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

Stock Code 股份代號：12

2012

中期報告 Interim Report

Contents

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Highlights of 2012 Interim Results

	Note	For the six months ended 30 June 2012 unaudited	2011 unaudited	Change
Property sales (HK$ million)				
– Revenue	1	4,332	7,838	-45%
– Profit contribution	1	867	1,964	-56%
Property leasing (HK$ million)				
– Gross rental income	2	3,231	2,769	+17%
– Net rental income	2	2,399	1,970	+22%
Profit attributable to Shareholders (HK$ million)				
– Underlying profit	3	3,589	3,428	+5%
– Reported profit		7,733	8,824	-12%
Earnings per share (HK$)				
– Based on underlying profit	3	1.51	1.52	-1%
– Based on reported profit		3.26	3.92	-17%
Interim dividend per share (HK$)		0.32	0.30	+7%

	At 30 June 2012 unaudited	At 31 December 2011 audited	
Net asset value per share (HK$)	80.55	78.23	+3%
Net debt to Shareholders' equity	19.1%	19.9%	

	At 30 June 2012 Million Square feet	At 31 December 2011 Million Square feet
Hong Kong		
Land bank (attributable floor area)		
– Properties held for/under development	10.1	10.2
– Stock of unsold properties	0.5	0.7
– Completed investment properties (including hotel properties)	10.1	10.2
	20.7	21.1
New Territories land (total land area)	42.4	41.9
Mainland China		
Land bank (attributable floor area)		
– Properties held for/under development	147.7	151.2
– Stock of unsold properties	1.4	1.0
– Completed investment properties	6.9	6.5
	156.0	158.7

Notes:

1 *Representing the Group's attributable share of property sales revenue and their profit contribution (before taxation) in Hong Kong and mainland China by subsidiaries, associates and jointly controlled entities ("JCEs").*

2 *Representing the Group's attributable share of gross rental income and 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 completed investment properties and investment properties under development held by subsidiaries, associates and JCEs.*

Interim Results and Dividend

The Board of Directors announces that for the six months ended 30 June 2012, the unaudited Group underlying profit attributable to equity shareholders (before the fair value change of investment properties and investment properties under development) amounted to HK$3,589 million, representing an increase of HK$161 million or 5% over HK$3,428 million for the same period last year. Underlying earnings per share were HK$1.51 (2011: HK$1.52).

Including the fair value change (net of non-controlling interests and deferred tax) of investment properties and investment properties under development, the Group reported profit attributable to equity shareholders for the period under review was HK$7,733 million, representing a decrease of HK$1,091 million or 12% from HK$8,824 million for the same period last year. Reported earnings per share were HK$3.26 (2011: HK$3.92).

The Board has resolved to pay an interim dividend of HK$0.32 per share (2011: HK$0.30) to shareholders whose names appear on the Register of Members of the Company on Friday, 7 September 2012, 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 granted to shareholders 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.

Interim dividend will be distributed, and the share certificates issued under the Scrip Dividend Scheme will be sent to shareholders on Tuesday, 16 October 2012.

Closure of Register of Members

The Register of Members of the Company will be closed from Thursday, 6 September 2012 to Friday, 7 September 2012, 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 Wednesday, 5 September 2012.

Management Discussion and Analysis

Business Review

Business in Hong Kong

Property Sales

The lingering debt crisis in Europe and the uncertain global economic outlook cast a shadow over Hong Kong's property market. However, supported by positive factors such as limited near-term housing supply, low mortgage rates and property as a tool to hedge against inflation, homebuyers have gradually regained confidence. The release of their pent-up demand has led to a revival in market activities in the first quarter of this year. Riding on the positive market sentiment, the Group launched "La Verte" in Fanling for sale in February 2012, which received an overwhelming response with over 80% of its deluxe villas sold by the end of the period. Together with an array of popular residential developments sold during the period such as "Hill Paramount" in Shatin, "Green Lodge" in Yuen Long, "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, the Group's attributable sales revenue for the six months ended 30 June 2012 amounted to HK$2,609 million. Meanwhile, 23 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 168,000 square feet of office and commercial premises (including certain non-core investment properties such as "579 Nathan Road" which was sold on an en bloc basis), were also disposed of during the period under review. Including the Group's share of sales proceeds of HK$1,921 million arising from these disposals, the Group sold an attributable HK$4,530 million worth of properties in Hong Kong for the six months ended 30 June 2012.

The Group's portfolio of high quality residential projects in prime urban areas is branded as "The H Collection". From this portfolio, "High West", a 58,000-square-foot development at Mid-Levels West, was launched for pre-sale last month. Over 80% of its total 133 boutique apartments have been snapped up so far with the total sales exceeding HK$770 million.

The following development project was completed during the period under review:

Project name and location	Site area (sq. ft.)	Gross floor area (sq. ft.)	Land-use purpose	Group's interest (%)	Attributable gross floor area (sq. ft.)
E-Trade Plaza 24 Lee Chung Street Chai Wan	11,590	173,850	Office	100.00	173,850

"E-Trade Plaza", a 170,000-square-foot office development, was completed in May 2012. Its prime location close to Chai Wan MTR terminus, plus its Grade A office facilities, make it a new benchmark for commercial premises in Island East. Upon its completion, the sales revenue of over HK$590 million since its pre-sale in the fourth quarter of 2011 has been reflected in the results of this period.

As at the period end of 30 June 2012, the Group had about 560,000 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 2012 No. of residential units remaining unsold	at 30 June 2012 Gross area remaining unsold (sq. ft.)
1.	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	4	32,193
2.	39 Conduit Road Mid-Levels	56,748	229,255	Residential	60.00	41 (Note 2)	136,401 (Note 2)
3.	Hill Paramount 18 Hin Tai Street Shatin	95,175	358,048	Residential	100.00	10	37,173
4.	Green Lodge Tong Yan San Tsuen Yuen Long	78,781	78,781	Residential	100.00	10	22,503
5.	The Gloucester 212 Gloucester Road Wanchai	11,545	113,977	Residential	100.00	11	20,247
6.	La Verte 283 Jockey Club Road Fanling	42,884	34,308	Residential	100.00	3	8,687
7.	AZURA 2A Seymour Road Mid-Levels	22,957	206,306	Residential	12.50	26	51,455
8.	E-Trade Plaza 24 Lee Chung Street Chai Wan	11,590	173,850	Office	100.00	Not applicable	112,008
					Sub-total:	**105**	**420,667**
					Gross area attributable to the Group:		**317,897**

(2) Projects pending 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.	High West 36 Clarence Terrace Sai Ying Pun, Hong Kong	7,310	58,400	Residential	100.00	133	58,400
2.	68 Boundary Street Kowloon	6,750	60,750	Commercial/ Residential	100.00	41	50,625
3.	51 Boundary Street Kowloon (Note 3)	5,880	52,919	Commercial/ Residential	100.00	59	44,099
4.	High Point 186-188 Tai Po Road Sham Shui Po, Kowloon	8,324	70,340	Commercial/ Residential	100.00	138	62,323
5.	75-81 Sa Po Road Kowloon City, Kowloon	3,582	31,366	Commercial/ Residential	100.00	76	26,852
					Sub-total:	**447**	**242,299**
					Gross area attributable to the Group:		**242,299**
					Total saleable area from the major development projects:	**552**	**662,966**
					Total gross area attributable to the Group:		**560,196**

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 17 residential units held for investment purpose.

Note 3: Formerly known as 45-49 Boundary Street and 189-195 Sai Yeung Choi Street North, Kowloon.

In addition, the Group is planning to launch the following residential projects for sale in the second half of 2012 upon receipt of the relevant sales consents:

	Project name and location	Site area (sq. ft.)	Gross floor area (sq. ft.)	Land-use purpose	Group's interest (%)	No. of residential units	Gross floor area (sq. ft.)
1.	Double Cove (Phase 1) 8 Wu Kai Sha Road, Ma On Shan	479,804	783,178	Commercial/ Residential	59.00	928	684,580
2.	Yuen Long Town Lot 526 Tai Tong, Yuen Long	371,358	1,299,744	Residential	79.03	2,580	1,299,744
					Sub-total:	**3,508**	**1,984,324**
					Gross area attributable to the Group:		**1,431,090**

Together with the above-mentioned unsold stocks and projects pending sale comprising more than 550 residential units, a total of over 4,000 residential units with an aggregate attributable gross floor area of about 2.0 million square feet will be available for sale in the second half of 2012.

Land Bank

At 30 June 2012, the Group had a land bank in Hong Kong with a total attributable gross floor area of approximately 20.7 million square feet, made up as follows:

	Attributable gross floor area (million sq. ft.)
Properties held for or under development	10.1
Stock of unsold property units	0.5
Completed investment properties (Note)	9.1
Hotel properties	1.0
Total:	**20.7**

Note: The Group held additional rentable car parking spaces with a total area of around 2.7 million square feet.

(I) Redevelopment of old buildings in the urban areas

Existing redevelopment projects

The Group had a total of 8 existing projects under planning for redevelopment or land-use conversion, which are expected to 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	60,750	100.00	60,750
2.	19-21 Wong Chuk Hang Road Hong Kong	14,298	214,467	50.00	107,233
3.	45-47 Pottinger Street and Ezra's Lane, Central Hong Kong	9,067	94,190	19.10	17,986
4.	25 La Salle Road Kowloon Tong, Kowloon	13,467	24,175	100.00	24,175
5.	29 Lugard Road The Peak, Hong Kong	23,649	11,824	100.00	11,824
6.	8 Wang Kwong Road Kowloon Bay, Kowloon (Note)	21,528	258,336	100.00	258,336
7.	14-30 King Wah Road North Point, Hong Kong	37,566	224,824	100.00	224,824
8.	Yau Tong Bay Kowloon	810,107	3,968,893	18.44	731,693
	Total:	**936,432**	**4,857,459**		**1,436,821**

Note: The existing industrial building (i.e. Big Star Centre) at this site is planned to be redeveloped into an office tower with an enlarged gross floor area of about 258,000 square feet. However, such land-use conversion plan is still subject to Government's approval.

Newly-acquired redevelopment projects of old buildings

During the period under review, the Group by way of "Land (Compulsory Sale for Redevelopment) Ordinance" completed the acquisition with the ownership consolidated for two projects, namely, 62-72 Main Street, Ap Lei Chau, Hong Kong and 11-33 Li Tak Street, Tai Kok Tsui, Kowloon. To date, the Group has 37 urban redevelopment projects with entire or majority ownership and they are expected to provide a total attributable gross floor area of approximately 2.88 million square feet, or about 3,000 housing units. The total land cost for these 37 urban projects is estimated at about HK$11,900 million, translating into an average land cost of approximately HK$4,130 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 attributable gross floor area in future development (sq. ft.)	Expected year of sales launch (Note 1)
A.	**Projects with ownership fully consolidated:**				
	Hong Kong				
	1.	36 Clarence Terrace, Sai Ying Pun (Note 2)	7,310	58,400	2012
	2.	1-7A Gordon Road, North Point (Note 3)	7,423	63,257	2013
	3.	25 Robinson Road, Mid-Levels (Notes 3 and 5)	7,867	39,292	2013
	4.	62-72 Main Street, Ap Lei Chau	5,973	50,771	2013
	5.	23-33 Shing On Street, Sai Wan Ho (Note 3)	4,605	38,081	2014
	6.	208-210 Johnston Road, Wanchai (Note 4)	1,939	29,085	2014
		Sub-total:	**35,117**	**278,886**	
	Kowloon				
	7.	51 Boundary Street (Note 3)	5,880	52,919	2012
	8.	186-188 Tai Po Road, Sham Shui Po (Notes 3 and 6)	8,324	70,340	2012
	9.	75-81 Sa Po Road, Kowloon City (Note 3)	3,582	31,366	2012
	10.	186-198 Fuk Wing Street, Sham Shui Po (Note 3)	7,500	63,281	2013
	11.	59-63 Wing Hong Street and 88-92 King Lam Street Cheung Sha Wan (Notes 3 and 4)	28,004	336,048	Not applicable
	12.	565-577 Fuk Wah Street, Cheung Sha Wan	7,560	63,788	2013
	13.	11-33 Li Tak Street, Tai Kok Tsui (Note 3)	19,600	165,339	2014

	Project name and location	Site area (sq. ft.)	Expected attributable gross floor area in future development (sq. ft.)	Expected year of sales launch (Note 1)
14.	352-354 Un Chau Street, Cheung Sha Wan	2,289	19,457	2014
15.	2-12 Observatory Road, Tsim Sha Tsui (Notes 3, 4 and 5)	6,883	82,551	Not applicable
	Sub-total:	**89,622**	**885,089**	
	Total:	**124,739**	**1,163,975**	

B. Projects with the percentage of ownership reaching the compulsory sale application threshold for redevelopment:

	Project name and location	Site area (sq. ft.)	Expected attributable gross floor area in future development (sq. ft.)	Expected year of sales launch (Note 1)
	Hong Kong			
16.	89-95 Shek Pai Wan Road, Aberdeen	3,300	28,050	2014
17.	450-456G Queen's Road West Western District (Note 3)	28,371	275,999	2014
18.	4-6 Tin Wan Street, Aberdeen	1,740	14,790	2014
19.	12-14 Tin Wan Street, Aberdeen	2,030	18,270	2014
20.	9-13 Sun Chun Street, Tai Hang	2,019	18,171	2014
21.	21-39 Mansion Street and 852-858 King's Road, North Point	17,720	168,640	2014
22.	19-21 Shing On Street and 15 Tai Shek Street, Sai Wan Ho	1,998	17,982	2014
	Sub-total:	**57,178**	**541,902**	
	Kowloon			
23.	196-202 Ma Tau Wai Road, To Kwa Wan	4,905	41,328	2013
24.	50-56 and 58-64 Ma Tau Kok Road and 162-168 Pau Chung Street, To Kwa Wan (Note 3)	11,404	102,088	2014
25.	57-69 Ma Tau Wai Road, 2-20 Bailey Street and 18A-30 Sung Chi Street, To Kwa Wan (Note 3)	23,031	207,272	2014
26.	38-40A Hillwood Road, Tsim Sha Tsui (Note 4)	4,586	55,032	2014

	Project name and location	Site area (sq. ft.)	Expected attributable gross floor area in future development (sq. ft.)	Expected year of sales launch (Note 1)
27.	456-462A Sai Yeung Choi Street North Sham Shui Po	12,298	103,531	2014
28.	1-19 Nam Cheong Street, Sham Shui Po (Note 3)	8,625	77,626	2014
29.	342-348 Un Chau Street, Cheung Sha Wan	4,579	38,922	2014
30.	11-19 Wing Lung Street, Cheung Sha Wan	6,510	58,590	2014
31.	79-83 Fuk Lo Tsun Road, Kowloon City	3,630	30,855	2014
32.	8-30A Ka Shin Street, Tai Kok Tsui (Note 3)	19,738	176,211	2014
33.	1-15 Berwick Street, Shek Kip Mei	9,788	78,304	2014
34.	21-27 Berwick Street and 212-220 Nam Cheong Street, Shek Kip Mei	10,538	84,304	2014
35.	3-4 Yiu Tung Street, Shek Kip Mei	2,275	18,200	2014
36.	7-8 Yiu Tung Street, Shek Kip Mei	2,275	18,200	2014
37.	7-7G Victory Avenue, Homantin	9,865	83,853	2014
	Sub-total:	**134,047**	**1,174,316**	
	Total:	**191,225**	**1,716,218**	
	Total for 37 projects with entire or majority ownership:	**315,964**	**2,880,193**	

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: The project was already launched for pre-sale in July 2012 under the name of "High West".

Note 3: Building plan was already approved.

Note 4: With the exception of project numbers 6, 11, 15 and 26 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. Project numbers 11 and 15 will be held as investment properties.

Note 5: The Group holds a 50% stake in this redevelopment project. For project number 15, about 1,300 square feet of its attributable gross floor area is subject to premium payment.

Note 6: The project was named as "High Point".

Further acquisitions involving another 48 projects spanning various highly accessible urban districts are in progress and they are expected to provide a total attributable gross floor area of over 5.28 million square feet upon successful completion of their acquisition and redevelopment. Below is their geographical distribution:

			Land area (sq. ft.)	Expected attributable gross floor area upon successful completion of acquisition and redevelopment (sq. ft.)
1.	**Hong Kong**			
	Central & Western		135,127	1,019,429
	Island East		75,996	717,291
	Causeway Bay		30,368	296,265
	Aberdeen		19,247	172,339
	Wanchai		8,084	72,756
		Sub-total:	**268,822**	**2,278,080**
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:	**612,204**	**5,285,295**

The completed projects owned by the Group, as well as those under development or acquisition as of 30 June 2012, are summarized as follows:

	Attributable gross floor area (million sq. ft.)	Note
Unsold units from the major development projects offered for sale	0.32	
Projects pending sale in the second half of 2012 (no sales consent required)	0.24	
Projects pending sale in the second half of 2012 (pending sales consent)	1.43	
Existing redevelopment projects	1.38	1
Newly-acquired redevelopment projects of old buildings (ownership fully consolidated)	0.95	2
Newly-acquired redevelopment projects of old buildings (ownership not fully consolidated but the remaining portion can be acquired by way of compulsory sale application)	1.72	3
Newly-acquired redevelopment projects (acquisitions are still in progress with most of them securing ownership of over 20%)	5.29	3
Sub-total:	**11.33**	
Other projects under/held for development	3.45	
Unsold units from the other previous development projects	0.15	
Sub-total:	**3.60**	
Total:	**14.93**	

Note 1: one of them (the project at 68 Boundary Street) is covered in the "Projects pending sale in the second half of 2012".

Note 2: four of them ("High West" at 36 Clarence Terrace, 51 Boundary Street, "High Point" at 186-188 Tai Po Road and 75-81 Sa Po Road) are covered in the "Projects pending sale in the second half of 2012".

Note 3: it represents the total attributable gross floor area only upon successful completion of acquisition and redevelopment.

(II) New Territories land

At the end of June 2012, the Group held New Territories land reserves amounting to approximately 42.4 million square feet in land area, which was the largest holding among all property developers in Hong Kong.

The Group is following up closely on the Government's development plans in the "North East New Territories New Development Areas" and "Hung Shui Kiu New Development Area". It is expected that these two new development areas will become highly strategic locations, benefitting from the improved transport infrastructure and easier accessibility between Hong Kong and mainland China. The Group holds land lots of approximately 9.1 million square feet in total land area in those areas as follows:

		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**

For the land lots of about 9.1 million square feet in the above two New Development Areas, they are expected to provide a total developable gross floor area of 18.2 million square feet if the allowed plot ratio for development, on average, is 2 times, whilst the total developable gross floor area will increase to 27.3 million square feet if the allowed plot ratio for development, on average, is 3 times. It allows the Group to build about 30,000 to 45,000 housing units of approximately 600 square feet each. According to "North East New Territories New Development Areas Planning and Engineering Study – Recommended Outline Development Plans and Stage Three Public Engagement", a paper presented by the Government to the Legislative Council on 28 June 2012, there is a possibility that the Government may resume certain parts of the lands in these areas through cash compensation in order to develop new towns.

For the wetland restoration and residential project in Wo Shang Wai, Yuen Long, it is planned to be developed into a low-density luxury residential development with a total gross floor area of approximately 895,000 square feet against a total land area of about 2.3 million square feet. The latest planning application has been approved by the Town Planning Board and the corresponding land-use conversion application is in progress by the Lands Department.

Investment Properties

At the end of the period, the Group held a total attributable gross floor area of approximately 9.1 million square feet in completed investment properties in Hong Kong, comprising 4.4 million square feet of shopping arcade 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 quality rental portfolio is geographically diverse, with 25% in Hong Kong Island, 34% in Kowloon and the remaining 41% in the new towns (with most of the latter being large-scale shopping malls). At 30 June 2012, the leasing rate for the Group's core rental properties stood at 97%.

The Group's attributable gross rental income[note] in Hong Kong for the six months ended 30 June 2012 increased by 14% to HK$2,675 million, whilst attributable pre-tax net rental income[note] was HK$1,990 million, representing a growth of 15% over the same period last year (Note: this figure includes that derived from the investment properties owned by the Group's subsidiaries (after deducting non-controlling interests), associates and jointly controlled entities). Leases expired during the period were mostly concluded in the aftermath of global financial turmoil that happened a few years ago and the resulting higher rent for renewal and new leases led to this remarkable rental growth.

Given the ongoing growth in local consumption and higher mainland visitor spending, Hong Kong's retail market continued to perform well. In order to attract more shoppers to its shopping malls and boost tenants' business, the Group staged innovative marketing activities, including organizing shopping tours for mainlanders and an increased adoption of multi-media promotional channels. On a regular basis, the Group enhances attractiveness and rental value of its shopping malls through tenant-mix reshuffles, facility upgrades and improvement programmes. For instance, at Metro City Phase II in Tseung Kwan O, the Group completed the first phase of its revamp in the first quarter of 2012, and the recent opening of Zara and H&M has attracted a number of well-known fashion brands to join the mall. The mall has since successfully differentiated itself from other competing malls in the neighbourhood. In order to reinforce its leading market position, Metro City Phase II is undergoing the second phase of renovation works, which is expected to be completed in 2014. For the Trend Plaza in Tuen Mun, a facelift at its North Wing will be completed in the latter half of 2012. The second phase of refurbishment at Sunshine City Plaza in Ma On Shan is also progressing well and will be completed by the end of 2013 following the recent completion of its first phase of renovation. All of the Group's major shopping malls, except those under renovation or re-alignment of tenant mix, recorded nearly full occupancy at 30 June 2012.

Leasing demand for quality office space also remained robust on the back of persistent economic growth in both Hong Kong and mainland China. The Group's premier office development, namely, ifc in Central, have performed well, whilst AIA Tower in North Point was fully let. In order to appeal to discerning tenants with an eye on sustainability, two premier office buildings in the core business areas are in the process of applying for certifications under the globally recognized Hong Kong – Building Environmental Assessment Method (HK-BEAM). Meanwhile, the Group's approximately 2,000,000-square-foot portfolio of premium office and industrial/office premises in Kowloon East recorded an overall leasing rate of 99% at 30 June 2012 and it is set to benefit further from the Government's commitment to transform the district as a new commercial core under the "Energizing Kowloon East" project.

Leasing performance for the Group's luxury residences was satisfactory as the stable demand continued to drive rental upwards. At Mid-Levels, Eva Court attained significant growth in committed renewal rentals, whilst 39 Conduit Road also recorded satisfactory leasing performance. The serviced suite hotel at Four Seasons Place, which was highly sought after by expatriate executives from financial and business sectors, continued to achieve high occupancy with higher rents during the period under review. In order to meet the fast-growing hotel market, an impending 66,000-square-foot hotel development at 388 Jaffe Road, Wanchai, will be operated by Miramar Hotel and Investment Company Limited as a 91-room designer lifestyle hotel under the brand name of "Mira Moon" upon its scheduled opening in 2013.

Hotel and Retailing Operations

Benefiting from the ever-rising mainland tourist arrivals, Hong Kong's hospitality industry remained buoyant during the period under review. Four Seasons Hotel Hong Kong, which was widely regarded as a leader in the top-end hotel market, enjoyed a consistently high occupancy with an impressive increase in average room rate from a year ago. Its two signature restaurants, namely, Caprice and Lung King Heen, also successively won the top 3-star honours in the Michelin Guide to Hong Kong and Macau. Meanwhile, the three Newton hotels owned by the Group, namely, Newton Hotel Hong Kong, Newton Inn North Point and Newton Place Hotel, have all achieved an increase in average room rate with a higher occupancy. For the six months ended 30 June 2012, the Group's attributable share of profit contribution[note] from its hotel operations increased by 27% to HK$138 million (Note: this figure includes that derived from the hotels owned by the Group's subsidiaries, associates and jointly controlled entities).

Established in 1989, Citistore currently operates five department store outlets and two "id:c" specialty stores in Hong Kong. Given the improvement in both local consumption and visitor spending, Citistore's turnover and profit contribution for the period under review increased by 14% to HK$182 million and 7% to HK$31 million, respectively.

Construction and Property Management

During the period, both "39 Conduit Road" and "Henderson Metropolitan" won the prestigious Quality Building Award, whilst "Double Cove" and "The Gloucester" were the only developments in Hong Kong to receive the top honours of "3-star Green Building Label". The Quality Building Awards, which are presented biannually by a panel of judges drawn from nine professional industry organizations, come as recognition of the Group's experienced construction team and dedication to quality that has produced some of the finest buildings both in Hong Kong and mainland China, whilst Green Building Label was given out by China Green Building Council to honour eco-conscious projects.

Team work is the key to the Group's success. Stakeholders and experts in different disciplines collaborate from the very beginning so as to ensure that local context, innovative architecture and sustainability features are blended into all of the Group's new developments in both Hong Kong and mainland China. The Group strives for excellence throughout the construction process and advanced features recommended by the Leadership in Energy and Environmental Design (LEED) and BEAM Plus have been persistently integrated. For instance, against the prevailing backdrop of soaring material cost and shortage of construction workers, pre-fabricated building components are now commonly used so as to raise cost efficiency by accelerating development progress for better quality control, whilst minimizing construction waste and disruption to the neighbourhoods. Moreover, site safety is also an integral part of the Group's property development 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 industry and setting a precedent for peers to follow, the Group is also an active supporter of the Construction Charity Fund, which provides immediate assistance to victims of tragic industrial accidents.

The Group's commitment to quality has also been extended to its developments in mainland China. In addition to its tight grip over all key aspects of development such as selection of main contractors and subcontractors, material sourcing and tender awarding, the Construction Department also maintains an ongoing dialogue with contractors and conducts 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.

The Group's property management companies, Hang Yick Properties Management Limited, Well Born Real Estate Management Limited and Goodwill Management Limited, followed the same quality and eco-conscious approach to services and earned numerous accolades during the period, including the "Q-mark Service Scheme certification", "ISO 9001 Quality Management System Certification" as well as "Hong Kong Premier Service Brand". In respect of community service, they also stayed at the forefront of the industry. Being praised over the years for offering whole-hearted voluntary services, their volunteer teams continued to take numerous concrete actions to help the needy after the preceding "Year of Care", in addition to their usual contribution to charity by way of "Hang Oi Charitable Foundation".

To support the Group's mainland expansion and cement its reputation as a leading developer, these property management subsidiaries are now poised to replicate their Hong Kong success and provide their quality property handover and management services to the Group's property developments throughout mainland China. Currently serving a total of over 7,000 mainland apartments, they have gained wide recognition for their excellent services. Hengbao Huating and Hengli Wanpan Huayuan, for instance, were both accredited as "Harmonious Housing Communities in Guangzhou".

Business in Mainland China

Amid the global financial turmoil, consumer spending was on the downward trend. Coupled with the deferred impacts of China's stringent monetary policies implemented last year, the economic data of China for the first half of this year showed a slowdown in growth. To bolster the economy, the Central Government had lowered the deposit reserve ratio and the interest rates on loans and deposits in an attempt to encourage corporate investments and consumer spending. As the refinement of China's macro-economic policies were strengthened, the transaction volume of residential properties recorded notable monthly increases in the second quarter. The repeated reductions in interest rate, which reduced funding costs for real estate enterprises and stimulated the potential demand for home purchases aiming at securing a better living environment, provided a favourable setting for the real estate market.

Under the severe control measures imposed on the real estate market, the overall supply of residential units remained at a high level and it led to keen competition. The recent sales results of some of the Group's mainland projects came out better than expected. As such, the Group expedited its move in launching subsequent phases of Grand Lakeview in Yixing and Treasure Garden in Nanjing. Sales promotion is of paramount importance at times when the market is weak. During the period under review, the Group re-inforced its sales team, devised a new promotional strategy and grasped the right timing for the sales launch.

With the aim of facilitating a smooth operation, strengthening work initiative and speeding up the completion of projects, localised professional teams have taken up the overall management of the design, exquisite decoration, scenic landscaping and cost control of the Group's projects on the mainland, while work drawings and daily site management were undertaken by local project management staff. Currently, as an increasing number of home buyers are end-users, the building quality and functional specifications of residences become their primary concerns. Apart from stressing cost control to enhance competitiveness, the master planning of projects also places great emphasis on quality living condition, energy efficiency as well as green features.

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

	Project name	Land-use purpose	Group's interest	Approximate attributable gross floor area (sq. ft.)
1.	Greentech Tower, Shanghai	Commercial/Office	100%	410,000
2.	Phase 1A, Riverside Park, Suzhou	Residential	100%	713,000
3.	Phase 2A, Salamanca, Xian	Residential	50%	466,000
			Total:	**1,589,000**

At the end of June 2012, the Group had about 1.4 million square feet in attributable gross floor area of stock. In addition, the Group had a sizeable development land bank across 15 major cities with a total attributable gross floor area of 147.7 million square feet, of which around 83% was planned for residential development 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		0.7
Guangzhou		14.8
	Sub-total:	**15.5**
Second-tier cities		
Anshan		17.8
Changsha		14.5
Chengdu		4.0
Chongqing		6.0
Dalian		10.3
Fuzhou		1.9
Nanjing		3.4
Shenyang		14.7
Suzhou		16.3
Tieling		8.7
Xian		19.6
Xuzhou		5.3
Yixing		9.7
	Sub-total:	**132.2**
	Total:	**147.7**

* *Excluding basement areas and car parks*

Usage of development land bank

	Developable gross floor area (million sq. ft.)	Percentage
Residential	123.0	83%
Commercial	10.4	7%
Office	9.1	6%
Others (including clubhouses, schools and community facilities)	5.2	4%
Total:	**147.7**	**100%**

Property Sales

The Group sold and pre-sold an attributable HK$1,647 million worth of mainland properties during the period, an increase of 82% over the same period of the previous year. Projects launched included "Villa Green" and "Grand Waterfront" in Chongqing, "La Botanica" in Xian, "Riverside Park" in Suzhou, "Emerald Valley" in Nanjing, "Grand Lakeview" in Yixing, "Sirius" residences in Chengdu ICC as well as Xuzhou Lakeview Development. Most of them received enthusiastic market responses. For example, "Grand Lakeview" in Yixing released its first batch of 286 selected units for sale in April 2012 and over 80% of them were sold on the first day. At 30 June 2012, the cumulative amount of mainland properties pre-sold attributable to the Group totalled HK$3,183 million.

Investment Properties

At 30 June 2012, the Group had 6.9 million square feet of completed investment properties in mainland China, comprising mainly offices and shopping malls in the city centre of Beijing, Shanghai and Guangzhou. During the period under review, the Group's attributable gross rental income and pre-tax net rental income increased by 33% to HK$556 million and by 74% to HK$409 million, respectively.

In Beijing, World Financial Centre, as its name denotes, houses many world-wide financial institutions such as Standard Chartered Bank, Rabobank and CITIC Pacific Insurance Company. Its occupancy rate was over 92% at 30 June 2012, with 37% period-on-period growth in rental income. Meanwhile, the shopping mall at Beijing Henderson Centre was 84% let after the opening of a large-scale gourmet hall and an upscale supermarket in its basement floors.

In Shanghai, Henderson Metropolitan celebrated its grand opening last November and its over 400,000 square feet of prime office space had been 100% pre-let before the title deed was issued. Tenants include multinational companies such as Oracle Corporation and Deutsche Lufthansa AG, whilst the 400,000-square-foot mall offered a modern lifestyle shopping concept with flagship stores of world famous brands, catering to trendy, high-spending young shoppers. The overall rental income for Henderson Metropolitan recorded an impressive period-on-period growth of 85%. Grand Gateway Office Tower II atop Xujiahui Metro station also houses many multinational corporations such as Microsoft and Yum! Brands Inc., and its leasing rate was over 96% by the end of June 2012. Centro recorded a 32% period-on-period growth in rental income with a leasing rate of 100% for the mall and over 97% for the office portion as at 30 June 2012. Its neighbouring, newly completed Greentech Tower, which comprises 22 levels of energy efficient Grade-A offices and three levels of retail podium, with an aggregate gross floor area of about 410,000 square feet, has achieved outstanding success with a leasing rate of 75% by the end of June 2012. Skycity located in Zhabei District has become a well-known shopping centre for mobile handset products. Its four-level shopping arcade was fully let as at 30 June 2012.

In Guangzhou, Heng Bao Plaza made a wide range of fashion brands available along with a diverse choice of dining in the Liwan District and its leasing rate by the end of June 2012 was over 94% with 34% period-on-period growth in rental income.

Henderson Investment Limited ("HIL")

For the six months ended 30 June 2012, HIL's turnover decreased by HK$97 million or 61% to HK$63 million as compared to HK$160 million for the same period in 2011, whilst its unaudited profit attributable to equity shareholders amounted to HK$23 million, representing a decrease of HK$33 million or 59% from HK$56 million for the six months ended 30 June 2011. The decrease in profit was due to the fact that, for the sake of prudence, the toll fee income during the period from 20 March 2012 to 30 June 2012 in the amount of HK$91 million (after deduction of PRC business tax) has not been recognized in the accounts of HIL since payment of toll fee in respect of Hangzhou Qianjiang Third Bridge to its joint venture company was provisionally suspended and the relevant authority failed to put forward any formal proposal or compensation offer regarding the toll fee collection right.

HIL has a 60% interest in Hangzhou Henderson Qianjiang Third Bridge Company Limited ("the Joint Venture Company") which has been granted the operating right of Hangzhou 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) in 1999. 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 Hangzhou 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 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 collection 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 (collectively the "Authorities") in June 2011 requesting for their confirmation that both the operating right and the toll fee collection right last for a same period of 30 years. The Joint Venture Company also on 9 February 2012 filed with Legislative Affairs Office of the People's Government of Zhejiang Province an administrative reconsideration application and sought an order to oblige the Authorities to carry out their statutory duties to officially confirm that the toll fee collection right of Hangzhou Qianjiang Third Bridge should be for a period of 30 years.

On 20 March 2012, the Joint Venture Company received a letter dated 18 March 2012 from 杭州市城市"四自"工程道路綜合收費管理處 (Hangzhou City "Sizi" Engineering & Highway General Toll Fee Administration Office) (the "Hangzhou Toll Office"), which stated that, because the General Office of the People's Government of Zhejiang Province in 2003 provisionally fixed the period of entitlement to toll fee in respect of Hangzhou Qianjiang Third Bridge to end on 19 March 2012, they would, commencing from 20 March 2012, provisionally suspend payment of toll fee to the Joint Venture Company in respect of Hangzhou Qianjiang Third Bridge. The Hangzhou Toll Office is the relevant government body in Hangzhou to record the traffic flow and make payment of toll fee of Hangzhou Qianjiang Third Bridge pursuant to the terms of an agreement dated 5 February 2004 (the "Collection Agreement") entered into between the Joint Venture Company and the Hangzhou Toll Office. The Hangzhou Toll Office also stated in the letter that they would, in accordance with the terms of the Collection Agreement, continue to record the traffic flow of Hangzhou Qianjiang Third Bridge and work with the Joint Venture Company. The Joint Venture Company had been instructed by HIL to write to the Hangzhou Toll Office to state that the action taken by the Hangzhou Toll Office had no legal or contractual basis and was unacceptable and to ask the Hangzhou Toll Office to clarify the basis of their action and to continue to perform their obligations under the Collection Agreement, failing which the Joint Venture Company would have no alternative but to take legal actions to protect its interest. Subsequent to further negotiations with the Authorities, the Joint Venture Company on 6 June 2012 received a letter from Hangzhou Municipal Bureau of Communications which stated that Hangzhou Municipal Bureau of Communications had been confirmed and assigned by Hangzhou Municipal People's Government to negotiate concretely with the Joint Venture Company and strive to properly deal with the related matters resulting from the provisional suspension of the toll fee payment of Hangzhou Qianjiang Third Bridge commencing from 20 March 2012 as soon as possible. The letter stated that the corresponding compensation matters proposed by the Joint Venture Company would also be dealt with in due course. However, up to the date of this report, Hangzhou Municipal Bureau of Communications still failed to put forward any formal proposal or compensation offer regarding the toll fee collection right of Hangzhou Qianjiang Third Bridge.

Consequential upon the failure of the relevant authority to put forward any formal proposal or compensation offer mentioned above, for the sake of prudence, the toll fee income from 20 March 2012 (being the commencement date for the provisional suspension of the toll fee payment from the Hangzhou Toll Office to the Joint Venture Company) onwards has not been recognized in its accounts. Besides, in order to protect the interest of the Joint Venture Company, the Joint Venture Company shall, in accordance with the terms of the Collection Agreement, proceed to arrange for filing of an arbitration application with China International Economic and Trade Arbitration Commission ("CIETAC", 中國國際經濟貿易仲裁委員會) as soon as possible for, inter alia, breach of the Collection Agreement by suspending payment of toll fee to the Joint Venture Company commencing from 20 March 2012.

HIL does not believe that the provisional suspension of payment of toll fee from the Hangzhou Toll Office to the Joint Venture Company commencing from 20 March 2012 has legal or contractual basis as HIL has obtained a legal opinion from an independent PRC law firm that the toll fee collection right of Hangzhou Qianjiang Third Bridge enjoyed by the Joint Venture Company should be for the same period of 30 years as the operating right enjoyed by the Joint Venture Company. Based on such advice, amortization and calculation of the recoverable amount of the intangible operating right in the consolidated accounts of HIL are on the basis that both the operating right and the toll fee collection right of the Bridge last for a period of 30 years expiring on 19 March 2027. There is, however, uncertainty as to any further response of the Authorities and/or Hangzhou Municipal Bureau of Communications and the outcome of the arbitration application. Based on the future development of the aforesaid, HIL would have to reconsider the remaining useful life and/or the recoverable amount of the intangible operating right.

Currently, the operating assets of HIL comprise its interest in Hangzhou Qianjiang Third Bridge. If HIL ceases to have an economic interest in Hangzhou Qianjiang Third Bridge, its directors would, if appropriate opportunity arises, identify suitable investments for HIL. In the event that no suitable investments are identified and acquired by HIL, its assets would consist substantially of cash. As a result, The Stock Exchange of Hong Kong Limited may consider that HIL does not have a sufficient level of operations or sufficient assets to warrant the continued listing of HIL's shares and may suspend dealings in or cancel the listing of its shares.

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 2012 amounted to HK$4,120.3 million, an increase of HK$897.4 million compared with the same period last year. Profit growth was mainly due to growth in profit from mainland businesses and a one-off net gain recorded during the first half of 2012.

Gas Business in Hong Kong

The total volume of gas sales in Hong Kong for the first half of 2012 rose slightly by 0.3% compared to the same period last year. Total number of appliances sold during the period under review increased by approximately 1.7% over the same period last year. As at 30 June 2012, the number of customers was 1,763,392, an increase of 12,839 since the end of December 2011.

Utility Businesses in Mainland China

As at the end of June 2012, Hong Kong and China Gas had an approximately 66.18% interest in Towngas China Company Limited ("Towngas China"; stock code: 1083). This subsidiary's profit after taxation attributable to its shareholders amounted to HK$357 million for the first half of 2012, an increase of approximately 18% over the same period last year.

Towngas China acquired three new piped-gas projects during the first half of 2012 located in Wafangdian, Dalian, Liaoning province, in Binhai Science and Technology Industrial Park, Zhaoyuan, Shandong province and in Yifeng county, Yichun, Jiangxi province. Towngas China is focused on developing city-gas businesses in cities with a high proportion of industrial gas consumption. With three new projects established by Towngas China so far this year, this group now has 103 city-gas projects in mainland cities spread across 19 provinces/municipalities/autonomous regions. As at the end of June 2012, the number of this group's gas customers on the mainland was approximately 13.78 million generating a total volume of gas sales of 5,960 million cubic metres during the period under review. This group is now the largest city-gas enterprise on the mainland.

Hong Kong and China Gas's midstream natural gas projects include high-pressure natural gas pipeline joint ventures in Anhui province, in Hebei province, in Hangzhou, Zhejiang province and in Jilin province; the Guangdong Liquefied Natural Gas Receiving Terminal project; a natural gas valve station project in Suzhou Industrial Park, Suzhou, Jiangsu province; and a new pipeline project in Henan province. Towngas China also added a midstream pipeline project located in Wafangdian, Dalian, Liaoning province to its portfolio during the first half of 2012.

During the third quarter of 2011, Hong Kong and China Gas 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, Hong Kong and China Gas has so far invested in and operates four water projects.

Overall, inclusive of projects of Towngas China, this group currently has 145 projects on the mainland, seven more than that at the end of 2011, spread across 21 provinces/municipalities/autonomous regions. These projects encompass upstream, midstream and downstream natural gas sectors, water supply and wastewater treatment sectors, natural gas vehicular filling stations, environmentally-friendly energy applications, energy resources, logistics businesses and telecommunications.

Emerging Environmentally-Friendly Energy Businesses

Hong Kong and China Gas's 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's North East New Territories landfill gas treatment facility, which has been successfully operating in Hong Kong for several years, converts landfill gas on site into substitute natural gas which is then transported to Tai Po gas production plant via a pipeline to partially substitute for naphtha. Since 2008, ECO has been developing similar kinds of projects on the mainland and its coalbed methane liquefaction facility located in Jincheng, Shanxi province, is already fully commissioned. ECO's coal chemical project, acquired in 2009, in Junger, Erdos, Inner Mongolia, which converts coal into methanol using coal gasification and synthesis technology with an annual production capacity of 200,000 tonnes, is now at the pilot stage of production and is expected to be fully commissioned during the second half of this year.

The preliminary work for ECO's coal-mine methane liquefaction project in Yangquan mining district, Shanxi province, is also progressing as scheduled; construction is expected to commence within this year for commissioning in mid-2014. By converting coal-mine gas into liquefied methane, it can be used as natural gas.

ECO set up a new-energy research and development centre in 2010 and has achieved good results in its development of innovative technologies for converting materials of low value, such as non-edible oil and coal tar oil, into clean fuel and substances of high value.

ECO's Xiaoyugou coal mine, with an annual production of 1.2 million tonnes of long flame coal, which is associated with ECO's methanol production plant, is at the pilot stage of production and is expected to be fully commissioned during the second half of 2012. ECO's operative open-pit coal mine in Inner Mongolia is also operating relatively smoothly. Besides coal investments, ECO has sought to leverage the technology and experience accumulated from a small oilfield project in Jilin province, jointly developed by ECO and China Petroleum & Chemical Corporation, by successfully acquiring, in mid-2012, a 60% effective stake in the development of onshore oilfield blocks L33 and L44 in Thailand. ECO has already taken over operational management of the oilfields and is currently proceeding with the next stage – that of formulating a detailed plan for their comprehensive development.

ECO is now conducting technical validations with respect to gas control and extraction of coalbed methane in certain areas on the mainland where coal-mine gas resources are abundant but storage conditions are complicated. Concurrently, ECO is also endeavouring to find opportunities to participate in the recent development of shale gas projects on the mainland.

ECO's five dedicated liquefied petroleum gas ("LPG") vehicular filling stations in Hong Kong have been operating steadily for several years. ECO started a gas filling station business on the mainland in 2008. Since then, a network of compressed and liquefied natural gas filling stations supplying clean fuels has gradually been established 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, is operating smoothly. The facility supplied over 5 million tonnes of aviation fuel in 2011 and is now a major logistics base for supply of aviation fuel in Hong Kong.

ECO has also started a coal logistics business on the mainland in important coal distribution areas such as Qinhuangdao, Hebei province and Dandong, Liaoning province. ECO is also investing in the construction of an inland coal and bulk cargo logistics port in Jining, Shandong province to link an upstream dedicated coal transportation railway with a downstream canal connecting Beijing and Hangzhou. The logistics port, with an expected annual throughput of 10 million tonnes, had its soft opening in June of this year. ECO also supplies clean and environmentally-friendly fuels for different transport means serving this inland port, and is developing vehicular and marine liquefied natural gas filling stations and gas filling facilities at piers for use by heavy-duty trucks and transport vessels.

Property Developments

Leasing of the commercial area of the Grand Waterfront property development project located at Ma Tau Kok is good. It also has an approximately 15.8% interest in the International Finance Centre complex, which also performed well.

Financing Programmes

Hong Kong and China Gas continued to issue medium term notes with a total amount equivalent to HK$2,680 million during the first half of 2012 under its medium term note programme ("the Programme") established through HKCG (Finance) Limited, a wholly-owned subsidiary of Hong Kong and China Gas. Inclusive of its first renminbi-denominated notes in Hong Kong issued in late March 2011 with a total amount of RMB1,000 million for a term of five years, Hong Kong and China Gas has issued medium term notes with, up to now, an aggregate amount equivalent to HK$9,450 million under the Programme with tenors ranging from 5 to 40 years.

Standard & Poor's Ratings Services launched the first credit rating benchmark developed especially for the region in 2011 to assign credit ratings to borrowers active in mainland China, Hong Kong, and Taiwan (including the fast-growing offshore renminbi debt market). Hong Kong and China Gas was assigned the highest rating of cnAAA, whilst Towngas China was assigned cnA under this Greater China long-term credit rating scale.

Hong Kong and China Gas predicts steady growth and an increase of about 25,000 new customers in Hong Kong during 2012. The combined results of its emerging environmentally-friendly energy businesses and mainland utility businesses will overtake the results 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")

During the six months ended 30 June 2012, Hong Kong Ferry's turnover amounted to HK$394 million, representing an increase of 7% as compared with that recorded in the same period last year. Meanwhile, its unaudited consolidated net profit after taxation amounted to HK$275.9 million, representing an increase of 29% as compared with a profit of HK$213.1 million for the same period last year.

During the period under review, Hong Kong Ferry sold a total of 13 residential units of Shining Heights and recorded a profit of HK$155.3 million. The revaluation gain from its investment properties amounted to HK$145.1 million. Rental and related income from the mall of Metro Harbour Plaza amounted to HK$22.9 million. The commercial arcade of Metro Harbour Plaza was fully let at the end of June 2012, whilst the occupancy rate of the commercial arcade of Shining Heights was 93%.

During the period under review, the foundation work of the site at Fanling Sheung Shui Town Lot No. 177 had been completed. Superstructure works are in progress. The project will be developed into three residential towers with over 700 units. The average floor area of an individual unit is 700 square feet. Together with the two-storey shopping mall, there will be a total gross floor area of approximately 540,000 square feet. Meanwhile, the foundation work of 208 Tung Chau Street (formerly known as 204-214 Tung Chau Street) is also in progress. The property will be re-developed into a residential-cum-commercial building with a total gross floor area of approximately 54,000 square feet. The acquired site at Hung Hom Inland Lot No. 555 with approximately 6,300 square feet will be developed into a residential-cum-commercial building comprising approximately around 95 residential units with a total gross floor area of approximately 56,000 square feet. The preliminary foundation work is in progress.

Due to the increase in ship repairs and vehicular ferry business during the period, the Ferry, Shipyard and Related Operations recorded a profit of HK$15.1 million, an increase of 311% as compared with the same period last year. Meanwhile, due to intense market competition, the operating profit from Travel Operations showed a decrease from HK$0.9 million in the same period last year to HK$0.2 million this year. In addition, as a result of the drop in share price of certain securities in the portfolio, an impairment loss of HK$34.4 million was recorded in its available-for-sale securities investment during the period.

Hong Kong Ferry sold 52-56 Kwun Chung Street in July 2012 for a consideration of HK$155 million. The said transaction is scheduled to be completed on or before 28 September 2012. Together with rental income and proceeds from the disposal of property inventory, these will be the main source of income for this group in the second half of 2012.

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

For the six months ended 30 June 2012, Miramar's turnover was approximately HK$1,526 million, representing growth of 32% as compared to the six months ended 30 June 2011. Profit attributable to shareholders was HK$665 million, up 4% compared to the last corresponding period. Excluding the net increase in fair value of the investment properties, profit attributable to shareholders rose to HK$208 million, representing an increase of 10% compared to the last corresponding period.

Satisfactory results were recorded in each of its five core businesses — Hotel and Serviced Apartment, Property Rental, Food and Beverage, Travel and Apparel Retail during the reporting period.

Miramar owns and/or provides management services for five hotels and serviced apartments in Hong Kong and mainland China. During the reporting period, the Hotel and Serviced Apartment Business saw double-digit growth in both turnover and profit. Its flagship hotel in Tsim Sha Tsui, The Mira, maintained the occupancy rate at the same level as last corresponding period; while average room rate rose by 10%. The Mira Moon, a lifestyle design hotel in Wanchai under this group's management, is expected to commence operation in the first half of 2013 and offer approximately 90 guest rooms.

Miramar's investment property portfolio continued to improve in occupancy rate and average unit rate as compared with the last corresponding period. Miramar Shopping Centre and Miramar Tower remained the major income contributors in this business segment. For the first six months of 2012, occupancy rate of Miramar Shopping Centre was approximately 99% and the average unit rate also recorded a double-digit growth, whilst the rental of Miramar Tower offices has risen to a record high. Meanwhile, the refurbishment work in the 100,000-square-foot shopping centre at The Mira was completed in the fourth quarter of 2011. This hotel shopping centre had a soft launch in April 2012, and its grand opening is scheduled for October 2012. Occupancy rate of the Mira Mall is expected to exceed 90% by the end of this year.

This group adopted a multi-brand strategy for the Food and Beverage Business, with brands such as Tsui Hang Village, Yunyan Sichuan Restaurant, the high-end Cuisine Cuisine Chinese restaurant and The French Window (a French restaurant for fine dining). This group also operates niche restaurants such as Hide-Chan Ramen (a Japanese Ramen restaurant), Saboten (a Japanese pork cutlet restaurant) and Assaggio Trattoria Italiana (an Italian restaurant). In addition, this group introduced its high-end brand "Cuisine Cuisine" to the mainland China market in the fourth quarter of 2011 and two new Cuisine Cuisine restaurants in Beijing and Wuhan in China incurred a start-up loss (with the latter opening in March 2012) in the reporting period.

Despite the uncertainty in the global economy, the Travel Business experienced double-digit growth in turnover during the reporting period due to its expanding market share. The rapidly growing mass-market tour business in particular contributed considerably to its total revenue.

Currently, this group and its franchisees own and operate 41 DKNY Jeans stores in various cities in China. In addition, this group recently launched the Kickers business (a renowned European shoe brand) in China and opened three stores in Shanghai during the reporting period. Since this Apparel Retail Business is still in the early phase of development, an operating loss was recorded during the reporting period.

Corporate Finance

The Group has always adhered to prudent financial management principles, as evidenced by its gearing ratio which stood at 19.1% at 30 June 2012 (31 December 2011: 19.9%). In order to diversify the sources of funding and to enhance the debt maturity profile, the Group established a US$3,000 million medium term note programme (the "MTN Programme") in August 2011. Since the establishment of the MTN Programme, the Group issued medium term notes of four years, five years and seven years in the Singapore domestic debt capital market for a total amount of S$600 million at coupon rates ranging from 3.65% to 4.00% and also issued five-year unrated public bonds for a total amount of US$700 million at a coupon rate of 4.75% which were sold to a wide spectrum of fixed-income investors that are mainly located in Hong Kong as well as in other parts of Asia. In addition, based on reverse enquiry generating from certain institutional fixed income investors, the Group also issued and distributed long term notes in Hong Kong Dollars through private placements with coupon rates fixed at 4.03% and 4.80% for notes of 10-year tenor and 20-year tenor respectively. In aggregate, the Group was able to obtain medium term and long term funding that amounted to the equivalent of over HK$11,000 million up to 30 June 2012 notwithstanding that unstable conditions prevailed in the international financial markets since the establishment of the MTN Programme. Bond proceeds that originated from fixed income investors of diversified sources were applied for refinancing certain existing short-to-medium term bank loan facilities of the Group.

Furthermore, 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 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 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.

In respect of the International Finance Centre project which was owned by a joint venture of the Group, a non-recourse 3-year term loan facility was signed in February 2012 for an amount of HK$10,000 million raised in the local syndicated loan market with favourable terms.

Prospects

The deepening debt crisis in Europe and slowdown in the global economy had affected the Hong Kong economy. The GDP in the second quarter of 2012 expanded by only 1.1% year-on-year, and shrank by 0.1% quarter on quarter. However, positive backdrops, including general pay rises, thriving inbound tourism, low interest rates and a rising inflationary environment, are expected to lend support to the housing demand.

In the second half of 2012, two sizeable developments sourced from the Group's land-use conversion of New Territories land, namely, "Double Cove" (Phase 1) in Ma On Shan and the project at Tai Tong, Yuen Long will be launched for pre-sale. Meanwhile, the Group has expedited its sales programmes of the urban redevelopment projects. Following the successful sales of "The Gloucester" earlier, "The H Collection" also made its debut with the recent launch of "High West" at Mid-Levels West and over 80% of its boutique apartments have been pre-sold. The other signature residential projects under "The H Collection", including 68 Boundary Street, 51 Boundary Street, "High Point" and 75-81 Sa Po Road, are planned for sales launch in the second half of 2012. Together with another 6 urban residential redevelopment projects and "Double Cove" (Phase 2), which are in the pipeline for sales launch in 2013, a total of 3.3 million square feet in gross floor area of residential units in Hong Kong will be ready for sales launch during the period from the second half of 2012 to 2013. The Group's efforts in building up New Territories land reserves and the redevelopment of old buildings in urban areas have started to bear fruit, paving the way for further earnings growth in the years ahead.

"The Gloucester", a 114,000-square-foot signature residential project situated on the Hong Kong waterfront with full sea views, was launched for pre-sale in April 2011 with over 90% of its total 177 residential units now pre-sold. "AZURA", the Group's joint venture development at Mid-Levels of Hong Kong Island, went on sale in November 2010 and cumulatively, 100 of its total 126 residential units had been pre-sold. Their attributable sales revenue totaling HK$2,993 million, as well as the corresponding handsome profit contribution to the Group, will be reflected in the final results of this financial year if they are duly completed in the latter part of 2012.

Turning to mainland China, the Central Government, while lowering the interest rate, had recently reiterated that it would continue to maintain its curbs on the property market. This year, the targeted economic growth of mainland China has been adjusted downward to 7.5%. If inflationary pressure in mainland China subsides further amid stabilization of the external financial crisis, it is believed that the Central Government will introduce additional economic stimulus measures along with housing policy adjustments to meet end-user demand. The overall transaction volume for residential properties is poised to resume its steady uptrend.

On the property investment front, with a portfolio of 9.1 million square feet and 6.9 million square feet of completed investment properties in Hong Kong and mainland China, respectively, the Group will continue to refine their tenant mix and increase the proportion of premier grade properties by building new landmark developments in prime locations.

In addition to the growing recurrent rental income in both Hong Kong and mainland China, the three listed associates (in particular, Hong Kong and China Gas) serve as another solid base for the Group's sustainable earnings growth. Together with a strong balance sheet and ample stand-by loan facilities, the Group is well placed to expedite development of its extensive land reserves in both Hong Kong and mainland China. Among these, the successive completion of approximately 4.3 million square feet in attributable gross floor area from over 40 urban redevelopment projects in Hong Kong will contribute significantly to development earnings and create abundant value for the Group's shareholders for the years to come.

Condensed Interim Financial Statements

Consolidated Income Statement – unaudited

	Note	For the six months ended 30 June 2012 HK$ million	2011 HK$ million
Turnover	3, 10	**7,176**	10,624
Direct costs		**(3,966)**	(6,229)
		3,210	4,395
Other revenue	4	**427**	123
Other net income	5	**44**	37
Selling and marketing expenses		**(428)**	(572)
Administrative expenses		**(789)**	(764)
Profit from operations before changes in fair value of investment properties and investment properties under development		**2,464**	3,219
Increase in fair value of investment properties and investment properties under development	11(b)	**3,047**	4,251
Profit from operations after changes in fair value of investment properties and investment properties under development		**5,511**	7,470
Finance costs	6(a)	**(689)**	(549)
		4,822	6,921
Share of profits less losses of associates		**2,128**	2,016
Share of profits less losses of jointly controlled entities		**1,307**	1,166
Profit before taxation	6	**8,257**	10,103
Income tax	7	**(460)**	(1,057)
Profit for the period		**7,797**	9,046

Condensed Interim Financial Statements

Consolidated Income Statement – unaudited (continued)

		For the six months ended 30 June	
		2012	2011
	Note	**HK$ million**	HK$ million
Attributable to:			
Equity shareholders of the Company		**7,733**	8,824
Non-controlling interests		**64**	222
Profit for the period		**7,797**	9,046
Earnings per share based on profit attributable to equity shareholders of the Company (reported earnings per share)			
Basic and diluted	*8(a)*	***HK$3.26***	*HK$3.92*
Earnings per share excluding the effects of changes in fair value of investment properties and investment properties under development (net of deferred tax) (underlying earnings per share)			
Basic and diluted	*8(b)*	***HK$1.51***	*HK$1.52*

The notes on pages 34 to 53 form part of these condensed interim financial statements. Details of dividends payable to equity shareholders of the Company are set out in note 9.

Condensed Interim Financial Statements

Consolidated Statement of Comprehensive Income – unaudited

	For the six months ended 30 June	
	2012	2011
	HK$ million	HK$ million
Profit for the period	**7,797**	9,046
Other comprehensive income for the period (after tax and reclassification adjustments):		
Exchange differences: net movement in the exchange reserve	**(264)**	882
Cash flow hedges: net movement in the hedging reserve	**(243)**	(529)
Available-for-sale equity securities: net movement in the fair value reserve	**(40)**	288
Share of other comprehensive income of associates and jointly controlled entities	**(36)**	122
	(583)	763
Total comprehensive income for the period	**7,214**	9,809
Attributable to:		
Equity shareholders of the Company	**7,155**	9,565
Non-controlling interests	**59**	244
Total comprehensive income for the period	**7,214**	9,809

The notes on pages 34 to 53 form part of these condensed interim financial statements.

Condensed Interim Financial Statements

Consolidated Balance Sheet

	Note	At 30 June 2012 (unaudited) HK$ million	At 31 December 2011 (audited) HK$ million
Non-current assets			
Fixed assets	11	**94,962**	92,771
Intangible operating right		**429**	454
Interest in associates		**40,827**	40,117
Interest in jointly controlled entities		**26,856**	23,722
Derivative financial instruments	12	**648**	620
Other financial assets	13	**3,683**	3,617
Deferred tax assets		**793**	673
		168,198	161,974
Current assets			
Deposits for acquisition of properties		**7,286**	8,433
Inventories		**68,783**	68,204
Trade and other receivables	14	**6,369**	4,495
Cash held by stakeholders		**393**	514
Cash and cash equivalents	15	**11,806**	18,850
		94,637	100,496
Current liabilities			
Trade and other payables	16	**10,848**	9,030
Bank loans and overdrafts	17	**4,592**	19,699
Tax payable		**903**	798
		16,343	29,527
Net current assets		**78,294**	70,969
Total assets less current liabilities		**246,492**	232,943

Condensed Interim Financial Statements

Consolidated Balance Sheet (continued)

	Note	At 30 June 2012 (unaudited) HK$ million	At 31 December 2011 (audited) HK$ million
Non-current liabilities			
Bank loans	17	**21,753**	16,581
Guaranteed notes	18	**18,158**	10,877
Amount due to a fellow subsidiary		**3,685**	8,583
Derivative financial instruments	12	**2,213**	1,895
Deferred tax liabilities		**5,242**	5,082
		51,051	43,018
NET ASSETS		**195,441**	189,925
CAPITAL AND RESERVES			
Share capital		**4,738**	4,738
Reserves		**186,095**	180,598
Total equity attributable to equity shareholders of the Company		**190,833**	185,336
Non-controlling interests		**4,608**	4,589
TOTAL EQUITY		**195,441**	189,925

The notes on pages 34 to 53 form part of these condensed interim financial statements.

Condensed Interim Financial Statements

Consolidated Statement of Changes in Equity – unaudited

		Attributable to equity shareholders of the Company											
	Note	Share capital HK$ million	Share premium HK$ million	Property revaluation reserve HK$ million	Capital redemption reserve HK$ million	Exchange reserve HK$ million	Fair value reserve HK$ million	Hedging reserve HK$ million	Other reserves HK$ million	Retained profits HK$ million	Total HK$ million	Non-controlling interests HK$ million	Total equity HK$ million
Balance at 1 January 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
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		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
Balance at 1 January 2012		**4,738**	**41,807**	**16**	**20**	**6,574**	**17**	**(756)**	**51**	**132,869**	**185,336**	**4,589**	**189,925**
Changes in equity for the six months ended 30 June 2012:													
Profit for the period		–	–	–	–	–	–	–	–	**7,733**	**7,733**	**64**	**7,797**
Other comprehensive income for the period		–	–	–	–	**(299)**	**(23)**	**(256)**	–	–	**(578)**	**(5)**	**(583)**
Total comprehensive income for the period		–	–	–	–	**(299)**	**(23)**	**(256)**	–	**7,733**	**7,155**	**59**	**7,214**
Dividend approved in respect of the previous financial year	9(b)	–	–	–	–	–	–	–	–	**(1,658)**	**(1,658)**	–	**(1,658)**
Dividends paid to non-controlling interests		–	–	–	–	–	–	–	–	–	–	**(69)**	**(69)**
Advance from non-controlling interests, net		–	–	–	–	–	–	–	–	–	–	**29**	**29**
Balance at 30 June 2012		**4,738**	**41,807**	**16**	**20**	**6,275**	**(6)**	**(1,012)**	**51**	**138,944**	**190,833**	**4,608**	**195,441**

The notes on pages 34 to 53 form part of these condensed interim financial statements.

Condensed Interim Financial Statements

Condensed Consolidated Cash Flow Statement – unaudited

		For the six months ended 30 June	
		2012	2011
	Note	**HK$ million**	HK$ million
Net cash generated from operating activities		**1,181**	534
Net cash generated from investing activities		**338**	1,360
Net cash (used in)/generated from financing activities		**(8,530)**	6,047
Net (decrease)/increase in cash and cash equivalents		**(7,011)**	7,941
Cash and cash equivalents at 1 January		**18,803**	9,752
Effect of foreign exchange rate changes		**(40)**	86
Cash and cash equivalents at 30 June	15	**11,752**	17,779

The notes on pages 34 to 53 form part of these condensed interim financial statements.

Notes to the Unaudited Condensed Interim Financial Statements

1 Basis of preparation

The 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 interests in associates and jointly controlled entities.

The 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 22 August 2012.

The 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 2011 ("the 2011 financial statements") except for the accounting policy changes that are expected to be reflected in the Company's financial statements for the year ending 31 December 2012. Details of these changes in accounting policies are set out in note 2.

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.

The 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 2011 financial statements. The condensed interim financial statements and notes thereon do not include all of the information required for the preparation of the full set of financial statements in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA.

The condensed interim financial statements are unaudited, but have been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG's independent review report to the Board of Directors (the "Board") is included on page 74. In addition, the condensed interim financial statements have been reviewed by the Company's Audit Committee.

The financial information relating to the year ended 31 December 2011 that is included in the condensed interim financial statements as being previously reported information does not constitute the Company's statutory consolidated financial statements for that financial year but is derived from those financial statements. The 2011 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 21 March 2012.

Notes to the Unaudited Condensed Interim Financial Statements

2 Changes in accounting policies

The HKICPA has issued a few amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. These include the amendments to HKAS 12, *Income taxes – Deferred tax: recovery of underlying assets*, which the Group has already adopted in the prior period.

In respect of the other developments, none of them has material impact on the condensed interim financial statements and the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

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 the provision of finance, investment holding, project management, property management, agency services, cleaning and security guard services, as well as the trading of building materials and disposal of leasehold land.

The major items are analysed as follows:

	For the six months ended 30 June	
	2012	2011
	HK$ million	HK$ million
Sale of properties	**4,284**	8,024
Rental income	**2,186**	1,871
Construction	**29**	12
Infrastructure	**63**	160
Hotel operation	**112**	98
Department store operation	**182**	160
Others	**320**	299
Total (note 10 (b))	**7,176**	10,624

Notes to the Unaudited Condensed Interim Financial Statements

4 Other revenue

	For the six months ended 30 June	
	2012	2011
	HK$ million	HK$ million
Bank interest income	**136**	80
Other interest income (note)	**257**	3
Others	**34**	40
	427	123

Note: Other interest income includes overdue interest of HK$247 million (2011: HK$Nil) on a refund of land deposit received during the period.

5 Other net income

	For the six months ended 30 June	
	2012	2011
	HK$ million	HK$ million
Net gain on disposal of a subsidiary	**191**	–
Net (loss)/gain on disposal of fixed assets	**(87)**	51
Net gain on disposal of available-for-sale equity securities	**21**	–
(Provision)/reversal of provision on inventories	**(43)**	1
Bad debts written off	**–**	(7)
Reversal of impairment loss on trade debtors (note 10(c))	**2**	–
Net foreign exchange (loss)/gain	**(51)**	20
Others	**11**	(28)
	44	37

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 2012 HK$ million	2011 HK$ million
(a) Finance costs:		
Bank interest	**601**	473
Interest on loans wholly repayable within five years	**278**	97
Interest on loans repayable after five years	**214**	152
Other borrowing costs	**99**	109
	1,192	831
Less: Amount capitalised *	**(503)**	(282)
	689	549

* The borrowing costs have been capitalised at rates ranging from 3.51% to 6.84% (2011: 2.31% to 6.18%) per annum.

	For the six months ended 30 June 2012 HK$ million	2011 HK$ million
(b) Staff costs:		
Salaries, wages and other benefits	**780**	724
Contributions to defined contribution retirement plans	**36**	33
	816	757

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 2012 HK$ million	2011 HK$ million
(c) Other items:		
Depreciation	**86**	72
Less: Amount capitalised	**(7)**	(4)
	79	68
Amortisation of intangible operating right	**23**	22
Cost of sales		
– completed properties for sale	**3,005**	5,334
– trading stocks	**166**	159
Dividend income from investments in available–for-sale equity securities		
– listed	**(39)**	(28)
– unlisted	**(9)**	–

7 Income tax

	For the six months ended 30 June 2012 HK$ million	2011 HK$ million
Current tax		
Provision for Hong Kong Profits Tax	**230**	469
Provision for taxation outside Hong Kong	**97**	(3)
Provision for Land Appreciation Tax	**23**	25
	350	491
Deferred tax		
Origination and reversal of temporary differences	**110**	566
	460	1,057

Notes to the Unaudited Condensed Interim Financial Statements

7 Income tax (continued)

Provision for Hong Kong Profits Tax has been made at 16.5% (2011: 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 properties under development in mainland China, (ii) depreciation allowances in excess of related depreciation, and (iii) the deductible temporary differences arising from tax losses; and (b) for the six months ended 30 June 2011, 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) Reported earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of HK$7,733 million (2011: HK$8,824 million) and the weighted average number of 2,369 million ordinary shares in issue during the period (2011: 2,249 million ordinary shares), calculated as follows:

	For the six months ended 30 June	
	2012	2011
	HK$ million	HK$ million
Number of issued ordinary shares at 1 January	**2,369**	2,176
Weighted average number of ordinary shares issued in respect of exercise of warrants	–	71
Weighted average number of ordinary shares issued in respect of scrip dividends	–	2
Weighted average number of ordinary shares for the period and at 30 June	**2,369**	2,249

Diluted earnings per share were the same as the basic earnings per share for the six months ended 30 June 2012 as there were no dilutive potential ordinary shares in existence during the period.

In respect of the six months ended 30 June 2011, diluted earnings per share were the same as the basic earnings per share as the inclusion of the dilutive potential ordinary shares in respect of the warrants in issue during that period would have an anti-dilutive effect.

Notes to the Unaudited Condensed Interim Financial Statements

8 Earnings per share (continued)

(b) Underlying earnings per share

For the purpose of assessing the underlying performance of the Group, basic and diluted earnings per share are additionally calculated based on the underlying profit attributable to equity shareholders of the Company of HK$3,589 million (2011: HK$3,428 million), excluding the effects of changes in fair value of investment properties and investment properties under development (net of deferred tax) during the period. A reconciliation of profit is as follows:

	For the six months ended 30 June	
	2012	2011
	HK$ million	HK$ million
Profit attributable to equity shareholders of the Company	**7,733**	8,824
Effect of changes in fair value of investment properties and investment properties under development	**(3,047)**	(4,251)
Effect of deferred tax on changes in fair value of investment properties and investment properties under development	**84**	183
Effect of share of changes in fair value of investment properties (net of deferred tax) of:		
– associates	**(457)**	(686)
– jointly controlled entities	**(724)**	(665)
Effect of share of non-controlling interests	**–**	23
Underlying profit attributable to equity shareholders of the Company	**3,589**	3,428
Underlying earnings per share	**HK$1.51**	HK$1.52

9 Dividends

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

	For the six months ended 30 June	
	2012	2011
	HK$ million	HK$ million
Interim dividend declared after the interim period of HK$0.32 (2011: HK$0.3) per share	**768**	711

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, approved and payable/paid during the interim period

	For the six months ended 30 June	
	2012	2011
	HK$ million	HK$ million
Final dividend in respect of the previous financial year, approved and payable (2011: paid) during the interim period, of HK$0.7 (2011: HK$0.7) per share	**1,658**	1,644

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 most 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, as well as the trading of building materials and disposal of leasehold land

For the purposes of assessing segment performance and allocating resources between segments, the Group's most 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, provision/(reversal of provision) on inventories, fair value adjustment of investment properties and investment properties under development, 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 most senior executive management for the purposes of resource allocation and assessment of segment performance for the period 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	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 2012									
External revenue	4,284	2,186	29	63	112	182	320	–	7,176
Inter-segment revenue	–	103	346	–	–	–	29	(478)	–
Reportable segment revenue	4,284	2,289	375	63	112	182	349	(478)	7,176
Reportable segment results	828	1,518	(40)	36	43	31	405		2,821
Bank interest income									136
Provision on inventories	(43)	–	–	–	–	–	–		(43)
Unallocated head office and corporate expenses, net									(450)
Profit from operations									2,464
Increase in fair value of investment properties and investment properties under development									3,047
Finance costs									(689)
									4,822
Share of profits less losses of associates (note (i))									2,128
Share of profits less losses of jointly controlled entities (note (ii))									1,307
Profit before taxation									8,257
Income tax									(460)
Profit for the period									7,797

Notes to the Unaudited Condensed Interim Financial Statements

10 Segment reporting (continued)

(a) Results of reportable segments (continued)

	Property development HK$ million	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 and investment properties under development									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)

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$70 million (2011: HK$65 million) and HK$320 million (2011: HK$267 million), respectively.

Included in the Group's share of profits less losses of associates during the period is a profit of HK$34 million (2011: HK$27 million) contributed from the property development segment, and a profit of HK$668 million (2011: HK$868 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$457 million (2011: HK$686 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$170 million (2011: HK$326 million) and HK$730 million (2011: HK$637 million), respectively.

Included in the Group's share of profits less losses of jointly controlled entities during the period is a profit of HK$58 million (2011: HK$48 million) contributed from the property development segment, and a profit of HK$1,188 million (2011: HK$1,075 million) contributed from the property leasing segment (taking into account the increase in fair value of investment properties during the period of HK$724 million (2011: HK$665 million)).

(iii) Turnover for the property leasing segment comprises rental income of HK$1,933 million (2011: HK$1,641 million) and rental-related income of HK$253 million (2011: HK$230 million), which in aggregate amounted to HK$2,186 million for the six months ended 30 June 2012 (2011: HK$1,871 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
	2012	2011	**2012**	2011
	(unaudited)	(unaudited)	**(unaudited)**	(audited)
	HK$ million	HK$ million	**HK$ million**	HK$ million
Hong Kong	**5,692**	9,919	**133,383**	127,571
Mainland China	**1,484**	705	**29,691**	29,493
	7,176	10,624	**163,074**	157,064

Notes to the Unaudited Condensed Interim Financial Statements

10 Segment reporting (continued)

(c) Other segment information

	Amortisation and depreciation		(Reversal of impairment loss) /impairment loss on trade debtors	
	For the six months ended 30 June		For the six months ended 30 June	
	2012	2011	**2012**	2011
	HK$ million	HK$ million	**HK$ million**	HK$ million
Property development	**–**	–	**–**	–
Property leasing	**11**	8	**–**	(1)
Construction	**24**	12	**–**	–
Infrastructure	**23**	22	**–**	–
Hotel operation	**25**	25	**–**	–
Department store operation	**1**	2	**–**	–
Others	**18**	21	**(2)**	1
	102	90	**(2)**	–

11 Fixed assets

(a) Transfers

During the six months ended 30 June 2012, properties under development with carrying amount of HK$93 million have been transferred from "Inventories" to "Fixed assets" as the directors determined its intended use as held for leasing purposes.

(b) Valuation

The Group's investment properties and investment properties under development were revalued at 30 June 2012 by DTZ, an independent firm of professional surveyors who have among their staff Fellows of The Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued, on a market value basis. The Group's investment properties were valued 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. The Group's investment properties under development were valued by estimating the fair value of such properties as if they were completed in accordance with the relevant development plan and then deducting from that amount the estimated costs to complete the construction, financing costs and a reasonable profit margin.

Notes to the Unaudited Condensed Interim Financial Statements

12 Derivative financial instruments

	At 30 June 2012 (unaudited)		At 31 December 2011 (audited)	
	Assets HK$ million	**Liabilities HK$ million**	Assets HK$ million	Liabilities HK$ million
Cash flow hedges:				
Cross currency interest rate swap contracts	**648**	**724**	620	692
Interest rate swap contracts	**–**	**1,489**	–	1,203
	648	**2,213**	620	1,895

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$"), Pound Sterling ("£"), Japanese Yen ("¥") and Singapore dollars ("S$") with aggregate principal amounts of US$835 million, £50 million, ¥10,000 million and S$200 million at 30 June 2012 (31 December 2011: US$835 million and £50 million) and bank loans denominated in United States dollars with an aggregate amount of US$148 million at 30 June 2012 (31 December 2011: 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$11,500 million at 30 June 2012 (31 December 2011: HK$13,000 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 20 October 2026 (31 December 2011: between 18 September 2013 and 20 October 2026).

Notes to the Unaudited Condensed Interim Financial Statements

13 Other financial assets

	At 30 June 2012 (unaudited) HK$ million	At 31 December 2011 (audited) HK$ million
Available-for-sale equity securities		
Unlisted	**358**	377
Listed:		
– in Hong Kong	**1,957**	1,973
– outside Hong Kong	**47**	48
	2,362	2,398
Instalments receivable	**1,287**	1,177
Long term receivable	**34**	42
	3,683	3,617
Market value of listed securities	**2,004**	2,021

At 30 June 2012, the fair value of available-for-sale equity securities which individually remained impaired amounted to HK$1 million (31 December 2011: 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 one year from the balance sheet date. The balance included in "Other financial assets" is neither past due nor impaired. Instalments receivable due within one year 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 2012 (unaudited) HK$ million	At 31 December 2011 (audited) HK$ million
Instalments receivable (note 13)	**2,645**	1,300
Debtors, prepayments and deposits	**3,484**	2,961
Gross amount due from customers for contract work	**99**	54
Amounts due from associates	**117**	165
Amounts due from jointly controlled entities	**24**	15
	6,369	4,495

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 2012 (unaudited) HK$ million	At 31 December 2011 (audited) HK$ million
Current or under 1 month overdue	**2,919**	1,438
More than 1 month overdue and up to 3 months overdue	**131**	209
More than 3 months overdue and up to 6 months overdue	**14**	9
More than 6 months overdue	**114**	104
	3,178	1,760

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 fee income receivable from the toll bridge, the amount is collected on behalf of the Group by 杭州市城市"四自"工程道路綜合收費管理處 (Hangzhou City "Sizi" Engineering & Highway General Toll Fee Administration Office) (the "Hangzhou Toll Office"), which is the relevant government body in Hangzhou, mainland China to record the traffic flow and make payment of the toll fee of Hangzhou Qianjiang Third Bridge, pursuant to the terms of an agreement dated 5 February 2004 entered into between the Group and the Hangzhou Toll Office. In this regard, the Hangzhou Toll Office has provisionally suspended the payment of toll fee to the Group in respect of Hangzhou Qianjiang Third Bridge commencing from 20 March 2012, and Hangzhou Municipal Bureau of Communications (杭州市交通運輸局) has been confirmed and assigned by Hangzhou Municipal People's Government (杭州市人民政府) to negotiate concretely with the Group and strive to properly deal with the related matters resulting therefrom as soon as possible, and the corresponding compensation matters proposed by the Group would be dealt with in due course. In view of the uncertainty on the inflow of the toll revenue to the Group, the toll revenue (after deduction of business tax) during the period from 20 March 2012 (being the commencement date for the provisional suspension of the toll fee payment from the Hangzhou Toll Office to the Group) to 30 June 2012 of RMB74 million, or equivalent to HK$91 million, was not recognised in the condensed interim financial statements. Accordingly, the Group did not recognise any toll income receivable from Hangzhou Qianjiang Third Bridge collected on behalf of the Group by the Hangzhou Toll Office at 30 June 2012. For other trade receivables, credit terms given to customers are generally based on the financial strength and repayment history of each customer. As such, the Group does not obtain collateral from its customers. An ageing analysis of the receivables is prepared on a regular basis and is closely monitored to minimise any credit risk associated with the receivables. Adequate allowance for impairment losses are made for estimated irrecoverable amounts.

Notes to the Unaudited Condensed Interim Financial Statements

15 Cash and cash equivalents

	At 30 June 2012 (unaudited) HK$ million	At 31 December 2011 (audited) HK$ million
Deposits with banks and other financial institutions	**6,926**	14,124
Cash at bank and in hand	**4,880**	4,726
Cash and cash equivalents in the consolidated balance sheet	**11,806**	18,850
Bank overdrafts	**(54)**	(47)
Cash and cash equivalents in the condensed consolidated cash flow statement	**11,752**	18,803

16 Trade and other payables

	At 30 June 2012 (unaudited) HK$ million	At 31 December 2011 (audited) HK$ million
Creditors and accrued expenses	**5,721**	4,195
Gross amount due to customers for contract work	**142**	3
Rental and other deposits	**1,182**	1,078
Forward sales deposits received	**3,683**	3,585
Amounts due to associates	**85**	100
Amounts due to jointly controlled entities	**35**	69
	10,848	9,030

Notes to the Unaudited Condensed Interim Financial Statements

16 Trade and other payables (continued)

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

	At 30 June 2012 (unaudited) HK$ million	At 31 December 2011 (audited) HK$ million
Due within 1 month or on demand	**672**	1,067
Due after 1 month but within 3 months	**756**	503
Due after 3 months but within 6 months	**161**	149
Due after 6 months	**1,144**	1,214
	2,733	2,933

17 Bank loans and overdrafts

During the six months ended 30 June 2012, the Group obtained new bank loans amounting to HK$2,699 million (2011: HK$14,929 million) and repaid bank loans amounting to HK$12,593 million (2011: HK$6,518 million). The new bank loans bear interest rates ranging from 1.47% to 6.98% (2011: 0.3% to 7.32%) per annum.

At 30 June 2012 and 31 December 2011, the entire amount of the Group's bank loans and overdrafts was unsecured.

18 Guaranteed notes

The carrying amount of the guaranteed notes outstanding at 30 June 2012 includes the following guaranteed notes issued by the Group during the six months ended 30 June 2012 under the Medium Term Note Programme established on 30 August 2011:

(i) On 14 February 2012, the Company through a wholly-owned subsidiary issued guaranteed notes with an aggregate principal amount of US$400 million. These notes bear a fixed coupon rate of 4.75% per annum payable semi-annually in arrears, are guaranteed by the Company and will mature on 14 February 2017.

(ii) On 15 February 2012, the Company through a wholly-owned subsidiary issued guaranteed notes with an aggregate principal amount of S$200 million. These notes bear a fixed coupon rate of 3.65% per annum payable semi-annually in arrears, are guaranteed by the Company and will mature on 15 February 2016.

(iii) On 22 February 2012, the Company through a wholly-owned subsidiary issued guaranteed notes with an aggregate principal amount of US$300 million. These notes bear a fixed coupon rate of 4.75% per annum payable semi-annually in arrears, are guaranteed by the Company and will mature on 14 February 2017.

(iv) On 13 March 2012, the Company through a wholly-owned subsidiary issued guaranteed notes with an aggregate principal amount of HK$500 million. These notes bear a fixed coupon rate of 2.16% per annum payable quarterly in arrears, are guaranteed by the Company and will mature on 13 March 2014.

(v) On 20 March 2012, the Company through a wholly-owned subsidiary issued guaranteed notes with an aggregate principal amount of HK$140 million. These notes bear a fixed coupon rate of 2.16% per annum payable quarterly in arrears, are guaranteed by the Company and will mature on 13 March 2014.

Notes to the Unaudited Condensed Interim Financial Statements

19 Capital commitments

At 30 June 2012, the Group had capital commitments not provided for in these condensed interim financial statements as follows:

		At 30 June 2012 (unaudited) HK$ million	At 31 December 2011 (audited) HK$ million
(a)	Contracted for acquisition of property and future development expenditure and the related costs of internal fixtures and fittings	**10,243**	9,472
	Future development expenditure and the related costs of internal fixtures and fittings approved by the directors but not contracted for	**26,376**	27,929
		36,619	37,401
(b)	Contracted for acquisition of property and future development expenditure and the related costs of internal fixtures and fittings undertaken by jointly controlled entities attributable to the Group	**818**	832

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 2012, the Group had contingent liabilities in this connection of HK$8 million (31 December 2011: HK$8 million).

(b) At 30 June 2012, 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$38 million (31 December 2011: HK$37 million).

(c) During the six months ended 30 June 2012, the Company has given guarantees in the aggregate amount of HK$518 million in respect of certain bank loans and borrowings entered into by an entity whose shares were held by the Company as available-for-sale equity securities at 30 June 2012.

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	
	2012	2011
	HK$ million	HK$ million
Sales commission income (note (iii))	**4**	12
Administration fee income (note (ii))	**3**	–
Other interest expense (note (i))	**76**	15

(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	
	2012	2011
	HK$ million	HK$ million
Venue fee income (note (ii))	**–**	1
Other interest income (note (i))	**20**	1
Construction income (note (ii))	**8**	–
Security guard service income (note (iii))	**8**	8
Management fee income (note (iii))	**9**	–
Sales commission income (note (iii))	**–**	1
Rental expenses (note (iii))	**92**	45

(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	
	2012	2011
	HK$ million	HK$ million
Venue-related income (note (ii))	**3**	5
Rental income (note (iii))	**2**	–
Administration fee income (note (ii))	**–**	3

Notes to the Unaudited Condensed Interim Financial Statements

21 Material related party transactions (continued)

(c) Transactions with related companies (continued)

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 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	
	2012	2011
	HK$ million	HK$ million
Rental expenses	**4**	4
Property and leasing management service fee income and other ancillary property service fee income	**26**	25
Asset management service fee income	**34**	33
Security service fee income	**1**	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 2012, the amount due from Sunlight REIT amounted to HK$26 million (31 December 2011: HK$24 million) is unsecured, interest-free and has no fixed terms of repayment. The amount is included in "Trade and other receivables" under current assets (note 14).

(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 2012, the advance by the entity to the abovementioned associate amounted to HK$80 million (31 December 2011: HK$102 million). Such amount is unsecured and has no fixed terms of repayment.

22 Non-adjusting post balance sheet event

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

Financial Review

Results of operations

The following discussions should be read in conjunction with the Company's unaudited condensed consolidated interim accounts for the six months ended 30 June 2012.

Turnover and profit

	Turnover Six months ended 30 June 2012 HK$ million	Turnover Six months ended 30 June 2011 HK$ million	Contribution/(Loss) from operations Six months ended 30 June 2012 HK$ million	Contribution/(Loss) from operations Six months ended 30 June 2011 HK$ million
Reportable segments				
– Property development	**4,284**	8,024	**828**	2,077
– Property leasing	**2,186**	1,871	**1,518**	1,246
– Construction	**29**	12	**(40)**	(22)
– Infrastructure	**63**	160	**36**	122
– Hotel operation	**112**	98	**43**	30
– Department store operation	**182**	160	**31**	29
– Other businesses	**320**	299	**405**	74
	7,176	10,624	**2,821**	3,556

	Six months ended 30 June 2012 HK$ million	Six months ended 30 June 2011 HK$ million
Profit attributable to equity shareholders of the Company		
– including the Group's attributable share of changes in fair value of investment properties and investment properties under development (net of deferred taxation) held by the Group's subsidiaries, associates and jointly controlled entities	**7,733**	8,824
– excluding the Group's attributable share of changes in fair value of investment properties and investment properties under development (net of deferred taxation) held by the Group's subsidiaries, associates and jointly controlled entities	**3,589**	3,428

The Group's turnover of HK$7,176 million for the six months ended 30 June 2012 represents a decrease of HK$3,448 million, or 32%, from that of HK$10,624 million for the corresponding period of six months ended 30 June 2011. Such decrease was mainly attributable to the decrease in revenue from property sales during the six months ended 30 June 2012 in the amount of HK$3,740 million when compared with the corresponding period of six months ended 30 June 2011.

The Group underlying profit attributable to equity shareholders (before the fair value change of investment properties and investment properties under development) of HK$3,589 million for the six months ended 30 June 2012 represents an increase of HK$161 million, or 5%, over that of HK$3,428 million for the corresponding period of six months ended 30 June 2011. Such increase was mainly attributable to the decrease in profit contribution from the Group's operations during the six months ended 30 June 2012 which is nevertheless being offset by the increase in the Group's share of profit contributions from associates and jointly controlled entities during the period.

Including the fair value change (net of non-controlling interests and deferred taxation) of investment properties and investment properties under development held by the Group's subsidiaries, associates and jointly controlled entities, the Group profit attributable to equity shareholders of HK$7,733 million for the six months ended 30 June 2012 represents a decrease of HK$1,091 million, or 12%, from that of HK$8,824 million for the corresponding period of six months ended 30 June 2011. Such decrease in the Group profit attributable to equity shareholders was mainly attributable to the decrease in the Group's attributable share of fair value change of the investment properties and investment properties under development of HK$1,252 million during the six months ended 30 June 2012.

Discussions on the major reportable segments are set out below.

Property development

Revenue from property sales for the six months ended 30 June 2012 amounted to HK$4,284 million (2011: HK$8,024 million).

During the six months ended 30 June 2012, the Group's share of aggregate net pre-tax profit from subsidiaries (taking into account the effect of cancelled sales in respect of the previous year and after deducing non-controlling interests), associates and jointly controlled entities in relation to the property development segment amounted to HK$867 million (2011: HK$1,964 million), comprising pre-tax profit contributions of:–

(i) HK$739 million from subsidiaries (taking into account the effect of cancelled sales in respect of the previous year and after deducting non-controlling interests) (2011: HK$1,881 million);

(ii) HK$41 million from associates, mainly in relation to the sales of units of Shining Heights held by Hong Kong Ferry (Holdings) Company Limited ("HK Ferry") (2011: HK$30 million); and

(iii) HK$87 million from jointly controlled entities, mainly in relation to the sales of units of "La Botanica" in Xian, mainland China in which the Group has 50% equity interest (2011: HK$53 million).

Property leasing

Turnover and profit contribution from property leasing for the six months ended 30 June 2012 increased by HK$315 million (or 17%) and HK$272 million (or 22%), respectively, over that for the corresponding period of six months ended 30 June 2011. In particular, such increases are mainly attributable to the following:–

(i) an increased turnover of HK$177 million and an increased profit contribution of HK$98 million in relation to the portfolio of investment properties in Hong Kong due to the overall period-on-period increase in average rentals during the six months ended 30 June 2012; and

(ii) an increased turnover of HK$138 million and an increased profit contribution of HK$174 million in relation to the portfolio of investment properties in mainland China, of which an increased turnover of HK$111 million and an increased profit contribution of HK$155 million were generated from World Finance Centre in Beijing as well as Centro and Henderson Metropolitan in Shanghai due to the period-on-period improvement in their occupancies during the six months ended 30 June 2012.

Gross rental revenue attributable to the Group during the six months ended 30 June 2012 amounted to HK$3,231 million (2011: HK$2,769 million), of which HK$2,675 million (2011: HK$2,351 million) was generated in Hong Kong and HK$556 million (2011: HK$418 million) was generated in mainland China. In this regard, the Group's share of gross rental revenue comprises contributions from (i) subsidiaries (after deducting non-controlling interests) of HK$2,181 million (2011: HK$1,865 million); (ii) associates of HK$320 million (2011: HK$267 million); and (iii) jointly controlled entities of HK$730 million (2011: HK$637 million).

On the same basis, the Group's share of pre-tax net rental income in aggregate amounted to HK$2,399 million (2011: HK$1,970 million), of which HK$1,990 million (2011: HK$1,735 million) was generated in Hong Kong and HK$409 million (2011: HK$235 million) was generated in mainland China. In this regard, the Group's share of pre-tax net rental income comprises contributions from (i) subsidiaries (after deducting non-controlling interests) of HK$1,517 million (2011: HK$1,243 million); (ii) associates of HK$277 million (2011: HK$224 million); and (iii) jointly controlled entities of HK$605 million (2011: HK$503 million).

Construction

Turnover for the six months ended 30 June 2012 increased by HK$17 million, or 142%, over that for the corresponding period of six months ended 30 June 2011 which is mainly attributable to the incremental revenue contribution from four new major site foundation contracts relating to projects undertaken by the Group and HK Ferry following the completion of a major site foundation contract relating to a project undertaken by HK Ferry at the end of 2011.

The loss from operations for the six months ended 30 June 2012 increased by HK$18 million, or 82%, over that for the corresponding period of six months ended 30 June 2011 which is mainly attributable to (i) the period-on-period increase in depreciation charge of HK$12 million for the reason that the Group acquired additional construction plant and machinery during the six months ended 30 June 2012; and (ii) the period-on-period increase in staff costs of HK$4 million due to the increase in the headcount for professional and administrative staff in the construction segment during the six months ended 30 June 2012.

Infrastructure

The Group's infrastructure business represents the operation of a toll bridge in Hangzhou, mainland China, which is held by Henderson Investment Limited, a subsidiary of the Company.

For the financial performance of the Group's infrastructure business for the six months ended 30 June 2012, please refer to the paragraph headed "Henderson Investment Limited ("HIL")" under the section "Business Review" on page 20 of the Company's interim report for the six months ended 30 June 2012 of which this Financial Review forms a part.

Hotel operation

Turnover for the six months ended 30 June 2012 increased by HK$14 million, or 14%, over that for the corresponding period of six months ended 30 June 2011 which is mainly attributable to the increase in the occupancy rates and room tariffs of guestrooms during the six months ended 30 June 2012. For the same reason, profit contribution for the six months ended 30 June 2012 increased by HK$13 million, or 43%, over that for the corresponding period of six months ended 30 June 2011.

Department store operation

Turnover for the six months ended 30 June 2012 increased by HK$22 million, or 14%, over that for the corresponding period of six months ended 30 June 2011 which is mainly attributable to Citistore's 22nd Anniversary promotion sale which took place during the period from 26 April 2012 to 6 May 2012 and the period-on-period increase in turnover from the Tsuen Wan store whose business was affected when it was under renovation during the period from February to June 2011.

Nevertheless, profit contribution for the six months ended 30 June 2012 increased by HK$2 million, or 7%, over that for the corresponding period of six months ended 30 June 2011 for the reason that there was a period-on-period increase in selling and marketing expenditure of HK$3 million in relation to Citistore's 22nd Anniversary promotion sale as referred to above and an increase in the provision for obsolete inventories at 30 June 2012.

Other businesses

Other businesses mainly comprise provision of finance, investment holding, project management, property management, agency services, cleaning and security guard services, as well as the trading of building materials and disposal of leasehold land.

Turnover for the six months ended 30 June 2012 increased by HK$21 million, or 7%, over that for the corresponding period of six months ended 30 June 2011 which is mainly attributable to the increase in the revenue generated from the provision of finance services of HK$25 million and the increase in dividend income of HK$19 million, which are partially offset by the decreases in the revenues generated from (i) the trading operation of HK$13 million; (ii) the sale of leasehold land of HK$6 million; and (iii) the cleaning and security guard services of HK$4 million, during the six months ended 30 June 2012.

Profit contribution for the six months ended 30 June 2012 increased by HK$331 million, or 447%, over that for the corresponding period of six months ended 30 June 2011 which is mainly attributable to (i) the interest income of HK$247 million in relation to the refund by the municipal government of a land deposit regarding a land site in mainland China; (ii) the increase in profit contribution of HK$30 million from the provision of finance services; and (iii) the increase in profit contribution from dividend income and the gain on disposal of an available-for-sale equity investment in the aggregate amount of HK$40 million.

Associates

The Group's share of post-tax profits less losses of associates during the six months ended 30 June 2012 amounted to HK$2,128 million (2011: HK$2,016 million), representing an increase of HK$112 million, or 6%, over that for the corresponding period of six months ended 30 June 2011. Excluding the Group's attributable share of changes in fair value of investment properties held by the associates of HK$457 million during the six months ended 30 June 2012 (2011: HK$686 million), the Group's share of the underlying post-tax profits less losses of associates for the six months ended 30 June 2012 amounted to HK$1,671 million (2011: HK$1,330 million), representing an increase of HK$341 million, or 26%, over that for the corresponding period of six months ended 30 June 2011. In relation to the financial results performance of the Group's three listed associates, namely The Hong Kong and China Gas Company Limited, HK Ferry and Miramar Hotel and Investment Company, Limited, please refer to the paragraph headed "Associated Companies" under the section "Business Review" on page 21 of the Company's interim report for the six months ended 30 June 2012 of which this Financial Review forms a part.

Jointly controlled entities

The Group's share of post-tax profits less losses of jointly controlled entities during the six months ended 30 June 2012 amounted to HK$1,307 million (2011: HK$1,166 million), representing an increase of HK$141 million, or 12%, over that for the corresponding period of six months ended 30 June 2011. Excluding the Group's attributable share of changes in fair value of investment properties held by the jointly controlled entities of HK$724 million during the six months ended 30 June 2012 (2011: HK$665 million), the Group's share of the underlying post-tax profits less losses of jointly controlled entities for the six months ended 30 June 2012 amounted to HK$583 million (2011: HK$501 million), representing an increase of HK$82 million, or 16%, over that for the corresponding period of six months ended 30 June 2011. Such increase was mainly attributable to the following:–

(i) the Group's share of increase in the underlying post-tax profit contribution of HK$57 million from the IFC Complex, due to the increase in the average rentals and the favourable rental reversions upon lease renewals of the offices and shopping mall during the six months ended 30 June 2012; and

(ii) the Group's share of increase in post-tax profit contribution of HK$22 million from the sale of units of "La Botancia" in Xian, mainland China in which the Group has 50% equity interest.

Finance costs

Finance costs (comprising interest expense and other borrowing costs) recognised as expenses for the six months ended 30 June 2012 were HK$689 million (2011: HK$549 million). Finance costs before interest capitalisation for the six months ended 30 June 2012 were HK$1,192 million (2011: HK$831 million). During the six months ended 30 June 2012, the Group's effective borrowing rate was approximately 4.05% per annum (2011: approximately 2.79% per annum).

Revaluation of investment properties and investment properties under development

The Group recognised an increase in fair value on its investment properties and investment properties under development (before deferred taxation and non-controlling interests) of HK$3,047 million in the consolidated income statement for the six months ended 30 June 2012 (2011: HK$4,251 million).

Financial resources and liquidity

Medium Term Note Programme

At 30 June 2012, the aggregate carrying amount of notes guaranteed by the Company and issued under the Group's Medium Term Note Programme established on 30 August 2011 and which remained outstanding was HK$11,170 million, with maturity terms between two years and twenty years. These notes are included in the Group's bank and other borrowings at 30 June 2012 as referred to in the paragraph "Maturity profile and interest cover" below.

Maturity profile and interest cover

The maturity profile of the total debt, the cash and cash equivalents and the gearing ratio of the Group were as follows:

	At 30 June 2012 HK$ million	At 31 December 2011 HK$ million
Bank and other borrowings repayable:		
– Within 1 year	**4,592**	19,699
– After 1 year but within 2 years	**7,233**	3,225
– After 2 years but within 5 years	**22,390**	13,903
– After 5 years	**10,288**	10,330
Amount due to a fellow subsidiary	**3,685**	8,583
Total debt	**48,188**	55,740
Less: Cash and cash equivalents	**11,806**	18,850
Net debt	**36,382**	36,890
Shareholders' funds	**190,833**	185,336
Gearing ratio (%)	**19.1%**	19.9%

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 19.9% at 31 December 2011 to 19.1% at 30 June 2012.

The interest cover of the Group is calculated as follows:

	Six months ended 30 June	
	2012	2011
	HK$ million	HK$ million
Profit from operations (before changes in fair value of investment properties and investment properties under development) plus the Group's share of the underlying profits less losses of associates and jointly controlled entities (before taxation)	**5,216**	5,388
Interest expense (before interest capitalisation)	**1,093**	722
Interest cover (times)	**5**	7

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 are 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 ("US$"), Sterling ("£") and Singapore dollars ("S$"), certain bank borrowings which are denominated in United States dollars ("USD borrowings") and Japanese Yen ("¥") ("Yen borrowings"), as well as 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, the USD borrowings and the Yen borrowings in the aggregate principal amounts of US$982,500,000, £50,000,000, S$200,000,000 and ¥10,000,000,000 at 30 June 2012 (31 December 2011: US$982,500,000 and £50,000,000), interest rate swap contracts and cross currency interest rate swap contracts were entered into between the Group and certain counterparty banks for the purpose of hedging against interest rate risk and foreign currency risk during their tenure. Furthermore, in respect of certain of the Group's bank loans denominated in Hong Kong dollars which bear floating interest rates in the aggregate principal amount of HK$11,500,000,000 at 30 June 2012 (31 December 2011: HK$13,000,000,000), interest rate swap contracts were entered into between the Group and certain counterparty banks for the purpose of hedging against interest rate risk during their tenure.

Material acquisitions and disposals

The Group did not undertake any significant acquisitions or any significant disposals of subsidiaries or assets during the six months ended 30 June 2012.

Charge on assets

Assets of the Group were not charged to any third parties at both 30 June 2012 and 31 December 2011.

Capital commitments

At 30 June 2012, capital commitments of the Group amounted to HK$36,619 million (31 December 2011: HK$37,401 million). In addition, the Group's attributable share of capital commitments in relation to its jointly controlled entities amounted to HK$818 million (31 December 2011: HK$832 million).

Contingent liabilities

At 30 June 2012, the Group's contingent liabilities amounted to HK$564 million (31 December 2011: HK$45 million), of which an amount of HK$518 million relates to guarantees given by the Company in respect of certain bank loans and borrowings entered into by an entity whose shares were held by the Company as available-for-sale equity securities at 30 June 2012.

Employees and remuneration policy

At 30 June 2012, the Group had approximately 7,900 (31 December 2011: 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 2012 amounted to HK$816 million (2011: HK$757 million).

Other Information

Revolving Credit Agreement with Covenants of the Controlling Shareholders

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. The HK$8,000,000,000 3-year term loan facility obtained in 2009 was fully repaid and cancelled in July 2012.

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 2012 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 74.

Issue of Shares

During the period under review, the Company issued 32,322,982 shares in lieu of the 2011 final cash dividend at a market value of HK$41.03 per share.

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

Except for the issue of shares regarding the scrip dividend scheme, 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 2012 and reviewed the systems of internal control and compliance and the interim report for the six months ended 30 June 2012.

Corporate Governance

During the six months ended 30 June 2012, the Company has complied with the applicable code provisions set out in the Code on Corporate Governance Practices (effective until 31 March 2012) and Corporate Governance Code (effective from 1 April 2012)(the "CG Code") as stated 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 CG 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 launched in July 2010.

Model Code for Securities Transactions by Directors

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

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) Mr Leung Hay Man was re-designated as Independent Non-executive Director of the Company on 22 August 2012.

ii) The Group usually makes annual adjustment to basic salaries in January and determines the discretionary bonuses near the end of the year. Therefore, the only changes to the Directors' remunerations during the period under review were the changes to the basic salaries of the Directors of the Company due to the annual adjustments. The effect of 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 2011 (For reference)
	2012	2011	
	HK$'000	HK$'000	HK$'000
Lam Ko Yin, Colin	**4,313**	4,088	22,300
Yip Ying Chee, John	**3,943**	3,740	20,900
Lee Ka Kit	**8,399**	7,414	1,180
Lee Ka Shing	**7,218**	6,166	776
Suen Kwok Lam	**3,034**	2,875	6,880
Fung Lee Woon King	**2,169**	2,054	4,720
Kwok Ping Ho, Patrick	**2,099**	1,991	1,440
Li Ning	**1,615**	1,495	1,150
Lee King Yue	**1,635**	1,552	522
Wong Ho Ming, Augustine	**3,714**	3,519	3,360

Note: Excluding bonuses and directors' fees.

Save as disclosed above, there were no changes to the basic salaries of the other Directors of the Company for the period under review. During the annual general meeting held on 11 June 2012, the shareholders approved the director's fee fixed at the rate of HK$100,000 per annum for each Executive Director/Non-executive Director, HK$200,000 per annum for each Independent Non-executive Director and in case of each Independent Non-executive Director acting as member of (i) the Nomination Committee an additional remuneration at the rate of HK$50,000 per annum and (ii) the Corporate Governance Committee (if any) an additional remuneration at the rate of HK$100,000 per annum (or such amount which is in proportion to the time during the period for which he/she has held office) with effect from 1 July 2012. There are 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 2011 are listed above for reference.

By Order of the Board
Timon LIU Cheung Yuen
Company Secretary

Hong Kong, 22 August 2012

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: Au Siu Kee, Alexander, Lee Pui Ling, Angelina and Lee Tat Man; and (3) independent non-executive directors: Kwong Che Keung, Gordon, Ko Ping Keung, Wu King Cheong, Leung Hay Man and Woo Ka Biu, Jackson.

Disclosure of Interests

Directors' Interests in Shares

As at 30 June 2012, 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		1,469,262,606		1,476,784,349	62.34
	Lee Ka Kit	1				1,468,322,395	1,468,322,395	61.98
	Lee Ka Shing	1				1,468,322,395	1,468,322,395	61.98
	Li Ning	1		1,468,322,395			1,468,322,395	61.98
	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
	Ko Ping Keung	8	47,000				47,000	0.00
Henderson Investment Limited	Lee Shau Kee	9	34,779,936		2,080,495,007		2,115,274,943	69.41
	Lee Ka Kit	9				2,076,089,007	2,076,089,007	68.13
	Lee Ka Shing	9				2,076,089,007	2,076,089,007	68.13
	Li Ning	9		2,076,089,007			2,076,089,007	68.13
	Lee Tat Man	10	6,666				6,666	0.00
	Lee King Yue	11	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	12	5,195,784		3,601,429,693		3,606,625,477	41.50
	Lee Ka Kit	12				3,601,429,693	3,601,429,693	41.44
	Lee Ka Shing	12				3,601,429,693	3,601,429,693	41.44
	Li Ning	12		3,601,429,693			3,601,429,693	41.44
	Au Siu Kee, Alexander	13		80,525			80,525	0.00
Hong Kong Ferry (Holdings) Company Limited	Lee Shau Kee	14	7,799,220		111,732,090		119,531,310	33.55
	Lee Ka Kit	14				111,732,090	111,732,090	31.36
	Lee Ka Shing	14				111,732,090	111,732,090	31.36
	Li Ning	14		111,732,090			111,732,090	31.36
	Lam Ko Yin, Colin	15	150,000				150,000	0.04
	Fung Lee Woon King	16	465,100				465,100	0.13
	Leung Hay Man	17	2,250				2,250	0.00
Miramar Hotel and Investment Company, Limited	Lee Shau Kee	18			255,188,250		255,188,250	44.21
	Lee Ka Kit	18				255,188,250	255,188,250	44.21
	Lee Ka Shing	18				255,188,250	255,188,250	44.21
	Li Ning	18		255,188,250			255,188,250	44.21
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
Feswin Investment Limited	Lee Ka Kit	25			5,000	5,000	10,000	100.00
Fordley Investment Limited	Fung Lee Woon King	26	2,000				2,000	20.00
Furnline Limited	Lee Shau Kee	27			100 (A Shares)		100 (A Shares)	100.00
	Lee Shau Kee	28			1 (B Share)		1 (B Share)	100.00
	Lee Ka Kit	27				100 (A Shares)	100 (A Shares)	100.00
	Lee Ka Kit	28				1 (B Share)	1 (B Share)	100.00
	Lee Ka Shing	27				100 (A Shares)	100 (A Shares)	100.00
	Lee Ka Shing	28				1 (B Share)	1 (B Share)	100.00
	Li Ning	27		100 (A Shares)			100 (A Shares)	100.00
	Li Ning	28		1 (B Share)			1 (B Share)	100.00

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

Long Positions

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

Δ in members' voluntary winding up

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

Long Positions

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

(B) Debentures

Issuer and type of debentures	Name of Director	Note	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total
Henson Finance Limited – 5.50% Guaranteed Notes due 2019	Au Siu Kee, Alexander	35				US$770,000	US$770,000

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.

Share Option Schemes

The Company and its subsidiaries have no share option schemes.

Arrangements to Purchase Shares or Debentures

At no time during the six months ended 30 June 2012 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 2012, 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)	1,468,322,395	61.98
Riddick (Cayman) Limited (Note 1)	1,468,322,395	61.98
Hopkins (Cayman) Limited (Note 1)	1,468,322,395	61.98
Henderson Development Limited (Note 1)	1,466,908,835	61.92
Yamina Investment Limited (Note 1)	762,329,446	32.18
Believegood Limited (Note 1)	383,848,416	16.20
South Base Limited (Note 1)	383,848,416	16.20
Persons other than Substantial Shareholders:		
Cameron Enterprise Inc. (Note 1)	179,543,353	7.58

Notes:

1. Of these shares, Dr Lee Shau Kee was the beneficial owner of 7,521,743 shares, and for the remaining 1,469,262,606 shares, (i) 698,976,789 shares were owned by Henderson Development Limited ("HD"); (ii) 179,543,353 shares were owned by Cameron Enterprise Inc.; 383,848,416 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; (iii) 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 61.92% held by HD; (iv) 1,413,560 shares were owned by Fu Sang Company Limited ("Fu Sang"); and (v) 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 14. 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. Professor Ko Ping Keung was the beneficial owner of these shares.

9. 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 14. 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.

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

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

12. Of these shares, Dr Lee Shau Kee was the beneficial owner of 5,195,784 shares, and for the remaining 3,601,429,693 shares, (i) 1,866,620,696 shares and 779,849,202 shares were respectively owned by Disralei Investment Limited and Medley Investment Limited, both of which were wholly-owned subsidiaries of Timpani Investments Limited; 818,958,299 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) 6,388,041 shares were owned by Boldwin Enterprises Limited, a wholly-owned subsidiary of Yamina Investment Limited which was 100% held by HD; and (iii) 129,613,455 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.

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

14. 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.

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

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

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

18. 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.

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

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

27. These shares were owned by Jetwin International Limited.

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

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

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

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

32. These shares were owned by Jetwin International Limited.

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

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

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

INDEPENDENT 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 27 to 53 which comprise the consolidated balance sheet of Henderson Land Development Company Limited as of 30 June 2012 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 month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of condensed 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 condensed 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 condensed 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 2012 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

22 August 2012

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