HLCP 恒力商業地產

HENGLI COMMERCIAL PROPERTIES (GROUP) LIMITED
恒力商業地產(集團)有限公司

(Incorporated in Bermuda with limited liability)

Stock Code: 169

Interim Report 2012

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Chen Chang Wei
(Chairman and Managing Director)
Ms. Chen Dongxue
Mr. Chan Chi Wang
Ms. Wu Weilan

Independent Non-executive Directors

Ms. Lin Wen Feng
Mr. Ma Ving Lung
Mr. Yip King Keung, Pony

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Ms. Hui Wai Man, Shirley

PRINCIPAL BANKERS

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

AUDITORS

KPMG, Certified Public Accountants

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

PRINCIPAL OFFICE IN HONG KONG

Unit 3401, 34th Floor
Tower Two, Lippo Centre
89 Queensway
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre, 4th Floor
11 Bermudiana Road
Pembroke, HM 08 Bermuda

HONG KONG PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Standard Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

STOCK CODE

169

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2012	2011	
	HK$'000	HK$'000	Change %
Turnover	**1,794,751**	—	N/A
Valuation gain on investment Properties under development	**538,338**	458,642	17.4
Profit from continuing operation	**347,566**	294,354	18.1
Net gain on disposal of subsidiaries	**—**	62,460	-100.0
Profit attributable to equity shareholders of the Company	**326,348**	338,439	-3.6
Earnings per share (HK Cents)			
From continuing operations and discontinued operations			
Basic	**13.9**	14.6	-4.8
Diluted	**4.8**	4.2	14.3
From continuing operations			
Basic	**13.9**	11.9	16.8
Diluted	**4.8**	3.5	37.2

INTERIM RESULTS

The board of directors (the "Board") presents to the shareholders of Hengli Commercial Properties (Group) Limited (the "Company") the interim financial report of the Company and its subsidiaries (Collectively the "Group") for the six months ended 30 June 2012 together with the comparative figures on pages 14 to 38. The interim financial report is unaudited, but has been reviewed by the Group's audit committee. It has also been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

There were some signs of liquidity loosening in the market in the first half of 2012. The People's Bank of China lowered the reserve requirement ratio twice during the period and lowered the RMB benchmark deposit and loan interest rates of financial institutions twice in June 2012 and July 2012 respectively. The transaction volume of real estate market has been improved during the period as compared to the second half of 2011. However, controls on real estate sector have not yet been loosened. Overall liquidity remains tight and market conditions remains challenging for real estate developers.

During the six months ended 2012, "Hengli City" (「恒力城」), a residential, office and retail complex with a total gross floor area of approximately 241,600 square meters developed by the Group was completed and posted turnover of approximately HK$1,794.8 million for the Group. The leased commercial podium of "Hengli City" was handed over to Beijing Wangfujing Department Store (Group) Co. Ltd. (北京王府井百貨(集團)股份有限公司) upon completion of the project and will begin to bring rental income to the Group in near future.

"Hengli • Financial Center" (「恒力 • 金融中心」), a high-end commercial project developed by the Group was close to completion. During the six months ended 30 June 2012, great progress was made in the pre-sales of the project, posting a transaction amount of approximately RMB716 million. The project is expected to be completed in the second half of 2012.

The Group owns other two projects in the central business area of Fuzhou city, namely "Hengli • Prosperity Center"(「恒力 • 創富中心」) and "Hengli • Bona Plaza" (「恒力 • 博納廣場」). "Hengli • Prosperity Center" is being developed into high-end commercial properties, with estimated gross floor area of approximately 56,357 sq.m. "Hengli • Bona Plaza" is now in the design and planning stage and will be developed into high-end commercial properties with residential building with an estimated gross floor area of approximately 275,158 sq.m.. Given the proximity of the aforementioned property projects in Fuzhou, the Company is expected to enjoy synergy effects and economies of scale in managing and developing those property projects.

During the period, the Group continued to focus on the quality of its properties to reflect a high-quality product offering premium brand image and continued to cooperate with solid and renowned business partners to bring high-quality, high-value products and services to its customers.

FINANCIAL REVIEW

Turnover and results

Turnover of the Group for the six months ended 30 June 2012 amounted to HK$1,794.8 million. All turnover for the period were derived from sales of developed properties. The Group's profit attributable to equity shareholders of the Company was approximately HK$326.3 million. This was mainly due to i) recognition of gross profit of HK$114.6 million, ii) recognition of valuation gain on investment properties under development of HK$538.3 million, net of iii) finance costs and other operating expenses of HK$116.2 million, and iv) income tax expenses of HK$192.8 million.

Net assets and equity attributable to equity holders

As at 30 June 2012, the Group recorded total assets and total liabilities of approximately HK$6,877,558,000 and HK$6,077,651,000 respectively. The Group had net assets of approximately HK$799,907,000 as at 30 June 2012 as compared to approximately HK$464,088,000 as at 31 December 2011. As at 30 June 2012, the equity attributable to equity holders of the Company was approximately HK$685,596,000 as compared to HK$370,237,000 as at 31 December 2011.

Liquidity and financial ratios

The Group had total bank and cash balances of approximately HK$826,417,000 as at 30 June 2012 as compared with HK$407,440,000 as at 31 December 2011. As at 30 June 2012, the current ratio was 1.09 as compared with 1.3 as at 31 December 2011. The gearing ratio was 66.5% as at 30 June 2012 as compared with 83.3% as at 31 December 2011. The borrowings from financial institutions to equity attributable to the Company's equity shareholders was recorded at 108.1% as at 30 June 2012 as compared with 302.4% as at 31 December 2011.

Borrowings

The Group had interest bearing borrowings from financial institutions of approximately HK$740,817,000 as at 30 June 2012 (31 December 2011: HK$1,119,431,000), representing a decrease of approximately 33.8% over the amount as at 31 December 2011. Borrowings were denominated in both Renminbi ("RMB") and Hong Kong Dollar

("HK$"). Approximately 76.7% of the borrowings is repayable within one year and the rest representing the loans from financial institutions of HK$172,901,000 repayable after one year.

The Group had interest bearing borrowings from related parties of approximately HK$375,008,000 as at 30 June 2012 (31 December 2011: HK$377,479,000). All these borrowings are repayable within one year.

The Company is confident in meeting its loan repayment obligations with its cash and bank deposits and proceeds from pre-sales and sale of its projects.

The Group had aggregate net carrying amount of convertible bonds of approximately HK$1,245,104,000 (principal amount of approximately HK$1,908,000,000) as at 30 June 2012.

Foreign currency exposure

Other than financing activities of borrowings denominated in HK$, the Group conducts its business almost exclusively in RMB. Thus the Group is exposed to foreign exchange risk arising from the exposure of RMB against HK$. The Directors do not anticipate any significant foreign exchange loss as a result of changes in exchange rate between RMB and HK$ in the foreseeable future. The Directors also consider that there will be sufficient cash resources denominated in both RMB and HK$ for repayment of its borrowings. During the year, the Group did not use any financial instrument for hedging purposes and the Group did not have hedging instrument outstanding as at 30 June 2012.

PLEDGE OF ASSETS

As at 30 June 2012, the Group pledged certain of its property, plant and equipment, prepaid lease payments, investment properties, completed properties for sales, and restricted bank deposits to banks in the PRC to secure the bank loans of approximately HK$690,817,000 (2011: HK$1,119,431,000) granted by these financial institutions. The aggregate carrying value of the property, plant and equipment, prepaid lease payments, investment properties, completed properties for sales, and restricted bank deposits as at 30 June 2012 amounted to approximately HK$2,100,000, HK$24,907,000, HK$1,912,020,000, HK$366,233,000, and HK$332,380,000 respectively.

CHANGES IN SHARE CAPITAL

During the six months ended 30 June 2012, 23,952,094 ordinary shares of HK$0.10 each were issued pursuant to the exercise of the conversion rights attaching to the Company's convertible bonds at a conversion price of HK$0.334 per share. As at 30 June 2012, issued and paid up share capital was 2,352,916,692 ordinary shares.

INVESTMENT

There were no significant investments held by the Company as at 30 June 2012.

CONTINGENT LIABILITIES

For details, please refer to note 20 to the unaudited interim financial report.

CAPITAL COMMITMENTS

For details, please refer to note 19 to the unaudited interim financial report.

MATERIAL ACQUISITION AND DISPOSAL

The Company had no material acquisition or disposal of subsidiaries and affiliated companies during the period.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than disclosure in note 16 to the unaudited interim financial report, no director has right to acquire shares or debentures of the Company or its subsidiaries.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2012, the Group employed approximately 132 full time staffs in the PRC and Hong Kong. The Group remunerates its employees based on their performance, experience and prevailing market price while performance bonuses are granted on a discretionary basis. Other employee benefits include insurance and medical cover, subsidized educational and training programs.

APPROPRIATIONS

The Directors of the Company did not recommend the payment of an interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: nil).

OUTLOOK

Looking forward, the Group remains optimistic about the prospects of China's real estate sector. With massive urbanization, the Group believes the Chinese property market has great potential for future growth.

Fuzhou's position as major business center in the Strait West Coast Economic Zone will be further strengthened, leading to increasing demand for office buildings. The Group will continue to strategically select and develop commercial property projects that are in line with the Group's long-term development strategy both in Fuzhou city and in other second-tier and third-tier cities in the PRC. We will approach new developments with caution, conducting extensive feasibility assessments of every parcel of land we acquire. We will work on further enhancing our service standards, and pay strict attention to quality and efficiency of our products to achieve our commitment to offering high-quality, high yield commercial property products to our customers.

OTHER INFORMATION

DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2012, the interests of the directors and their associates in the ordinary shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long position in ordinary shares of HK$0.10 each of the Company

Name of directors	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Chen Chang Wei	Beneficial owner and held by controlled corporation *(1)*	1,582,163,507	67.24%
	Interest of spouse *(2)*	12,346,000	0.53%
		1,594,509,507	67.77%
Ms. Chen Dongxue	Beneficial owner *(3)*	43,774,000	1.86%

(1) As at 30 June 2012, Mr. Chen was deemed to be interested in 1,594,509,507 shares of the Company, of which (1) 14,894,000 shares were directly held by Mr. Chen, (2) 172,000,000 shares were held in trust for him by Ever Good Luck Limited (a company incorporated in the BVI of which the entire issued share capital is beneficially owned by Mr. Chen), and (3) 1,395,269,507 shares were beneficially owned by Ever Good Luck Limited, and (4) 12,346,000 shares were held by his spouse, Ms. Chan Sheung Ni, as beneficial owner.

(2) Ms. Chan Sheung Ni is the spouse of Mr. Chen and sister-in-law of Ms. Chen Dongxue.

(3) Ms. Chen Dongxue is the sister of Mr. Chen and sister-in-law of Ms. Chan Sheung Ni.

Other than as disclosed above, none of the directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 30 June 2012.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2012, the following persons or corporations (other than a Director or Chief Executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO and so far as is known to any Director or Chief Executive of the Company.

Name	Long position/ Short position	Capacity/ Nature of interest	Number of shares held	Approximate percentage of shareholding
Ever Good Luck Limited	Long	Beneficial interest *(1)*	1,395,269,507	59.30%
Glories Structure Limited	Long	Beneficial interest *(2)*	170,000,000	7.23%

(1) Ever Good Luck Limited is a company incorporated in the BVI, the entire issued share capital of which is ultimately held by Mr. Chen Chang Wei.

(2) Glories Structure Limited is a company incorporated in the BVI.

Save as disclosed above, as at 30 June 2012, no person, other than the director and his associated corporations stated under the paragraph headed "Directors' interests in securities" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of SFO.

SHARE OPTIONS SCHEME

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 15 May 2002 for the primary purpose of providing incentives to directors and eligible employees. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 30% of the issued shares of the Company from time to time. During the period under review, no shares options were granted to the Directors or staff and there are no outstanding options as at 30 June 2012. The scheme period of the Scheme is ten years commencing on the adoption date, which is 15 May 2002. As such, the Scheme has already expired.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the period under review, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee was established in accordance with the requirements of the Code for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee comprises three independent non-executive Directors, Mr. Ma Ving Lung, Mr. Yip King Keung, Pony and Ms. Lin Wen Feng.

The Audit Committee meets regularly with the Company's senior management and the Company's auditors to consider the Company's financial reporting process, the effectiveness of internal controls, the audit process and risk management.

The interim financial report has been reviewed by Audit Committee.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company adopted the Model Code as its standard code for securities transactions by the Directors. The Company has made specific enquiries of all the Directors and all of them confirmed that they had complied with the required standards set out in the Model Code during the period under review.

CORPORATE GOVERNANCE

In the opinion of the Board, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the six months ended 30 June 2012, except the following deviation:

Code Provision A.2.1 — this Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The position of the Chairman of the Board is currently held by Mr. Chen Chang Wei, and the Company does not have any chief executive officer. As such, the roles of chairman and chief executive officer are performed by the same person. The Board considers that this structure is beneficial to the Company as it enables the Company to make prompt and efficient decisions. The Board comprises of experienced and high calibre individuals who meet regularly to discuss issues and make decisions on transactions that are material in nature to the Company. Hence, the operations of the Board ensure the balance of power and authority. The corporate governance principles of the Company emphasize a quality Board and accountability to all shareholders.

By Order of the Board
Chen Chang Wei
Chairman

Hong Kong, 31 August 2012

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2012 — unaudited

(Expressed in Hong Kong Dollars)

		Six months ended 30 June	
		2012	2011
	Note	**$'000**	$'000
Continuing operations			
Turnover	3	**1,794,751**	—
Cost of properties sold		**(1,680,201)**	—
		114,550	—
Valuation gain on investment properties/investment properties under development	10(b)	**538,338**	458,642
Other revenue	5	**3,672**	11,129
Other net (loss)/income	5	**(13,761)**	4,509
Selling, administrative and other operating expenses		**(46,592)**	(26,263)
Profit from operations		**596,207**	448,017
Finance costs	6(a)	**(55,830)**	(53,980)
Profit before taxation	6	**540,377**	394,037
Income tax expense	7	**(192,811)**	(99,683)
Profit for the period from continuing operations		**347,566**	294,354
Discontinued operations	8		
Results of discontinued operations		**–**	516
Net gain on disposal of subsidiaries		**–**	62,460
Profit for the period		**347,566**	357,330

CONSOLIDATED INCOME STATEMENT (continued)

For the six months ended 30 June 2012 — unaudited

(Expressed in Hong Kong Dollars)

	Note	**2012**	2011
		Six months ended 30 June	
		$'000	$'000
Attributable to:			
Equity shareholders of the Company		**326,348**	338,439
Non-controlling interests		**21,218**	18,891
Profit for the period		**347,566**	357,330
Earnings per share (HK cents)	9		
From continuing operations and discontinued operations			
Basic		**13.9**	14.6
Diluted		**4.8**	4.2
From continuing operations			
Basic		**13.9**	11.9
Diluted		**4.8**	3.5

The notes on pages 21 to 38 form part of this interim financial report.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012 — unaudited

(Expressed in Hong Kong Dollars)

		Six months ended 30 June	
		2012	2011
	Note	**$'000**	$'000
Profit for the period		**347,566**	357,330
Other comprehensive income for the period:			
Exchange differences on translation of financial statements of subsidiaries in the mainland of People's Republic of China (the "PRC")		**(17,147)**	69,618
Surplus on revaluation of property, plant and equipment		**132**	260
Exchange reserve realised on disposal of subsidiaries		**–**	(6,027)
		(17,015)	63,851
Total comprehensive income for the period		**330,551**	421,181
Attributable to:			
Equity shareholders of the Company		**310,091**	401,940
Non-controlling interests		**20,460**	19,241
Total comprehensive income for the period		**330,551**	421,181

The notes on pages 21 to 38 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2012 — unaudited

(Expressed in Hong Kong Dollars)

	Note	30 June 2012 $'000	31 December 2011 $'000
Non-current assets			
Fixed assets	10		
— Property, plant and equipment		**4,393**	4,420
— Prepaid lease payments		**24,907**	24,940
— Investment properties		**2,320,660**	—
— Investment properties under development		**—**	1,683,501
		2,349,960	1,712,861
Goodwill		**104,643**	105,531
Deferred tax assets		**131,440**	—
		2,586,043	1,818,392
Current assets			
Properties for sales	11	**2,512,220**	3,846,822
Deposits for land use right		**690,150**	695,010
Other receivables, prepayments and deposits	12	**206,296**	267,479
Derivative financial instruments	16	**43,787**	60,264
Prepaid taxes		**12,645**	120,007
Restricted bank deposits		**332,380**	349,423
Cash at bank and in hand		**494,037**	58,017
		4,291,515	5,397,022
Current liabilities			
Loans from financial institutions	13	**567,916**	781,373
Loans from related parties	21(b)	**375,008**	377,479
Trade and other payables	14	**934,114**	873,584
Receipts in advance		**1,465,178**	2,051,717
Advance from lessee	15	**122,140**	—
Current taxation		**456,480**	2,749
		3,920,836	4,086,902
Net current assets		**370,679**	1,310,120
Total assets less current liabilities		**2,956,722**	3,128,512

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

At 30 June 2012 — unaudited

(Expressed in Hong Kong Dollars)

	Note	30 June 2012 $'000	31 December 2011 $'000
Non-current liabilities			
Loans from financial institutions	13	**172,901**	338,058
Convertible bonds	16	**1,245,104**	1,203,381
Advance from lessee	15	**—**	123,000
Deferred tax liabilities		**738,810**	999,985
		2,156,815	2,664,424
NET ASSETS		**799,907**	464,088
CAPITAL AND RESERVES			
Share capital	17	**235,292**	232,897
Retained profits/(Accumulated losses)		**235,745**	(297,644)
Other reserves		**214,559**	434,984
Total equity attributable to equity shareholders of the Company		**685,596**	370,237
Non-controlling interests		**114,311**	93,851
TOTAL EQUITY		**799,907**	464,088

The notes on pages 21 to 38 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012 — unaudited

(Expressed in Hong Kong Dollars)

		Attributable to equity shareholders of the Company												
	Note	Share capital $'000	Share premium $'000	Prepaid share reserve $'000	Capital reserve $'000	Special reserve $'000	Exchange reserve $'000	Property revaluation reserve $'000	Convertible bond equity reserve $'000	Convertible bond redemption reserve $'000	(Accumulated losses)/ Retained profits $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
Balance at 1 January 2011		111,851	193,139	111,851	3,038	44,144	104,701	1,616	136,770	–	(484,779)	222,331	188,047	410,378
Changes in equity for the six months ended 30 June 2011:														
Profit for the period		–	–	–	–	–	–	–	–	–	338,439	338,439	18,891	357,330
Other comprehensive income		–	–	–	–	–	63,403	98	–	–	–	63,501	350	63,851
Total comprehensive income		–	–	–	–	–	63,403	98	–	–	338,439	401,940	19,241	421,181
Right issue of shares		111,851	–	(111,851)	–	–	–	–	–	–	–	–	–	–
Convertible bonds converted		9,195	10,563	–	–	–	–	–	(1,789)	–	–	17,969	–	17,969
Convertible bonds redeemed		–	–	–	–	–	–	–	–	(22,869)	–	(22,869)	–	(22,869)
Disposals of subsidiaries		–	–	–	(3,038)	(10)	–	(1,714)	–	–	1,724	(3,038)	(107,644)	(110,682)
Balance at 30 June 2011 and 1 July 2011		232,897	203,702	–	–	44,134	168,104	–	134,981	(22,869)	(144,616)	616,333	99,644	715,977
Changes in equity for the six months ended 31 December 2011:														
Loss for the period		–	–	–	–	–	–	–	–	–	(153,028)	(153,028)	(9,607)	(162,635)
Other comprehensive income		–	–	–	–	–	75,388	–	–	–	–	75,388	3,814	79,202
Total comprehensive income		–	–	–	–	–	75,388	–	–	–	(153,028)	(77,640)	(5,793)	(83,433)
Convertible bonds redeemed		–	–	–	–	–	–	–	–	(228,720)	–	(228,720)	–	(228,720)
Recognition of redemption option		–	–	–	60,264	–	–	–	–	–	–	60,264	–	60,264
Balance at 31 December 2011		232,897	203,702	–	60,264	44,134	243,492	–	134,981	(251,589)	(297,644)	370,237	93,851	464,088
Balance at 1 January 2012		232,897	203,702	–	60,264	44,134	243,492	–	134,981	(251,589)	(297,644)	370,237	93,851	464,088
Changes in equity for the six months ended 30 June 2012:														
Profit for the period		–	–	–	–	–	–	–	–	–	326,348	326,348	21,218	347,566
Other comprehensive income		–	–	–	–	–	(16,389)	132	–	–	–	(16,257)	(758)	(17,015)
Total comprehensive income		–	–	–	–	–	(16,389)	132	–	–	326,348	310,091	20,460	330,551
Convertible bonds converted	16 & 17	2,395	3,339	–	–	–	–	–	(466)	–	–	5,268	–	5,268
Reduction of share premium	17(b)	–	(207,041)	–	–	–	–	–	–	–	207,041	–	–	–
Balance at 30 June 2012		235,292	–	–	60,264	44,134	227,103	132	134,515	(251,589)	235,745	685,596	114,311	799,907

The notes on pages 21 to 38 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2012 — unaudited

(Expressed in Hong Kong Dollars)

	Six months ended 30 June	
	2012	2011
	$'000	$'000
Cash generated from operations	**971,996**	20,503
Tax paid, net	**(24,810)**	(38,508)
Net cash generated from/(used in) operating activities	**947,186**	(18,005)
Net cash used in investing activities	**(65,112)**	(211,157)
Net cash (used in)/generated from financing activities	**(436,028)**	69,342
Net increase/(decrease) in cash and cash equivalents	**446,046**	(159,820)
Cash and cash equivalents at 1 January	**58,017**	209,835
Effect of foreign exchange rate changes	**(10,026)**	(5,439)
Cash and cash equivalents at 30 June	**494,037**	44,576

The notes on pages 21 to 38 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong Dollars unless otherwise indicated)

1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was approved by the Board of Directors and authorised for issue on 31 August 2012.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2011 annual financial statements, except the changes in accounting policies as set out in note 2.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of Hengli Commercial Properties (Group) Limited (the "Company") and its subsidiaries ("the Group") since the 2011 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with HKFRSs.

1 BASIS OF PREPARATION (continued)

This interim financial report has been prepared on a going concern basis. In the opinion of the directors, the Group does not have any significant liquidity risk exposure. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long term. The directors have been reviewing projections of future cash flows and are confident that taking into account of internal financial resources and undrawn available banking facilities, the Group is not exposed to significant liquidity risk, hence it is appropriate to prepare the consolidated financial statements on a going concern basis.

The interim financial report is unaudited, but has been reviewed by the Group's audit committee. It has also been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on page 39 to 40.

The financial information relating to the year ended 31 December 2011 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2011 are available from the Company's registered office.

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. Of these, the following developments are relevant to the Group's financial statements:

- Amendments to HKFRS 7, *Financial instruments: Disclosures — Transfers of financial assets*
- Amendments to HKAS 12, *Income taxes — Deferred tax: Recovery of underlying assets*

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

2 CHANGES IN ACCOUNTING POLICIES (continued)

Amendments to HKFRS 7 Financial instruments: disclosures

The amendments to HKFRS 7 require certain disclosures to be included in the annual financial statements in respect of all transferred financial assets that are not derecognised and for any continuing involvement in a transferred asset existing at the reporting date, irrespective of when the related transfer transaction occurred. However, an entity need not provide the disclosures for the comparative period in the first year of adoption. The group did not have any significant transfers of financial assets in previous periods or the current period which require disclosure in the current accounting period under the amendments.

Amendments to HKAS 12 Income taxes

Under HKAS 12 deferred tax is required to be measured with reference to the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of the assets in question. In this regard, the amendments to HKAS 12 introduced a rebuttable presumption that the carrying amount of investment property carried at fair value under HKAS 40, *Investment property*, will be recovered through sale. This presumption is rebutted on a property-by-property basis if the investment property in question is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

In respect of the Group's investment property located in Mainland China, the Group determined that the property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time and consequently the presumption in the amended HKAS 12 is rebutted for the property. As a result, the Group continues to measure the deferred tax relating to the property using the tax rate that would apply as a result of recovering their value through use.

3 TURNOVER

The principal activities of the Group are property development and investment. Turnover during the period represents income from sales of properties.

4 SEGMENT REPORTING

(a) Services from which reportable segments derive their revenue

After disposal of entire interest in Right Strong Holdings Limited and its subsidiaries (the "Disposal Group") (see note 8) on 24 May 2011, information reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of segment performance is more focused on the Group as a whole, as all the Group's activities are considered to be primarily dependent on the performance on property development. Resources are allocated based on what is beneficial for the Group in enhancing its property development activities as a whole rather than any special service. Performance assessment is based on the results of the Group as a whole. Therefore, management considers there to be only one operating segment under the requirements of HKFRS 8, *Operating segments*.

(b) Geographical information

No geographical information is shown as the turnover and profit from operations of the Group is substantially derived from activities in Fujian Province in the PRC.

(c) Information about major customers

The Group does not have a single customer with whom transactions have exceeded 10% of the Group's turnover for the six months ended 30 June 2012 and 2011.

5 OTHER REVENUE AND NET (LOSS)/INCOME

	Six months ended 30 June	
	2012	2011
	$'000	$'000
Other revenue		
Interest income from banks	**3,672**	2,200
Interest income from loan to a director	**–**	8,929
	3,672	11,129
Other net (loss)/income		
Loss on revaluation of convertible bonds redemption options	**(16,477)**	–
Exchange gain	**2,898**	837
Gain on repurchase of convertible bonds	**–**	4,403
Others	**(182)**	(731)
	(13,761)	4,509

6 PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2012	2011
	$'000	$'000
Continuing operations		
(a) Finance costs:		
Interest on loans from financial institutions	**39,955**	35,862
Interest on convertible bonds (note 16)	**46,992**	48,484
Interest on loans from related parties repayable within one year	**32,097**	—
	119,044	84,346
Less: Interest expenses capitalised into investment properties under development and properties under development	**(63,214)**	(30,366)
	55,830	53,980
(b) Other items:		
Amortisation and depreciation	**460**	398
Operating lease charges: minimum lease payments on properties	**330**	237
Increase in fair value of property, plant and equipment	**—**	(465)
Cost of properties sold	**1,680,201**	—

7 INCOME TAX EXPENSE

	Six months ended 30 June	
	2012	2011
	$'000	$'000
Continuing operations		
Current tax		
PRC Corporate Income Tax (iii)	**226,115**	—
PRC Land Appreciation Tax (iv)	**339,798**	—
Withholding tax (v)	**14,577**	—
	580,490	—
Deferred tax		
Origination and reversal of temporary differences:		
— Revaluation of properties for sales	**(403,684)**	(12,956)
— Revaluation of investment properties	**118,434**	114,661
— Revaluation of property, plant and equipment	**—**	77
— Deductibility of LAT	**(124,342)**	—
— Tax losses	**21,913**	(2,099)
	(387,679)	99,683
Total income tax expense	**192,811**	99,683

(i) Pursuant to the rules and regulations of the Bermuda and British Virgin Islands ("BVI"), the Group is not subject to any income tax in Bermuda and BVI.

(ii) No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profits in Hong Kong.

7 INCOME TAX EXPENSE (continued)

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

The provision for CIT has been calculated at the applicable tax rates on the estimated assessable profits of the Group's subsidiaries in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC. The CIT rate applicable to the Group's subsidiaries located in the PRC is 25% (six months ended 30 June 2011: 25%). No provision for CIT has been made for the six months ended 30 June 2011 as the Group's subsidiaries in the PRC did not have assessable profits during that period.

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

All income from sale or transfer of state-owned land use rights, buildings and their attached facilities in the PRC is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value, which under the applicable regulations is calculated based on the proceeds of sales of properties less deductible expenditures including costs of land use rights, borrowing costs and relevant development expenditure.

(v) Withholding tax

Withholding taxes are levied on the Hong Kong companies in respect of dividend distributions arising from profit of PRC subsidiaries earned after 1 January 2008 at 5%.

8 DISCONTINUED OPERATIONS

The Company disposed of the Disposal Group to a third party, China Fair Land Properties Limited on 24 May 2011 at a consideration of $150,656,000 and resulted in a gain of $62,460,000 for the six months ended 30 June 2011.

9 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2012 is based on profit attributable to equity shareholders of the Company of $326,348,000 (six months ended 30 June 2011: $338,439,000 for continuing and discontinued operations and $276,586,000 from continuing operations) and the weighted average of 2,350,799,000 shares (six months ended 30 June 2011: 2,320,836,000 shares) in issue during the interim period.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of $389,817,000 (six months ended 30 June 2011: $386,923,000 from continuing and discontinued operations and $325,070,000 from continuing operations) and the weighted average number of 8,065,624,000 shares (six months ended 30 June 2011: 9,248,970,000 shares), after adjusting for the effect of conversion of convertible bonds.

10 FIXED ASSETS

(a) Additions and disposals

During the six months ended 30 June 2012, the Group's additions in property, plant and equipment and investment properties amounted to $290,000 and $107,981,000 respectively (six months ended 30 June 2011: $1,328,000 and $41,363,000 respectively). In addition, property, plant and equipment with net book value of $1,000 was disposed (six months ended 30 June 2011: $16,085,000).

10 FIXED ASSETS (continued)

(b) Valuation

Investment properties and land and building held for own use carried at fair value were revalued on an open market value at 30 June 2012 by independent firms of surveyors, B.I. Appraisals Limited and RHL Appraisal Limited respectively, both of which have recent experience in the respective location and category of property being valued. As a result of the revaluation, a net gain of $538,338,000 has been recognised in profit or loss for the period in respect of investment properties. A net gain of $458,642,000 had been recognised in profit or loss for the six months ended 30 June 2011 in respect of investment properties under development.

In addition, a net of tax surplus of $132,000 (six months ended 30 June 2011: $260,000) has been recognised in other comprehensive income for the period in respect of land and buildings held for own use. A net gain of $465,000 was recognised in profit or loss in respect of land buildings held for own use for the six months ended 30 June 2011. No such gain was recorded during current period.

11 PROPERTIES FOR SALES

	30 June 2012 $'000	31 December 2011 $'000
Properties under development	**1,258,629**	3,846,822
Completed properties for sales	**1,253,591**	—
	2,512,220	3,846,822

As at 30 June 2012, properties for sales of the Group amounted to $366,233,000 (31 December 2011: $1,142,230,000) were pledged as collateral for the Group's borrowings (note 13).

12 OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

The amount of the Group's deposits and prepayments expected to be recovered after more than one year is $260,000 (2011: $10,626,000).

For the trade receivables arising from sales of properties, the Group manages the credit risk by fully receiving cash before delivery of property. The Group has set out policies to ensure follow-up action is taken to recover overdue debts. The Group also reviews regularly the recoverable amount of each individual trade receivable balance to ensure that adequate impairment losses are made for irrecoverable amounts. The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance.

In addition, the Group has arranged bank financing for certain purchasers of property units and provided guarantees to secure obligations of such purchasers for repayments.

13 LOANS FROM FINANCIAL INSTITUTIONS — SECURED

At 30 June 2012, loans from financial institutions were repayable as follows:

	30 June 2012 $'000	31 December 2011 $'000
Within 1 year	**567,916**	781,373
After 1 year but within 2 years	**163,964**	328,049
After 2 years but within 5 years	**6,755**	6,662
After 5 years	**2,182**	3,347
	172,901	338,058
	740,817	1,119,431

13 LOANS FROM FINANCIAL INSTITUTIONS — SECURED (continued)

The assets of the Group pledged to secured loans from financial institutions comprise the following assets:

	30 June 2012 $'000	31 December 2011 $'000
Property, plant and equipment	**2,100**	2,000
Prepaid lease payments	**24,907**	24,940
Investment properties	**1,912,020**	—
Investment properties under development	**—**	1,446,741
Completed properties for sales	**366,233**	—
Properties under development	**—**	1,142,230
Restricted bank deposits	**332,380**	349,423
	2,637,640	2,965,334

Loans from financial institutions amounted to $50,000,000 at 30 June 2012 (31 December 2011:$50,000,000) were guaranteed by Mr. Chen Chang Wei, a shareholder and director of the Company, and were secured by certain of his personal properties.

14 TRADE AND OTHER PAYABLES

	30 June 2012 $'000	31 December 2011 $'000
Trade payables	**268,911**	185,174
Other creditors and accruals	**243,549**	98,173
Deposits from customers and other parties	**370,626**	573,198
Interest payable to related parties	**51,002**	17,013
Amounts due to non-controlling interests	**26**	26
	934,114	873,584

14 TRADE AND OTHER PAYABLES (continued)

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

	30 June 2012 $'000	31 December 2011 $'000
Due within 3 months or on demand	**158,684**	40,681
Due after 3 months but within 12 months	**106,330**	144,493
Due after 12 months	**3,897**	—
	268,911	185,174

15 ADVANCE FROM LESSEE

The advance from lessee is non-interest bearing, repayable on 14 February 2013 and secured by the Group's 30 percent interest in a subsidiary.

16 CONVERTIBLE BONDS

On 21 January 2008, the Company issued $2,701,711,500 zero coupon convertible bonds at 100% of principal amount to Mr Chen Chang Wei, as part of the consideration for the acquisition of Amazing Wise Limited and its subsidiaries. The convertible bonds are secured by the shares of Amazing Wise Limited held by the Company.

The rights of the convertible bond holder to convert the convertible bonds into ordinary shares are as follows:

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

- Pursuant to the terms of the convertible bonds, the conversion price and the number of shares to be issued upon exercise of the subscription rights attached to the convertible bonds have been adjusted as a result of a rights issue in January 2011. The Company is required to deliver ordinary shares at a rate of $0.334 per share (originally $0.5 per share before the rights issue of the Company).

16 CONVERTIBLE BONDS (continued)

The Company has the right at any time to redeem the whole or any part of the outstanding principal amount of the convertible bond at their face value. The option to enable the Company to redeem the convertible bond is considered as derivative financial assets of the Company and revalued at each reporting date.

If the convertible bond holder's conversion rights have not been exercised or the convertible bonds have not been repurchased or redeemed up to the maturity date, i.e. on 20 January 2018, the Company will redeem the convertible bonds at face value on 20 January 2018.

At 30 June 2012, the outstanding principal amount of the convertible bonds is $1,908,000,000 (31 December 2011: $1,916,000,000).

The convertible bonds recognised in the statement of financial position are analysed as follows:

	Liability component $'000	**Equity component** $'000
Net carrying amount at 1 January 2012	1,203,381	134,981
Interest expense (i) (note 6(a))	46,992	—
Convertible bonds converted (ii)	(5,269)	(466)
Net carrying amount at 30 June 2012	1,245,104	134,515

(i) Interest expense on the convertible bonds is calculated using the effective interest method by applying the effective interest rate of 8% per annum to the liability component.

(ii) On 18 January 2012, convertible bonds with principal amount of $8,000,000 were converted.

17 CAPITAL, RESERVES AND DIVIDENDS

(a) Issue of shares upon conversion of convertible bonds

On 18 January 2012, the Company issued 23,952,094 shares of $0.1 each upon conversion of convertible bonds with principal amount of $8,000,000 at a rate of $0.334 per share.

(b) Share premium

(i) On 18 January 2012, convertible bonds with principal amount of $8,000,000 were converted and share premium of $3,339,000 arose accordingly.

(ii) On 28 June 2012, the resolution in respect of proposed reduction of the share premium account of the Company to nil was passed in the special general meeting of the Company. Accordingly, the share premium of the Company amounted to $207,041,000 was reduced during the period.

(c) Dividends

The Directors of the Company did not recommend the payment of an interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: Nil).

18 LIQUIDITY RISK

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long term. The directors are of the opinion that after taking into account the effect of the financial support from Mr Chen Chang Wei, the Group would have sufficient working capital to finance its operations.

19 COMMITMENTS OUTSTANDING NOT PROVIDED FOR IN THE INTERIM FINANCIAL REPORT

	30 June 2012 $'000	31 December 2011 $'000
Authorised but not contracted for	**299,557**	318,061
Contracted for	**964,031**	1,138,122
	1,263,588	1,456,183

Commitment mainly related to land and development costs for the Group's properties under development.

20 CONTINGENT LIABILITIES

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

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

20 CONTINGENT LIABILITIES (continued)

The amount of guarantees given to banks for mortgage facilities granted to the purchasers of the Group's properties at the reporting date is as follows:

	30 June 2012 $'000	31 December 2011 $'000
Guarantees given to banks for mortgage facilities granted to purchasers of the Group's properties	**575,400**	528,923

The directors do not consider it probable that the Group will sustain a loss under these guarantees during the period under guarantee as the Group has not applied for individual property ownership certificates for these purchases and can take over the ownership of the related properties and sell the properties to recover any amounts paid by the Group to the banks. The Group has not recognised any deferred income in respect of these guarantees as its fair value is considered to be minimal by the directors. The directors also consider that the fair market value of the underlying properties is able to cover the outstanding mortgage loans guaranteed by the Group in the event that the purchasers default payments to the banks.

21 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with key management personnel

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

	Six months ended 30 June	
	2012 $'000	2011 $'000
Short-term employee benefits	**3,020**	2,179

21 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) Loans from related parties

Mr Chen Chang Wei is a director and major shareholder of the Group and is considered a related party of the Group. The loans from related parties are made from Mr Chen and an entity controlled by Mr Chen. The loans from Mr Chen, amounted to $24,000,000 (31 December 2011: $24,000,000) that bear interest ranging from 18% to 20% per annum, are unsecured and repayable six months after the date of the respective drawdowns. The loans from an entity controlled by Mr Chen, amounted to $351,008,000 (31 December 2011: $353,479,000) that bear interest ranging from 8% to 20% per annum, are unsecured and repayable six months after the date of the respective drawdowns. Interest incurred during the period and interest payable to related parties as at 30 June 2012 are set out in note 6(a) and note 14 respectively.

(c) Other related party transactions

Please refer to note 13 for guarantee received from Mr Chen Chang Wei and note 16 for convertible bonds of the Company held by Mr Chen.

Review report to the board of directors of
Hengli Commercial Properties (Group) Limited
(Incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 14 to 38 which comprises the consolidated statement of financial position of Hengli Commercial Properties (Group) Limited (the "Company") as at 30 June 2012 and the related consolidated income statement, statement of comprehensive income, 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 an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

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

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2012 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

31 August 2012