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

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Interim Report 2011

中期報告

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Highlights of 2011 Interim Results

	Note	For the six months ended 30 June **2011 unaudited HK$ million**	 2010 unaudited HK$ million	Change
Property sales				
– Revenue	1	**7,838**	1,176	+566%
– Profit/(Loss) contribution	1	**1,964**	(394)	–
Net rental income	2	**1,982**	1,616	+23%
Profit attributable to Shareholders				
– Underlying profit (2010 – restated)	3	**3,428**	1,324	+159%
– Reported profit (2010 – restated)		**8,824**	8,262	+7%
		HK$	HK$	
Earnings per share				
– Based on underlying profit (2010 – restated)	3	**1.52**	0.62	+145%
– Based on reported profit (2010 – restated)		**3.92**	3.84	+2%
Interim dividend per share		**0.30**	0.30	–
		At 30 June 2011 unaudited HK$	At 31 December 2010 audited HK$	
Net asset value per share		**75.14**	73.09	+3%
Net debt to Shareholders' equity		**19.5%**	28.2%	
		At 30 June 2011 Million square feet	At 31 December 2010 Million square feet	
Hong Kong				
Land bank (attributable floor area)				
– Properties held for/under development (including stock of unsold property)		**11.0**	10.9	
– Completed investment properties (including hotel properties)		**10.2**	10.4	
		21.2	21.3	
Agricultural land (total land area)		**41.4**	40.6	
Mainland China				
Land bank (attributable floor area)				
– Properties held for/under development		**152.6**	150.4	
– Completed investment properties		**6.5**	6.5	
		159.1	156.9	

Notes:

1 *Representing the Group's attributable share of property sales and their profit/(loss) contribution (before taxation) in Hong Kong and mainland China by subsidiaries, associates and jointly controlled entities ("JCEs"). The comparative figures for 2010 were shown after taking into account the effect of cancelled sales transactions.*

2 *Representing the Group's attributable share of net rental income (before taxation) from investment properties in Hong Kong and mainland China held by subsidiaries, associates and JCEs.*

3 *Excluding the fair value change (net of deferred tax) of the investment properties held by subsidiaries, associates and JCEs.*

Interim Results and Dividend

The Board of Directors announces that for the six months ended 30 June 2011, the unaudited Group underlying profit attributable to equity shareholders (before the fair value change of investment properties) amounted to HK$3,428 million, representing an increase of HK$2,104 million or 159% over HK$1,324 million (as restated) for the same period last year. Underlying earnings per share were HK$1.52 (2010 (as restated): HK$0.62).

Including the fair value change (net of non-controlling interests and deferred tax) of investment properties, the Group reported profit attributable to equity shareholders for the period under review was HK$8,824 million, representing an increase of HK$562 million or 7% over HK$8,262 million (as restated) for the same period last year. Reported earnings per share were HK$3.92 (2010 (as restated): HK$3.84).

The Board has resolved to pay an interim dividend of HK$0.30 per share (2010: HK$0.30) to Shareholders whose names appear on the Register of Members of the Company on Monday, 12 September 2011, and such interim dividend will not be subject to any withholding tax in Hong Kong. The interim dividend will be payable in cash, with an option to receive new and fully paid shares in lieu of cash under the scrip dividend scheme ("Scrip Dividend Scheme"). The new shares will, on issue, not be entitled to the said interim dividend, but will rank pari passu in all other respects with the existing shares in issue. The circular containing details of the Scrip Dividend Scheme and election form will be sent to Shareholders.

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

The interim dividend will be distributed, and the share certificates to be issued under the Scrip Dividend Scheme will be sent to shareholders on Thursday, 20 October 2011.

Closure of Register of Members

The Register of Members of the Company will be closed from Friday, 9 September 2011 to Monday, 12 September 2011, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's Registrar, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 8 September 2011.

Management Discussion and Analysis

Business Review

Business in Hong Kong

Property Sales

During the period under review, the Hong Kong SAR Government, in an attempt to cool the housing market, has been expediting its land supply by earmarking more residential sites (some of which will have newly-introduced restrictions on housing unit size or the number of units to be built) for sales, and further tightening the mortgage lending requirements. Together with the mortgage pricing hike amid rising offshore loan demand, market activities have slowed down. However, the growing domestic economy, inflationary pressure and the rising appetite from affluent mainland Chinese buyers continued to lend strong support to the local property market and home prices. In fact, the implementation of home purchase restrictions in mainland China has prompted some mainland investors to move into the Hong Kong residential market, especially in the primary luxury property sector.

Riding on the positive property market sentiment in Hong Kong, the Group during the period launched an array of luxury developments including Hill Paramount in Shatin, 39 Conduit Road at Mid-Levels, Headland Road in Island South, Casa Marina (Phases 1 and 2), as well as The Beverly Hills (Phase 1) and Légende Royale – The Beverly Hills (Phase 3) in Tai Po, all of which were greeted with an overwhelming response. For the six months ended 30 June 2011, the Group sold 281 residential units in Hong Kong, generating attributable sales revenue of HK$6,932 million, a marked increase when compared with HK$2,443 million for the same period last year (before taking into account the effect of cancelled sales). Meanwhile, 65 deluxe villas in Casa Marina (Phases 1 and 2) and The Beverly Hills (Phase 1), which were previously held for rental purposes, together with approximately 19,000 square feet of industrial/office premises (including some rental properties such as the office at 9 Queen's Road Central), were also disposed of during the period. Including the Group's share of sales proceeds of HK$2,273 million arising from these disposals, the Group sold an attributable HK$9,205 million worth of properties in Hong Kong for the six months ended 30 June 2011.

In addition, The Gloucester, a 114,000-square-foot signature residential project situated on Hong Kong waterfront with full sea views, was launched for pre-sale in April 2011 with over 90% of its total 177 residential units acquired by the end of the period. Sales amounting to HK$2,392 million, as well as the corresponding profit contribution, will be reflected in the results for the next financial year, when the project is due for completion. Ownership of this urban redevelopment project was fully consolidated in August 2008 by order of the court and it will take only about four years to complete its development, with scheduled completion by the end of 2012. With the extremely favourable average land cost of approximately HK$6,446 per square foot of gross floor area, The Gloucester is expected to provide considerable returns to the Group. For the other urban redevelopment projects, the Group is equally confident in their development progress and financial returns and they are poised to provide another significant source of long-term earnings growth to the Group.

At 30 June 2011, the Group had over 830,000 square feet in attributable gross floor area available for sale from the following projects:

(1) Unsold units from the major development projects offered for sale:

	Project name and location	Site area (sq.ft.)	Gross floor area (sq.ft.)	Land-use purpose	Group's interest (%)	at 30 June 2011 No. of residential units unsold	at 30 June 2011 Gross area of remaining unsold residential units (sq.ft.)
1.	Casa Marina I 28 Lo Fai Road Tai Po	283,200	226,561	Residential	100.00	8	25,656
2.	Casa Marina II 1 Lo Ping Road Tai Po	228,154	182,545	Residential	100.00	14	49,459
3.	The Beverly Hills – Phase 1 23 Sam Mun Tsai Road Tai Po	982,376 (Note 1)	1,165,240 (Note 1)	Residential	90.10	26 (Note 2)	97,238 (Note 2)
4.	Légende Royale The Beverly Hills – Phase 3 23 Sam Mun Tsai Road Tai Po	982,376 (Note 1)	1,165,240 (Note 1)	Residential	90.10	39	201,412
5.	The Sparkle 500 Tung Chau Street Cheung Sha Wan	35,629	320,659	Commercial/ Residential	100.00	5	8,236
6.	39 Conduit Road Mid-Levels	56,748	229,255	Residential	60.00	42 (Note 3)	139,685 (Note 3)
7.	Hill Paramount 18 Hin Tai Street Shatin	95,175	358,048	Residential	100.00	51	137,329
8.	Green Lodge Tong Yan San Tsuen Yuen Long	78,781	78,781	Residential	100.00	16	31,975
9.	The Gloucester 212 Gloucester Road Wanchai	11,545	113,977	Residential	100.00	14	23,892
					Sub-total:	**215**	**714,882**
					Gross area attributable to the Group:		**629,442**

(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 (%)	No. of residential units	Gross area (sq.ft.)
1.	La Verte 283 Jockey Club Road Fanling	42,884	34,308	Residential	100.00	16	34,308
2.	24 Lee Chung Street Chai Wan	11,590	173,849	Office	100.00	Not applicable	173,849
					Sub-total:	**16**	**208,157**
					Gross area attributable to the Group:		**208,157**
					Total saleable units and gross area from the major development projects:	**231**	**923,039**
					Total gross area attributable to the Group:		**837,599**

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 10 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.

Property sales programme

The Group has the following residential projects to be launched for sale or pre-sale up to mid-2012:

	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.	30-38 Po Tuck Street and 36 Clarence Terrace Hong Kong	7,310	58,400	Residential	100.00	133	58,400
2.	68 Boundary Street Kowloon	6,750	57,498	Commercial/ Residential	100.00	41	50,290
3.	La Verte 283 Jockey Club Road Fanling	42,884	34,308	Residential	100.00	16	34,308

	Project name and location	Site area (sq.ft.)	Gross floor area (sq.ft.)	Land-use purpose	Group's interest (%)	Residential No. of units	Residential Gross area (sq.ft.)
4.	131 and 135 Tong Yan San Tsuen Road, Yuen Long	28,665	22,999	Residential	100.00	14	22,999
5.	STTL 502 at Lok Wo Sha Ma On Shan – Phase 1	479,804	783,178	Commercial/ Residential	56.75	928	684,580
6.	Yuen Long Town Lot 526, Tai Tong, Yuen Long (Note)	371,358	1,299,753	Residential	79.03	2,582	1,299,753
					Sub-total:	**3,714**	**2,150,330**
					Gross area attributable to the Group:		**1,581,691**

Note: Lot 5369 and certain other lots all in D D 116 are to be combined to form Yuen Long Town Lot 526 and the land premium payable for the requisite land exchange has already been finalized with the Government in mid-August 2011. As a result, the total gross floor area of this residential development has been expanded to approximately 1.3 million square feet, of which 79.03% or approximately 1,027,000 square feet is attributable to the Group.

Together with the above-mentioned unsold stocks of 215 residential units of completed properties, a total of over 3,900 residential units will be available for sale and pre-sale.

Land Bank

At 30 June 2011, the Group had a land bank in Hong Kong comprising a total attributable gross floor area of approximately 21.2 million square feet, made up as follows:

	Attributable gross floor area (million sq.ft.)
Properties held for or under development	10.2
Stock of unsold property units	0.8
Completed investment properties (Note)	9.2
Hotel properties	1.0
Total:	**21.2**

Note: The Group held additional rentable car parking spaces with a total area of around 2.8 million square feet.

(I) Redevelopment of old buildings in the urban areas

A. Existing projects

The Group had a total of 8 existing projects under planning for redevelopment or conversion into other purposes, which would provide about 1.43 million square feet in attributable gross floor area for commercial and residential use in the urban areas as shown in the table below:

		Site area (sq.ft.)	Expected gross floor area in future development (sq. ft.)	Group's interest (%)	Expected attributable gross floor area in future development (sq. ft.)
1.	68 Boundary Street, Kowloon	6,750	57,498	100.00	57,498
2.	19-21 Wong Chuk Hang Road Hong Kong	14,298	214,303	50.00	107,152
3.	45-47 Pottinger Street and Ezra's Lane, Central Hong Kong	9,067	94,190	19.095	17,986
4.	25 La Salle Road Kowloon Tong, Kowloon (Note 1)	13,467	24,241	100.00	24,241
5.	29 Lugard Road The Peak, Hong Kong	23,653	11,824	100.00	11,824
6.	8 Wang Kwong Road Kowloon Bay, Kowloon (Note 2)	21,528	174,789	100.00	174,789
7.	14-30 King Wah Road North Point, Hong Kong	37,566	224,801	100.00	224,801
8.	Yau Tong Bay Kowloon	878,962	4,394,808	18.4357	810,214
	Total:	**1,005,291**	**5,196,454**		**1,428,505**

Note 1: The site was previously held by the Group as a serviced apartment building.

Note 2: Under the Government's new revitalization policy, the old industrial building (i.e. Big Star Centre) at this site may be converted into a hotel free of payment of premium for the land-use conversion; the related terms are pending Government's finalization.

B. Newly-acquired projects

During the period, the Group continued to actively acquire old buildings in urban areas for redevelopment in the belief that it would be a win-win move for all parties. Firstly, it is in line with the Government's policy initiatives on promoting urban renewal, a subject brought into sharp focus with the recent disastrous collapse and tragic fire that took place in certain old tenement buildings in To Kwa Wan, Kowloon. Secondly, it enables the owners of units in old buildings to realize their dilapidated homes at a price higher than the market price prevailing for the old buildings and to acquire newer and safer homes. Lastly, it provides the Group with a source of urban land supply with lower cost and hence yields higher margin. To date, entire or majority ownership for 36 urban projects has been secured and they are expected to provide a total attributable gross floor area of approximately 2.83 million square feet, or about 3,000 housing units. The total land costs for these 36 urban projects are estimated at about HK$11,400 million, translating into an average land cost of approximately HK$4,000 per square foot of gross floor area. Such favourable land cost will ensure a significant contribution to the Group's earnings. A summary of the projects which have been acquired is as follows:

	Project name and location	Site area (sq.ft.)	Expected gross floor area in future redevelopment (sq.ft.)	Expected year of sales launch (Note 1)
A.	**Projects with ownership fully consolidated:**			
1.	30-38 Po Tuck Street and 36 Clarence Terrace Hong Kong (Note 2)	7,310	58,400	2012
2.	23-33 Shing On Street Sai Wan Ho, Hong Kong (Note 2)	4,605	38,081	2013
3.	208-210 Johnston Road Wanchai, Hong Kong (Note 3)	1,939	29,085	2014
4.	1-7A Gordon Road North Point, Hong Kong (Note 2)	7,423	64,427	2013
5.	186-188 Tai Po Road Sham Shui Po, Kowloon (Note 2)	8,324	70,327	2012
6.	75-81 Sa Po Road Kowloon City, Kowloon (Note 2)	3,582	32,175	2012
7.	Keung Fu Building 45-49 Boundary Street and 189-195 Sai Yeung Choi Street North Kowloon (Note 2)	5,880	52,919	2012

	Project name and location	Site area (sq.ft.)	Expected gross floor area in future redevelopment (sq.ft.)	Expected year of sales launch (Note 1)
8.	2-12 Observatory Road Tsim Sha Tsui, Kowloon (Notes 2 and 3)	5,415	64,979	2013
9.	59-63 Wing Hong Street and 88-92 King Lam Street Cheung Sha Wan, Kowloon (Notes 2 and 3)	28,004	336,048	2012
10.	352-354 Un Chau Street Cheung Sha Wan, Kowloon	2,289	19,457	2013
	Sub-total:	**74,771**	**765,898**	
B.	**Projects with the percentage of ownership reaching or exceeding the compulsory sale application threshold for redevelopment:**			
11.	Western Court 450-456G Queen's Road West Hong Kong (Note 2)	28,371	275,999	2013
12.	62-72 Main Street Ap Lei Chau, Hong Kong	5,973	50,771	2013
13.	89-95 Shek Pai Wan Road Aberdeen, Hong Kong	3,300	28,050	2013
14.	4-6 Tin Wan Street Aberdeen, Hong Kong	1,740	14,790	2014
15.	12-14 Tin Wan Street Aberdeen, Hong Kong	2,030	18,270	2014
16.	9-13 Sun Chun Street Tai Hang, Hong Kong	2,019	18,171	2014
17.	21-39 Mansion Street (Golden Horse Mansion) and 852-858 King's Road North Point, Hong Kong	17,720	168,640	2014
18.	19-21 Shing On Street and 15 Tai Shek Street Sai Wan Ho, Hong Kong	1,998	17,982	2013

Project name and location		Site area (sq.ft.)	Expected gross floor area in future redevelopment (sq.ft.)	Expected year of sales launch (Note 1)
19.	Matauwei Apartments 57-69 Ma Tau Wai Road 2-20 Bailey Street and 18A-30 Sung Chi Street To Kwa Wan, Kowloon (Note 2)	23,031	207,272	2013
20.	Hoi On Building 11-33 Li Tak Street Tai Kok Tsui, Kowloon (Note 2)	19,600	165,339	2012
21.	50-64 Ma Tau Kok Road and 162-168 Pau Chung Street To Kwa Wan, Kowloon (Note 2)	11,404	102,088	2012
22.	186-198 Fuk Wing Street Sham Shui Po, Kowloon (Note 2)	7,500	63,281	2012
23.	38-40A Hillwood Road Tsim Sha Tsui, Kowloon (Note 3)	4,586	55,032	2013
24.	456-462A Sai Yeung Choi Street North Sham Shui Po, Kowloon	12,298	103,531	2014
25.	1-19 Nam Cheong Street Sham Shui Po, Kowloon (Note 2)	8,625	77,626	2013
26.	565-577 Fuk Wah Street Cheung Sha Wan, Kowloon	7,560	63,788	2013
27.	342-348 Un Chau Street Cheung Sha Wan, Kowloon	4,579	38,922	2013
28.	11-19 Wing Lung Street Cheung Sha Wan, Kowloon	6,510	58,590	2013
29.	196-202 Ma Tau Wai Road To Kwa Wan, Kowloon	4,905	41,328	2013
30.	79-83 Fuk Lo Tsun Road Kowloon City, Kowloon	3,630	30,855	2013

	Project name and location	Site area (sq.ft.)	Expected gross floor area in future redevelopment (sq.ft.)	Expected year of sales launch (Note 1)
31.	8-30A Ka Shin Street Tai Kok Tsui, Kowloon (Note 2)	19,738	176,211	2014
32.	1-15 Berwick Street Shek Kip Mei, Kowloon	9,788	78,304	2014
33.	21-27 Berwick Street and 212-220 Nam Cheong Street Shek Kip Mei, Kowloon	10,538	84,304	2014
34.	3-4 Yiu Tung Street Shek Kip Mei, Kowloon	2,275	18,200	2014
35.	7-8 Yiu Tung Street Shek Kip Mei, Kowloon	2,275	18,200	2014
36.	Victory Mansion 7-7G Victory Avenue Homantin, Kowloon	9,865	83,853	2014
	Sub-total:	**231,858**	**2,059,397**	
	Total for 36 projects with entire or majority ownership:	**306,629**	**2,825,295**	

Note 1: Completion of a redevelopment is expected to occur in the second year after the year in which the redevelopment is to be launched for pre-sale.

Note 2: Building plan already approved.

Note 3: With the exception of project numbers 3, 8, 9 and 23 above, which are intended to be redeveloped into office or industrial/office buildings, all of the above projects are designated for commercial and residential uses.

Further acquisition, involving another 46 projects spanning various highly accessible urban districts as noted below, are in progress and they are expected to provide a total attributable gross floor area of approximately 5.11 million square feet upon successful completion of their acquisition and redevelopment:

			Land area (sq.ft.)	Expected gross floor area upon successful completion of acquisition (sq.ft.)
1.	**Hong Kong**			
	Central & Western		124,479	966,208
	Island East		62,283	593,874
	Causeway Bay		30,368	296,265
	Aberdeen		19,247	172,339
	Wanchai		8,084	72,756
		Sub-total:	**244,461**	**2,101,442**
2.	**Kowloon**			
	Hung Hom		121,750	1,095,750
	Tai Kok Tsui		97,136	837,526
	Homantin		64,650	517,383
	Tsim Sha Tsui		39,483	373,289
	Sham Shui Po		20,363	183,267
		Sub-total:	**343,382**	**3,007,215**
		Total:	**587,843**	**5,108,657**

(II) Agricultural land

With a recent addition of approximately 0.8 million square feet in agricultural land site, the Group has increased its agricultural land reserve to approximately 41.4 million square feet in land area, the largest holding among all property developers in Hong Kong.

For "North East New Territories New Development Areas" and "Hung Shui Kiu New Development Area", in which the Group holds land lots of approximately 9.1 million square feet in total as shown in the following table, the Group will continue to follow up closely with the Government's development plans, whose development details are still subject to Government's finalization. It is expected that the Government, in response to the public demand, will step up its efforts to increase land supply for housing and these two new development areas, which will benefit from the improved transport infrastructure and easy accessibility between Hong Kong and mainland China, are regarded as highly strategic locations:

			Total land area (sq.ft.)
1.	North East New Territories New Development Areas		
	– Wu Nga Lok Yeung		2,700,000
	– Ping Che		2,000,000
	– Kwu Tung North		400,000
		Sub-total:	**5,100,000**
2.	Hung Shui Kiu New Development Area		4,000,000
		Total:	**9,100,000**

Regarding the Group's residential development at Tai Tong Road, Yuen Long, agreement has been reached in mid-August 2011 with the Government for the land premium for an addition of 123,000 square feet of residential space, thereby increasing the total gross floor area of this project to approximately 1.3 million square feet, of which approximately 1,027,000 square feet is attributable to the Group.

Investment Properties

At 30 June 2011, the Group held a total attributable gross floor area of approximately 9.2 million square feet in completed investment properties in Hong Kong, comprising 4.5 million square feet of commercial or retail space, 3.4 million square feet of office space, 0.9 million square feet of industrial/office space and 0.4 million square feet of residential and apartment space. This leasing portfolio is geographically diverse, with 25% in Hong Kong Island, 34% in Kowloon and the remaining 41% in the New Territories (with most of the latter being large-scale shopping malls).

During the period under review, sustained growth had been seen across all property sectors in the leasing market. The Group's attributable gross rental income in Hong Kong, including that derived from the investment properties owned by the Group's subsidiaries (after deducting non-controlling interests), associates and jointly controlled entities, increased by 11% to HK$2,351 million, whilst pre-tax net rental income was HK$1,747 million, representing a growth of 15% over the same period of last year attributable to the rental increase from both lease renewals and new lettings of existing properties and rental incomes from newly completed properties in Hong Kong. At 30 June 2011, the leasing rate for the Group's core rental properties (including the portfolio of premium office and industrial premises in Kowloon East) stood at 97%.

Pay rises amid persistent economic growth were key drivers for boosting local consumption, whilst the ever-rising number of mainland tourists going after international brands served as another important pillar supporting the Hong Kong retail market. In response to market changes and to tap the new opportunities, the Group organized more shopping tours for the growing pool of mainland visitors to boost traffic and sales in its shopping malls, which are largely located along MTR lines. As a result of such concerted efforts, all of the Group's major shopping malls, with the exception of Sunshine City Plaza which was under renovation, recorded nearly full occupancy by the end of June 2011. Inditex, a global fashion group, has committed a total gross floor area of 62,000 square feet at Metro City Phase II in Tseung Kwan O for its three well-known international brands, namely Zara, Bershka and Pull & Bear, which are due to open in 2012.

Leasing demand for quality office space from the buoyant banking and finance sectors, among others, remained resilient and the Group's premier office developments in the core areas, such as the International Finance Centre in Central and AIA Tower in North Point, were almost fully let. In the up-and-coming commercial hub of Kowloon East, the Group's approximately 2,000,000 square-foot portfolio of premium office and industrial premises also performed well with the overall leasing rate increased from 87% at 31 December 2010 to 95% at 30 June 2011. AIA Financial Centre in San Po Kong, for instance, was 98% let at 30 June 2011, whilst the leasing rate of Manulife Financial Centre in Kwun Tong, which was given the top "platinum" rating in the Hong Kong Building Environmental Assessment Method (HK-BEAM) in February 2011 for its high environmental standards and green building specifications, was over 94%. Another two buildings are also in the process of applying for such globally-recognized HK-BEAM certifications so as to meet the sustainability requirement of discerning office tenants.

In the luxury residential leasing market, a sustained influx of expatriates, rising inflationary pressure and demand-supply imbalance continued to drive rental upwards. The serviced suite hotel at Four Seasons Place, which appeals to newly-arrived expatriate executives from the legal, banking and financial sectors, continued to achieve high occupancy with higher rents during the period under review. At Mid-Levels, Eva Court attained significant rental growth for both renewals and new lettings, whilst 39 Conduit Road also recorded satisfactory leasing performance.

The Group teamed up with branding consultant to enhance the branding and image-building for its shopping malls and other investment properties. Renovation initiatives are being undertaken continuously in the investment properties in order to enhance the quality of each property for discerning tenants. The facelift to Kowloon Building on Nathan Road and the first phase of renovation works at Sunshine City Plaza in Ma On Shan are progressing well, whilst the second phase of renovation works at the South Wing of Trend Plaza in Tuen Mun was completed during the period. The first phase of renovation works at Metro City Phase II in Tseung Kwan O will soon commence, whilst the planning of renovation works for AIA Tower in North Point and City Landmark I & II in Tsuen Wan is currently in the pipeline.

Hotel and Retailing Operations

Benefitting from the ever-rising visitor arrivals from mainland China, Hong Kong's hospitality industry experienced solid growth during the period. The Four Seasons Hotel, which was named one of the top four hotels in the world by the Institutional Investor magazine, achieved a notable increase in occupancy against a higher average room rate. In addition to its exceptional accommodation, this hotel's food and beverage business also performed satisfactorily with two of its signature restaurants, namely, Lung King Heen and Caprice, achieving the top 3-star honours in the Michelin Guide to Hong Kong and Macau 2011. Meanwhile, the Group's three Newton hotels maintained overall average occupancy of over 80% and posted impressive increases in average room rate from a year ago. Development of an impending boutique hotel at 388 Jaffe Road, Wanchai, also progressed well and it will soon be another premium addition to the Group's hotel portfolio.

Established in 1989 as a complementary business to the Group's shopping facilities, Citistore's retailing operation has developed into a network of five department store outlets and two "id:c" specialty stores in Hong Kong. On the back of buoyant domestic consumption and visitor spending, its profit contribution for the six months ended 30 June 2011 increased by 16% against a 8% growth in turnover. Meanwhile, the Group also held an approximately 7.73% equity interest of Intime Department Store (Group) Company Limited (stock code: 1833), which is a renowned department store chain with investments in around 22 department stores and shopping centres across major cities in mainland China.

Construction and Property Management

The Group cares for the environment and supports sustainable development for the benefit of future generations. As part of this pledge, energy-efficient and eco-friendly features recommended by the Leadership in Energy and Environmental Design (LEED) and BEAM Plus have been persistently integrated into the planning and design of the Group's new developments, whilst such green principles have been consistently followed in its other business aspects from construction and material sourcing, to property management. In addition to its stringent monitoring over waste and noise during construction, which minimized disruption to the immediate neighbourhoods, the Group also supported a range of carbon-reduction seminars and a study organized by leading experts such as The Hong Kong Institution of Engineers, The University of Hong Kong, Tsinghua University, Zhejiang University, Ministry of Housing and Urban-Rural Development, China Green Building Committee, as well as Cornell University and The Energy Foundation from the United States, enabling the entire community to benefit from the enhanced environmental awareness.

In the development of these environmentally-friendly properties, the Group considers site safety a top priority and the accident rate for the Group's construction activities has been well below the industry average over these years. Apart from proactively promoting site safety within the construction industry and setting a precedent for peers to follow, the Group was also an active supporter of the Construction Charity Fund, which provided immediate assistance to help those victims of tragic industrial accidents. With such a committed approach to environmental protection and construction safety, the Group earned numerous accolades including "Considerate Contractors Site Award" from the Development Bureau of the Hong Kong SAR Government, as well as "Construction Environmental Award – Merit" and "Proactive Safety Contractor Award" from The Hong Kong Construction Association.

The Group's attention to every detail throughout the different stages of construction has also been extended to its developments in mainland China. In addition to its tight grip over all key aspects of development such as contractor selection and material sourcing, the Construction Department has also maintained a regular dialogue with contractors and conducted on-site inspections so as to ensure that all the mainland projects are completed on schedule, within budget and in line with the Group's stringent environmental and quality requirements. In July 2011, accreditation as the "Main Contractor of Housing Construction (Level III)" was received from Beijing Municipal Commission of Housing and Urban-Rural Development, enabling our Construction Department to take a more active role in mainland property development in future.

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

Aligning with the Group's corporate culture, these two companies also offer care to the public at large. In addition to the performance-related accolades such as "Hong Kong Top Service Brand Award", "Excellence in Facility Management Award", "U Green Awards" and "Asia Pacific Customer Relationship Excellence Awards", they also received a multitude of commendations in recognition of their contribution to the well-being of society. These include: being named as a "Caring Company" for consecutive years, "Hong Kong Outstanding Corporate Volunteer Team – Bronze Award" and "Excellence Award for Employer" from the Employees Retraining Board. During the period under review, their initiative to launch "The Year of Care", and to promote mutual support and a caring spirit, helped create a better environment for our customers to live in.

Both Hang Yick and Well Born are poised to replicate their Hong Kong successes and provide their quality property handover and management services to all of the Group's property developments throughout mainland China, supporting the Group's mainland expansion and cementing its reputation as a quality developer in mainland China.

Business in Mainland China and Macau

Price stability topped the Central Government's priority in the first half of this year and in order to further rein in demand growth for residential housing, more stringent administrative and economic initiatives have been adopted. Home purchase restrictions and related tightening measures were put forward targeting speculators and investors in the major cities. In addition to the adjustment of business tax on transfer of residential properties for individuals, certain cities have started to levy property taxes on individual residential properties. Meanwhile, with the continued tightening of monetary policy and stricter controls over credit, banks raised both the down-payment ratio and the mortgage interest rate for first-time home buyers. The property market on the Mainland was thus subdued and went into the doldrums.

The housing policies pursued by the Central Government in the first half of this year did have profound impact on the property market in mainland China. The property price surge has lost its momentum, land bidding throughout the country has become more rational and record-breaking deals largely vanished. These stringent austerity measures and the resultant wait-and-see attitude adopted by some homebuyers led to a significant drop in transaction volume.

Despite the slowdown in activities amid uncertainty in the mainland market, some individual property projects reported encouraging sales results given the huge housing demand. In certain second or third-tier cities, sales volume and price of residential units continued their uptrend in the first half of this year. Both "Riverside Park" in Suzhou and "La Botanica" in Xian, which were respectively launched by the Group in early 2011 and in phases during the first half of this year, met with an overwhelming response from homebuyers on the back of their widely acclaimed quality.

Spanning over 10 cities, the Group's property projects are mostly located in the core development areas, which have tremendous value-accretive potential for the years to come as all of their complementary facilities are set to improve to meet the needs of home-buyers. Prices of land and residential properties have increased considerably over the past few years and the Group maintained its existing construction pace for its projects despite the austerity policies. During the period, much effort was spent on the design of sales centres and show flats, as well as landscaping, whilst also upgrading product quality so as to ensure successful sales. The regional sales team, which has been strengthened through rigorous training, serves as the frontline sales force for the impending launches of new projects.

Following the expansion of the mainland headquarters in Shenzhen, comprehensive operating facilities and human resources are now in place to better serve all the projects across mainland China by providing them with technical support. Meanwhile, the Group will forge ahead with the standardization in building design and material selection, to augment its success in speeding up all stages of construction progress and ensuring a smooth operation. In order to further enhance the Group's competitiveness, emphasis has been placed on cost efficiency. In addition to cost savings measures, all viable ways to broaden revenue streams will also be studied.

As regards the business development in the leasing of shopping malls, discussions have started with a number of large-scale department stores, retail and catering groups with the view of forming a nation-wide strategic partnership for their setting up of flagship stores and sales centre in the Group's shopping malls and retail shops which are currently under development.

During the period, the Group joined hands with a number of leading enterprises across the Straits to establish Straits Construction Investment (Holdings) Limited ("Straits Construction"). In March 2011, Straits Construction successfully bought two prime sites, which were located at Nanjing Hexi New Town in the Jiangsu Province and Fuzhou Pingtan Integrated Pilot Area in the Fujian Province respectively, at an aggregate consideration of USD850 million. The Nanjing project will be developed into a cluster of hi-tech office buildings with a total gross floor area of approximately 10,000,000 square feet against a site area of approximately 3,670,000 square feet. Meanwhile, for the Pingtan project, a 8,180,000-square-foot land lot is earmarked for an integrated business community with an expected gross floor area of approximately 18,000,000 square feet. The Group held a 10% stake for both projects.

At the end of June 2011, the Group had a development land bank in mainland China of approximately 152.6 million square feet in attributable developable gross floor area, of which around 82% was earmarked for residential developments for sale:

Land bank under development or held for future development

		Group's share of developable gross floor area* (million sq.ft.)
Prime cities		
Shanghai		1.1
Guangzhou		14.2
	Sub-Total:	**15.3**
Second-tier cities		
Anshan		17.9
Changsha		15.2
Chengdu		4.0
Chongqing		6.6
Dalian		10.3
Fuzhou		1.8
Nanjing		3.4
Shenyang		17.3
Suzhou		17.0
Tieling		8.7
Xian		20.1
Xuzhou		5.3
Yixing		9.7
	Sub-Total:	**137.3**
	Total:	**152.6**

* *Excluding basement areas and car parks*

Usage of development land bank

	Developable gross floor area (million sq.ft.)	Percentage
Residential	125.3	82%
Office	13.9	9%
Commercial	9.3	6%
Others (including clubhouses, schools and community facilities)	4.1	3%
Total:	**152.6**	**100%**

Property Sales

The Group sold and pre-sold an attributable HK$903 million worth of mainland properties during the period, an increase of 70% over the same period last year. Projects launched included "La Botanica" in Xian, "Riverside Park" in Suzhou, "Villa Green" in Chongqing and "The Arch of Triumph" in Changsha. As at 30 June 2011, the amount of mainland properties pre-sold attributable to the Group totalled HK$1,657 million.

Investment Properties

The Group's mainland completed investment property portfolio, which consists of 7 major projects with an attributable gross floor area of approximately 3.45 million square feet of office space, approximately 2.49 million square feet of commercial space and approximately 0.56 million square feet of car parking space, reported satisfactory leasing performance during the period under review. The Group's attributable gross rental income and net rental income increased remarkably by 107% period-on-period to HK$418 million and by 155% period-on-period to HK$235 million, respectively attributable mainly to higher rental income growth recorded by the newly completed properties.

In Beijing, World Financial Centre recorded a 302% period-on-period growth in rental income to HK$156 million with a leasing rate of 83% by the end of June 2011. Located in Chao Yang Central Business District, World Financial Centre, which was designed as twin "crystal jewel boxes" by the world-famous architect Cesar Pelli, achieved the highest possible "Platinum" rating from both the United States Green Building Council's LEED and HK-BEAM. With such a prime location, distinctive design and environmentally-friendly features, many discerning financial institutions and multinational corporations, such as Standard Chartered Bank, Westpac Banking Corporation, Mizuho Corporate Bank, CITIC Prudential Insurance Company, The World Economic Forum, RIM-Blackberry, International Air Transport Association, FAW Toyota and Novo Nordisk, have been drawn to this 2.1 million-square-foot International Grade-A office complex as its tenants since its completion in early 2009. To add to its appeal, its commercial podium has a tantalizing collection of the finest international culinary delights, including Michelin-starred Cantonese restaurant "Cuisine Cuisine" from Hong Kong. At the shopping mall of Beijing Henderson Centre, which is located in Dongcheng District of Beijing, the opening of a large-scale gourmet hall and an upscale superstore in the basement floors was the impetus for higher shopper traffic at the retail podium, resulting in a leasing rate of 83% recorded by the end of June 2011. In order to attract more customers and increase turnover for its tenants, renovation and tenant-mix re-alignment are now being planned.

In Shanghai, Henderson Metropolitan recorded a total rental income of HK$54 million and was 96% let at the end of June 2011. The iconic exterior design by world-famous architect Tange Associates, the well-appointed 400,000 square-foot shopping mall and prominent green features make Henderson Metropolitan the most outstanding building on Nanjing Road East, the busiest pedestrian walkway in Shanghai. With direct underground access to Metro Lines 2 and 10, which access will further boost visitor traffic, Henderson Metropolitan has been highly sought-after by discerning retailers, designer boutiques and upscale restaurants. The mall will be distinguished by a relatively high number of flagship stores selling various premium products, including trendy and sophisticated electronics and fashion products. Meanwhile, the super Grade-A office space of over 400,000 square feet at Henderson Metropolitan has been fully taken up (with rents ranging from RMB5 to RMB10 per square metre per day) by Fortune 500 companies, such as Oracle Software, Mitsubishi, Lufthansa and Dentsu. The Grand Opening of Henderson Metropolitan is scheduled to take place in November 2011. Atop Xujiahui Metro Station, Grand Gateway Office Tower II houses many multinational corporations such as Microsoft, Adidas, Tesco and Yum! Brands Inc. Its occupancy at the end of June 2011 was close to 99%, with the rental for new lettings or lease renewals standing firm at an average of about RMB7 per square metre per day. In Zhabei District, the four-storey shopping arcade at Skycity was fully let at 30 June 2011. In the same neighbourhood, Centro, a Grade-A office building has been awarded the Gold LEED award and Platinum BEAM award. By the end of June 2011, Centro's 370,000-square-foot office space was over 91% let, while all of its 60,000-square-foot retail area has been either leased or under final offer.

In Guangzhou, Hengbao Plaza recorded a 17% period-on-period growth in rental income with 90% leasing rate by the end of June 2011. Renovation is now underway and upon its completion by the end of this year, a new dining zone will house a Japanese Sushi chain, as well as fast food chains and specialty restaurants, offering a tasty range of delicacies for food lovers.

Meanwhile, the Group has another 1.1 million square feet of investment properties under development in Shanghai. One such property is Greentech Tower situated near the Shanghai Railway Station in Zhabei District. As its name denotes, Greentech Tower underlines the Group's long-standing commitment to building green and hi-tech developments. Comprising 22 storeys of energy-efficient Grade-A offices and 3 levels of retail podium, Greentech Tower will offer an aggregate gross floor area of about 400,000 square feet upon its scheduled completion in the fourth quarter of 2011. Construction of another mall-cum-office building at Lot 688 Nanjing Road West is also on track. Located in the heart of the business and commercial Jingan District, 688 Nanjing Road West will have a total gross floor area of approximately 700,000 square feet, comprising a 22-storey office tower with 2-levels of retail facilities. Designed by Tange Associates with an innovative, quartz-like façade, this project is poised to add to the urban glitz of Shanghai upon its completion in the third quarter of 2013. In the second-tier cities, following the successive groundbreaking on the sites for the development of Shenyang International Finance Centre, Chengdu International Commerce Centre as well as an upscale commercial complex at Suzhou, construction works of the investment properties progressed as planned. The gradual completion of these vast commercial complexes will help strengthen the Group's premium brand and bring in increasing rental income in the Mainland.

Joint-Venture Development in Macau

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

Henderson Investment Limited ("HIL")

For the six months ended 30 June 2011, the unaudited profit of this group attributable to equity shareholders amounted to HK$56 million, representing a decrease of HK$28 million or 33% from the amount of HK$84 million for the six months ended 30 June 2010. The decrease in profit was attributable to the fact that for the six months ended 30 June 2010, this group recorded (i) a profit after tax attributable to equity shareholders of HK$2 million from a toll highway in Maanshan, Anhui Province which was disposed of by this group in February 2010; and (ii) a net gain on such disposal attributable to equity shareholders of HK$26 million. Excluding these financial effects, the adjusted profit attributable to equity shareholders for the six months ended 30 June 2010 amounted to HK$56 million. This group's profit attributable to equity shareholders of HK$56 million for the six months ended 30 June 2011 is the same as the adjusted profit attributable to equity shareholders for the six months ended 30 June 2010.

This group's core asset is its 60% interest in Hangzhou Qianjiang Third Bridge. During the period under review, this group's turnover grew 8.1% to HK$160 million as compared to that for the same period in 2010, reflecting the increase in traffic volume of Qianjiang Third Bridge.

This group has a 60% interest in Hangzhou Henderson Qianjiang Third Bridge Company Limited (the "Joint Venture Company") which has been granted the operating right of the above-mentioned Qianjiang Third Bridge for a period of 30 years from 20 March 1997 (commencement date of bridge operation). This project was approved by Hangzhou Foreign Economic Relations and Trade Commission in 1997 and was further approved by National Development and Reform Commission (formerly known as State Development & Planning Committee). The General Office of the People's Government of Zhejiang Province notified Zhejiang Province Department of Communications and other relevant government authorities in 2003 to provisionally fix the period for entitlement to toll fee in respect of 39 toll roads and highways in the province. In the case of Qianjiang Third Bridge, which was also included in the list, the period was provisionally fixed at 15 years (from 20 March 1997 to 19 March 2012). The Joint Venture Company immediately took action for clarification and had obtained from the Hangzhou Municipal Bureau of Communications a written pledge that the operation period for 30 years would remain unchanged and they were also of the view that the operating right and the toll fee right should be for a same period. For the sake of reassurance, the Joint Venture Company wrote to the People's Government of Zhejiang Province and Zhejiang Province Department of Communications in June 2011 requesting for their confirmation that both the operating right and the toll fee right last for a same period of 30 years, and is now awaiting their reply.

On 15 July 2011, there was certain damage to one of the link bridges of Qianjiang Third Bridge. As a result of the damage, the normal flow of two-way traffic over four lanes was temporarily reduced to two lanes in the affected area of the bridge. This has led to a reduction of 40%, on average, in the current daily traffic volume of the bridge as compared to that before the damage. The cause of the incident is still under investigation and the full impact of the damage is yet to be assessed.

Associated Companies

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

The unaudited profit after taxation attributable to shareholders of Hong Kong and China Gas for the six months ended 30 June 2011 amounted to HK$3,222.9 million, an increase of HK$203.5 million compared with the restated profit for the same period last year. Exclusive of profit from the sale of properties and a revaluation surplus from an investment property, its profit after taxation increased by approximately 16% compared to the same period last year.

Gas Business in Hong Kong

The total volume of gas sales in Hong Kong and overall appliance sales increased by 2.9% and 10%, respectively compared with the same period last year. As at 30 June 2011, the number of customers was 1,736,923, an increase of 12,607 since the end of December 2010.

Utility Businesses in Mainland China

Towngas China Company Limited ("Towngas China"; stock code: 1083), a subsidiary of Hong Kong and China Gas, recorded profit after taxation attributable to its shareholders amounting to HK$302 million for the first half of 2011, an increase of approximately 76% over the same period last year. As at the end of June 2011, Hong Kong and China Gas had an approximate 66.18% interest in Towngas China.

In April 2011, Moody's Investors Service upgraded Towngas China's issuer and senior unsecured bond ratings from Baa3 to Baa2 with a stable outlook.

Towngas China has acquired three new projects so far this year located in Xiushui county and Wuning Industrial Park, both in Jiujiang, Jiangxi province, and in Miluo, the latter being this group's first in Hunan province. Towngas China is focused on developing city-gas businesses in small to medium-sized cities.

This year, Hong Kong and China Gas committed one new project in Chaozhou, Guangdong province and the scope of operation covers Raoping county, the urban district of Chaozhou and the surrounding areas of Chaoan county. Inclusive of three new projects established by Towngas China so far this year, this group currently has 97 city-gas projects in mainland cities spread across 18 provinces/municipalities/autonomous regions. As at the end of June 2011, the number of gas customers on the mainland reached approximately 12.4 million and total volume of gas sales was 5,200 million cubic metres. This group is now the largest city-gas enterprise on the mainland.

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

During the third quarter of this year, this group added a second integrated wastewater treatment project, for a special industry, to its existing integrated water supply and wastewater joint venture in Suzhou Industrial Park, Suzhou, Jiangsu province. Together with water supply projects in Wujiang, Jiangsu province and in Wuhu, Anhui province, this group has so far invested and operated four water projects.

Emerging Environmentally-Friendly Energy Businesses

Its development of emerging environmentally-friendly energy projects, through its wholly-owned subsidiary ECO Environmental Investments Limited and the latter's subsidiaries (together known as "ECO"), is progressing well. ECO has established two Chinese holding companies as investment platforms, one in Erdos, Inner Mongolia, at the end of 2009, mainly for its coal related businesses, and another in Xian, Shaanxi province, in early 2011, mainly for its oil and gas related businesses. These platforms help enhance ECO's business management and optimise ECO's financing channels.

ECO's coalbed methane and non-conventional methane utilisation businesses have been developed based on the technology and operational experience gained from its landfill gas utilisation project which has been operating in Hong Kong for several years. Since 2008, ECO has been developing similar projects on the mainland with an extended scope of application. A phase-two coalbed methane liquefaction facility located in Jincheng, Shanxi province was commissioned during the first quarter of this year, thereby increasing annual production capacity of the whole facility to approximately 250 million standard cubic metres of liquefied coalbed methane. This is now the largest liquefaction and utilisation project of its kind on the mainland and the liquefied methane produced is transported by road tankers to downstream markets.

ECO's coal-mine methane liquefaction project in Yangquan mining district, Shanxi province, is progressing as scheduled; commissioning is expected in the first quarter of 2013. Coal-mine gas, which typically contains about 40% of methane, will be used to produce liquefied methane deploying coal-mine gas deoxidisation and coalbed methane cryogenic liquefaction technologies. With an estimated annual production capacity of 80 million standard cubic metres, this project will provide this group's city-gas businesses with a more environmentally-friendly gas source.

ECO started to develop coal resources and coal chemical processing businesses in 2009. ECO's construction of a methanol production plant, with an annual production capacity of 200,000 tonnes, in Junger, Erdos, Inner Mongolia, has now been completed; the plant is at the pilot production stage and is expected to be fully commissioned by the end of 2011. Construction of the Xiaoyugou coal mine, which is associated with the methanol production plant, is also progressing well. Pilot commissioning of an associated coal washing plant commenced in June this year. Xiaoyugou coal mine is expected to start pilot production by the fourth quarter of this year. ECO's coking coal mining and plant project in Fengcheng, Jiangxi province, is also on schedule; commissioning is expected in 2012. This project will utilise coking coal to produce coke for refining steel, and its by-product, coked gas, will provide an additional gas source for this group's Fengcheng city-gas project.

ECO's energy-related logistics and facilities businesses originated from its five dedicated liquefied petroleum gas filling stations in Hong Kong, which have been operating for years servicing taxis and minibuses. ECO started to develop a gas filling station business on the mainland in 2008. Since then, ECO has gradually established a network of compressed and liquefied natural gas filling stations servicing heavy-duty trucks in Shaanxi, Shandong, Liaoning, Henan and Anhui provinces.

ECO's aviation fuel facility in Area 38, Tuen Mun, servicing Hong Kong International Airport, was completed and commissioned in November 2010. Jetties and facilities are available for berthing tankers of 80,000 tonnes and 50,000 tonnes and for unloading these tankers' aviation fuel into eight large tanks with a total capacity of 264,000 cubic metres. After re-certification, this fuel is then transported to the airport via submarine pipelines. ECO's facility has now become a major logistics base for supply of aviation fuel in Hong Kong.

ECO has also embarked on the development of a coal logistics business and the setting up of trading platforms in important coal distribution areas such as Qinhuangdao, Hebei province.

Overall, inclusive of projects of Towngas China, this group currently has 127 projects spread across 21 provinces/municipalities/autonomous regions, encompassing upstream, midstream and downstream natural gas sectors, water supply and wastewater treatment sectors, natural gas filling stations, emerging environmentally-friendly energy and energy resources businesses and telecommunications.

Property Developments

The entire residential floor area of the Grand Waterfront had been sold by the end of December 2010, whilst all of the residential units of Grand Promenade were also sold out during the first quarter of this year. In addition to the commercial area of the Grand Waterfront, this group also has an approximately 15.8% interest in the International Finance Centre ("IFC") complex in its rental portfolio and both of them leased well.

Financing Programmes

HKCG (Finance) Limited, a wholly-owned subsidiary of this group, established a US$1,000 million medium term note programme (the "MTN Programme") in May 2009. Under the MTN Programme, this group issued its first renminbi-denominated notes in Hong Kong in late March 2011 with a total amount of RMB1,000 million for a term of five years at a coupon interest rate of 1.4% (the "RMB Notes"). Moody's Investors Service and Standard and Poor's rating services, assigned high credit ratings of A1 and A+ respectively to the RMB Notes. This group is the first company among Hang Seng Index Constituent Stocks in Hong Kong to raise funds through the offshore renminbi debt capital market. Inclusive of the RMB Notes, this group has issued medium term notes with, up to now, an aggregate amount equivalent to HK$4,200 million.

Hong Kong and China Gas predicts an increase of about 25,000 new customers in Hong Kong during 2011 and the combined results of this group's emerging environmentally-friendly energy businesses and mainland utility businesses will overtake that of its Hong Kong gas business in 2012, and will have faster growth momentum than its Hong Kong gas business thereafter.

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

Hong Kong Ferry's unaudited consolidated net profit after taxation for the six months ended 30 June 2011 amounted to HK$213.1 million, representing a decrease of 12% as compared with a profit of HK$243.2 million (restated) for the same period last year. This was mainly attributed to the decrease in the sales of its residential units. During the period under review, the sale of 27 residential units of Shining Heights and The Spectacle recorded a total profit of HK$101.5 million, whilst the revaluation gain from its investment properties amounted to HK$77.9 million.

At the end of June 2011, the occupancy rate of the commercial arcade of Metro Harbour Plaza and Shining Heights was 99% and 86%, respectively. Rental and related income from the mall of Metro Harbour Plaza amounted to HK$18.2 million, whilst Hong Kong Ferry also received a rental income amounting to HK$0.87 million from the investment property at 52-56 Kwun Chung Street during the period.

During the period under review, the foundation work of the site at Fanling Sheung Shui Town Lot No.177 was carried out and completed this month. Superstructure work would soon commence for the development of three residential towers consisting of over 700 units with average floor area of 700 square feet. Together with the two-storey shopping mall, there is a total gross floor area of approximately 540,000 square feet.

The demolition work of the property at 208 Tung Chau Street (formally 204-214 Tung Chau Street) would also commence soon and the foundation work was expected to commence by the end of 2011. The property will be re-developed into a commercial/residential building with a total gross floor area of approximately 54,000 square feet.

In late June 2011, Hong Kong Ferry also successfully acquired from the government a tender site of area of approximately 6,300 square feet at the junction of Gillies Avenue South and Bulkeley Street for a consideration of HK$406.3 million. It was planned to be developed into a residential-cum-commercial building comprising approximately 95 residential units with the total gross floor area of approximately 56,000 square feet. The general building plan was submitted to the Buildings Department in July 2011.

The Ferry, Shipyard and Related Operations recorded a profit of HK$3.7 million, compared with a profit of HK$6.6 million in the same period last year.

Pursuant to the tender agreement, the sale of Silvermine Beach Hotel was to be completed on 8 September 2011 and a deficit of HK$1.4 million was incurred from the Hotel operations after taking into account the provision for severance payment. The operating profit of the Travel operations decreased from HK$1.3 million in the same period last year to HK$0.9 million this year.

For the second half of the year, Hong Kong Ferry's major operating income will arise from rental income and a surplus of approximately HK$240 million will also be recognized after the completion of the sale of the Silvermine Beach Hotel.

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

For the six months ended 30 June 2011, Miramar's turnover was approximately HK$1,159 million, representing a growth of 16% as compared to the six months ended 30 June 2010. Its profit attributable to shareholders rose 160% to HK$638 million. Excluding the net increase in fair value of the investment properties, its underlying profit attributable to shareholders amounted to HK$190 million.

Miramar solely owns and manages The Mira Hong Kong ("The Mira"), its flagship hotel, and Miramar Apartments in Shanghai, a block of serviced apartments. In addition, it provides management services for two hotels in Shekou, a serviced apartment complex and a hotel in Hong Kong. In short, Miramar owns and/or provides management services for six hotels and serviced apartments in Hong Kong and mainland China. Occupancy rate and average room rate of The Mira achieved a growth of four percentage points and 22%, respectively, when compared to the last corresponding period. The hotel business recorded double-digit growth in turnover, whilst its EBITDA (earnings before interest, taxes, depreciation and amortisation) grew by 68% to approximately HK$91 million.

During the period, rental income derived from Miramar Shopping Centre and Miramar Tower remained as the major income contributor and EBITDA of its Property Rental Business increased 11% to approximately HK$234 million. Occupancy rate of Miramar Tower (whose refurbishment work in the public areas was completed during the period) and Miramar Shopping Centre was eight percentage points higher than that of the last corresponding period, while the average unit rate was similar. The shopping centre at The Mira underwent a refurbishment during the period and it is expected to be completed by the end of 2011. COACH will open its flagship store inside this shopping centre.

Miramar operates three Tsui Hang Village restaurants: one located in the Miramar Shopping Centre, Tsim Sha Tsui; one in the New World Tower, Central; and one situated in Club Marina Cove, Sai Kung. It also operates a Sichuan restaurant named Yunyan Sichuan Restaurant at Miramar Shopping Centre, and two restaurant outlets at ifc mall, namely Cuisine Cuisine and The French Window. Miramar opened three new restaurants during the period, namely Hide-Chan Ramen (a popular Japanese Ramen restaurant), Saboten (a traditional Japanese pork cutlet restaurant) and Assaggio Trattoria Italiana (an Italian restaurant). Meanwhile, it gradually brings its successful brand "Cuisine Cuisine" to the mainland China market. The Cuisine Cuisine restaurants in Beijing and Wuhan had and will have their grand openings in July and September, respectively. During the period, two Tsui Hang Village restaurants, one located in the Miramar Shopping Centre and the other in the New World Tower, Central, were temporarily closed for renovation. Pre-opening expenses of the three new restaurants were also written off. As such, EBITDA of the Food and Beverage business dropped 70% to HK$2 million.

Against the backdrop of the political instability or natural disasters in certain areas around the world, EBITDA of its Travel business decreased 44% to HK$8 million during the period.

Miramar extended its reach to Apparel Retail business at the end of 2010 and has become the distributor of DKNY JEANS in mainland China. During the period, Miramar opened six self-managed retail stores in Shanghai and Beijing. It also secured several franchisees to open DKNY JEANS retail stores in different cities in mainland China in the third quarter of 2011 and the total number of DKNY JEANS retail stores will reach over 20 by the end of the year. Since it is still in early stage of development, the Apparel Retail business recorded a negative EBITDA of approximately HK$5 million during the period.

Corporate Finance

During the period under review, the holding company of the Group, namely, Henderson Development Limited which is controlled by the family of Dr. Lee Shau Kee made a capital investment of HK$10,000 million in exercising 172,414,000 warrants for the subscription of 172,414,000 shares in the Company at a price of HK$58 per share. This has contributed to significantly enlarging the capital base of the Company and lowering the Group's gearing ratio to 19.5%.

In order to provide additional funding resources to the Group to cater for its general funding and working capital requirements, the Group concluded a HK$10,000 million three-year syndicated term loan/revolving credit facility on 10 January 2011 with a consortium of 13 leading international banks and local financial institutions. Riding on the Group's solid credit quality and sound financial position, the facility received an overwhelming response from the banking community. From an initially planned facility amount of HK$5,000 million, the facility was increased to the final amount of HK$10,000 million indicating the strong confidence and continuing support of international as well as local banks for the Group.

In addition, the Group also signed up a HK$10,000 million five-year syndicated term loan/revolving credit facility on 22 June 2011 with a consortium of 17 leading international banks and local financial institutions. Again, the facility received an overwhelming response from the banking community, with its size increased from an initially planned facility amount of HK$5,000 million to the final amount of HK$10,000 million. Consecutive successful conclusions of these two large size syndicated credit facilities fully demonstrated the banking community's unwavering support towards the Group.

Further, in light of the low interest rate levels resulting from quantitative easing measures adopted by major economies around the world over the past years, the Group has concluded and has outstanding at 30 June 2011 Hong Kong dollar interest rate swap contracts for terms ranging from three to 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 several years. It is considered that such a treasury management strategy will be of benefit to the Group in the long run.

Prospects

The US's long-term credit rating was historically downgraded from the highest AAA to AA+ by Standard & Poor's in early August 2011. The sovereign debt repayment abilities among certain states within the Euro-zone also attract wide attention. The global financial markets have thus been extremely volatile. There are increasing fears in the market that the world is falling back into recession.

Despite these uncertainties of the external environment, Hong Kong's economic fundamentals remain solid. The Group will continue to expedite its sales programmes and construction process. Residential projects to be launched for sale up to mid-2012 include two urban redevelopment projects at 30-38 Po Tuck Street and 68 Boundary Street, La Verte in Fanling, 131 and 135 Tong Yan San Tsuen Road, as well as the projects in Wu Kai Sha, Ma On Shan (Phase 1) and Tai Tong Road, Yuen Long. Together with the unsold stocks of completed properties, a total of about 4,000 residential units will be available for sale. Meanwhile, a 170,000-square-foot office tower at 24 Lee Chung Street, Chai Wan, is also ready for sale. As many homebuyers in Hong Kong are coming from various mainland cities, the Group, in addition to its existing two exhibition centres (of the Group's Hong Kong properties) in Shenzhen and Guangzhou, will set up two more exhibition centres in the cities of Haikou and Wenzhou so as to step up the promotion efforts to mainland buyers.

The Central Government has recently, on several occasions, indicated that loosening of the austerity policy was unlikely and thus, the existing tightening measures on the mainland property market are expected to linger on in the second half of 2011. Credit tightening, among others, will be the core austerity measures pursued by the Central Government. As it is feared that implementation of the tightening policies may continue for some time, and there would be more housing supply in the second half of this year, the mainland property market is expected to remain restrained. Under the environment where the Central Government is combating inflation, it is difficult for the Group to meet the pre-determined mainland sales target in the short term. The Group remains highly confident in the mainland property market. The Group will expedite, as planned, the development of its property projects.

On the property investment front, the buoyant cross-border spending spree by mainland shoppers is driving up the demand for office and retail property in Hong Kong. The overall rents in Hong Kong are thus expected to rise. In mainland China, Greentech Tower in Shanghai is scheduled for completion in the fourth quarter of 2011, expanding the Group's mainland rental portfolio by about 400,000 square feet to about 6.9 million square feet in gross floor area. It is expected that for the twelve months ending 30 June 2012, two newly completed projects – World Financial Centre in Beijing and Henderson Metropolitan in Shanghai – can contribute annual gross rental income of RMB490 million in total based on the existing tenancy agreements. Together with other rental proceeds, the aggregate rental income in mainland China is set to increase further.

In addition to the growing recurrent rental income in both Hong Kong and mainland China, the three listed associates (namely, Hong Kong and China Gas, Hong Kong Ferry and Miramar) continue to provide the Group with a source of stable income growth.

The Group leveraging on its sizable and stable recurrent cash flows from the investment properties and three listed associates, a strong balance sheet with a low gearing and adequate stand-by facilities, will seize opportunities to enhance its growth drivers including: (i) acquisition of value-accretive urban redevelopment projects in Hong Kong and consolidation of their ownership at reasonable prices; (ii) expedition of land-use conversion of the Group's agricultural land; and (iii) accelerated development of the huge and low-cost development land bank in mainland China, with an increasing amount of residences scheduled for sales, all of which serve as a solid base for the Group's delivery of sustainable earnings growth for the years to come.

Appreciation

Executive Director and Chief Financial Officer Mr. Au Siu Kee, Alexander was re-designated as a Non-executive Director on retirement with effect from 1 July 2011. The Board would like to express its gratitude to Mr. Au for his invaluable contribution during his tenure as Executive Director and Chief Financial Officer.

Condensed Interim Financial Statements

Consolidated Income Statement – unaudited

	Note	For the six months ended 30 June 2011 HK$ million	2010 (restated) HK$ million
Turnover	3, 10	**10,624**	2,178
Direct costs		**(6,229)**	(1,536)
		4,395	642
Other revenue	4	**123**	99
Other income/(expenses), net	5	**37**	(57)
Selling and marketing expenses		**(572)**	(381)
Administrative expenses		**(764)**	(618)
Profit/(loss) from operations before changes in fair value of investment properties		**3,219**	(315)
Increase in fair value of investment properties	11(b)	**4,251**	7,126
Profit from operations after changes in fair value of investment properties		**7,470**	6,811
Finance costs	6(a)	**(549)**	(457)
		6,921	6,354
Share of profits less losses of associates		**2,016**	1,432
Share of profits less losses of jointly controlled entities		**1,166**	1,255
Profit before taxation	6	**10,103**	9,041
Income tax	7	**(1,057)**	(1,075)
Profit for the period		**9,046**	7,966
Attributable to:			
Equity shareholders of the Company		**8,824**	8,262
Non-controlling interests		**222**	(296)
Profit for the period		**9,046**	7,966
Earnings per share – basic and diluted	8(a)	**HK$3.92**	HK$3.84
Adjusted earnings per share	*8(b)*	***HK$1.52***	*HK$0.62*

Details of dividends payable to equity shareholders of the Company are set out in note 9.

The notes on pages 34 to 55 form part of these condensed interim financial statements.

Condensed Interim Financial Statements

Consolidated Statement of Comprehensive Income – unaudited

	Note	For the six months ended 30 June 2011 HK$ million	2010 (restated) HK$ million
Profit for the period		**9,046**	7,966
Other comprehensive income for the period (after tax and reclassification adjustments):			
Exchange differences: net movement in the exchange reserve		**882**	257
Cash flow hedges: net movement in the hedging reserve		**(529)**	(388)
Available-for-sale equity securities: net movement in the fair value reserve		**288**	(86)
Share of other comprehensive income of associates and jointly controlled entities		**122**	(5)
		763	(222)
Total comprehensive income for the period		**9,809**	7,744
Attributable to:			
Equity shareholders of the Company		**9,565**	8,043
Non-controlling interests		**244**	(299)
Total comprehensive income for the period		**9,809**	7,744

The notes on pages 34 to 55 form part of these condensed interim financial statements.

Condensed Interim Financial Statements

Consolidated Balance Sheet

	Note	**At 30 June 2011 (unaudited) HK$ million**	At 31 December 2010 (audited) HK$ million
Non-current assets			
Fixed assets	11	**87,354**	84,068
Intangible operating right		**467**	479
Interest in associates		**39,304**	37,981
Interest in jointly controlled entities		**21,662**	20,947
Derivative financial instruments	12	**448**	752
Other financial assets	13	**3,956**	3,489
Deferred tax assets		**490**	541
		153,681	148,257
Current assets			
Deposits for acquisition of properties		**6,988**	6,925
Inventories		**61,939**	60,717
Trade and other receivables	14	**9,110**	4,497
Cash held by stakeholders		**443**	119
Cash and cash equivalents	15	**17,831**	9,797
		96,311	82,055
Current liabilities			
Trade and other payables	16	**7,876**	5,812
Bank loans and overdrafts	17	**13,624**	7,516
Current taxation		**887**	733
		22,387	14,061
Net current assets		**73,924**	67,994
Total assets less current liabilities		**227,605**	216,251

Condensed Interim Financial Statements

Consolidated Balance Sheet (continued)

	Note	At 30 June 2011 (unaudited) HK$ million	At 31 December 2010 (audited) HK$ million
Non-current liabilities			
Bank loans	17	**29,581**	27,132
Guaranteed notes		**7,022**	6,991
Amount due to a fellow subsidiary		**2,253**	12,976
Derivative financial instruments	12	**941**	641
Deferred tax liabilities		**4,554**	4,088
		44,351	51,828
NET ASSETS		**183,254**	164,423
CAPITAL AND RESERVES			
Share capital	18	**4,738**	4,352
Reserves		**173,276**	154,686
Total equity attributable to equity shareholders of the Company		**178,014**	159,038
Non-controlling interests		**5,240**	5,385
TOTAL EQUITY		**183,254**	164,423

The notes on pages 34 to 55 form part of these condensed interim financial statements.

Condensed Interim Financial Statements

Consolidated Statement of Changes in Equity – unaudited

	Note	Attributable to equity shareholders of the Company										Non-controlling interests	Total equity
		Share capital	Share premium	Property revaluation reserve	Capital redemption reserve	Exchange reserve	Fair value reserve	Hedging reserve	Other reserves	Retained profits	Total		
		HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million
Balance at 1 January 2010		4,294	29,782	16	20	2,859	642	186	51	104,378	142,228	4,676	146,904
Changes in equity for the six months ended 30 June 2010:													
Profit for the period (restated)		–	–	–	–	–	–	–	–	8,262	8,262	(296)	7,966
Total other comprehensive income for the period		–	–	–	–	321	(203)	(337)	–	–	(219)	(3)	(222)
Total comprehensive income for the period (restated)		–	–	–	–	321	(203)	(337)	–	8,262	8,043	(299)	7,744
Transfer to other reserves		–	–	–	–	–	–	–	2	(2)	–	–	–
Shares issued in respect of scrip dividends		36	840	–	–	–	–	–	–	–	876	–	876
Dividend approved in respect of the previous financial period	9(b)	–	–	–	–	–	–	–	–	(1,503)	(1,503)	–	(1,503)
Dividends paid to non-controlling interests		–	–	–	–	–	–	–	–	–	–	(39)	(39)
Contribution from non-controlling interests, net		–	–	–	–	–	–	–	–	–	–	962	962
Disposal of subsidiaries		–	–	–	–	–	–	–	–	–	–	(46)	(46)
Balance at 30 June 2010 (restated)		4,330	30,622	16	20	3,180	439	(151)	53	111,135	149,644	5,254	154,898
Balance at 1 January 2011		**4,352**	**31,127**	**16**	**20**	**4,248**	**801**	**378**	**55**	**118,041**	**159,038**	**5,385**	**164,423**
Changes in equity for the six months ended 30 June 2011:													
Profit for the period		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**8,824**	**8,824**	**222**	**9,046**
Total other comprehensive income for the period		**–**	**–**	**–**	**–**	**1,046**	**308**	**(608)**	**(5)**	**–**	**741**	**22**	**763**
Total comprehensive income for the period		**–**	**–**	**–**	**–**	**1,046**	**308**	**(608)**	**(5)**	**8,824**	**9,565**	**244**	**9,809**
Shares issued in respect of scrip dividends and warrants	18	**386**	**10,669**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**11,055**	**–**	**11,055**
Dividend approved in respect of the previous financial year	9(b)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,644)**	**(1,644)**	**–**	**(1,644)**
Dividends paid to non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(116)**	**(116)**
Increase in shareholding in a subsidiary		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(253)**	**(253)**
Repayment to non-controlling interests, net		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(20)**	**(20)**
Balance at 30 June 2011		**4,738**	**41,796**	**16**	**20**	**5,294**	**1,109**	**(230)**	**50**	**125,221**	**178,014**	**5,240**	**183,254**

The notes on pages 34 to 55 form part of these condensed interim financial statements.

Condensed Interim Financial Statements

Condensed Consolidated Cash Flow Statement – unaudited

	Note	For the six months ended 30 June 2011 HK$ million	2010 HK$ million
Net cash generated from/(used in) operating activities		**534**	(13,486)
Net cash generated from investing activities		**1,360**	870
Net cash generated from financing activities		**6,047**	21,902
Net increase in cash and cash equivalents		**7,941**	9,286
Cash and cash equivalents at 1 January		**9,752**	10,495
Effect of foreign exchange rate changes		**86**	52
Cash and cash equivalents at 30 June	15	**17,779**	19,833

The notes on pages 34 to 55 form part of these condensed interim financial statements.

Notes to the Unaudited Condensed Interim Financial Statements

1 Basis of preparation

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

These condensed interim financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They were authorised for issuance on 25 August 2011.

These condensed interim financial statements have been prepared in accordance with the same accounting policies adopted in the Company's consolidated financial statements for the year ended 31 December 2010 ("the 2010 financial statements").

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

These condensed interim financial statements contain condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2010 financial statements. The condensed interim financial statements and notes thereon do not include all of the information required for the preparation of full set of financial statements in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA.

These condensed interim financial statements are unaudited, but have been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG's independent review report to the Board of Directors (the "Board") is included on page 78. In addition, these condensed interim financial statements have been reviewed by the Company's Audit Committee.

The financial information relating to the year ended 31 December 2010 that is included in these condensed interim financial statements as being previously reported information does not constitute the Company's statutory consolidated financial statements for that period but is derived from those financial statements. The 2010 financial statements are available from the Company's registered office. The auditor has expressed an unqualified opinion on those financial statements in their report dated 17 March 2011.

Notes to the Unaudited Condensed Interim Financial Statements

2 Changes in accounting policies

(a) Changes in accounting policies as a result of the developments in HKFRSs

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

- HKAS 24 (Revised), *Related party disclosures*
- Improvements to HKFRSs (2010)

The above developments relate primarily to clarification of certain disclosure requirements applicable to the Group's financial statements. These developments have no material impact on the contents of these interim financial statements for the current or comparative periods.

The Group has not applied any new standards or interpretations that are not yet effective for the current accounting period except as explained in note (b) below.

(b) Early adoption of the amendments to HKAS 12, *Income taxes*

During the year ended 31 December 2010, the Group early adopted the amendments to HKAS 12, *Income taxes* (the "Amendments"), in respect of the recognition of deferred tax on investment properties carried at fair value under HKAS 40, *Investment property*. The Amendments are effective for annual periods beginning on or after 1 January 2012, but as permitted by the Amendments, the Group decided to adopt the Amendments early.

Under the Amendments, the Group now measures any deferred tax liability in respect of its investment properties in Hong Kong with reference to the tax liabilities that would arise if the properties were disposed of at their carrying values at the balance sheet date. Previously, where these properties were held under leasehold interests, deferred tax was generally measured using the tax rate that would apply as a result of recovery of the asset's value through use.

This change in accounting policy has been applied retrospectively and has resulted in a reduction in the amount of deferred tax provided on valuation gains in respect of certain investment properties of the Group. The effects in respect of the six months ended 30 June 2010 are shown as follows:

Notes to the Unaudited Condensed Interim Financial Statements

2 Changes in accounting policies (continued)

(b) Early adoption of the amendments to HKAS 12, *Income taxes* (continued)

	As previously reported HK$ million	Effect of adoption of amendments to HKAS 12 HK$ million	As restated HK$ million
Consolidated income statement for the six months ended 30 June 2010:			
Share of profits less losses of associates	1,392	40	1,432
Share of profits less losses of jointly controlled entities	1,135	120	1,255
Income tax	(1,544)	469	(1,075)
Profit for the period	7,337	629	7,966
Attributable to:			
Equity shareholders of the Company	7,658	604	8,262
Non-controlling interests	(321)	25	(296)
Earnings per share – Basic and diluted	HK$3.56	HK$0.28	HK$3.84

3 Turnover

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

The major items are analysed as follows:

	For the six months ended 30 June	
	2011	2010
	HK$ million	HK$ million
Sale of properties (note (i))	**8,024**	2,688
Less: Cancelled sales (note (ii))	**–**	(2,670)
	8,024	18
Rental income	**1,871**	1,494
Construction	**12**	10
Infrastructure	**160**	148
Hotel operation	**98**	92
Department store operation	**160**	148
Others	**299**	268
	10,624	2,178

Notes to the Unaudited Condensed Interim Financial Statements

3 Turnover (continued)

Notes:

(i) Included in sale of properties is an amount of HK$Nil (2010: HK$42 million) relating to the Group's share of revenue from its interest in a property project jointly developed by the Group and an associate.

(ii) During the six months ended 30 June 2010, the Group received written requests from the purchasers of 20 property units at 39 Conduit Road for the cancellation of the sale and purchase agreements entered into in the previous year.

4 Other revenue

	For the six months ended 30 June	
	2011	2010
	HK$ million	HK$ million
Bank interest income	**80**	41
Other interest income	**3**	15
Others	**40**	43
	123	99

5 Other income/(expenses), net

	For the six months ended 30 June	
	2011	2010
	HK$ million	HK$ million
Net profit on disposal of fixed assets	**51**	4
Reversal of provision/(provision) on inventories	**1**	(1)
Bad debts written off	**(7)**	(36)
Net foreign exchange gain	**20**	23
Net gain on disposal of a subsidiary (note)	**–**	47
Gain on sale of available-for-sale equity securities	**–**	12
Impairment loss for trade debtors (note 10(c))	**–**	(86)
Others	**(28)**	(20)
	37	(57)

Note:

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

Notes to the Unaudited Condensed Interim Financial Statements

6 Profit before taxation

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

	For the six months ended 30 June	
	2011	2010
	HK$ million	HK$ million
(a) Finance costs:		
Bank interest	**473**	363
Interest on loans wholly repayable within five years	**97**	76
Interest on loans repayable after five years	**152**	152
Other borrowing costs	**109**	72
	831	663
Less: Amount capitalised*	**(282)**	(206)
	549	457

* The borrowing costs have been capitalised at rates ranging from 2.31% to 6.18% (2010: 2.23% to 5.64%) per annum.

	For the six months ended 30 June	
	2011	2010
	HK$ million	HK$ million
(b) Staff costs:		
Salaries, wages and other benefits	**724**	681
Contributions to defined contribution retirement plans	**33**	28
	757	709

Notes to the Unaudited Condensed Interim Financial Statements

6 Profit before taxation (continued)

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

	For the six months ended 30 June 2011 HK$ million	2010 HK$ million
(c) Other items:		
Depreciation	**72**	74
Less: Amount capitalised	**(4)**	(7)
	68	67
Amortisation of intangible operating rights	**22**	21
Cost of sales		
– completed properties for sale (note)	**5,334**	1,826
– trading stocks	**159**	128
Dividend income from investments in available-for-sale listed equity securities	**(28)**	(16)

Note:

Included in the cost of sales in respect of completed properties for sale is an amount of HK$Nil (2010: HK$9 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.

7 Income tax

	For the six months ended 30 June 2011 HK$ million	2010 (restated) HK$ million
Current tax		
Provision for Hong Kong Profits Tax	**469**	178
Provision for taxation outside Hong Kong	**(3)**	54
Provision for Land Appreciation Tax	**25**	3
	491	235
Deferred tax		
Origination and reversal of temporary differences	**566**	840
	1,057	1,075

Notes to the Unaudited Condensed Interim Financial Statements

7 Income tax (continued)

Provision for Hong Kong Profits Tax has been made at 16.5% (2010: 16.5%) on the estimated assessable profits for the period.

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

Land Appreciation Tax is levied on properties in mainland China developed by the Group for sale, at progressive rates ranging from 30% to 60% on the appreciation of land value, which under the applicable regulations is calculated based on the revenue from sale of properties less deductible expenditure including lease charges of land use rights, borrowing costs and all property development expenditure.

Deferred tax charged to the consolidated income statement for the period comprises (a) the deferred tax arising from the taxable temporary differences mainly relating to (i) the increase in fair value of the Group's investment properties and investment property under development in mainland China, (ii) depreciation allowances in excess of related depreciation, and (iii) tax losses; and (b) the reversal of deferred tax arising from the deductible temporary differences relating to the elimination and capitalisation of expenses within the Group.

8 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$8,824 million (2010 (restated): HK$8,262 million) and on the weighted average number of 2,249 million ordinary shares (2010: 2,150 million ordinary shares) in issue during the period, calculated as follows:

	For the six months ended 30 June	
	2011	2010
	million	million
Number of issued ordinary shares at 1 January	**2,176**	2,147
Weighted average number of ordinary shares issued in respect of exercise of bonus warrants	**71**	–
Weighted average number of ordinary shares issued in respect of scrip dividends	**2**	3
Weighted average number of ordinary shares for the period and at 30 June	**2,249**	2,150

Diluted earnings per share were the same as the basic earnings per share for both the current and prior periods as the inclusion of the dilutive potential ordinary shares in respect of the warrants in issue during the six months ended 30 June 2011 would have an anti-dilutive effect and there were no dilutive potential ordinary shares in existence during the six months ended 30 June 2010.

Notes to the Unaudited Condensed Interim Financial Statements

8 Earnings per share (continued)

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

	For the six months ended 30 June	
	2011	2010 (restated)
	HK$ million	HK$ million
Profit attributable to equity shareholders of the Company	**8,824**	8,262
Effect of changes in fair value of investment properties	**(4,251)**	(7,126)
Effect of deferred taxation on changes in fair value of investment properties	**183**	1,056
Effect of share of changes in fair value of investment properties (net of deferred taxation) of:		
– associates	**(686)**	(207)
– jointly controlled entities	**(665)**	(728)
Effect of share of non-controlling interests	**23**	67
Adjusted earnings for calculation of adjusted earnings per share	**3,428**	1,324
Adjusted earnings per share	**HK$1.52**	HK$0.62

9 Dividends

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

	For the six months ended 30 June	
	2011	2010
	HK$ million	HK$ million
Interim dividend declared after the balance sheet date of HK$0.3 (2010: HK$0.3) per share	**711**	650

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

Notes to the Unaudited Condensed Interim Financial Statements

9 Dividends (continued)

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

	For the six months ended 30 June	
	2011	2010
	HK$ million	HK$ million
Final dividend in respect of the previous financial year/period, approved/declared and paid during the period, of HK$0.7 (2010: HK$0.7) per share	**1,644**	1,503

10 Segment reporting

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

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

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

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

(a) Results of reportable segments

Information regarding the Group's reportable segments as provided to the Group's senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended 30 June 2011 is set out below:

Notes to the Unaudited Condensed Interim Financial Statements

10 Segment reporting (continued)

(a) Results of reportable segments (continued)

	Property development HK$ million (note 3)	Property leasing HK$ million (note (iii))	Construction HK$ million	Infrastructure HK$ million	Hotel operation HK$ million	Department store operation HK$ million	Others HK$ million	Eliminations HK$ million	Consolidated HK$ million
For the six months ended 30 June 2011									
External revenue	8,024	1,871	12	160	98	160	299	–	10,624
Inter-segment revenue	–	95	107	–	–	–	19	(221)	–
Reportable segment revenue	8,024	1,966	119	160	98	160	318	(221)	10,624
Reportable segment results	2,077	1,246	(22)	122	30	29	74		3,556
Bank interest income									80
Reversal of provision on inventories	1	–	–	–	–	–	–		1
Unallocated head office and corporate expenses, net									(418)
Profit from operations									3,219
Increase in fair value of investment properties									4,251
Finance costs									(549)
									6,921
Share of profits less losses of associates (note (i))									2,016
Share of profits less losses of jointly controlled entities (note (ii))									1,166
Profit before taxation									10,103
Income tax									(1,057)
Profit for the period									9,046

Notes to the Unaudited Condensed Interim Financial Statements

10 Segment reporting (continued)

(a) Results of reportable segments (continued)

	Property development HK$ million (note 3)	Property leasing HK$ million (note (iii))	Construction HK$ million	Infrastructure HK$ million	Hotel operation HK$ million	Department store operation HK$ million	Others HK$ million	Eliminations HK$ million	Consolidated HK$ million
For the six months ended 30 June 2010 (restated)									
External revenue	18	1,494	10	148	92	148	268	–	2,178
Inter-segment revenue	–	94	211	–	–	–	15	(320)	–
Reportable segment revenue	18	1,588	221	148	92	148	283	(320)	2,178
Reportable segment results	(1,118)	908	(14)	128	19	25	106		54
Bank interest income									41
Provision on inventories	(1)	–	–	–	–	–	–		(1)
Unallocated head office and corporate expenses, net									(409)
Loss from operations									(315)
Increase in fair value of investment properties									7,126
Finance costs									(457)
									6,354
Share of profits less losses of associates (note (i))									1,432
Share of profits less losses of jointly controlled entities (note (ii))									1,255
Profit before taxation									9,041
Income tax									(1,075)
Profit for the period									7,966

Notes to the Unaudited Condensed Interim Financial Statements

10 Segment reporting (continued)

(a) Results of reportable segments (continued)

Notes:

(i) During the period, the Group's share of revenue of associates arising from their activities of property development and property leasing amounted to HK$65 million (2010: HK$196 million) and HK$267 million (2010: HK$254 million), respectively.

Included in the Group's share of profits less losses of associates during the period is a profit of HK$27 million (2010: HK$78 million) contributed from the property development segment, and a profit of HK$868 million (2010 (restated): HK$377 million) contributed from the property leasing segment (taking into account the increase in fair value of investment properties (net of deferred tax) during the period of HK$686 million (2010 (restated): HK$207 million)).

(ii) During the period, the Group's share of revenue of jointly controlled entities arising from their activities of property development and property leasing amounted to HK$326 million (2010: HK$69 million) and HK$637 million (2010: HK$587 million), respectively.

Included in the Group's share of profits less losses of jointly controlled entities during the period is a profit of HK$48 million (2010: HK$42 million) contributed from the property development segment, and a profit of HK$1,075 million (2010 (restated): HK$1,118 million) contributed from the property leasing segment (taking into account the increase in fair value of investment properties during the period of HK$665 million (2010 (restated): HK$728 million)).

(iii) Turnover for the property leasing segment comprises rental income of HK$1,641 million (2010: HK$1,284 million) and rental-related income of HK$230 million (2010: HK$210 million), which in aggregate amounted to HK$1,871 million for the six months ended 30 June 2011 (2010: HK$1,494 million).

(b) Geographical information

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

	Revenue from external customers		Specified non-current assets	
	For the six months ended 30 June		At 30 June	At 31 December
	2011	2010	**2011**	2010
	(unaudited)	(unaudited)	**(unaudited)**	(audited)
	HK$ million	HK$ million	**HK$ million**	HK$ million
Hong Kong	**9,919**	1,630	**121,416**	118,051
Mainland China	**705**	548	**27,371**	25,424
	10,624	2,178	**148,787**	143,475

Notes to the Unaudited Condensed Interim Financial Statements

10 Segment reporting (continued)

(c) Other segment information

	Depreciation and amortisation		Impairment loss/ (reversal of impairment loss) for trade debtors	
	For the six months ended 30 June		For the six months ended 30 June	
	2011	2010	**2011**	2010
	HK$ million	HK$ million	**HK$ million**	HK$ million
Property development	**–**	–	**–**	88
Property leasing	**8**	9	**(1)**	–
Construction	**12**	6	**–**	–
Infrastructure	**22**	21	**–**	–
Hotel operation	**25**	28	**–**	–
Department store operation	**2**	2	**–**	–
Others	**21**	22	**1**	(2)
	90	88	**–**	86

11 Fixed assets

(a) Transfers

During the six months ended 30 June 2011:

(i) properties under development with carrying amount of HK$536 million have been transferred from "Inventories" to "Fixed assets" upon the commencement of leasing activities; and

(ii) investment properties under development with carrying amount of HK$472 million have been transferred from "Fixed assets" to "Inventories" as the directors determined its intended use as held for sale purposes.

(b) Valuation

The investment properties were revalued at 30 June 2011 by DTZ Debenham Tie Leung Limited, an independent firm of professional surveyors who have among their staff Fellows of The Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued, on a market value basis in their existing states by reference to comparable market transactions and where appropriate on the basis of capitalisation of the net rental income allowing for reversionary income potential.

Notes to the Unaudited Condensed Interim Financial Statements

12 Derivative financial instruments

	At 30 June 2011 (unaudited)		At 31 December 2010 (audited)	
	Assets HK$ million	Liabilities HK$ million	Assets HK$ million	Liabilities HK$ million
Cash flow hedges:				
– cross currency interest rate swap contracts	**417**	**704**	482	641
– interest rate swap contracts	**31**	**237**	270	–
	448	**941**	752	641

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

– cross currency interest rate swap contracts to hedge against the interest rate risk and foreign currency risk in respect of guaranteed notes denominated in United States dollars ("US$") and Pound Sterling ("£") with aggregate principal amounts of US$825 million and £50 million at 30 June 2011 (31 December 2010: US$825 million and £50 million) and bank loans denominated in United States dollars with an aggregate amount of US$148 million at 30 June 2011 (31 December 2010: US$148 million); and

– interest rate swap contracts to hedge against the interest rate risk in respect of certain bank loans denominated in Hong Kong dollars with an aggregate amount of HK$10,950 million at 30 June 2011 (31 December 2010: HK$7,100 million).

These cross currency interest rate swap contracts and interest rate swap contracts were designated as cash flow hedges of the interest rate risk and foreign currency risk in relation to the guaranteed notes and bank loans. They will mature between 18 September 2013 and 22 July 2025 (31 December 2010: between 18 September 2013 and 22 July 2025).

Notes to the Unaudited Condensed Interim Financial Statements

13 Other financial assets

	At 30 June 2011 (unaudited) HK$ million	At 31 December 2010 (audited) HK$ million
Available-for-sale equity securities	**3,203**	2,780
Instalments receivable	**704**	655
Long term receivable	**49**	54
	3,956	3,489
Market value of listed securities	**2,893**	2,577

At 30 June 2011, the fair value of individually impaired available-for-sale equity securities amounted to HK$1 million (31 December 2010: HK$1 million). These securities were determined to be impaired on the basis of significant or prolonged decline in their fair value below cost.

Instalments receivable represents the proceeds receivable from the sale of properties due after twelve months from the balance sheet date. The balance included in "Other financial assets" is neither past due nor impaired. Instalments receivable due within twelve months from the balance sheet date is included in "Trade and other receivables" under current assets (see note 14).

14 Trade and other receivables

	At 30 June 2011 (unaudited) HK$ million	At 31 December 2010 (audited) HK$ million
Instalments receivable	**6,007**	1,256
Debtors, prepayments and deposits	**2,898**	3,052
Gross amount due from customers for contract work	**26**	17
Amounts due from associates	**125**	139
Amounts due from jointly controlled entities	**54**	33
	9,110	4,497

Notes to the Unaudited Condensed Interim Financial Statements

14 Trade and other receivables (continued)

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

	At 30 June 2011 (unaudited) HK$ million	At 31 December 2010 (audited) HK$ million
Current or under 1 month overdue	**6,276**	1,567
More than 1 month overdue and up to 3 months overdue	**113**	66
More than 3 months overdue and up to 6 months overdue	**20**	26
More than 6 months overdue	**78**	65
	6,487	1,724

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

15 Cash and cash equivalents

	At 30 June 2011 (unaudited) HK$ million	At 31 December 2010 (audited) HK$ million
Deposits with banks and other financial institutions	**12,830**	3,811
Cash at bank and in hand	**5,001**	5,986
Cash and cash equivalents in the consolidated balance sheet	**17,831**	9,797
Bank overdrafts	**(52)**	(45)
Cash and cash equivalents in the condensed consolidated cash flow statement	**17,779**	9,752

Notes to the Unaudited Condensed Interim Financial Statements

16 Trade and other payables

	At 30 June 2011 (unaudited) HK$ million	At 31 December 2010 (audited) HK$ million
Creditors and accrued expenses	**4,085**	4,271
Gross amount due to customers for contract work	**1**	1
Rental and other deposits	**999**	908
Forward sales deposits received	**2,574**	410
Amounts due to associates	**101**	107
Amounts due to jointly controlled entities	**116**	115
	7,876	5,812

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

	At 30 June 2011 (unaudited) HK$ million	At 31 December 2010 (audited) HK$ million
Due within 1 month or on demand	**645**	859
Due after 1 month but within 3 months	**560**	406
Due after 3 months but within 6 months	**91**	394
Due after 6 months	**1,378**	1,067
	2,674	2,726

17 Bank loans and overdrafts

During the six months ended 30 June 2011, the Group obtained new bank loans amounting to HK$14,929 million (2010: HK$18,931 million) and repaid bank loans amounting to HK$6,518 million (2010: HK$2,921 million). The new bank loans bear interest rates ranging from 0.30% to 7.32% (2010: 0.30% to 5.35%) per annum.

At 30 June 2011 and 31 December 2010, the entire amount of the Group's bank loans and overdrafts was unsecured.

Notes to the Unaudited Condensed Interim Financial Statements

18 Share capital

	Number of shares million	Amount HK$ million
Ordinary shares of HK$2 each (each being a "Share")		
Authorised:		
At 1 January 2011 and 30 June 2011	**5,000**	**10,000**
Issued and fully paid:		
At 1 January 2011	2,176	4,352
Shares issued in respect of scrip dividends and warrants	193	386
At 30 June 2011	**2,369**	**4,738**

(a) Issue of shares in respect of scrip dividends

During the six months ended 30 June 2011, the Company issued and allotted 19,795,415 Shares at an issue price of HK$51.99 per share in respect of the final dividend for the year ended 31 December 2010 under the scrip dividend scheme. The 19,795,415 Shares issued rank pari passu in all respects with the then existing Shares.

Accordingly, the Company's share capital and share premium were increased by approximately HK$1,029 million.

(b) Exercise of warrants

During the six months ended 30 June 2011, 172,870,014 units of warrants ("Warrants"), each of which entitles the holder thereof to subscribe one Share at an initial subscription price of HK$58 (subject to adjustment) and is exercisable at any time during the period of one year commencing from 2 June 2010 up to 1 June 2011 (both days inclusive), had been exercised by the holders thereof. This includes an aggregate of 172,414,000 Warrants held by Henderson Development Limited, being the parent and ultimate controlling company of the Company, which were exercised at the subscription price of HK$58 per share on 12 April 2011.

As a result, the Company issued and allotted 172,870,014 Shares and the Group realised cash proceeds of approximately HK$10,026 million (net of expenses). The subscription rights attaching to the remaining unexercised Warrants lapsed after the close of business on 1 June 2011.

Notes to the Unaudited Condensed Interim Financial Statements

19 Capital commitments

At 30 June 2011, the Group had capital commitments not provided for in these condensed interim financial statements as follows:

	At 30 June 2011 (unaudited) HK$ million	At 31 December 2010 (audited) HK$ million
Contracted for acquisition of property and future development expenditure and the related costs of internal fixtures and fittings	**9,345**	8,847
Future development expenditure and the related costs of internal fixtures and fittings approved by the directors but not contracted for	**28,823**	27,185
	38,168	36,032

20 Contingent liabilities

(a) In connection with the sale of certain subsidiaries and shareholders' loans to Sunlight Real Estate Investment Trust ("Sunlight REIT") (the "Sale") in December 2006, the Group entered into Deeds of Tax Covenant with Sunlight REIT. Under the Deeds of Tax Covenant, the Group has undertaken to indemnify Sunlight REIT for any tax liabilities relating to events occurred on or before the completion of the Sale (the "Completion"), clawback of commercial building allowances and capital allowances granted up to the Completion and re-classification of the properties before the Completion. At 30 June 2011, the Group had contingent liabilities in this connection of HK$8 million (31 December 2010: HK$8 million).

(b) At 30 June 2011, the Group had contingent liabilities in respect of performance bonds to guarantee for the due and proper performance of the subsidiaries' obligations amounting to HK$37 million (31 December 2010: HK$22 million).

(c) During the year ended 31 December 2010, a subsidiary of the Company in mainland China was subject to an audit by the tax authority regarding its tax assessment for the year ended 31 December 2008. The tax authority has raised questions in respect of the deductibility of certain expenses. The Group is currently in negotiation with the tax authority but no conclusion has been reached up to the date of approval of these condensed interim financial statements. Nevertheless, the directors believe that they have sufficient grounds to support that those expenses are deductible for tax purposes. Should those expenses not be deductible, the Group would be subject to an additional tax liability in the amount of approximately HK$36 million (31 December 2010: HK$35 million).

Notes to the Unaudited Condensed Interim Financial Statements

21 Material related party transactions

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

(a) Transactions with fellow subsidiaries

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

	For the six months ended 30 June	
	2011	2010
	HK$ million	HK$ million
Sales commission income (note (iii))	**12**	–
Other interest expense (note (i))	**15**	10

(b) Transactions with associates and jointly controlled entities

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

	For the six months ended 30 June	
	2011	2010
	HK$ million	HK$ million
Venue fee income (note (ii))	**1**	–
Other interest income (note (i))	**1**	3
Construction income (note (ii))	**–**	6
Security guard service income (note (iii))	**8**	9
Management fee income (note (iii))	**–**	2
Sales commission income (note (iii))	**1**	4
Rental expenses (note (iii))	**45**	31

Notes to the Unaudited Condensed Interim Financial Statements

21 Material related party transactions (continued)

(c) Transactions with related companies

Details of material related party transactions during the period between the Group and its related companies which are controlled by private family trusts of a director of the Group are as follows:

	For the six months ended 30 June	
	2011	2010
	HK$ million	HK$ million
Venue fee income (note (ii))	**5**	–
Administration fee income (note (ii))	**3**	–

Notes:

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

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

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

(d) Transactions with Sunlight REIT

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

	For the six months ended 30 June	
	2011	2010
	HK$ million	HK$ million
Rental expenses	**4**	4
Property and lease management service fee income and other ancillary property service fee income	**25**	23
Asset management service fee income	**33**	29
Security service fee income	**2**	2

The above transactions are conducted in accordance with the terms of respective agreements/deeds entered into between the Group and Sunlight REIT. At 30 June 2011, the amount due from Sunlight REIT amounted to HK$6 million (31 December 2010: HK$24 million).

Notes to the Unaudited Condensed Interim Financial Statements

21 Material related party transactions (continued)

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

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

At 30 June 2011, the advance by the entity to the abovementioned associate amounted to HK$85 million (31 December 2010: HK$80 million). Such amount is unsecured and has no fixed terms of repayment.

22 Non-adjusting post balance sheet events

(a) After the balance sheet date, the directors declared an interim dividend. Further details are disclosed in note 9(a).

(b) On 15 July 2011, there was certain damage to one of the link bridges of Hangzhou Qianjiang Third Bridge (the "Bridge", in which Henderson Investment Limited, a subsidiary of the Company, has a 60% interest and is also the core asset under the Group's infrastructure reportable segment as referred to in note 10). As a result of the damage, the four lanes two-way traffic of the Bridge have been temporarily reduced to a two lanes two-way traffic in the affected area of the Bridge.

At the date of issue of these financial statements, the cause of the incident was under investigation by the Group and the full impact of the damage was being assessed by the Group.

23 Comparative figures

As a result of the early adoption of the amendments to HKAS 12, *Income taxes* (further details of which are disclosed in note 2(b)) in the 2010 financial statements, certain comparative figures have been adjusted to conform with current period's presentation.

Financial Review

Results of operations

The following discussions should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements for the six months ended 30 June 2011.

Turnover and profit

	Turnover Six months ended 30 June		Contribution/(Loss) from operations Six months ended 30 June	
	2011	2010	**2011**	2010
	HK$ million	HK$ million	**HK$ million**	HK$ million
Reportable segments				
– Property development	**8,024**	18	**2,077**	(1,118)
– Property leasing	**1,871**	1,494	**1,246**	908
– Construction	**12**	10	**(22)**	(14)
– Infrastructure	**160**	148	**122**	128
– Hotel operation	**98**	92	**30**	19
– Department store operation	**160**	148	**29**	25
– Other businesses	**299**	268	**74**	106
	10,624	2,178	**3,556**	54

	Six months ended 30 June	
	2011	2010 (restated)
	HK$ million	HK$ million
Profit attributable to equity shareholders of the Company		
– including the Group's attributable share of changes in fair value of investment properties (net of deferred taxation) held by the Group's subsidiaries, associates and jointly controlled entities	**8,824**	8,262
– 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	**3,428**	1,324

The Group recorded an increase in turnover for the six months ended 30 June 2011 of HK$8,446 million, or 388%, to HK$10,624 million (2010: HK$2,178 million). The increase was mainly attributable to the increase in revenue during the six months ended 30 June 2011 from property sales after deducting the turnover attributable to cancelled property sales (as referred to in the paragraph headed "Property development" below), when compared with that for the corresponding period of six months ended 30 June 2010.

The Group underlying profit attributable to equity shareholders (before the fair value change of investment properties) for the six months ended 30 June 2011 amounted to HK$3,428 million, representing an increase of HK$2,104 million, or 159%, from HK$1,324 million (as restated) for the corresponding period of six months ended 30 June 2010. Such increase was mainly due to the increase in the Group's attributable share of profit contribution from property sales during the six months ended 30 June 2011 when compared with the corresponding period of six months ended 30 June 2010. Based on the Group underlying profit, the earnings per share were HK$1.52 (2010 (restated): HK$0.62).

Including the fair value change (net of non-controlling interests and deferred taxation) of investment properties, the Group profit attributable to equity shareholders for the six months ended 30 June 2011 was HK$8,824 million. Compared with the Group profit attributable to equity shareholders of HK$8,262 million (as restated) for the corresponding period of six months ended 30 June 2010, this represented an increase of HK$562 million, or 7%, due to the increase in the Group underlying profit attributable to equity shareholders (before the fair value change of investment properties) of HK$2,104 million for the six months ended 30 June 2011 which was partially offset by the decrease in the Group's attributable share of fair value change of the investment properties held by the Group's subsidiaries, associates and jointly controlled entities in the amount of HK$1,542 million for the six months ended 30 June 2011 when compared with the corresponding period of six months ended 30 June 2010. Earnings per share were HK$3.92 (2010 (restated): HK$3.84).

Discussions on the major reportable segments are set out below.

Property development

During the six months ended 30 June 2011, the Group's sales of the major property projects included Hill Paramount, The Beverly Hills, two houses in Headland Road and one unit of 39 Conduit Road in Hong Kong, as well as Phase 1A of The Arch of Triumph in Changsha, Hengli Bayview in Guangzhou and residential apartment units of Henderson Centre in Beijing, mainland China. Together with the sales of other completed properties, the gross revenue from property sales during the six months ended 30 June 2011 amounted to HK$8,024 million (2010: HK$2,688 million).

During the six months ended 30 June 2011, the amount of properties pre-sold attributable to the Group totalled HK$3,251 million (2010: HK$169 million) which comprises (i) HK$2,392 million relating to pre-sales of The Gloucester in Hong Kong (2010: HK$Nil); and (ii) HK$859 million (2010: HK$169 million) relating to pre-sales of properties in mainland China.

During the six months ended 30 June 2011, there were no cancelled transactions whose sale revenues were recognised in the preceding financial year ended 31 December 2010. On the other hand, during the corresponding period of six months ended 30 June 2010, the Group received written requests from the purchasers of 20 property units at 39 Conduit Road for the cancellation of the sale and purchase agreements entered into in the previous year.

The revenues and contribution of profit/(loss) from property development, before and after taking into account the effects of the cancelled transactions, during the six months ended 30 June 2011 and the corresponding period of six months ended 30 June 2010, are as follows:-

	Six months ended 30 June	
	2011	2010
	HK$ million	HK$ million
Gross revenue from property development before taking into account the effect of the cancelled transactions	**8,024**	2,688
Less:		
Revenue (net of forfeited deposits) relating to the cancelled transactions	–	2,670
Revenue from property development after taking into account the effect of the cancelled transactions	**8,024**	18
Profit contribution from property development before taking into account the effect of the cancelled transactions	**2,077**	398
Less:		
Loss on the cancelled transactions	–	1,516
Profit/(Loss) from property development after taking into account the effect of the cancelled transactions	**2,077**	(1,118)

After deducting any revenue relating to cancelled transactions (for which there was none for the six months ended 30 June 2011), the revenue from property development for the six months ended 30 June 2011 amounted to HK$8,024 million (2010: HK$18 million), representing an increase of HK$8,006 million, or 445 times, over that for the corresponding period of six months ended 30 June 2010.

Similarly, after taking into account any gain or loss on cancelled transactions (for which there was none for the six months ended 30 June 2011), the profit contribution from property development amounted to HK$2,077 million during the six months ended 30 June 2011 (2010: loss of HK$1,118 million), representing an increase of HK$3,195 million over that for the corresponding period of six months ended 30 June 2010.

During the six months ended 30 June 2011, the Group's share of aggregate net pre-tax profit from subsidiaries (after deducting non-controlling interests), associates and jointly controlled entities in relation to property development segment amounted to HK$1,964 million (2010: aggregate pre-tax loss of HK$394 million), comprising pre-tax profit contribution from subsidiaries (after deducting non-controlling interests) of HK$1,881 million (2010: pre-tax loss of HK$531 million), pre-tax profit contribution from associates of HK$30 million (2010: HK$87 million) and pre-tax profit contribution from jointly controlled entities of HK$53 million (2010: HK$50 million). In respect of the foregoing, (i) the contribution from associates during the six months ended 30 June 2011 included (inter alia) profits generated from the sales of units of Grand Promenade in which The Hong Kong and China Gas Company Limited ("HKCG", a listed associate of the Company) has a 50% equity interest, the sales of units of Grand Waterfront held by HKCG as well as the sales of units of Shining Heights and The Spectacle held by Hong Kong Ferry (Holdings) Company Limited ("HK Ferry", a listed associate of the Company); and (ii) the contribution from jointly controlled entities during the six months ended 30 June 2011 included profits generated from the sales of units of Grand Promenade in which the Group has the other 50% equity interest.

Property leasing

Revenue from property leasing for the six months ended 30 June 2011 amounted to HK$1,871 million (2010: HK$1,494 million), representing an increase of HK$377 million, or 25%, over that for the corresponding period of six months ended 30 June 2010. At 30 June 2011, the Group's major investment properties in Hong Kong recorded an average occupancy rate of 96.7% (31 December 2010: 94.5%). The occupancy rate of Manulife Financial Centre in Kwun Tong, which was completed after 1 January 2008, exceeded 94% at 30 June 2011 (31 December 2010: 87%). During the six months ended 30 June 2011, there were satisfactory increases in new rents upon lease renewals and new lettings in a number of cases when compared with the corresponding passing rents. Profit contribution from property leasing for the six months ended 30 June 2011 amounted to HK$1,246 million (2010: HK$908 million), representing an increase of HK$338 million, or 37%, over that for the corresponding period of six months ended 30 June 2010 mainly for the reasons of (i) increased profit contributions of HK$40 million from the Centro and Henderson Metropolitan, being the Group's two investment properties in Shanghai, mainland China which were completed in January 2010 and September 2010, respectively; (ii) increased profit contribution of HK$88 million from World Finance Centre in Beijing, mainland China due to the increase in average occupancy rate during the six months ended 30 June 2011 when compared with the corresponding period of six months ended 30 June 2010; (iii) increased profit contribution of HK$67 million from Manulife Financial Centre in Hong Kong due to the increase in average occupancy rate during the six months ended 30 June 2011 when compared with the corresponding period of six months ended 30 June 2010; and (iv) increased profit contribution in the aggregate amounts of HK$113 million and HK$19 million from the other investment properties in Hong Kong and mainland China, respectively.

Taking into account the Group's share of leasing revenue from properties owned by subsidiaries (after deducting non-controlling interests), associates and jointly controlled entities, gross revenue from property leasing attributable to the Group during the six months ended 30 June 2011 amounted to HK$2,769 million (2010: HK$2,329 million), representing an increase of HK$440 million, or 19%, over that for the corresponding period of six months ended 30 June 2010.

During the six months ended 30 June 2011, the Group's share of pre-tax net rental income from properties owned by subsidiaries (after deducting non-controlling interests), associates and jointly controlled entities (before any changes in fair value of investment properties and related deferred taxation) in total amounted to HK$1,982 million (2010: HK$1,616 million) which represents an increase of HK$366 million, or 23%, over that for the corresponding period of six months ended 30 June 2010. The Group's share of pre-tax net rental income comprises contribution from subsidiaries (after deducting non-controlling interests) of HK$1,243 million (2010: HK$904 million), contribution from associates of HK$226 million (2010: HK$219 million) and contribution from jointly controlled entities of HK$513 million (2010: HK$493 million).

Construction

The Group principally engages in construction contracts for property development projects in which the Group participates, including property development projects of the Group's associates and jointly controlled entities. During the six months ended 30 June 2011, turnover from construction activities increased by 20% to HK$12 million (2010: HK$10 million) due to the incremental revenue contribution from a new construction contract engaged with a property development project of HK Ferry following the completion of two other construction contracts during the period. The construction segment reported a loss from operations of HK$22 million during the six months ended 30 June 2011 (2010: loss of HK$14 million), mainly for the reasons that (i) the construction segment recorded an additional depreciation charge of HK$6 million during the six months ended 30 June 2011 when compared with the corresponding six months ended 30 June 2010 due to the Group's acquisition of additional construction plant and machinery during the period to undertake forthcoming construction activities of the Group's development projects; and (ii) there was an increase of HK$1 million in the operating expenses and administrative expenses of the construction segment during the six months ended 30 June 2011 when compared with the corresponding six months ended 30 June 2010.

Infrastructure

Infrastructure projects in mainland China reported a turnover of HK$160 million for the six months ended 30 June 2011 (2010: HK$148 million), representing an increase of HK$12 million, or 8%, over that for the corresponding period of six months ended 30 June 2010. The increase was primarily attributable to the increase in traffic volume of the toll bridge in Hangzhou, mainland China during the six months ended 30 June 2011 when compared with the corresponding period of six months ended 30 June 2010. Profit contribution from the infrastructure segment for the six months ended 30 June 2011 decreased by HK$6 million, or 5%, to HK$122 million (2010: HK$128 million).

Hotel operation

Revenue from hotel operation for the six months ended 30 June 2011 amounted to HK$98 million (2010: HK$92 million), representing an increase of HK$6 million, or 7%, over that for the corresponding period of six months ended 30 June 2010. Profit contribution from the hotel operation segment for the six months ended 30 June 2011 amounted to HK$30 million (2010: HK$19 million), and the increase in profit contribution is mainly attributable to (i) the fact that the operating expenses of Newton Hotel Kowloon, which amounted to HK$10 million for the corresponding period of six months ended 30 June 2010, did not recur during the six months ended 30 June 2011 following the cessation of business operation of Newton Hotel Kowloon on 30 June 2010; and (ii) the increase in the occupancy rates and room tariffs of guestrooms during the six months ended 30 June 2011 when compared with that for the corresponding six months ended 30 June 2010.

Department store operation

The Group operates five department stores under the name of “Citistore” and two specialty stores in Hong Kong. Revenue from department store operation for the six months ended 30 June 2011 amounted to HK$160 million (2010: HK$148 million), which recorded an increase of HK$12 million, or 8%, over that for the corresponding period of six months ended 30 June 2010. Profit contribution from department store operation for the six months ended 30 June 2011 amounted to HK$29 million (2010: HK$25 million), representing an increase of HK$4 million, or 16%, over that for the corresponding period of six months ended 30 June 2010 for the reason of the continuing strong market sentiment of Hong Kong’s retail sector during the period when compared with that of the corresponding six months ended 30 June 2010.

Other businesses

Other businesses comprise mainly provision of finance, investment holding, project management, property management, agency services, cleaning and security guard services, which altogether reported a turnover of HK$299 million for the six months ended 30 June 2011 (2010: HK$268 million), representing an increase of HK$31 million, or 12%, over that for the corresponding period of six months ended 30 June 2010. Nevertheless, profit contribution from other businesses for the six months ended 30 June 2011 decreased by HK$32 million, or 30%, to HK$74 million (2010: HK$106 million) which is mainly attributable to (i) the fact that the overdue interest income of HK$11 million recorded during the corresponding period of six months ended 30 June 2010 as a result of the completion of the sale of four units at 39 Conduit Road did not recur for the six months ended 30 June 2011; (ii) the fact that an aggregate amount of HK$22 million relating to certain one-off gains during the corresponding period of six months ended 30 June 2010 did not recur for the six months ended 30 June 2011; and (iii) the decrease in profit contribution from short-term foreign currency and interest rate swap contracts of HK$13 million during the six months ended 30 June 2011, but the effect of which is partially offset by the increase in profit contribution of HK$24 million from project management activities mainly due to an increase in commission income from property sales and savings in administrative expenses during the six months ended 30 June 2011 when compared with the corresponding period of six months ended 30 June 2010.

Associates

The Group's share of post-tax profits less losses of associates during the six months ended 30 June 2011 amounted to HK$2,016 million (2010 (restated): HK$1,432 million), representing an increase of HK$584 million, or 41%, over that for the corresponding period of six months ended 30 June 2010. Excluding the Group's attributable share of changes in fair value of investment properties (net of deferred taxation) held by the associates of HK$686 million during the six months ended 30 June 2011 (2010 (restated): HK$207 million), the Group's share of the underlying post-tax profits less losses of associates for the six months ended 30 June 2011 amounted to HK$1,330 million (2010: HK$1,225 million), representing an increase of HK$105 million, or 9%, over that for the corresponding period of six months ended 30 June 2010.

In respect of the Group's three listed associates (namely, HKCG, Miramar Hotel and Investment Company, Limited ("Miramar") and HK Ferry), the Group's aggregate share of their post-tax profits for the six months ended 30 June 2011 amounted to HK$1,630 million (2010 (restated): HK$1,367 million), representing an increase of HK$263 million, or 19%, over that for the corresponding period of six months ended 30 June 2010. Excluding the Group's attributable share of changes in fair value of investment properties held by these three listed associates (net of deferred taxation) of HK$317 million during the six months ended 30 June 2011 (2010 (restated): HK$168 million), the Group's share of the underlying post-tax profits of these three listed associates amounted to HK$1,313 million for the six months ended 30 June 2011 (2010: HK$1,199 million), representing an increase of HK$114 million, or 10%, over that for the corresponding period of six months ended 30 June 2010.

During the six months ended 30 June 2011, the Group recorded the following:

(i) an increase in the share of underlying post-tax profit from HKCG of HK$125 million, mainly due to the Group's share of increase in profit contribution (net of interest expenses) from the gas operation businesses in Hong Kong and mainland China in the aggregate amount of HK$119 million;

(ii) an increase in the share of underlying post-tax profit from Miramar of HK$5 million, mainly due to the Group's share of increase in profit contribution from property leasing and hotel operations in the amounts of HK$12 million and HK$11 million, respectively, which are partially offset by the Group's share of decrease in profit contribution from food and beverage operation of HK$3 million, the Group's share of losses from securities investment and apparel operation in the aggregate amount of HK$6 million and the Group's share of decrease relating to the write back of provision on certain completed properties held for sale in Guangzhou, mainland China in the amount of HK$6 million; and

(iii) a decrease in the share of underlying post-tax profit from HK Ferry of HK$16 million, mainly due to the Group's share of decrease in profit contributions from property sales (relating to Shining Heights and The Spectacle) in the amount of HK$14 million.

Jointly controlled entities

The Group's share of post-tax profits less losses of jointly controlled entities during the six months ended 30 June 2011 which are mainly engaged in property development and property investment activities amounted to HK$1,166 million (2010 (restated): HK$1,255 million), representing a decrease of HK$89 million, or 7%, from that for the corresponding period of six months ended 30 June 2010. Excluding the Group's attributable share of changes in fair value of investment properties held by the jointly controlled entities of HK$665 million during the six months ended 30 June 2011 (2010 (restated): HK$728 million), the Group's share of the underlying post-tax profits less losses of jointly controlled entities for the six months ended 30 June 2011 amounted to HK$501 million (2010: HK$527 million), representing a decrease of HK$26 million, or 5%, from that for the corresponding period of six months ended 30 June 2010. Such decrease was mainly attributable to (i) the Group's share of decrease in profit contribution from property sales of Grand Promenade of HK$30 million during the six months ended 30 June 2011; and (ii) the loss of the Group's share of profit contribution from the department store operation in mainland China which was sold in December 2010 and as a result of which the Group's share of profit contribution of HK$60 million for the corresponding period of six months ended 30 June 2010 did not recur during the six months ended 30 June 2011, which was partially offset by the Group's share of increase in profit contributions during the six months ended 30 June 2011 from (iii) the property leasing and hotel operation of the ifc Complex in the amount of HK$24 million due to favourable rental reversions upon lease renewals and the increase in occupancy rates of the Four Seasons Hotel; (iv) the property sales of La Botanica Phase 1A in Xian, mainland China in the amount of HK$26 million following the completion of project development and delivery of sold units to the buyers during the six months ended 30 June 2011; and (v) the property sales of Royal Peninsula in Hong Kong in the amount of HK$9 million when compared with the corresponding six months ended 30 June 2010.

Finance costs

Finance costs (comprising interest expense and other borrowing costs) recognised as expenses for the six months ended 30 June 2011 were HK$549 million (2010: HK$457 million). Finance costs before interest capitalisation for the six months ended 30 June 2011 were HK$831 million (2010: HK$663 million). During the six months ended 30 June 2011, the Group's effective borrowing rate was approximately 2.79% per annum (2010: approximately 2.69% per annum).

Revaluation of investment properties

The Group recognised an increase in fair value on its investment properties (before deferred taxation and non-controlling interests) of HK$4,251 million in the consolidated income statement for the six months ended 30 June 2011 (2010: HK$7,126 million).

Financial resources and liquidity

Maturity profile and interest cover

At 30 June 2011, the aggregate amount of the Group's bank and other borrowings and the amount due to a fellow subsidiary ("Total debt") amounted to approximately HK$52,480 million (31 December 2010: HK$54,615 million), the entire amount of which was unsecured at both 30 June 2011 and 31 December 2010. The maturity profile of the Total debt, the cash and bank balances and the gearing ratio of the Group were as follows:

	At 30 June 2011 HK$ million	At 31 December 2010 HK$ million
Bank and other borrowings repayable:		
– Within 1 year	**13,624**	7,516
– After 1 year but within 2 years	**9,553**	16,407
– After 2 years but within 5 years	**19,373**	10,054
– After 5 years	**7,677**	7,662
Amount due to a fellow subsidiary		
– Due after 1 year but within 2 years	**2,253**	12,976
Total debt	**52,480**	54,615
Less: Cash and bank balances	**17,831**	9,797
Net debt	**34,649**	44,818
Shareholders' funds	**178,014**	159,038
Gearing ratio (%)	**19.5%**	28.2%

Gearing ratio is calculated based on the net debt and shareholders' funds of the Group at the balance sheet date. The Group's gearing ratio decreased from 28.2% at 31 December 2010 to 19.5% at 30 June 2011, which is mainly attributable to the combined effect of, inter alia, (i) the Group's profit attributable to equity shareholders of the Company for the six months ended 30 June 2011; (ii) the increase in the Group's shareholders' funds at the end of the period due to the enlargement of the Group's capital base as a result of the exercise of 172,870,014 units of warrants by the holders thereof to subscribe for an equal number of shares in the Company during the period (the "Subscription"); and (iii) the repayment of part of the Group's net debt using the proceeds from the Subscription which therefore resulted in a decrease in the Group's net debt at the end of the period.

The interest cover of the Group is calculated as follows:

	Six months ended 30 June	
	2011	2010
	HK$ million	HK$ million
Profit from operations (before changes in fair value of investment properties) plus the Group's share of the underlying profits less losses of associates and jointly controlled entities (before taxation)	**5,388**	1,775
Interest expense (before interest capitalisation)	**722**	591
Interest cover (times)	**7**	3

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

Treasury and financial management

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

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

In respect of the Group's operations in mainland China, apart from its capital contributions and, in some cases, loan contributions to projects which are denominated in RMB and are not hedged, the Group endeavours to establish a natural hedge by maintaining an appropriate level of external borrowings in RMB. In respect of the Notes, the Bond and the USD borrowings in the aggregate principal amounts of US$972,500,000 and £50,000,000 at 30 June 2011 (31 December 2010: US$972,500,000 and £50,000,000), there were interest rate swap contracts and cross currency interest rate 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$10,950,000,000 at 30 June 2011 (31 December 2010: HK$7,100,000,000) which bear floating interest rates ("HKD borrowings"), there were interest rate swap contracts which were entered into between the Group and certain counterparty banks for hedging purpose as referred to below.

The purpose of the abovementioned swap contracts is to enable the Group to (i) secure a fixed interest rate level in relation to the Hong Kong dollar funding resulting from the conversion of the principal amounts of the Notes, the Bond and the USD borrowings into Hong Kong dollars, and hence to hedge against the foreign exchange risk which may arise during the financial years between the issuance date and the maturity date in respect of the entire amount of each tranche of the Notes and the entire amount of the Bond and between the drawdown dates and the repayment dates in respect of the entire amounts of the USD borrowings; and (ii) hedge against the interest rate risk by converting the floating interest rates into fixed interest rates during the financial years between the drawdown dates and the repayment dates in respect of the HKD borrowings to the extent of HK$10,950,000,000 at 30 June 2011. 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$10,950,000,000 at 30 June 2011.

Material acquisitions and disposals

The Group did not undertake any significant acquisitions or disposals of subsidiaries or assets during the six months ended 30 June 2011.

Charge on assets

Assets of the Group were not charged to any third parties at both 30 June 2011 and 31 December 2010.

Capital commitments

At 30 June 2011, capital commitments of the Group amounted to HK$38,168 million (31 December 2010: HK$36,032 million).

Contingent liabilities

At 30 June 2011, the Group's contingent liabilities amounted to HK$81 million (31 December 2010: HK$65 million).

Employees and remuneration policy

At 30 June 2011, the Group had approximately 7,800 (31 December 2010: 8,000) full-time employees. The remuneration of the employees is in line with the market and commensurate with the level of pay in the industry. Discretionary year-end bonuses are payable to the employees based on individual performance. Other benefits to the employees include medical insurance, retirement scheme, training programmes and education subsidies.

Total staff costs for the six months ended 30 June 2011 amounted to HK$757 million (2010: HK$709 million).

Other Information

Credit Agreements with Covenants of the Controlling Shareholders

A wholly-owned subsidiary of the Company has continuously acted as borrower for a HK$10,000,000,000 revolving credit facility obtained in 2004 that consisted of a 5-year and a 7-year tranche in equal amounts from a syndicate of banks under the guarantee given by the Company. The 5-year tranche and 7-year tranche of this credit facility was fully repaid and cancelled in July 2009 and June 2011 respectively. In addition, the HK$13,350,000,000 5-year revolving credit facility obtained by a wholly-owned subsidiary of the Company in 2006 was repaid and cancelled in June 2011.

Wholly-owned subsidiaries of the Company, as borrowers, have respectively obtained a HK$8,000,000,000 3-year term loan facility in 2009, 5-year term loan and revolving credit facilities of up to HK$13,250,000,000 in 2010, 3-year term loan and revolving credit facilities of up to HK$10,000,000,000 in January 2011 and 5-year term loan and revolving credit facilities of up to HK$10,000,000,000 in June 2011 from groups of syndicate of banks under separate guarantees given by the Company.

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

Review of Interim Results

The unaudited interim results for the six months ended 30 June 2011 have been reviewed by the auditor of the Company, KPMG in accordance with Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants, the report of which is included on page 78.

Issue of Shares

During the period under review, the Company issued 19,795,415 shares in lieu of the 2010 final cash dividend at a market value of HK$51.99 per share and 172,870,014 shares upon the exercise by the holders of the bonus warrants at a subscription price of HK$58 per share.

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

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

Audit Committee

The Audit Committee met in August 2011 and reviewed the systems of internal control and compliance and the interim report for the six months ended 30 June 2011.

Code on Corporate Governance Practices

During the six months ended 30 June 2011, the Company has complied with the Code on Corporate Governance Practices (the "CGP Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except that the roles of the chairman and the chief executive officer of the Company have not been segregated as required by code provision A.2.1 of the CGP Code. The Company is of the view that it is in the best interest of the Company that Dr. Lee Shau Kee, with his profound expertise in the property business, shall continue in his dual capacity as the Chairman and Managing Director. The Company is a founding constituent member of the Hang Seng Corporate Sustainability Index Series.

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.

Forward-Looking Statements

This interim report contains certain statements that are forward-looking or which use certain forward-looking terminologies. These forward-looking statements are based on the current beliefs, assumptions and expectations of the Board of Directors of the Company regarding the industry and markets in which it operates. These forward-looking statements are subject to risks, uncertainties and other factors beyond the Company's control which may cause actual results or performance to differ materially from those expressed or implied in such forward-looking statements.

Changes in the Information of Directors

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

(i) (a) Mr. Kwong Che Keung, Gordon was appointed as an independent non-executive director of a listed company, China COSCO Holdings Company Limited on 17 May 2011. Apart from that, he ceased to be an independent non-executive director of COSCO International Holdings Limited and Beijing Capital International Airport Company Limited, listed companies, on 9 June 2011 and 15 June 2011 respectively.

(b) Mr. Li Ning was appointed as an independent non-executive director of Glencore International plc, a listed company, on 14 April 2011.

(c) Mrs. Lee Pui Ling, Angelina ceased to be a Non-executive Director of the Mandatory Provident Fund Schemes Authority on 17 March 2011.

(d) Mr. Woo Ka Biu, Jackson was appointed as an independent non-executive director of Ping An Insurance (Group) Company of China, Ltd., a listed company, on 22 July 2011.

(ii) The Group usually makes annual adjustment to basic salaries in January and determines the discretionary bonuses near the end of the year. During the annual general meeting held on 9 June 2011, the shareholders approved the additional remuneration at a rate of HK$50,000 per annum for each Independent Non-executive Director acting as a member of the Remuneration Committee with effect from 1 January 2011. Therefore, the only changes to the Directors' remunerations during the period under review were the changes to the basic salaries of the Directors of the Company due to the annual adjustments and the additional remuneration for independent members of the Remuneration Committee. The effect of the basic salary changes are illustrated as follows:

	Salaries, allowances and benefits (Note) **for the six months ended 30 June**		Discretionary Bonuses for the year ended 31 December 2010 (For reference)
	2011	2010	
	HK$'000	HK$'000	HK$'000
Lam Ko Yin, Colin	**4,088**	3,930	28,584
Yip Ying Chee, John	**3,740**	3,593	26,220
Lee Ka Kit	**7,414**	6,671	1,660
Lee Ka Shing	**6,166**	6,141	1,048
Au Siu Kee, Alexander*	**4,064**	3,906	5,260
Suen Kwok Lam	**2,875**	2,767	7,080
Fung Lee Woon King	**2,054**	1,978	4,868
Kwok Ping Ho, Patrick	**1,991**	1,914	1,588
Li Ning	**1,495**	1,412	1,306
Lee King Yue	**1,552**	1,495	630
Wong Ho Ming, Augustine	**3,519**	– #	1,039

Note: Excluding bonuses and directors' fees.

* *Mr. Au Siu Kee, Alexander stepped down from the position of Chief Financial Officer and was re-designated from Executive Director to Non-executive Director on 1 July 2011.*

\# *Mr. Wong Ho Ming, Augustine was appointed an Executive Director on 15 September 2010.*

Save as disclosed above, there were no changes to the basic salaries of the other Directors of the Company for the period under review. There are no changes to the levels of directors' fees. There are also no changes to the bases in determining other allowances and benefits, bonuses and retirement scheme contributions. For certain Directors of the Company, discretionary bonus is a major component of their remunerations, which will be determined near the end of the year. The discretionary bonuses for the year ended 31 December 2010 are listed above for reference.

By Order of the Board
Timon LIU Cheung Yuen
Company Secretary

Hong Kong, 25 August 2011

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

Disclosure of Interests

Directors' Interests in Shares

As at 30 June 2011, the interests and short positions of each Director of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or which were notified to the Company or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

(A) Ordinary Shares (unless otherwise specified)

Long Positions

Name of Company	Name of Director	Note	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	% Interest
Henderson Land Development Company Limited	Lee Shau Kee	1	7,521,743		1,431,354,606		1,438,876,349	60.75
	Lee Ka Kit	1				1,430,414,395	1,430,414,395	60.39
	Lee Ka Shing	1				1,430,414,395	1,430,414,395	60.39
	Li Ning	1		1,430,414,395			1,430,414,395	60.39
	Au Siu Kee, Alexander	2				60,000	60,000	0.00
	Lee Tat Man	3	113,048				113,048	0.00
	Lee Pui Ling, Angelina	4	31,041				31,041	0.00
	Lee King Yue	5	257,208		20,188		277,396	0.01
	Fung Lee Woon King	6	1,206,073				1,206,073	0.05
	Woo Ka Biu, Jackson	7		2,000			2,000	0.00
Henderson Investment Limited	Lee Shau Kee	8	34,779,936		2,080,495,007		2,115,274,943	69.41
	Lee Ka Kit	8				2,076,089,007	2,076,089,007	68.13
	Lee Ka Shing	8				2,076,089,007	2,076,089,007	68.13
	Li Ning	8		2,076,089,007			2,076,089,007	68.13
	Lee Tat Man	9	6,666				6,666	0.00
	Lee King Yue	10	1,001,739				1,001,739	0.03

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

Long Positions

Name of Company	Name of Director	Note	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	% Interest
The Hong Kong and China Gas Company Limited	Lee Shau Kee	11	4,723,440		3,274,026,997		3,278,750,437	41.50
	Lee Ka Kit	11				3,274,026,997	3,274,026,997	41.44
	Lee Ka Shing	11				3,274,026,997	3,274,026,997	41.44
	Li Ning	11		3,274,026,997			3,274,026,997	41.44
	Au Siu Kee, Alexander	12		73,205			73,205	0.00
Hong Kong Ferry (Holdings) Company Limited	Lee Shau Kee	13	7,799,220		111,732,090		119,531,310	33.55
	Lee Ka Kit	13				111,732,090	111,732,090	31.36
	Lee Ka Shing	13				111,732,090	111,732,090	31.36
	Li Ning	13		111,732,090			111,732,090	31.36
	Lam Ko Yin, Colin	14	150,000				150,000	0.04
	Fung Lee Woon King	15	465,100				465,100	0.13
	Leung Hay Man	16	2,250				2,250	0.00
Miramar Hotel and Investment Company, Limited	Lee Shau Kee	17			255,188,250		255,188,250	44.21
	Lee Ka Kit	17				255,188,250	255,188,250	44.21
	Lee Ka Shing	17				255,188,250	255,188,250	44.21
	Li Ning	17		255,188,250			255,188,250	44.21
	Woo Po Shing	18	2,705,000		2,455,000		5,160,000	0.89
Towngas China Company Limited	Lee Shau Kee	19			1,628,172,901		1,628,172,901	66.18
	Lee Ka Kit	19				1,628,172,901	1,628,172,901	66.18
	Lee Ka Shing	19				1,628,172,901	1,628,172,901	66.18
	Li Ning	19		1,628,172,901			1,628,172,901	66.18

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

Long Positions

Name of Company	Name of Director	Note	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	% Interest
Henderson Development Limited	Lee Shau Kee	20			8,190 (Ordinary A Shares)		8,190 (Ordinary A Shares)	100.00
	Lee Shau Kee	21			3,510 (Non-voting B Shares)		3,510 (Non-voting B Shares)	100.00
	Lee Shau Kee	22	35,000,000 (Non-voting Deferred Shares)		15,000,000 (Non-voting Deferred Shares)		50,000,000 (Non-voting Deferred Shares)	100.00
	Lee Ka Kit	20				8,190 (Ordinary A Shares)	8,190 (Ordinary A Shares)	100.00
	Lee Ka Kit	21				3,510 (Non-voting B Shares)	3,510 (Non-voting B Shares)	100.00
	Lee Ka Kit	22				15,000,000 (Non-voting Deferred Shares)	15,000,000 (Non-voting Deferred Shares)	30.00
	Lee Ka Shing	20				8,190 (Ordinary A Shares)	8,190 (Ordinary A Shares)	100.00
	Lee Ka Shing	21				3,510 (Non-voting B Shares)	3,510 (Non-voting B Shares)	100.00
	Lee Ka Shing	22				15,000,000 (Non-voting Deferred Shares)	15,000,000 (Non-voting Deferred Shares)	30.00
	Li Ning	20		8,190 (Ordinary A Shares)			8,190 (Ordinary A Shares)	100.00
	Li Ning	21		3,510 (Non-voting B Shares)			3,510 (Non-voting B Shares)	100.00
	Li Ning	22		15,000,000 (Non-voting Deferred Shares)			15,000,000 (Non-voting Deferred Shares)	30.00

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

Long Positions

Name of Company	Name of Director	Note	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	% Interest
Best Homes Limited	Lee Shau Kee	23			26,000		26,000	100.00
	Lee Ka Kit	23				26,000	26,000	100.00
	Lee Ka Shing	23				26,000	26,000	100.00
	Li Ning	23		26,000			26,000	100.00
Drinkwater Investment Limited	Leung Hay Man	24			5,000		5,000	4.49
	Woo Po Shing	25			3,250		3,250	2.92
Feswin Investment Limited	Lee Ka Kit	26			5,000	5,000	10,000	100.00
Fordley Investment Limited	Fung Lee Woon King	27	2,000				2,000	20.00
Furnline Limited	Lee Shau Kee	28			100 (A Shares)		100 (A Shares)	100.00
	Lee Shau Kee	29			1 (B Share)		1 (B Share)	100.00
	Lee Ka Kit	28				100 (A Shares)	100 (A Shares)	100.00
	Lee Ka Kit	29				1 (B Share)	1 (B Share)	100.00
	Lee Ka Shing	28				100 (A Shares)	100 (A Shares)	100.00
	Lee Ka Shing	29				1 (B Share)	1 (B Share)	100.00
	Li Ning	28		100 (A Shares)			100 (A Shares)	100.00
	Li Ning	29		1 (B Share)			1 (B Share)	100.00

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

Long Positions

Name of Company	Name of Director	Note	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	% Interest
Gain Base Development Limited	Fung Lee Woon King	30	50				50	5.00
Henfield Properties Limited	Lee Ka Kit	31			4,000	6,000	10,000	100.00
Heyield Estate Limited	Lee Shau Kee	32			100		100	100.00
	Lee Ka Kit	32				100	100	100.00
	Lee Ka Shing	32				100	100	100.00
	Li Ning	32		100			100	100.00
Perfect Bright Properties Inc.	Lee Shau Kee	33			100 (A Shares)		100 (A Shares)	100.00
	Lee Shau Kee	34			1 (B Share)		1 (B Share)	100.00
	Lee Ka Kit	33				100 (A Shares)	100 (A Shares)	100.00
	Lee Ka Kit	34				1 (B Share)	1 (B Share)	100.00
	Lee Ka Shing	33				100 (A Shares)	100 (A Shares)	100.00
	Lee Ka Shing	34				1 (B Share)	1 (B Share)	100.00
	Li Ning	33		100 (A Shares)			100 (A Shares)	100.00
	Li Ning	34		1 (B Share)			1 (B Share)	100.00

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

Long Positions

Name of Company	Name of Director	Note	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	% Interest
Pettystar Investment Limited	Lee Shau Kee	35			3,240		3,240	80.00
	Lee Ka Kit	35				3,240	3,240	80.00
	Lee Ka Shing	35				3,240	3,240	80.00
	Li Ning	35		3,240			3,240	80.00

(B) Debentures

Issuer and type of debentures	Name of Director	Note	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total
HKCG (Finance) Limited – 6.25% Guaranteed Notes due 2018	Au Siu Kee, Alexander	36				US$500,000	US$500,000
Henson Finance Limited – 5.50% Guaranteed Notes due 2019	Au Siu Kee, Alexander	37				US$500,000	US$500,000

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

Arrangements to Purchase Shares or Debentures

On 2 June 2010, the Company issued to its shareholders a total of 429,348,478 units of bonus warrants which entitled the holders to subscribe for its shares at a subscription price of HK$58 per share on or before 1 June 2011 (on the basis of one warrant for every five shares held). Certain Directors of the Company were taken to be interested in the bonus warrants of the Company (as per details described in the Company's 2010 annual report and announcement dated 12 April 2011) during the period under review. All bonus warrants remaining unexercised lapsed after the close of business on 1 June 2011.

Save as disclosed above, at no time during the six months ended 30 June 2011 was the Company or any of its holding companies, subsidiary companies or fellow subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Substantial Shareholders' and Others' Interests

As at 30 June 2011, the interests and short positions of every person, other than Directors of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Long Positions

	No. of shares in which interested	% Interest
Substantial Shareholders:		
Rimmer (Cayman) Limited (Note 1)	1,430,414,395	60.39
Riddick (Cayman) Limited (Note 1)	1,430,414,395	60.39
Hopkins (Cayman) Limited (Note 1)	1,430,414,395	60.39
Henderson Development Limited (Note 1)	1,429,000,835	60.33
Yamina Investment Limited (Note 1)	716,182,512	30.24
Believegood Limited (Note 1)	337,701,482	14.26
South Base Limited (Note 1)	337,701,482	14.26
Persons other than Substantial Shareholders:		
Cameron Enterprise Inc. (Note 1)	179,543,353	7.58
Third Avenue Management LLC on behalf of numerous portfolios	134,995,833	5.70

Notes:

1. Of these shares, Dr. Lee Shau Kee was the beneficial owner of 7,521,743 shares, and for the remaining 1,431,354,606 shares, (i) 698,976,789 shares were owned by Henderson Development Limited ("HD"); (ii) 8,238,934 shares were owned by Sandra Investment Limited which was a wholly-owned subsidiary of HD; (iii) 179,543,353 shares were owned by Cameron Enterprise Inc.; 337,701,482 shares were owned by Believegood Limited which was wholly-owned by South Base Limited; 73,964,970 shares were owned by Prosglass Investment Limited which was wholly-owned by Jayasia Investments Limited; 68,060,406 shares were owned by Fancy Eye Limited which was wholly-owned by Mei Yu Ltd.; 56,912,301 shares were owned by Spreadral Limited which was wholly-owned by World Crest Ltd.; and Cameron Enterprise Inc., South Base Limited, Jayasia Investments Limited, Mei Yu Ltd. and World Crest Ltd. were wholly-owned subsidiaries of Yamina Investment Limited which in turn was 100% held by HD; (iv) 5,602,600 shares were owned by Superfun Enterprises Limited, a wholly-owned subsidiary of The Hong Kong and China Gas Company Limited ("China Gas") which was 39.88% held by Henderson Land Development Company Limited ("HL") which in turn was taken to be 60.33% held by HD; (v) 1,413,560 shares were owned by Fu Sang Company Limited ("Fu Sang"); and (vi) 640,180 shares and 300,031 shares were respectively owned by Tako Assets Limited and Thommen Limited both of which were wholly-owned subsidiaries of Hong Kong Ferry (Holdings) Company Limited ("HKF") in which Dr. Lee Shau Kee together with HL held 33.55% as set out in Note 13. Hopkins (Cayman) Limited ("Hopkins") as trustee of a unit trust (the "Unit Trust") owned all the issued ordinary shares of HD and Fu Sang. Rimmer (Cayman) Limited ("Rimmer") and Riddick (Cayman) Limited ("Riddick"), as trustees of respective discretionary trusts, held units in the Unit Trust. The entire issued share capital of Hopkins, Rimmer and Riddick were owned by Dr. Lee Shau Kee. Dr. Lee Shau Kee was taken to be interested in these shares by virtue of SFO. As directors of the Company and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Mr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in these shares by virtue of the SFO. As director of the Company and the spouse of a discretionary beneficiary of two discretionary trusts holding units in the Unit Trust, Mr. Li Ning was taken to be interested in these shares by virtue of the SFO.

2. These shares were owned by Mr. Au Siu Kee, Alexander and his wife jointly.

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

4. Mrs. Lee Pui Ling, Angelina was the beneficial owner of these shares.

5. Mr. Lee King Yue was the beneficial owner of 257,208 shares, and the remaining 20,188 shares were held by Ngan Hei Development Company Limited which was 50% each owned by Mr. Lee King Yue and his wife.

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

7. These shares were owned by the wife of Mr. Woo Ka Biu, Jackson.

8. Of these shares, Dr. Lee Shau Kee was the beneficial owner of 34,779,936 shares, and for the remaining 2,080,495,007 shares, (i) 802,854,200 shares, 602,398,418 shares, 363,328,900 shares, 217,250,000 shares and 84,642,341 shares were respectively owned by Banshing Investment Limited, Markshing Investment Limited, Covite Investment Limited, Gainwise Investment Limited and Darnman Investment Limited, all of which were wholly-owned subsidiaries of Kingslee S.A. which in turn was 100% held by HL; (ii) 5,615,148 shares were owned by Fu Sang; and (iii) 3,000,000 shares and 1,406,000 shares were respectively owned by Tako Assets Limited and Thommen Limited, both of which were wholly-owned subsidiaries of HKF in which Dr. Lee Shau Kee together with HL held 33.55% as set out in Note 13. Dr. Lee Shau Kee was taken to be interested in HL and Fu Sang as set out in Note 1 and Henderson Investment Limited by virtue of the SFO. As directors of the Company and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Mr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in these shares by virtue of the SFO. As director of the Company and the spouse of a discretionary beneficiary of two discretionary trusts holding units in the Unit Trust, Mr. Li Ning was taken to be interested in these shares by virtue of the SFO.

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

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

11. Of these shares, Dr. Lee Shau Kee was the beneficial owner of 4,723,440 shares, and for the remaining 3,274,026,997 shares, (i) 1,696,927,906 shares and 708,953,821 shares were respectively owned by Disralei Investment Limited and Medley Investment Limited, both of which were wholly-owned subsidiaries of Timpani Investments Limited; 744,507,546 shares were owned by Macrostar Investment Limited, a wholly-owned subsidiary of Chelco Investment Limited; and Timpani Investments Limited and Chelco Investment Limited were wholly-owned subsidiaries of Faxson Investment Limited which in turn was 100% held by HL; (ii) 5,807,310 shares were owned by Boldwin Enterprises Limited, a wholly-owned subsidiary of Yamina Investment Limited which was 100% held by HD; and (iii) 117,830,414 shares were owned by Fu Sang. Dr. Lee Shau Kee was taken to be interested in HL, HD and Fu Sang as set out in Note 1 and China Gas by virtue of the SFO. As directors of the Company and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Mr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in these shares by virtue of the SFO. As director of the Company and the spouse of a discretionary beneficiary of two discretionary trusts holding units in the Unit Trust, Mr. Li Ning was taken to be interested in these shares by virtue of the SFO.

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

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

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

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

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

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

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

19. These shares were owned by Hong Kong & China Gas (China) Limited, Planwise Properties Limited and Superfun Enterprises Limited, wholly-owned subsidiaries of China Gas. Dr. Lee Shau Kee was taken to be interested in China Gas as set out in Note 11 and Towngas China Company Limited by virtue of the SFO. As directors of the Company and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Mr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in these shares by virtue of the SFO. As director of the Company and the spouse of a discretionary beneficiary of two discretionary trusts holding units in the Unit Trust, Mr. Li Ning was taken to be interested in these shares by virtue of the SFO.

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

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

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

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

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

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

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

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

28. These shares were owned by Jetwin International Limited.

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

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

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

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

33. These shares were owned by Jetwin International Limited.

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

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

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

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

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

Introduction

We have reviewed the condensed interim financial statements set out on pages 28 to 55 which comprise the consolidated balance sheet of Henderson Land Development Company Limited as of 30 June 2011 and the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six months period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of interim financial statements to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting* issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial statements in accordance with Hong Kong Accounting Standard 34.

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim financial statements as at 30 June 2011 are not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

25 August 2011

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