恒基兆業地產有限公司
HENDERSON LAND DEVELOPMENT COMPANY LIMITED

Stock Code 股份代號：12

中期報告 INTERIM REPORT 2010

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Highlights of 2010 Interim Results

	Note	For the six months ended 30 June **2010 unaudited HK$ million**	2009 unaudited HK$ million	Change
Property sales				
– Revenue	1	**1,176**	2,031	-42%
– (Loss)/Profit contribution	2	**(394)**	551	-172%
Net rental income	3	**1,620**	1,479	+10%
Profit attributable to Shareholders				
– Underlying profit	4	**1,319**	2,106	-37%
– Reported profit		**7,658**	4,370	+75%
		HK$	HK$	
Earnings per share				
– Based on underlying profit	4	**0.61**	0.98	-38%
– Based on reported profit		**3.56**	2.04	+75%
Interim dividend per share		**0.30**	0.30	–
		At 30 June 2010 unaudited HK$	At 31 December 2009 audited HK$	
Net asset value per share	5	**64.64**	62.01	+4%
Adjusted net asset value per share	6	**68.94**	66.08	+4%
Net debt to shareholders' equity		**23.0%**	19.2%	+3.8 percentage points
		At 30 June 2010 Million square feet	At 31 December 2009 Million square feet	
Hong Kong				
Land bank (attributable floor area)				
– Properties held for/under development	7	**10.3**	9.4	
– Completed investment properties	8	**10.4**	10.4	
		20.7	19.8	
Agricultural land (total land area)		**40.1**	32.8	
Mainland China				
Land bank (attributable floor area)				
– Properties held for/under development		**148.4**	146.2	
– Completed investment properties		**5.6**	5.2	
		154.0	151.4	

Notes:

1. *Representing the Group's attributable share of the value of properties in Hong Kong and mainland China sold by subsidiaries, associates and jointly controlled entities ("JCEs") and after taking into account the effect of cancelled sales transactions. The Group's attributable revenue from property sales before taking into account the effect of cancelled sales transactions was HK$2,831 million for the six months ended 30 June 2010 and HK$2,453 million for the six months ended 30 June 2009.*
2. *Representing the Group's attributable share of (loss)/profit contribution (before taxation) from property sales in Hong Kong and mainland China by subsidiaries, associates and JCEs and after taking into account the effect of cancelled sales transactions. The Group's attributable profit contribution from property sales before taking into account the effect of cancelled sales transactions was HK$536 million for the six months ended 30 June 2010 and HK$638 million for the six months ended 30 June 2009.*
3. *Including the Group's attributable share of net rental income (before taxation) from investment properties in Hong Kong and mainland China held by associates and JCEs.*
4. *Excluding the fair value change (net of deferred tax) of the investment properties held by subsidiaries, associates and JCEs.*
5. *Representing the amount attributable to equity shareholders of the Company.*
6. *As there is no capital gains tax in Hong Kong, total deferred tax liabilities arising from the revaluation of investment properties in Hong Kong held by the Group's subsidiaries, associates and JCEs in the amount of HK$9,314 million (31 December 2009: HK$8,743 million), equivalent to HK$4.30 per share (31 December 2009: HK$4.07 per share), as provided for and included in the Group's consolidated balance sheet, would not be payable if such investment properties were to be sold at the revalued amounts under the current tax regime. Accordingly, such deferred tax as provided for under HKAS-INT 21 has been excluded from the above calculation in order to provide a better understanding of the net asset value attributable to equity shareholders of the Company.*
7. *Including stock of unsold property units with attributable floor area of 1.7 million square feet at 30 June 2010 and 2.0 million square feet at 31 December 2009.*
8. *Including hotel properties with attributable floor area of 1.0 million square feet.*

Interim Results and Dividend

The Board of Directors announces that, for the six months ended 30 June 2010, the unaudited Group underlying profit attributable to equity shareholders (before the fair value change of investment properties) amounted to HK$1,319 million, representing a decrease of HK$787 million or 37% from the corresponding amount of HK$2,106 million for the six-month period ended 30 June 2009. Such decrease was mainly due to the Group's attributable share of loss on cancellation of property sales during the period in the amount of HK$776 million as detailed in the Financial Review section. Based on the underlying profit, the earnings per share were HK$0.61 (2009: HK$0.98).

Including the fair value change (net of deferred tax and non-controlling interests) of investment properties, the Group profit attributable to equity shareholders for the period under review was HK$7,658 million, representing an increase of HK$3,288 million or 75% from the corresponding amount of HK$4,370 million for the six-month period ended 30 June 2009. Such increase was mainly due to the increase in the Group's attributable share of the fair value change (net of deferred taxation) of the investment properties held by the Group's subsidiaries, associates and jointly controlled entities in the amount of HK$4,075 million for the six months ended 30 June 2010 when compared with the corresponding period of six months ended 30 June 2009, which was partially offset by the Group's attributable share of loss on cancellation of property sales in the amount of HK$776 million as referred to above. Earnings per share were HK$3.56 (2009: HK$2.04).

The Board has resolved to pay an interim dividend of HK$0.3 per share (2009: HK$0.3) to Shareholders whose names appear on the Register of Members of the Company on 14 September 2010, and such interim dividend will not be subject to any withholding tax in Hong Kong. The interim dividend will be payable in cash, with an option to receive new and fully paid shares in lieu of cash under the scrip dividend scheme ("Scrip Dividend Scheme"). The new shares will, on issue, not be entitled to the said interim dividend, but will rank pari passu in all other respects with the existing shares in issue. The details of the Scrip Dividend Scheme are set out in the relevant circular and election form sent to Shareholders.

The Scrip Dividend Scheme is conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of and permission to deal in the new shares to be issued under the Scrip Dividend Scheme.

Interim dividend will be distributed, and the share certificates issued under the Scrip Dividend Scheme will be sent to Shareholders on 15 October 2010.

Closure of Register of Members and Register of Warrantholders

The Register of Members and the Register of Warrantholders of the Company will be closed from Friday, 10 September 2010 to Tuesday, 14 September 2010, both days inclusive, during which period no transfers of shares or warrants will be registered. In order to qualify for the above interim dividend, (i) in the case of shareholders, all transfer documents, accompanied by the relevant share certificates or (ii) in the case of warrantholders, all subscription forms accompanied by the relevant warrant certificates and exercise money, must be lodged for registration with the Company's Registrars, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 9 September 2010.

Management Discussion and Analysis

Business Review

Business in Hong Kong

Property Sales

The period under review began with the local property market remaining robust and continuing to ride on the cyclical upturn. During the period, the Hong Kong SAR Government therefore proposed a number of cooling measures such as increasing stamp duty on transactions of properties valued at more than HK$20 million in addition to the earlier regulation on lowering the mortgage loan-to-value ratio. Subsequently, some additional policy initiatives (namely, "nine rules and twelve regulations") were also introduced. Meanwhile, Mainland austerity measures to cool its property market and rein in credit also had some impact on the local property market as mainland Chinese accounted for an increasing portion of residential sales in Hong Kong. Both end-users and investors turned cautious which inevitably resulted in a market consolidation, particularly in the targeted segment for luxurious properties. However, on the back of strong fundamentals such as a tight supply of new residential units, an improving job market, an abundance of liquidity and low interest rates, homebuyers have recently regained confidence. The local property market has also resumed its uptrend, particularly given the positive results repeatedly achieved in the Government land auctions since June 2010.

During the period, residential developments including Legende Royale – The Beverly Hills (Phase 3) in Tai Po, Hill Paramount in Shatin and Green Lodge in Yuen Long were put up for sale and all received encouraging response. Riding on such positive market sentiment, some popular residential projects such as The Beverly Hills (Phase 1), 8 Royal Green, The Sparkle, Cité 33, Grand Promenade and Grand Waterfront were also re-launched for sale so as to cater to a wide clientele. Together with the sale of approximately 60,000 square feet of quality industrial/office space, the Group sold an attributable HK$2,642 million worth of properties in Hong Kong for the six months ended 30 June 2010 (before taking into account the effect of cancelled sales, including the 20 units at 39 Conduit Road, as referred below).

As reported in the 2008/2009 Final Results Announcement made on 30 March 2010 and the 2009 Annual Report, turnover for the eighteen months ended 31 December 2009 included an amount of HK$3,280 million relating to the sale of 25 units at 39 Conduit Road, a luxury property development in which the Group has a 60% interest. The turnover and profit after taxation in respect of the 25 units (of which the sale and purchase of 24 units had not yet been completed as at 31 December 2009) were recognized in accordance with accounting policies of the Group consistently applied and which are in line with accounting principles generally accepted in Hong Kong.

Among these 24 units, completion of the sale and purchase of four units took place in mid June 2010 and the Group received in full the amounts of purchase price receivable, together with about HK$11 million as interest for delayed completion. There was no reduction in purchase price, nor did the Group provide any assistance to the purchasers of those four units in relation to the financing of the purchase price.

For the remaining 20 units, the Group received written requests in June 2010 from the respective purchasers for the cancellation of the sale and purchase agreements. The sale and purchase agreements in respect of those 20 units were cancelled by mutual agreement between the Group and the respective purchasers. In accordance with the terms of the agreements for sale and purchase, which were in the standard form under the Consent Scheme administered by the Government relating to pre-sale of residential units in uncompleted developments, the Group forfeited the deposit of 5% of the purchase price. Other payments over and above the 5% deposit in respect of the purchase price received by the Group were refunded to the purchasers concerned. The total sum of deposit forfeited by the Group in relation to the sale of the 20 units cancelled amounted to approximately HK$133 million, and a loss of approximately HK$734 million attributable to the Group was recorded as a result of the cancellation of the sale of these 20 units.

The Group agreed to cancel the sale and purchase of the 20 units so that it would be free to offer the units concerned for sale again immediately if it so wished. As such, it would avoid protracted and costly legal proceedings to claim and enforce judgment for any price deficiency on resale against the original purchasers, who are all limited liability companies with a minimal issued share capital (which is a common feature for purchasers of luxury property transactions in Hong Kong). For the current financial year as a whole, such loss on cancellation may be reduced if any of those 20 units are sold again later this year.

It is regrettable that the sale of the 24 units in 39 Conduit Road, which are normal bona fide transactions with unrelated purchasers at arm's length, has been subjected to unjustified and incorrect criticisms. Notwithstanding such criticisms, the Group will continue to go about its business unfazed and in our usual honest and straight-forward manner.

Given the prestigious location, exceptional design, and superior quality of 39 Conduit Road, the Group remains confident of the prospects for sale and leasing of units in this development.

At 30 June 2010, the Group had over 840 residential units available for sale mainly from the following major property development projects:

(1) Major development projects offered for sale:

	Project name and location	Site area (sq.ft.)	Gross floor area (sq.ft.)	Land-use purpose	Group's interest (%)	No. of residential units unsold & pending sale at 30 June 2010	Gross area of remaining unsold residential units (sq.ft.)
1.	Casa Marina I 28 Lo Fai Road, Tai Po	283,200	226,561	Residential	100.00	29	93,342
2.	Casa Marina II 1 Lo Ping Road, Tai Po	228,154	182,545	Residential	100.00	46	137,952
3.	The Beverly Hills – Phase 1 23 Sam Mun Tsai Road, Tai Po	982,376 (Note 1)	1,165,240 (Note 1)	Residential	90.10	83 (Note 2)	270,862 (Note 2)
4.	The Sparkle 500 Tung Chau Street, Cheung Sha Wan	35,629	320,659	Commercial/ Residential	100.00	26	26,990
5.	Cité 33 33 Lai Chi Kok Road, Mong Kok	9,600	84,090	Commercial/ Residential	100.00	16	15,060
6.	8 Royal Green 8 Ching Hiu Road, Sheung Shui	45,779	228,860	Residential	100.00	37	34,374
7.	39 Conduit Road Mid-Levels	56,748	229,255	Residential	60.00	41 (Note 3)	141,581 (Note 3)
8.	Hill Paramount 18 Hin Tai Street, Shatin	95,175	358,048	Residential	100.00	141	328,065

	Project name and location	Site area (sq.ft.)	Gross floor area (sq.ft.)	Land-use purpose	Group's interest (%)	No. of residential units unsold & pending sale at 30 June 2010	Gross area of remaining unsold residential units (sq.ft.)
9.	Green Lodge 23 Ma Fung Ling Road, Tong Yan San Tsuen, Yuen Long	78,781	78,781	Residential	100.00	27	51,414
10.	Legende Royale The Beverly Hills – Phase 3 23 Sam Mun Tsai Road, Tai Po	982,376 (Note 1)	1,165,240 (Note 1)	Residential	90.10	142	622,697
					Sub-total:	**588**	**1,722,337**
					Gross area attributable to the Group:		**1,577,243**

Note 1: The total site area and the total gross floor area for the whole project of The Beverly Hills are 982,376 square feet and 1,165,240 square feet, respectively.

Note 2: In addition, there are 30 houses in this phase of The Beverly Hills held for investment purpose.

Note 3: In addition, there are 17 residential units held for investment purpose.

(2) Projects pending sale or pre-sale:

	Project name and location	Site area (sq.ft.)	Gross floor area (sq.ft.)	Land-use purpose	Group's interest (%)	Residential No. of units	Residential Gross area (sq.ft.)
1.	Fanling Sheung Shui Town Lot 76, Fanling	42,884	34,308	Residential	100.00	16	34,308
2.	11,12,12A,12B Headland Road Island South	43,492	32,619	Residential	44.42	4	32,619
3.	Jade Suites 600 Canton Road, Jordan	3,644	32,795	Commercial/ Residential	100.00	62	27,311
4.	210-216 Gloucester Road Wanchai	11,545	115,458	Residential	100.00	177	115,458
					Sub-total:	**259**	**209,696**
					Gross area attributable to the Group:		**191,566**
					Total saleable residential units and total residential gross area from the major development projects (the aggregate of item (1) and item (2) referred to above):	**847**	**1,932,033**
					Total gross area attributable to the Group:		**1,768,809**

Land Bank

At 30 June 2010, the Group had a land bank in Hong Kong with a total attributable gross floor area of approximately 20.7 million square feet, made up as follows:

	Attributable gross floor area (million sq.ft.)
Properties held for or under development	8.6
Stock of unsold property units	1.7
Completed investment properties	9.4
Hotel properties	1.0
Total:	**20.7**

In addition, the Group held rentable car parking spaces with a total area of around 2.8 million square feet.

The Group is optimistic about the long-term prospects for the Hong Kong property market and is thus vigorously engaged in acquisitions of aged buildings in urban areas for redevelopment. At the same time, the Group also possesses an abundance of agricultural land located in new development areas as designated by the Government. It is estimated that the Group's land bank would double in the next few years. As both the acquisition costs of aged buildings and the land premium payable for agricultural land-use conversion are relatively low as compared to the transacted prices of land sites offered at public auctions, the Group's approach to land-banking would greatly benefit the future contribution to the Group's results.

(I) Agricultural land

With a recent addition of about 7.3 million square feet in agricultural land site, the Group's agricultural land reserve at 30 June 2010 increased to approximately 40.1 million square feet in land area, which is the largest holding among all property developers in Hong Kong.

For the residential site at Lot 5369, DD 116 at Tai Tong Road, Yuen Long, the land-use conversion was finalized with the land premium of HK$2,334.8 million fully settled during the period under review. It is expected to provide approximately 1.175 million square feet in gross floor area, of which 79.03% or approximately 930,000 square feet is attributable to the Group. Meanwhile, the wetland restoration and residential project in Wo Shang Wai, Yuen Long, which is planned to be developed into a low-density residential development with a total gross floor area of approximately 895,000 square feet against a total land area of about 2.3 million square feet, is in the process of finalizing the land exchange with the Government. Premium offer and its related conditions in respect of the land exchange have been received and are being considered by the Group. Taking into account the site in Wu Kai Sha, Shatin, whose land premium of HK$9,596,950,000 had been settled, the Group has continued to achieve significant progress in land-use conversion:

Land-use conversion for agricultural land

		Attributable gross floor area (sq. ft.)
Projects with land-use conversion finalized and currently undergoing development		
1.	Wu Kai Sha, Shatin	1,670,000
2.	Lot 5369, DD 116 at Tai Tong Road, Yuen Long	930,000
	Sub-total (Note):	2,600,000
Major project in the process of finalizing land-use conversion		
3.	Wo Shang Wai, Yuen Long	895,000
	Total:	**3,495,000**

Note: Based on the gross floor area, the land premium for each of the sites at Wu Kai Sha and Tai Tong Road amounted to approximately HK$3,253 per square foot and approximately HK$1,986 per square foot respectively.

The Group will actively work in tandem with the Government's development plans and once they are finalized, the Group will seek land-use conversion of the following sites, which are situated in the "North East New Territories New Development Areas", with a view to broadening the source of development sites and the expected attributable gross floor area will be approximately as follows:

		Total land area (sq.ft.)	Attributable gross floor area (sq. ft.)
1.	Hung Shui Kiu	3,000,000	6,000,000
2.	Wu Nga Lok Yeung	2,700,000	6,000,000
3.	Ping Che	2,000,000	1,500,000
4.	Sheung Shui Kwu Tung North	400,000	1,500,000
	Total:	**8,100,000**	**15,000,000**

(II) Redevelopment of aged buildings in urban areas

As mentioned in the 2009 Annual Report, the Group had acquired the majority ownership for 11 urban projects for redevelopment purposes. During the period under review, in addition to increasing the percentage of its ownership of these 11 urban projects (all of which have already reached the compulsory sale application threshold for redevelopment), the Group continued to acquire properties in some other old buildings in the market and to date, the majority ownership for another three urban projects has been secured:

Aged buildings in urban areas recently acquired

	Site area (sq.ft.)	Expected gross floor area in future redevelopment (sq. ft.)
Projects acquired previously with the percentage of ownership reaching the compulsory sale application threshold for redevelopment		
1. Western Court 450-456G Queen's Road West, Hong Kong	29,875	268,482
2. 30-38 Po Tuck Street and 36 Clarence Terrace, Hong Kong	7,310	61,103
3. 1-7A Gordon Road, Hong Kong	7,423	61,280
4. 62-76 Main Street, Ap Lei Chau, Hong Kong	7,953	65,852
5. Matauwei Apartments 57-69 Ma Tau Wai Road, 2-20 Bailey Street and 18A-30 Sung Chi Street, To Kwa Wan, Kowloon	23,031	207,279
6. Hoi On Building 11-33 Li Tak Street, Tai Kok Tsui, Kowloon	19,600	166,600
7. 186-188 Tai Po Road, Sham Shui Po, Kowloon	8,234	70,242
8. Keung Fu Building 45-49 Boundary Street and 189-195 Sai Yeung Choi Street North, Kowloon	5,880	52,919
9. 162-168 Pau Chung Street and 50-64 Ma Tau Kok Road, To Kwa Wan, Kowloon	11,700	105,300

	Site area (sq.ft.)	Expected gross floor area in future redevelopment (sq. ft.)
10. 184-198 Fuk Wing Street, Sham Shui Po, Kowloon	8,458	71,367
11. 75-81 Sa Po Road, Kowloon City, Kowloon	3,582	32,238
Sub-total:	**133,046**	**1,162,662**
Projects acquired during the period with the majority ownership already secured:		
1. 456-462A Sai Yeung Choi Street North, Sham Shui Po, Kowloon	12,300	98,400
2. 565-577 Fuk Wah Street, Cheung Sha Wan, Kowloon	7,350	58,800
3. 1-19 Nam Cheong Street, Sham Shui Po, Kowloon	8,625	77,626
Sub-total:	**28,275**	**234,826**
Total:	**161,321**	**1,397,488**

The total costs of acquisition for the above 14 urban projects are estimated at HK$5,400 million, translating into an average land cost of approximately HK$3,900 per square foot of gross floor area.

Further acquisitions, involving another 28 projects which are located in various highly accessible urban districts, are in progress and they are expected to provide an additional total attributable gross floor area of approximately 3.6 million square feet upon successful completion of their acquisitions:

	Site area (sq.ft.)	Expected gross floor area in future redevelopment (sq. ft.)
Central & Western	88,695	703,035
Island East	79,122	733,122
Homantin	66,082	528,161
Sham Shui Po	62,780	560,441
Tai Kok Tsui	51,001	459,010
Causeway Bay	34,346	334,026
Aberdeen	31,647	205,311
Wanchai	8,084	72,756
Total:	**421,757**	**3,595,862**

Including those 14 projects in which majority ownership was already held, the Group will have 42 urban redevelopment projects, with a total attributable gross floor area of about 5 million square feet upon completion of their acquisition and successful redevelopment.

Meanwhile, with approval having been obtained from the Town Planning Board for the residential development at the site at 14-30 King Wah Road, North Point, the Group has applied to the Government for its land-use conversion. The site is expected to be developed into twin harbourfront towers comprising approximately 224,000 square feet in total residential gross floor area. Newton Hotel Kowloon at Boundary Street will also be redeveloped, providing about 60,000 square feet in attributable developable gross floor area. For the joint-venture development at Yau Tong Bay, Kowloon, which is earmarked as a large-scale residential project, a master layout plan has been submitted to the Town Planning Board for review. It is expected that the project will provide a total developable gross floor area of approximately 4.46 million square feet, of which about 820,000 square feet is attributable to the Group. Together with those projects which are under planning for redevelopment or conversion into other purposes, the Group's existing properties would provide a further 2 million square feet in attributable gross floor area for commercial and residential uses in urban areas as shown in the table below:

Existing properties under planning for redevelopment

		Site area (sq.ft.)	Expected gross floor area in future development (sq. ft.)	Group's interest (%)	Expected attributable gross floor area in future development (sq. ft.)
1.	19-21 Wong Chuk Hang Road, Hong Kong	14,298	214,470	50.00	107,235
2.	45-47 Pottinger Street/ Ezra's Lane, Central, Hong Kong	9,067	93,733	19.095	17,898
3.	Newton Hotel Kowloon, 66 Boundary Street, Kowloon	6,750	60,605	100.00	60,605
4.	25 La Salle Road, Kowloon Tong, Kowloon	13,467	24,241	100.00	24,241
5.	29 Lugard Road, The Peak, Hong Kong	23,653	11,826	100.00	11,826
6.	Big Star Centre, 8 Wang Kwong Road, Kowloon Bay, Kowloon	21,528	258,336	100.00	258,336
7.	24 Lee Chung Street, Chai Wan, Hong Kong	11,590	173,842	100.00	173,842

		Site area (sq.ft.)	Expected gross floor area in future development (sq. ft.)	Group's interest (%)	Expected attributable gross floor area in future development (sq. ft.)
8.	59-61 Wing Hong Street/ 88-92 King Lam Street, Cheung Sha Wan, Kowloon	24,854	298,248	100.00	298,248
9.	14-30 King Wah Road, North Point, Hong Kong	37,566	224,828	100.00	224,828
10.	Yau Tong Bay, Kowloon	878,962	4,394,808	18.4357	810,214
	Total:	**1,041,735**	**5,754,937**		**1,987,273**

Investment Properties

At 30 June 2010, the Group held a total attributable gross floor area of approximately 9.4 million square feet in completed investment properties in Hong Kong, comprising 4.5 million square feet of commercial or retail space, 3.4 million square feet of office space, 900,000 square feet of industrial/office space and 600,000 square feet of residential and apartment space. This leasing portfolio is geographically diverse, with 25% in Hong Kong Island, 33% in Kowloon and the remaining 42% in the New Territories (most of which are shopping malls). At 30 June 2010, the leasing rate for the Group's core rental properties (excluding the recently-completed developments in Kowloon East) stood at 98%.

In the leasing market, robust recovery has been seen across all property sectors since the beginning of 2010. As a result, the Group's attributable gross rental income in Hong Kong for the period under review, including that derived from the investment properties owned by the Group's associates and jointly controlled entities, increased by 7% to HK$2,132 million, while net rental income was HK$1,528 million, representing a growth of 8% over the same period of last year.

Given the resilient local consumption and the ever-rising number of inbound tourists, particularly visitors from the Mainland, the local retail market posted an encouraging growth. All of the Group's major shopping malls, except those under renovation or re-alignment of tenant mix, recorded nearly full occupancy by the end of the period.

On the back of a recovering local economy and a buoyant financial services sector, the Group's quality office developments in the core areas, such as the International Finance Centre in Central and AIA Tower in North Point, were almost fully let. In the up-and-coming commercial hub of Kowloon East, the Group's approximately 2.0 million square foot portfolio of new premium office and industrial premises also performed well with the overall leasing rate increased from 60% at 31 December 2009 to 80% at 30 June 2010. The leasing rate of Manulife Financial Centre in Kwun Tong, for instance, had surged to 83% at 30 June 2010 from 66% at 31 December 2009, while the leasing rate of International Trade Centre in San Po Kong was 81% at 30 June 2010 compared to 74% at 31 December 2009.

Leasing demand in the luxury residential market continued to grow as expatriates returned to Hong Kong following the sustained economic recovery. As a result of such resilient tenant demand, as well as the active sale market with some landlords withdrawing properties from the leasing market to offer them for sale, availability of quality stock for rent diminished significantly which lent support to the leasing of both luxury residences and serviced apartments. The serviced suite hotel at Four Seasons Place, always popular with expatriate executives from the legal, banking and financial sectors, recorded solid growth in both occupancy and room rates. Eva Court, a luxury apartment tower in the Mid-Levels, also achieved full occupancy by the end of June 2010 with satisfactory rental growth for both renewals and new lettings.

During the period, the Group completed the first phase of renovation works at the South Wing of Trend Plaza in Tuen Mun, as well as the facility upgrade for Golden Centre in Sheung Wan. Meanwhile, the facelift to Kowloon Building on Nathan Road and the second phase of renovation works at South Wing of Trend Plaza in Tuen Mun are progressing well and they will be completed in early 2011. The refurbishment of Sunshine City Plaza in Ma On Shan is planned to commence in 2011, while the planning of refurbishment works for Citimall in Yuen Long and City Landmark I in Tsuen Wan is also in the pipeline.

Hotel and Retailing Operations

During the period under review, the recovering global economy has helped to increase travel propensity, leading to the record-breaking tourist arrivals to Hong Kong – a significant improvement as compared with the same period of last year, when arrivals were impacted by the H1N1 pandemic. As such, the Four Seasons Hotel achieved a notable increase in occupancy against a higher average room rate. In addition to its exceptional accommodation, this hotel's food and beverage business also fared well with two of its top restaurants, namely, Lung King Heen and Caprice, honoured in the Michelin Guide to Hong Kong and Macau 2010 as the only ones in Hong Kong with the top three-star accolade. Meanwhile, the four Newton hotels owned by the Group, namely, Newton Hotel Hong Kong, Newton Inn North Point, Newton Hotel Kowloon and Newton Place Hotel, have all reported increased revenue against a higher occupancy with a stable average room rate. Over the years, the Group has been optimizing its hotel portfolio. Newton Hotel Kowloon has already ceased its operation and it will be redeveloped into a residential property, whilst a boutique hotel at Jaffe Road, Wanchai, will be completed by the end of 2011 so as to meet the increasing demand from upscale business and leisure travellers in this district.

Established in 1989 as a complementary business to the Group's shopping facilities, Citistore's retailing operation has developed into a network of five department store outlets and two specialty stores. Benefited from the improving consumption sentiment, its profit contribution for the six months ended 30 June 2010 increased by 56% against a 16% growth in turnover.

Construction and Property Management

The Group aims to lead the industry with the finest property qualities, offering unparalleled design and comfort to its customers.

The Group has been increasing its mainland investments in recent years. With the Construction Department being involved in every aspect of development, from planning to design, construction, and property handover, many quality developments have been created, reshaping the skyline of several mainland cities.

At the initial planning stage of the mainland projects, the Construction Department would invite a select group of top contractors and professional service providers in that region to participate in the open tender exercises. The standardized contracts awarded to the successful candidates, as well as the Construction Department's regular communication and on-site inspection, ensure that projects are consistently completed on time, within budget and according to the Group's stringent quality requirements. Meanwhile, with the Construction Department's computerized cost surveillance system, material sourcing and project costs are better evaluated and controlled. Resources can then be allocated more efficiently and effectively, raising the quality of the Group's development even further.

The Group's member property management companies, Hang Yick Properties Management Limited ("Hang Yick") and Well Born Real Estate Management Limited ("Well Born"), followed the same quality conscious approach to services. Their professional accreditations such as ISO 9001 Quality Management System Certification, ISO 10002 Complaint Management System Certification, ISO 14001 Environmental Management System Certification and OHSAS 18001 Occupational Health & Safety Management Certification and Q-Mark Service Scheme Certification all reflect their commitment to service excellence and customer satisfaction.

During the period, they received a total of 357 performance-related accolades including Hong Kong Top Service Brand Awards, Corporate Environmental & Social Leadership of the Year and Customer Service Center of the Year in 2009 Asia Pacific Customer Relationship Excellence Awards, as well as the Gold Award in the Best Landscape Award for Private Property Development by the Leisure and Cultural Services Department. Being named as Caring Company for consecutive years, they were also given the designation of Manpower Developer 1st by the Employees Retraining Board ("ERB") for its devotion to staff training, in addition to the honours of ERB Excellence Award for Employer 2009 and ERB Merit Award of Employer 2009.

To support the Group's business development in the mainland market, both Hang Yick and Well Born are poised to provide their quality property handover and management services to all of the Group's property developments throughout the country.

Business in Mainland China

Policy measures advocated by the Central Government steer the mainland property market. At the beginning of 2010, in order to maintain the sustainability and stability of economic development, the Central Government took a relatively relaxed view on its housing policies given the fact that the real estate sector is a pillar industry. The subsequent remarkable price surges for the luxury properties, which were commonly seen in some of the major mainland cities, aroused the Central Government's concern. A series of targeted policy initiatives was thus launched to address the risk of inflation and an asset-price bubble in the property market. The speculative activities, however, remained rampant with the housing prices in general moving up quite substantially in the first quarter of 2010. The continued price rally in April finally sparked off strong discontent among the general public.

The new "National Ten Measures" launched by the Central Government in April 2010, which focused on curbing speculative activities, were the most stringent austerity policies ever seen. By restricting lending for the purchases of the second or third homes, and by raising down-payment ratios, the financial risk of over-gearing was mitigated, leading to downward pressure on property prices. Despite the underlying conflict between regulation of the market through administrative orders and the maintenance of a free market, the new policy measures were in fact indispensable in order to enable the stable and sustainable development of the property market and to mitigate the risk of asset-price bubbles being formed. These new policy measures, which are applied promptly and indiscriminately, have effectively softened the housing demand with the property market throughout the country having cooled down speedily. The ensuing wait-and-see sentiment has put the property market into the doldrums with a significant decline in transaction volume, whilst property prices also dropped to various degrees.

As mainland China is still undergoing rapid urbanization, its economic growth is expected to continue for the years to come. When the tightening efforts are intensified and maintained effectively for a prolonged period, speculators with stretched financial positions and over-gearing would be screened out, enabling the mainland property market to flourish in a more healthy way. As such, the Group remains fully confident of the long-term prospects for the mainland property market and it will aim to satisfy real end-user demand by offering uniquely-designed and top-quality products. Speculative activities in the second and third-tier cities (in which many of the Group's projects are now under development) are less rampant, whilst infrastructural developments actively pursued by the local governments, proliferation of new industries, as well as continued expansion of the city developments have all ensured faster economic growth, leading to a strong housing demand for the better livelihood in those cities. The Group's development projects are mostly positioned as medium to high-end residences, which will be fully fitted out according to market demand upon delivery to homebuyers. Some of the projects are earmarked for low-density, high-end residential developments equipped with scenic landscaping and comprehensive facilities, which should be highly sought-after by homebuyers upon their sale launches, particularly when their accessibility would be further enhanced upon completion of the construction of the network of subways, light rails and express railways.

The Group is pushing ahead with the policy of localization with the appointment of project leaders in many mainland cities. Their appointment is expected to bring about substantial improvement to construction progress, as well as the quality and cost controls for each project. As project leaders, they are expected to provide regular update and recommendations on project progress and local market condition during their monthly visits to the Hong Kong headquarters. Senior marketing executives in different cities have also completed their training and have been assigned to sales and marketing duties for respective projects. Meanwhile, the Group's new cost monitoring system is now in place and it offers significant benefits for the Group's analysis and control over project costs.

In April 2010, a site of about 560,000 square feet in Gaoling area, Changsha, was bought at around RMB80 million. Together with the adjacent land lots, which were acquired previously, it is planned to be developed into a large-scale residential community with a total gross floor area of about 8,300,000 square feet, of which 90.5% or approximately 7,500,000 square feet is attributable to the Group. With the addition of this land parcel, the Group's land bank in mainland China increased to approximately 148.4 million square feet in attributable developable gross floor area by the end of June 2010, of which around 84% would be high-end residences for sale:

Land bank under development or held for future development

	Group's share of developable gross floor area* (million sq.ft.)
Prime cities	
Shanghai	1.9
Guangzhou	15.4
Sub-Total:	**17.3**
Second-tier cities	
Anshan	18.0
Changsha	14.8
Chengdu	4.0
Chongqing	6.6
Dalian	1.6
Nanjing	2.4
Shenyang	17.4
Suzhou	17.0
Tieling	14.4
Xian	19.9
Xuzhou	5.3
Yixing	9.7
Sub-Total:	**131.1**
Total:	**148.4**

* *Excluding basement areas and car parks*

Usage of development land bank

	Developable gross floor area (million sq.ft.)	Percentage
Residential	124.9	84%
Commercial	9.7	7%
Office	9.4	6%
Others (including clubhouses, schools and community facilities)	4.4	3%
Total:	**148.4**	**100%**

During the period under review, the Group completed an attributable premium residential area of approximately 360,000 square feet in the "Arch of Triumph", Changsha and about 440,000 square feet of office-cum-retail space in the Centro, Shanghai.

The first phase of the "Arch of Triumph" project, which was just completed in June 2010, was launched for pre-sale in October 2009 with the first batch of 312 residential units fully sold amid keen interest from homebuyers. The Group's attributable property sales in mainland China for the six months ended 30 June 2010 amounted to HK$189 million. In addition, the amount of mainland properties pre-sold attributable to the Group totalled HK$342 million at 30 June 2010.

Leasing performance for the Group's mainland completed investment property portfolio, which was enlarged by 440,000 square feet to 5.6 million square feet with the addition of the Centro in Shanghai, was also satisfactory. During the period under review, the Group's attributable gross rental income and net rental income increased by 25% to HK$202 million and by 50% to HK$92 million, respectively.

In Beijing, World Financial Centre, which is an International Grade A office complex in Beijing CBD, has attracted many renowned financial institutions and multinational corporations such as Standard Chartered Bank, Mizuho Corporate Bank, International Air Transport Association, FAW Toyota and Novo Nordisk as its anchor tenants since its completion in early 2009 and its current leasing rate has already reached 48%. Designed by the world-famous architect Cesar Pelli as twin "crystal jewel boxes" incorporating special effect façade lighting on the exterior, these two 22-storey, 2.1 million-square-foot office buildings were recently honoured by the nine professional building institutions of Hong Kong with the Quality Building Award 2010 – Merit Award for a Project outside Hong Kong, and the Intelligent Building of the Year award in 2009 by the Asian Institute of Intelligent Buildings. In addition to achieving the highest grading of Platinum under the Building Environmental Assessment Method ("BEAM") and Distinction in the Certificate of Intelligent Building Index Assessment by the Asian Institute of Intelligent Buildings, this complex is also being assessed under the Platinum rating of the globally recognized Leadership in Energy and Environmental Design ("LEED") of the United States. To celebrate its grand opening in June 2010, the "Sculpture in Movement" from the Louvre Museum, Paris was launched. It was the first time for such exhibition to be staged in a commercial venue, reflecting World Financial Centre's initiative and ongoing commitment to bringing world-class art and cultural events to the people of Beijing. Meanwhile, the leasing rate for the Group's shopping mall at Beijing Henderson Centre remained satisfactory at 95% by 30 June 2010 and its two basement floors have been repositioned with a new tenant mix which includes an anchor tenant dedicated to leading wedding service, in addition to a full range of catering outlets.

In Shanghai, Grand Gateway Office Tower II, which houses many multinational corporations such as Microsoft, Adidas, Tesco and Yum! Brands Inc., was 95% let with the average rental for new lease or lease renewal standing firm at RMB7 per square meter per day. The shopping arcade at the Skycity was 96% leased, whilst leasing response to its neighbouring Centro, which was just completed in January 2010, was also satisfactory due to its efficient floor layout and latest high-tech facilities. In Guangzhou, Hengbao Plaza recorded an 18% year-on-year growth in rental income with the leasing rate at 90% by the end of June 2010.

Meanwhile, the Group has another 1.9 million square feet of new investment properties under development in Shanghai. One of which is known as Henderson Metropolitan. It is situated at the start of the Nanjing Road East pedestrian avenue and is designed by world renowned Tange Associates. Henderson Metropolitan is the recipient of both BEAM and LEED awards. With its energy-efficient Grade A offices, distinctive retail facilities and direct access to Metro Lines 2 and 10 from the building basement, pre-leasing response to this 730,000-square-foot development has been positive, with many leading retailers, renowned restaurants and multinational corporations expressing their interest to become tenants upon its scheduled completion in the third quarter of 2010. The project at Lot 147, Tianmu Road West of Zhabei District, which contains office and retail space with a combined gross floor area of about 410,000 square feet, will be completed in the third quarter of 2011. The project at Lot 688 Nanjing Road West, which provides a total gross floor area of approximately 700,000 square feet comprising a 22-storey office tower plus a 2-level retail podium, is poised to become another landmark in Jingan District upon its completion in 2013 with its innovative, quartz-like façade designed by Tange Associates.

In the second-tier cities, construction of the investment properties also progressed smoothly. In May 2010, the Group broke ground on the Chengdu International Commerce Centre site and the gradual completion of these landmark projects will help strengthen the Group's premium brand in the mainland.

Joint-Venture Development in Macau

In April 2005, the Group entered into an agreement to jointly develop a large-scale waterfront development with a site area of approximately 1.45 million square feet in Taipa, Macau. The project is subject to application for land-use conversion with the total gross floor area to be finalized.

Henderson Investment Limited ("HIL")

For the six months ended 30 June 2010, the unaudited consolidated profit of this group attributable to equity shareholders of HIL amounted to HK$84 million, representing an increase of HK$43 million or 105% over that for the corresponding period of six months ended 30 June 2009. The increase in profit was mainly due to (i) the increased profit contribution from this group's operating right of a toll bridge in Hangzhou during the six months ended 30 June 2010 compared with the corresponding period of last year; and (ii) the net gain on disposal attributable to equity shareholders of HIL of HK$26 million as a result of the completion of the disposal of HIL's entire interest in Maanshan Huan Tong Highway Development Limited ("Maanshan Highway JV") on 26 February 2010.

After divesting its entire interest in Maanshan Highway JV, this group's core asset is its 60% interest in Hangzhou Qianjiang Third Bridge. During the period under review, Hangzhou Qianjiang Third Bridge reported a steady growth of 14% in toll revenue to HK$148 million, mainly driven by the increase in traffic volume given its prime location in Hangzhou.

Associates

The Hong Kong and China Gas Company Limited ("Hong Kong and China Gas")

The unaudited profit after taxation attributable to shareholders of Hong Kong and China Gas for the six months ended 30 June 2010 amounted to HK$2,967.4 million, a slight decrease of HK$33.9 million compared with the same period last year due to reductions in a one-off gain and profits from sale of properties.

Gas Business in Hong Kong

The total volume of gas sales in Hong Kong increased by 1.0% compared to the same period in 2009, whilst the total number of appliances sold in the first half of 2010 increased by 7.6% to 118,410 units. As at 30 June 2010, the number of customers was 1,712,454, an increase of 13,731 since the end of December 2009.

Mainland Utility Businesses

Towngas China Company Limited ("Towngas China", stock code: 1083), a subsidiary of Hong Kong and China Gas, recorded a profit of HK$172 million for the six months ended 30 June 2010, an increase of approximately 34% over the same period last year.

On 17 March 2010, Hong Kong and China Gas entered into a sale and purchase agreement with Towngas China whereby Hong Kong and China Gas agreed to dispose of its entire equity interests in six piped city-gas project companies in Liaoning and Zhejiang provinces to Towngas China in exchange for the allotment and issue of 485 million new shares by Towngas China. The transaction was completed on 15 July 2010 and Hong Kong and China Gas's interest in Towngas China increased from approximately 45.5% to approximately 56.3%. As such, Towngas China has become a majority-owned subsidiary of Hong Kong and China Gas and Standard & Poor's Ratings Services has raised its long-term foreign currency corporate credit rating on Towngas China to BBB with a stable rating outlook.

During the first half of 2010, Towngas China set up four new city-gas project companies in Linqu county, Weifang, Shandong province; in the New Industrial District of Anshan and Dalian Lvshun Economic Development Zone in Liaoning province; and in the Lingui New District of Guilin which is the Hong Kong and China Gas Group's first project in the Guangxi Zhuang Autonomous Region.

With a new project successfully established by Hong Kong and China Gas in Yonganzhou Industrial Park, Taizhou, Jiangsu province, this group (inclusive of Towngas China) had 89 city-gas projects in mainland cities spread across 17 provinces/autonomous regions/municipalities as at the end of June 2010. During the period under review, the number of gas customers on the mainland reached 11,211,014 and total volume of gas sales was 4,290 million cubic metres. This group has become the largest city-gas enterprise on the mainland.

This group's midstream natural gas projects include high-pressure natural gas pipeline joint ventures in Anhui province, Hebei province and Hangzhou, Zhejiang province; a joint venture that invests in the construction of natural gas pipelines and the exploitation of gas fields in Jilin province; the Guangdong Liquefied Natural Gas Receiving Terminal project; and a natural gas valve station project in Suzhou Industrial Park, Suzhou, Jiangsu province. This group also operates water supply projects in Wujiang, Jiangsu province and in Wuhu, Anhui province, and manages an integrated water supply and wastewater joint venture in Suzhou Industrial Park, Suzhou, Jiangsu province.

Environmentally-Friendly Energy Businesses

This group develops emerging environmentally-friendly energy projects through its wholly-owned subsidiary ECO Environmental Investments Limited and the latter's subsidiaries (together known as "ECO").

In Hong Kong, ECO's five dedicated liquefied petroleum gas filling stations and its North East New Territories landfill gas treatment facility continue to operate well. ECO's phase-one aviation fuel facility, comprising a tank farm for storage of aviation fuel served by tanker jetties in Area 38, Tuen Mun, for Hong Kong International Airport, was commissioned at the end of March 2010. Construction of a second, neighbouring tank farm is progressing well; commissioning is expected before the end of 2010 by which time the whole of this airport-based aviation fuel storage facility will be the largest of its kind in the world.

ECO has endeavoured to develop clean and emerging environmentally-friendly energy projects on the mainland since early 2008 and a Chinese holding company was established in Erdos, Inner Mongolia at the end of 2009 to enhance its management effectiveness and financing flexibility.

Following the commissioning of phase one of the coalbed methane liquefaction facility located in Jincheng, Shanxi province in the fourth quarter of 2008, construction of phase two of the facility is now progressing and is expected to be commissioned in late 2010. Annual production capacity will increase to approximately 250 million cubic metres of liquefied coalbed methane, three times its existing level, and this coalbed methane liquefaction and utilisation project will be the largest in scale on the mainland. Design of ECO's coal-mine methane utilisation project in Chongqing is progressing well; commissioning is expected by the end of 2011. This project will utilise coal-mine gas obtained through drainage and exploitation for production of liquefied methane and will become the world's first large-scale coal-mine gas utilisation project, other than in-situ power generation plants.

ECO is now constructing a methanol production plant and developing a coal mine in Junger, Erdos, Inner Mongolia; both are expected to be commissioned in early 2011. The annual production capacity of the methanol plant will be 200,000 tonnes. ECO's coal mining and coking plant project in Fengcheng, Jiangxi province is also progressing well. The total amount of resources reserves of coal mine projects invested by ECO is approximately 180 million tonnes, including thermal coal and prime coking coal. Following the successful commissioning of a compressed natural gas filling station for heavy duty trucks in Shaanxi province in 2008, the largest of its kind on the mainland, ECO has also extended this vehicular clean fuel filling station business to Liaoning and Shandong provinces.

Overall, as at the end of June 2010, inclusive of projects of Towngas China, this group had 114 projects spread across 20 provinces/autonomous regions/municipalities, encompassing upstream, midstream and downstream natural gas sectors, the water supply and wastewater treatment sector, natural gas filling stations and emerging environmentally-friendly energy projects. It is anticipated that the results of this group's utility businesses on the mainland and emerging environmentally-friendly energy businesses will reach the same level as that of Hong Kong gas businesses in 2012, and will maintain growth momentum faster than Hong Kong businesses thereafter.

Property Developments

For both Grand Waterfront and Grand Promenade, over 99% of their residential floor areas had been sold by the end of June 2010. In addition to the commercial area of Grand Waterfront, this group also has an approximately 15.8% interest in the International Finance Centre ("ifc") complex in its rental portfolio and both of them leased well.

Notes Programmes

HKCG (Finance) Limited, a wholly-owned subsidiary of this group, issued and sold US$1 billion of notes guaranteed by Hong Kong and China Gas in August 2008 and further established a US$1 billion medium term note programme (the "MTN Programme") in May 2009. Since the establishment of the MTN Programme, this group has issued medium term notes with an aggregate amount of HK$3,010 million, at nominal interest rates ranging from 3.90% to 5.00% per annum and with a maturity of 10 to 40 years. These term notes have included the first ever issue of 30-year and 40-year notes, the longest term corporate papers ever issued in the Hong Kong dollar bond market.

Hong Kong Ferry (Holdings) Company Limited ("Hong Kong Ferry")

Hong Kong Ferry's unaudited consolidated net profit after taxation for the six months ended 30 June 2010 amounted to HK$235.2 million, representing a decrease of 60% as compared with a profit of HK$595.4 million for the corresponding period in 2009. This was mainly attributed to the decrease in the sales of the residential units of its development properties. During the period, the sale of residential units of Shining Heights and The Spectacle recorded a total profit of HK$160 million. After deducting the net unrealized losses of the equity-linked-note investments ("ELN"), a net realized gain of HK$22.5 million was made from the sale of the securities and ELN.

As at 30 June 2010, Hong Kong Ferry had sold more than 90% of the units of Shining Heights and over 60% of the units of The Spectacle. On the property investment front, the occupancy rate of Metro Harbour Plaza was 95% at the end of June 2010, whilst the commercial arcade of MetroRegalia has been fully let. Rental and related income from these two malls amounted to HK$16.1 million during the period. The occupancy rate of the commercial arcade of Shining Heights at the end of June was 66%.

On 24 May 2010, Hong Kong Ferry acquired the site at the junction of Ma Sik Road and Sha Tau Kok Road (Lung Yeuk Tau Section) Area 19, Fanling, New Territories for HK$1,330 million at a public land auction. The site with an area of approximately 95,800 square feet would be preliminarily developed into residential–cum–commercial properties with a total gross area of approximately 550,000 square feet for over 700 households, which are anticipated to be completed by phases in four years.

Last year, Hong Kong Ferry also acquired 52-56 Kwun Chung Street which was currently used for leasing purpose. Meanwhile, the majority ownership for the site at 204-214 Tung Chau Street was acquired at the end of the last year and it would be developed into a commercial/residential complex once its entire ownership has been consolidated.

The Ferry, Shipyard and Related Operations achieved a profit of HK$6.6 million, compared with HK$1.5 million profit in the same period last year. Of which Harbour Cruise and the Shipyard Operations recorded a turnaround and achieved a total profit of HK$2.02 million during the period.

Turnover of the Travel and Hotel Operations increased by approximately 18% and 20% respectively. The total operational deficit for these two operations was reduced from HK$1.9 million to approximately HK$100,000.

Miramar Hotel and Investment Company, Limited ("Miramar")

Miramar's turnover amounted to approximately HK$1,000 million for the six months ended 30 June 2010 (the "Reporting Period"), representing a growth of 24% as compared to its last interim period from 1 April 2009 to 30 September 2009 (the "Last Interim Period") due to the change of financial year end date. Profit attributable to shareholders increased by 85% to HK$237 million. Excluding the net increase in the fair value of its investment properties, profit after tax amounted to HK$178 million.

Miramar's core businesses include: hotel business, property investment, food and beverage, and travel.

Miramar owns and/or provides management services for six hotels and serviced apartments in Hong Kong and mainland China, whilst hotel management operations are also carried out for certain properties. Occupancy rate and average room rate of its solely-owned The Mira Hong Kong ("The Mira") rose by 33 percentage points and 36% respectively as compared to Last Interim Period. The shopping mall located in The Mira was undergoing refurbishment during the Reporting Period and it is expected to be completed by the first quarter of 2011. During the Reporting Period, its hotel business achieved an EBITDA (earnings before interest, taxes, depreciation and amortisation) of approximately HK$63 million, as compared to a loss of HK$5 million during the Last Interim Period.

Revenue for Miramar's property investment business was mainly derived from two sources: rental income from the retail space in the Miramar Shopping Centre and offices in the Miramar Tower. The refurbishment work in Basement 1 of the Miramar Shopping Centre was completed on schedule, whilst the refurbishment work for the public areas in the Grade A office building of Miramar Tower commenced in May 2010 and it is expected to be completed in early 2011. Due to an increase in office supply in other areas of Kowloon, both occupancy rate and average unit rate of Miramar Tower recorded a slight drop. Total contribution from its property business decreased slightly as compared to the Last Interim Period. Its US land bank in California remained the same as last year, with no sale transaction taken place.

Miramar operates three Tsui Hang Village restaurants (one located in the Miramar Shopping Centre, Tsim Sha Tsui; one in the New World Tower, Central; and one in Club Marina Cove, Sai Kung); two IFC venue outlets namely Cuisine Cuisine and French Window; Yunyan Sichuan restaurant in Miramar Shopping Centre; and a canteen and Green Café in the Union Hospital. During the Reporting Period, Yunyan Sichuan restaurant was closed for two months for renovation, and re-opened in early June 2010. Due to stringent cost control and effective operation strategies, its food and beverage operations achieved an EBITDA of HK$7 million.

Miramar's travel business continued to have a double-digit growth in revenue, with Japan tours increased by over 20% and commercial ticketing increased by almost 40%. EBITDA for its travel operations rose 30% to HK$14 million.

Corporate Finance

The Group has always adhered to prudent financial management principles, as evidenced by its gearing ratio which stood at 23.0% at 30 June 2010 (compared to 19.2% at 31 December 2009). In order to provide additional funding resources to the Group to cater for its general funding and working capital requirements, the Group concluded a HK$13,250 million 5-year syndicated term loan/revolving credit facility on 28 June 2010 with a consortium of 18 leading international banks and local financial institutions. Riding on the Group's solid credit quality and sound financial position, the facility received an overwhelming response from the banking community. From an initially planned facility amount of HK$8,000 million, the facility was increased to the final amount of HK$13,250 million indicating the strong confidence and continuing support of international as well as local banks for the Group.

Further, in light of the low interest rate levels resulting from quantitative easing measures adopted by major economies around the world over the past year, the Group has concluded Hong Kong dollar interest rate swap contracts for terms of ten years and fifteen years. Such contracts were entered into for the purpose of converting part of the Group's Hong Kong dollar borrowings from floating interest rates into fixed interest rates at levels which are well below the average for the past few years. It is considered that such a treasury management strategy will be of benefit to the Group in the long run.

Prospects

The economic outlook of the United States remains unusually uncertain and it may need another round of quantitative easing policies so as to avoid a double-dip recession, whilst the sovereign debt crisis has forced many European economies to cut government spending or raise taxes in an attempt to restore fiscal discipline. Despite fragile external demand, mainland China's growth momentum remains resilient with real GDP rising by 11.1% in the first half of 2010. Meanwhile, following the expansion of the renminbi trade settlement scheme, mainland China has recently endorsed the development of offshore renminbi business in Hong Kong. This will help to propel Hong Kong's renminbi business platform to new heights, reinforcing Hong Kong's status as an international financial centre.

Attracted by the positive outlook in the region, there has been a persistent inflow of liquidity, with downward pressure on local interest rates. This in turn improves the purchasing power and home affordability of the general public, whilst many affluent mainland and overseas Chinese have also increased their investments in Hong Kong to diversify their investment portfolios and acquire a right of abode under the investment immigration scheme. All these have put upward pressure on asset prices in Hong Kong, particularly for those residential properties with a tight primary supply due to the scarce land supply in recent years. Additional measures newly announced by the Government, including increasing land supply and curbing speculative activities in the residential property market, are likely to stabilize the market and prevent an asset-price bubble from being formed. This will lead to a more healthy development of the residential property market and benefit real end-users.

To meet the market demand, luxury villas at Headland Road in Island South are being put up for sale, whilst the Group also plans to embark on sales launches of a number of residential developments such as 210-216 Gloucester Road in Wanchai, Jade Suites at Canton Road and Fanling Sheung Shui Town Lot 76 in Fanling. Together with the completed stocks, a total of over 800 residential units will be available for sale and they are expected to generate significant revenue for the Group.

Turning to mainland China, the Central Government is expected to remain focused on implementing its existing austerity measures to rein in rapid price increase, so as to protect the domestic financial system from exposure to any systemic risk. As compared with previous year, it may take a longer period for the market to complete the adjustments. With an increasing supply to be launched to the market in the second half of the year, coupled with access to property financing for some individual developers who have a pressing need for funds becoming more stringent, housing prices are expected to decline. Meanwhile, the Central Government has called for the development of welfare housing, which would not only solve the housing problems for the lower to medium income groups but also encourage the development of housing units in accordance with the market demand. It would facilitate diversified development in the mainland property market.

Upon the current tightening measures successively showing the desired results, austerity policies are expected to be executed flexibly, whilst market sentiment would also turn positive. Pent up housing demand would therefore once again emerge. Mainland China's high economic growth, development of an expanded network of express rail, light rail and round-city highway, as well as better community facilities provided by the local governments, would have profound impact on property developments and job creations in the surrounding areas, leading to further increase in housing demand and property price particularly in the second and third-tier cities given their accelerating urbanization. The Group, being committed to developing high-quality residences with detailed planning, stylish design and comprehensive facilities, is in a unique position to meet the demand of the high-end homebuyers. On the back of its solid financial position, the Group would expand its land bank reserve at the opportune time and speed up the development of its projects in the second and third-tier cities to capitalize on emerging opportunities arising from market changes.

On the property investment front, rental income in Hong Kong is set to increase further as continued growth in the local economy strengthens leasing demand across all property sectors. In mainland China, the scheduled completion of Henderson Metropolitan in Shanghai in the third quarter of 2010 will expand the Group's mainland rental portfolio by about 730,000 square feet to about 6.4 million square feet in gross floor area. Leasing demand in the retail sector is expected to grow in the second half of the year in tandem with the continued economic recovery and the prospective fall in vacancy rate for the shopping malls would underpin rental growth. Meanwhile, in anticipation of an increase in new supply of Grade-A offices to be launched onto the market, vacancy rate is expected to rise pushing down overall rentals. Following the new austerity measures to restrict lending to residential properties by raising down-payment requirement and abolishing the preferential mortgage rate, offices and retail shops have become relatively more attractive given their room for further appreciation in capital value, particularly for those Grade-A offices with consolidated ownership and large space which meets the rigorous demands of top-notch companies.

In addition to the rising recurrent rental income from the expanding rental portfolio in both Hong Kong and mainland China, the three listed associates (namely, Hong Kong and China Gas, Hong Kong Ferry and Miramar) provide another stable income stream to the Group. Hong Kong and China Gas, in particular, is expected to grow ever further in line with China's economic growth with its emerging environmentally-friendly energy businesses and Mainland utility businesses reaching the same level as that of Hong Kong gas businesses in 2012. Backed by these steady cash inflows and ample financial resources, the prospects of the Group are promising as it will continue to pursue further development of its growth drivers. It is estimated that the Group's land bank would double in the next few years. As the acquisition costs are relatively low as compared to the transacted prices of land sites offered at public auctions, the Group's approach to land-banking would benefit the future contribution to the Group's results.

Condensed Interim Financial Statements

Consolidated Income Statement – unaudited

	Note	For the six months ended 30 June 2010 HK$ million	2009 HK$ million
Turnover	3, 4	**2,178**	3,314
Direct costs		**(1,536)**	(1,775)
		642	1,539
Other revenue	5	**99**	112
Other net income	5	**52**	36
Other operating (expenses)/income, net	6	**(109)**	55
Selling and marketing expenses		**(381)**	(216)
Administrative expenses		**(618)**	(612)
(Loss)/profit from operations before changes in fair value of investment properties		**(315)**	914
Increase in fair value of investment properties	11(c)	**7,126**	2,456
Profit from operations after changes in fair value of investment properties		**6,811**	3,370
Finance costs	7(a)	**(457)**	(456)
		6,354	2,914
Share of profits less losses of associates		**1,392**	1,365
Share of profits less losses of jointly controlled entities		**1,135**	969
Profit before taxation	7	**8,881**	5,248
Income tax	8	**(1,544)**	(832)
Profit for the period		**7,337**	4,416
Attributable to:			
Equity shareholders of the Company		**7,658**	4,370
Non-controlling interests		**(321)**	46
Profit for the period		**7,337**	4,416
Earnings per share - basic and diluted	9(a)	**HK$3.56**	HK$2.04
Adjusted earnings per share	*9(b)*	***HK$0.61***	*HK$0.98*

Details of dividends payable to equity shareholders of the Company are set out in note 10.

The notes on pages 29 to 52 form part of these condensed interim financial statements.

Condensed Interim Financial Statements

Consolidated Statement of Comprehensive Income – unaudited

	Note	For the six months ended 30 June 2010 HK$ million	2009 HK$ million
Profit for the period		**7,337**	4,416
Other comprehensive income for the period:			
Exchange differences			
– translation of financial statements of foreign entities		**278**	(3)
– reclassification from equity to profit or loss on disposal of a subsidiary		**(21)**	–
Cash flow hedges			
– effective portion of changes in fair value, net of tax		**(395)**	321
– reclassification from equity to profit or loss, net of tax		**7**	(71)
Available-for-sale equity securities			
– changes in fair value		**(72)**	224
– reclassification from equity to profit or loss on disposal		**(14)**	7
Property revaluation reserve reclassified from equity to profit or loss on disposal of			
– a subsidiary		**–**	(39)
– fixed assets		**–**	(19)
Share of other comprehensive income of associates and jointly controlled entities		**(5)**	26
		(222)	446
Total comprehensive income for the period		**7,115**	4,862
Attributable to:			
Equity shareholders of the Company		**7,439**	4,816
Non-controlling interests		**(324)**	46
Total comprehensive income for the period		**7,115**	4,862

The notes on pages 29 to 52 form part of these condensed interim financial statements.

Condensed Interim Financial Statements

Consolidated Balance Sheet

	Note	At 30 June 2010 (unaudited) HK$ million	At 31 December 2009 (audited and restated) HK$ million
Non-current assets			
Fixed assets	11	**79,990**	70,296
Intangible operating rights		**491**	508
Interest in associates		**36,302**	35,569
Interest in jointly controlled entities		**17,206**	16,711
Derivative financial instruments	12	**468**	516
Other financial assets	13	**1,786**	1,919
Deferred tax assets		**443**	156
		136,686	125,675
Current assets			
Deposits for acquisition of properties		**4,837**	5,894
Inventories		**56,024**	41,541
Trade and other receivables	14	**4,891**	7,365
Cash held by stakeholders		**58**	46
Cash and cash equivalents	15	**19,895**	10,525
		85,705	65,371
Assets classified as held for sale	18	**–**	196
		85,705	65,567
Current liabilities			
Trade and other payables	16	**4,684**	5,359
Bank loans and overdrafts	17	**7,331**	4,858
Current taxation		**898**	713
		12,913	10,930
Liabilities associated with assets classified as held for sale	18	**–**	39
		12,913	10,969
Net current assets		**72,792**	54,598
Total assets less current liabilities		**209,478**	180,273

Condensed Interim Financial Statements

Consolidated Balance Sheet (continued)

	Note	At 30 June 2010 (unaudited) HK$ million	At 31 December 2009 (audited and restated) HK$ million
Non-current liabilities			
Bank loans	17	**37,809**	24,157
Guaranteed notes		**6,981**	6,994
Amount due to a fellow subsidiary		**8,440**	2,210
Derivative financial instruments	12	**992**	557
Deferred tax liabilities		**10,381**	8,845
		64,603	42,763
NET ASSETS		**144,875**	137,510
CAPITAL AND RESERVES			
Share capital	19	**4,330**	4,294
Reserves		**135,609**	128,833
Total equity attributable to equity shareholders of the Company		**139,939**	133,127
Non-controlling interests		**4,936**	4,383
TOTAL EQUITY		**144,875**	137,510

The notes on pages 29 to 52 form part of these condensed interim financial statements.

Condensed Interim Financial Statements

Consolidated Statement of Changes in Equity – unaudited

		Attributable to equity shareholders of the Company											
	Note	Share capital HK$ million	Share premium HK$ million	Property revaluation reserve HK$ million	Capital redemption reserve HK$ million	Exchange reserve HK$ million	Fair value reserve HK$ million	Hedging reserve HK$ million	Other reserves HK$ million	Retained profits HK$ million	Total HK$ million	Non-controlling interests HK$ million	Total equity HK$ million
Balance at 1 January 2009		4,294	29,782	72	20	2,833	8	(247)	45	83,418	120,225	2,921	123,146
Changes in equity for the six months ended 30 June 2009:													
Total comprehensive income for the period		–	–	(58)	–	(19)	222	292	9	4,370	4,816	46	4,862
Dividend declared in respect of the previous period	10(b)	–	–	–	–	–	–	–	–	(644)	(644)	–	(644)
Dividends paid to non-controlling interests		–	–	–	–	–	–	–	–	–	–	(98)	(98)
Contribution from non-controlling interests, net		–	–	–	–	–	–	–	–	–	–	6	6
Balance at 30 June 2009		4,294	29,782	14	20	2,814	230	45	54	87,144	124,397	2,875	127,272
Balance at 1 January 2010		**4,294**	**29,782**	**14**	**20**	**2,859**	**642**	**186**	**51**	**95,279**	**133,127**	**4,383**	**137,510**
Changes in equity for the six months ended 30 June 2010:													
Total comprehensive income for the period		**–**	**–**	**–**	**–**	**321**	**(203)**	**(337)**	**–**	**7,658**	**7,439**	**(324)**	**7,115**
Transfer to other reserves		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2**	**(2)**	**–**	**–**	**–**
Shares issued in respect of scrip dividends	19(b)	**36**	**840**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**876**	**–**	**876**
Dividend approved in respect of the previous period	10(b)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,503)**	**(1,503)**	**–**	**(1,503)**
Dividends paid to non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(39)**	**(39)**
Contribution from non-controlling interests, net		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**962**	**962**
Disposal of subsidiaries		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(46)**	**(46)**
Balance at 30 June 2010		**4,330**	**30,622**	**14**	**20**	**3,180**	**439**	**(151)**	**53**	**101,432**	**139,939**	**4,936**	**144,875**

The notes on pages 29 to 52 form part of these condensed interim financial statements.

Condensed Interim Financial Statements

Condensed Consolidated Cash Flow Statement – unaudited

	Note	For the six months ended 30 June 2010 HK$ million	2009 HK$ million
Net cash used in operating activities		**(13,486)**	(423)
Net cash generated from investing activities		**870**	1,221
Net cash generated from/(used in) financing activities		**21,902**	(3,265)
Net increase/(decrease) in cash and cash equivalents		**9,286**	(2,467)
Cash and cash equivalents at 1 January		**10,495**	20,052
Effect of foreign exchange rate changes		**52**	(14)
Cash and cash equivalents at 30 June	15	**19,833**	17,571

The notes on pages 29 to 52 form part of these condensed interim financial statements.

Notes to the Unaudited Condensed Interim Financial Statements

1 Basis of preparation

These condensed interim financial statements comprise Henderson Land Development Company Limited ("the Company") and its subsidiaries (collectively referred to as "the Group") and the Group's interest in associates and jointly controlled entities.

These condensed interim financial statements have 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 (the "Listing Rules"), including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They were authorised for issuance on 26 August 2010.

These condensed interim financial statements have been prepared in accordance with the same accounting policies adopted in the Company's consolidated financial statements for the eighteen months ended 31 December 2009 ("the 2009 financial statements") except for the accounting policy changes that are expected to be reflected in the consolidated financial statements for the year ending 31 December 2010. Details of these changes in accounting policies are set out in note 2.

The preparation of the condensed interim financial statements 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.

These condensed interim financial statements contain 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 the Group since the 2009 financial statements. The condensed interim financial statements and notes thereon do not include all of the information required for the preparation of full set of financial statements in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA.

These condensed interim financial statements are unaudited, but have 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 (the "Board") is included on page 74. In addition, these condensed interim financial statements have been reviewed by the Company's Audit Committee.

The financial information relating to the eighteen months ended 31 December 2009 that is included in these condensed interim financial statements as being previously reported information does not constitute the Company's statutory consolidated financial statements for that period but is derived from those financial statements. The 2009 financial statements are available from the Company's registered office. The auditor has expressed an unqualified opinion on those financial statements in their report dated 30 March 2010.

Notes to the Unaudited Condensed Interim Financial Statements

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:

HKAS 1 (Revised)	Presentation of financial statements
HKAS 23 (Revised)	Borrowing costs
HKAS 27 (Revised)	Consolidated and separate financial statements
HKFRS 3 (Revised)	Business combinations
HKFRS 7 (Amendments)	Financial instruments: Disclosures
HKFRS 8	Operating segments
HKFRSs (Amendments 2008)	Improvements to HKFRSs (2008)
HKFRSs (Amendments 2009)	Improvements to HKFRSs (2009)
HK(IFRIC)-Int 15	Agreements for the construction of real estate

The adoption of HKAS 23 (Revised) and HK(IFRIC)-Int 15 have no material impact on these condensed interim financial statements as the amendments and interpretation are consistent with policies already adopted by the Group. In addition, HKFRS 7 (Amendments) does not contain any additional disclosure requirements specifically applicable to interim reporting. The impact of the remainder of the above developments on these condensed interim financial statements is as follows.

(a) HKAS 1 (Revised), Presentation of financial statements

As a result of the adoption of HKAS 1 (Revised), 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 expenses 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 have been adopted in these condensed interim financial statements. 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.

Notes to the Unaudited Condensed Interim Financial Statements

2 Changes in accounting policies (continued)

(b) HKAS 27 (Revised), Consolidated and separate financial statements

HKAS 27 (Revised) has 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 2010 all dividends receivable from subsidiaries, 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 the dividend income in profit or loss, the Company would recognise an impairment loss. In accordance with the transitional provisions, this new policy is applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

HKAS 27 (Revised) also provides that when changes in a parent's ownership interest in a subsidiary do not result in a loss of control, this will be accounted for as equity transactions which will no longer result in goodwill, or gain or loss. When the changes result in a parent losing control over a subsidiary, this will be accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any remaining interest would be recognised at fair value as if reacquired and the difference between the fair value and the carrying amount is recognised in profit or loss. This new policy is applied prospectively in accordance with the transitional provisions and there has been no effect on reported profit or loss and net assets for the period.

(c) HKFRS 3 (Revised), Business combinations

As a result of the adoption of HKFRS 3 (Revised), where a business combination is achieved in stages (other than that for existing subsidiary), the existing interest in the acquiree should be re-measured at fair value at each acquisition date and any resulting gain or loss is recognised in profit or loss. Previously, such gain or loss would be offset against goodwill. HKFRS 3 (Revised) has been applied prospectively for the transactions after 1 January 2010 and the adoption of HKFRS 3 (Revised) had no significant impact on the condensed interim financial statements of the Group for the six months ended 30 June 2010.

(d) HKFRS 8, Operating segments

HKFRS 8 supersedes HKAS 14, *Segment reporting* and requires segment disclosure to be based on the way 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 activities 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 senior executive management. Corresponding amounts have been provided on a basis consistent with the revised segment information.

Notes to the Unaudited Condensed Interim Financial Statements

2 Changes in accounting policies (continued)

(e) Improvements to HKFRSs (2008)

Improvements to HKFRSs (2008) contain amendments to HKAS 40, *Investment property* under which investment property which is under construction will be carried at fair value at the earlier of when the fair value 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 construction was completed, at which time it was fair valued with any gain or loss being recognised in profit or loss.

The amendments to HKAS 40 are applied prospectively in accordance with the transitional provisions and the adoption of which results in the increase in the profit attributable to equity shareholders of the Company for the six months ended 30 June 2010 by HK$107 million, being the increase in fair value (net of deferred tax and non-controlling interests) of the investment properties under development previously carried at cost. Previous periods have not been restated.

(f) Improvements to HKFRSs (2009)

Improvements to HKFRSs (2009) contain amendments to HKAS 17, *Leases* which removes the guidance that a lease of land with an indefinite economic life is normally classified as an operating lease unless at the end of the lease term title is expected to pass to the lessee. Under the amendments, a land lease with a lease term of several decades or longer may be classified as a finance lease, even if at the end of the lease term title will not pass to the lessee, because in such arrangements substantially all risks and rewards are transferred to the lessee and the present value of the leased asset is considered negligible.

This new policy is applied retrospectively and as a result of the amendments, certain leases of land with carrying amount of HK$976 million at 31 December 2009 and HK$966 million at 30 June 2010 have been reclassified as finance leases and included under "Fixed assets" (previously included under "Interests in leasehold land held for own use under operating leases"). The reclassification has no effect on reported profit or loss or net assets for any of the periods presented.

The HKICPA has issued certain new standards, interpretations and amendments to standards which are not yet effective for the Group in relation to the year ending 31 December 2010. The Group has not early adopted any of these new or revised HKFRSs.

Notes to the Unaudited Condensed Interim Financial Statements

3 Turnover

Turnover of the Group represents revenue from the sale of properties, rental income, income from construction, infrastructure business, hotel operation and management, department store operation and management, and others mainly including income from provision of finance, investment holding, project management, property management, agency services, provision of cleaning and security guard services.

The major items are analysed as follows:

	For the six months ended 30 June	
	2010	2009
	HK$ million	HK$ million
Sale of properties (note (i))	**2,688**	1,558
Less: Cancelled sales (note (ii))	**(2,670)**	(445)
	18	1,113
Rental income	**1,494**	1,382
Construction	**10**	231
Infrastructure	**148**	143
Hotel operation	**92**	67
Department store operation	**148**	128
Others	**268**	250
	2,178	3,314

Notes:

(i) Included in sale of properties is an amount of HK$42 million (2009: HK$96 million) relating to the Group's share of revenue from its interest in a property project jointly developed by the Group and an associate.

(ii) During the period, the Group received written requests from the purchasers of 20 property units in 39 Conduit Road for the cancellation of the sale and purchase agreements entered into in the previous year. In accordance with the terms of the agreements for sale and purchase, the Group has retained the forfeited deposits of 5% of the purchase price, and has refunded to the purchasers other payments over and above the 5% deposits received. As a result of the cancelled sales in respect of 39 Conduit Road and another project during the period, revenue less direct and related costs was reduced by a loss on cancellation of HK$1,516 million, and inventory was increased by HK$1,129 million. The loss on cancellation attributable to the Group, i.e. after taking into account taxation and non-controlling interests, amounted to HK$776 million (of which HK$734 million relates to the cancelled sales of the 20 units at 39 Conduit Road).

During the six months ended 30 June 2009, revenue less direct and related costs was reduced by a loss on cancellation of HK$87 million, and inventory was increased by HK$358 million. In previous periods losses on cancellation were presented as part of other operating (expenses)/income, net. The loss on cancellation attributable to the Group, i.e. after taking into account taxation and non-controlling interests, amounted to HK$87 million.

Notes to the Unaudited Condensed Interim Financial Statements

4 Segment reporting

The Group manages its businesses by a mixture of business lines and geography. On first-time adoption of HKFRS 8 and in a manner consistent with the way in which information is reported internally to the Group's senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following reportable segments.

Property development	:	Development and sale of properties
Property leasing	:	Leasing of properties
Construction	:	Construction of building works
Infrastructure	:	Investment in infrastructure projects
Hotel operation	:	Hotel operation and management
Department store operation	:	Department store operation and management
Others	:	Provision of finance, investment holding, project management, property management, agency services, provision of cleaning and security guard services

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results attributable to each reportable segment on the following bases.

Revenue and expenses are allocated to the reportable segments with reference to revenues generated by those segments and the expenses incurred by those segments. Segment results form the basis of measurement used for assessing segment performance and represent profit or loss before bank interest income, write-down of inventories, fair value adjustment of investment properties, finance costs, income tax and items not specifically attributed to individual segments, such as unallocated head office and corporate expenses.

Notes to the Unaudited Condensed Interim Financial Statements

4 Segment reporting (continued)

(a) Results of reportable segments

Information regarding the Group's reportable segments as provided to the Group's senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended 30 June 2010 is set out below.

	Property development HK$ million (note 3)	Property leasing HK$ million	Construction HK$ million	Infrastructure HK$ million	Hotel operation HK$ million	Department store operation HK$ million	Others HK$ million	Eliminations HK$ million	Consolidated HK$ million
For the six months ended 30 June 2010									
External revenue	18	1,494	10	148	92	148	268	–	2,178
Inter-segment revenue	–	94	211	–	–	–	15	(320)	–
Reportable segment revenue	18	1,588	221	148	92	148	283	(320)	2,178
Reportable segment results	(1,118)	908	(14)	128	19	25	106		54
Bank interest income									41
Write-down of inventories	(1)	–	–	–	–	–	–		(1)
Unallocated head office and corporate expenses, net									(409)
Loss from operations									(315)
Increase in fair value of investment properties									7,126
Finance costs									(457)
									6,354
Share of profits less losses of associates (note (i))									1,392
Share of profits less losses of jointly controlled entities (note (ii))									1,135
Profit before taxation									8,881
Income tax									(1,544)
Profit for the period									7,337

Notes to the Unaudited Condensed Interim Financial Statements

4 Segment reporting (continued)

(a) Results of reportable segments (continued)

	Property development HK$ million (note 3)	Property leasing HK$ million	Construction HK$ million	Infrastructure HK$ million	Hotel operation HK$ million	Department store operation HK$ million	Others HK$ million	Eliminations HK$ million	Consolidated HK$ million
For the six months ended 30 June 2009									
External revenue	1,113	1,382	231	143	67	128	250	–	3,314
Inter-segment revenue	–	113	947	–	–	–	26	(1,086)	–
Reportable segment revenue	1,113	1,495	1,178	143	67	128	276	(1,086)	3,314
Reportable segment results	189	836	3	109	(4)	16	79		1,228
Bank interest income									79
Write-down of inventories	(14)	–	–	–	–	–	–		(14)
Unallocated head office and corporate expenses, net									(379)
Profit from operations									914
Increase in fair value of investment properties									2,456
Finance costs									(456)
									2,914
Share of profits less losses of associates (note (i))									1,365
Share of profits less losses of jointly controlled entities (note (ii))									969
Profit before taxation									5,248
Income tax									(832)
Profit for the period									4,416

Notes to the Unaudited Condensed Interim Financial Statements

4 Segment reporting (continued)

(a) Results of reportable segments (continued)

Notes:

(i) During the period, the Group's share of revenue of associates arising from their activities of property development and property leasing amounted to HK$196 million (2009: HK$595 million) and HK$254 million (2009: HK$245 million), respectively.

Included in the Group's share of profits less losses of associates during the period is a profit of HK$78 million (2009: HK$159 million) contributed from the property development segment, and a profit of HK$337 million (2009: HK$183 million) contributed from the property leasing segment (taking into account the increase in fair value of investment properties (net of deferred tax) during the period of HK$167 million (2009: HK$34 million)).

(ii) During the period, the Group's share of revenue of jointly controlled entities arising from their activities of property development and property leasing amounted to HK$69 million (2009: HK$367 million) and HK$587 million (2009: HK$528 million), respectively.

Included in the Group's share of profits less losses of jointly controlled entities during the period is a profit of HK$42 million (2009: HK$165 million) contributed from the property development segment, and a profit of HK$998 million (2009: HK$746 million) contributed from the property leasing segment (taking into account the increase in fair value of investment properties (net of deferred tax) during the period of HK$608 million (2009: HK$416 million)).

(b) Geographical information

The following table sets out information about the geographical segment location of (i) the Group's revenue from external customers; and (ii) the Group's fixed assets, intangible operating rights, interests in associates and jointly controlled entities (together, the "Specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods were delivered. The geographical location of the Specified non-current assets is based on the physical location of the asset in the case of fixed assets, the location of the operation to which they are allocated in the case of the intangible operating rights, and the location of operations in the case of interests in associates and jointly controlled entities.

	Revenue from external customers		**Specified non-current assets**	
	For the six months ended 30 June		**At 30 June**	At 31 December
	2010	2009	**2010**	2009
	HK$ million	HK$ million	**HK$ million**	HK$ million
Hong Kong (place of domicile)	**1,630**	2,913	**109,996**	105,954
Mainland China	**548**	401	**23,993**	17,130
	2,178	3,314	**133,989**	123,084

Notes to the Unaudited Condensed Interim Financial Statements

4 Segment reporting (continued)

(c) Other segment information

	Depreciation and amortisation For the six months ended 30 June		Impairment loss/ (reversal of impairment loss) for trade debtors For the six months ended 30 June	
	2010	2009	**2010**	2009
	HK$ million	HK$ million	**HK$ million**	HK$ million
Property development	**–**	–	**88**	(9)
Property leasing	**9**	7	**–**	(2)
Construction	**6**	1	**–**	–
Infrastructure	**21**	24	**–**	–
Hotel operation	**28**	31	**–**	–
Department store operation	**2**	2	**–**	–
Others	**22**	34	**(2)**	(3)
	88	99	**86**	(14)

5 Other revenue and other net income

	For the six months ended 30 June	
	2010	2009
	HK$ million	HK$ million
Other revenue		
Bank interest income	**41**	79
Other interest income	**15**	7
Others	**43**	26
	99	112
Other net income		
Net profit on disposal of fixed assets	**4**	51
Net foreign exchange gain/(loss)	**23**	(8)
Gain/(loss) on sale of available-for-sale equity securities	**12**	(7)
Others	**13**	–
	52	36

Notes to the Unaudited Condensed Interim Financial Statements

6 Other operating (expenses)/income, net

	For the six months ended 30 June	
	2010	2009
	HK$ million	HK$ million
Net gain on disposal of a subsidiary (note)	**47**	48
(Impairment loss)/reversal of impairment loss for trade debtors (note 4(c))	**(86)**	14
Write-down of inventories	**(1)**	(14)
Bad debts written off	**(36)**	(1)
Others	**(33)**	8
	(109)	55

Note:

During the six months ended 30 June 2010, the Group completed the disposal of its entire interest in Maanshan Huan Tong Highway Development Limited, as a result of which the Group recognised a net gain on disposal of a subsidiary of HK$47 million (see note 18).

During the six months ended 30 June 2009, the Group sold a subsidiary which was engaged in property leasing business for an aggregate consideration of HK$60 million. This resulted in a net gain on disposal of a subsidiary of HK$48 million.

7 Profit before taxation

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

	For the six months ended 30 June	
	2010	2009
	HK$ million	HK$ million
(a) Finance costs:		
Bank interest	**363**	377
Interest on loans wholly repayable within five years	**76**	66
Interest on loans repayable after five years	**152**	89
Other borrowing costs	**72**	32
	663	564
Less: Amount capitalised *	**(206)**	(108)
	457	456

* The borrowing costs have been capitalised at rates ranging from 2.23% to 5.64% (2009: 2.05% to 6.44%) per annum.

Notes to the Unaudited Condensed Interim Financial Statements

7 Profit before taxation (continued)

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

		For the six months ended 30 June	
		2010	2009
		HK$ million	HK$ million
(b)	**Staff costs:**		
	Salaries, wages and other benefits	**681**	681
	Contributions to defined contribution retirement plans	**28**	28
		709	709
(c)	**Other items:**		
	Amortisation and depreciation of fixed assets	**74**	77
	Less: Amount capitalised	**(7)**	(1)
		67	76
	Amortisation of intangible operating rights	**21**	23
	Cost of sales		
	– completed properties for sale (note)	**1,826**	751
	– trading stocks	**128**	120
	Dividend income from investments in available-for-sale listed equity securities	**(16)**	(15)

Note:

Included in the cost of sales in respect of completed properties for sale is an amount of HK$9 million (2009: HK$33 million) relating to the Group's share of cost of properties sold in connection with the property project jointly developed by the Group and the associate as disclosed in note 3.

Notes to the Unaudited Condensed Interim Financial Statements

8 Income tax

	For the six months ended 30 June	
	2010	2009
	HK$ million	HK$ million
Current tax		
Provision for Hong Kong Profits Tax	**178**	172
Provision for taxation outside Hong Kong	**54**	88
Provision for Land Appreciation Tax	**3**	13
	235	273
Deferred tax		
Origination and reversal of temporary differences	**1,309**	559
	1,544	832

Provision for Hong Kong Profits Tax has been made at 16.5% (2009: 16.5%) on the estimated assessable profits for the period.

Provision for taxation outside Hong Kong is provided for at the applicable rates of taxation for the period on the estimated assessable profits arising in the relevant tax jurisdictions during the period.

Land Appreciation Tax is levied on properties in mainland China 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 revenue from sale of properties less deductible expenditure including lease charges of land use rights, borrowing costs and all property development expenditure.

Deferred tax charged to the consolidated income statement mainly arises from the taxable temporary differences relating to the increase in fair value of the Group's investment properties during the period.

Notes to the Unaudited Condensed Interim Financial Statements

9 Earnings per share

(a) The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of HK$7,658 million (2009: HK$4,370 million) and on the weighted average number of 2,150 million ordinary shares (2009: 2,147 million ordinary shares) in issue during the period, calculated as follows:

	For the six months ended 30 June	
	2010	2009
	million	million
Number of issued ordinary shares at 1 January	**2,147**	2,147
Weighted average number of shares issued in respect of scrip dividends	**3**	–
Weighted average number of ordinary shares for the period and at 30 June	**2,150**	2,147

Diluted earnings per share were same as the basic earnings per share for both the current and prior periods as the inclusion of the dilutive potential ordinary shares in respect of the warrants in issue during the six months ended 30 June 2010 would have an anti-dilutive effect and there were no dilutive potential ordinary shares in existence during the six months ended 30 June 2009.

(b) The calculation of adjusted earnings per share is based on the profit attributable to equity shareholders of the Company as adjusted below.

	For the six months ended 30 June	
	2010	2009
	HK$ million	HK$ million
Profit attributable to equity shareholders of the Company	**7,658**	4,370
Effect of changes in fair value of investment properties	**(7,126)**	(2,456)
Effect of deferred tax on changes in fair value of investment properties	**1,506**	632
Effect of share of changes in fair value of investment properties (net of deferred tax) of:		
– associates	**(167)**	(34)
– jointly controlled entities	**(608)**	(416)
Effect of share of non-controlling interests	**56**	10
Adjusted earnings of the Company for calculation of adjusted earnings per share	**1,319**	2,106

Notes to the Unaudited Condensed Interim Financial Statements

10 Dividends

(a) Dividend payable to equity shareholders of the Company attributable to the interim period

	For the six months ended 30 June	
	2010	2009
	HK$ million	HK$ million
Interim dividend (2009: second interim dividend) declared after the balance sheet date of HK$0.3 (2009: HK$0.3) per share	**650**	644

The interim dividend declared after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividend payable to equity shareholders of the Company attributable to the previous period, approved/declared and paid during the interim period

	For the six months ended 30 June	
	2010	2009
	HK$ million	HK$ million
Final dividend (2009: first interim dividend) in respect of the previous period, approved/declared and paid during the period, of HK$0.7 (2009: HK$0.3) per share	**1,503**	644

11 Fixed assets

(a) Reclassification

Following the adoption of the amendments to HKAS 17, *Leases* contained under the Improvements to HKFRSs (2009), certain leases of land with carrying amount of HK$976 million at 31 December 2009 and HK$966 million at 30 June 2010 have been reclassified from "Interests in leasehold land held for own use under operating leases" to "Fixed assets", details of which are set out in note 2(f).

(b) Transfers

During the six months ended 30 June 2010, properties under development with carrying amount of HK$2,238 million have been transferred from "Inventories" to "Fixed assets" upon the commencement of leasing activities.

(c) Valuation

The investment properties were revalued at 30 June 2010 by DTZ Debenham Tie Leung Limited, an independent firm of professional surveyors who have among their staff Fellows of The Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued, on a market value basis in their existing states by reference to comparable market transactions and where appropriate on the basis of capitalisation of the net income allowing for reversionary income potential.

Notes to the Unaudited Condensed Interim Financial Statements

12 Derivative financial instruments

	At 30 June 2010 (unaudited)		At 31 December 2009 (audited)	
	Assets HK$ million	Liabilities HK$ million	Assets HK$ million	Liabilities HK$ million
Cash flow hedges:				
– cross currency interest rate swap contracts	**468**	**805**	331	568
– interest rate swap contracts	**–**	**191**	185	1
	468	**996**	516	569
Maturing:				
– within 1 year (note 16)	**–**	**4**	–	12
– after more than 1 year	**468**	**992**	516	557
	468	**996**	516	569

Swap contracts which have been entered into with certain counterparty banks comprise:

– cross currency interest rate swap contracts to hedge against the interest rate risk and foreign currency risk in respect of guaranteed notes denominated in United States dollars ("US$") and Pound Sterling ("£") with aggregate principal amounts of US$825 million and £50 million at 30 June 2010 (31 December 2009: US$825 million and £50 million) and bank loans denominated in United States dollars with an aggregate amount of US$199 million at 30 June 2010 (31 December 2009: US$199 million); and

– interest rate swap contracts to hedge against the interest rate risk in respect of certain bank loans denominated in Hong Kong dollars with an aggregate amount of HK$6,500 million at 30 June 2010 (31 December 2009: HK$5,500 million).

These cross currency interest rate swap contracts and interest rate swap contracts were designated as cash flow hedges of the interest rate risk and foreign currency risk in relation to the guaranteed notes and bank loans. They will mature between 8 September 2010 and 17 June 2025.

Notes to the Unaudited Condensed Interim Financial Statements

13 Other financial assets

	At 30 June 2010 (unaudited) HK$ million	At 31 December 2009 (audited) HK$ million
Available-for-sale equity securities	**1,008**	1,027
Instalments receivable	**718**	826
Long term receivable	**60**	66
	1,786	1,919

At 30 June 2010, the fair value of individually impaired available-for-sale equity securities amounted to HK$45 million (31 December 2009: HK$33 million). These securities were determined to be impaired on the basis of significant or prolonged decline in their fair value below cost.

Instalments receivable represents the proceeds receivable from the sale of properties due after twelve months from the balance sheet date. Instalments receivable due within twelve months from the balance sheet date is included in "Trade and other receivables" under current assets (see note 14).

14 Trade and other receivables

	At 30 June 2010 (unaudited) HK$ million	At 31 December 2009 (audited) HK$ million
Instalments receivable	**2,192**	4,709
Debtors, prepayments and deposits	**2,464**	2,389
Gross amount due from customers for contract work	**14**	10
Amounts due from associates	**209**	250
Amounts due from jointly controlled entities	**12**	7
	4,891	7,365

Notes to the Unaudited Condensed Interim Financial Statements

14 Trade and other receivables (continued)

Included in trade and other receivables are trade debtors (net of allowance for doubtful debts) with the following ageing analysis at the balance sheet date:

	At 30 June 2010 (unaudited) HK$ million	At 31 December 2009 (audited) HK$ million
Current or less than 1 month past due	**2,139**	4,572
More than 1 month past due and up to 3 months past due	**66**	78
More than 3 months past due and up to 6 months past due	**23**	42
More than 6 months past due	**458**	601
	2,686	5,293

Regular review and follow-up actions are carried out on overdue amounts of instalments receivable from sale of properties which enable management to assess their recoverability and to minimise exposure to credit risk. In respect of rental income from leasing properties, monthly rents are received in advance and sufficient rental deposits are held to cover potential exposure to credit risk. Regarding toll income receivable from the toll bridge, the amount has been collected on behalf of the Group since January 2004 by 杭州市“四自”工程道路綜合收費管理處 (Hangzhou City “Sizi” Engineering & Highway General Toll Fee Administration Office), a relevant government body in Hangzhou, mainland China (the “Hangzhou Government Body”) in accordance with the terms of an agreement entered into between the Group and the Hangzhou Government Body. For other trade receivables, credit terms given to customers are generally based on the financial strength and repayment history of each customer. As such, the Group does not obtain collateral from its customers. An ageing analysis of the receivables is prepared on a regular basis and is closely monitored to minimise any credit risk associated with the receivables. Adequate allowance for impairment losses are made for estimated irrecoverable amounts.

Notes to the Unaudited Condensed Interim Financial Statements

15 Cash and cash equivalents

	At 30 June 2010 (unaudited) HK$ million	At 31 December 2009 (audited) HK$ million
Deposits with banks	**13,810**	5,058
Cash at bank and in hand	**6,085**	5,467
Cash and cash equivalents in the consolidated balance sheet	**19,895**	10,525
Cash and cash equivalents classified as held for sale	**–**	6
Bank overdrafts	**(62)**	(36)
Cash and cash equivalents in the condensed consolidated cash flow statement	**19,833**	10,495

16 Trade and other payables

	At 30 June 2010 (unaudited) HK$ million	At 31 December 2009 (audited) HK$ million
Creditors and accrued expenses	**3,682**	4,395
Rental and other deposits	**772**	730
Forward sales deposits received	**60**	50
Amounts due to associates	**54**	46
Amounts due to jointly controlled entities	**112**	126
Derivative financial instruments (note 12)	**4**	12
	4,684	5,359

Notes to the Unaudited Condensed Interim Financial Statements

16 Trade and other payables (continued)

Included in trade and other payables are trade creditors with the following ageing analysis at the balance sheet date:

	At 30 June 2010 (unaudited) HK$ million	At 31 December 2009 (audited) HK$ million
Due within 1 month or on demand	**463**	816
Due after 1 month but within 3 months	**366**	446
Due after 3 months but within 6 months	**240**	287
Due after 6 months	**1,414**	1,417
	2,483	2,966

17 Bank loans and overdrafts

During the six months ended 30 June 2010, the Group obtained new bank loans amounting to HK$18,931 million and repaid bank loans amounting to HK$2,921 million. The new bank loans bear interest rates ranging from 0.30% to 5.35% per annum.

At 30 June 2010, the entire amount of the Group's bank loans and overdrafts was unsecured (31 December 2009: bank loans and overdrafts were unsecured except for an amount of HK$22 million grouped under "Liabilities associated with assets classified as held for sale" was secured by the Group's toll highway operating right).

18 Assets classified as held for sale and liabilities associated with assets classified as held for sale

On 12 March 2009, Hong Kong Vigorous Limited ("Vigorous"), an indirectly owned subsidiary of the Company, entered into an agreement with 馬鞍山市過境公路建設開發有限公司 (Maanshan City Cross Border Highway Construction Development Company Limited) ("Maanshan Highway JV Partner") in relation to the sale by Vigorous of its entire 70% interest in Maanshan Huan Tong Highway Development Limited to Maanshan Highway JV Partner for a cash consideration of RMB122 million (equivalent to HK$139 million). The transaction was completed on 26 February 2010 and a net gain on disposal of subsidiary of HK$47 million was recognised and included in "Other operating (expenses)/income, net" (note 6) during the six months ended 30 June 2010.

At 31 December 2009, included in assets classified as held for sale was toll highway operating right with carrying amount of HK$177 million which was pledged to secure the Group's bank loans of HK$22 million grouped under "Liabilities associated with assets classified as held for sale".

Notes to the Unaudited Condensed Interim Financial Statements

19 Share capital

	Number of shares million	Amount HK$ million
Ordinary shares of HK$2 each (each being a "Share")		
Authorised:		
At 1 January 2010	2,600	5,200
Increase in authorised share capital	2,400	4,800
At 30 June 2010	**5,000**	**10,000**
Issued and fully paid:		
At 1 January 2010	2,147	4,294
Shares issued in respect of scrip dividends	18	36
At 30 June 2010	**2,165**	**4,330**

(a) Increase in authorised share capital

Pursuant to an ordinary resolution passed at the annual general meeting held on 1 June 2010, the Company's authorised share capital was increased from HK$5,200 million to HK$10,000 million by the creation of an additional 2,400 million Shares in the Company.

(b) Issue of shares in respect of scrip dividends

During the six months ended 30 June 2010, the Company issued and allotted 18,610,071 Shares at an issue price of HK$47.11 in respect of the final dividend for the eighteen months ended 31 December 2009 under the scrip dividend scheme. Accordingly, the Company's share capital and share premium were increased by approximately HK$36 million and HK$840 million, respectively. The 18,610,071 Shares issued rank pari passu in all respects with the then existing Shares.

(c) Bonus issue of warrants

On 30 March 2010, the Board announced the proposed bonus issue of warrants ("Warrants") by the Company to the shareholders on the basis of one Warrant for every five Shares held on 23 April 2010, which was approved by the shareholders at the extraordinary general meeting of the Company held on 1 June 2010. 429,348,478 units of Warrants were issued on 2 June 2010.

Each Warrant entitles the holder thereof to subscribe one Share at an initial subscription price of HK$58.00 (subject to adjustment), and is exercisable at any time during the period of one year commencing from 2 June 2010 up to 1 June 2011 (both days inclusive). During the period from 2 June 2010 to 30 June 2010, 57 units of Warrants had been exercised by the holders thereof. At 30 June 2010, 429,348,421 units of Warrants remained outstanding.

Notes to the Unaudited Condensed Interim Financial Statements

20 Capital commitments

At 30 June 2010, the Group had capital commitments not provided for in these condensed interim financial statements as follows:

	At 30 June 2010 (unaudited) HK$ million	At 31 December 2009 (audited) HK$ million
Contracted for acquisition of property and future development expenditure and the related costs of internal fixtures and fittings	**6,967**	12,345
Future development expenditure and the related costs of internal fixtures and fittings approved by the directors but not contracted for	**22,846**	21,456
	29,813	33,801

21 Contingent liabilities

(a) In connection with the sale of certain subsidiaries and shareholders' loans to Sunlight Real Estate Investment Trust ("Sunlight REIT") (the "Sale") in December 2006, the Group entered into Deeds of Tax Covenant with Sunlight REIT. Under the Deeds of Tax Covenant, the Group has undertaken to indemnify Sunlight REIT for any tax liabilities relating to events occurred on or before the completion of the Sale (the "Completion"), clawback of commercial building allowances and capital allowances granted up to the Completion and re-classification of the properties before the Completion. At 30 June 2010, the Group had contingent liabilities in this connection of HK$12 million (31 December 2009: HK$12 million).

(b) At 30 June 2010, the Group had contingent liabilities in respect of performance bonds to guarantee for the due and proper performance of the subsidiaries' obligations amounting to HK$23 million (31 December 2009: HK$78 million).

Notes to the Unaudited Condensed Interim Financial Statements

22 Material related party transactions

In addition to the transactions disclosed elsewhere in these condensed interim financial statements, the Group entered into the following material related party transactions during the period.

(a) Transactions with fellow subsidiaries

Details of material related party transactions during the period between the Group and its fellow subsidiaries are as follows:

	For the six months ended 30 June	
	2010	2009
	HK$ million	HK$ million
Other interest expense (note (i))	**10**	–
Management fee income (note (iii))	**–**	6

(b) Transactions with associates and jointly controlled entities

Details of material related party transactions during the period between the Group and its associates and jointly controlled entities are as follows:

	For the six months ended 30 June	
	2010	2009
	HK$ million	HK$ million
Other interest income (note (i))	**3**	–
Construction income (note (ii))	**6**	230
Security guard service income (note (iii))	**9**	9
Management fee income (note (iii))	**2**	7
Professional fee income (note (iii))	**–**	1
Sales commission income (note (iii))	**4**	14
Rental expenses (note (iii))	**31**	33

Notes:

(i) Interest income and expense are calculated on the balance of loans outstanding from time to time by reference to Hong Kong Interbank Offered Rate or Hong Kong dollar prime rate.

(ii) These transactions represent cost reimbursements plus certain percentage thereon as service fees.

(iii) These transactions were carried out on normal commercial terms and in the ordinary course of business.

Notes to the Unaudited Condensed Interim Financial Statements

22 Material related party transactions (continued)

(c) Transactions with Sunlight REIT

Details of the material related party transactions during the period between the Group and Sunlight REIT (which is deemed as a connected person of the Company under the Listing Rules as from 30 April 2009) are as follows:

	For the six months ended 30 June	
	2010	2009
	HK$ million	HK$ million
Rental expense	**4**	1
Property and lease management service fee income	**17**	6
Asset management service fee income	**29**	22
Security service fee income	**2**	1
Other ancillary property service fee income	**6**	3

The above transactions are conducted in accordance with the terms of respective agreements/deeds entered into between the Group and Sunlight REIT. At 30 June 2010, the amount due from Sunlight REIT amounted to HK$23 million (31 December 2009: HK$18 million).

(d) Transactions with a company owned by a director of the Company

Mr Lee Ka Kit, a director of the Company, through a company owned by him (the "entity") had separate interest in an associate of the Group and through which the Group held its interest in a development project in mainland China. The entity agreed to provide and had provided finance in the form of non interest-bearing advances to such associate in accordance with the percentage of its equity interest in such associate.

At 30 June 2010, the advance by the entity to the abovementioned associate amounted to HK$80 million (31 December 2009: HK$80 million). Such amount is unsecured and has no fixed terms of repayment.

23 Non-adjusting post balance sheet event

After the balance sheet date, the directors declared an interim dividend. Further details are disclosed in note 10(a).

Financial Review

Results of operations

The following discussions should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements for the six months ended 30 June 2010.

Turnover and profit

	Turnover		Profit contribution/ (Loss) from operations	
	Six months ended 30 June		Six months ended 30 June	
	2010	2009	**2010**	2009
	HK$ million	HK$ million	**HK$ million**	HK$ million
Reportable segments				
– Property development	**18**	1,113	**(1,118)**	189
– Property leasing	**1,494**	1,382	**908**	836
– Construction	**10**	231	**(14)**	3
– Infrastructure	**148**	143	**128**	109
– Hotel operation	**92**	67	**19**	(4)
– Department store operation	**148**	128	**25**	16
– Other businesses	**268**	250	**106**	79
	2,178	3,314	**54**	1,228

	Six months ended 30 June	
	2010	2009
	HK$ million	HK$ million
Profit attributable to equity shareholders of the Company		
– including the Group's attributable share of changes in fair value of investment properties (net of deferred taxation) held by the Group's subsidiaries, associates and jointly controlled entities	**7,658**	4,370
– excluding the Group's attributable share of changes in fair value of investment properties (net of deferred taxation) held by the Group's subsidiaries, associates and jointly controlled entities	**1,319**	2,106

The Group recorded a decrease in turnover for the six months ended 30 June 2010 of HK$1,136 million, or 34%, to HK$2,178 million (2009: HK$3,314 million). The decrease was mainly attributable to the decrease in revenue from property sales after deducting the turnover attributable to cancelled property sales during the period of HK$2,670 million (as referred to in the paragraph headed "Property development" below), when compared with that for the corresponding six months ended 30 June 2009.

Profit attributable to equity shareholders of the Company for the six months ended 30 June 2010, including the Group's attributable share of changes in fair value of investment properties (net of deferred taxation) held by the Group's subsidiaries, associates and jointly controlled entities, amounted to HK$7,658 million (2009: HK$4,370 million), representing an increase of HK$3,288 million, or 75%, over that for the corresponding period of six months ended 30 June 2009. Such increase was mainly due to the increase in the Group's attributable share of the fair value change (net of deferred taxation) of the investment properties held by the Group's subsidiaries, associates and jointly controlled entities in the aggregate amount of HK$4,075 million for the six months ended 30 June 2010 when compared with the corresponding period of six months ended 30 June 2009, which was partially offset by the Group's attributable share of loss on cancellation of property sales for the six months ended 30 June 2010 in the amount of HK$776 million as referred to in the paragraph headed "Property development" below.

Profit attributable to equity shareholders of the Company for the six months ended 30 June 2010, excluding the Group's attributable share of changes in fair value of investment properties (net of deferred taxation) held by the Group's subsidiaries, associates and jointly controlled entities, amounted to HK$1,319 million (2009: HK$2,106 million), representing a decrease of HK$787 million, or 37%, from that for the corresponding period of six months ended 30 June 2009. Such decrease was mainly attributable to the Group's attributable share of loss on cancellation of property sales during the period in the amount of HK$776 million as referred to in the paragraph headed "Property development" below.

Excluding the Group's attributable share of changes in fair value of investment properties (net of deferred taxation) held by the Group's subsidiaries, associates and jointly controlled entities, earnings per share for the six months ended 30 June 2010 were HK$0.61 (2009: HK$0.98).

Discussions on the major reportable segments are set out below.

Property development

During the six months ended 30 June 2010, the Group's sales of the major property projects included Hill Paramount, The Sparkle, 8 Royal Green, The Beverly Hills and Green Lodge in Hong Kong, as well as Phase 1A of Arch of Triumph in Changsha, Hengli Bayview in Guangzhou and residential apartment units of Henderson Centre in Beijing, mainland China. Together with the sales of other completed properties, the gross revenue from property sales during the period amounted to HK$2,688 million (2009: HK$1,558 million).

During the six months ended 30 June 2010, the Group received written requests from the purchasers of 20 property units at 39 Conduit Road for the cancellation of the sale and purchase agreements entered into in the previous year. In accordance with the terms of the agreements for sale and purchase, the Group forfeited the deposits of 5% of the purchase price, and has refunded to the purchasers other payments over and above the 5% deposits received. As a result of the cancelled sales in respect of 39 Conduit Road and another project during the period, a loss on cancellation of HK$1,516 million, being the difference between the revenue (net of forfeited deposits) of HK$2,670 million and direct and related costs of HK$1,154 million relating to the cancelled transactions, was recognised in profit or loss. The loss on cancellation attributable to the Group, i.e. after taking into account taxation and non-controlling interests, amounted to HK$776 million (of which HK$734 million relates to the cancelled sales of the 20 units at 39 Conduit Road).

The revenues and profit contribution/(loss) from property development, before and after taking into account the effects of the cancelled transactions during the six months ended 30 June 2010 and the corresponding period of six months ended 30 June 2009, are as follows:-

	Six months ended 30 June	
	2010	2009
	HK$ million	HK$ million
Gross revenue from property development before taking into account the effect of the cancelled transactions	**2,688**	1,558
Less:		
Revenue relating to the cancelled transactions	**2,670**	445
Revenue from property development after taking into account the effect of the cancelled transactions	**18**	1,113

	Six months ended 30 June	
	2010	2009
	HK$ million	HK$ million
Profit contribution from property development before taking into account the effect of the cancelled transactions	**398**	276
Less:		
Loss on the cancelled transactions	**1,516**	87
(Loss)/Profit from property development after taking into account the effect of the cancelled transactions	**(1,118)**	189

After deducting the revenue relating to the cancelled transactions, the revenue from property development for the six months ended 30 June 2010 amounted to HK$18 million (2009: HK$1,113 million), representing a decrease of HK$1,095 million, or 98%, from that for the corresponding period of six months ended 30 June 2009.

Similarly, after accounting for the gain or loss on the cancelled transactions, the total loss from property development amounted to HK$1,118 million during the six months ended 30 June 2010 (2009: profit contribution of HK$189 million), representing a decrease of HK$1,307 million, or 692%, from that for the corresponding period of six months ended 30 June 2009.

During the six months ended 30 June 2010, the Group's share of aggregate net pre-tax loss from subsidiaries, associates and jointly controlled entities in relation to property development segment amounted to HK$981 million (2009: aggregate pre-tax profit contribution of HK$557 million), comprising pre-tax loss from subsidiaries of HK$1,118 million (2009: pre-tax profit contribution of HK$189 million), pre-tax profit contribution from associates of HK$87 million (2009: HK$171 million) and pre-tax profit contribution from jointly controlled entities of HK$50 million (2009: HK$197 million). In respect of the foregoing, (i) the contribution from associates during the six months ended 30 June 2010 included (inter alia) profits generated from the sales of units of Grand Promenade in which The Hong Kong and China Gas Company Limited ("HKCG", a listed associate of the Company) has a 50% equity interest, the sales of units of Grand Waterfront held by HKCG as well as the sales of units of Shining Heights and The Spectacle held by Hong Kong Ferry (Holdings) Company Limited ("HK Ferry", a listed associate of the Company); and (ii) the contribution from jointly controlled entities during the six months ended 30 June 2010 included profits generated from the sales of units of Grand Promenade in which the Group has the other 50% equity interest.

Property leasing

Revenue from property leasing for the six months ended 30 June 2010 amounted to HK$1,494 million (2009: HK$1,382 million), representing an increase of HK$112 million, or 8%, over that for the corresponding period of six months ended 30 June 2009. At 30 June 2010, the Group's major investment properties in Hong Kong (other than those investment properties which were completed after 1 January 2008) recorded an average occupancy rate of 98% (31 December 2009: 97%). The occupancy rate of Manulife Financial Centre in Kwun Tong, which was completed after 1 January 2008, was 83% at 30 June 2010. During the period, there were increases in the new rents upon lease renewals and new lettings in a number of cases when compared with the corresponding passing rents. Profit contribution from property leasing for the six months ended 30 June 2010 amounted to HK$908 million (2009: HK$836 million), representing an increase of HK$72 million, or 9%, over that for the corresponding period of six months ended 30 June 2009.

Taking into account the Group's share of leasing revenue from properties owned by subsidiaries, associates and jointly controlled entities, gross revenue from property leasing attributable to the Group during the six months ended 30 June 2010 amounted to HK$2,335 million (2009: HK$2,155 million), representing an increase of HK$180 million, or 8%, over that for the corresponding period of six months ended 30 June 2009.

During the six months ended 30 June 2010, the Group's share of pre-tax net rental income from properties owned by subsidiaries, associates and jointly controlled entities (before any changes in fair value of investment properties and related deferred taxation) in total amounted to HK$1,620 million which represents an increase of HK$141 million, or 10%, over the corresponding amount of HK$1,479 million for the corresponding period of six months ended 30 June 2009. The Group's share of pre-tax net rental income comprises contribution from subsidiaries of HK$908 million (2009: HK$836 million), contribution from associates of HK$219 million (2009: HK$209 million) and contribution from jointly controlled entities of HK$493 million (2009: HK$434 million).

Construction

The Group principally engages in construction contracts for property development projects in which the Group participates, including property development projects undertaken by the Group's associates and jointly controlled entities. During the six months ended 30 June 2010, turnover from construction activities decreased by 96% to HK$10 million (2009: HK$231 million) as a result of the fact that the construction contracts for two major projects, namely Shining Heights and The Spectacle held by HK Ferry which were actively undertaken by the Group during the corresponding period of six months ended 30 June 2009, were completed during the period. The construction segment reported a loss from operations of HK$14 million during the six months ended 30 June 2010 (2009: profit contribution of HK$3 million), for the reasons that (i) the construction segment recorded a depreciation charge of HK$5 million during the six months ended 30 June 2010 in relation to the construction plant and machinery which were acquired by the Group in October 2009 to undertake construction activities (2009: HK$1 million); and (ii) the construction segment's salaries for the six months ended 30 June 2010 amounted to HK$8 million (2009: HK$5 million) due to the increase in staff headcount to cater for certain construction works of the Group's property development projects.

Infrastructure

Infrastructure projects in mainland China reported a turnover of HK$148 million for the six months ended 30 June 2010 (2009: HK$143 million), representing an increase of HK$5 million, or 4%, over that for the corresponding period of six months ended 30 June 2009. The increase was primarily attributable to the increase in traffic volume of the toll bridge in Hangzhou, mainland China. Profit contribution from the infrastructure segment for the six months ended 30 June 2010 increased by HK$19 million, or 17%, to HK$128 million (2009: HK$109 million).

Hotel operation

Revenue from hotel operation for the six months ended 30 June 2010 amounted to HK$92 million (2009: HK$67 million), representing an increase of HK$25 million, or 37%, over that for the corresponding period of six months ended 30 June 2009. Profit contribution from the hotel operation segment for the six months ended 30 June 2010 amounted to HK$19 million (2009: Loss from operations of HK$4 million), and the improvement in the operating results is mainly attributable to the remarkable improvement in occupancy rates of guestrooms during the six months ended 30 June 2010 when compared with that for corresponding six months ended 30 June 2009 for the reason that the H1N1 pandemic, which occurred in the second quarter of 2009, did not prevail during the six months ended 30 June 2010.

Department store operation

The Group operates five department stores under the name of "Citistore" and two specialty stores in Hong Kong. Revenue from department store operation for the six months ended 30 June 2010 amounted to HK$148 million (2009: HK$128 million), which recorded an increase of HK$20 million, or 16%, over that for the corresponding period of six months ended 30 June 2009. Profit contribution from department store operation for the six months ended 30 June 2010 amounted to HK$25 million (2009: HK$16 million), representing an increase of HK$9 million, or 56%, over that for the corresponding period of six months ended 30 June 2009 for the reasons of the improvement in the market sentiment of Hong Kong's retail sector during the period when compared with that of the corresponding six months ended 30 June 2009, as well as the increased turnover under the marketing programme associated with the launch of Citistore's 20th Anniversary campaign in May 2010.

Other businesses

Other businesses comprise mainly provision of finance, investment holding, project management, property management, agency services and provision of cleaning and security guard services, which altogether reported a turnover of HK$268 million for the six months ended 30 June 2010 (2009: HK$250 million), representing an increase of HK$18 million, or 7%, over that for the corresponding period of six months ended 30 June 2009. Profit contribution from other businesses for the six months ended 30 June 2010 increased by HK$27 million, or 34%, to HK$106 million (2009: HK$79 million) which is mainly attributable to (i) the overdue interest income of HK$11 million arising from the completion in June 2010 of the sale of four units at 39 Conduit Road; and (ii) the arbitrage gains of HK$13 million on short-term foreign currency and interest rate swap contracts which matured before 30 June 2010.

Associates

The Group's share of post-tax profits less losses of associates during the six months ended 30 June 2010 amounted to HK$1,392 million (2009: HK$1,365 million), representing an increase of HK$27 million, or 2%, over that for the corresponding period of six months ended 30 June 2009. Excluding the Group's attributable share of changes in fair value of investment properties (net of deferred taxation) held by the associates of HK$167 million during the six months ended 30 June 2010 (2009: HK$34 million), the Group's share of the underlying post-tax profits less losses of associates for the six months ended 30 June 2010 amounted to HK$1,225 million (2009: HK$1,331 million), representing a decrease of HK$106 million, or 8%, from that for the corresponding period of six months ended 30 June 2009.

In respect of the Group's three listed associates (namely, HKCG, Miramar Hotel and Investment Company, Limited ("Miramar") and HK Ferry), the Group's aggregate share of their post-tax profits for the six months ended 30 June 2010 amounted to HK$1,340 million (2009: HK$1,319 million), representing an increase of HK$21 million, or 2%, over that for the corresponding period of six months ended 30 June 2009. Excluding the Group's attributable share of changes in fair value of investment properties (net of deferred taxation) held by these three listed associates of HK$141 million during the six months ended 30 June 2010 (2009: HK$20 million), the Group's share of the underlying post-tax profits of these three listed associates amounted to HK$1,199 million for the six months ended 30 June 2010 (2009: HK$1,299 million), representing a decrease of HK$100 million, or 8%, from that for the corresponding period of six months ended 30 June 2009. During the six months ended 30 June 2010, the Group recorded (i) an increase in the share of profit from HKCG of HK$23 million, mainly due to the Group's share of increase in profit contribution from the gas operation businesses in Hong Kong and mainland China in the aggregate amount of HK$58 million, the Group's share of increase in the fair value of the IFC Complex in the amount of HK$36 million and the Group's share of increase in profit contribution from the property leasing and hotel operation of the IFC Complex in the amount of HK$16 million (for reasons as referred to in the paragraph headed "Jointly controlled entities" below), which were partially offset by the decrease in the Group's share of profit contributions from property sales relating to Grand Promenade and net investment gain in the aggregate amount of HK$87 million; (ii) an increase in the share of profit from Miramar of HK$87 million, mainly due to the Group's share of increase in profit contribution from hotel operations following the completion of the remodelling and refitting programme of guestrooms in the amount of HK$15 million, the Group's share of increase in the fair value of investment properties in the amount of HK$61 million and the Group's share of gain of HK$8 million relating to the write back of provision on certain completed properties held for sale in Guangzhou, mainland China during the period; and (iii) a decrease in the share of profit from HK Ferry of HK$89 million, mainly for the reasons of the decrease in the Group's share of profit contributions from property sales relating to Shining Heights and The Spectacle in the amount of HK$43 million and the decrease in the Group's share of net realised gains less net unrealised losses on derivative financial instruments and securities investments of HK$67 million during the period, which were partially offset by the Group's share of increase in the fair value of investment properties in the amount of HK$24 million.

Jointly controlled entities

The Group's share of post-tax profits less losses of jointly controlled entities which are mainly engaged in property development and property investment activities amounted to HK$1,135 million (2009: HK$969 million), representing an increase of HK$166 million, or 17%, over that for the corresponding period of six months ended 30 June 2009. Excluding the Group's attributable share of changes in fair value of investment properties (net of deferred taxation) held by the jointly controlled entities of HK$608 million during the six months ended 30 June 2010 (2009: HK$416 million), the Group's share of the underlying post-tax profits less losses of jointly controlled entities for the six months ended 30 June 2010 amounted to HK$527 million (2009: HK$553 million), representing a decrease of HK$26 million, or 5%, from that of the corresponding period of six months ended 30 June 2009. Such decrease was mainly attributable to the decrease in the Group's share of profit contribution from property sales of Grand Promenade of HK$118 million during the period, which was partially offset by the increase in the Group's share of profit contributions during the period from (i) the property leasing of the IFC Complex in the amount of HK$64 million due to favourable rental reversions upon lease renewals; (ii) the hotel operation of the IFC Complex in the amount of HK$20 million due to improved occupancy rates of the Four Seasons Hotel; and (iii) the department store operation in mainland China in the amount of HK$15 million.

Finance costs

Finance costs (comprising interest expense and other borrowing costs) recognised as expenses for the six months ended 30 June 2010 were HK$457 million (2009: HK$456 million). Finance costs before interest capitalisation for the six months ended 30 June 2010 were HK$663 million (2009: HK$564 million). During the six months ended 30 June 2010, the Group's effective borrowing rate was approximately 2.69% per annum (2009: approximately 2.60% per annum).

Revaluation of investment properties

The Group recognised an increase in fair value on its investment properties (before deferred taxation and non-controlling interests) of HK$7,126 million in the consolidated income statement for the six months ended 30 June 2010 (2009: HK$2,456 million).

Financial resources and liquidity

Maturity profile and interest cover

At 30 June 2010, the aggregate amount of the Group's bank and other borrowings amounted to approximately HK$52,121 million (31 December 2009: HK$36,031 million), the entire amount of which was unsecured (31 December 2009: bank loans and overdrafts were unsecured except for an amount of HK$22 million grouped under "Liabilities associated with assets classified as held for sale" was secured by the Group's toll highway operating right). The maturity profile of the bank and other borrowings, the cash and bank balances and the gearing ratio of the Group were as follows:

	At 30 June 2010 HK$ million	At 31 December 2009 HK$ million
Bank and other borrowings repayable:		
– Within 1 year	**7,331**	4,869
– After 1 year but within 2 years	**23,053**	5,646
– After 2 years but within 5 years	**14,076**	19,502
– After 5 years	**7,661**	6,014
Total bank and other borrowings	**52,121**	36,031
Less: Cash and bank balances	**(19,895)**	(10,531)
Net bank and other borrowings	**32,226**	25,500
Shareholders' funds	**139,939**	133,127
Gearing ratio (%)	**23.0%**	19.2%

Gearing ratio is calculated based on the net bank and other borrowings and shareholders' funds of the Group at the balance sheet date. The Group's gearing ratio increased from 19.2% at 31 December 2009 to 23.0% at 30 June 2010, which is attributable mainly to the combined effect of the increases, at the end of the period, in the Group's net bank and other borrowings and shareholders' funds.

The interest cover of the Group is calculated as follows:

	Six months ended 30 June	
	2010	2009
	HK$ million	HK$ million
Profit from operations (before changes in fair value of investment properties) plus the Group's share of the underlying profits less losses of associates and jointly controlled entities (before taxation)	**1,775**	3,046
Interest expense (before interest capitalisation)	**591**	532
Interest cover (times)	**3**	6

With abundant banking facilities in place and the recurrent income generation from its operations, the Group has adequate financial resources in meeting the funding requirements for its ongoing operations as well as its future expansion.

Treasury and financial management

The Group is exposed to interest rate and foreign exchange risks. To efficiently and effectively manage these risks, the Group's financing and treasury activities were centrally co-ordinated at the corporate level. As a matter of policy, all transactions in derivative financial instruments are undertaken solely for risk management purposes and no derivative financial instruments were held by the Group at the balance sheet date for speculative purposes.

The Group conducts its business primarily in Hong Kong with the related cash flows, assets and liabilities being denominated mainly in Hong Kong dollars. The Group's primary foreign exchange exposure arises from its property developments and investments in mainland China which are denominated in Renminbi ("RMB"), the guaranteed notes ("Notes") which are denominated in United States dollars and Sterling, as well as certain bank borrowings ("USD borrowings") and the fixed coupon rate bond ("Bond") which are denominated in United States dollars.

In respect of the Group's operations in mainland China, apart from its capital contributions and, in some cases, loan contributions to projects which are denominated in RMB and are not hedged, the Group endeavours to establish a natural hedge by maintaining an appropriate level of external borrowings in RMB. In respect of the Notes, the Bond and the USD borrowings in the aggregate principal amounts of US$1,023,520,408 and £50,000,000 at 30 June 2010 (31 December 2009: US$1,023,520,408 and £50,000,000), there were interest rate swap contracts and cross currency swap contracts which were entered into between the Group and certain counterparty banks for hedging purpose as referred to below. Furthermore, in respect of certain of the Group's bank loans denominated in Hong Kong dollars in the aggregate principal amount of HK$6,500,000,000 at 30 June 2010 (31 December 2009: HK$5,500,000,000) which bear floating interest rates ("HKD borrowings"), there were interest rate swap contracts which were entered into between the Group and certain counterparty banks for hedging purpose as referred to below.

The purpose of the abovementioned swap contracts is to enable the Group to (i) secure a fixed interest rate level in relation to the Hong Kong dollar funding resulting from the conversion of the principal amounts of the Notes, the Bond and the USD borrowings into Hong Kong dollars, and hence to hedge against the foreign exchange risk which may arise during the financial years between the issuance date and the maturity date in respect of the entire amount of each tranche of the Notes and the entire amount of the Bond and between the drawdown dates and the repayment dates in respect of the entire amounts of the USD borrowings; and (ii) hedge against the interest rate risk by converting the floating interest rates into fixed interest rates during the financial years between the drawdown dates and the repayment dates in respect of the HKD borrowings to the extent of HK$6,500,000,000 at 30 June 2010. As a result, the Group does not expect any significant interest rate risk and foreign exchange risk exposures in relation to the Notes, the Bond and the USD borrowings, and any significant interest rate risk exposure in relation to the Group's HKD borrowings to the extent of HK$6,500,000,000 at 30 June 2010.

Material acquisitions and disposals

Material acquisition

On 20 April 2010, a wholly owned subsidiary of the Company acquired the entire issued share capitals and the shareholder's loans of three companies which are beneficially interested in certain leasehold land sites in the New Territories, Hong Kong, for a cash consideration (subject to adjustments) of HK$600 million. The acquisition was completed on 20 May 2010.

Material disposal

On 26 February 2010, an indirectly owned subsidiary of the Company completed the disposal of its entire 70% interest in Maanshan Huan Tong Highway Development Limited to 馬鞍山市過境公路建設開發有限公司 (Maanshan City Cross Border Highway Construction Development Company Limited). Further details are set out in note 18 to the Company's unaudited condensed consolidated interim financial statements for the six months ended 30 June 2010. As a result of the disposal, the Group recognised a net gain on disposal attributable to equity shareholders of the Company of HK$18 million during the six months ended 30 June 2010.

Save as disclosed above, the Group did not undertake any other significant acquisitions or disposals of subsidiaries or assets during the six months ended 30 June 2010.

Charge on assets

Assets of the Group were not charged to any third parties at 30 June 2010 (31 December 2009: certain project financing facilities extended by banks to a subsidiary of the Company engaged in infrastructure projects in mainland China, with an outstanding balance of HK$22 million which was grouped under "Liabilities associated with assets classified as held for sale" at 31 December 2009, were secured by the Group's toll highway operating right).

Capital commitments

At 30 June 2010, capital commitments of the Group amounted to HK$29,813 million (31 December 2009: HK$33,801 million).

Contingent liabilities

At 30 June 2010, the Group's contingent liabilities amounted to HK$35 million (31 December 2009: HK$90 million).

Employees and remuneration policy

At 30 June 2010, the Group had approximately 7,700 (31 December 2009: 7,700) full-time employees. The remuneration of the employees is in line with the market and commensurable with the level of pay in the industry. Discretionary year-end bonuses are payable to the employees based on individual performance. Other benefits to the employees include medical insurance, retirement scheme, training programmes and education subsidies.

Total staff costs for the six months ended 30 June 2010 amounted to HK$709 million (2009: HK$709 million).

Other Information

Credit Agreements with Covenants of the Controlling Shareholders

A wholly-owned subsidiary of the Company has continuously acted as borrower for a HK$10,000,000,000 revolving credit facility obtained in 2004 that consisted of a 5-year and a 7-year tranche in equal amounts from a syndicate of banks under the guarantee given by the Company. The 5-year tranche of this credit facility was fully repaid and cancelled in July 2009.

Two wholly-owned subsidiaries of the Company, as borrowers, have obtained a HK$13,350,000,000 5-year revolving credit facility and a HK$8,000,000,000 3-year term loan facility from two groups of syndicate of banks under the separate guarantees given by the Company in 2006 and 2009 respectively. In addition, a wholly-owned subsidiary of the Company, as borrower, has obtained 5-year term and revolving credit facilities of up to HK$13,250,000,000 from a syndicate of banks under the guarantee given by the Company in 2010.

In connection with each of the above credit facilities, it will be an event of default if the Company is deemed to be ultimately controlled by any person(s) other than Dr. Lee Shau Kee and/or his family and/or companies controlled by any of them or any trust in which Dr. Lee Shau Kee and/or his family and/or companies controlled by any of them are beneficiaries. If any event of default occurs, the respective credit facilities as aforesaid may become due and payable on demand.

Review of Interim Results

The unaudited interim results for the six months ended 30 June 2010 have been reviewed by the auditors of the Company, 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, the report of which is included on page 74.

Issue of Shares

During the period under review, the Company issued 18,610,071 shares in lieu of the 2009 final cash dividend at a market value HK$47.11 per share and 57 shares upon the exercise by the holders of the bonus warrants at a subscription price of HK$58 per share.

Purchase, Sale or Redemption of the Company's Listed Securities

Except for the above issue of shares, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the period under review.

Audit Committee

The Audit Committee met in August 2010 and reviewed the systems of internal control and compliance and the interim report for the six months ended 30 June 2010.

Code on Corporate Governance Practices

During the six months ended 30 June 2010, the Company has complied with the Code on Corporate Governance Practices (the "CGP Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except that the roles of the chairman and the chief executive officer of the Company have not been segregated as required by code provision A.2.1 of the CGP Code. The Company is of the view that it is in the best interest of the Company that Dr. Lee Shau Kee, with his profound expertise in the property business, shall continue in his dual capacity as the Chairman and Managing Director.

The Company is honoured to be included as a founding constituent member of the new Hang Seng Corporate Sustainability Index Series launched in July 2010.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code of the Listing Rules as the code for dealing in securities of the Company by the Directors (the "Model Code"). Having made specific enquiry, the Company confirmed that all Directors have complied with the required standard as set out in the Model Code.

Changes in the Information of Directors

Pursuant to Rule 13.51B(1) of the Listing Rules, changes in the information of Directors of the Company required to be disclosed are shown as follows:

(i) Mr. Gordon Kwong Che Keung ceased to be a director of Tianjin Development Holdings Limited and China Oilfield Services Limited (both are listed companies) on 26 May 2010 and 28 May 2010 respectively. Mr. Wu King Cheong ceased to be a Member of Hong Kong Housing Authority on 31 March 2010. In addition, Mr. Alexander Au Siu Kee ceased to be a member of the Council of the Hong Kong University of Science and Technology ("HKUST") on 31 March 2010 and has become a member of the Court of HKUST since 1 June 2010.

(ii) The Group usually makes annual adjustment to basic salaries in January and determines the discretionary bonuses near the end of the year. Therefore, the only changes to the Directors' remunerations during the period under review were the changes to the basic salaries of the Directors of the Company due to the annual adjustments. The effect of such changes are illustrated as follows:

	Salaries, allowances and benefits *(Note)* **for the six months ended 30 June**		Discretionary Bonuses for the year ended 31 December 2009 (For reference)
	2010	2009	
	HK$'000	HK$'000	HK$'000
Colin Lam Ko Yin	**3,930**	3,816	28,800
John Yip Ying Chee	**3,593**	3,046	26,252
Lee Ka Kit	**6,671**	6,573	1,620
Lee Ka Shing	**6,141**	5,284	2,140
Alexander Au Siu Kee	**3,906**	3,717	5,220
Suen Kwok Lam	**2,767**	2,309	6,144
Fung Lee Woon King	**1,978**	1,922	4,672
Patrick Kwok Ping Ho	**1,914**	1,857	1,396
Li Ning	**1,412**	1,352	1,330
Lee King Yue	**1,495**	1,450	614

Note: Excluding bonuses and directors' fees.

Save as disclosed above, there were no changes to the basic salaries of the other Directors of the Company for the period under review. There are no changes to the levels of directors' fees. There are also no changes to the bases in determining other allowances and benefits, bonuses and retirement scheme contributions. For certain Directors of the Company, discretionary bonus is a major component of their remunerations, which will be determined near the end of the year. The discretionary bonuses for the year ended 31 December 2009 are listed above for reference.

By Order of the Board
Timon LIU Cheung Yuen
Company Secretary

Hong Kong, 26 August 2010

As at the date of this report, the Board comprises: (1) executive directors: Lee Shau Kee (Chairman), Lee Ka Kit, Colin Lam Ko Yin, Lee Ka Shing, John Yip Ying Chee, Alexander Au Siu Kee, Suen Kwok Lam, Lee King Yue, Fung Lee Woon King, Eddie Lau Yum Chuen, Li Ning and Patrick Kwok Ping Ho; (2) non-executive directors: Woo Po Shing, Leung Hay Man, Angelina Lee Pui Ling, Lee Tat Man and Jackson Woo Ka Biu (as alternate to Woo Po Shing); and (3) independent non-executive directors: Gordon Kwong Che Keung, Ko Ping Keung and Wu King Cheong.

Disclosure of Interests

Directors' Interests in Shares

As at 30 June 2010, the interests and short positions of each Director of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or which were notified to the Company 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:

(A) Ordinary Shares (unless otherwise specified)

Long Positions

Name of Company	Name of Director	Note	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	% Interest
Henderson Land Development Company Limited	Lee Shau Kee	1	7,377,015		1,176,113,967		1,183,490,982	54.66
	Lee Ka Kit	1				1,176,113,967	1,176,113,967	54.32
	Lee Ka Shing	1				1,176,113,967	1,176,113,967	54.32
	Li Ning	1		1,176,113,967			1,176,113,967	54.32
	Lee Tat Man	2	113,048				113,048	0.01
	Lee Pui Ling, Angelina	3	30,445				30,445	0.00
	Lee King Yue	4	252,263		19,800		272,063	0.01
	Fung Lee Woon King	5	1,000,000				1,000,000	0.05
	Woo Ka Biu, Jackson	6		2,000			2,000	0.00
Henderson Investment Limited	Lee Shau Kee	7	34,779,936		2,076,089,007		2,110,868,943	69.27
	Lee Ka Kit	7				2,076,089,007	2,076,089,007	68.13
	Lee Ka Shing	7				2,076,089,007	2,076,089,007	68.13
	Li Ning	7		2,076,089,007			2,076,089,007	68.13
	Lee Tat Man	8	6,666				6,666	0.00
	Lee King Yue	9	1,001,739				1,001,739	0.03

(A) Ordinary Shares (unless otherwise specified) (continued)

Long Positions

Name of Company	Name of Director	Note	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	% Interest
The Hong Kong and China Gas Company Limited	Lee Shau Kee	10	4,294,037		2,976,388,182		2,980,682,219	41.50
	Lee Ka Kit	10				2,976,388,182	2,976,388,182	41.44
	Lee Ka Shing	10				2,976,388,182	2,976,388,182	41.44
	Li Ning	10		2,976,388,182			2,976,388,182	41.44
	Au Siu Kee, Alexander	11		66,550			66,550	0.00
Hong Kong Ferry (Holdings) Company Limited	Lee Shau Kee	12	7,799,220		111,732,090		119,531,310	33.55
	Lee Ka Kit	12				111,732,090	111,732,090	31.36
	Lee Ka Shing	12				111,732,090	111,732,090	31.36
	Li Ning	12		111,732,090			111,732,090	31.36
	Lam Ko Yin, Colin	13	150,000				150,000	0.04
	Fung Lee Woon King	14	465,100				465,100	0.13
	Leung Hay Man	15	2,250				2,250	0.00
Miramar Hotel and Investment Company, Limited	Lee Shau Kee	16			255,188,250		255,188,250	44.21
	Lee Ka Kit	16				255,188,250	255,188,250	44.21
	Lee Ka Shing	16				255,188,250	255,188,250	44.21
	Li Ning	16		255,188,250			255,188,250	44.21
	Woo Po Shing	17	2,705,000		2,455,000		5,160,000	0.89
Towngas China Company Limited	Lee Shau Kee	18			1,378,172,901		1,378,172,901	70.18
	Lee Ka Kit	18				1,378,172,901	1,378,172,901	70.18
	Lee Ka Shing	18				1,378,172,901	1,378,172,901	70.18
	Li Ning	18		1,378,172,901			1,378,172,901	70.18

(A) Ordinary Shares (unless otherwise specified) (continued)

Long Positions

Name of Company	Name of Director	Note	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	% Interest
Henderson Development Limited	Lee Shau Kee	19			8,190 (Ordinary A Shares)		8,190 (Ordinary A Shares)	100.00
	Lee Shau Kee	20			3,510 (Non-voting B Shares)		3,510 (Non-voting B Shares)	100.00
	Lee Shau Kee	21	35,000,000 (Non-voting Deferred Shares)		15,000,000 (Non-voting Deferred Shares)		50,000,000 (Non-voting Deferred Shares)	100.00
	Lee Ka Kit	19				8,190 (Ordinary A Shares)	8,190 (Ordinary A Shares)	100.00
	Lee Ka Kit	20				3,510 (Non-voting B Shares)	3,510 (Non-voting B Shares)	100.00
	Lee Ka Kit	21				15,000,000 (Non-voting Deferred Shares)	15,000,000 (Non-voting Deferred Shares)	30.00
	Lee Ka Shing	19				8,190 (Ordinary A Shares)	8,190 (Ordinary A Shares)	100.00
	Lee Ka Shing	20				3,510 (Non-voting B Shares)	3,510 (Non-voting B Shares)	100.00
	Lee Ka Shing	21				15,000,000 (Non-voting Deferred Shares)	15,000,000 (Non-voting Deferred Shares)	30.00
	Li Ning	19		8,190 (Ordinary A Shares)			8,190 (Ordinary A Shares)	100.00
	Li Ning	20		3,510 (Non-voting B Shares)			3,510 (Non-voting B Shares)	100.00
	Li Ning	21		15,000,000 (Non-voting Deferred Shares)			15,000,000 (Non-voting Deferred Shares)	30.00

(A) Ordinary Shares (unless otherwise specified) (continued)

Long Positions

Name of Company	Name of Director	Note	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	% Interest
Best Homes Limited	Lee Shau Kee	22			26,000		26,000	100.00
	Lee Ka Kit	22				26,000	26,000	100.00
	Lee Ka Shing	22				26,000	26,000	100.00
	Li Ning	22		26,000			26,000	100.00
Drinkwater Investment Limited	Leung Hay Man	23			5,000		5,000	4.49
	Woo Po Shing	24			3,250		3,250	2.92
Feswin Investment Limited	Lee Ka Kit	25			5,000	5,000	10,000	100.00
Fordley Investment Limited	Fung Lee Woon King	26	2,000				2,000	20.00
Furnline Limited	Lee Shau Kee	27			100 (A Shares)		100 (A Shares)	100.00
	Lee Shau Kee	28			1 (B Share)		1 (B Share)	100.00
	Lee Ka Kit	27				100 (A Shares)	100 (A Shares)	100.00
	Lee Ka Kit	28				1 (B Share)	1 (B Share)	100.00
	Lee Ka Shing	27				100 (A Shares)	100 (A Shares)	100.00
	Lee Ka Shing	28				1 (B Share)	1 (B Share)	100.00
	Li Ning	27		100 (A Shares)			100 (A Shares)	100.00
	Li Ning	28		1 (B Share)			1 (B Share)	100.00

(A) Ordinary Shares (unless otherwise specified) (continued)

Long Positions

Name of Company	Name of Director	Note	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	% Interest
Gain Base Development Limited	Fung Lee Woon King	29	50				50	5.00
Henfield Properties Limited	Lee Ka Kit	30			4,000	6,000	10,000	100.00
Heyield Estate Limited	Lee Shau Kee	31			100		100	100.00
	Lee Ka Kit	31				100	100	100.00
	Lee Ka Shing	31				100	100	100.00
	Li Ning	31		100			100	100.00
Perfect Bright Properties Inc.	Lee Shau Kee	32			100 (A Shares)		100 (A Shares)	100.00
	Lee Shau Kee	33			1 (B Share)		1 (B Share)	100.00
	Lee Ka Kit	32				100 (A Shares)	100 (A Shares)	100.00
	Lee Ka Kit	33				1 (B Share)	1 (B Share)	100.00
	Lee Ka Shing	32				100 (A Shares)	100 (A Shares)	100.00
	Lee Ka Shing	33				1 (B Share)	1 (B Share)	100.00
	Li Ning	32		100 (A Shares)			100 (A Shares)	100.00
	Li Ning	33		1 (B Share)			1 (B Share)	100.00

(A) Ordinary Shares (unless otherwise specified) (continued)

Long Positions

Name of Company	Name of Director	Note	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	% Interest
Pettystar Investment Limited	Lee Shau Kee	34			3,240		3,240	80.00
	Lee Ka Kit	34				3,240	3,240	80.00
	Lee Ka Shing	34				3,240	3,240	80.00
	Li Ning	34		3,240			3,240	80.00

(B) Units of Warrants (Note 39)

Long Positions

Name of Company	Name of Director	Note	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	% Interest
Henderson Land Development Company Limited	Lee Shau Kee	1	1,453,801		229,861,173		231,314,974	10.68
	Lee Ka Kit	1				229,861,173	229,861,173	10.62
	Lee Ka Shing	1				229,861,173	229,861,173	10.62
	Li Ning	1		229,861,173			229,861,173	10.62
	Lee Tat Man	2	22,278				22,278	0.00
	Lee Pui Ling, Angelina	3	6,000				6,000	0.00
	Lee King Yue	4	50,452		3,960		54,412	0.00
	Fung Lee Woon King	5	200,000				200,000	0.01
	Woo Ka Biu, Jackson	6		400			400	0.00

(C) Debentures

Issuer and type of debentures	Name of Director	Note	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total
HKCG (Finance) Limited - 6.25% Guaranteed Notes due 2018	Au Siu Kee, Alexander	35				US$500,000	US$500,000
Henson Finance Limited - 5.50% Guaranteed Notes due 2019	Au Siu Kee, Alexander	36				US$500,000	US$500,000

Save as disclosed above, none of the Directors or the Chief Executive of the Company or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations as defined in the SFO.

Arrangements to Purchase Shares or Debentures

Save as disclosed above, at no time during the six months ended 30 June 2010 was the Company or any of its holding companies, subsidiary companies or fellow subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Substantial Shareholders' and Others' Interests

As at 30 June 2010, the interests and short positions of every person, other than Directors of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Long Positions

	No. of shares/underlying shares in which interested	% Interest
Substantial Shareholders:		
Rimmer (Cayman) Limited (Note 1)	1,405,975,140	64.93
Riddick (Cayman) Limited (Note 1)	1,405,975,140	64.93
Hopkins (Cayman) Limited (Note 1)	1,405,975,140	64.93
Henderson Development Limited (Note 1)	1,404,315,564	64.85
Yamina Investment Limited (Note 1)	694,546,466	32.08
Believegood Limited (Note 1)	310,174,849	14.32
South Base Limited (Note 1)	310,174,849	14.32
Persons other than Substantial Shareholders:		
Cameron Enterprise Inc. (Note 1)	176,263,869	8.14
Third Avenue Management LLC on behalf of numerous portfolios (Note 37)	172,100,107	7.95
Third Avenue Management LLC on behalf of the Third Avenue Value Fund (Note 38)	125,518,485	5.80

Notes:

1. Of these shares and warrants, Dr. Lee Shau Kee was the beneficial owner of 7,377,015 shares and 1,453,801 warrants, and for the remaining 1,176,113,967 shares and 229,861,173 warrants, (i) 579,224,391 shares and 114,148,760 warrants were owned by Henderson Development Limited ("HD"); (ii) 8,080,407 shares and 1,592,420 warrants were owned by Sandra Investment Limited which was a wholly-owned subsidiary of HD; (iii) 147,245,869 shares and 29,018,000 warrants were owned by Cameron Enterprise Inc.; 260,726,989 shares and 49,447,860 warrants were owned by Believegood Limited which was wholly-owned by South Base Limited; 62,212,876 shares and 12,260,400 warrants were owned by Prosglass Investment Limited which was wholly-owned by Jayasia Investments Limited; 55,817,236 shares and 11,000,000 warrants were owned by Fancy Eye Limited which was wholly-owned by Mei Yu Ltd.; 55,817,236 shares and 11,000,000 warrants were owned by Spreadral Limited which was wholly-owned by World Crest Ltd.; and Cameron Enterprise Inc., South Base Limited, Jayasia Investments Limited, Mei Yu Ltd. and World Crest Ltd. were wholly-owned subsidiaries of Yamina Investment Limited which in turn was 100% held by HD; (iv) 5,602,600 shares and 1,120,520 warrants were owned by Superfun Enterprises Limited, a wholly-owned subsidiary of The Hong Kong and China Gas Company Limited ("China Gas") which was 39.88% held by Henderson Land Development Company Limited ("HL") which in turn was taken to be 64.85% held by HD; and (v) 1,386,363 shares and 273,213 warrants were owned by Fu Sang Company Limited ("Fu Sang"). Hopkins (Cayman) Limited ("Hopkins") as trustee of a unit trust (the "Unit Trust") owned all the issued ordinary shares of HD and Fu Sang. Rimmer (Cayman) Limited ("Rimmer") and Riddick (Cayman) Limited ("Riddick"), as trustees of respective discretionary trusts, held units in the Unit Trust. The entire issued share capital of Hopkins, Rimmer and Riddick were owned by Dr. Lee Shau Kee. Dr. Lee Shau Kee was taken to be interested in these shares by virtue of SFO. As directors of the Company and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Mr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in these shares by virtue of the SFO. As director of the Company and the spouse of a discretionary beneficiary of two discretionary trusts holding units in the Unit Trust, Mr. Li Ning was taken to be interested in these shares by virtue of the SFO.

2. Mr. Lee Tat Man was the beneficial owner of these shares and warrants.

3. Mrs. Lee Pui Ling, Angelina was the beneficial owner of these shares and warrants.

4. Mr. Lee King Yue was the beneficial owner of 252,263 shares and 50,452 warrants, and the remaining 19,800 shares and 3,960 warrants were held by Ngan Hei Development Company Limited which was 50% each owned by Mr. Lee King Yue and his wife.

5. Madam Fung Lee Woon King was the beneficial owner of these shares and warrants.

6. These shares and warrants were owned by the wife of Mr. Woo Ka Biu, Jackson.

7. Of these shares, Dr. Lee Shau Kee was the beneficial owner of 34,779,936 shares, and for the remaining 2,076,089,007 shares, (i) 802,854,200 shares, 602,398,418 shares, 363,328,900 shares, 217,250,000 shares and 84,642,341 shares were respectively owned by Banshing Investment Limited, Markshing Investment Limited, Covite Investment Limited, Gainwise Investment Limited and Darnman Investment Limited, all of which were wholly-owned subsidiaries of Kingslee S.A. which in turn was 100% held by HL; and (ii) 5,615,148 shares were owned by Fu Sang. Dr. Lee Shau Kee was taken to be interested in HL and Fu Sang as set out in Note 1 and Henderson Investment Limited by virtue of the SFO. As directors of the Company and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Mr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in these shares by virtue of the SFO. As director of the Company and the spouse of a discretionary beneficiary of two discretionary trusts holding units in the Unit Trust, Mr. Li Ning was taken to be interested in these shares by virtue of the SFO.

8. Mr. Lee Tat Man was the beneficial owner of these shares.

9. Mr. Lee King Yue was the beneficial owner of these shares.

10. Of these shares, Dr. Lee Shau Kee was the beneficial owner of 4,294,037 shares, and for the remaining 2,976,388,182 shares, (i) 1,542,661,734 shares and 644,503,474 shares were respectively owned by Disralei Investment Limited and Medley Investment Limited, both of which were wholly-owned subsidiaries of Timpani Investments Limited; 676,825,043 shares were owned by Macrostar Investment Limited, a wholly-owned subsidiary of Chelco Investment Limited; and Timpani Investments Limited and Chelco Investment Limited were wholly-owned subsidiaries of Faxson Investment Limited which in turn was 100% held by HL; (ii) 5,279,373 shares were owned by Boldwin Enterprises Limited, a wholly-owned subsidiary of Yamina Investment Limited which was 100% held by HD; and (iii) 107,118,558 shares were owned by Fu Sang. Dr. Lee Shau Kee was taken to be interested in HL, HD and Fu Sang as set out in Note 1 and China Gas by virtue of the SFO. As directors of the Company and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Mr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in these shares by virtue of the SFO. As director of the Company and the spouse of a discretionary beneficiary of two discretionary trusts holding units in the Unit Trust, Mr. Li Ning was taken to be interested in these shares by virtue of the SFO.

11. These shares were owned by the wife of Mr. Au Siu Kee, Alexander.

12. Of these shares, Dr. Lee Shau Kee was the beneficial owner of 7,799,220 shares, and for the remaining 111,732,090 shares, (i) 23,400,000 shares each were respectively owned by Graf Investment Limited, Mount Sherpa Limited and Paillard Investment Limited, all of which were wholly-owned subsidiaries of Pataca Enterprises Limited which in turn was 100% held by HL; and (ii) 41,532,090 shares were held by Wiselin Investment Limited, a wholly-owned subsidiary of Max-mercan Investment Limited; Max-mercan Investment Limited was wholly-owned by Camay Investment Limited which in turn was 100% held by HL. Dr. Lee Shau Kee was taken to be interested in HL as set out in Note 1 and Hong Kong Ferry (Holdings) Company Limited by virtue of the SFO. As directors of the Company and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Mr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in these shares by virtue of the SFO. As director of the Company and the spouse of a discretionary beneficiary of two discretionary trusts holding units in the Unit Trust, Mr. Li Ning was taken to be interested in these shares by virtue of the SFO.

13. Mr. Lam Ko Yin, Colin was the beneficial owner of these shares.

14. Madam Fung Lee Woon King was the beneficial owner of these shares.

15. Mr. Leung Hay Man was the beneficial owner of these shares.

16. Of these shares, 100,612,750 shares, 79,121,500 shares and 75,454,000 shares were respectively owned by Higgins Holdings Limited, Multiglade Holdings Limited and Threadwell Limited, all of which were wholly-owned subsidiaries of Aynbury Investments Limited which in turn was 100% held by HL. Dr. Lee Shau Kee was taken to be interested in HL as set out in Note 1 and Miramar Hotel and Investment Company, Limited by virtue of the SFO. As directors of the Company and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Mr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in these shares by virtue of the SFO. As director of the Company and the spouse of a discretionary beneficiary of two discretionary trusts holding units in the Unit Trust, Mr. Li Ning was taken to be interested in these shares by virtue of the SFO.

17. Of these shares, Sir Po-shing Woo was the beneficial owner of 2,705,000 shares, and the remaining 2,455,000 shares were held by Fong Fun Company Limited which was 50% owned by Sir Po-shing Woo.

18. Of these shares, 1,335,202,901 shares (including deemed interest of 485,000,000 shares to be allotted and issued), 40,470,000 shares and 2,500,000 shares were respectively owned by Hong Kong & China Gas (China) Limited, Planwise Properties Limited and Superfun Enterprises Limited, wholly-owned subsidiaries of China Gas. Dr. Lee Shau Kee was taken to be interested in China Gas as set out in Note 10 and Towngas China Company Limited by virtue of the SFO. As directors of the Company and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Mr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in these shares by virtue of the SFO. As director of the Company and the spouse of a discretionary beneficiary of two discretionary trusts holding units in the Unit Trust, Mr. Li Ning was taken to be interested in these shares by virtue of the SFO.

19. These shares were held by Hopkins as trustee of the Unit Trust.

20. These shares were held by Hopkins as trustee of the Unit Trust.

21. Of these shares, Dr. Lee Shau Kee was the beneficial owner of 35,000,000 shares, and Fu Sang owned the remaining 15,000,000 shares.

22. Of these shares, (i) 10,400 shares were owned by HL; (ii) 2,600 shares were owned by HD; and (iii) 13,000 shares were owned by Manifest Investments Limited which was 74.16% held by Wealth Sand Limited which in turn was 70% held by Firban Limited. Firban Limited was 50% held by each of Perfect Bright Properties Inc. and Furnline Limited, and Jetwin International Limited was the sole holder of A shares in each of Perfect Bright Properties Inc. and Furnline Limited (the "A Shares") with the A Shares being entitled to all interests and, liable for all liabilities in Firban Limited. Triton (Cayman) Limited as trustee of a unit trust owned all the issued share capital of Jetwin International Limited. Triumph (Cayman) Limited and Victory (Cayman) Limited, as trustees of respective discretionary trusts, held units in the unit trust. The entire share capital of Triton (Cayman) Limited, Triumph (Cayman) Limited and Victory (Cayman) Limited were owned by Dr. Lee Shau Kee who was taken to be interested in such shares by virtue of the SFO. As discretionary beneficiaries of the discretionary trusts holding units in such unit trust, Mr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in such shares by virtue of the SFO. As the spouse of a discretionary beneficiary of the discretionary trusts holding units in such unit trust, Mr. Li Ning was taken to be interested in such shares by virtue of the SFO.

23. These shares were held by Gilbert Investment Inc. which was wholly-owned by Mr. Leung Hay Man.

24. These shares were held by Coningham Investment Inc. which was wholly-owned by Fong Fun Investment Inc. of which 50% was owned by Sir Po-shing Woo and 50% by his wife.

25. Of these shares, (i) 5,000 shares were owned by Applecross Limited which was wholly-owned by Mr. Lee Ka Kit; and (ii) 5,000 shares were owned by Henderson (China) Investment Company Limited, a wholly-owned subsidiary of Andcoe Limited which was wholly-owned by Henderson China Holdings Limited ("HC"), an indirect wholly-owned subsidiary of HL.

26. Madam Fung Lee Woon King was the beneficial owner of these shares.

27. These shares were owned by Jetwin International Limited.

28. This share was owned by Sunnice Investment Limited, a wholly-owned subsidiary of Profit Best Development Limited which in turn was wholly-owned by HL.

29. Madam Fung Lee Woon King was the beneficial owner of these shares.

30. Of these shares, (i) 4,000 shares were owned by Applecross Limited which was wholly-owned by Mr. Lee Ka Kit; and (ii) 6,000 shares were owned by Henderson (China) Investment Company Limited, a wholly-owned subsidiary of Andcoe Limited which was wholly-owned by HC.

31. Of these shares, (i) 80 shares were owned by Tactwin Development Limited, a wholly-owned subsidiary of HL; (ii) 10 shares were owned by Henderson Finance Company Limited, a wholly-owned subsidiary of HD; and (iii) 5 shares each were owned by Perfect Bright Properties Inc. and Furnline Limited, and Jetwin International Limited was the sole holder of A shares in each of Perfect Bright Properties Inc. and Furnline Limited (the "A Shares") with the A Shares being entitled to all interests and, liable for all liabilities in Heyield Estate Limited.

32. These shares were owned by Jetwin International Limited.

33. This share was owned by Sunnice Investment Limited, a wholly-owned subsidiary of Profit Best Development Limited which in turn was wholly-owned by HL.

34. Of these shares, (i) 3,038 shares were owned by HL; and (ii) 202 shares were owned by Allied Best Investment Limited which was 50% held by each of Perfect Bright Properties Inc. and Furnline Limited, and Jetwin International Limited was the sole holder of A shares in each of Perfect Bright Properties Inc. and Furnline Limited (the "A Shares") with the A Shares being entitled to all interests and, liable for all liabilities in Allied Best Investment Limited.

35. HKCG (Finance) Limited was a wholly-owned subsidiary of China Gas. These debentures were owned by Mr. Au Siu Kee, Alexander and his wife jointly.

36. Henson Finance Limited was a wholly-owned subsidiary of HL. These debentures were owned by Mr. Au Siu Kee, Alexander and his wife jointly.

37. These interests included 143,783,860 shares and 28,316,247 warrants.

38. These interests included 104,598,738 shares and 20,919,747 warrants, and formed part of the interests held by Third Avenue Management LLC on behalf of numerous portfolios.

39. The warrants of HL entitle the holders thereof to subscribe at any time during the period from 2 June 2010 to 1 June 2011 (both days inclusive) for fully paid shares of HL at an initial subscription price of HK$58 per share (subject to adjustment).

REVIEW REPORT TO THE BOARD OF DIRECTORS OF
HENDERSON LAND DEVELOPMENT COMPANY LIMITED
(Incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the condensed interim financial statements set out on pages 23 to 52 which comprise the consolidated balance sheet of Henderson Land Development Company Limited as of 30 June 2010 and the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six months 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 interim financial statements 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 statements in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the condensed interim financial statements 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 statements 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 condensed interim financial statements as at 30 June 2010 are 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

26 August 2010

This Interim Report is printed on environmentally friendly paper
本中期報告以環保紙張印刷

恒基兆業地產有限公司
HENDERSON LAND DEVELOPMENT COMPANY LIMITED