恒隆地產
HANG LUNG PROPERTIES

# 2012
*Interim Report*

Stock Code: 101 HK

WE DO IT RIGHT

# Corporate Information

## DIRECTORS

Ronnie C. Chan *(Chairman)*
S.S. Yin *(Vice Chairman)* *
Philip N.L. Chen *(Managing Director)*
Nelson W.L. Yuen #
Ronald J. Arculli *GBM, CVO, GBS, OBE, JP* *
H.K. Cheng *GBS, OBE, JP* *
Laura L.Y. Chen *
P.W. Liu *SBS, JP* *
Dominic C.F. Ho *
William P.Y. Ko
Henry T.Y. Yiu
H.C. Ho

# *Non-Executive Director*
* *Independent Non-Executive Director*

## AUDIT COMMITTEE

H.K. Cheng *GBS, OBE, JP (Chairman)*
Laura L.Y. Chen
P.W. Liu *SBS, JP*
Dominic C.F. Ho

## NOMINATION AND REMUNERATION COMMITTEE

P.W. Liu *SBS, JP (Chairman)*
Ronald J. Arculli *GBM, CVO, GBS, OBE, JP*
H.K. Cheng *GBS, OBE, JP*
Laura L.Y. Chen
Dominic C.F. Ho

## AUTHORIZED REPRESENTATIVES

Philip N.L. Chen
Bella P.L. Chhoa

## COMPANY SECRETARY

Bella P.L. Chhoa

## REGISTERED OFFICE

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Tel: 2879 0111
Fax: 2868 6086

## INTERNET ADDRESS

Website: http://www.hanglung.com
Email address: HLProperties@hanglung.com

## AUDITOR

KPMG
*Certified Public Accountants*

## RESULTS AND DIVIDEND

This is the first interim report since we changed our fiscal year end from June 30 to calendar year end. Because of the fast changing environment, this time I have written a somewhat lengthier piece than usual at mid-year.

For the six months ended June 30, 2012, turnover grew 60% to HK$4,234 million compared to the same period of last year. Net profit attributable to shareholders rose 55% to HK$3,678 million; earnings per share also advanced by 55% to HK$0.82. When excluding the effect of revaluation gains, the underlying net profit attributable to shareholders increased by 72% to HK$2,520 million and the underlying earnings per share by 70% to HK$0.56.

The Board has declared an interim dividend of HK17 cents per share payable on September 13, 2012 to shareholders of record on August 31, 2012.

## STRATEGIC INITIATIVES

In the past year, the European sovereign debt crisis has deepened and has spread; economic recovery in America is at best uncertain. All these are affecting the Chinese economy. Residential sales on the Mainland have not been strong, and many property developers are saddled with inventory and some with red ink as well. Contrary to the wish of many city governments, Beijing is for the time being not relaxing its tightened policies.

Some say that the situation today is not as severe as the crisis of 2008/09. True indeed, for the fall is not as sharp, but I fear that the recovery will also be not as quick. In fact I believe that the challenges we face today are more difficult to handle. Governments everywhere knew then what needed to be done -- inject huge amounts of liquidity. Now no one seems to have a clue. The world may well have entered a prolonged phase of systemic slowdown that will last for years. In the post World War II era, economic growth was taken as a given; now the world must change its mindset and get used to a new paradigm -- the norm of a flat economy.

At Hang Lung, the new macro-economic reality is forcing us to rethink our tactics. As long as China can keep a relatively peaceful domestic environment, its economy should perform better than those of the West and in fact most economies in the world. Enough wealth has been amassed in the past decades; given a relatively strong government which is pro-growth, domestic consumption will gradually be built up to alleviate the burden on export and public investments as engines for growth. Challenges nevertheless abound.

On the one hand, we are fortunate to be in commercial real estate which should perform acceptably. Urbanization and personal consumption are the main stories of the economy. This means that probably there is no need for strategic redirection for your Company; only tactical adjustments are called for. On the other hand, none of us should underestimate recent changes in society. Caution must be exercised.

Because local governments have not been able to sell land of late, their coffers are becoming tight. Stories of financial difficulties are plentiful and the urgency to sell land in almost every city makes the stories all the more credible. Our own experience bears out this fact -- some city officials are now much more willing to negotiate.

Although cash-rich, we are for the most part not biting. Only if a choice plot like our piece in Kunming is available on very attractive terms will we buy; anything less will have to wait. We should not waste money on anything other than the best, for why should we?! It is a buyers' market. After all, land may become cheaper tomorrow.

Nevertheless, a time will come when we will buy. Financially we are very strong and will as before take advantage of market misery.

In bull markets like that of the past two decades, one can make money merely by riding on the surging waves. That was the case of almost all Mainland commercial property developers. We never settled for that. As previously written, we relied much more on our know-how, experience and hard work to create value which resulted in our past outstanding performance. In today's new environment, such expertise is even more critical. Cycles will always be with us; it is just a matter of whether one can survive the trough to enjoy the next upsurge, and for those who survive, how big will the win be. In the past two decades, compared to the market we did superbly and may outperform even more. After all, the present competitive landscape may become more favorable to us than that in the recent past.

Let me illustrate. As I wrote six months ago, we witnessed a slowdown in consumption. For the first time in more than a decade, the luxury sector was more severely affected than other sectors. (For example, that was not the case in 2008/09.) As a result, rental increase in Shanghai Plaza 66 moderated. However, that in Grand Gateway 66 continued in double digits because we were now able to attract the world's top brands like Gucci, Bottega Veneta and Tiffany as our tenants there. The upgrading of a so-called four-star facility to a five-star one should yield higher sales rent and thus maintain the growth momentum.

Shareholders who have read my previous letters know that there are two sets of success factors in our business. The first may be coined project genetics which relates to location and design. The second, call it project operation, has to do with all activities thereafter from construction to leasing to property management. We strive to be among the best in both factors, for only so will we be able to remain competitive in the long run and perform satisfactorily under different market conditions.

Let me begin with the first -- genetics. Once finalized, it cannot be changed; in other words, location and design remain immutable. But unlike genetics in biology which is predetermined by parentage, a developer can choose a project's genetic material. It is thus surprising why so little attention is paid to it by most players. But we are religious about it -- we never want any of our developments to be "born" inferior to its competitors. While I like to think that our team is among the best in project operation, we do not and should not consider ourselves so much better that we can overcome genetics. This was why in the 1990's we were meticulous in choosing our sites and designing our buildings in Shanghai and why we today still insist on the same everywhere else.

While project genetics is determined once and for all at the beginning phase of a product's life, the second success factor of project operation is an ongoing effort. Management must always be vigilant because slippage, albeit usually gradual, can easily occur. Hence this is a far more tiring activity than choosing a location and designing a building.

Your Company is fortunate that under our now retired Managing Director Nelson Yuen, we have set the course for achieving the first factor, and now under his successor Philip Chen, we are well on our way to strengthening the second. While religiously adhering to the former, it is the latter that will ensure continued success.

Back in Hong Kong, we have in the past six months made some strategic moves. As I wrote two years ago and again twice since, we will one day sell mature investment properties which are low yielding with slow rental growth. Such older non-core assets are not in the best of districts (like Central, Causeway Bay or Mongkok) and are stand-alone buildings where we do not have properties nearby. With little upside, they should be traded into higher yielding and faster growing Mainland developments. We have not done so earlier for good reasons: besides waiting for better prices, we wanted to make sure that we could grow rents on the Mainland. After completing Shenyang Palace 66 and Jinan Parc 66, and with Shenyang Forum 66 leasing very well ahead of the September opening, we are now confident of a relatively fast top and bottom line increase. As such we started to sell older Hong Kong properties.

To be sure, the buildings being sold are not the best located, class A type, which we will not part with in the foreseeable future. But if the older structures can fetch a capitalization rate of around 5%, then they should exit our portfolio. As shareholders know, the targeted initial yield of our newly opened Mainland developments is at least 4-5%, which is expected to be followed by a period of relatively fast rental increase. Comparing the two sets of numbers and taking into consideration growth potential, the decision to sell becomes obvious.

As always, we will find an auspicious time to exit and frankly, the current market condition is quite acceptable. We are in no hurry to complete the task, but neither will we intentionally hold back unless we think that we can sell at a higher price by waiting a bit. Of late we have encountered quite a number of legitimate purchasers. Certain private investors may be able to do something meaningful with some of the buildings which we being a publicly listed company should not attempt. Our risk appetite is different and we have better use of our management time, something we guard carefully.

Two transactions were completed so far and they brought in a profit of HK$220 million. They only represent a small portion of the portfolio that can be sold. Provided that the market holds up, more sales may materialize before the end of the year. As indicated previously, realized prices should be considerably higher than the June 30, 2012 book value thus resulting in good profit.

As mentioned earlier, retail rental increase in Shanghai has slowed especially in the luxury mall Plaza 66. It stood at a mere 2%. Nevertheless, three major fashion brands which underwent extensive shop enlargement have now reopened. That should bode well in an otherwise difficult market. Our ability to attract the world's top brands to the four-star shopping center of Grand Gateway 66 has been key to maintaining higher rental growth of 13%. Blended rate for the two malls was 8% while office rose by 5%. Overall, Shanghai rents advanced by 7%. Rental margin has reached 87% and all spaces are basically full.

The road works surrounding Shenyang Palace 66 were finally completed. We are in the process of altering the tenant mix to tailor to a younger crowd. The changeover is causing a slightly lower occupancy rate of 90% but unit rent is on the rise. Rental margin has improved from a negligible level a year ago to 30% now.

Jinan Parc 66 has exceeded expectations on several fronts. First year gross rental return on cost is projected to be 7.9%. Rental margin has improved to 53% and rising, and the facility is basically fully occupied.

Investment properties in Hong Kong have performed acceptably. Rental income increased by 4%. If we exclude the effect of the discontinuation of Queensway Plaza, The Wesley and the two latest properties sold, then rents actually rose by 7%. On that basis, retail rents grew by 8% and those for offices, 4%. Occupancy stood at 95% and rental margin nudged up a point to 84%.

Our entire portfolio saw a 12% rise in rents with Hong Kong recording 4% and the Mainland 22%. Overall rental margin was 82%, two points above that of the same period a year ago. Rental split between Hong Kong and the Mainland is now dead even.

Besides the sales of mature investment properties, another activity which caught some attention was the parting of 108 flats of The Long Beach. We detected a window of opportunity in May and acted decisively. If not for the misfortune of running into a huge drop in the stock market around those few days, we could have transacted more. Nevertheless, there will be other chances.

This was the first time we sold units at that development since 2007. Average price achieved is over 50% higher -- almost HK$10,600 per square foot versus less than HK$6,950 five years ago. We are quite pleased with the present prices and will be happy to sell more once there is the opportunity.

We also let go of nine units at The HarbourSide. One penthouse went for HK$55,000 per square foot which might be a Hong Kong record for multi-story apartments. Not counting that one, the other harbor-facing flats went for an average of over HK$34,000 per square foot, while those overlooking the garden fetched on average approximately HK$20,000 per square foot. Both are much higher than previous transactions. When there are further perceived opportunities, we will continue to sell.

On June 18, 2012, we raised US$500 million through a 10-year bond issue under the Medium Term Note Program put in place last year. Effective yield is quite acceptable and is among the lowest of Hong Kong developers, a slight premium due to first issuance from an unrated company notwithstanding. The entire amount was used to repay short-term bank loans. Together with a similar issuance a few months earlier, we have now collected through this channel about HK$5.2 billion.

In light of the HK$27 billion anticipated construction costs to be expensed in the coming four years (unless we slow the process due to possible adverse market conditions) as well as possible land acquisitions, Management deems it prudent to take in some longer-term money. Our capacity to raise more is considerable. Due to concerns over the global financial system, we will not issue bonds shorter than ten years.

A year ago I wrote about Management's belief that soon Hong Kong companies like us will be allowed to wire RMB into the Mainland even for real estate projects. It seems to be happening now although some local governments will need time to work out details to accept funds. Our decision in the past two years to buy RMB in Hong Kong has proven correct.

Last month we tendered for a piece of land in Hong Kong, our first attempt in a long time. It took some people by surprise but the rationale was simple. With a new Chief Executive for the Hong Kong SAR government, how developers would react to his land policies was unclear. In case most did not participate or were cautious, perhaps we could luck out and pick up a site inexpensively. It was not meant to be and so be it.

As I have publicly stated many times, we are not pessimistic about Hong Kong's residential market; it is just that there are too many players who are willing to take more risks than we are. So unless there is a repeat of a big bear market like 1999-2000 when we bought a lot in the absence of competition, our chance of succeeding now is slim. Let others make the profit and also take the risks. In our opinion, the risk-reward ratio is in general better on the Mainland. There is also the possibility that our proven ability to generate returns there has an impact on that ratio.

## PROSPECTS

By now shareholders may get the impression that we have been building a war chest. My fear a year ago of not being able to buy land is temporarily gone. We have been successful in selling completed apartments as well as mature rental properties in Hong Kong. At the latest balance sheet date, we had HK$29 billion of cash and bank deposits. Together with committed undrawn banking facilities amounting to HK$4 billion and the HK$18 billion remaining limit of the Medium Term Note Program (for issuing bonds), we have ample financial resources at our disposal.

On the other hand, a period of chilling economic conditions has descended upon us -- even in China. That should be very favorable to us -- "Bear Hugger" as we are called -- for we tend to shine when most of our competitors are in trouble. However, when to buy is a really tough decision especially as we deem the present economic malaise a systemic one. It is global in nature and may last longer than most think. All we can do is to observe, analyze, and be patient. In due course we will strike, but I am not sure if it will be within this year. It will take an excellent piece at an attractive price to lure us to act.

As long as market conditions allow, we will sell Hong Kong properties -- both completed apartments and mature investment properties -- as in the six months under review. Most analysts tend to underestimate the profit margin we can achieve in both categories. Perhaps they did not heed my reiterations that the book value of our investment portfolio is rather conservative.

Whatever the case, we will build out our many Mainland commercial developments. For the completed complexes, we will continue to maximize near-term profitability without sacrificing their long-term health. As more of our well located and superbly designed malls open, our relationship with key tenants can only deepen. A brand that is in any of our facilities should be a candidate for most if not all of our other facilities. All these should help us grow our rents on the Mainland.

Having gone through the initial difficulties experienced at Shenyang Palace 66, many of which are externalities beyond our control (e.g. road works done by the city government surrounding our site), we have turned the corner and are on the way to build a successful mall. On the other hand, Jinan Parc 66 was from day one a success. At the opening in August 2011, I gave everyone the good news that initial gross yield would exceed our threshold of 4-5% by quite a margin such as 6%. By year end we were confident enough to revise the number to 7%. Now with less than a month to its first anniversary, we are projecting 7.9%. For a first year result, this is the best that we have had. Management is hopeful that the growth in rent and the improvement in operating margin will also be promising.

Now comes Shenyang Forum 66. Contracted rents indicate a return even better than that of Parc 66. This is truly rewarding! Nevertheless, the office tower, of which the low zone should open in the second half of next year, will not attract such a high yield. On a blended basis, the mall and the office together should still produce a return that is far better than our threshold.

While Shanghai rents may still come under pressure, our Hong Kong investment portfolio is expected to hold steady. For both cities, results of the second half of the year should approximate those of the first six months.

Recently we launched an advertising campaign in Hong Kong and mainland China which aims to build our brand. The tagline has received rave reviews. Obviously biased, I think that it is superb -- it captures the core values of our Company as I have repeatedly written on this platform.

In Chinese, the tagline is even more expressive than the English version which is "We Do It Right!". Coined in eight simple characters, the Chinese rendition "只選好的　只做對的" encompasses the following ideas: "We only choose what is good, and always do what is right!" The meaning embedded herein is rich indeed. For example, we only choose the best sites to buy, the best designs to adopt, the best people to hire. Similarly, being "right" entails so much, such as being ethical, caring for our staff, respecting the environment.

Obviously we are far from being perfect, but the tagline does set forth our aspirations and is to some extent a depiction of what we are. The message is not just for outsiders; it is equally a principle to guide Management as well as each and every staff. With that, I have confidence that we will continue to create sustainable and relatively high risk-adjusted returns to our shareholders.

Ronnie C. Chan
*Chairman of the Board of Directors*
Hong Kong, July 31, 2012

## OVERVIEW

This is the first interim result we have announced since we made the decision last year to change the financial year-end date to December 31. We would not normally have our interim financial report audited by our long-standing auditor, KPMG. However, in the interests of good corporate governance and to facilitate a meaningful comparison of the figures with the corresponding period of last year, the current interim financial report is fully audited by KPMG.

For the six months to June 30, 2012, net profit attributable to shareholders increased 55% to HK$3,678 million compared to the last corresponding period. The significant increase was mainly attributable to a continual growth in our property leasing business and the sales of nine The HarbourSide and 108 The Long Beach residential flats. During the period, rental income grew 12% to HK$2,962 million. While there was no property sale during the corresponding period of last year, sales of residential flats during the first half of 2012 generated property sales turnover and profit of HK$1,272 million and HK$798 million, respectively. In addition, two non-core investment properties in Hong Kong were disposed of with a gain of HK$220 million, which was included as part of Other Income. A revaluation gain of HK$1,295 million was recorded for the period, an increase of HK$243 million compared to the first half of 2011. When excluding the revaluation gain and its related deferred tax applicable in mainland China and non-controlling interests, underlying net profit increased by 72% to HK$2,520 million.

The Board of Directors has declared an interim dividend of HK17 cents per share, to be paid on September 13, 2012, to shareholders registered as of August 31, 2012. The Register of Members will be closed from August 29, 2012, to August 31, 2012, both days inclusive, and no transfer of shares will be effected during that period. To qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's share registrars, Computershare Hong Kong Investor Services Limited, not later than 4:30 p.m. on August 28, 2012.

## PROPERTY LEASING

Our property leasing operations continued to deliver strong income and profit growth during the period. Total rental income and profit grew by 12% to HK$2,962 million and 14% to HK$2,422 million, respectively.

### Hong Kong

Occupancy rates of both commercial properties and offices remained high at 95%. Together with positive rental reversions achieved across the portfolio, our Hong Kong rental income and profit grew by 4% and 5% to HK$1,487 million and HK$1,251 million, respectively. Excluding the effect of discontinued property management operations such as The Wesley and Queensway Plaza and the disposal of non-core investment properties Star Centre and Park Towers, the growth in rental income would be 7%.

### Mainland China

In Shanghai, the rental turnover of Plaza 66 rose 4% to HK$725 million. The moderate growth relative to previous years was mainly attributable to a slowdown in retail consumption and the adverse effect of extensive renovation works carried out by some major tenants at the mall. Such works will be completed by the end of 2012. The office towers at Plaza 66 were 98% leased and their rental turnover rose 5% to HK$368 million.

Benefiting from our tenant mix strategy, more high-end retailers have established a presence at the shopping mall of Grand Gateway 66. Rental turnover rose 13% to HK$490 million compared to the last corresponding period.

Palace 66 in Shenyang generated rental turnover of HK$82 million in the first half of 2012, representing 9% growth compared to the same period of 2011. The occupancy rate dropped slightly to 90% as the mall was in the process of optimizing the tenant mix.

Parc 66 in Jinan which opened in August 2011 recorded a turnover of HK$178 million in the six months ended June 30, 2012, and it was almost fully let.

Overall, rental turnover and profit of our Mainland operations grew by 22% to HK$1,475 million and 26% to HK$1,171 million, respectively. Our Mainland operations accounted for 50% and 48% of the Group's property leasing turnover and operating profit, respectively, up from 46% and 44% a year ago.

## PROPERTY SALES

During the period, we sold nine units of The HarbourSide and 108 units of The Long Beach at average prices of HK$32,100 and HK$10,600 per square foot, respectively. The sales of The HarbourSide and The Long Beach units achieved a profit margin of 65% and 61%, respectively, generating a total profit of HK$798 million.

## DISPOSAL OF NON-CORE PROPERTIES

Two non-core investment properties in Hong Kong, Star Centre in Kwai Chung and shops and car parking spaces of Park Towers in Causeway Bay, were sold during the period. A gain on disposal of HK$220 million was recorded as part of Other Income.

## PROPERTY DEVELOPMENT

The shopping mall of Forum 66 in Shenyang is scheduled for opening in September this year. The mall is already fully leased.

Structural construction works of Wuxi Center 66's shopping mall have made good progress. Pre-leasing activities of the mall of Center 66 will commence soon. Other projects under development on the Mainland are progressing as planned.

Major construction works of the Blue Pool Road residential project in Happy Valley, Hong Kong, are almost completed. Interior fitout work will be carried out over the next few months.

## PROPERTY REVALUATION

For the six months ended June 30, 2012, Hong Kong's investment properties recorded a valuation gain of HK$943 million compared to HK$657 million in the previous period.

Our Mainland portfolio of investment properties recorded a total valuation gain of HK$352 million against HK$389 million in the comparable period in 2011.

For those investment properties under development on the Mainland, no revaluation gain was recorded against HK$6 million in the previous period.

Overall, investment properties including those under development recorded a total valuation gain of HK$1,295 million compared to HK$1,052 million in the comparable period in 2011.

## FINANCIAL POSITION

The Group continued to maintain a strong balance sheet. We had HK$28,972 million of liquid funds at the balance sheet date, most of which was held in Renminbi (RMB) bank deposits to hedge against the currency fluctuations of our RMB construction payments on the Mainland. After deducting total borrowings amounting to HK$27,389 million, the Group had a net cash balance of HK$1,583 million as at June 30, 2012. In addition, it had committed undrawn banking facilities amounting to HK$4,363 million.

In view of the uncertain economic outlook, we took measures to further enhance our financial flexibility. Those included raising the maximum limit of the Medium Term Note (MTN) Program we set up in 2011 to US$3,000 million from US$2,000 million. Consequently, we have created ample capacity for the Group to raise debt financing as an alternative to bank borrowings.

During the six months ended June 30, 2012, the Group issued in total an equivalent of HK$5,171 million of 10-year fixed rate bonds under the MTN Program. Those bonds were un-rated and issued with coupon rates ranged from 4.15% to 4.75% per annum. Proceeds from the bond issue were used to repay some short-term bank borrowings. As a result, the average maturity period of our debt portfolio was lengthened to five years. The bond issuance has further enhanced the Group's ability in managing future interest rate volatility and re-financing risks.

## OUTLOOK

The global economic sentiment is overshadowed by a sluggish US economy and the sovereign debt problems of some European countries. It is likely that this could cause a corresponding slowdown of the Chinese economy. However, this may present a favorable environment for land acquisition. With our strong liquidity and financial strength, we are well positioned to buy more land when the right opportunities arise.

Final preparations for the opening of Shenyang Forum 66's shopping mall in September are taking place. Development works of the various projects on the Mainland and the Blue Pool Road residential project in Happy Valley, Hong Kong, are progressing as planned.

Subject to market conditions, we will sell more residential flats or matured investment properties in Hong Kong to realize the profit potential of our assets.

For Shenyang Palace 66, we will continue to optimize tenant mix over the next few months, thus its occupancy rate may temporarily drop below 90% during the process. As a result, rental turnover and leasing profit of Palace 66 may experience a smaller growth rate than in the first half.

Jinan Parc 66 will reach its first anniversary in August. It is expected that the performance of this new mall will continue to improve.

With the slowdown in luxury spending, rents in Shanghai will come under pressure. But the performance of our Hong Kong investment portfolio is likely to remain steady.

Barring unforeseen circumstances, our leasing operations as a whole are expected to produce profit growth similar to that of the past six months.

# Corporate Governance

We are committed to maintaining a high standard of corporate governance. During the six-month period ended June 30, 2012, we adopted corporate governance principles that emphasize a quality Board of Directors (the "Board"), effective internal controls, stringent disclosure practices, transparency and complete accountability towards our stakeholders. The general framework of our corporate governance practices is set out in our corporate governance report in the 2011 Annual Report, which is available on our website.

## BOARD

The Board currently consists of twelve members, comprising five Executive Directors, one Non-Executive Director and six Independent Non-Executive Directors. There is a clear division of responsibilities between the Chairman and the Managing Director (Chief Executive Officer). The Board continues to review its practices from time to time, constantly seeking to improve the Group's corporate governance procedures in accordance with international best practices. An updated list of the Board members, together with biographical details, is included on our website.

## NOMINATION AND REMUNERATION COMMITTEE

Our Nomination and Remuneration Committee, which is chaired by an Independent Non-Executive Director, currently consists of five Independent Non-Executive Directors. The Committee members meet on a regular basis to review human resources issues, including significant changes in the salary structure of the Group and terms and conditions affecting Executive Directors and senior management. The Committee members also conduct regular reviews of the Board's structure and composition, and make recommendations to the Board on the appointment, re-appointment and succession planning of Directors, etc. The terms of reference explaining the Committee's role, which have been reviewed and revised with reference to Corporate Governance Code (effective from April 1, 2012) (the "New Corporate Governance Code") and adopted by the Board, can be accessed on both our website and the website of Hong Kong Exchanges and Clearing Limited ("HKEx").

## AUDIT COMMITTEE

Our Audit Committee, which is chaired by an Independent Non-Executive Director, currently consists of four Independent Non-Executive Directors. The Committee members meet at least twice a year. Meetings are normally attended by external and internal auditors, the finance director and the company secretary for the purposes of discussing the nature and scope of our internal audit work and assessing the Group's internal controls. The terms of reference explaining the Committee's role and authority, which have been reviewed and revised with reference to the New Corporate Governance Code to include, inter alia, duties regarding corporate governance functions and adopted by the Board, are available on both our website and the website of HKEx. The Audit Committee has reviewed this interim report, including the audited interim financial report for the six-month period ended June 30, 2012, and has recommended their adoption by the Board.

This interim financial report is audited by KPMG, our auditor, in accordance with the Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. KPMG's Independent Auditor's Report is set out on pages 22 to 23 of this interim report.

## COMPLIANCE WITH CORPORATE GOVERNANCE CODE

During the six-month period ended June 30, 2012, we have complied with the code provisions set out in the Code on Corporate Governance Practices (effective until March 31, 2012) and the New Corporate Governance Code (effective from April 1, 2012) as stated in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") save that the Non-Executive Director, Mr. Nelson W.L. Yuen and Independent Non-Executive Directors, Ms. Laura L.Y. Chen and Mr. Dominic C.F. Ho, were unable to attend the annual general meeting of the Company held on April 18, 2012 as provided for in code provision A.6.7 as they had overseas engagements.

## COMPLIANCE WITH MODEL CODE CONTAINED IN APPENDIX 10 TO LISTING RULES

We have adopted a code of conduct with regard to securities transactions by Directors (the "Code of Conduct") on terms that are no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the "Model Code"). The Company has made specific enquiries to all Directors and confirmed that they have complied with the required standard set out in the Model Code and the Code of Conduct throughout the six-month period ended June 30, 2012.

## Changes in Information of Directors Pursuant to Listing Rule 13.51B(1)

Mr. Ronald J. Arculli, an Independent Non-Executive Director of the Company, ceased to be the independent non-executive chairman of HKEx on April 23, 2012 and remains as its independent non-executive director. He also ceased to be a non-official member and Convenor of the Executive Council of The Hong Kong Special Administrative Region with effect from July 1, 2012.

Save as disclosed above, there are no changes in the information of Directors since the date of the 2011 Annual Report of the Company.

## Purchase, Sale or Redemption of Listed Securities

During the six-month period ended June 30, 2012, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities.

## Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at June 30, 2012, the interests or short positions of each of the Directors in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code or which were recorded in the register required to be kept by the Company under Section 352 of the SFO are as follows:

| Name of Directors | Capacity | *The Company (Long Position)* No. of Shares | % of Issued Capital | No. of Shares under Option *(Note 1)* | *Hang Lung Group Limited (Long Position)* No. of Shares | % of Issued Capital | No. of Shares under Option *(Note 2)* |
|---|---|---|---|---|---|---|---|
| Ronnie C. Chan | Personal | – | – | 36,570,000 | – | – | 11,790,000 |
| S.S. Yin | – | – | – | – | – | – | – |
| Philip N.L. Chen | Personal | – | – | 14,500,000 | – | – | – |
| Nelson W.L. Yuen | Personal | – | – | 24,320,000 | – | – | – |
| Ronald J. Arculli | Personal & Corporate | 724,346 | 0.02 | – | 1,089,975 | 0.08 | – |
| H.K. Cheng | – | – | – | – | – | – | – |
| Laura L.Y. Chen | – | – | – | – | – | – | – |
| P.W. Liu | Personal & Family | 100,000 | – | – | – | – | – |
| Dominic C.F. Ho | – | – | – | – | – | – | – |
| William P.Y. Ko | Personal | – | – | 25,730,000 | – | – | – |
| Henry T.Y. Yiu | Personal | – | – | 7,600,000 | 170,000 | 0.01 | 50,000 |
| H.C. Ho | Personal | – | – | 5,600,000 | – | – | – |

Notes

1. Movement of Options under the Share Option Scheme of the Company

| Date Granted (mm/dd/yyyy) | Name | No. of Shares under Option: As at Jan 1, 2012 | Exercised during the Period | As at Jun 30, 2012 | Exercise Price per Share (HK$) | Vested Dates (mm/dd/yyyy) | Expiry Date (mm/dd/yyyy) |
|---|---|---|---|---|---|---|---|
| 05/20/2004 | Ronnie C. Chan<br>William P.Y. Ko<br>Henry T.Y. Yiu | 5,090,000<br>1,330,000<br>200,000 | –<br>–<br>– | 5,090,000<br>1,330,000<br>200,000 | $9.20 | 05/20/2005 : 25%<br>05/20/2006 : 25%<br>05/20/2007 : 25%<br>05/20/2008 : 25% | 05/19/2014 |
| 09/01/2005 | William P.Y. Ko | 500,000 | – | 500,000 | $12.35 | 09/01/2006 : 25%<br>09/01/2007 : 25%<br>09/01/2008 : 25%<br>09/01/2009 : 25% | 08/31/2015 |
| 11/14/2006 | Henry T.Y. Yiu | 500,000 | – | 500,000 | $16.75 | 11/14/2007 : 10%<br>11/14/2008 : 20%<br>11/14/2009 : 30%<br>11/14/2010 : 40% | 11/13/2016 |
| 11/20/2006 | Ronnie C. Chan<br>William P.Y. Ko | 2,000,000<br>3,700,000 | –<br>– | 2,000,000<br>3,700,000 | $17.14 | 11/20/2007 : 10%<br>11/20/2008 : 20%<br>11/20/2009 : 30%<br>11/20/2010 : 40% | 11/19/2016 |

1. Movement of Options under the Share Option Scheme of the Company (continued)

| Date Granted (mm/dd/yyyy) | Name | No. of Shares under Option: As at Jan 1, 2012 | Exercised during the Period | As at Jun 30, 2012 | Exercise Price per Share (HK$) | Vested Dates (mm/dd/yyyy) | Expiry Date (mm/dd/yyyy) |
|---|---|---|---|---|---|---|---|
| 08/21/2007 | Ronnie C. Chan | 3,640,000 | – | 3,640,000 | $25.00 | 08/21/2008 : 10% | 08/20/2017 |
| | Nelson W.L. Yuen | 3,510,000 | – | 3,510,000 | | 08/21/2009 : 20% | |
| | William P.Y. Ko | 2,600,000 | – | 2,600,000 | | 08/21/2010 : 30% | |
| | | | | | | 08/21/2011 : 40% | |
| 08/21/2007 | Ronnie C. Chan | 5,600,000 | – | 5,600,000 | $25.00 | 08/21/2009 : 10% | 08/20/2017 |
| | Nelson W.L. Yuen | 5,400,000 | – | 5,400,000 | | 08/21/2010 : 20% | |
| | William P.Y. Ko | 4,000,000 | – | 4,000,000 | | 08/21/2011 : 30% | |
| | | | | | | 08/21/2012 : 40% | |
| 08/18/2008 | Henry T.Y. Yiu | 150,000 | – | 150,000 | $23.72 | 08/18/2010 : 10% | 08/17/2018 |
| | | | | | | 08/18/2011 : 20% | |
| | | | | | | 08/18/2012 : 30% | |
| | | | | | | 08/18/2013 : 40% | |
| 09/01/2008 | H.C. Ho | 300,000 | – | 300,000 | $24.20 | 09/01/2010 : 10% | 08/31/2018 |
| | | | | | | 09/01/2011 : 20% | |
| | | | | | | 09/01/2012 : 30% | |
| | | | | | | 09/01/2013 : 40% | |
| 12/31/2008 | Ronnie C. Chan | 9,240,000 | – | 9,240,000 | $17.36 | 12/31/2010 : 10% | 12/30/2018 |
| | Nelson W.L. Yuen | 8,910,000 | – | 8,910,000 | | 12/31/2011 : 20% | |
| | William P.Y. Ko | 6,600,000 | – | 6,600,000 | | 12/31/2012 : 30% | |
| | Henry T.Y. Yiu | 300,000 | – | 300,000 | | 12/31/2013 : 40% | |
| | H.C. Ho | 300,000 | – | 300,000 | | | |
| 02/08/2010 | Ronnie C. Chan | 6,500,000 | – | 6,500,000 | $26.46 | 02/08/2012 : 10% | 02/07/2020 |
| | Nelson W.L. Yuen | 6,500,000 | – | 6,500,000 | | 02/08/2013 : 20% | |
| | William P.Y. Ko | 4,000,000 | – | 4,000,000 | | 02/08/2014 : 30% | |
| | Henry T.Y. Yiu | 3,450,000 | – | 3,450,000 | | 02/08/2015 : 40% | |
| 07/29/2010 | Philip N.L. Chen | 10,000,000 | – | 10,000,000 | $33.05 | 07/29/2012 : 10% | 07/28/2020 |
| | | | | | | 07/29/2013 : 20% | |
| | | | | | | 07/29/2014 : 30% | |
| | | | | | | 07/29/2015 : 40% | |
| 09/29/2010 | H.C. Ho | 2,000,000 | – | 2,000,000 | $36.90 | 09/29/2012 : 10% | 09/28/2020 |
| | | | | | | 09/29/2013 : 20% | |
| | | | | | | 09/29/2014 : 30% | |
| | | | | | | 09/29/2015 : 40% | |
| 06/13/2011 | Ronnie C. Chan | 4,500,000 | – | 4,500,000 | $30.79 | 06/13/2013 : 10% | 06/12/2021 |
| | Philip N.L. Chen | 4,500,000 | – | 4,500,000 | | 06/13/2014 : 20% | |
| | William P.Y. Ko | 3,000,000 | – | 3,000,000 | | 06/13/2015 : 30% | |
| | Henry T.Y. Yiu | 3,000,000 | – | 3,000,000 | | 06/13/2016 : 40% | |
| | H.C. Ho | 3,000,000 | – | 3,000,000 | | | |

2. Movements of Options under the Share Option Scheme of Hang Lung Group Limited

| Date Granted (mm/dd/yyyy) | Name | No. of Shares under Option As at Jan 1, 2012 | Exercised during the Period | As at Jun 30, 2012 | Exercise Price per Share (HK$) | Vested Dates (mm/dd/yyyy) | Expiry Date (mm/dd/yyyy) |
|---|---|---|---|---|---|---|---|
| 05/20/2004 | Ronnie C. Chan | 5,090,000 | – | 5,090,000 | $9.45 | 05/20/2005 : 25% | 05/19/2014 |
| | William P.Y. Ko | 494,000 | 494,000 | – | | 05/20/2006 : 25% | |
| | Henry T.Y. Yiu | 50,000 | – | 50,000 | | 05/20/2007 : 25% | |
| | | | | | | 05/20/2008 : 25% | |
| 11/20/2006 | Ronnie C. Chan | 6,700,000 | – | 6,700,000 | $20.52 | 11/20/2007 : 10% | 11/19/2016 |
| | William P.Y. Ko | 500,000 | 500,000 | – | | 11/20/2008 : 20% | |
| | | | | | | 11/20/2009 : 30% | |
| | | | | | | 11/20/2010 : 40% | |

Save as disclosed above, none of the Directors of the Company or any of their associates had, as at June 30, 2012, any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations.

Other than as stated above, at no time during the six-month period ended June 30, 2012 was the Company, its holding company or any of their subsidiaries a party to any arrangement to enable the Directors of the Company (including their spouses and children under 18 years of age) to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

# Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

As at June 30, 2012, details of substantial shareholders' and other persons' (who are required to disclose their interests pursuant to Part XV of the SFO) interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO are as follows:

| | | No. of Shares or Underlying Shares Held | | % of Issued Capital | |
|---|---|---|---|---|---|
| Name | *Note* | Long Position | Short Position | Long Position | Short Position |
| Chan Tan Ching Fen | *1* | 2,295,542,670 | – | 51.32 | – |
| Cole Enterprises Holdings Limited | *1* | 2,295,542,670 | – | 51.32 | – |
| Merssion Limited | *1* | 2,295,542,670 | – | 51.32 | – |
| Hang Lung Group Limited | *2* | 2,267,209,570 | – | 50.69 | – |
| Prosperland Housing Limited | *3* | 1,267,608,690 | – | 30.60 | – |
| Purotat Limited | *3* | 354,227,500 | – | 8.55 | – |
| JPMorgan Chase & Co. | *4* | 225,512,905 | 954,308 | 5.04 | 0.02 |

Notes

1. These shares were the same parcel of shares held by a trust of which Ms. Chan Tan Ching Fen was the founder. Cole Enterprises Holdings Limited was the trustee of the trust. Cole Enterprises Holdings Limited and Merssion Limited held 37% interests in Hang Lung Group Limited ("HLGL"). The shares held by HLGL and its subsidiaries were included in the above-mentioned number of 2,295,542,670.

2. These shares were held by the wholly-owned subsidiaries of HLGL and as such HLGL was deemed to be interested in these shareholdings.

3. These companies are wholly-owned subsidiaries of HLGL. Their interests were included in the above-mentioned number of 2,267,209,570 shares held by HLGL.

4. These shares were held in the respective capacity of beneficial owner, investment manager and custodian corporation/approved lending agent. It included 114,122,589 shares in the lending pool.

Save as disclosed above, as at June 30, 2012, no other interest required to be recorded in the register kept under Section 336 of the SFO has been notified to the Company.

# INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF HANG LUNG PROPERTIES LIMITED

*(Incorporated in Hong Kong with limited liability)*

We have audited the interim financial report set out on pages 24 to 42 which comprises the consolidated statement of financial position of Hang Lung Properties Limited ("the Company") as of June 30, 2012 and the related consolidated income statement, consolidated statement of comprehensive income and 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 an interim financial report to be in compliance with the relevant provision thereof and Hong Kong Accounting Standard 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants.

## DIRECTORS' RESPONSIBILITY FOR THE INTERIM FINANCIAL REPORT

The directors of the Company are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34 and for such internal control as the directors determine is necessary to enable the preparation of interim financial report that are free from material misstatement, whether due to fraud or error.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the interim financial report based on our audit. This report is made 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the interim financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the interim financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the interim financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the interim financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the interim financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the interim financial report for the six-month period ended June 30, 2012 is 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

July 31, 2012

# Consolidated Income Statement

*For the six months ended June 30, 2012 (Audited)*
*(Expressed in Hong Kong dollars)*

| | Note | 2012<br>$ Million | 2011<br>$ Million |
|---|---|---|---|
| Turnover | 2 | 4,234 | 2,643 |
| Other income | 3 | 479 | 142 |
| Direct costs and operating expenses | | (1,014) | (521) |
| Administrative expenses | | (295) | (185) |
| Operating profit before change in fair value of investment properties | | 3,404 | 2,079 |
| Increase in fair value of investment properties | | 1,295 | 1,052 |
| Operating profit after change in fair value of investment properties | | 4,699 | 3,131 |
| Finance costs | 4 | (134) | (50) |
| Share of profits of jointly controlled entities | | 43 | 38 |
| Profit before taxation | 2(a) & 4 | 4,608 | 3,119 |
| Taxation | 5(a) | (679) | (526) |
| Profit for the period | | 3,929 | 2,593 |
| Attributable to: | | | |
| Shareholders | | 3,678 | 2,374 |
| Non-controlling interests | | 251 | 219 |
| | | 3,929 | 2,593 |
| Earnings per share | 7(a) | | |
| Basic | | $0.82 | $0.53 |
| Diluted | | $0.82 | $0.53 |

The accompanying notes form part of the interim financial report. Details of dividends payable to equity shareholders of the Company attributable to the profit for the period are set out in note 6.

# Consolidated Statement of Comprehensive Income

*For the six months ended June 30, 2012 (Audited)*
*(Expressed in Hong Kong dollars)*

| | Note | 2012<br>$ Million | 2011<br>$ Million |
|---|---|---|---|
| **Profit for the period** | | 3,929 | 2,593 |
| **Other comprehensive income** | 5(b) | | |
| Exchange difference arising from translation of overseas subsidiaries | | (495) | 1,374 |
| **Total comprehensive income for the period** | | 3,434 | 3,967 |
| **Total comprehensive income attributable to:** | | | |
| Shareholders | | 3,213 | 3,631 |
| Non-controlling interests | | 221 | 336 |
| | | 3,434 | 3,967 |

The accompanying notes form part of the interim financial report.

# Consolidated Statement of Financial Position

*At June 30, 2012 (Audited)*

*(Expressed in Hong Kong dollars)*

| | Note | 30/6/2012 $ Million | 31/12/2011 $ Million |
|---|---|---|---|
| **Non-current assets** | | | |
| Fixed assets | | | |
| Investment properties | 8 | 94,405 | 93,610 |
| Investment properties under development | 8 | 25,748 | 23,613 |
| Other fixed assets | | 244 | 217 |
| | | 120,397 | 117,440 |
| Interest in jointly controlled entities | | 993 | 1,007 |
| Other assets | 9 | 445 | 450 |
| Deferred tax assets | | 9 | 35 |
| | | 121,844 | 118,932 |
| **Current assets** | | | |
| Cash and deposits with banks | 10 | 28,972 | 23,732 |
| Trade and other receivables | 11 | 2,775 | 1,436 |
| Other assets | 9 | 445 | 449 |
| Properties for sale | | 5,905 | 6,114 |
| | | 38,097 | 31,731 |
| **Current liabilities** | | | |
| Bank loans and other borrowings | 12 | – | 4,700 |
| Trade and other payables | 13 | 4,233 | 3,823 |
| Taxation payable | | 604 | 392 |
| | | 4,837 | 8,915 |
| **Net current assets** | | 33,260 | 22,816 |
| **Total assets less current liabilities** | | 155,104 | 141,748 |

| | Note | 30/6/2012 $ Million | 31/12/2011 $ Million |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Bank loans and other borrowings | 12 | 27,389 | 16,034 |
| Deferred tax liabilities | | 8,787 | 8,696 |
| | | 36,176 | 24,730 |
| NET ASSETS | | 118,928 | 117,018 |
| **Capital and reserves** | | | |
| Share capital | | 4,474 | 4,473 |
| Reserves | | 108,701 | 106,989 |
| Shareholders' equity | | 113,175 | 111,462 |
| Non-controlling interests | | 5,753 | 5,556 |
| TOTAL EQUITY | | 118,928 | 117,018 |

The accompanying notes form part of the interim financial report.

# Consolidated Statement of Changes in Equity

*For the six months ended June 30, 2012 (Audited)*
*(Expressed in Hong Kong dollars)*

| | Shareholders' equity | | | | | |
|---|---|---|---|---|---|---|
| | Share capital $ Million | Other reserves $ Million (Note 15) | Retained profits $ Million (Note 15) | Total $ Million | Non-controlling interests $ Million | Total equity $ Million |
| At January 1, 2012 | 4,473 | 41,067 | 65,922 | 111,462 | 5,556 | 117,018 |
| Profit for the period | – | – | 3,678 | 3,678 | 251 | 3,929 |
| Exchange difference arising from translation of overseas subsidiaries | – | (465) | – | (465) | (30) | (495) |
| Total comprehensive income for the period | – | (465) | 3,678 | 3,213 | 221 | 3,434 |
| Final dividends in respect of previous financial year | – | – | (1,611) | (1,611) | – | (1,611) |
| Issue of shares | 1 | 15 | – | 16 | – | 16 |
| Employee share-based payments | – | 85 | 10 | 95 | – | 95 |
| Dividends paid to non-controlling interests | – | – | – | – | (24) | (24) |
| At June 30, 2012 | 4,474 | 40,702 | 67,999 | 113,175 | 5,753 | 118,928 |

| | Shareholders' equity | | | | | |
|---|---|---|---|---|---|---|
| | Share capital $ Million | Other reserves $ Million (Note 15) | Retained profits $ Million (Note 15) | Total $ Million | Non-controlling interests $ Million | Total equity $ Million |
| At January 1, 2011 | 4,468 | 38,088 | 64,193 | 106,749 | 4,923 | 111,672 |
| Profit for the period | – | – | 2,374 | 2,374 | 219 | 2,593 |
| Exchange difference arising from translation of overseas subsidiaries | – | 1,257 | – | 1,257 | 117 | 1,374 |
| Total comprehensive income for the period | – | 1,257 | 2,374 | 3,631 | 336 | 3,967 |
| Interim dividends in respect of current financial year | – | – | (760) | (760) | – | (760) |
| Issue of shares | 4 | 50 | – | 54 | – | 54 |
| Employee share-based payments | – | 41 | 4 | 45 | – | 45 |
| Dividends paid to non-controlling interests | – | – | – | – | (1) | (1) |
| Repayment to non-controlling interests | – | – | – | – | (53) | (53) |
| At June 30, 2011 | 4,472 | 39,436 | 65,811 | 109,719 | 5,205 | 114,924 |

The accompanying notes form part of the interim financial report.

# Condensed Consolidated Cash Flow Statement

*For the six months ended June 30, 2012 (Audited)*
*(Expressed in Hong Kong dollars)*

| | 2012 $ Million | 2011 $ Million |
|---|---|---|
| Net cash generated from operating activities | 2,167 | 1,252 |
| Net cash used in investing activities | (6,825) | (4,194) |
| Net cash generated from financing activities | 4,796 | 3,646 |
| Increase in cash and cash equivalents | 138 | 704 |
| Effect of foreign exchange rate change | (263) | 379 |
| Cash and cash equivalents at January 1 | 19,212 | 18,715 |
| Cash and cash equivalents at June 30 | 19,087 | 19,798 |
| | | |
| Analysis of the balance of cash and cash equivalents: | | |
| Cash and deposits with banks | 28,972 | 27,202 |
| Less: Bank deposits with maturity greater than three months | (9,885) | (7,404) |
| Cash and cash equivalents | 19,087 | 19,798 |

The accompanying notes form part of the interim financial report.

# Notes

## 1. BASIS OF PREPARATION

The audited interim financial report has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure provisions of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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

The HKICPA has issued a few amendments to HKFRSs that are first effective for the current accounting period of the Group. 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. None of the other developments are relevant to the Group's interim financial report and the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The accounting policies and methods of computation used in the interim financial report are consistent with those applied in the consolidated financial statements for the six-month period ended December 31, 2011, which is the preceding financial period due to change in financial year end date from June 30 to December 31.

## 2. TURNOVER AND SEGMENT INFORMATION

The Group manages its businesses according to the nature of services and products provided. Management has determined three reportable operating segments for the measurement of performance and the allocation of resources. The segments are property leasing in Hong Kong and mainland China and property sales in Hong Kong.

Property leasing segment includes property leasing operation. The Group's investment properties portfolio, which mainly consists of retail, office, residential, serviced apartments and carparks are primarily located in Hong Kong and mainland China. Property sales segment includes development and sale of the Group's trading properties in Hong Kong.

Management evaluates performance primarily based on profit before taxation.

Segment assets principally comprise all non-current assets and current assets directly attributable to each segment with the exception of interest in jointly controlled entities, other assets, deferred tax assets and cash and deposits with banks. The investment properties of the Group are included in segment assets at their fair values whilst the change in fair value of investment properties is not included in segment profits.

## 2. TURNOVER AND SEGMENT INFORMATION (continued)

(a) Turnover and results by segments

| | Turnover | | Profit before taxation | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | $ Million | $ Million | $ Million | $ Million |
| **Segment** | | | | |
| Property leasing | | | | |
| – Hong Kong | 1,487 | 1,435 | 1,251 | 1,189 |
| – Mainland China | 1,475 | 1,208 | 1,171 | 933 |
| | 2,962 | 2,643 | 2,422 | 2,122 |
| Property sales | | | | |
| – Hong Kong | 1,272 | – | 798 | – |
| Segment total | 4,234 | 2,643 | 3,220 | 2,122 |
| Other income | | | 479 | 142 |
| Administrative expenses | | | (295) | (185) |
| Operating profit before change in fair value of investment properties | | | 3,404 | 2,079 |
| Increase in fair value of investment properties | | | 1,295 | 1,052 |
| – property leasing in Hong Kong | | | 943 | 657 |
| – property leasing in mainland China | | | 352 | 395 |
| Finance costs | | | (134) | (50) |
| Share of profits of jointly controlled entities | | | 43 | 38 |
| Profit before taxation | | | 4,608 | 3,119 |

## 2. TURNOVER AND SEGMENT INFORMATION (continued)

(b) Total assets by segments

| | Total assets | |
|---|---|---|
| | 30/6/2012 | 31/12/2011 |
| | $ Million | $ Million |
| **Segment** | | |
| Property leasing | | |
| – Hong Kong | 54,955 | 54,355 |
| – Mainland China | 66,814 | 64,476 |
| | 121,769 | 118,831 |
| Property sales | | |
| – Hong Kong | 7,308 | 6,159 |
| Segment total | 129,077 | 124,990 |
| Interest in jointly controlled entities | 993 | 1,007 |
| Other assets | 890 | 899 |
| Deferred tax assets | 9 | 35 |
| Cash and deposits with banks | 28,972 | 23,732 |
| Total assets | 159,941 | 150,663 |

## 3. OTHER INCOME

| | 2012 | 2011 |
|---|---|---|
| | $ Million | $ Million |
| Gain on disposal of investment properties | 220 | – |
| Bank interest income | 249 | 132 |
| Interest income from unlisted held-to-maturity investments | 10 | 9 |
| Net exchange gain | – | 1 |
| | 479 | 142 |

## 4. PROFIT BEFORE TAXATION

| | 2012<br>$ Million | 2011<br>$ Million |
|---|---|---|
| Profit before taxation is arrived at after charging: | | |
| Finance costs | | |
| Interest on borrowings | 262 | 128 |
| Other borrowing costs | 20 | 18 |
| Total borrowing costs | 282 | 146 |
| Less: Borrowing costs capitalized | (148) | (96) |
| | 134 | 50 |
| Cost of properties sold | 354 | — |
| Staff costs, including employee share-based payments of $95 million (2011: $45 million) | 422 | 306 |
| Depreciation | 17 | 15 |

## 5. TAXATION

(a) Provision for Hong Kong Profits Tax is calculated at 16.5% (2011: 16.5%) of the estimated assessable profits for the period. China Income Tax mainly represents China Corporate Income Tax calculated at 25% (2011: 25%) and China withholding income tax at the applicable rates. A withholding tax of 5% is levied on the Hong Kong companies in respect of dividend distributions arising from profits of foreign investment enterprises in mainland China earned after January 1, 2008.

| | 2012<br>$ Million | 2011<br>$ Million |
|---|---|---|
| Current tax | | |
| Hong Kong Profits Tax | 254 | 147 |
| China Income Tax | 252 | 210 |
| | 506 | 357 |
| Deferred tax | | |
| Change in fair value of investment properties | 89 | 98 |
| Other origination and reversal of temporary differences | 84 | 71 |
| | 173 | 169 |
| Total income tax expense | 679 | 526 |

(b) There is no tax effect relating to the component of the other comprehensive income for the period.

## 6. DIVIDENDS

(a) Dividends attributable to the period

| | 2012<br>$ Million | 2011<br>$ Million |
|---|---|---|
| Interim dividend declared and paid of 17 cents per share | – | 760 |
| Proposed after the reporting date: | | |
| Final dividend of 54 cents per share | – | 2,415 |
| Interim dividend of 17 cents per share | 761 | – |
| | 761 | 3,175 |

Dividends proposed after the reporting dates have not been recognized as liabilities at the respective reporting dates.

(b) Dividends attributable to the previous financial year, approved and paid during the period

| | 2012<br>$ Million | 2011<br>$ Million |
|---|---|---|
| Dividend in respect of the previous financial year of 36 cents per share | 1,611 | – |

## 7. EARNINGS PER SHARE

(a) The calculation of basic and diluted earnings per share is based on the following data:

| | 2012<br>$ Million | 2011<br>$ Million |
|---|---|---|
| Earnings for calculation of basic and diluted earnings per share (net profit attributable to shareholders) | 3,678 | 2,374 |

| | Number of shares<br>2012<br>(Million) | <br>2011<br>(Million) |
|---|---|---|
| Weighted average number of shares used in calculating basic earnings per share | 4,473 | 4,470 |
| Effect of dilutive potential shares - share options | 14 | 46 |
| Weighted average number of shares used in calculating diluted earnings per share | 4,487 | 4,516 |

7. EARNINGS PER SHARE (continued)

(b) The underlying net profit attributable to shareholders which excluded changes in fair value of investment properties net of related deferred tax and non-controlling interests, is calculated as follows:

| | 2012<br>$ Million | 2011<br>$ Million |
|---|---|---|
| Net profit attributable to shareholders | 3,678 | 2,374 |
| Effect of changes in fair value of investment properties | (1,295) | (1,052) |
| Effect of corresponding deferred tax | 89 | 98 |
| Effect of changes in fair value of investment properties of jointly controlled entities | (22) | (18) |
| | (1,228) | (972) |
| Non-controlling interests | 70 | 64 |
| | (1,158) | (908) |
| Underlying net profit attributable to shareholders | 2,520 | 1,466 |

The earnings per share based on underlying net profit attributable to shareholders are:

| | 2012 | 2011 |
|---|---|---|
| Basic | $0.56 | $0.33 |
| Diluted | $0.56 | $0.32 |

8. INVESTMENT PROPERTIES AND INVESTMENT PROPERTIES UNDER DEVELOPMENT

(a) Additions

During the period, additions to investment properties and investment properties under development amounted to $2,492 million (2011: $2,213 million).

(b) Valuation

The investment properties and investment properties under development of the Group were revalued as at June 30, 2012 by Mr. Charles C.K. Chan, Registered Professional Surveyor (General Practice), of Savills Valuation and Professional Services Limited, on a market value basis.

9. OTHER ASSETS

At the reporting date, the Group held investments in unlisted bonds which will mature from September 2012 to December 2013. The effective yield of the bonds ranged from 1.6% to 2.9% (December 31, 2011: 1.6% to 2.9%) per annum, payable quarterly or semi-annually.

## 10. CASH AND DEPOSITS WITH BANKS

At the reporting date, the Group had cash and deposits with banks with currency denominated in:

| | 30/6/2012 $ Million | 31/12/2011 $ Million |
|---|---|---|
| Hong Kong Dollars equivalent of: | | |
| Renminbi | 20,596 | 19,074 |
| Hong Kong Dollars | 2,823 | 3,497 |
| United States Dollars | 5,553 | 1,161 |
| | 28,972 | 23,732 |

The Group holds Renminbi bank deposits to meet its ongoing payment obligations in relation to its development projects in mainland China.

## 11. TRADE AND OTHER RECEIVABLES

(a) Included in trade and other receivables are trade receivables with the following terms:

| | 30/6/2012 $ Million | 31/12/2011 $ Million |
|---|---|---|
| Current and within 1 month | 1,424 | 66 |
| 1 - 3 months | 7 | 3 |
| Over 3 months | 2 | 3 |
| | 1,433 | 72 |

The balance of bad and doubtful debts is insignificant.

The Group maintains a defined credit policy including stringent credit evaluation on and payment of a rental deposit from tenants. Proceeds from property sales are receivable pursuant to the terms of the sale and purchase agreements. In addition to the payment of rental deposits, tenants are required to pay monthly rents in respect of leased properties in advance. Except for sale of properties developed by the Group, it does not hold any collateral over the receivables. Receivables are regularly reviewed and closely monitored to minimize any associated credit risk.

(b) Included in other receivables of the Group is deposit of land acquisition in mainland China of $307 million (December 31, 2011: $308 million) and amount recoverable from a jointly controlled entity of $623 million (December 31, 2011: $693 million) which is unsecured and expected to be recoverable within one year.

## 12. BANK LOANS AND OTHER BORROWINGS

At June 30, 2012, the Group had $4,363 million (December 31, 2011: $5,330 million) committed undrawn banking facilities.

In addition, the Group has a US$3 billion (December 31, 2011: US$2 billion) Medium Term Note Program (the "Program"). At the reporting date, the Group has issued in total an equivalent of $5,171 million (December 31, 2011: $Nil) 10-year bonds with the coupon rates ranged from 4.15% to 4.75% per annum under the Program.

## 13. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade creditors with the following ageing analysis:

| | 30/6/2012<br>$ Million | 31/12/2011<br>$ Million |
|---|---|---|
| Due within 1 month | 2,222 | 1,752 |
| Due after 3 months | 275 | 287 |
| | 2,497 | 2,039 |

## 14. SHARE OPTION SCHEME

At June 30, 2012, the directors and employees had the following interests in share options of the Company granted at nominal consideration under the share option scheme of the Company. Each share option gives the holder the right to subscribe for one share.

The movements of share options during the period are as follows:

| | Number of share options | | | | | | |
|---|---|---|---|---|---|---|---|
| Date granted | Outstanding on January 1, 2012 | Granted | Exercised | Lapsed | Outstanding on June 30, 2012 | Period during which options are exercisable | Exercise price (HK$) |
| May 20, 2004 | 7,431,625 | – | – | – | **7,431,625** | May 20, 2005 to May 19, 2014 | 9.20 |
| September 1, 2005 | 500,000 | – | – | – | **500,000** | September 1, 2006 to August 31, 2015 | 12.35 |
| November 14, 2006 to March 19, 2007 | 10,534,000 | – | (520,000) | – | **10,014,000** | November 14, 2007 to March 18, 2017 | 16.75 - 22.55 |
| August 21, 2007 to December 31, 2008 | 59,908,000 | – | (376,000) | (140,000) | **59,392,000** | August 21, 2008 to December 30, 2018 | 17.36 - 27.90 |
| February 8, 2010 to June 1, 2010 | 21,450,000 | – | – | (200,000) | **21,250,000** | February 8, 2012 to May 31, 2020 | 26.46 - 27.27 |
| July 29, 2010 to June 13, 2011 | 46,650,000 | – | – | (780,000) | **45,870,000** | July 29, 2012 to June 12, 2021 | 30.79 - 36.90 |
| December 7, 2011 | 1,350,000 | – | – | – | **1,350,000** | December 7, 2013 to December 6, 2021 | 24.10 |
| Total | 147,823,625 | – | (896,000) | (1,120,000) | **145,807,625** | | |

All the above options may vest after one to five years of the grant date and are exercisable up to the tenth anniversary of the date of grant, after which they will lapse. No options were cancelled during the period.

No options were granted during the period.

No share options were exercised by the directors during the period. The weighted average closing prices of the shares immediately before the dates of exercise by the employees during the period was $28.22.

The weighted average share price at the dates of exercise for share options during the period was $28.58.

## 15. RESERVES

| | Share premium $ Million | Capital redemption reserve $ Million | Exchange reserve $ Million | Employee share-based compensation reserve $ Million | Total $ Million | Retained profits $ Million | Total reserves $ Million |
|---|---|---|---|---|---|---|---|
| At January 1, 2012 | 32,909 | 2,066 | 5,615 | 477 | 41,067 | 65,922 | 106,989 |
| Profit for the period | – | – | – | – | – | 3,678 | 3,678 |
| Exchange difference arising from translation of overseas subsidiaries | – | – | (465) | – | (465) | – | (465) |
| Total comprehensive income for the period | – | – | (465) | – | (465) | 3,678 | 3,213 |
| Final dividends in respect of previous financial year | – | – | – | – | – | (1,611) | (1,611) |
| Issue of shares | 15 | – | – | – | 15 | – | 15 |
| Employee share-based payments | 4 | – | – | 81 | 85 | 10 | 95 |
| **At June 30, 2012** | 32,928 | 2,066 | 5,150 | 558 | 40,702 | 67,999 | 108,701 |

## 15. RESERVES (continued)

| | Share premium $ Million | Capital redemption reserve $ Million | Exchange reserve $ Million | Employee share-based compensation reserve $ Million | Total $ Million | Retained profits $ Million | Total reserves $ Million |
|---|---|---|---|---|---|---|---|
| At January 1, 2011 | 32,828 | 2,066 | 2,838 | 356 | 38,088 | 64,193 | 102,281 |
| Profit for the period | – | – | – | – | – | 2,374 | 2,374 |
| Exchange difference arising from translation of overseas subsidiaries | – | – | 1,257 | – | 1,257 | – | 1,257 |
| Total comprehensive income for the period | – | – | 1,257 | – | 1,257 | 2,374 | 3,631 |
| Interim dividends in respect of current financial year | – | – | – | – | – | (760) | (760) |
| Issue of shares | 50 | – | – | – | 50 | – | 50 |
| Employee share-based payments | 12 | – | – | 29 | 41 | 4 | 45 |
| At June 30, 2011 | 32,890 | 2,066 | 4,095 | 385 | 39,436 | 65,811 | 105,247 |

## 16. CONTINGENT LIABILITIES

At the reporting date, contingent liabilities were as follows:

| | 30/6/2012<br>$ Million | 31/12/2011<br>$ Million |
|---|---|---|
| Guarantees given to banks to secure credit facilities drawn by subsidiaries | 27,634 | 20,821 |

## 17. COMMITMENTS

At the reporting date, capital commitments not provided for in the interim financial report were as follows:

| | 30/6/2012<br>$ Million | 31/12/2011<br>$ Million |
|---|---|---|
| Contracted for | 9,295 | 6,441 |
| Authorized but not contracted for | 22,494 | 27,551 |
| | 31,789 | 33,992 |

The above commitments include mainly the land costs and construction related costs to be incurred in respect of the Group's development of its investment properties in various cities in mainland China.

## 18. RELATED PARTY TRANSACTIONS

A fellow subsidiary of the Company contributed funds as capital investment to a subsidiary of the Company for the development of Plaza 66, a property in Shanghai. The amount outstanding at June 30, 2012 was $14 million (December 31, 2011: $14 million).

## 19. REVIEW AND APPROVAL OF INTERIM FINANCIAL REPORT

The interim financial report is audited and has been reviewed by the Audit Committee. It was authorized for issue by the Board of Directors on July 31, 2012.

# Financial Briefs

| Financial Briefs<br>as at June 30, 2012 | HK$ Million<br>(unless otherwise stated) |
|---|---|
| Turnover | 4,234 |
| Net profit attributable to shareholders | 3,678 |
| Total assets | 159,941 |
| Shareholders' equity | 113,175 |
| Per share data | |
| Earnings – Basic | $0.82 |
| – Diluted | $0.82 |
| Interim dividend | $0.17 |
| Net assets (including non-controlling interests) | $26.6 |
| Shareholders' equity | $25.3 |
| Gearing ratio (note 1) | 0% |
| Pay-out ratio | 21% |
| Number of shares issued (in million) | 4,474 |

| Underlying Results<br>as at June 30, 2012 | HK$ Million<br>(unless otherwise stated) |
|---|---|
| Underlying net profit attributable to shareholders (note 2) | 2,520 |
| Per share data | |
| Underlying earnings (note 3) – Basic | $0.56 |
| – Diluted | $0.56 |

Notes:

1. Gearing ratio represents net debt over equity plus net debt. Net debt represents bank loans and other borrowings and finance lease obligations, less cash and deposits with banks. Equity comprises shareholders' equity and non-controlling interests.

2. The underlying profit is presented by excluding the effect of adopting Hong Kong Accounting Standard 40, Investment Property, which requires changes in fair value of investment properties and investment properties under development, net of related deferred tax and non-controlling interests be accounted for in the income statement.

3. The calculation of underlying earnings per share is based on the underlying net profit attributable to shareholders.

## FINANCIAL CALENDAR

| | |
|---|---|
| Financial period | January 1, 2012 to June 30, 2012 |
| Announcement of interim results | July 31, 2012 |
| Latest time for lodging transfers | 4:30 p.m. on August 28, 2012 |
| Closure of share register | August 29 to 31, 2012 (both days inclusive) |
| Record date for interim dividend | August 31, 2012 |
| Payment date for interim dividend | September 13, 2012 |

## SHARE LISTING

As at June 30, 2012, 4,473,666,045 shares of HK$1.00 each are listed on The Stock Exchange of Hong Kong Limited. It has a sponsored American Depositary Receipt (ADR) Program in the New York market.

## STOCK CODE

| | |
|---|---|
| The Stock Exchange of Hong Kong Limited | 00101 |
| Reuters | 0101.HK |
| Bloomberg | 101 HK |
| Ticker Symbol for ADR Code | HLPPY |
| CUSIP reference number | 41043M104 |

## SHARE INFORMATION

Share price as at June 30, 2012 : HK$26.20
Market capitalization as at June 30, 2012 : HK$117.21 billion

## SHARE REGISTRARS

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## INVESTOR RELATIONS CONTACT

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