恒隆地產
HANG LUNG PROPERTIES

2013
Interim Report

Stock Code: 00101

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 *
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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AUDITOR

KPMG
Certified Public Accountants

RESULTS AND DIVIDEND

For the six months ended June 30, 2013, we sold much fewer residential units than the last corresponding period. As a result, turnover slipped 22% to HK$3,305 million and net profit attributable to shareholders 23% to HK$2,828 million. Earnings per share fell 23% to HK$0.63. Excluding effects of revaluation gains, the underlying net profit attributable to shareholders and the underlying earnings per share both went down by 23% to HK$1,933 million and HK$0.43 respectively.

The Board has declared an interim dividend of HK17 cents per share payable on September 26, 2013 to shareholders of record on September 12, 2013. This is the same amount as in mid-year 2012.

OPERATIONS REVIEW

For both Hong Kong sales and Mainland China rental markets, winter has descended upon us. There is as yet no indication when spring will arrive. What we do know however is that it will sooner or later return. Much should be done in the interim to prepare ourselves for the next round of good times. That we shall do as I shall explain later.

As our shareholders know, since 2001 we have concentrated our efforts in Mainland China, and have hardly purchased land in Hong Kong. Due to the lack of land supply which was a direct consequence of the Hong Kong government's then policies, residential prices could only move up. As a result, we have taken our time to sell completed apartments. We would go for profit rather than quantity of sales.

In each six-month period since mid 2008, we had only twice sold flats in mass quantities — in the second half of 2009 and in early 2012. Profit margins kept rising which should not be a surprise. That notwithstanding, a year ago I wrote that prices had risen to such levels that we would be happy to sell all flats on hand. Unfortunately the prevailing global economic conditions coupled with the inauguration of the new administration in Hong Kong have made selling more difficult. Nevertheless we are not overly concerned given the quality of our portfolio. Almost all remaining units have harbor view which is highly desirable anywhere especially in Hong Kong where population density is high and the harbor beautiful. Such assets tend to hold up their value much better than most in the market.

In the past six months, we parted with very few apartments. That was the main reason why total turnover and profit fell. Another is that in 2012 we sold quite a few long-held Hong Kong investment assets on a one-off basis.

Leasing turnover and profit both grew in Hong Kong and on the Mainland. Total rents rose by 9% and so did profit. Mainland now accounts for 53% of top line and 51% of bottom line, and Hong Kong 47% and 49% respectively.

Excluding the effect of the sales of Hong Kong investment properties a year ago so as to compare like with like, rents in our home city advanced by over 11%. The increase was sufficient to offset the loss of rent from disposed buildings, leaving us with an overall revenue increase of 2%. Retail space recorded a 14% rental rise and for offices, 11%. Residential and other rents were flat. Occupancy rates improved by three points to 98% for commercial and by one point to 96% for office.

18 months ago, I wrote about slowing retail sales on the Mainland when some market participants were still optimistic. Now everyone is bearish. I remain cautious, but nevertheless am pleased to report that with the exception of one special case, all of our properties recorded rising rents.

In Shanghai, both Plaza 66 and Grand Gateway 66 saw revenue grown by 7%. In Plaza 66, shopping center rent rose by 8% and for offices, 7%. Occupancy was about 96% for the entire complex. For Grand Gateway 66 where your Company only owns the mall which was fully leased, turnover increased by 7%. Rental margin everywhere held steady.

Compared to a year ago, retail sales advanced by 3% at Plaza 66 and 5% for Grand Gateway 66. Occupancy cost to our tenants did not change much. Turnover rent contribution fell especially for the luxury mall. Fortunately, unlike many shopping center owners, our lease terms are well-covered with a solid base rent. We always insist on this arrangement, and our relatively stronger bargaining power with tenants has enabled us to do that.

Jinan Parc 66 remained a happy story. We collected 6% more rent, and operating profit advanced by 15%. Rental margin improved four points to 57%. Retail sales grew by 6% although occupancy rate fell to 92%. The slippage occurred because after two years of operations, changeover of tenants became inevitable, be it voluntary or involuntary.

Let me now turn to the two shopping centers in Shenyang. The luxury one Forum 66 has only been opened for a little over nine months and is performing acceptably. For the period under review, retail sales have already surpassed those of the four-star Palace 66. It is fully leased, and rental margin at 61% is higher than that of the older Jinan Parc 66. The reason is that Forum 66 has mostly top fashion brands which pay higher unit rent. Nevertheless, as in any new facility, challenges abound especially as we enter a slower retail sales growth period which is particularly severe for high-end products. The first office tower being built next door has turned part of the mall's surroundings into a construction site. This too is not ideal and will last for some time.

I am hopeful that the worst for Palace 66 is almost over. Road works surrounding our site are still ongoing, but with the 12th National Games opening in Shenyang on August 31, they are expected to be completed soon.

As reported before, we have undertaken rather extensive tenant remixing which led to a repositioning of the mall. Such a process inevitably resulted in lowering the occupancy to 87% and a temporary slip in rental income. By year-end, it should return to 92% or higher. Because less rent was collected, margin retreated to 23% but I expect it to soon rise again. An encouraging sign is that notwithstanding all the difficulties, total retail sales actually grew.

Our overall leasing performance seemed to have beaten market expectation. Profit for the period under review was above most if not all market forecasts. Let me offer a few plausible explanations, none of which should be new to my faithful readers.

First, just as I have written in the past, retail malls are not exactly fungible assets. Location, size, design as well as customer service all combine to make a very few of them highly successful and the rest also-runs or living deads. Frankly the majority of Mainland properties belong to the latter categories. This approximates what I once described the winner-takes-all phenomenon. A corollary to the above is that in adverse market conditions like today, stronger players will weather them better.

Secondly, the superior shopping centers have far more bargaining power with desirable tenants. The level of rent paid — base or sales related — is not the primary concern of shop owners. The crux is the sales thus generated. This is why even though top brands may receive cash upfront for decoration and more from owners of poor properties, they usually choose to pay rent at superior facilities. The former more often than not do not perform well; the latter usually do. In fact, luxury names who care for their brand equity mostly refuse to play the get-cash-to-move-in game. And for those who do, the "rent-free" stores are for nothing more than marketing.

Where will that leave the property owners?! They have no one to blame except themselves for putting inferior buildings in wrong spots. As I have explained before, location, size and design are basic "genetic" elements of a mall which cannot be changed once built. Developers who do not respect them are almost destined to failure even before they open the doors for business.

Thirdly, quality design and construction, supported by reasonable facility management, will yield better than average rental margins. Newer properties will inevitably have lower margins, but experienced developers cum managers should outperform others in the long run. Most analysts probably did not expect our Mainland portfolio with many newly opened malls to have achieved a rental margin of 79%. The average for that market is perhaps 66-67%. So for every dollar of rent received, we are able to pocket 12-13 cents more in profit. That differential is significant indeed.

To complete the picture, together with a two-point improvement in rental margin at 86% in Hong Kong, the blended ratio for all our properties was 82%.

During a bear market, much can and should be done. Here I will only mention that one of them is to buy land when sellers need cash. That was exactly what we did in February. We have for years been searching in Wuhan which is an excellent city for retail sales. The piece we purchased is in the city's best shopping district, and site clearance is basically complete.

Plot size and buildable space are both slightly larger than the Kunming piece but land cost is cheaper. We paid RMB3.3 billion for the 8.26 hectares and will build 4.9 million square feet upon it excluding car parks. Total space including car parks should be around 7 million square feet. By comparison, Kunming cost us RMB3.5 billion for 5.6 hectares of land with buildable area of respectively 4.6 million and 6.5 million square feet without and with car parks. Both projects will have a shopping center, an office tower, as well as some serviced apartments which can be sold. Overall, we are quite pleased with this acquisition.

PROSPECTS

In the whole of the 2000's, the Hong Kong government being by far the city's biggest land owner hardly sold any land. Before 2002, it was understandable because of the Asian Financial Crisis which struck on July 2, 1997. That was the day after Hong Kong's return to her Motherland. After the economy has gradually recovered, the city was hit in 2003 by SARS. But by 2004 and latest 2005, there was no excuse not to sell land. This was beyond incompetence.

The consequence to us was significant. Residential prices kept rising and that was why we were in no hurry to sell the completed apartments built on land bought in 1999 and 2000. Successive sales resulted in ever rising profit margins.

A similar situation existed with our investment properties. With an ever growing number of Chinese tourists, Hong Kong's overall retail sales kept climbing. Heightened economic activities on the Mainland spilt over to our city which increased the need for offices, not the least of which was from the financial services industry. Yet there was almost no new supply of land for commercial developments. All that have kept rents rising.

Anyone who has the best interest of our economy — and not just any single industry — in mind would not like to see this situation continue, for it will lead to price bubbles which will sooner or later burst. The economic consequences will be dire. But to correct the situation is easier said than done. There is little land that can be sold by the government not only now but also in the near future because the previous administration has not built a land bank. Now it is being done but it will take time.

So for now, all the government can do is to control demand. Draconian measures such as double stamp duty have been introduced and the market went dead. Unless the government let off the brake which is improbable, prices will have to wait until land supply catches up before they will move again. This is for the long term health of the real estate sector which is very important to the overall economy.

As such, it is unlikely that we will be able to part with our completed apartments in meaningful lots in the near future. Looking back, unless we were willing to lower prices considerably, we would not be able to sell more in the past 2-3 years. We were also hit at least twice by misfortune during our sales campaigns — the stock market fell seriously on one occasion, and the government launched austere curbing measures on another.

None of the market conditions described above will in the foreseeable future affect rents of commercial properties. However, market sentiment has caused almost all sales transactions of such assets to cease. As such, it was fortuitous that we had let go of a lot of our fringe buildings to highly pleasing profits. Today, such good prices could not have been fetched.

On the Mainland, retail sales have slowed considerably. Factors affecting them are rather complex. Compared to Hong Kong, not only is the domestic market on the Mainland far bigger and more complicated, internal politics as well as international economics also play a greater role. I can analyze extensively here, but what is critical to the long term health of our business is not that complicated. The prime question to ask is: Will China's domestic consumption rise in the long term? The answer is a resounding yes. This is important so that dependence on public investments (such as infrastructure projects) and on exports may be gradually reduced. There is no choice.

Indeed private consumption has been rising considerably even in the face of recent economic slowdown. It is just that public investments have increased so fast of late that private consumption as a percentage of the economy seems to have not grown or even contracted. But the consensus inside and outside of Beijing is that domestic consumption must rise. Consumer spending presently stands at around 34-35% of China's GDP. If it were to catch up only halfway to that of America's 70%, it would have grown 50% from today's level. In the process, the economic pie will continue to expand at 6-8% per annum. Such is the potential of our market.

This is why your management is not overly worried by today's bear market. Instead, we will take advantage of it and will focus our efforts in at least four broad areas.

First, we will redouble efforts to ensure smooth construction of the remaining Mainland projects. At present, we are erecting over 30 million square feet of world class commercial space costing close to HK$90 billion. It will realistically take at least 10-12 years to complete. Nevertheless, it will be front-end loaded in the sense that we are moving full-steam ahead subject only to market conditions. Moreover, the more complicated and highest value added retail elements will be ready first, leaving some of the offices to be built as demand arises. We will also speed up the construction of residential units which are mostly for sale. This means that the next few years will be particularly critical.

Secondly, we will continue to strengthen our management team both in terms of quantity and quality. As our shareholders know, for the past six to seven years we have been adding a lot of staff but the number of new projects kept growing. Our resolve is to build a top-flight workforce to realize our dream of owning and managing some of the world's most outstanding and profitable commercial complexes.

Thirdly, it is important that we shore up our corporate culture, a topic which I have addressed in my previous letters to shareholders. It is not sufficient to merely have the best people; we must build a culture conducive to always doing the right thing. This is captured in the tagline which we have adopted last year — We Do It Right!

What we have today is not only a slowdown in the property sector but also a lull in our share price. After outperforming our peers for much of the 2000's, our stock has been drifting along with other real estate counters. The investment public knows well that our parent entity has of late been buying our scripts. We believe that this is beneficial — both in the short and long term — to shareholders of our Company.

For the past six to seven years, we have been basically debt free. Sales of completed Hong Kong apartments and of matured investment assets have kept us from net borrowing until last month. As of today, gearing ratio is however only about 0.3%. Even in the absence of further sales of Hong Kong properties, an assumption which is perhaps unrealistic, we have sufficient financing on hand to pay for all anticipated outgoings including capital expenditure (mostly construction payments) for the coming few years.

Given the above, we can comfortably buy one to two reasonably sized plots of land in the coming year or two. However, we are in no hurry to act unless we find a very attractive opportunity. Even if it does not come, we have plenty of work to keep our team very busy.

For the rest of 2013, it is doubtful if we will be able to sell apartments in mass quantities. Leasing activities in both Hong Kong and the Mainland should approximate the period just reviewed.

However, bottom line numbers do not tell the full story. With the weakening of Mainland retail sales especially in the luxury sector, certain measures of our performance may suffer slightly before conditions begin to improve. Your management is well prepared for the coming challenges.

We welcome Mr. Norman Chan who recently joined us as Director — Leasing and Sales. Like his predecessor who has retired from us, he will be in charge of all our leasing activities. Norman is very experienced in property management and has worked for many years on the Mainland.

Ronnie C. Chan
Chairman of the Board of Directors
Hong Kong, July 31, 2013

OVERVIEW

For the six months to June 30, 2013, our property leasing income and profit both grew in Hong Kong and on the Mainland. Rental turnover and operating profit reached HK$3,222 million and HK$2,645 million, respectively. Comparing to the last corresponding period, both rental income and profit were 13% higher when excluding the effect of the disposal of matured properties in 2012; overall they grew 9%. We sold only five residential apartments during the period which generated turnover and profit of HK$83 million and HK$60 million, respectively. That was insignificant compared to the property sales turnover and profit of HK$1,272 million and HK$798 million respectively generated in the first half of 2012. In addition, a gain of HK$7 million was booked under Other Income during the current period; that resulted from the disposal of a few car park spaces previously included in our investment property portfolio. Comparing that to a year ago, a gain of HK$220 million arising from the disposal of two non-core investment properties was recorded. The revaluation gain for the period amounted to HK$1,014 million, a decrease of HK$281 million compared to the first half of 2012.

Net profit attributable to shareholders decreased by 23% to HK$2,828 million compared with the same period last year. The decrease was mainly due to much fewer residential units being sold during the first half of 2013. When excluding the revaluation gain and its related deferred tax applicable in mainland China and non-controlling interests, underlying net profit fell by 23% to HK$1,933 million.

The Board of Directors has declared an interim dividend of HK17 cents per share, to be paid on September 26, 2013, to shareholders registered as at September 12, 2013. The Register of Members will be closed from September 10, 2013, to September 12, 2013, 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 Registrars, Computershare Hong Kong Investor Services Limited, not later than 4:30 p.m. on September 9, 2013.

PROPERTY LEASING

Our property leasing operations achieved solid results in spite of a slowdown in luxury goods spending on the Mainland. Leasing turnover and profit both grew 13% to HK$3,222 million and HK$2,645 million, respectively, on a comparable basis when excluding the effect of the disposal of matured investment properties in 2012. Overall, leasing income and profit rose 9%.

Hong Kong

Rental turnover and profit in Hong Kong grew 11% and 12% to HK$1,521 million and HK$1,308 million, respectively, by stripping out the effect of investment properties disposed of in 2012. The solid growth was mainly attributable to higher occupancy rate and rental reversions. The occupancy rate of commercial properties improved from 95% to 98% whereas that of office and industrial/office improved from 95% to 96%. The overall year-on-year increase of rental turnover and operating profit would be 2% and 5%, respectively.

Mainland China

Leasing income and profit of our Mainland operations grew 15% to HK$1,701 million and 14% to HK$1,337 million, respectively. These accounted for 53% and 51% of the Group's rental turnover and operating profit, respectively, up from 50% and 48%, respectively, a year ago.

In Shanghai, Plaza 66 collected 7% more rent to HK$776 million. Occupancy rate of both the mall and office towers was 96%. Rental turnover of the mall at Plaza 66 rose 8% to HK$384 million compared to the first half of 2012. The growth was mainly driven by rental reversions and completion of renovation works by certain major tenants. Leasing income of the office towers at Plaza 66 grew almost 7% to HK$392 million. Through the change of tenant mix and rental reversions, the mall of Grand Gateway 66 achieved rental turnover growth of 7% to HK$523 million and was fully let.

Occupancy rate of Palace 66 in Shenyang decreased to 87% as a result of a management decision to accelerate the repositioning of the mall after the opening of the Forum 66 mall in the same city last September. The mall generated rental turnover of HK$75 million in the first half of 2013, representing a 9% drop when compared to the same period last year.

The rents of Parc 66 in Jinan rose 6% to HK$189 million. This was mainly attributable to a 10% higher average unit rent, but this favorable effect was partly offset by a decrease in occupancy rate to 92% as we started the process of changing tenant mix upon expiry of some short-term leases.

Forum 66, our new shopping mall in Shenyang, opened in September 2012, collected HK$138 million in rents in the first half of 2013 and was fully let.

PROPERTY SALES

During the period, we sold five apartments which included a unit of The HarbourSide and four units of AquaMarine at average prices of HK$39,000 and HK$10,600 per square foot, respectively. The apartment sales achieved a profit margin of 77% and 64%, respectively, generating a total profit of HK$60 million.

PROPERTY DEVELOPMENT

In February 2013, we acquired a prime lot of about 82,650 square meters in Qiaokou District of Wuhan for RMB3.3 billion. The plan is to build a world-class shopping mall, an office tower and serviced apartments on the site with a floor area of about 460,000 square meters excluding the car park space and ancillary facilities.

The shopping mall of Center 66 in Wuxi is scheduled for opening in September this year. Pre-leasing commitments were over 90% of the total leasable area.

Structural construction works at our Tianjin shopping mall, Riverside 66, have made good progress. Pre-leasing activities of the mall have already started. Other projects under development on the Mainland are progressing as planned.

Interior fit-out work of the Blue Pool Road residential project in Happy Valley, Hong Kong, is almost completed. This project should be ready for release later this year if the market condition is favorable.

PROPERTY REVALUATION

For the six months ended June 30, 2013, our Hong Kong investment properties portfolio recorded a valuation gain of HK$687 million compared to HK$943 million in the last corresponding period.

The Mainland investment properties portfolio had a total valuation gain of HK$327 million against HK$352 million in the comparable period in 2012.

Overall, a valuation gain of HK$1,014 million was recorded for the first half of 2013 compared to HK$1,295 million stated in the interim results of 2012.

FINANCIAL POSITION

The Group continued to maintain a strong balance sheet. We had HK$33,559 million of liquid funds as at June 30, 2013, most of which was held in Renminbi (RMB) bank deposits. The RMB deposits provide a natural hedge against the currency fluctuations of our RMB construction commitments on the Mainland. After deducting total borrowings amounting to HK$33,886 million, the Group had a net debt balance of HK$327 million as at June 30, 2013. The resulting gearing ratio calculated on the basis of net debts to the Group's equity plus net debts was 0.3%.

The Group continued to maintain a Medium Term Note ("MTN") Program which would enable it to issue debt securities up to an equivalent of US$3,000 million. This provides an alternate source of debt financing to bank borrowings. During the first half of 2013, the Group issued HK$435 million of 7-year fixed rate bonds through the MTN Program. As at June 30, 2013, the Group had an equivalent of HK$6,237 million fixed rate bonds issued under the MTN Program with a weighted average remaining tenor of 8.8 years. Those bonds were un-rated and issued with coupon rates ranged from 2.95% to 4.75% per annum. Proceeds from the bond issuances were used to repay some short-term bank borrowings. With the bond issuances, the Group's ability in managing future interest rate volatility and re-financing risks has been further enhanced.

The Group also had committed undrawn banking facilities amounting to HK$4,053 million, as at June 30, 2013.

OUTLOOK

During the first half of 2013, the Chinese economy remained sluggish compared to recent years. A slowdown in luxury goods spending on the Mainland posed a challenging business environment. If the slowdown in consumption growth persists for a long period, this may constrain rental growth of our Mainland operations. On the other hand, this may present us with good opportunities for more land acquisitions given our financial strength.

Meanwhile, we will continue to optimize the tenant mix at Palace 66 in Shenyang for longer term benefits. It is expected that the rental turnover and occupancy rate of this mall shall improve in the second half of 2013.

Jinan Parc 66 will reach its second anniversary in August. We will modify the tenant profile by taking advantage of the expiry of some short-term leases. Leasing income and profit of Parc 66 should continue to grow as experienced in the first half of 2013.

The mall of Shenyang Forum 66 will attain its first anniversary in September. Its performance in the second half of 2013 may be affected if the slowdown in luxury goods spending continues.

Provided that the economic sentiments of the Hong Kong market remain stable, the performance of our Hong Kong property portfolio shall continue to deliver steady rental growth over the next six months.

With the various measures implemented by the Hong Kong government to cool down the local property market, income from property sales in 2013 would be significantly less than last year.

Final preparations are taking place for the opening of Center 66's shopping mall in Wuxi in September this year. The addition of this mall to our existing investment property portfolio will provide further impetus to future income and profit growth.

Corporate Governance

We are committed to maintaining a high standard of corporate governance. During the six-month period ended June 30, 2013, we adopted corporate governance principles that emphasize a qualified Board of Directors (the "Board"), sound internal controls and effective risk management to enhance transparency and accountability towards our stakeholders. The general framework of our corporate governance practices is set out in our corporate governance report in the 2012 annual report, which is available on our website.

THE BOARD

The Board currently consists of ten members, comprising three 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. 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 Board members identifying their roles and functions and whether they are Independent Non-Executive Directors is maintained on our website and the website of Hong Kong Exchanges and Clearing Limited ("HKEx"). The biographical details of Board members are also maintained 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 of the Committee can be accessed on both our website and the website of 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 not less than four times a year. Meetings are normally attended by external and internal auditors, the chief financial officer and the company secretary for the purposes of, inter alia, discussing the nature and scope of our internal audit work and assessing the Group's internal controls. The terms of reference of the Committee, which include duties regarding corporate governance functions, are available on both our website and the website of HKEx. The Audit Committee has reviewed this interim report, including the unaudited interim financial report for the six-month period ended June 30, 2013, and has recommended their adoption by the Board.

This interim financial report is unaudited but has been reviewed by KPMG, our auditor, 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. KPMG's Review Report to the Board of the Company 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, 2013, we have complied with the code provisions set out in the Corporate Governance Code 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").

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, 2013.

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

Mr Ronald J. Arculli, an Independent Non-Executive Director of the Company, retired as independent non-executive director of HKEx on April 24, 2013.

Professor P.W. Liu, an Independent Non-Executive Director of the Company, was appointed as a non-official member of the Working Group on Long-Term Fiscal Planning of the Hong Kong Special Administrative Region (the "HKSAR") on June 11, 2013, and has ceased to be a member of the Commission on Strategic Development of the HKSAR.

Save as disclosed above, there are no changes in the information of Directors since the date of the 2012 annual report of the Company.

Purchase, Sale or Redemption of Listed Securities

During the six-month period ended June 30, 2013, 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, 2013, 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) Number of Shares	% of Issued Capital	Number of Shares under Option *(Note 1)*	Hang Lung Group Limited (Long Position) Number of Shares	% of Issued Capital	Number of Shares under Option *(Note 2)*
Ronnie C. Chan	Personal	—	—	41,070,000	—	—	11,790,000
S.S. Yin	—	—	—	—	—	—	—
Philip N.L. Chen	Personal	—	—	19,000,000	—	—	—
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	—	—	—	—	—	—	—
H.C. Ho	Personal	—	—	8,600,000	—	—	—

Notes

1. Movements of Options under the Share Option Schemes of the Company

   (i) Share Option Scheme adopted on November 22, 2002

Date Granted (mm/dd/yyyy)	Name	Number of Shares under Option As at Jan 1, 2013	Granted during the Period	Exercised during the Period	As at Jun 30, 2013	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	$9.20	05/20/2005 : 25% 05/20/2006 : 25% 05/20/2007 : 25% 05/20/2008 : 25%	05/19/2014
11/20/2006	Ronnie C. Chan	2,000,000	—	—	2,000,000	$17.14	11/20/2007 : 10% 11/20/2008 : 20% 11/20/2009 : 30% 11/20/2010 : 40%	11/19/2016
08/21/2007	Ronnie C. Chan Nelson W.L. Yuen	3,640,000 3,510,000	— —	— —	3,640,000 3,510,000	$25.00	08/21/2008 : 10% 08/21/2009 : 20% 08/21/2010 : 30% 08/21/2011 : 40%	08/20/2017

1. Movements of Options under the Share Option Schemes of the Company *(continued)*

(i) Share Option Scheme adopted on November 22, 2002 *(continued)*

Date Granted (mm/dd/yyyy)	Name	Number of Shares under Option: As at Jan 1, 2013	Granted during the Period	Exercised during the Period	As at Jun 30, 2013	Exercise Price per Share (HK$)	Vested Dates (mm/dd/yyyy)	Expiry Date (mm/dd/yyyy)
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%	
							08/21/2011 : 30%	
							08/21/2012 : 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%	
	H.C. Ho	300,000	–	–	300,000		12/31/2012 : 30%	
							12/31/2013 : 40%	
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%	
							02/08/2014 : 30%	
							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%	
	H.C. Ho	3,000,000	–	–	3,000,000		06/13/2015 : 30%	
							06/13/2016 : 40%	

1. Movements of Options under the Share Option Schemes of the Company *(continued)*

(ii) Share Option Scheme adopted on April 18, 2012

Date Granted (mm/dd/yyyy)	Name	Number of Shares under Option As at Jan 1, 2013	Granted during the Period	Exercised during the Period	As at Jun 30, 2013	Exercise Price per Share (HK$)	Vested Dates (mm/dd/yyyy)	Expiry Date (mm/dd/yyyy)
06/04/2013	Ronnie C. Chan	—	4,500,000	—	4,500,000	$28.20	06/04/2015 : 10%	06/03/2023
	Philip N.L. Chen	—	4,500,000	—	4,500,000		06/04/2016 : 20%	
	H.C. Ho	—	3,000,000	—	3,000,000		06/04/2017 : 30%	
							06/04/2018 : 40%	

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

Date Granted (mm/dd/yyyy)	Name	Number of Shares under Option As at Jan 1, 2013	Exercised during the Period	As at Jun 30, 2013	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
						05/20/2006 : 25%	
						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
						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, 2013, 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, 2013 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, 2013, 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:

		Number of Shares or Underlying Shares Held		% of Issued Capital	
Name	*Note*	Long Position	Short Position	Long Position	Short Position
Chan Tan Ching Fen	*1*	2,351,000,340	—	52.50	—
Cole Enterprises Holdings Limited	*1*	2,351,000,340	—	52.50	—
Merssion Limited	*1*	2,351,000,340	—	52.50	—
Hang Lung Group Limited	*2*	2,322,667,240	—	51.86	—
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 2,351,000,340.

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 2,322,667,240 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, 2013, no other interest required to be recorded in the register kept under section 336 of the SFO has been notified to the Company.

Review Report to the Board of Directors of Hang Lung Properties Limited

(Incorporated in Hong Kong with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 24 to 46 which comprises the consolidated statement of financial position of Hang Lung Properties Limited (the "Company") as of June 30, 2013 and the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of 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 June 30, 2013 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

July 31, 2013

Consolidated Income Statement

For the six months ended June 30, 2013
(Expressed in Hong Kong dollars)

	Note	(Unaudited) 2013 $ Million	(Audited) 2012 $ Million
Turnover	2	3,305	4,234
Other income	3	410	479
Direct costs and operating expenses		(600)	(1,014)
Administrative expenses		(282)	(295)
Operating profit before change in fair value of investment properties		2,833	3,404
Increase in fair value of investment properties		1,014	1,295
Operating profit after change in fair value of investment properties		3,847	4,699
Finance costs	4	(213)	(134)
Share of profits of joint ventures		45	43
Profit before taxation	2(a) & 4	3,679	4,608
Taxation	5(a)	(600)	(679)
Profit for the period		3,079	3,929
Attributable to:			
Shareholders		2,828	3,678
Non-controlling interests		251	251
		3,079	3,929
Earnings per share	7(a)		
Basic		$0.63	$0.82
Diluted		$0.63	$0.82

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

Consolidated Statement of Comprehensive Income

For the six months ended June 30, 2013
(Expressed in Hong Kong dollars)

	Note	(Unaudited) 2013 $ Million	(Audited) 2012 $ Million
Profit for the period		3,079	3,929
Other comprehensive income	5(b)		
Item that may be reclassified subsequently to profit or loss:			
Exchange difference arising from translation of overseas subsidiaries		1,471	(495)
Total comprehensive income for the period		4,550	3,434
Total comprehensive income attributable to:			
Shareholders		4,199	3,213
Non-controlling interests		351	221
		4,550	3,434

The accompanying notes form part of the interim financial report.

Consolidated Statement of Financial Position

At June 30, 2013
(Expressed in Hong Kong dollars)

	Note	(Unaudited) 30/6/2013 $ Million	(Audited) 31/12/2012 $ Million
Non-current assets			
Fixed assets			
Investment properties	8	100,258	98,223
Investment properties under development	8	31,349	24,482
Other fixed assets		248	250
		131,855	122,955
Interest in joint ventures		1,036	1,041
Deferred tax assets		9	12
		132,900	124,008
Current assets			
Cash and deposits with banks	9	33,559	36,025
Trade and other receivables	10	1,204	1,270
Other assets	11	459	452
Properties for sale		6,312	6,109
		41,534	43,856
Current liabilities			
Bank loans and other borrowings	12	285	1,113
Trade and other payables	13	4,854	4,811
Taxation payable		428	392
		5,567	6,316
Net current assets		35,967	37,540
Total assets less current liabilities		168,867	161,548

	Note	(Unaudited) 30/6/2013 $ Million	(Audited) 31/12/2012 $ Million
Non-current liabilities			
Bank loans and other borrowings	12	33,601	28,623
Deferred tax liabilities		9,238	8,947
		42,839	37,570
NET ASSETS		126,028	123,978
Capital and reserves			
Share capital		4,479	4,477
Reserves		115,197	113,451
Shareholders' equity		119,676	117,928
Non-controlling interests		6,352	6,050
TOTAL EQUITY		126,028	123,978

The accompanying notes form part of the interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended June 30, 2013
(Expressed in Hong Kong dollars)

	(Unaudited)					
	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, 2013	4,477	41,281	72,170	117,928	6,050	123,978
Profit for the period	–	–	2,828	2,828	251	3,079
Exchange difference arising from translation of overseas subsidiaries	–	1,371	–	1,371	100	1,471
Total comprehensive income for the period	–	1,371	2,828	4,199	351	4,550
Final dividends in respect of previous financial year	–	–	(2,553)	(2,553)	–	(2,553)
Issue of shares	2	35	–	37	–	37
Employee share-based payments	–	43	22	65	–	65
Dividends paid to non-controlling interests	–	–	–	–	(33)	(33)
Repayment to non-controlling interests	–	–	–	–	(16)	(16)
At June 30, 2013	4,479	42,730	72,467	119,676	6,352	126,028

	(Audited)					
	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

The accompanying notes form part of the interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended June 30, 2013
(Expressed in Hong Kong dollars)

	(Unaudited) 2013 $ Million	(Audited) 2012 $ Million
Net cash generated from operating activities	2,000	2,167
Net cash used in investing activities	(8,555)	(6,825)
Net cash generated from financing activities	1,018	4,796
(Decrease)/Increase in cash and cash equivalents	(5,537)	138
Effect of foreign exchange rate change	387	(263)
Cash and cash equivalents at January 1	27,989	19,212
Cash and cash equivalents at June 30	22,839	19,087
Analysis of the balance of cash and cash equivalents:		
Cash and deposits with banks	33,559	28,972
Less: Bank deposits with maturity greater than three months	(10,720)	(9,885)
Cash and cash equivalents	22,839	19,087

The accompanying notes form part of the interim financial report.

1. BASIS OF PREPARATION

The unaudited 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 interim financial report is unaudited, but has 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 pages 22-23.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2012 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2013 annual financial statements. Details of these changes in accounting policies are set out below.

The HKICPA has issued a number of new Hong Kong Financial Reporting Standards ("HKFRSs") and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

— Amendments to HKAS 1, Presentation of financial statements – Presentation of items of other comprehensive income

— HKFRS 10, Consolidated financial statements

— HKFRS 11, Joint arrangements

— HKFRS 12, Disclosure of interests in other entities

— HKFRS 13, Fair value measurement

— Annual Improvements to HKFRSs 2009-2011 Cycle

— Amendments to HKFRS 7 – Disclosures – Offsetting financial assets and financial liabilities

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

1. BASIS OF PREPARATION (continued)

(a) Amendments to HKAS 1, Presentation of financial statements – Presentation of items of other comprehensive income

The amendments to HKAS 1 require entities to present the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met separately from those that would never be reclassified to profit or loss. The Group's presentation of other comprehensive income in the interim financial report has been modified accordingly.

(b) HKFRS 10, Consolidated financial statements

HKFRS 10 replaces the requirements in HKAS 27 "Consolidated and separate financial statements" relating to the preparation of consolidated financial statements" and HK(SIC)-Int 12 "Consolidation – Special purpose entities". It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of HKFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at January 1, 2013.

(c) HKFRS 11, Joint arrangements

HKFRS 11, which replaces HKAS 31 "Interests in joint ventures" divides joint arrangements into joint operations and joint ventures. Entities are required to determine the type of an arrangement by considering the structure, legal form, contractual terms and other facts and circumstances relevant to their rights and obligations under the arrangement. Joint arrangements which are classified as joint operations under HKFRS 11 are recognized on a line-by-line basis to the extent of the joint operator's interest in the joint operation. All other joint arrangements are classified as joint ventures under HKFRS 11 and are required to be accounted for using the equity method in the Group's consolidated financial statements. Proportionate consolidation is no longer allowed as an accounting policy choice.

As a result of the adoption of HKFRS 11, the Group has changed its accounting policy with respect to its interests in joint arrangements and re-evaluated its involvement in its joint arrangements. The adoption of HKFRS 11 does not have any material impact on the financial position and the financial result of the Group.

1. BASIS OF PREPARATION (continued)

(d) HKFRS 12, Disclosure of interests in other entities

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those previously required by the respective standards. Since those disclosure requirements only apply to a full set of financial statements, the Group has not made additional disclosures in this interim financial report as a result of adopting HKFRS 12.

(e) HKFRS 13, Fair value measurement

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. Some of the disclosures are specifically required for financial instruments in the interim financial reports. The adoption of HKFRS 13 does not have any material impact on the interim financial report of the Group except for additional disclosures in note 16.

(f) Annual Improvements to HKFRSs 2009-2011 Cycle

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. Among them, HKAS 34 has been amended to clarify that total assets for a particular reportable segment are required to be disclosed only if the amounts are regularly provided to the chief operating decision maker ("CODM") and only if there has been a material change in the total assets for that segment from the amount disclosed in the last annual financial statements. The amendment also requires the disclosure of segment liabilities if the amounts are regularly provided to the CODM and there has been a material change in the amounts compared with the last annual financial statements. The amendment does not have any impact on the segment disclosure of the Group.

1. BASIS OF PREPARATION (continued)

(g) Amendments to HKFRS 7 – Disclosures – Offsetting financial assets and financial liabilities

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognized financial instruments that are set off in accordance with HKAS 32 "Financial instruments: Presentation" and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with HKAS 32.

The adoption of the amendments does not have an impact on the Group's interim financial report because the Group has not offset financial instruments, nor has it entered into master netting arrangement or similar agreement which is subject to the disclosures of HKFRS 7.

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 joint ventures, 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	
	2013	2012	2013	2012
	$ Million	$ Million	$ Million	$ Million
Segment				
Property leasing				
– Hong Kong	1,521	1,487	1,308	1,251
– Mainland China	1,701	1,475	1,337	1,171
	3,222	2,962	2,645	2,422
Property sales				
– Hong Kong	83	1,272	60	798
Segment total	3,305	4,234	2,705	3,220
Other income			410	479
Administrative expenses			(282)	(295)
Operating profit before change in fair value of investment properties			2,833	3,404
Increase in fair value of investment properties			1,014	1,295
– property leasing in Hong Kong			687	943
– property leasing in mainland China			327	352
Finance costs			(213)	(134)
Share of profits of joint ventures			45	43
Profit before taxation			3,679	4,608

2. TURNOVER AND SEGMENT INFORMATION (continued)

(b) Total assets by segments

	Total assets 30/6/2013 $ Million	31/12/2012 $ Million
Segment		
Property leasing		
– Hong Kong	54,037	53,279
– Mainland China	78,974	70,924
	133,011	124,203
Property sales		
– Hong Kong	6,360	6,131
Segment total	139,371	130,334
Interest in joint ventures	1,036	1,041
Other assets	459	452
Deferred tax assets	9	12
Cash and deposits with banks	33,559	36,025
Total assets	174,434	167,864

3. OTHER INCOME

	2013 $ Million	2012 $ Million
Gain on disposal of investment properties	7	220
Bank interest income	389	249
Interest income from unlisted held-to-maturity investments	6	10
Net exchange gain	8	—
	410	479

4. PROFIT BEFORE TAXATION

	2013 $ Million	2012 $ Million
Profit before taxation is arrived at after charging:		
Finance costs		
Interest on borrowings	503	262
Other borrowing costs	26	20
Total borrowing costs	529	282
Less: Borrowing costs capitalized	(316)	(148)
	213	134
Cost of properties sold	15	354
Staff costs, including employee share-based payments of $65 million (2012: $95 million)	402	422
Depreciation	19	17

5. TAXATION

(a) Provision for Hong Kong Profits Tax is calculated at 16.5% (2012: 16.5%) of the estimated assessable profits for the period. China Income Tax mainly represents China Corporate Income Tax calculated at 25% (2012: 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.

	2013 $ Million	2012 $ Million
Current tax		
Hong Kong Profits Tax	181	254
China Income Tax	278	252
	459	506
Deferred tax		
Change in fair value of investment properties	82	89
Other origination and reversal of temporary differences	59	84
	141	173
Total income tax expense	600	679

(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

	2013 $ Million	2012 $ Million
Proposed after the end of the reporting period: 17 cents (2012: 17 cents) per share	761	761

The dividend proposed after the end of the reporting period has not been recognized as a liability at the end of the reporting period.

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

	2013 $ Million	2012 $ Million
Final dividend in respect of the previous financial year of 57 cents (2012: 36 cents) per share	2,553	1,611

7. EARNINGS PER SHARE

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

	2013 $ Million	2012 $ Million
Earnings for calculation of basic and diluted earnings per share (net profit attributable to shareholders)	2,828	3,678

	Number of shares	
	2013 (Million)	2012 (Million)
Weighted average number of shares used in calculating basic earnings per share	4,478	4,473
Effect of dilutive potential shares – share options	17	14
Weighted average number of shares used in calculating diluted earnings per share	4,495	4,487

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:

	2013 $ Million	2012 $ Million
Net profit attributable to shareholders	2,828	3,678
Effect of changes in fair value of investment properties	(1,014)	(1,295)
Effect of corresponding deferred tax	82	89
Effect of change in fair value of investment properties of joint ventures	(18)	(22)
	(950)	(1,228)
Non-controlling interests	55	70
	(895)	(1,158)
Underlying net profit attributable to shareholders	1,933	2,520

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

	2013	2012
Basic	$0.43	$0.56
Diluted	$0.43	$0.56

8. INVESTMENT PROPERTIES AND INVESTMENT PROPERTIES UNDER DEVELOPMENT

(a) Additions

During the period, additions to investment properties and investment properties under development amounted to $6,639 million (2012: $2,492 million).

(b) Valuation

The investment properties and investment properties under development of the Group were revalued as at June 30, 2013 by Mr. Charles C.K. Chan, Registered Professional Surveyor (General Practice), of Savills Valuation and Professional Services Limited, on a market value basis.

9. CASH AND DEPOSITS WITH BANKS

At the end of the reporting period, the Group had cash and deposits with banks with currency denominated in:

	30/6/2013 $ Million	31/12/2012 $ Million
Hong Kong Dollars equivalent of:		
Renminbi	30,308	32,840
Hong Kong Dollars	2,329	2,142
United States Dollars	922	1,043
	33,559	36,025

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

10. TRADE AND OTHER RECEIVABLES

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

	30/6/2013 $ Million	31/12/2012 $ Million
Current and within 1 month	83	46
1 - 3 months	11	3
Over 3 months	9	4
	103	53

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 are deposit of land acquisition in mainland China of $314 million (December 31, 2012: $308 million) and amount recoverable from a joint venture of $269 million (December 31, 2012: $444 million) which is unsecured and has no fixed terms of repayment.

11. OTHER ASSETS

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

12. BANK LOANS AND OTHER BORROWINGS

At the end of the reporting period, the Group had $4,053 million (December 31, 2012: $5,127 million) committed undrawn banking facilities.

In addition, a wholly-owned subsidiary of the Company has a US$3 billion (December 31, 2012: US$3 billion) Medium Term Note Program (the "Program"). At the end of the reporting period, the Group issued in total an equivalent of $6,237 million (December 31, 2012: $5,799 million) bonds with coupon rates ranged from 2.95% to 4.75% (December 31, 2012: 3.55% 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 aging analysis:

	30/6/2013 $ Million	31/12/2012 $ Million
Due within 1 month	2,308	2,446
Due after 3 months	448	367
	2,756	2,813

14. SHARE OPTION SCHEMES

The Company adopted two share option schemes on November 22, 2002 ("2002 Share Option Scheme") and April 18, 2012 ("2012 Share Option Scheme") respectively. The share options granted under the above two share option schemes to the directors and employees are at nominal consideration and each share option gives the holder the right to subscribe for one share. The movements of share options of the Company during the period are as follows:

(a) 2002 Share Option Scheme

	Number of share options						
Date granted	Outstanding on January 1, 2013	Granted	Exercised	Forfeited/ Lapsed	Outstanding on June 30, 2013	Period during which options are exercisable	Exercise price (HK$)
May 20, 2004	5,430,625	–	(140,625)	–	5,290,000	May 20, 2005 to May 19, 2014	9.20
November 14, 2006 to March 19, 2007	4,770,000	–	(225,000)	–	4,545,000	November 14, 2007 to March 18, 2017	16.75 - 22.55
August 21, 2007 to December 31, 2008	44,296,000	–	(1,571,000)	(588,000)	42,137,000	August 21, 2008 to December 30, 2018	17.36 - 27.90
February 8, 2010 to June 1, 2010	13,780,000	–	–	–	13,780,000	February 8, 2012 to May 31, 2020	26.46 - 27.27
July 29, 2010 to June 13, 2011	38,390,000	–	–	(1,670,000)	36,720,000	July 29, 2012 to June 12, 2021	30.79 - 36.90
December 7, 2011	1,350,000	–	–	(350,000)	1,000,000	December 7, 2013 to December 6, 2021	24.10
Total	108,016,625	–	(1,936,625)	(2,608,000)	103,472,000		

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 share options were exercised by the directors during the period. The weighted average closing price of the shares immediately before the dates of exercise by the employees during the period was $29.64.

The weighted average share price at the dates of exercise for share options during the period was $29.67.

14. SHARE OPTION SCHEMES (continued)

(b) 2012 Share Option Scheme

Date granted	Number of share options: Outstanding on January 1, 2013	Granted	Exercised	Forfeited/ Lapsed	Outstanding on June 30, 2013	Period during which options are exercisable	Exercise price (HK$)
June 4, 2013	–	40,000,000	–	(810,000)	**39,190,000**	June 4, 2015 to June 3, 2023	28.20
Total	–	40,000,000	–	(810,000)	**39,190,000**		

All the above options may vest after two 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.

The closing price of the shares immediately before the date of grant during the period was $27.75.

The weighted average value per share option granted during the period estimated at the date of grant using a Black-Scholes pricing model taking into account the terms and conditions upon which the options were granted was $8.01. The weighted average assumptions used are as follows:

Share price at grant date	$27.50
Exercise price	$28.20
Risk-free interest rate	0.49%
Expected life (in years)	6
Volatility	0.41
Expected dividend per share	$0.74

The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the one year immediately preceding the grant date. Expected dividend per share is based on historical dividend. Changes in the input assumptions could materially affect the fair value estimate.

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, 2013	32,979	2,066	5,765	471	41,281	72,170	113,451
Profit for the period	–	–	–	–	–	2,828	2,828
Exchange difference arising from translation of overseas subsidiaries	–	–	1,371	–	1,371	–	1,371
Total comprehensive income for the period	–	–	1,371	–	1,371	2,828	4,199
Final dividends in respect of previous financial year	–	–	–	–	–	(2,553)	(2,553)
Issue of shares	35	–	–	–	35	–	35
Employee share-based payments	7	–	–	36	43	22	65
At June 30, 2013	33,021	2,066	7,136	507	42,730	72,467	115,197

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, 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

16. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The fair value of unlisted bond investments, trade and other receivables, trade and other payables, cash and deposits with banks, bank loans and other borrowings are considered approximate to their carrying amounts at the end of the reporting period.

17. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities of the Company were as follows:

	30/6/2013 $ Million	31/12/2012 $ Million
Guarantees given to banks to secure credit facilities drawn by subsidiaries	34,130	29,994

18. COMMITMENTS

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

	30/6/2013 $ Million	31/12/2012 $ Million
Contracted for	5,019	5,527
Authorized but not contracted for	40,834	29,344
	45,853	34,871

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.

19. 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 was fully repaid during the period (December 31, 2012: $14 million).

20. REVIEW AND APPROVAL OF INTERIM FINANCIAL REPORT

The interim financial report is unaudited, but has been reviewed by the Audit Committee. It was authorized for issue by the Board of Directors on July 31, 2013.

Financial Briefs as at June 30, 2013	HK$ Million (unless otherwise stated)
Turnover	**3,305**
Property leasing	3,222
Property sales	83
Net profit attributable to shareholders	2,828
Total assets	174,434
Shareholders' equity	119,676
Per share data	
Earnings – Basic	$0.63
– Diluted	$0.63
Interim dividend	$0.17
Net assets (including non-controlling interests)	$28.1
Shareholders' equity	$26.7
Gearing ratio (note 1)	0.3%
Pay-out ratio	27%
Number of shares issued (in million)	4,479

Underlying Results as at June 30, 2013	HK$ Million (unless otherwise stated)
Underlying net profit attributable to shareholders (note 2)	**1,933**
Per share data	
Underlying earnings (note 3) – Basic	**$0.43**
– Diluted	**$0.43**

Notes:

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

2. To facilitate better understanding of the Group's operational results, the underlying net profit attributable to shareholders 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 profit or loss.

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

FINANCIAL CALENDAR

Financial period	January 1, 2013 to June 30, 2013
Announcement of interim results	July 31, 2013
Latest time for lodging transfers	4:30 p.m. on September 9, 2013
Closure of share register	September 10 to 12, 2013 (both days inclusive)
Record date for interim dividend	September 12, 2013
Payment date for interim dividend	September 26, 2013

SHARE LISTING

As at June 30, 2013, 4,478,502,670 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	101HK
CUSIP Number/Ticker Symbol for ADR Code	41043M104/HLPPY

SHARE INFORMATION

Share price as at June 30, 2013: HK$27.05
Market capitalization as at June 30, 2013: HK$121.14 billion

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