



## HENDERSON LAND DEVELOPMENT COMPANY LIMITED

Incorporated in Hong Kong with limited liability

(Stock Code : 12)

# 2008/2009 FINAL RESULTS ANNOUNCEMENT

## CHAIRMAN'S STATEMENT

### Dear Shareholders

On behalf of your Board, I am pleased to present my report on the operations of the Group for the eighteen months ended 31 December 2009. This report covers a period of eighteen months from 1 July 2008 to 31 December 2009 due to the change of the financial year end date from 30 June to 31 December, as set out in the Company's joint announcement dated 19 March 2009.

### Overview

As a result of the outbreak of the financial tsunami in 2008, massive economic stimulus measures as well as quantitative easing policies have been implemented by most major economies. For the Group the period under review was characterized mainly by a rapid expansion of our land bank to capitalize on market opportunities. Agricultural land in the New Territories, which is now only 30 or 60-minute drive away from the downtown thanks to significant improvement to the transportation network in recent years, is poised to be developed into new towns. With a recent addition of approximately 10 million square feet in agricultural land site, the Group has to date increased its agricultural land reserve to approximately 40 million square feet in land area, the largest holding among all property developers in Hong Kong. At an aggregate premium of approximately HK\$7,300 million, the sites at Wu Kai Sha, Shatin and Tai Tong, Yuen Long were both converted into residential development purposes, providing a total attributable developable gross floor area of approximately 2,600,000 square feet, whilst continued efforts for the sites at Wo Shang Wai and Tai Tong (phase two development) will likely result in further agricultural land conversion in 2010 which will provide development land with an attributable gross floor area of approximately 1,000,000 square feet. During the period, the Government published its preliminary layout plan for North East New Territories New Development Areas, which include Wu Nga Lok Yeung, Kwu Tung North and Fanling North in which the Group holds land lots of approximately 5.1 million square feet. Such land lots are expected to provide a total attributable gross floor area of approximately 9 million square feet, whilst the expected attributable gross floor area arising from the conversion of the Group's 3 million-square-foot land site in Hung Shui Kiu, Yuen Long, which is within the coverage of the Government's ten major infrastructures, will be approximately 6 million square feet. The total attributable gross floor area available for development from all the above sources amounts to 18.6 million square feet, which allows the Group to build about 30,000 housing units, more than triple the number of new completions in Hong Kong last year.

During the period, the Group continued to acquire old buildings for redevelopment and to date, the majority ownership for 11 urban projects has been secured. Together with ongoing acquisition of another 19 urban projects, the Group has a total of 30 projects which are expected to provide a total attributable gross floor area of approximately 4 million square feet, or about 6,000 housing units against total land costs of approximately HK\$18,000 million. The acquisition of old buildings for redevelopment, in fact, is a win-win move for all parties. First, it enables the owners of units in the old buildings to realize their homes at a price higher than the market price prevailing for the old

buildings and to acquire newer and safer homes. Second, it is in line with and supports the Government's policy initiatives on promoting urban renewal, a subject brought into sharp focus with the recent disastrous collapse of certain old buildings in To Kwa Wan, Kowloon. Third, it enables the Group to add sites in the urban areas to its development land bank and hence provides a better geographical balance in its holdings between urban and suburban land (with the latter resulting mainly from agricultural land conversion). Meanwhile, the Group is planning to redevelop and convert some of the existing properties into other purposes, providing a further 2 million square feet in attributable gross floor area for commercial and residential uses in the urban areas.

The Group also continues to be bullish of the long-term prospects for the property market in mainland China, where the Group's development land bank has risen by 30.5 million square feet to 146.2 million square feet in attributable gross floor area spread across the prime cities and the high-growth second tier cities, through the acquisition of land sites in city centres and new development areas during the period. The Group's land costs are relatively low, particularly when compared with the recent transacted prices for sites in the same districts which were generally 2 to 3 times or even much higher. Starting from 2010, the Group will re-double its efforts in mainland China and accelerate the progress of construction, particularly for those projects that have reached an advanced stage of development. Capitalizing on the rising market (as confirmed by the sale of land lots and projects nearby), these projects will be launched for sale in phases to enable their potential profits to be realized. Quality residences with distinctive design, well-equipped facilities and sound property management are expected to remain highly sought-after in the market; these are exactly the type of product that the Group is developing to meet market demand. The Group's efforts on sustainable development in the mainland were recognized with the award of "Platinum Rating" by the HK-BEAM Society in its Building Environmental Assessment of World Financial Centre, an International Grade-A office complex in Beijing, completed in January 2009. The complex was also accredited with "Distinction" in the Certificate of Intelligent Building Index Assessment by the Asian Institute of Intelligent Buildings.

The Hong Kong and China Gas Company Limited, the Group's member company, has also been transformed from a locally-based company into a nation-wide corporation with a total of 103 projects spread across 19 provinces/municipalities/autonomous regions, encompassing city piped gas, 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 emerging environmentally-friendly energy businesses and mainland utility 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.

### **Profit and Net Assets Attributable to Shareholders**

The Group underlying profit attributable to equity shareholders (before the fair value change of investment properties) for the eighteen months ended 31 December 2009 amounted to HK\$6,088 million, representing an increase of HK\$380 million or 7% over HK\$5,708 million (restated) for the twelve months ended 30 June 2008. Based on the underlying profit, earnings per share for this eighteen-month period were HK\$2.84 (Twelve months for the financial year 2008: HK\$2.78).

Including the fair value change (net of deferred tax and minority interests) of investment properties, the Group profit attributable to equity shareholders for the eighteen months ended 31 December 2009 was HK\$14,320 million. Compared with the Group profit attributable to equity shareholders of HK\$15,473 million (restated) for the twelve months for the financial year ended 30 June 2008, this represents a decrease of HK\$1,153 million or 7% due to a smaller increase in fair value (net of deferred tax and minority interests) of the investment properties held by the Group's subsidiaries,

associates and jointly controlled entities for the period under review. Earnings per share for this eighteen-month period were HK\$6.67 (Twelve months for the financial year 2008: HK\$7.54).

At 31 December 2009, the net asset value attributable to equity shareholders amounted to HK\$133,127 million (or HK\$62.01 per share), 10% higher than the amount of HK\$121,196 million (or HK\$56.45 per share) (restated) at 30 June 2008, while the adjusted net asset value, after excluding deferred tax liabilities on the revaluation of investment properties in Hong Kong held by the Group's subsidiaries, associates and jointly controlled entities, was HK\$141,870 million (or HK\$66.08 per share), 10% higher than the amount of HK\$128,906 million (or HK\$60.04 per share) (restated) at 30 June 2008. Net debt amounted to HK\$25,500 million with the gearing ratio at 19.2%.

## **Dividends**

Your Board recommends the payment of a final dividend of HK\$0.70 per share to Shareholders whose names appear on the Register of Members of the Company on 23 April 2010, and such final dividend will not be subject to any withholding tax in Hong Kong. Including the first interim dividend and the second interim dividend each of HK\$0.30 per share already paid, the total dividend for the eighteen months ended 31 December 2009 will amount to HK\$1.30 per share (Twelve months for the financial year 2008: HK\$1.10 per share).

The proposed final 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 proposed final dividend and Bonus Warrants Issue (as defined below), but will rank pari passu in all other respects with the existing shares. The listing documents containing details of the Scrip Dividend Scheme and the relevant election form will be sent to Shareholders.

The Scrip Dividend Scheme is conditional upon the passing of the resolution relating to the payment of final dividend at the forthcoming annual general meeting of the Company and 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.

Final dividend will be distributed, and the share certificates issued under the Scrip Dividend Scheme will be sent to Shareholders on 2 June 2010.

## **Bonus issue of warrants**

Directors of the Company will propose a bonus issue of warrants (the "Warrants") to shareholders of the Company whose names appear on the register of members of the Company on 23 April 2010 in the proportion of one Warrant for every five shares of HK\$2 each in the capital of the Company (the "Share(s)") ("Bonus Warrants Issue") at an extraordinary general meeting of the Company to be held. The Warrants will entitle the holders thereof to subscribe an aggregate of up to 429,348,748 Shares at an initial subscription price of HK\$58 per Share (subject to adjustment). The Warrants will be exercisable at any time during a period of one year commencing from the date of first issue of the Warrants up to the date immediately preceding the first anniversary of the date of first issue of the Warrants.

Shares falling to be issued upon exercising the subscription rights attaching to the Warrants will rank pari passu in all respects with the then existing Shares on the relevant date of issue. The proposed Bonus Warrants Issue will be conditional upon: -

- (i) the passing of a relevant ordinary resolution at the extraordinary general meeting of the Company to be convened; and
- (ii) the Listing Committee of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) granting the listing of and permission to deal in the Warrants and any new Shares which fall to be issued upon the exercise of the subscription rights attaching to the Warrants.

Application will be made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Warrants and any new Shares which fall to be issued upon the exercise of the subscription rights attaching to the Warrants. Details of the proposed Bonus Warrants Issue will be separately announced.

## **Business Review - Hong Kong**

### **Property Sales**

Helped by quantitative easing policies adopted by most central banks throughout the world, coupled with implementation of various massive economic stimulus measures, the global economy was on a recovery path during the last nine months of the period under review. With stock markets rebounding around the world, the Hong Kong property market has also bounced back significantly. The prevailing low mortgage rate due to the funds inflow, coupled with an improving job market, lent strong support to end-users, whilst many investors also preferred to hold investment properties as part of their asset portfolios. Driven by pent-up housing demand, transaction volumes for both primary market and second-hand properties have picked up gradually since the second quarter of 2009. Together with the low completion and hence limited new supply of private residential units, and a new source of demand from mainland and overseas buyers, this has exerted considerable upward pressure on housing prices generally. To meet the market demand, the Group launched a number of residential projects for sale.

During the period, residential developments including 39 Conduit Road in Island Mid-Levels, Cité 33 in Mong Kok and 8 Royal Green in Sheung Shui were put up for sale and all received encouraging responses. In parallel with this sales momentum, the Group has continued to offer some other popular projects for sale. Projects re-launched included Grand Promenade, Grand Waterfront, The Sparkle, The Beverly Hills and Casa Marina (phases I and II). An attributable HK\$8,370 million worth of properties in Hong Kong was thus sold for the eighteen months ended 31 December 2009.

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. At the recent requests of the buyers, the completion dates of the sale of 24 units have been extended by two to four months from February 2010. The turnover and profit after taxation arising from these 24 units attributable to the Group for the eighteen months ended 31 December 2009 amounted to HK\$1,912 million and HK\$973 million respectively. Currently, there are no reasons to believe that the sale of such 24 units would not proceed. However, in the event that the sale of such 24 units is not completed, and before taking into account any re-sale of such units, the Group shall recognise an attributable loss of approximately HK\$780 million after forfeiture of deposits.

With a growing number of affluent mainland and overseas Chinese citizens interested in buying local properties through the investment immigration scheme, the profile of homebuyers in Hong Kong is becoming more diverse and a wider range of marketing channels is thus needed to promote the Group’s Hong Kong property projects. As such, the Group led the way by setting up a Hong

Kong Property Exhibition Centre in Futian, Shenzhen so as to promote the Group's products with the view to tapping the huge market potential across the border.

The following development projects were completed during the period under review:

	<b>Project name and location</b>	<b>Site area (sq.ft.)</b>	<b>Gross floor area (sq.ft.)</b>	<b>Land-use purpose</b>	<b>Group's interest (%)</b>	<b>Attributable gross floor area (sq.ft.)</b>
1.	The Sparkle 500 Tung Chau Street Cheung Sha Wan	35,629	320,659	Commercial/ Residential	100.00	320,659
2.	The Beverly Hills – Phase 3 23 Sam Mun Tsai Road, Tai Po	982,376 (Note)	1,165,240 (Note)	Residential	90.10	397,400
3.	Cité 33 33 Lai Chi Kok Road, Mong Kok	9,600	84,090	Commercial/ Residential	100.00	84,090
4.	8 Royal Green 8 Ching Hiu Road, Sheung Shui	45,779	228,860	Residential	100.00	228,860
5.	Hill Paramount 18 Hin Tai Street, Shatin	95,175	358,048	Residential	100.00	358,048
6.	39 Conduit Road Mid-Levels	56,748	229,255	Residential	60.00	137,553
7.	11,12,12A,12B Headland Road Island South	43,492	32,619	Residential	44.42	14,489
8.	The Pivot 52 Hung To Road, Kwun Tong	11,375	125,114	Industrial	100.00	125,114
9.	International Trade Centre 712 Prince Edward Road East San Po Kong	18,051	216,593	Office	100.00	216,593
					<b>Total:</b>	<b><u>1,882,806</u></b>

Note: 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.

At 31 December 2009, the Group had over 850 residential units available for sale mainly from the following major property development projects:

(1) Major development projects offered for sale:

<b>Project name and location</b>	<b>Site area (sq.ft.)</b>	<b>Gross floor area (sq.ft.)</b>	<b>Land-use purpose</b>	<b>Group's interest (%)</b>	<b>No. of residential units unsold &amp; pending sale at 31 December 2009</b>	<b>Gross area of remaining unsold residential units (sq.ft.)</b>
1. Casa Marina I 28 Lo Fai Road, Tai Po	283,200	226,561	Residential	100.00	32	103,922
2. Casa Marina II 1 Lo Ping Road, Tai Po	228,154	182,545	Residential	100.00	46	137,952
3. Grand Promenade 38 Tai Hong Street, Sai Wan Ho	131,321	1,410,629	Residential	69.94	11	13,014
4. Grand Waterfront 38 San Ma Tau Street To Kwa Wan	130,523	1,109,424	Commercial/ Residential	Residential: 56.11 Commercial: 39.88	11	14,699
5. The Beverly Hills – Phase 1 23 Sam Mun Tsai Road, Tai Po	982,376 (Note 1)	1,165,240 (Note 1)	Residential	90.10	96 (Note 2)	315,448 (Note 2)
6. The Sparkle 500 Tung Chau Street Cheung Sha Wan	35,629	320,659	Commercial/ Residential	100.00	37	37,259
7. Cité 33 33 Lai Chi Kok Road Mong Kok	9,600	84,090	Commercial/ Residential	100.00	33	27,790
8. 8 Royal Green 8 Ching Hiu Road, Sheung Shui	45,779	228,860	Residential	100.00	106	91,086
9. 39 Conduit Road Mid-Levels	56,748	229,255	Residential	60.00	24 (Note 3)	84,131 (Note 3)
				<b>Sub-total:</b>	<b>396</b>	<b>825,301</b>
				<b>Gross area attributable to the Group:</b>		<b>750,056</b>

(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	Gross area (sq.ft.)
1. The Beverly Hills – Phase 3 23 Sam Mun Tsai Road, Tai Po	982,376 (Note 1)	1,165,240 (Note 1)	Residential	90.10	161 (Note 4)	439,744 (Note 4)
2. Green Lodge Tong Yan San Tsuen, Yuen Long	78,781	78,781	Residential	100.00	60	78,781
3. Fanling Sheung Shui Town Lot 76, Fanling	42,884	34,308	Residential	100.00	16	34,308
4. Hill Paramount 18 Hin Tai Street, Shatin	95,175	358,048	Residential	100.00	157	358,048
5. 11,12,12A,12B Headland Road Island South	43,492	32,619	Residential	44.42	4	32,619
6. Jade Suites 600 Canton Road, Jordan	3,642	32,772	Commercial/ Residential	100.00	62	27,311
				<b>Sub-total:</b>	<b>460</b>	<b>970,811</b>
				<b>Gross area attributable to the Group:</b>		<b>909,146</b>
				<b>Total saleable residential units and total residential gross area from the major development projects:</b>	<b>856</b>	<b>1,796,112</b>
				<b>Total gross area attributable to the Group:</b>		<b>1,659,202</b>

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.

Note 4: In addition, two houses were already sold through private sale.

## Land Bank

At 31 December 2009, the Group had a land bank in Hong Kong with a total attributable gross floor area of approximately 19.8 million square feet, comprising 7.4 million square feet of properties held for or under development, 2.0 million square feet of stock of unsold property units, 9.4 million square feet of completed investment properties, and 1.0 million square feet of hotel properties. In addition, the Group held rentable car parking spaces with a total area of around 2.8 million square feet.

In light of the positive view taken by the Group of the Hong Kong property market, a decision was made to expand the Group's holding of development land through the conversion of agricultural land, further acquisition of agricultural land, and purchase of old buildings.

At the end of December 2009, the Group held agricultural land reserves amounting to approximately 32.8 million square feet in land area, which was the largest holding among all property developers in Hong Kong. During the period under review, significant progress was made in land-use conversion.

For the site in Wu Kai Sha, Shatin, the land-use conversion was finalized with the Government and the land premium of HK\$9,596,950,000 was fully settled. The site will be developed into a

residential development with a total developable gross floor area of approximately 2.95 million square feet, of which 56.75% or about 1.67 million square feet is attributable to the Group. Meanwhile, the land premium for the residential site at Lot 5369, DD 116 at Tai Tong Road, Yuen Long was also finalized with the Government and a deposit equal to 10% of the premium of HK\$2,334.8 million was paid upon acceptance. 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.

For the wetland restoration and residential project in Wo Shang Wai, Yuen Long, it 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. The environmental permits and the design framework plan have been approved by the Director of Environmental Protection and the Town Planning Board respectively, whilst the basic terms for land exchange have also been agreed with the Government. Construction will commence upon finalization of the land premium with the Government and it will be a further boost to the Group's development land bank. In addition, the Group expects to finalize the conversion of the site at Lot 524, DD 116 at Tai Tong Road, Yuen Long which will provide approximately 157,000 square feet in gross floor area, of which 79.03% is attributable to the Group.

Looking ahead, the Group is actively pursuing land-use conversion of the following sites, which are situated in the "North East New Territories New Development Areas" or in close proximity to the Government's ten major infrastructure projects, to capitalize on the transport convenience offered by the improvement in the transport infrastructure, in particular the construction of Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link:

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

The total attributable gross floor area available for development from all the above sources amounts to 18.6 million square feet, which allows the Group to build about 30,000 housing units, more than triple the number of new completions in Hong Kong last year.

In parallel to the land-use conversion, the Group has taken active steps to expand the agricultural land reserves from approximately 32.8 million square feet at 31 December 2009 to the current level of approximately 40 million square feet in site area.



In line with the strategic decision taken last year and in response to the Government's policy initiatives on promoting urban renewal, the Group has recently been pursuing an increase in its land bank in the urban areas of Hong Kong and Kowloon by actively acquiring properties in certain old buildings in the market for redevelopment purposes. During the period under review, a majority of the ownership of the following old buildings in the urban areas, which are all located in the vicinity of existing or planned railway lines was acquired:

	Site area (sq.ft.)	Expected gross floor area in future redevelopment (sq. ft.)
1. Western Court 450-456G Queen's Road West Hong Kong	29,875	268,482
2. 30-38 Po Tuck Street & 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 & 189-195 Sai Yeung Choi Street North, Kowloon	5,880	52,919
9. 162-168 Pau Chung Street 50-64 Ma Tau Kok Road To Kwa Wan, Kowloon	11,700	105,300
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
<b>Total:</b>	<b>133,046</b>	<b>1,162,662</b>

In August 2008, the Group (by order of the court) also completed the acquisition of the remaining 7.13% stake of two prime sites located in Wanchai with an aggregate site area of approximately 16,000 square feet. Of these two sites, the old Kam Kwok Building was already demolished and it will be developed into a residential tower with a total gross floor area of about 114,700 square feet, whilst at the site of the former National Building, the foundation work for a boutique hotel with a total gross floor area of about 66,000 square feet was already completed.

Further land acquisitions, involving another 19 old buildings in the urban areas, are in progress and ownership of each of these sites is expected to be largely consolidated during the course of 2010, providing a total attributable gross floor area of approximately 3,000,000 square feet for future redevelopment. This represents a very significant contribution by the Group to urban renewal and is a win-win outcome for all parties.

Meanwhile, the Group is planning to redevelop and convert some of the existing properties into other purposes, providing a further 2 million square feet in attributable gross floor area for commercial and residential uses in the urban areas. Details of these properties are as follows:

		Expected gross floor area in future development (sq. ft.)	Group's interest (%)	Expected attributable gross floor area in future development (sq. ft.)	
	Site area (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.	66 Boundary Street Kowloon (Note 1)	6,670	60,030	100.00	60,030
4.	25 La Salle Road Kowloon Tong, Kowloon (Note 2)	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.	8 Wang Kwong Road Kowloon Bay, Kowloon (Note 3)	21,528	258,336	100.00	258,336
7.	24 Lee Chung Street Chai Wan, Hong Kong	11,590	173,849	100.00	173,849
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	52,690	224,828	100.00	224,828
10.	Yau Tong Bay Kowloon	892,330	4,461,651	18.44	822,537
<b>Total:</b>		<b>1,070,147</b>	<b>5,821,212</b>		<b>1,999,028</b>

Note 1: The site is currently held by the Group as Newton Hotel Kowloon.

Note 2: The site is currently held by the Group as a serviced apartment building.

Note 3: The old industrial building (i.e., Big Star Centre) at this site will be converted into an office building or a hotel upon the implementation of the Government's new revitalization policy in April 2010, which exempts eligible owners from paying a fee for change in the land-use.

In summary, the attributable gross floor area available to the Group for development from all sources, namely, agricultural land conversion and acquisition of old buildings, together with existing properties under planning for redevelopment and conversion into other purposes, would be:

	<b>Land available for development in attributable gross floor area</b>			
	<b>At 31 December 2009 (sq.ft.)</b>	<b>Resulting from further agricultural land conversions and acquisition of old buildings</b>		<b>Total (sq.ft.)</b>
Agricultural land conversion	2,600,000	Expected in 2010:	1,019,000	3,619,000
		Beyond 2010:	15,000,000	15,000,000
Acquisition of old buildings	1,160,000	Expected in 2010:	3,000,000	4,160,000
Existing properties under planning for redevelopment and conversion into other purposes	2,000,000		-	2,000,000
<b>Total:</b>	<b>5,760,000</b>		<b>19,019,000</b>	<b>24,779,000</b>

### Investment Properties

At 31 December 2009, the Group held a total attributable gross floor area of approximately 9.4 million square feet in completed investment properties in Hong Kong (which increased by 400,000 square feet as compared with 30 June 2008), made up of 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 investment portfolio is geographically diverse, with 25% in Hong Kong Island, 33% in Kowloon and the remaining 42% in the New Territories.

After several months of consolidation since the onset of the global financial crisis in September 2008, leasing demand for retail shops and shopping space has shown signs of recovery since mid-2009 amid improving consumption sentiment. The Group's recently-completed office and industrial premises in Kowloon East also fared well with over 60% of their space already taken up at 31 December 2009. Driven by higher rents for new lettings and lease renewals, mostly from retail shops and shopping spaces in particular during the second half of 2009 as well as an increased contribution from these new projects, the Group's attributable gross rental income in Hong Kong for the eighteen months ended 31 December 2009, including that derived from the investment properties owned by the Group's associates and jointly controlled entities, amounted to HK\$6,025 million, representing an increase of 67% over that for the twelve months for the financial year ended 30 June 2008. Net rental income also increased from HK\$2,550 million for the twelve months of the previous financial year to HK\$4,262 million for the eighteen months for the current financial year, whilst the leasing rate for the Group's core rental properties (excluding the recently-completed developments in Kowloon East) rose to 97% at 31 December 2009.

Located at the heart of the city, ifc mall houses a number of designer boutiques, flagship stores and dining outlets, making it a popular destination for locals and tourists alike. During the period under review, ifc mall was almost fully let with remarkable growth in rental income. Leasing performance for the Group's large-scale shopping malls in the new towns was equally satisfactory and Metro City Phase III in Tseung Kwan O, Sunshine City Plaza in Ma On Shan, City Landmark II in Tsuen Wan, Citimall in Yuen Long, Flora Plaza in Fanling, Shatin Plaza and Shatin Centre each recorded almost full occupancy at 31 December 2009.

The Group's quality office developments, such as the International Finance Centre in Central and AIA Tower in North Point, continued to perform satisfactorily despite adversities posed by the global financial crisis. In Kowloon East, an upcoming commercial hub with abundant supply of leasing space, the Group boasts a 2.0 million square foot portfolio of new premium office and industrial developments and most of them have been leasing well. The leasing rate of Manulife Financial Centre in Kwun Tong reached 66% with Manulife, one of the anchor tenants, exercising their expansion right to take up an additional space of 130,000 square feet. International Trade Centre in San Po Kong also recorded an improving leasing rate of 74% at 31 December 2009.

The Group enhances rental values by regularly upgrading its investment properties. The first phase of renovation works at the South Wing of Trend Plaza in Tuen Mun is progressing well, whilst transformation of the upper ground floor of Metro City Phase II in Tseung Kwan O was completed at 31 December 2009 with over 20,000 square feet of its space converted into more than 20 retail outlets. Encouraging responses have been received from the pre-leasing of these two projects with rentals bid up considerably. Meanwhile, the facelift to Kowloon Building on Nathan Road as well as the facility upgrade for Golden Centre in Sheung Wan have commenced already. The second phase of renovation works at South Wing of Trend Plaza in Tuen Mun will also begin soon. The planning of refurbishment works for Sunshine City Plaza in Ma On Shan, Citimall in Yuen Long and City Landmark I in Tsuen Wan is currently in the pipeline.

Due to limited supply in the marketplace, as well as the increasing number of returning expatriates, leasing demand for the Group's luxury residences has been strong. The serviced suite hotel at Four Seasons Place, which was highly sought after by expatriate executives and practitioners in the legal, banking and finance sectors, recorded solid growth in both occupancy and room rates. Eva Court, a luxury apartment complex in the Mid-Levels, also reported high occupancy by the end of December 2009 with satisfactory rental growth for both renewals and new lettings.

### **Hotel and Retailing Operations**

Due to the slowdown in world-wide economies caused by the global financial crisis, as well as the start of cross-strait direct links and the outbreak of pandemic flu, the hotel industry in Hong Kong on the whole has been operating under very difficult conditions.

The Four Seasons Hotel won a coveted Forbes five-star award and was voted one of the world's top ten hotels by readers of Institutional Investor magazine, whilst two of its top restaurants, namely, Lung King Heen and Caprice also emerged as the only ones in Hong Kong to be honoured with three Michelin stars in the new gourmet guide. With such widely-recognized quality and service in an unmatched location at the Central waterfront, The Four Seasons Hotel continued to stay ahead of the market and maintain its usual above market average room rate, albeit at a lower occupancy, amid the financial turmoil. The Group's four Newton hotels also performed profitably, although average room rates and occupancies inevitably came under pressure in such challenging market conditions.

Established in 1989, Citistore currently has five department store outlets offering value-for-money merchandise to local households and two "id:c" specialty stores introducing a collection of trendy brands from Japan and Korea to young and fashion-conscious customers.

## **Construction and Property Management**

The Group pledges to build the finest properties, offering unparalleled design, quality and comfort to its customers. In order to ensure that such a quality conscious approach is adopted throughout the design and construction process of the Group's developments in both Hong Kong and mainland China, inter-departmental communication and information sharing are always encouraged. Similarly, the stringent requirements laid down by the Leadership in Energy and Environmental Design (LEED) and Building Environmental Assessment Method (BEAM) are also complied with by the Group so as to ensure that all the facilities provided are trend-setting and eco-friendly.

With such proactive management and stringent monitoring of the whole construction process, the accident rate for the Group's construction activities was well below the industry average, whilst numerous awards received recently (including the "Quality Building Award" from nine building-related professional bodies, "Considerate Contractors Site Award" from the Development Bureau of the Hong Kong SAR Government and "Proactive Safety Contractor Award" from The Hong Kong Construction Association) served as testimony to the Group's commitment to excellence, an essential differentiating factor in the competitive market-place.

The Group cares not only for its own products, but also the development of the whole industry. The General Manager of the Construction Department of the Company currently is a member of the Construction Industry Council. In recognition of his wide experience and seasoned leadership, he has been appointed as the Chairman for its "Construction Industry Training Board" and "Committee on Manpower Training and Development", which are both assigned to build a strong talent pool for Hong Kong so as to support the forthcoming implementation of the ten mega infrastructures as well as their related construction projects.

The Group's member property management companies, Hang Yick Properties Management Limited ("Hang Yick") and Well Born Real Estate Management Limited ("Well Born") collectively manage over 180 premises in Hong Kong, comprising a total of over 75,000 residential, commercial and industrial units and shops, and more than 16,000 car parking units. During 2009, Hang Yick and Well Born received a total of 271 performance-related accolades including "Innovative Technology of the Year and Best Use of Knowledge Management of the Year in the Customer Relationship Excellence Awards 2009", as well as the "Q-Mark Service Scheme certification". They were also bestowed with the Certificate of Excellence in the "Award for Excellence in Training and Development" by The Hong Kong Management Association, in recognition of their learning culture and unflagging efforts to raise standards in property management in Hong Kong.

Aligning with the Group's corporate culture, these two companies also offer care to the public at large. Being named as "Caring Company" for seven consecutive years, they were widely acclaimed for their dedication to corporate social responsibility, whilst the sixth consecutive year's "Highest Voluntary Service Hour Award" championship is a testimony to their commitment to charitable activities and community services.

Their heartfelt services also attracted considerable recognition throughout mainland China. Hengbao Garden, a mass residential development in Guangzhou under the Group's management, was honoured as an "Outstanding Community for Promoting Sports Development in Guangdong Province" in 2009, in addition to its accreditations as the "Excellent Property Management Community Showcase in Guangdong Province" and "Excellent Community Showcase in Guangzhou". Meanwhile, Hengli Wanpan Huayuan, a newly-completed residential development in Guangzhou also under the Group's management, was recently honoured as one of the "Best Managed Housing Estates Showcase in Guangzhou" by Guangzhou Property Management Association. To support the Group's business development, both Hang Yick and Well Born will further extend their presence in the mainland, providing their quality property handover and management services to all of the Group's property developments throughout the country.

## **Business Review - Mainland China**

For the eighteen months from July 2008 to December 2009, the real estate market in mainland China swiftly experienced a consolidation, contraction, revival and rejuvenation, followed by extensive and heated growth. With timely policy adjustments and effective measures decisively implemented by the Central Government, mainland China successfully navigated out of this recessionary crisis.

The onset of global financial turmoil in the second half of 2008 and the resultant wait-and-see attitude adopted by some homebuyers put the property market into the doldrums, with a general decline in both transaction volume and transacted prices. Even though fewer land auctions were held by the local governments, there were repeated incidents of auctions being called off for some residential land sites, whilst for those land lots successfully sold, transactions were mostly recorded at the reserve price levels. In the fourth quarter of 2008, the Central Government introduced a massive economic stimulus package of RMB4 trillion and adopted a moderately loose monetary policy. Meanwhile, austerity measures targeted at the property market were relaxed and a series of preferential housing policies were put forward instead. In order to promote home purchases by end-users and stabilize the property market, the Central Bank also cut the deposit and loan benchmark rates consecutively from September 2008 onwards.

In early 2009, the property market was still being driven by pessimistic sentiment and a wait-and-see attitude, leading to a further drop in the transaction volume. However, the combined effect of the launch of a series of home-ownership incentives by the Central Government, together with a relaxation of housing loans by banks, concerted efforts made by local governments through the introduction of various subsidies for home purchases, as well as a general price cut by developers to promote property sales, led to huge pent-up demand and a considerable amount of housing stocks being subsequently snapped up. Market conditions thus improved substantially and property prices stabilized.

Starting from the latter part of the second quarter of 2009, the minimum capital requirements for certain industries (including investment in commodity housing projects) were adjusted downwards so as to stimulate further growth of fixed asset investment and to stabilize the economy. From the third quarter of 2009 onwards, land auctions became increasingly competitive and record-breaking deals were commonly seen across different cities in the country. High auction prices, together with widespread participation by developers, reflected their optimism for the market outlook. Re-ignited speculation was seen in certain cities and the housing price rally aroused the concerns not only of the general public, but also of the Central Government. By the end of 2009, the Central Government called for strengthening of credit management and controls on risk exposure (including the tightening of individual housing credits and cancellation of preferential measures for second-home mortgages) in those regions where the property market has exhibited great volatility.

The Group is fully confident of the long-term prospects for the mainland property market. Although a steady rise in housing price is always preferred, inevitably external economic factors, investment and speculative activities will cause some short-term ripples which the Group has been well adjusted to deal with over the years. It is an indisputable fact that mainland China is now an economic powerhouse that is fuelling global growth and its property market is set to expand even further in light of its huge and unfulfilled demand for better housing. As such, the Group will adhere to its long-term development strategy, focusing on the high-growth second-tier cities in addition to building commercial investment properties at prime sites in the prime cities. In these cities, the sales response for quality residences has been encouraging with a sustained growth in housing prices.

Backed by its rich experience in the property sector as well as its financial strength, the Group has successfully met the challenges posed by the prevailing market changes. In view of the continued economic growth in the mainland as well as its increasing affordability, the Group will focus on developing medium to high-end residences. By employing world-renowned architects, and working with leading homegrown design houses, top-quality residences that offer the finest living conditions, design layout, complementary facilities and landscaping will be offered to prospective customers. This market positioning will also avoid competing with the low-cost economical housing. In order to ensure an overwhelming response for the presale of these quality properties, much time has been spent on designing the clubhouses, sales centres, show flats, landscape and the overall project planning. During the period, the Group has developed long-term strategic co-operation relationships with a number of leading and reputable sub-contractors, international architects, domestic design houses and landscape planning consultants.

In the first half of 2009, many developers slashed their offer prices considerably in a bid to move their housing stocks and improve liquidity. With its solid financial strength as evidenced by its low gearing ratio, the Group was not under any pressure to deliberately lower prices. Instead, the Group capitalized on this opportunity to buy a number of sizeable land lots in scenic low-density residential areas right in the heart of the second-tier cities of Dalian, Anshan and Tieling.

As scheduled, the first phase of the “Arch of Triumph” project in Changsha was launched for pre-sale in October 2009 and all the available units were snapped up amid keen interest from homebuyers, with the achieved price setting a new record in the area. Highly commended was the building layout, as well as the quality design and clubhouse facility, all of which will serve as a blueprint for the Group’s planning and sale of future developments in the mainland. This was the first time the Group had applied its Hong Kong marketing techniques and strategy in tandem with local practices and customs for the sales launch of a property project in a second-tier mainland city. The response was so encouraging that the Group will speed up the construction of various premier development projects in the second-tier cities, whilst their marketing activities and brand promotion are also under active planning.

By the end of December 2009, the Group’s mainland land bank had an attributable developable gross floor area of 146.2 million square feet.

Land bank under development or held for future development

	Group's share of developable gross floor area* (million sq.ft.)
<b>Prime cities</b>	
Shanghai	2.3
Guangzhou	15.4
<b>Sub-Total:</b>	<b>17.7</b>
<b>Second-tier cities</b>	
Anshan	18.0
Changsha	13.1
Chengdu	3.3
Chongqing	6.6
Dalian	1.6
Nanjing	2.4
Shenyang	17.2
Suzhou	17.0
Tieling	14.4
Xian	19.9
Xuzhou	5.3
Yixing	9.7
<b>Sub-Total:</b>	<b>128.5</b>
<b>Total:</b>	<b>146.2</b>

\* Excluding basement areas and car parks

Around 82% of the Group's development land bank in mainland China would be high-end residences for sale. Meanwhile, most of the offices and commercial projects under development are located in Shanghai, where the Group has an attributable 2.3 million square feet of new investment properties under development. These include Centro, which was just completed in January 2010 and Henderson Metropolitan, which is scheduled for completion in the first half of 2010, in time to benefit from the 2010 Shanghai World Expo. Located at the 130-2 Tianmu Road West of Zhabei District, Centro boasts approximately 370,000 square feet of office space and 60,000 square feet of retail area. Pre-leasing has been going well as the energy-efficiency features of this building are highly sought after by cost-conscious tenants. Henderson Metropolitan at Lot 155 Nanjing Road East, which is located right at the start of the Nanjing Road East walking avenue near the Bund, is being developed into a Grade A office building and shopping arcade with a 17-storey tower over five levels of podium. With a direct link to a subway station which will be the interchange for two major subway lines, as well as a distinctive design for its façade by the acclaimed architect, Tange Associates of Japan, this 730,000-square-foot development is attracting an array of the world's most respected brands, speciality restaurants and multinational corporations as its potential tenants. Construction of another two investment properties in Shanghai is now under way. The project at 147 Tianmu Road West of Zhabei District, which contains offices and retail space with a combined gross floor area of about 410,000 square feet, will be completed in 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 be another landmark in Jingan District upon completion in the second quarter of 2012 due to its innovative, quartz-like façade designed by Tange Associates.



## Usage of development land bank

	Developable gross floor area	
	(million sq.ft.)	Percentage
Residential	120.0	82%
Office	8.0	6%
Commercial	13.5	9%
Others (including clubhouses, schools and community facilities)	4.7	3%
<b>Total:</b>	<b>146.2</b>	<b>100%</b>

“Arch of Triumph” in Changsha was highly sought-after by the market and the launch of its first phase of development was greeted with an overwhelming response. In response, the Group prepared to launch more projects for sale, whilst a number of prime sites (such as those in Dalian, Anshan and Tieling in the province of Liaoning as mentioned below) were also added to the Group’s development land bank in mainland China. Land lots newly acquired during the eighteen months ended 31 December 2009 are summarized below.

In Chengdu, the Group entered into a joint venture in July 2008 with Sun Hung Kai Properties Limited and The Wharf (Holdings) Limited on a 30:40:30 ownership basis to jointly develop a prime site of approximately 1,860,000 square feet on Dongda Avenue in this capital city of Sichuan Province. Upon completion, this high-end commercial-cum-residential development will comprise a premium office tower, a five-star hotel, a high-end shopping centre and luxury residences, providing a total gross floor area of over 11,200,000 square feet, of which about 3,360,000 square feet is attributable to the Group.

In Changsha, the Group’s joint venture company acquired a parcel of land of about 620,000 square feet in the Gaoling area in the Kaifu District for about RMB62.7 million in December 2008. This, together with the adjacent land lot with a site area of about 3,900,000 square feet acquired in October 2007 for a consideration of about RMB350 million, will be jointly developed into a large-scale residential community. A total gross floor area of about 6,700,000 square feet of high-end residences will be completed in phases, of which 81% or approximately 5,440,000 square feet is attributable to the Group.

After the Pearl River Delta and Yangtze River Delta, Pan Bohai Rim is expected to become another high growth region in mainland China. Therefore, the Group recently increased its investment in Liaoning Province following its previous successful bids for the land sites in Shenyang. In June 2009, the Group won the bids for two prime sites in Anshan, a famous industrial city in this province. An old stadium site in the city centre was acquired for about RMB462 million which will be developed into a high-end residential community with a total gross floor area of about 3,730,000 square feet against a site area of approximately 621,000 square feet. In another prestigious residential district, a land lot of approximately 5,490,000 square feet was purchased at about RMB765 million which will be built into a residential development offering a total developable gross floor area of 14,260,000 square feet. In Dalian, a port city at the southern tip of the province, the Group acquired a land lot of approximately 3,200,000 square feet for a consideration of RMB320 million in October 2009 which will be developed into luxury, low-density residences with a total gross floor area of approximately 1,550,000 square feet. In Tieling, a neighbouring city of Shenyang, the Group also successfully bid for two sites for an aggregate consideration of approximately RMB800 million in late 2009. Of these two sites, a 2,800,000-square-foot land lot is earmarked for commercial development with an expected gross floor area of approximately 4,900,000 square feet, whilst the other land parcel is planned to be a low-density residential development with a gross floor area of approximately 9,500,000 square feet.

For the eighteen months ended 31 December 2009, property sales in mainland China attributable to the Group amounted to HK\$330 million, mainly relating to the remaining stocks of Hengli Wanpan

Huayuan in Guangzhou which was already completed in early 2008. Meanwhile, the Group's attributable gross rental income grew by 84% to HK\$497 million.

In the mainland, the Group had another 5.2 million square feet of completed investment properties: mainly offices and shopping centres in the prime locations in Beijing, Shanghai and Guangzhou. Completed in Beijing in January 2009, World Financial Centre, together with other neighbouring architectural wonders, defines a new image for the Chao Yang Central Business District of Beijing. Designed by the world-renowned Cesar Pelli as twin "crystal jewel boxes" incorporating special effect façade lighting on the exterior, this development is equipped with advanced facilities and green spaces, making it an International Grade A office complex in Beijing. As testimony to the Group's efforts on sustainable development, these two 22-storey, 2.1 million-square-foot office buildings were accredited with "Platinum Rating" in the Building Environmental Assessment by HK-BEAM Society and awarded "Distinction" in the Certificate of Intelligent Building Index Assessment by the Asian Institute of Intelligent Buildings. Its list of tenants to date includes many renowned financial institutions and multinational corporations. Standard Chartered Bank, Mizuho Corporate Bank, International Air Transport Association, FAW Toyota and Novo Nordisk have all become anchor tenants. Meanwhile, the leasing rate for the Group's shopping mall at Beijing Henderson Centre was over 90% at the end of December 2009, whilst Grand Gateway Office Tower II in Shanghai was also over 90% let with many multinational corporations such as Microsoft, Adidas, Tesco and Yum! Brands Inc. remaining as its anchor tenants. Hengbao Plaza in Guangzhou recorded a 10% year-on-year growth in rental income with almost 90% leasing rate by the end of 2009. Over the years, the Group has been optimizing its investment property mix in mainland China, gradually increasing the proportion of premier grade projects by building new landmark developments in prime locations.

### **Joint-Venture Development in Macau**

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

### **Henderson Investment Limited ("HIL")**

For the eighteen months ended 31 December 2009, this group's profit attributable to equity shareholders amounted to HK\$156 million compared to HK\$35,392 million (restated) for the financial year ended 30 June 2008. The significant decrease in profit was mainly attributable to a one-off gain of HK\$35,265 million from the divestment of this group's entire interest in The Hong Kong and China Gas Company Limited during the financial year ended 30 June 2008. Excluding the effect of such gain from the discontinued operations, the profit of this group attributable to equity shareholders for the financial year ended 30 June 2008 amounted to HK\$127 million (restated). The profit of this group attributable to equity shareholders of HK\$156 million for the eighteen months ended 31 December 2009 represented an increase of HK\$29 million or 23% as compared with that of HK\$127 million (restated) for the financial year ended 30 June 2008, reflecting the effect of an extended accounting period currently being reported on when compared with the previous period of twelve months ended 30 June 2008, and the increased profit contribution from this group's infrastructure business during the extended reporting period compared with the financial year ended 30 June 2008.

During the eighteen months ended 31 December 2009, this group decided to sell its entire interest in Maanshan City Ring Road. As announced on 12 March 2009, a 70%-owned subsidiary of HIL had entered into an agreement with the joint venture partner of Maanshan Huan Tong Highway Development Limited ("Maanshan Highway JV", being the joint venture engaged in the operation

of Maanshan City Ring Road) in relation to the sale by that subsidiary of its entire 70% equity interest in Maanshan Highway JV to the joint venture partner for a consideration of RMB122 million (equivalent to HK\$139 million). The transaction was completed on 26 February 2010, resulting in a net gain on disposal attributable to equity shareholders of HIL of approximately HK\$26 million which will be recognized in this group's accounts for the financial year ending 31 December 2010.

After completion of the disposal of the Maanshan City Ring Road, this group's core asset is its 60% interest in Hangzhou Qianjiang Third Bridge. During the eighteen months ended 31 December 2009, this group posted a turnover of HK\$441 million compared to HK\$272 million for the previous period of twelve months ended 30 June 2008. This increase in turnover was primarily attributable to the extended accounting period of eighteen months currently being reported on when compared with the previous period of twelve months ended 30 June 2008, the growth of traffic volume of the toll bridge in Hangzhou and the increase in exchange gain upon conversion of Renminbi to Hong Kong dollars during the period when compared with the financial year ended 30 June 2008.

## **Associated Companies**

### ***The Hong Kong and China Gas Company Limited (“Hong Kong and China Gas”)***

Profit after taxation attributable to shareholders of Hong Kong and China Gas for the year amounted to HK\$5,175.0 million, an increase of HK\$872.5 million compared to 2008 mainly due to growth in profits of mainland businesses, one-off gains from investments in projects in mainland China, and an increase in financial investment income. During the year under review, this group invested HK\$2,760.2 million in production facilities, pipelines, plants and other fixed assets for the sustainable development of its various businesses in Hong Kong and the mainland.

#### **(I) Gas business in Hong Kong**

Total volume of gas sales in Hong Kong decreased slightly by 1.1% compared to 2008, whilst the total number of appliances sold in 2009 was 219,896 units, an increase of 6.1% over 2008. As at the end of 2009, the number of customers was 1,698,723, an increase of 26,639 compared to 2008.

Laying of a 15 km pipeline to bring natural gas from Tai Po to Ma Tau Kok gas production plant, to partially replace naphtha as feedstock for the production of town gas, is progressing well. Construction of a 9 km pipeline in the western New Territories to strengthen supply reliability is also in progress. In tandem with the development of West Kowloon, South East Kowloon and a cruise terminal, planning for the networks in these regions is underway, including a route diversion for the submarine pipeline from Ma Tau Kok to North Point. Meanwhile, Hong Kong and China Gas reached a 30-year agreement with Ocean Park Hong Kong in 2009 for gas supply and utilization and thus, a gas transportation system will be developed.

#### **(II) Mainland utility businesses**

In 2009, Hong Kong and China Gas successfully established new city-gas projects in Xinmi in Henan province, in Fengxian county Economic Development Zone and Suining county in Jiangsu province, and in Zhangshu, Fengcheng and Pingxiang in Jiangxi province.

Meanwhile, Hong Kong and China Gas currently had a 45.61% interest in Towngas China Company Limited (“Towngas China”, stock code: 1083) which recorded a profit of HK\$265 million in 2009, an increase of 31% over 2008. With an effective control over the majority

of the board of directors of Towngas China, Towngas China was accounted for and consolidated into its consolidated accounts as a subsidiary commencing from 31 December 2009.

In 2009, Towngas China set up new city-gas project companies in Chiping county in Shandong province, in Xinjin county and the Xindu district of Chengdu in Sichuan province, in Huangshan in Anhui province, in Yangjiang in Guangdong province and in the Changjiu Industrial Corridor in Jiangxi province. Towngas China also signed agreements for the development of city-gas projects in Linqu in Shandong province and in the New Industrial District of Anshan in Liaoning province in November 2009 and February 2010 respectively. Inclusive of seven new projects established by Towngas China in 2009, this group had 84 city-gas projects in mainland cities spread across 16 provinces/municipalities as at the end of 2009. With the total volume of gas sales for its 10,617,000 residential customers reaching 6,870 million cubic metres, this group has become the largest city-gas enterprise in 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, and a joint venture that invests in the construction of natural gas pipelines and the exploitation of gas fields in Jilin province. It 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, Jiangsu province.

Overall as at the end of 2009, inclusive of projects of its subsidiary company, Towngas China, this group had 103 projects spread across 19 provinces/municipalities/autonomous regions, 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.

### **(III) Environmentally-friendly energy businesses**

This group developed emerging environmentally-friendly energy projects through its wholly-owned subsidiary ECO Environmental Investments Limited and the latter's subsidiaries (together known as "ECO"). ECO's five dedicated liquefied petroleum gas filling stations and its North East New Territories landfill gas treatment facility continue to operate well. By making use of landfill gas which would otherwise be flared off, such projects help reduce greenhouse gas emissions and depletion of fossil fuels, thus improving air quality in Hong Kong. Construction of 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, is basically complete with commencement of operation scheduled for the first quarter of 2010. Construction of a neighbouring second tank farm is also progressing well and commissioning is expected before the end of 2010.

ECO has endeavoured to develop clean and emerging environmentally-friendly energy projects on the mainland since early 2008 and in order to enhance its management effectiveness and financing flexibility, ECO established a Chinese holding company in Erdos, Inner Mongolia at the end of 2009. Phase one of its coalbed methane liquefaction facility located in Jincheng, Shanxi province commissioned in the fourth quarter of 2008 produced approximately 100 million cubic metres of liquefied coalbed methane in 2009 for transportation by tankers to downstream markets. Construction of phase two of the facility is in progress. Once commissioned, which is expected to be in the fourth quarter of 2010, the annual production capacity will be increased to 300 million standard cubic metres. In 2009,

ECO, in joint co-operation with mainland scientific research institutes, successfully developed a technology to remove oxygen from coal-mine methane so as to produce liquefied methane which is compatible with liquefied natural gas. ECO has recently pinned down a project in Chongqing to utilize the abundant coal-mine methane there for production of liquefied methane. ECO is now constructing a methanol production plant and developing a coal mine in Junger, Erdos, Inner Mongolia; both are expected to be commissioned by the end of 2010. The annual production capacity of this methanol plant is 200,000 tonnes of methanol. For its coal mining and coking plant project in Fengcheng, Jiangxi province, 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. ECO is also proactively developing and establishing vehicular clean fuel filling station businesses in places such as Shandong, Shanxi, Shaanxi, Henan and Liaoning provinces following the successful commissioning of a compressed natural gas filling station in Shaanxi province in 2008.

#### **(IV) Property development**

For the property development projects of Grand Promenade and Grand Waterfront, over 99% and over 98% of their total residential floor areas had been sold by the end of December 2009. For property leasing, this group has an approximately 15.8% interest in the International Finance Centre (“IFC”) complex in its rental portfolio, in addition to the commercial area of Grand Waterfront. Both of them reported good leasing performance.

Hong Kong and China Gas anticipates steady growth and an increase of about 26,000 new customers in Hong Kong during 2010, whilst its city-gas and natural gas businesses in the mainland are expected to continue to progress well. It is anticipated that the results of this group’s emerging environmentally-friendly energy businesses and mainland utility 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.

#### **NOTES PROGRAMMES**

In August 2008, HKCG (Finance) Limited, a wholly-owned subsidiary of this group, issued and sold US\$1 billion notes guaranteed by Hong Kong and China Gas. Credit rating of A1 (stable) was assigned to the Notes by international rating agency Moody’s Investors Service and rating A+ (stable) by Standard and Poor’s rating services.

In May 2009, this group further established a US\$1 billion medium term note programme through HKCG (Finance) Limited and since then, this group has issued medium term notes with an aggregate amount of HK\$3.01 billion at nominal interest rates ranging from 3.90% to 5.00% per annum with a maturity of 10 to 40 years. These included the first ever issue of 30-year notes and 40-year notes - the longest term corporate papers ever issued - in the Hong Kong dollar bond market.

#### **ACQUISITION OF INTERESTS IN CERTAIN PROJECTS BY TOWNGAS CHINA**

On 17 March 2010, Towngas China entered into an agreement with a wholly-owned subsidiary of Hong Kong and China Gas pursuant to which Towngas China has conditionally agreed to purchase six piped gas projects from Hong Kong and China Gas in the Liaoning and Zhejiang province for a consideration of HK\$1,721.75 million, which will be satisfied by issuing new shares of Towngas China to Hong Kong and China Gas. Following completion of the acquisition, Hong Kong and China Gas will be interested in approximately 56.40% of the enlarged issued share capital of Towngas China.

Towngas China currently has existing piped gas projects in Liaoning province. After completion of the acquisition, all of this group's piped gas businesses in the Liaoning and Zhejiang provinces will be held exclusively under Towngas China, which will have 53 piped gas projects in 43 cities serving around 5.5 million users in the mainland with combined piped gas sales volume of 3.4 billion cubic metres.

***Hong Kong Ferry (Holdings) Company Limited (“Hong Kong Ferry”)***

The consolidated profit after taxation of Hong Kong Ferry for the year ended 31 December 2009 amounted to approximately HK\$1,099 million, compared with the consolidated loss after taxation in 2008 of HK\$526 million.

During the year under review, Hong Kong Ferry sold more than 50% of the units of Shining Heights and more than one third of the units of The Spectacle. A total of 372 residential units were sold which accounted for a profit of approximately HK\$770 million. Rental and other income from its commercial arcades amounted to approximately HK\$32 million. At the end of the year, the occupancy rates of commercial arcade of Metro Harbour View and Shining Heights were 95% and 66% respectively. The commercial arcade of MetroRegalia was fully let.

Hong Kong Ferry acquired a property located at 52-56 Kwun Chung Street for leasing purpose and it might be redeveloped into a new building with a gross floor area of 14,000 square feet. It also acquired a great majority of the ownership of the property at 204-214 Tung Chau Street, which comprises six blocks of buildings with a site area of approximately 6,600 square feet. It will be re-developed into a commercial/residential building with a gross floor area of approximately 55,000 square feet upon consolidation of its entire ownership.

Its investments in available-for-sale securities and equity-link-notes recorded marked-to-market profits of HK\$54 million and HK\$257 million respectively.

The Ferry, Shipyard and Related Operations recorded a profit of approximately HK\$3 million in total, a decrease of 17% as compared with last year. The Harbour Cruise operation achieved a profit of HK\$2 million, whilst the Shipyard operation recorded a loss of approximately HK\$3.1 million against a slide of 22% in its turnover.

The Travel operation recorded a profit of HK\$0.7 million. After the completion of renovation of Silvermine Beach Hotel, its turnover rose 2.8%, reducing the loss to HK\$2 million, a decrease of 11%.

The revenue from the sale of flats at Shining Heights and The Spectacle will be the major source of income of the year, whilst Hong Kong Ferry will continue to look for properties with re-development potential at reasonable prices.

***Miramar Hotel and Investment Company, Limited (“Miramar”)***

Miramar's turnover amounted to approximately HK\$1,303 million for the nine months ended 31 December 2009 (the “Reporting Period”), compared with HK\$1,616 million for the twelve months ended 31 March 2009 due to the change of financial year end date. Profit attributable to shareholders amounted to approximately HK\$243 million (for the twelve months ended 31 March 2009: HK\$164 million). Excluding the net increase in the fair value of its investment properties, profit after tax from its core businesses for the nine months period was approximately HK\$152 million (for the twelve months ended 31 March 2009: HK\$276 million).

During the first six months of the Reporting Period, The Mira Hong Kong (“The Mira”), its flagship hotel, was still under renovation which led to a decline in its occupancy rate and operating profit. The average occupancy rate for the Reporting Period decreased by approximately 15 percentage points while the average room rate was kept at a constant level as compared to the previous period of twelve months ended 31 March 2009. Following its grand opening on 17 September 2009 with renovation substantially completed, occupancy rate surged with an increase of over 40% in room rate as compared to the pre-renovation period.

Miramar has launched a brand-new website for The Mira, designed to encourage direct online bookings for the hotel, whilst representative offices were also established in mainland China, Japan, the United States and Australia, strengthening the prospects of increased room sales for the hotel sector.

The property rental business registered a turnover of approximately HK\$364 million during the Reporting Period with occupancy maintained at about 87%. The average unit rate of Miramar Shopping Centre for the Reporting Period increased by approximately 8% in comparison with that of the previous period of twelve months ended 31 March 2009, whilst its average occupancy rate decreased by approximately 9 percentage points mainly due to tenants who were located in Basement 1 being moved out for refurbishment work, which commenced in September 2009. This refurbishment work will be completed and new tenants will move in during the first quarter of 2010. Meanwhile, the average occupancy rate of Miramar Tower for the Reporting Period dropped by approximately 4 percentage points while the average unit rate increased by approximately 8% when compared to the previous period of twelve months ended 31 March 2009.

Within the Tsim Sha Tsui district two new shopping centres opened in 2009 while a shopping centre will open next to The Mira in 2010, adding a total gross floor area of approximately 1,300,000 square feet. The retail property leasing market will witness intense competition in the coming year, but at the same time, it will make the district more attractive for visitors. Miramar has thus commenced the renovation of the Miramar Tower’s common area in the fourth quarter of 2009, with completion expected to be by early 2011. It has also decided to renovate the shopping centre within The Mira from basement 1 to 2/F of the hotel building in the middle of 2010 and the work will probably take about a year.

The closure for renovation of Lumiere in the IFC affected the patronage of the neighbouring Cuisine Cuisine. This, together with the global financial turmoil and Human Swine Flu Pandemic outbreak, resulted in a loss for the food and beverage division during the Reporting Period. To respond to these challenges, Yunyan Szechuan Restaurant is scheduled to be renovated in early 2010, and Lumiere re-opened after a complete transformation in December 2009 as an upscale French-style dining venue named “The French Window”. They will also continue with their plans for gradual expansion in mainland China, with a Chinese restaurant planned to be set up in Beijing in the year 2010.

Total turnover for its travel business amounted to approximately HK\$605 million during the Reporting Period, representing an increase of approximately 20% as compared to the same period last year, whilst the operating profit rose approximately two times. Such successful performance was largely due to a boost in travellers by its competitive differentiation strategy in long-haul tours, with an approximately 140% rise as compared to the previous whole-year period. Meanwhile, its travel arm continues to be the first and only accredited agent in Hong Kong of Richard Branson’s Virgin Galactic enterprise, which offers the opportunity of space travel to wealthy individuals, further underlining its status for innovative and up-market travel.

## **Corporate Finance**

The Group has always adhered to prudent financial management principles, as evidenced by its low gearing ratio which stood at 19.2% at 31 December 2009 (compared to 16.5% at 30 June 2008). In July 2009, the Group capitalized on the improved local loan market by entering into a HK\$8,000 million 3-year syndicated term loan facility with a consortium of 34 leading international banks and local financial institutions. The facility was used to replace the syndicated credit facility which was due to expire in September 2009 and to cater for the general corporate funding requirements of the Group. The response to the syndicated loan facility was overwhelming, both in terms of commitments by banks (which well exceeded two times the initial facility size) and of the number of participating banks (which was by far the largest bank syndicate for the Group's loan facilities). It clearly demonstrated the strong confidence and continued support of the banking community for the Group and is a reflection of its sound financial position and superior credit quality.

To diversify the source of funding and lengthen the debt maturity profile, the Group made an approach to the unrated bond market which resulted in the successful conclusion of a Guaranteed Notes issuance transaction in September 2009 for a total transaction size of US\$500 million. At a coupon rate of 5.5% the pricing for this transaction, which carries a maturity of ten years, was benchmarked against the interest rate levels prevailing for comparable public bonds issued by Hong Kong top credit-rated companies.

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**

Hong Kong has gone through the toughest period of the global financial turmoil that started nearly one and a half years ago. Though the external environment is still fraught with uncertainties, mainland China, which has been less affected by the global financial tsunami, is expected to keep growing from strength to strength despite fine tuning of its moderately loose monetary policy on concerns of overheating in the property sector and inflation risk. Hong Kong will stand to benefit greatly from mainland China's economic growth, drawing the persistent inflow of liquidity in the territory.

Better affordability supported by the prevailing low mortgage rate, as well as tight primary housing supply in the pipeline, will fuel further growth in the local residential property market. Capitalizing on the current buoyant market, the Group plans to embark on sales launches for a number of its luxury developments such as Hill Paramount in Shatin, The Beverly Hills Phase 3 in Tai Po and Headland Road project in Island South, whilst Green Lodge in Tong Yan San Tsuen, Yuen Long, Jade Suites at Canton Road and Fanling Sheung Shui Town Lot 76 in Fanling will also be released to meet market demand. These are expected to bring significant revenue to the Group.

In mainland China, the policy initiatives of the Central Government will continue to play a pivotal role in driving the mainland property market. In fact, in order to curb speculative activities and to suppress the excessive property price rise, a number of measures unveiled in early 2010, including the increase in the banks' reserve requirement to tighten credit expansion and implementation of a 50% down-payment for land acquisition, are reflections of the Central Government's policy



objectives to ensure a stable development of the property market and the related financial sector. However, in view of uncertainties in the external environment, and to ensure continued high economic growth in the mainland, draconian measures on the property market are unlikely as the property sector is a pillar industry in mainland China. As such, housing and credit policies are expected to be executed flexibly, with due regard to special situations, whilst for the forthcoming austerity policies the emphasis would be on how such policies would be applied, both in terms of flexibility and potency.

The Group is highly confident of the sale of its developments. The Group will push ahead with the construction of such projects in earnest and increase the area for development in parallel. At the same time, the project management teams will be expanded in line with our localization policy. To this end, a number of professionals with rich experience in the mainland market and property development have been recruited as project leaders. All these measures will result in an acceleration of the Group's development projects in mainland China.

The Group expects that most of the residential projects will be ready for sales in 2010 or 2011. Both the sales force and leasing team in mainland China have been strengthened, whilst the local senior marketing executives have also been under rigorous training. Upon completion of the training programme, they will receive internship in different cities and subsequently be assigned to frontline sales and marketing duties for the Group's impending launches of various projects.

On the property investment front, continued improvement in the local economy will strengthen leasing demand across all property sectors, leading to a better leasing performance for the Group's rental portfolio in Hong Kong. The Group's recently-completed rental premises in Kowloon East, in particular, are expected to record strong growth with the relocation of many corporate tenants from sectors ranging from finance to manufacturing to that district. The leasing rate for this portfolio of about 2,000,000 square feet is expected to have steady growth. In mainland China, the recent completion of Centro and the scheduled completion of Henderson Metropolitan in Shanghai in the first half of 2010 will expand the Group's mainland rental portfolio by about 1.2 million square feet to about 6.4 million square feet in gross floor area. As such, rental income in mainland China is set to increase further.

Capitalizing on the buoyant property market, the Group has rapidly expanded its development land bank in Hong Kong (through conversion of agricultural land or existing properties into other purposes, as well as expedited property developments and acquisitions of old buildings) so that a total of 5,760,000 square feet is available for development, with a further 4,000,000 square feet in gross floor area becoming available hopefully by the end of 2010 and 15,000,000 square feet beyond 2010. At the same time, the Group has built up a substantial development land bank in mainland China, totalling 146.2 million square feet in developable gross floor area. These extensive land resources in both Hong Kong and mainland China are expected to provide handsome return.

In addition, the expanding rental portfolio in both Hong Kong and mainland China will provide the Group with rising recurrent rental income, whilst the contributions by the three listed associates, namely, Hong Kong and China Gas, Hong Kong Ferry and Miramar, are also expected to record steady growth. Given the Group's four valuable growth drivers, namely: (i) continued expansion of the Group's agricultural land reserve, already the largest among all property developers in Hong Kong, from 32.8 million square feet at 31 December 2009 to the current level of 40 million square feet in land area as well as its expedited land-use conversion; (ii) proven experience of expanding property developments by acquiring prime urban sites at reasonable prices; (iii) the huge, low-cost development land bank in mainland China, the handsome returns from which will be gradually realized in line with their accelerated development, and (iv) the Group's investment in Hong Kong and China Gas (for each of the issued shares of the Company, it has a holding of about 1.21 shares

of Hong Kong and China Gas whose prevailing market value of approximately HK\$23.1 based on its closing price of HK\$19.1 as at 30 March 2010 represents about 40% of the market price for each issued share of the Company), which is expected to grow 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, the creation of value for shareholders over the long term is assured. There are thus ample reasons to be optimistic about the future of the Group.

### **Appreciation**

I would like to take this opportunity to express my gratitude to my fellow directors for their support and wise counsel, and to thank all our staff for their dedication and hard work.

**Lee Shau Kee**

*Chairman*

Hong Kong, 30 March 2010

## BUSINESS RESULTS

### CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE PERIOD FROM 1 JULY 2008 TO 31 DECEMBER 2009

	<i>Note</i>	<i>Period from 1 July 2008 to 31 December 2009</i>	<i>Year ended 30 June 2008 (restated)</i>
		<b>HK\$ million</b>	<b>HK\$ million</b>
<b>Turnover</b>	3	<b>15,230</b>	13,492
<b>Direct costs</b>		<b>(7,264)</b>	<b>(7,343)</b>
		<b>7,966</b>	6,149
Other revenue	5	<b>368</b>	326
Other net income	5	<b>56</b>	297
Other operating (expenses)/income, net	6	<b>(283)</b>	(197)
Selling and marketing expenses		<b>(870)</b>	(886)
Administrative expenses		<b>(2,033)</b>	<b>(1,249)</b>
<b>Profit from operations before changes in fair value of investment properties</b>		<b>5,204</b>	4,440
Increase in fair value of investment properties	7	<b>7,156</b>	6,706
<b>Profit from operations after changes in fair value of investment properties</b>		<b>12,360</b>	11,146
Finance costs	8(a)	<b>(1,341)</b>	(576)
		<b>11,019</b>	10,570
Share of profits less losses of associates		<b>3,074</b>	3,224
Share of profits less losses of jointly controlled entities		<b>4,363</b>	3,938
<b>Profit before taxation</b>	8	<b>18,456</b>	17,732
Income tax	9	<b>(2,356)</b>	(1,410)
<b>Profit for the period/year</b>		<b>16,100</b>	16,322
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>14,320</b>	15,473
Minority interests		<b>1,780</b>	849
<b>Profit for the period/year</b>		<b>16,100</b>	16,322

**CONSOLIDATED PROFIT AND LOSS ACCOUNT  
FOR THE PERIOD FROM 1 JULY 2008 TO 31 DECEMBER 2009 (continued)**

	<i>Note</i>	<i>Period from 1 July 2008 to 31 December 2009</i>	<i>Year ended 30 June 2008 (restated)</i>
		<b>HK\$ million</b>	<b>HK\$ million</b>
<b>Dividends payable to equity shareholders of the Company attributable to the period/year:</b>	10		
Interim dividends declared during the period/year		1,288	859
Final dividend proposed after the balance sheet date		<u>1,503</u>	<u>1,503</u>
		<u><b>2,791</b></u>	<u><b>2,362</b></u>
<b>Earnings per share - basic and diluted</b>	11(a)	<u><b>HK\$6.67</b></u>	<u>HK\$7.54</u>
<i>Adjusted earnings per share</i>	11(b)	<u><i>HK\$2.84</i></u>	<u><i>HK\$2.78</i></u>

**CONSOLIDATED BALANCE SHEET  
AT 31 DECEMBER 2009**

	<i>Note</i>	<i>At 31 December 2009</i>	<i>At 30 June 2008 (restated)</i>
		<b>HK\$ million</b>	<b>HK\$ million</b>
<b>Non-current assets</b>			
Fixed assets		<b>69,320</b>	59,313
Intangible operating rights		<b>508</b>	749
Interests in leasehold land held for own use under operating leases		<b>976</b>	1,006
Interest in associates		<b>35,569</b>	33,993
Interest in jointly controlled entities		<b>16,711</b>	13,891
Derivative financial instruments		<b>516</b>	268
Other financial assets		<b>1,919</b>	2,164
Deferred tax assets		<b>156</b>	129
		<b>125,675</b>	111,513
<b>Current assets</b>			
Deposits for acquisition of properties		<b>5,894</b>	4,840
Inventories		<b>41,541</b>	37,624
Trade and other receivables	12	<b>7,365</b>	5,072
Cash held by stakeholders		<b>46</b>	154
Cash and cash equivalents		<b>10,525</b>	15,675
		<b>65,371</b>	63,365
Assets classified as held for sale		<b>196</b>	-
		<b>65,567</b>	63,365
<b>Current liabilities</b>			
Trade and other payables	13	<b>5,359</b>	4,589
Bank loans and overdrafts		<b>4,858</b>	3,307
Current taxation		<b>713</b>	879
		<b>10,930</b>	8,775
Liabilities associated with assets classified as held for sale		<b>39</b>	-
		<b>10,969</b>	8,775
<b>Net current assets</b>		<b>54,598</b>	54,590
<b>Total assets less current liabilities</b>		<b>180,273</b>	166,103

**CONSOLIDATED BALANCE SHEET  
AT 31 DECEMBER 2009 (continued)**

	<i>Note</i>	<i>At 31 December 2009</i>	<i>At 30 June 2008 (restated)</i>
		<b>HK\$ million</b>	HK\$ million
<b>Non-current liabilities</b>			
Bank loans		24,157	29,007
Guaranteed notes		6,994	3,312
Amount due to a fellow subsidiary		2,210	1,872
Derivative financial instruments		557	309
Deferred tax liabilities		8,845	7,441
		<u>42,763</u>	<u>41,941</u>
<b>NET ASSETS</b>		<u><b>137,510</b></u>	<u>124,162</u>
<b>CAPITAL AND RESERVES</b>			
Share capital		4,294	4,294
Reserves		128,833	116,902
<b>Total equity attributable to equity shareholders of the Company</b>		<b>133,127</b>	121,196
<b>Minority interests</b>		<u><b>4,383</b></u>	<u>2,966</u>
<b>TOTAL EQUITY</b>		<u><b>137,510</b></u>	<u>124,162</u>

## Notes:

### 1 Basis of preparation

The final results set out in this announcement do not constitute the Group's statutory accounts for the period ended 31 December 2009 but are extracted from those accounts.

The statutory accounts have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. Those accounts also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The measurement basis used in the preparation of the accounts is the historical cost basis except that investment properties (included under "Fixed assets"), derivative financial instruments (including those derivative financial instruments included under "Trade and other payables") and financial instruments classified as available-for-sale equity securities (included under "Other financial assets") are stated at their fair value. Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

Pursuant to a resolution of the Board of Directors dated 19 March 2009, the Company's financial year end date has been changed from 30 June to 31 December in order to align with that of its major listed associate, The Hong Kong and China Gas Company Limited, and of project companies established in mainland China through which the Company invests in property portfolios and infrastructure projects in mainland China. The consolidated accounts for the period cover eighteen months from 1 July 2008 to 31 December 2009. Accordingly, the comparative figures (which cover a period of twelve months from 1 July 2007 to 30 June 2008) for the consolidated profit and loss account and related notes now presented are not comparable with those of the current period.

## 2 Significant accounting policies

The HKICPA has issued a number of new and revised HKFRSs and Interpretations that are first effective or available for early adoption for the current accounting period of the Group.

There have been no significant changes to the accounting policies applied in the accounts for the periods presented as a result of these developments, except for the adoption of HK(IFRIC)-Int 12 “*Service concession arrangements*” which affects the classification of the Group’s toll bridge and retained profits in the accounts.

In prior years, the Group accounted for its toll bridge under public-to-private service concession arrangement as fixed assets. Following the adoption of HK(IFRIC)-Int 12, the Group’s toll bridge has been reclassified from “Fixed assets” to “Intangible operating rights” and is accounted for as an intangible operating right to the extent that the Group receives a right (a license) to charge users of the public services. Amortisation is provided to write off the cost of the intangible operating right, using the straight-line method, over the operating period of the Group’s toll bridge of 29 years. This change in accounting policy has been adopted retrospectively from the earliest period presented and comparative amounts have been restated.

The adoption of HK(IFRIC)-Int 12 results in the following impact:

	<i>At 31 December</i> <b>2009</b> <b>HK\$ million</b>	<i>At 30 June</i> <b>2008</b> <b>HK\$ million</b>
<b>Balance sheet</b>		
Increase in intangible operating rights	<b>508</b>	563
Decrease in fixed assets	<b>(541)</b>	(599)
Decrease in retained profits	<b>(22)</b>	(24)
Decrease in minority interests	<b>(11)</b>	(12)
	<b>Period from</b> <b>1 July 2008</b> <b>to 31 December</b> <b>2009</b> <b>HK\$ million</b>	<b>Year ended</b> <b>30 June</b> <b>2008</b> <b>HK\$ million</b>
<b>Profit and loss account</b>		
Increase in amortisation charge for the period/year	<b>61</b>	38
Decrease in depreciation charge for the period/year	<b>(64)</b>	(40)



## 2 Significant accounting policies (continued)

Up to the date of issue of the accounts, the HKICPA has issued a number of amendments, new standards and new interpretations which are not yet effective for the period ended 31 December 2009 and which have not been adopted in the accounts.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of HKFRS 8 “*Operating segments*” and revised HKAS 1 “*Presentation of financial statements*”, which are effective for accounting periods beginning on or after 1 January 2009, may result in new or amended disclosures in the accounts. In addition, the “*Improvements to HKFRSs (2008)*” would result in the change in the Group’s accounting policy for investment property as explained below.

The “*Improvements to HKFRSs (2008)*” comprises a number of minor and non-urgent amendments to a range of HKFRSs which the HKICPA has issued as an omnibus batch of amendments. Of these, as a result of the amendments to HKAS 40 “*Investment property*”, investment property which is under construction will be carried at fair value at the earlier of when the fair value 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 effective for accounting periods beginning on or after 1 January 2009 and the adoption of HKAS 40 will result in a prospective change in the Group’s accounting policy for investment property which is under construction.

In respect of other amendments, new standards and new interpretations, the Group is not yet in a position to state whether they would have a significant impact on the Group’s results of operations and financial position.

### 3 Turnover

Turnover of the Group represents proceeds 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:

	<i>Period from 1 July 2008 to 31 December 2009 HK\$ million</i>	<i>Year ended 30 June 2008 HK\$ million</i>
Sale of properties (note)	<b>8,673</b>	9,173
Rental income	<b>4,178</b>	2,625
Construction	<b>400</b>	317
Infrastructure	<b>441</b>	272
Hotel operation	<b>248</b>	186
Department store operation	<b>406</b>	257
Others	<b>884</b>	662
	<b>15,230</b>	13,492

Note: Sale of properties for the eighteen months ended 31 December 2009 includes an amount of HK\$144 million (Year ended 30 June 2008: HK\$920 million) relating to the Group's share of sale proceeds from its interest in a property project jointly developed by the Group and an associate.

### 4 Segmental information

Segmental information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

#### *Business segments*

The Group comprises the following main business 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

## 4 Segmental information (continued)

### *Business segments (continued)*

	<i>Property development</i> HK\$ million	<i>Property leasing</i> HK\$ million	<i>Construction</i> HK\$ million	<i>Infrastructure</i> HK\$ million	<i>Hotel operation</i> HK\$ million	<i>Department store operation</i> HK\$ million	<i>Others</i> HK\$ million	<i>Eliminations</i> HK\$ million	<i>Consolidated</i> HK\$ million
<i>Period from 1 July 2008 to 31 December 2009</i>									
<b>Income and results</b>									
Turnover	8,673	4,178	400	441	248	406	884	-	15,230
Other revenue (excluding bank interest income)	4	13	2	-	17	3	79	-	118
External revenue	8,677	4,191	402	441	265	409	963	-	15,348
Inter-segment revenue	-	294	2,125	-	1	-	79	(2,499)	-
Total revenue	8,677	4,485	2,527	441	266	409	1,042	(2,499)	15,348
Segment results	3,155	2,696	86	335	33	7	460		6,772
Inter-segment transactions	16	(75)	(106)	-	(1)	57	(66)		(175)
Contribution from operations	3,171	2,621	(20)	335	32	64	394		6,597
Bank interest income									250
Provision on inventories	(34)	-	-	-	-	-	-		(34)
Impairment loss on available-for- sale equity securities	-	-	-	-	-	-	(73)		(73)
Unallocated operating expenses net of income									(1,536)
Profit from operations									5,204
Increase in fair value of investment properties									7,156
Finance costs									(1,341)
									11,019
Share of profits less losses of associates (note (i))									3,074
Share of profits less losses of jointly controlled entities (note (ii))									4,363
Profit before taxation									18,456
Income tax									(2,356)
Profit for the period									16,100

## 4 Segmental information (continued)

### *Business segments (continued)*

	<i>Property development</i> HK\$ million	<i>Property leasing</i> HK\$ million	<i>Construction</i> HK\$ million	<i>Infrastructure</i> HK\$ million	<i>Hotel operation</i> HK\$ million	<i>Department store operation</i> HK\$ million	<i>Others</i> HK\$ million	<i>Eliminations</i> HK\$ million	<i>Consolidated</i> HK\$ million
<i>Period from 1 July 2008 to 31 December 2009 (continued)</i>									
<b>Balance sheet</b>									
Segment assets	55,554	65,925	277	551	1,801	74	2,882	(173)	126,891
Interest in associates									35,569
Interest in jointly controlled entities									16,711
Unallocated assets									<u>12,071</u>
Total assets									<u>191,242</u>
Segment liabilities	1,189	1,575	1,285	37	14	135	778	(173)	4,840
Unallocated liabilities									<u>48,892</u>
Total liabilities									<u>53,732</u>
<b>Other information</b>									
Depreciation and amortisation for the period	<u>9</u>	<u>20</u>	<u>10</u>	<u>70</u>	<u>85</u>	<u>6</u>	<u>81</u>		
Capital expenditure incurred during the period	<u>11,524</u>	<u>117</u>	<u>59</u>	<u>9</u>	<u>12</u>	<u>6</u>	<u>8</u>		

## 4 Segmental information (continued)

### *Business segments (continued)*

	<i>Property development</i> HK\$ million	<i>Property leasing</i> HK\$ million	<i>Construction</i> HK\$ million	<i>Infrastructure</i> HK\$ million	<i>Hotel operation</i> HK\$ million	<i>Department store operation</i> HK\$ million	<i>Others</i> HK\$ million	<i>Eliminations</i> HK\$ million	<i>Consolidated</i> HK\$ million
<i>Year ended 30 June 2008 (restated)</i>									
<b>Income and results</b>									
Turnover	9,173	2,625	317	272	186	257	662	-	13,492
Other revenue (excluding bank interest income)	3	7	3	1	13	3	53	-	83
External revenue	9,176	2,632	320	273	199	260	715	-	13,575
Inter-segment revenue	-	173	1,835	-	1	-	65	(2,074)	-
Total revenue	<u>9,176</u>	<u>2,805</u>	<u>2,155</u>	<u>273</u>	<u>200</u>	<u>260</u>	<u>780</u>	<u>(2,074)</u>	<u>13,575</u>
Segment results	2,709	1,792	85	194	39	1	400		5,220
Inter-segment transactions	28	(51)	(84)	-	-	41	(57)		(123)
Contribution from operations	<u>2,737</u>	<u>1,741</u>	<u>1</u>	<u>194</u>	<u>39</u>	<u>42</u>	<u>343</u>		5,097
Bank interest income									243
Provision on inventories	(27)	-	-	-	-	-	-		(27)
Unallocated operating expenses net of income									(873)
Profit from operations									4,440
Increase in fair value of investment properties									6,706
Finance costs									(576)
									10,570
Share of profits less losses of associates (note (i))									3,224
Share of profits less losses of jointly controlled entities (note (ii))									3,938
Profit before taxation									17,732
Income tax									(1,410)
Profit for the year									<u>16,322</u>

## 4 Segmental information (continued)

### *Business segments (continued)*

	<i>Property development</i> HK\$ million	<i>Property leasing</i> HK\$ million	<i>Construction</i> HK\$ million	<i>Infrastructure</i> HK\$ million	<i>Hotel operation</i> HK\$ million	<i>Department store operation</i> HK\$ million	<i>Others</i> HK\$ million	<i>Eliminations</i> HK\$ million	<i>Consolidated</i> HK\$ million
<i>Year ended 30 June 2008 (restated) (continued)</i>									
<b>Balance sheet</b>									
Segment assets	48,899	54,762	287	1,428	1,855	44	2,697	(198)	109,774
Interest in associates									33,993
Interest in jointly controlled entities									13,891
Unallocated assets									<u>17,220</u>
Total assets									<u>174,878</u>
Segment liabilities	2,017	788	827	56	15	93	507	(198)	4,105
Unallocated liabilities									<u>46,611</u>
Total liabilities									<u>50,716</u>
<b>Other information</b>									
Depreciation and amortisation for the year	<u>4</u>	<u>10</u>	<u>2</u>	<u>50</u>	<u>54</u>	<u>4</u>	<u>47</u>		
Capital expenditure incurred during the year	<u>10,769</u>	<u>115</u>	<u>-</u>	<u>1</u>	<u>52</u>	<u>3</u>	<u>3</u>		

#### 4 Segmental information (continued)

##### *Geographical segments*

	<i>Hong Kong</i> HK\$ million	<i>Mainland</i> <i>China</i> HK\$ million	<i>Consolidated</i> HK\$ million
<i>Period from 1 July 2008 to 31 December 2009</i>			
Turnover	13,832	1,398	15,230
Other revenue (excluding bank interest income)	<u>100</u>	<u>18</u>	<u>118</u>
External revenue	<u>13,932</u>	<u>1,416</u>	<u>15,348</u>
Segment assets	<u>93,250</u>	<u>33,814</u>	
Capital expenditure incurred during the period	<u>6,811</u>	<u>4,924</u>	
<i>Year ended 30 June 2008</i>			
Turnover	11,302	2,190	13,492
Other revenue (excluding bank interest income)	<u>69</u>	<u>14</u>	<u>83</u>
External revenue	<u>11,371</u>	<u>2,204</u>	<u>13,575</u>
Segment assets	<u>84,085</u>	<u>25,887</u>	
Capital expenditure incurred during the year	<u>6,833</u>	<u>4,110</u>	

##### Notes:

- (i) Included in the Group's share of profits less losses of associates during the period is a profit of HK\$261 million (Year ended 30 June 2008: HK\$983 million) contributed from the property development segment, and a profit of HK\$959 million (Year ended 30 June 2008: HK\$1,258 million) contributed from the property leasing segment (taking into account the increase in fair value of investment properties (net of deferred taxation) during the period of HK\$467 million (Year ended 30 June 2008: HK\$1,015 million)).
- (ii) Included in the Group's share of profits less losses of jointly controlled entities during the period is a profit of HK\$251 million (Year ended 30 June 2008: HK\$390 million) contributed from the property development segment, and a profit of HK\$3,916 million (Year ended 30 June 2008: HK\$3,342 million) contributed from the property leasing segment (taking into account the increase in fair value of investment properties (net of deferred taxation) during the period of HK\$3,000 million (Year ended 30 June 2008: HK\$2,976 million)).

**5 Other revenue and other net income**

	<i>Period from 1 July 2008 to 31 December 2009 HK\$ million</i>	<i>Year ended 30 June 2008 HK\$ million</i>
<i>Other revenue</i>		
Bank interest income	<b>250</b>	243
Other interest income	<b>17</b>	13
Others	<b>101</b>	70
	<hr/> <b>368</b> <hr/>	<hr/> 326 <hr/>
<i>Other net income</i>		
Net foreign exchange (loss)/gain	<b>(54)</b>	227
Net profit on disposal of fixed assets	<b>69</b>	71
Gain on sale of listed investments	<b>37</b>	1
Net fair value loss on derivative financial instruments	<b>-</b>	(3)
Others	<b>4</b>	1
	<hr/> <b>56</b> <hr/>	<hr/> 297 <hr/>



## 6 Other operating (expenses)/income, net

	<i>Period from 1 July 2008 to 31 December 2009</i>	<i>Year ended 30 June 2008</i>
	<b>HK\$ million</b>	<b>HK\$ million</b>
Net gain on disposal of subsidiaries (note (i))	<b>48</b>	150
Excess of interest in fair values of the acquirees' identifiable assets over cost of business combination	-	10
(Impairment loss)/reversal of impairment loss for trade and other receivables		
- trade debtors	<b>(56)</b>	63
- others (note (ii))	-	(266)
Provision on inventories	<b>(34)</b>	(27)
Impairment loss on available-for-sale equity securities	<b>(73)</b>	-
Others	<b>(168)</b>	(127)
	<b>(283)</b>	(197)

Notes:

- (i) During the eighteen months ended 31 December 2009, the Group sold a subsidiary which was engaged in property leasing business for an aggregate consideration of HK\$60 million. During the year ended 30 June 2008, the Group sold certain subsidiaries which were engaged in property leasing and infrastructure business for an aggregate consideration of HK\$470 million. This resulted in a net gain on disposal of HK\$48 million (Year ended 30 June 2008: HK\$150 million).
- (ii) The impairment loss for the year ended 30 June 2008 as referred to above included an amount of HK\$257 million which was written off against certain prepayment of development costs in relation to a property development project in mainland China which was terminated during that year.

## 7 Increase in fair value of investment properties

The investment properties were revalued at 31 December 2009 by DTZ, 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 rental income allowing for reversionary income potential.

## 8 Profit before taxation

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

	<i>Period from 1 July 2008 to 31 December 2009 HK\$ million</i>	<i>Year ended 30 June 2008 HK\$ million</i>
<b>(a) Finance costs:</b>		
Bank interest	1,343	807
Interest on loans wholly repayable within five years	212	82
Interest on loans repayable after five years	227	166
Other borrowing costs	130	41
	<u>1,912</u>	<u>1,096</u>
Less: Amount capitalised *	<u>(571)</u>	<u>(520)</u>
	<u><u>1,341</u></u>	<u><u>576</u></u>
<p>* The borrowing costs have been capitalised at rates ranging from 1.87% to 6.55% (Year ended 30 June 2008: 1.82% to 6.37%) per annum.</p>		
<b>(b) Directors' remuneration:</b>		
- For the six months from 1 July 2008 to 31 December 2008	103	-
- For the twelve months from 1 January 2009 to 31 December 2009	156	-
- For the year ended 30 June 2008	-	162
	<u>259</u>	<u>162</u>
<b>(c) Staff costs (other than directors' remuneration):</b>		
Salaries, wages and other benefits	1,927	1,161
Contributions to defined contribution retirement plans	77	46
	<u>2,004</u>	<u>1,207</u>

## 8 Profit before taxation (continued)

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

	<i>Period from 1 July 2008 to 31 December 2009</i>	<i>Year ended 30 June 2008 (restated)</i>
	<b>HK\$ million</b>	<b>HK\$ million</b>
<b>(d) Other items:</b>		
Depreciation	<b>185</b>	104
Less: Amount capitalised	<b>(3)</b>	(2)
	<b>182</b>	102
Net foreign exchange gains	<b>(92)</b>	(228)
Cash flow hedges: net foreign exchange losses reclassified from equity, net of deferred tax	<b>146</b>	1
	<b>54</b>	(227)
Amortisation of land lease premium	<b>30</b>	20
Amortisation of intangible operating rights	<b>69</b>	49
Cost of sales		
- completed properties for sale (note (i))	<b>4,566</b>	5,606
- trading stocks	<b>379</b>	213
Auditors' remuneration	<b>22</b>	20
Rentals receivable from investment properties net of direct outgoings of HK\$1,301 million (Year ended 30 June 2008: HK\$714 million) (note (ii))	<b>(2,216)</b>	(1,464)
Other rental income less direct outgoings	<b>(405)</b>	(278)
Dividend income from investments in available- for-sale equity securities		
- listed	<b>(26)</b>	(28)
- unlisted	<b>(23)</b>	(16)

Notes:

- (i) Included in the cost of sales for the eighteen months ended 31 December 2009 in respect of completed properties for sale is an amount of HK\$36 million (Year ended 30 June 2008: HK\$324 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.
- (ii) Included contingent rental income of HK\$208 million for the eighteen months ended 31 December 2009 (Year ended 30 June 2008: HK\$141 million).

## 9 Income tax

*Income tax in the consolidated profit and loss account represents:*

	<i>Period from 1 July 2008 to 31 December 2009 HK\$ million</i>	<i>Year ended 30 June 2008 HK\$ million</i>
<b>Current tax - Provision for Hong Kong Profits Tax</b>		
Provision for the period/year	774	467
(Over)/under-provision in respect of prior years	<u>(4)</u>	<u>3</u>
	<u>770</u>	<u>470</u>
<b>Current tax - Provision for taxation outside Hong Kong</b>		
Provision for the period/year	129	171
Under-provision in respect of prior years	<u>26</u>	<u>40</u>
	<u>155</u>	<u>211</u>
<b>Current tax - Provision for Land Appreciation Tax</b>		
Provision for the period/year	<u>78</u>	<u>50</u>
<b>Deferred taxation</b>		
Origination and reversal of temporary differences	1,346	981
Effect of change in tax rate	<u>7</u>	<u>(302)</u>
	<u>1,353</u>	<u>679</u>
	<u>2,356</u>	<u>1,410</u>

Provision for Hong Kong Profits Tax has been made at 16.5% (Year ended 30 June 2008: 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 foreign 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 proceeds of sale of properties less deductible expenditure including lease charges of land use rights, borrowing costs and all property development expenditure.

## 10 Dividends

### (a) *Dividends payable to equity shareholders of the Company attributable to the period/year:*

	<i>Period from 1 July 2008 to 31 December 2009 HK\$ million</i>	<i>Year ended 30 June 2008 HK\$ million</i>
Interim dividend declared and paid for 2007/2008 of HK\$0.4 per share	-	859
First interim dividend declared and paid for 2008/2009 of HK\$0.3 per share	<b>644</b>	-
Second interim dividend declared and paid for 2008/2009 of HK\$0.3 per share	<b>644</b>	-
Final dividend proposed after the balance sheet date of HK\$0.7 (Year ended 30 June 2008: HK\$0.7) per share	<u><b>1,503</b></u>	<u>1,503</u>
	<u><b>2,791</b></u>	<u>2,362</u>

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

### (b) *Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the period/year:*

	<i>Period from 1 July 2008 to 31 December 2009 HK\$ million</i>	<i>Year ended 30 June 2008 HK\$ million</i>
Final dividend in respect of the previous financial year, approved and paid during the period/year, of HK\$0.7 (Year ended 30 June 2008: HK\$0.7) per share	<u><b>1,503</b></u>	<u>1,360</u>

## 11 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\$14,320 million (Year ended 30 June 2008 (restated): HK\$15,473 million) and on the weighted average number of 2,147 million ordinary shares (Year ended 30 June 2008: 2,052 million ordinary shares) in issue during the period/year.

There were no dilutive potential shares in existence during the year ended 30 June 2008 and the eighteen months ended 31 December 2009, therefore diluted earnings per share are the same as basic earnings per share for both the current period and prior year.

- (b) The calculation of adjusted earnings per share is based on the profit attributable to equity shareholders of the Company and adjusted as follows:

	<i>Period from 1 July 2008 to 31 December 2009</i>	<i>Year ended 30 June 2008 (restated)</i>
	<b>HK\$ million</b>	HK\$ million
Profit attributable to equity shareholders of the Company	<b>14,320</b>	15,473
Effect of changes in fair value of investment properties	<b>(7,156)</b>	(6,706)
Effect of deferred taxation on changes in fair value of investment properties	<b>1,455</b>	732
Effect of share of changes in fair value of investment properties (net of deferred taxation) of:		
- associates	<b>(467)</b>	(1,015)
- jointly controlled entities	<b>(3,000)</b>	(2,976)
Effect of share of minority interests	<b>936</b>	200
Adjusted earnings for calculation of earnings per share	<b>6,088</b>	5,708
Adjusted earnings per share	<b>HK\$2.84</b>	HK\$2.78

## 12 Trade and other receivables

	<i>At 31 December</i> <b>2009</b> HK\$ million	<i>At 30 June</i> <b>2008</b> HK\$ million
Instalments receivable	<b>4,709</b>	2,078
Debtors, prepayments and deposits	<b>2,389</b>	2,540
Gross amount due from customers for contract work	<b>10</b>	48
Amounts due from associates	<b>250</b>	393
Amounts due from jointly controlled entities	<b>7</b>	13
	<b>7,365</b>	5,072

- (i) All of the trade and other receivables are expected to be recovered or recognised as expense within one year except for various deposits and other receivables of HK\$440 million (30 June 2008: HK\$413 million) which are expected to be recovered after more than one year.
- (ii) 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:

	<i>At 31 December</i> <b>2009</b> HK\$ million	<i>At 30 June</i> <b>2008</b> HK\$ million
Current or under 1 month overdue	<b>4,572</b>	1,594
More than 1 month overdue and up to 3 months overdue	<b>78</b>	792
More than 3 months overdue and up to 6 months overdue	<b>42</b>	147
More than 6 months overdue	<b>601</b>	492
	<b>5,293</b>	3,025

- (iii) Included in trade debtors at 31 December 2009 was an amount of RMB33 million (equivalent to approximately HK\$37 million) (30 June 2008: RMB474 million (equivalent to approximately HK\$539 million)) which relates to toll income receivable of Hangzhou Henderson Qianjiang Third Bridge Company, Limited, a 60% owned subsidiary of Henderson Investment Limited, which is engaged in the operation of a toll bridge in Hangzhou, mainland China. The toll income 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. During the period, the toll income receivable at 30 June 2008 was fully recovered.

## 12 Trade and other receivables (continued)

- (iv) 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. 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 these receivables. Adequate impairment losses have been made for estimated irrecoverable amounts.
- (v) The amounts due from associates and jointly controlled entities are unsecured, interest-free and have no fixed terms of repayment.

## 13 Trade and other payables

	<i>At 31 December</i> <b>2009</b> HK\$ million	<i>At 30 June</i> <b>2008</b> HK\$ million
Creditors and accrued expenses	<b>4,395</b>	2,912
Rental and other deposits	<b>730</b>	556
Forward sales deposits received	<b>50</b>	821
Derivative financial instruments	<b>12</b>	-
Amounts due to associates	<b>46</b>	177
Amounts due to jointly controlled entities	<b>126</b>	123
	<b>5,359</b>	4,589

- (i) All of the trade and other payables are expected to be settled within one year except for an amount of HK\$410 million (30 June 2008: HK\$340 million) which is expected to be settled after more than one year.



### 13 Trade and other payables (continued)

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

	<i>At 31 December</i> <b>2009</b> HK\$ million	<i>At 30 June</i> 2008 HK\$ million
Due within 1 month or on demand	<b>816</b>	683
Due after 1 month but within 3 months	<b>446</b>	290
Due after 3 months but within 6 months	<b>287</b>	183
Due after 6 months	<b>1,417</b>	877
	<hr/> <b>2,966</b> <hr/>	<hr/> 2,033 <hr/>

(iii) The amounts due to associates and jointly controlled entities are unsecured, interest-free and have no fixed terms of repayment.

### 14 Comparative figures

As a result of adopting HK(IFRIC) - Int 12 “*Service concession arrangements*”, certain comparative figures have been restated. Details of the adoption of this new accounting policy are set out in note 2. In addition, certain other comparative figures have been reclassified to conform with current period’s classification.

### 15 Review of results

The financial results for the eighteen months ended 31 December 2009 have been reviewed with no disagreement by the Audit Committee of the Company.

The figures in respect of the preliminary announcement of the Group’s results for the eighteen months ended 31 December 2009 have been compared by the Company’s auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group’s draft accounts for the period and the amounts were found to be in agreement. The work performed by KPMG in this respect was limited and did not constitute any audit, review or other assurance engagement and consequently no assurance has been expressed by KPMG on this announcement.

## FINANCIAL REVIEW

### Results of operations

The following discussions should be read in conjunction with the Company's audited consolidated financial statements for the eighteen months ended 31 December 2009.

#### Turnover and profit

	<i>Turnover</i>		<i>Contribution from operations</i>	
	<i>Eighteen months ended 31 December 2009</i>	<i>Year ended 30 June 2008</i>	<i>Eighteen months ended 31 December 2009</i>	<i>Year ended 30 June 2008 (restated)</i>
	<b>HK\$ million</b>	HK\$ million	<b>HK\$ million</b>	HK\$ million
<i>Business segments</i>				
- Property development	<b>8,673</b>	9,173	<b>3,171</b>	2,737
- Property leasing	<b>4,178</b>	2,625	<b>2,621</b>	1,741
- Construction	<b>400</b>	317	<b>(20)</b>	1
- Infrastructure	<b>441</b>	272	<b>335</b>	194
- Hotel operation	<b>248</b>	186	<b>32</b>	39
- Department store operation	<b>406</b>	257	<b>64</b>	42
- Other businesses	<b>884</b>	662	<b>394</b>	343
	<b>15,230</b>	13,492	<b>6,597</b>	5,097
			<i>Eighteen months ended 31 December 2009</i>	<i>Year ended 30 June 2008 (restated)</i>
			<b>HK\$ million</b>	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			<b>14,320</b>	15,473
- 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			<b>6,088</b>	5,708

The Group recorded an increase in turnover for the eighteen months ended 31 December 2009 of HK\$1,738 million, or 13%, to HK\$15,230 million (Year ended 30 June 2008: HK\$13,492 million). The increase was mainly attributable to an extended accounting period of eighteen months currently being reported on when compared with the previous period of twelve months ended 30 June 2008. Nevertheless, turnover in the Group's property development business segment during the period decreased by HK\$500 million, or 5%, from that for the previous financial year for the reason that the Group's property sales during the first twelve months ended 30 June 2009 were adversely affected by the unfavourable market conditions after the outbreak of the global financial crisis in September 2008.

Profit attributable to equity shareholders of the Company for the eighteen months ended 31 December 2009, 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\$6,088 million (Year ended 30 June 2008 (restated): HK\$5,708 million), representing an increase of HK\$380 million, or 7%, over that for the previous financial year. Such increase was mainly attributable to the increase in profit contribution from the Group's business segments of property development, property leasing, infrastructure, department store operation and other businesses as referred to 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 eighteen months ended 31 December 2009 were HK\$2.84 (Year ended 30 June 2008: HK\$2.78).

Discussions on the major business segments are set out below.

### ***Property development***

Revenue from property development for the eighteen months ended 31 December 2009 amounted to HK\$8,673 million (Year ended 30 June 2008: HK\$9,173 million), representing a decrease of HK\$500 million, or 5%, from that for the previous financial year. During the eighteen months ended 31 December 2009, the Group's sales of the major property projects included 39 Conduit Road, The Sparkle, 8 Royal Green, The Beverly Hills and Cité 33 in Hong Kong, as well as Hengli Wanpan Huayuan in Guangzhou and residential apartment units of Henderson Centre in Beijing, mainland China. Together with the sales of other completed properties, total profit contribution amounted to HK\$3,171 million during the eighteen months ended 31 December 2009 (Year ended 30 June 2008: HK\$2,737 million), representing an increase of HK\$434 million, or 16%, over that for the previous financial year.

During the eighteen months ended 31 December 2009, the Group's share of pre-tax profit contributions from subsidiaries, associates and jointly controlled entities in relation to property development segment in total amounted to HK\$3,739 million (Year ended 30 June 2008: HK\$4,385 million), comprising contribution from subsidiaries of HK\$3,171 million (Year ended 30 June 2008: HK\$2,737 million), contribution from associates of HK\$280 million (Year ended 30 June 2008: HK\$1,185 million) and contribution from jointly controlled entities of HK\$288 million (Year ended 30 June 2008: HK\$463 million). In respect of the foregoing, the contribution from associates during the eighteen months ended 31 December 2009 included (inter alia) profits generated from the sales of units of Grand Promenade held by The Hong Kong and China Gas Company Limited ("HKCG", a listed associate of the Company) and 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).

Turnover for the eighteen months ended 31 December 2009 included an amount of HK\$3,280 million (Year ended 30 June 2008: HK\$Nil) relating to the sale of 25 units at 39 Conduit Road. At the recent requests of the buyers, the completion dates of the sale of 24 units have been extended by two to four months from February 2010. The turnover and profit after taxation arising from these 24 units attributable to the Group for the eighteen months ended 31 December 2009 amounted to HK\$1,912 million and HK\$973 million respectively. Currently, there are no reasons to believe that the sale of such 24 units would not proceed. However, in the event that the sale of such 24 units is not completed, and before taking into account any re-sale of such units, the Group shall recognise an attributable loss of approximately HK\$780 million after forfeiture of deposits.

## ***Property leasing***

Revenue from property leasing for the eighteen months ended 31 December 2009 amounted to HK\$4,178 million (Year ended 30 June 2008: HK\$2,625 million), representing an increase of HK\$1,553 million, or 59%, over that for the previous financial year. At 31 December 2009, 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 97% (30 June 2008: 95%). The average occupancy rate of those investment properties which were completed after 1 January 2008, of which Manulife Financial Centre in Kwun Tong (formerly known as Kwun Tong 223) is the largest by measurement of gross floor area, increased to 60% as at 31 December 2009. 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 eighteen months ended 31 December 2009 amounted to HK\$2,621 million (Year ended 30 June 2008: HK\$1,741 million), representing an increase of HK\$880 million, or 51%, over that for the previous financial year.

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 eighteen months ended 31 December 2009 amounted to HK\$6,522 million (Year ended 30 June 2008: HK\$3,872 million), representing an increase of HK\$2,650 million, or 68%, over that for the previous financial year.

During the eighteen months ended 31 December 2009, 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\$4,540 million which represents an increase of HK\$1,812 million, or 66%, over the corresponding amount of HK\$2,728 million for the previous financial year. The Group's share of pre-tax net rental income comprises contribution from subsidiaries of HK\$2,621 million (Year ended 30 June 2008: HK\$1,741 million), contribution from associates of HK\$653 million (Year ended 30 June 2008: HK\$346 million) and contribution from jointly controlled entities of HK\$1,266 million (Year ended 30 June 2008: HK\$641 million).

The abovementioned increases in the Group's revenue, net rental income and profit contribution from property leasing for the eighteen months ended 31 December 2009 were mainly attributable to an extended accounting period of eighteen months currently being reported on when compared with the previous period of twelve months ended 30 June 2008, as well as the increases in the new rents upon lease renewals and new lettings in a number of cases when compared with the corresponding passing rents.

## ***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 eighteen months ended 31 December 2009, turnover from construction activities increased by 26% to HK\$400 million (Year ended 30 June 2008: HK\$317 million) as a result of the Group's undertaking of construction contracts for two major projects, namely Shining Heights and The Spectacle held by HK Ferry, during the period. Nevertheless, the construction segment reported a loss from operations of HK\$20 million during the eighteen months ended 31 December 2009 (Year ended 30 June 2008: profit contribution of HK\$1 million), for the reasons that (i) the construction segment recorded depreciation charge of HK\$7 million in relation to the construction plant and machinery which were acquired by the Group during the period to undertake the construction activities, whilst no similar depreciation charge was

recorded for the previous financial year; (ii) there was a decrease in the gain on disposal of tower cranes by an amount of HK\$4 million as less number of tower cranes were sold during the period when compared with the previous financial year; and (iii) there was an increase in administrative expenses for the construction segment of HK\$6 million due to an extended accounting period of eighteen months being reported on when compared with the previous period of twelve months ended 30 June 2008.

### ***Infrastructure***

Infrastructure projects in mainland China reported a turnover of HK\$441 million for the eighteen months ended 31 December 2009 (Year ended 30 June 2008: HK\$272 million), representing an increase of HK\$169 million, or 62%, over that for the previous financial year. The increase was primarily driven by an extended accounting period of eighteen months currently being reported on when compared with the previous period of twelve months ended 30 June 2008, as well as the increase in traffic volume of the toll bridge in Hangzhou and the exchange gain upon conversion of Renminbi (“RMB”) to Hong Kong dollars during the eighteen months ended 31 December 2009 when compared with the previous financial year. Profit contribution from this business segment for the eighteen months ended 31 December 2009 increased by HK\$141 million, or 73%, to HK\$335 million (Year ended 30 June 2008 (restated): HK\$194 million).

### ***Hotel operation***

Turnover from hotel operation amounted to HK\$248 million for the eighteen months ended 31 December 2009, representing an increase of HK\$62 million, or 33%, over that for the previous financial year for the reason of an extended accounting period of eighteen months currently being reported on when compared with the previous period of twelve months ended 30 June 2008. However, due to the adverse impacts of the unfavourable economic conditions after the outbreak of the global financial crisis in September 2008 and the outbreak of the H1N1 pandemic in the second quarter of 2009, profit contribution from this business segment for the eighteen months ended 31 December 2009 decreased by HK\$7 million, or 18%, from that for the previous financial year to HK\$32 million.

### ***Department store operation***

During the eighteen months ended 31 December 2009, the Group operated five department stores under the name of “Citistore” and three boutique stores in Hong Kong. Revenue from department store operation for the eighteen months ended 31 December 2009 amounted to HK\$406 million (Year ended 30 June 2008: HK\$257 million), which recorded an increase of HK\$149 million, or 58%, over that for the previous financial year. Profit contribution from department store operation for the eighteen months ended 31 December 2009 amounted to HK\$64 million (Year ended 30 June 2008: HK\$42 million), representing an increase of HK\$22 million, or 52%, over that for the previous financial year.

The abovementioned increases in the Group’s revenue and profit contribution from department store operation for the eighteen months ended 31 December 2009 were mainly attributable to an extended accounting period of eighteen months currently being reported on when compared with the previous period of twelve months ended 30 June 2008.

### *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\$884 million for the eighteen months ended 31 December 2009 (Year ended 30 June 2008: HK\$662 million), representing an increase of HK\$222 million, or 34%, over that for the previous financial year. The increase in turnover during the eighteen months ended 31 December 2009 is mainly attributable to an extended accounting period of eighteen months currently being reported on when compared with the previous period of twelve months ended 30 June 2008, the effect of which was partially offset by a decrease in turnover from project management and sale of leasehold land during the period when compared with that for the financial year ended 30 June 2008. Profit contribution from other businesses for the eighteen months ended 31 December 2009 increased by HK\$51 million, or 15%, to HK\$394 million (Year ended 30 June 2008: HK\$343 million), for the same reason of an extended accounting period of eighteen months (as referred to above) but the effect of which was partially offset by the absence during the period of an exchange gain recognised during the financial year ended 30 June 2008 in the amount of HK\$116 million.

### *Associates*

The Group's share of post-tax profits less losses of associates during the eighteen months ended 31 December 2009 amounted to HK\$3,074 million (Year ended 30 June 2008: HK\$3,224 million), representing a decrease of HK\$150 million, or 5%, from that for the previous financial year. Excluding the Group's attributable share of changes in fair value of investment properties (net of deferred taxation) held by the associates of HK\$467 million during the eighteen months ended 31 December 2009 (Year ended 30 June 2008: HK\$1,015 million), the Group's share of the underlying post-tax profits less losses of associates for the eighteen months ended 31 December 2009 amounted to HK\$2,607 million (Year ended 30 June 2008: HK\$2,209 million), representing an increase of HK\$398 million, or 18%, over that for the previous financial year.

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 eighteen months ended 31 December 2009 amounted to HK\$3,014 million (Year ended 30 June 2008: HK\$2,844 million), representing an increase of HK\$170 million, or 6%, over that for the previous financial year. 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\$482 million during the eighteen months ended 31 December 2009 (Year ended 30 June 2008: HK\$833 million), the Group's share of the underlying post-tax profits of these three listed associates amounted to HK\$2,532 million for the eighteen months ended 31 December 2009 (Year ended 30 June 2008: HK\$2,011 million), representing an increase of HK\$521 million, or 26%, over that for the previous financial year. During the eighteen months ended 31 December 2009, the Group recorded (i) an increase in the share of profits from HKCG of HK\$218 million, mainly for the reason of increased share of profit contribution from property leasing and gas operation businesses in the aggregate amount of HK\$892 million due to an extended accounting period of eighteen months currently being reported on when compared with the previous period of twelve months, which is partially offset by the decrease in share of profit contribution from property sales of HK\$707 million; (ii) a decrease in the share of profits from Miramar of HK\$166 million, mainly for the reasons of the decrease in the Group's share of profit contribution from hotel operations of HK\$54 million due to the phased closure of guestrooms for remodelling and refitting under The Mira Hong Kong's rebranding programme during the financial year ended 31 March 2009 and an increase in the Group's share of fair value loss (after deferred taxation) on Miramar's investment properties of HK\$209 million during the financial period from 1 April 2008 to 31 December 2009 compared with the previous financial year ended 31 March 2008, which are partially offset by an increase in the Group's share of profit contribution from property leasing business in the amount of

HK\$123 million due to an extended accounting period of eighteen months currently being reported on when compared with the previous period of twelve months; and (iii) an increase in the share of profits from HK Ferry of HK\$118 million, mainly for the reason of the increase in the Group's share of profit contribution from property sales of HK\$141 million due to the sales launch of Shining Heights and The Spectacle during the period.

### ***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\$4,363 million (Year ended 30 June 2008: HK\$3,938 million), representing an increase of HK\$425 million, or 11%, over that for the previous financial year. 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\$3,000 million during the eighteen months ended 31 December 2009 (Year ended 30 June 2008: HK\$2,976 million), the Group's share of the underlying post-tax profits less losses of jointly controlled entities for the eighteen months ended 31 December 2009 amounted to HK\$1,363 million (Year ended 30 June 2008: HK\$962 million), representing an increase of HK\$401 million, or 42%, over that of the previous financial year. Such increase was mainly attributable to (i) the increase in the Group's share of profit contribution from property leasing, mainly in relation to the IFC Complex of HK\$518 million due to favourable rental reversions upon lease renewals as well as an extended accounting period of eighteen months currently being reported on when compared with the previous period of twelve months; and (ii) the increase in the Group's share of profit contribution from department store operation in mainland China in the amount of HK\$36 million due to an extended accounting period of eighteen months currently being reported on when compared with the previous period of twelve months, which are partially offset by the decrease in the Group's share of profit contribution from property sales of Grand Promenade of HK\$128 million during the period.

### ***Finance costs***

Finance costs recognised as expenses for the eighteen months ended 31 December 2009 were HK\$1,341 million (Year ended 30 June 2008: HK\$576 million). Finance costs before interest capitalisation for the eighteen months ended 31 December 2009 were HK\$1,912 million (Year ended 30 June 2008: HK\$1,096 million). During the eighteen months ended 31 December 2009, the Group's effective borrowing rate was approximately 3.11% per annum (Year ended 30 June 2008: approximately 4.01% per annum).

### ***Revaluation of investment properties***

The Group recognised an increase in fair value on its investment properties (before deferred taxation and minority interests) of HK\$7,156 million in the consolidated profit and loss account for the eighteen months ended 31 December 2009 (Year ended 30 June 2008: HK\$6,706 million).

## Financial resources and liquidity

### *Maturity profile and interest cover*

At 31 December 2009, the aggregate amount of the Group's bank and other borrowings amounted to approximately HK\$36,031 million (30 June 2008: HK\$35,626 million), of which 99.9% (30 June 2008: 99.9%) in value was unsecured. The maturity profile of the bank and other borrowings, the cash and bank balances and the gearing ratio of the Group were as follows:

	<i>At 31 December 2009</i> HK\$ million	<i>At 30 June 2008</i> HK\$ million
Bank and other borrowings repayable:		
- Within 1 year	4,869	3,307
- After 1 year but within 2 years	5,646	9,093
- After 2 years but within 5 years	19,502	19,914
- After 5 years	<u>6,014</u>	<u>3,312</u>
Total bank and other borrowings	36,031	35,626
Less: Cash and bank balances	<u>(10,531)</u>	<u>(15,675)</u>
Net bank and other borrowings	<u>25,500</u>	<u>19,951</u>
Shareholders' funds (2008 – restated)	<u>133,127</u>	<u>121,196</u>
Gearing ratio (%)	<u>19.2%</u>	<u>16.5%</u>

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 16.5% at 30 June 2008 to 19.2% at 31 December 2009, 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:

	<i>Eighteen months ended</i> <i>31 December 2009</i> HK\$ million	<i>Year ended</i> <i>30 June 2008</i> <i>(restated)</i> 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) (2008 – restated)	<u>9,972</u>	<u>8,168</u>
Interest expense (before interest capitalisation)	<u>1,782</u>	<u>1,055</u>
Interest cover (times)	<u>6</u>	<u>8</u>

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 are held by the Group 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 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 31 December 2009 (30 June 2008: US\$325,000,000 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\$5,500,000,000 at 31 December 2009 (30 June 2008: HK\$Nil) 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 hedge against (i) the interest rate risk and 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) the interest rate risk which may arise during the financial years between the drawdown dates and the repayment dates in respect of the HKD borrowings to the extent of HK\$5,500,000,000 at 31 December 2009. 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\$5,500,000,000 at 31 December 2009.

### **Material acquisitions and disposals**

On 12 March 2009, Hong Kong Vigorous Limited ("Vigorous"), a 70%-owned subsidiary of Henderson Investment Limited (a listed subsidiary of the Company), entered into an agreement (the "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"), a state-owned enterprise which has a 30% beneficial interest in Maanshan Huan Tong Highway Development Limited ("Maanshan Highway JV", being the joint venture engaged in the operation of Maanshan City Ring Road), in relation to the sale by Vigorous of its entire 70% interest in Maanshan Highway JV to Maanshan Highway JV Partner for a consideration of RMB122 million (equivalent to HK\$139 million). At 31 December 2009, the transaction had yet to be completed and the assets and liabilities associated with the operations of Maanshan Highway JV, including the toll highway operating right, were classified as held for sale.

On 26 February 2010, the transaction was completed. A net gain on disposal attributable to equity shareholders of the Company of approximately HK\$18 million will be recognised in the Group's accounts for the year ending 31 December 2010.

Save as disclosed above, the Group did not undertake any significant acquisition or other significant disposals of subsidiaries or assets during the eighteen months ended 31 December 2009.

### **Charge on assets**

Assets of the Group were not charged to any third parties at 31 December 2009, except that certain project financing facilities which were extended by banks to a subsidiary of the Company engaged in infrastructure projects in mainland China were secured by the Group's toll highway operating right. At 31 December 2009, the outstanding balance of the Group's secured bank loans grouped under "Liabilities associated with assets classified as held for sale" was HK\$22 million (30 June 2008: HK\$40 million which was grouped under "Bank loans and overdrafts").

### **Capital commitments**

At 31 December 2009, capital commitments of the Group amounted to HK\$33,801 million (30 June 2008: HK\$16,703 million).

### **Contingent liabilities**

At 31 December 2009, the Group's contingent liabilities amounted to HK\$90 million (30 June 2008: HK\$124 million).

### **Employees and remuneration policy**

At 31 December 2009, the Group had approximately 7,700 (30 June 2008: 7,300) 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 eighteen months ended 31 December 2009 amounted to HK\$2,239 million (Year ended 30 June 2008: HK\$1,355 million), which comprised (i) staff costs included under directors' remuneration of HK\$235 million (Year ended 30 June 2008: HK\$148 million); and (ii) staff costs (other than directors' remuneration) of HK\$2,004 million (Year ended 30 June 2008: HK\$1,207 million).

## **OTHER INFORMATION**

### **Closing of Register of Members**

1. Book Close for determining the qualification for the proposed final dividend and the Bonus Warrants Issue

The Register of Members of the Company will be closed from Tuesday, 20 April 2010 to Friday, 23 April 2010, both days inclusive, for the purpose of determining Shareholders who qualify for the proposed final dividend and Bonus Warrants Issue. In order to qualify for the proposed final dividend and Bonus Warrants Issue, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Registrars, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 19 April 2010.

2. Book Close for determining the entitlement to attend and vote at annual general meeting

The Register of Members of the Company will also be closed from Tuesday, 25 May 2010 to Tuesday, 1 June 2010, both days inclusive, for the purpose of determining Shareholders who are entitled to attend and vote at the forthcoming annual general meeting. In order to qualify for attending and voting at the annual general meeting, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Registrars, Computershare Hong Kong Investor Services Limited at the aforementioned address not later than 4:30 p.m. on Monday, 24 May 2010.

### **Increase in authorised share capital**

The authorised share capital of the Company as at the date of this announcement is HK\$5,200,000,000 divided into 2,600,000,000 Shares of HK\$2 each, of which 2,146,742,390 Shares have been issued and are fully paid up. The Directors of the Company will propose at the forthcoming annual general meeting of the Company to be held on 1 June 2010 to increase the authorised share capital of the Company from HK\$5,200,000,000 to HK\$10,000,000,000 (divided into 5,000,000,000 Shares of HK\$2 each by the creation of 2,400,000,000 new Shares of HK\$2 each).

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the eighteen months ended 31 December 2009.

### **Audit Committee**

The Audit Committee met in March 2010 and reviewed the systems of internal control and compliance and the annual report for the eighteen months ended 31 December 2009.

## **Corporate Governance**

During the eighteen months ended 31 December 2009, 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 under 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.

## **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.

By Order of the Board

**Timon LIU Cheung Yuen**

Company Secretary

Hong Kong, 30 March 2010

*As at the date of this announcement, 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 Bui (as alternate to Woo Po Shing); and (3) independent non-executive directors: Gordon Kwong Che Keung, Ko Ping Keung and Wu King Cheong.*