive income for the period		–	–	–	–	1,046	1	–	(31,222)	(30,175)	22,792	(7,383)
Balance at 30 June 2009 and 1 July 2009		111,851	196,965	3,038	44,144	5,594	868	136,770	(424,307)	74,923	109,673	184,596
Changes in equity for the six months ended 31 December 2009												
Total comprehensive income for the period		–	–	–	–	(1,057)	603	–	42,439	41,985	49,619	91,604
Balance at 31 December 2009		111,851	196,965	3,038	44,144	4,537	1,471	136,770	(381,868)	116,908	159,292	276,200
Balance at 1 January 2010		**111,851**	**196,965**	**3,038**	**44,144**	**4,537**	**1,471**	**136,770**	**(381,868)**	**116,908**	**159,292**	**276,200**
Changes in equity for the six months ended 30 June 2010:												
Total comprehensive income for the period		**–**	**–**	**–**	**–**	**27,021**	**47**	**–**	**(37,896)**	**(10,828)**	**14,191**	**3,363**
Balance at 30 June 2010		**111,851**	**196,965**	**3,038**	**44,144**	**31,558**	**1,518**	**136,770**	**(419,764)**	**106,080**	**173,483**	**279,563**

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 2010 — unaudited

(Expressed in Hong Kong Dollars)

	Six months ended 30 June	
	2010	2009
	$'000	$'000
Cash generated from/(used in) from operations	**97,485**	(32,989)
Tax paid, net	**(57,101)**	(2,985)
Net cash generated from/(used in) operating activities	**40,384**	(35,974)
Net cash (used in)/generated from investing activities	**(40,811)**	821
Net cash generated from financing activities	**59,223**	78,513
Net increase in cash and cash equivalents	**58,796**	43,360
Cash and cash equivalents at 1 January	**137,977**	88,915
Effect of foreign exchange rate changes	**397**	100
Cash and cash equivalents at 30 June	**197,170**	132,375

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 2009 annual financial statements, except the changes in accounting policies as 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 2009 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.

1 Basis of preparation (continued)

(a) Basis of presentation (continued)

The interim financial report has been prepared on a going concern basis, notwithstanding a net loss of $26,005,000 for the six months ended 30 June 2010 (six months ended 30 June 2009: $7,411,000). 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 pages 35 to 36.

The financial information relating to the year ended 31 December 2009 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 2009 are available from the Company's registered office.

2 Changes in accounting policies

The HKICPA has issued two revised HKFRSs, a number of amendments to HKFRSs and one new Interpretation 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 3 (revised 2008), *Business combinations*
- Amendments to HKAS 27, *Consolidated and separate financial statements*
- Amendments to HKFRS 5, *Non-current assets held for sale and discontinued operations — plan to sell the controlling interest in a subsidiary*

2 **Changes in accounting policies** (continued)

- Amendments to HKAS 39, *Financial instruments: Recognition and measurement — eligible hedged items*

- Improvements to HKFRSs (2009)

- HK(IFRIC) 17, *Distributions of non-cash assets to owners*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The amendments to HKAS 39 have had no material impact on the Group's financial statements as the amendments were consistent with policies already adopted by the Group. The other developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons:

- The impact of the majority of the revisions to HKFRS 3, HKAS 27, HKFRS 5 and HK (IFRIC) 17 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination, a disposal of a subsidiary or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of previous such transactions.

- The amendment introduced by the Improvements to HKFRSs (2009) omnibus standard in respect of HKAS 17, Leases, resulted in a change of classification of certain of the Group's leasehold land interests located in the Hong Kong Special Administrative Region, but this had no material impact on the amounts recognised in respect of these leases as the lease premiums in respect of all such leases are fully paid and are being amortised over the remaining length of the lease term.

3 Segment reporting

The Group manages its businesses by projects in different region within the People's Republic of China (the "PRC"). The Group has identified the following reportable segments 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. No operating segments have been aggregated to form the following reportable segments.

Projects in Fujian Province: this segment engages in the development of residential and commercial properties in Fujian Province. As at 30 June 2010, property projects included in this segment included the "Hengli City" and "Hengli Financial Centre" at Fujian. Both projects are in the construction phase.

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

(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.

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

3 **Segment reporting** (continued)

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

	Projects in Fujian Province $'000	Projects in Zhejiang Province $'000	Total $'000
For the six months ended 30 June 2010			
Revenue from external customers	–	65,602	65,602
Reportable segment (loss)/profit	(17,762)	30,516	12,754
At 30 June 2010			
Reportable segment assets	4,702,490	499,311	5,201,801
Reportable segment liabilities	3,321,465	342,215	3,663,680
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 31 December 2009			
Reportable segment assets	4,328,106	461,967	4,790,073
Reportable segment liabilities	2,984,493	323,960	3,308,453

3 **Segment reporting** (continued)

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

	Six months ended 30 June	
Revenue	**2010 $'000**	2009 $'000
Reportable segment and consolidated revenue	**65,602**	237,730

	Six months ended 30 June	
(Loss)/profit	**2010 $'000**	2009 $'000
Reportable segment profit	**12,754**	69,507
Unallocated head office and corporate results	**(54,107)**	(52,660)
(Loss)/profit before taxation	**(41,353)**	16,847

Assets	**30 June 2010 $'000**	31 December 2009 $'000
Reportable segment assets	**5,201,801**	4,790,073
Elimination of inter-segment receivables	**(676,755)**	(557,725)
Unallocated head office and corporate assets	**451,056**	416,226
Consolidated total assets	**4,976,102**	4,648,574

Liabilities	**30 June 2010 $'000**	31 December 2009 $'000
Reportable segment liabilities	**3,663,680**	3,308,453
Elimination of inter-segment payables	**(676,755)**	(557,725)
Unallocated head office and corporate liabilities	**1,709,614**	1,621,646
Consolidated total liabilities	**4,696,539**	4,372,374

4 (Loss)/profit before taxation

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

		Six months ended 30 June	
		2010	2009
		$'000	$'000
(a)	Finance costs:		
	Interest on bank loans	**32,314**	27,738
	Interest on convertible bonds	**50,151**	46,863
	Interest on promissory notes	**—**	1,060
		82,465	75,661
	Less: Interest expenses capitalised into properties under development	**(16,415)**	(23,674)
		66,050	51,987
(b)	Other items:		
	Amortisation and depreciation	**834**	655
	Operating lease charges: minimum lease payments on properties	**236**	83
	Gain on disposal of property, plant and equipment	**(107)**	—
	Revaluation (surplus)/deficit on property, plant and equipment	**(6)**	39
	Rentals receivable from investment properties less direct outgoings $76,000 (six months ended 30 June 2009: $58,000)	**(1,533)**	(1,147)
	Cost of properties sold	**33,179**	159,609

5 Income tax (credit)/expense

	Six months ended 30 June	
	2010	2009
	$'000	$'000
Current tax		
PRC Corporate Income Tax (ii)	**6,585**	16,060
PRC Land Appreciation Tax (iii)	**5,593**	6,192
	12,178	22,252
Deferred tax		
Origination and reversal of temporary differences	**(27,526)**	2,006
Total income tax (credit)/expense	**(15,348)**	24,258

(i) No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profit in Hong Kong for the year.

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

The provision for CIT has been calculated at the applicable tax rates on the estimated assessable profits of the Group's subsidiaries in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC. The CIT rate applicable to the Group's subsidiaries located in the PRC is 25% (six months ended 30 June 2009: 25%).

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

All income from sale or transfer of state-owned land use rights, buildings and their attached facilities in the PRC is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value, which under the applicable regulations is calculated based on the proceeds of sales of properties less deductible expenditures including costs 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 ordinary equity shareholders of the Company of $37,896,000 (six months ended 30 June 2009: loss $31,222,000) and the weighted average number ordinary shares of 1,118,507,000 (six months ended 30 June 2009: 1,109,600,923 shares) in issue during the interim period.

(b) Diluted loss per share

The diluted loss per share for the six months ended 30 June 2009 and 2010 are 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 2010, the Group acquired items of property, plant and equipment with a cost of $32,000 (six months ended 30 June 2009: $4,597,000). In addition, a motor vehicle with a cost of $456,000 was disposed (six months ended 30 June 2009: nil).

(b) Valuation

Investment properties and land and buildings held for own use carried at fair value were revalued on an open market value at 30 June 2010 by independent firms of surveyors, Savills Valuation and Professional Service Limited and RHL Appraisal Limited, both of which have recent experience in the respective location and category of property being valued. As a result of the revaluation, a net gain of $4,435,000 (six months ended 30 June 2009: gain of $438,000) has been recognised in profit or loss for the period in respect of investment properties. In addition, a net gain of $6,000 (six months ended 30 June 2009: loss of $39,000) and a net-of-tax surplus amount of $126,000 (six months ended 30 June 2009: surplus of $1,000) has been recognised in profit or loss and other comprehensive income respectively 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 loan is non-interest bearing and repayable on 31 December 2011. On initial recognition, 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

As at 30 June 2010, certain properties under development amounting to $3,361,177,000 (31 December 2009: $3,130,420,000) were pledged as collateral for the Group's borrowings (note 13).

10 Trade and other receivables

	30 June 2010 $'000	31 December 2009 $'000
Trade receivables	**1,566**	1,579
Prepayments, other receivables and deposits	**61,226**	29,715
Prepaid lease payments (current portion)	**127**	126
	62,919	31,420

The aging of trade receivables is current or less than one month past due.

In respect of trade receivables of mortgage sales, no credit terms are granted to the purchasers. The Group normally arranges bank financing for purchasers of the Group's property units and provides guarantees to secure obligations of such purchasers for repayments as set out in note 18.

11 Trade and other payables

	30 June 2010 $'000	31 December 2009 $'000
Trade payables	**194,324**	191,814
Other creditors and accrued charges	**121,570**	150,750
Amounts due to shareholders	**12,023**	24,963
Amounts due to non-controlling shareholders	**3,123**	16,411
	331,040	383,938

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

	30 June 2010 $'000	31 December 2009 $'000
Due within 3 months or on demand	**150,312**	89,460
Due over 12 months	**44,012**	102,354
Total trade payables	**194,324**	191,814

12 Promissory notes

During the six months ended 30 June 2010, the Company repaid promissory notes of $30,000,000. The outstanding balance of the promissory notes is unsecured, interest-free and repayable on demand.

13 Bank loans

At 30 June 2010, bank loans were repayable and secured as follows:

	30 June 2010 $'000	31 December 2009 $'000
Within 1 year	**249,263**	207,313
After 1 year but within 2 years	**1,057,889**	957,768
After 2 year but within 5 years	**17,626**	29,087
After 5 years	**2,181**	7,850
	1,326,959	1,202,018
Secured by the assets of the Group (note a)	**1,266,257**	1,128,087
Secured by personal guarantees and other assets (note b)	**60,702**	73,931
	1,326,959	1,202,018

(a) The assets of the Group pledged to secure bank loans comprise the following assets:

	30 June 2010 $'000	31 December 2009 $'000
Property, plant and equipment	**1,431**	1,483
Prepaid lease payments	**8,088**	8,153
Properties under development	**3,361,177**	3,130,420
Restricted bank deposits	**240,612**	198,508
	3,611,308	3,338,564

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

14 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 Company.

The rights of the convertible bond holders to convert the convertible bonds into ordinary shares are as follows;

- Conversion rights are exercisable at any time up to maturity at the option of convertible bond holders.

- If a holder exercises its conversion rights, the Company is required to deliver ordinary shares at a rate of $0.50 per share.

In respect of the convertible bonds' conversion rights that have not been exercised up to the maturity date, i.e. on 20 January 2018, the Company will redeem at face value on 20 January 2018.

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

	Liability component $'000	**Equity component** $'000
Net carrying amount at 31 December 2009	1,267,706	136,770
Interest expenses	50,151	—
Net carrying amounts at 30 June 2010	**1,317,857**	**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.

At 30 June 2010, the outstanding principal amount of the convertible bonds is $2,347,712,000 (31 December 2009: $2,347,712,000).

15 Share capital

	30 June 2010		31 December 2009	
	No. of shares	**Amount**	No. of shares	Amount
	'000	**$'000**	'000	$'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	**1,118,507**	**111,851**	1,092,507	109,251
Exercise of convertible bonds	**–**	**–**	26,000	2,600
At 30 June 2010/ 31 December 2009	**1,118,507**	**111,851**	1,118,507	111,851

16 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 long 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 2010, the Group has undrawn available banking facilities amounting to $149,500,000 (31 December 2009: $51,125,000). 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.

17 Commitments outstanding not provided for in the interim financial report

	30 June 2010 $'000	31 December 2009 $'000
Contracted for land and development costs in respect of property development activities	**591,538**	559,203

18 Contingent liabilities

The Group has arranged bank financing for certain purchasers of the Group's property units and provided guarantees to secure obligations of such purchasers for repayments. Such guarantees terminate upon the earlier of (i) issuance of the real estate ownership certificate upon the completion of guarantee registration; or (ii) the satisfaction of mortgaged loan by the purchasers of properties.

Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take over the legal title and possession of the related properties. The Group's guarantee period starts from the dates of grant of the mortgages. The directors of the Company are of the view that the fair value of financial guarantee is not significant.

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 2010 $'000	31 December 2009 $'000
Guarantees given to banks for mortgage facilities granted to purchasers of the Group's properties	**50,246**	105,241

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.

19 Material related party transactions

During the six months ended 30 June 2010, there have been no changes to the definition of related parties.

(a) Transactions with key management personnel

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

	Six months ended 30 June	
	2010	2009
	$'000	$'000
Short-term employee benefits	**2,568**	1,208

(b) Other related party transactions

Mr Chen is a shareholder and a director of the Group. In respect of the loan advanced to him, please refer to note 8 for details. In respect of promissory notes and convertible bonds payable to him, please refer to note 12 and 14 respectively for details.

Other amounts due to related parties are set out in note 11.

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 2010 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 2010 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

25 August 2010