恒隆地產
HANG LUNG PROPERTIES

2014
Interim Report

Hang Lung Properties Limited
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

Compared to the corresponding period of last year, we sold considerably more completed apartments. Consequently, turnover increased 35% to HK$4,457 million. Net profit attributable to shareholders rose 14% to HK$3,217 million and earnings per share similarly to HK72 cents. When excluding the effects of revaluation gains, the underlying net profit attributable to shareholders grew 29% to HK$2,484 million and earnings per share advanced correspondingly to HK55 cents.

The Board has declared an interim dividend of HK17 cents per share payable on September 30, 2014 to shareholders of record on September 17, 2014.

OPERATIONS REVIEW

As the world's fastest growing major economy, China has seen much volatility over the past two to three decades. We are now in one of the down cycles but your Company has nevertheless performed acceptably. While I will report in greater detail at year end, here are some of the salient points.

Anti-corruption and anti-opulence policies of the new administration under President Xi Jinping continue to affect luxury retail sales. More recently, such policies also help depress housing prices especially in provincial capitals, as many apartments presumably owned by corrupt officials are for sale. This in turn harms the primary market. Administrative measures such as limiting second home purchases, credit tightening, together with a huge inventory in the hands of developers, have had serious effects. In recent months, prices have fallen whereas previously only transaction volume shrank. All these in turn affect retail sales. Negative wealth effect may have discouraged conspicuous consumption.

This is not all bad news for us. Financial weakness on the parts of home builders will curb their ability to buy land. This is evidenced by the withdrawal of land at many recent auctions. The result is that some municipal governments are in a weak financial position. This may give us the opportunity to buy commercial land at reasonable prices. When we bought the Wuhan piece in February 2013, that was exactly the scenario. As some say, Hang Lung always performs well in bear markets.

Of course we do not want to see the overall economy collapse. While some Western observers anticipate that, I do not share their pessimism. If we were to look at the country's public finances as a whole, serious challenges notwithstanding, the overall picture is not that bleak; the situation is quite manageable. The government is also more than capable of managing any liquidity needs or unusual market conditions. As I have noted in the past, there are many administrative measures that Beijing can employ. For example, cutting the present tight reserve requirement ratio for the nation's banks by one percentage point could unleash about RMB1 trillion (US$160 billion) into the banking system.

That said, Chinese leaders may choose not to do this in order to contain runaway credit expansion. If so, then the economy may remain relatively weak for some time to come. Thanks to improving export prospects and continued public investments, slower economic growth in China today still means an annual growth rate of some 7 to 7.5%. This is why the economic slowdown notwithstanding, your management is not overly concerned.

Overall turnover went up 35% to HK$4.4 billion. Rental income rose by 10% to HK$3.5 billion. In Hong Kong, we collected 7% more rent and on the Mainland 14%. If we take out the effect of Wuxi Center 66 which opened in mid-September last year, rental turnover on the Mainland was up 5%.

All of our shopping centers except one recorded higher rental turnover. The two in Shanghai saw an increase of 7% — 6% for Plaza 66 and 9% for Grand Gateway 66. The numbers for the two facilities in Shenyang respectively advanced by 7% for Palace 66 and 3% for Forum 66. Due to tenant remixing towards the end of the first lease term, turnover fell by 10% at Parc 66. The worst, however, should be behind us for this Jinan property.

In terms of occupancy rate, little change took place since a year ago for Plaza 66 and Grand Gateway 66 in Shanghai and Palace 66 in Shenyang. For the same reason noted previously, Parc 66 suffered the most but the situation should improve from here. Forum 66 has a little vacancy now which may persist for a year or so as many tenants are beginning to renew their tenancies for the first time.

An equally significant set of figures is the retail sales realized by our tenants. While Shanghai overall had a minor retreat of 2%, retail sales grew everywhere else. In line with what I wrote six months ago, the most significant improvement came in Palace 66 in Shenyang. With excellent management efforts, this mall has definitely turned the corner with retail sales up 15%. Footfall has also improved significantly. The other Shenyang project, Forum 66, saw tenants selling 8% more goods by value. Even Parc 66 in Jinan had an increase of 3% in spite of a higher vacancy rate.

As for Wuxi Center 66 which was only 9.5 months old by the middle of this fiscal year, we can only use per day rental for comparison. Compared to the 3.5 months of 2013, the first six months of 2014 recorded a growth of over 10%. One should bear in mind that sales during the opening period can be abnormally high, and July to December usually have higher sales than January to June.

Investment properties in our home market of Hong Kong remained healthy. Rental turnover and profit both advanced by 7%. Commercial rent moved up 9% and offices likewise by 6%. Both occupancy and unit rental rate for both product types rose. Retail sales were marginally better than the comparable period of a year ago, although the market has been weak in recent months. All measures relating to our serviced apartments — rents received, average room rate and occupancy — improved. Our residential units did not fare as well; only the average unit rent went up.

In Hong Kong, the market for residential sales was steady. We took advantage of this and sold 110 units of The Long Beach, 88 of which were recorded here because the transactions had been completed. The rest will be realized in the second half of the year. Total sales for the consummated deals were HK$901 million and operating profit therefrom, HK$540 million. They represent a jump of respectively almost 10 times and 8 times that of a year ago.

Revaluation gain showed a 0.5% rise in value of the assets concerned. The dollar amount was HK$748 million versus HK$1,014 million the year before. After deducting related deferred taxes and minority interests, the net gain was HK$733 million.

All told, profit attributable to shareholders went up 14% to HK$3,217 million for the 6 months under review and similarly earnings per share to HK72 cents. Excluding the net effect of revaluation, underlying net profit attributable to shareholders increased 29% to HK$2,484 million, and underlying earnings per share to HK55 cents, up 28%.

Our financial position remained very healthy. Net debt was HK$1.9 billion representing a net debt-to-equity ratio of 1.5%, which is very low by any standard.

PROSPECTS

It is difficult to foresee a scenario where the Mainland economy will significantly improve during the rest of the calendar year. The present lethargy may in fact be extended to the first half of 2015. Consequently, it is perhaps unrealistic to expect a tail wind for our business there. This is different from what we had experienced in much of the past 15 years.

That said, there is nothing more certain than the continued growth of consumerism in China. Just as the main economic story of China in the past 30 years was manufacturing for export, it will be consumer spending in the next 30. As such, sooner or later a stronger market for our business will return. It is also likely that the high-end retail market will in future depend far less on corruption-related “gifting” than before. Such will be a much healthier market. A new level will be reached from which growth will resume.

Going forward, where will the demand for high-end retail goods come from? Whereas in the past it came from the business-wealthy and corruption, in the future the latter will be curtailed but the former can only grow. In place of "gifting" or buying lavish gifts for government officials, a new professional class is rising. Salary levels on the Mainland in the past decade have jumped tremendously. Previously, Mainland professionals would earn about half of what their counterparts with equal qualifications in Hong Kong earn, however, parity of pay has been achieved in the past few years. Because of a shortage of qualified individuals in certain professions, a person may in fact make more in mainland China than in Hong Kong. Just as the many young professionals, say above the age of 35, in other Asian cities would likely own several luxury items from clothing and handbags to jewelry and accessories, the same is happening on the Mainland. This group is beginning to come into its own and its size is not inconsequential.

Asians love branded luxury goods, especially those living in newly developed regions. Better quality and the associated status and prestige are two major motives. Over the past 50 years we have seen this phenomenon take place first in Japan, then in Hong Kong, Korea, Taiwan and Singapore. Now it is happening in mainland China. The only difference is that this time the size of the potential purchasing group is far larger. They are also concentrated in first- and second-tier Chinese cities, making them excellent targets for our type of malls. In the case of Japan and Korea, the demand for luxury products eventually spread to what the Japanese call "OLs" or office ladies. The same may be true in China, but perhaps it will not happen for another 15 to 20 years.

We will redouble our efforts in several areas during the present market lull. After opening four shopping centers in the past four years in three cities, we have learned a lot, both what to do and what not to do. In one case we misread the market; in another, our operational team made certain blunders. Fortunately, all of them can be fixed through management efforts, and they are all being remedied. We underwent similar challenges some 15 years ago when our Shanghai malls were first opened. Hopefully lessons learned will enable our coming projects to progress more smoothly.

A related issue is our management team. Although headcount has grown tremendously in recent years, there is always room for more experienced professionals. The fact is that given the extensive constructions everywhere, the entire industry is shorthanded. As before, we will recruit externally but we will also strengthen our Management Trainee Program which is now in its 10th year. The goal is to build up a first-class cadre. Given the seemingly endless opportunities, the Company can only expand over time and in-house trained personnel are preferred over outside hires in the long run.

As I have previously written, management is working hard to build our EST program which stands for Experience, Service and Technology. They represent the "software" of our leasing business. Few will dispute we have some of China's best hardware in the industry — best located, appropriately sizeable, superbly designed and well constructed commercial properties. These are what I coined "real estate genetics". Complementing them with the best software will solidify and extend our leadership position in the industry. This is especially critical today as the amount of retail space everywhere has ballooned. The use of technology and other means to differentiate ourselves is an area which deserves the attention of the Company's highest-level executives.

Previously I had written that the rapid growth of e-commerce could have a positive effect on our shopping centers. Brands may have fewer stores in each city resulting in concentration of sales. The better malls will benefit while the inferior ones will suffer. Consequently, the overall quality of a shopping center is now more critical than ever.

This explains a recent phenomenon in our Shanghai Plaza 66. At least four tenants, which are all global luxury or sub-luxury brands, have asked for much more space. Two of them want to double the size of their existing stores at that facility while the other two would like to enlarge their stores by 57-65%. This concentration of sales will doubtless benefit all of our other malls since they are invariably among the very best in their respective cities.

Almost 10 years after land acquisition, Tianjin Riverside 66 will finally open on September 26. This took much longer than what we had experienced in the past; the previous six projects (including the two in Shanghai) took 4.5 to 7 years. This time around we encountered far more difficulties from the local government. In the interim, a huge mall belonging to an entity related to the municipality had opened about two years ago. Due to first-mover advantage, most of the top global luxury brands have now settled there. (Tactics used to attract them to such a poorly located mall are worth studying but probably not emulating.) We will do our best to lure them over but it will take time. Ultimate success however is plausible due to our superior "genetics" as explained earlier.

But for now, there is no denying that Riverside 66 is "born" in a difficult time. Due to recent market weakness, international brands are for the time being not expanding. There is simply no budget for this year or next. At best, they will have to close a shop in a city before opening a new one cross-town. This was exactly our experience last year in Wuxi when we opened Center 66.

Adverse environment notwithstanding, I am pleased to report that 86% of the retail space at Riverside 66 has already been committed by reputable names. I expect 90% by the time of opening. As we have always targeted, initial gross yield will be between 4% and 5%, perhaps closer to 5%.

Constant improvement to our investment properties is key to sustainable rental growth. Consequently, an extensive asset enhancement program has been put in place in both Hong Kong and the Mainland. In Hong Kong, the potential for increased rent is considerable. We began with our extensive Mongkok District portfolio with very satisfactory outcomes. The program for the Causeway Bay District, which is the other major concentration of our buildings, has just started and the result should prove equally pleasing.

For our two Shanghai malls, major upgrades are being planned and will be introduced in phases to minimize disturbance to our tenants and shoppers. It will take about two years to complete and should keep the malls competitive for many years to come.

There is a reasonable chance that on a like-for-like basis, rental results of the second half of this year in both the Mainland and Hong Kong will improve from the period just reviewed. Coupled with the opening of Tianjin Riverside 66 in September, overall rental turnover will rise. The first office tower at Wuxi Center 66 is beginning to be leased and is not expected to significantly change the bottom line, at least not for now.

In the past few months, Hong Kong's residential market has become as healthy as ever in perhaps 20 years. Moreover, the chance of it remaining so is, in my opinion, fairly good. This means government actions in the past two years are beginning to work. Some are complaining that prices are still high, but imagine what the situation could have been if not for the government's intervention.

Given this, I am hopeful to part with more completed apartments while maintaining profit margins achieved previously.

In the past many years, I have taken pains to utilize this platform to communicate directly with our shareholders. Efforts have especially been exerted at year end, while the interim report has always been much shorter. With this format, I have long been troubled that only annually do I more adequately explain to shareholders our assessment of the market and management's views. There was also the problem that the year-end letter could become inordinately long — and it often did. Moreover, it may be hard for readers to absorb so much information at one reading, or the length may have discouraged some to even start reading.

For these reasons, I will henceforth spread out what I want to convey to shareholders by lengthening the mid-year report and slightly shortening the year-end one. It seems like a reasonable thing to do. As always, your comments are most welcome. Please send them to chairman@hanglung.com.

Ronnie C. Chan
Chairman of the Board of Directors
Hong Kong, July 31, 2014

Financial Highlights

in HK$ Million (unless otherwise stated)

RESULTS

	Note	Six months ended June 30 2014	2013	Change
Turnover		4,457	3,305	+35%
Property Leasing		3,556	3,222	+10%
Property Sales		901	83	+986%
Operating Profit		3,408	2,705	+26%
Property Leasing		2,868	2,645	+8%
Property Sales		540	60	+800%
Net Profit Attributable to Shareholders		3,217	2,828	+14%
Earnings Per Share (HK$)		$0.72	$0.63	+14%
Interim Dividend Per Share (HK$)		$0.17	$0.17	–

UNDERLYING RESULTS

	Note	Six months ended June 30 2014	2013	Change
Underlying Net Profit Attributable to Shareholders	1	2,484	1,933	+29%
Underlying Earnings Per Share (HK$)	2	$0.55	$0.43	+28%

FINANCIAL POSITION

	Note	At June 30, 2014	At December 31, 2013	Change
Shareholders' Equity		124,106	124,534	–
Net Assets		130,905	131,167	–
Net Debt	3	1,923	658	+192%
Financial Ratio				
Net Debt to Equity Ratio	3	1.5%	0.5%	+1.0% pts
Debt to Equity Ratio	3	29.1%	26.7%	+2.4% pts
Shareholders' Equity Per Share (HK$)		$27.7	$27.8	–
Net Assets Per Share (HK$)		$29.2	$29.3	–

Notes:

1. 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.
2. The relevant calculations are based on underlying net profit attributable to shareholders.
3. Net debt represents bank loans and other borrowings less cash and deposits with banks. Equity comprises shareholders' equity and non-controlling interests.

GROUP RESULTS

For the six months ended June 30, 2014, we took advantage of improved sentiments in the Hong Kong residential market and sold a number of apartments. Turnover surged 35% to HK$4,457 million and net profit attributable to shareholders increased by 14% to HK$3,217 million. When excluding property sales, turnover rose 10% to HK$3,556 million against a year ago representing 7% and 14% rental income growth in Hong Kong and mainland China, respectively.

DIVIDEND

The Board of Directors has declared an interim dividend of HK17 cents per share (2013: HK17 cents) to be paid by cash on September 30, 2014, to shareholders. Details of the payment of the interim dividend are set out in "Financial Calendar" on page 46 of this interim report.

PROPERTY LEASING

Against the backdrop of a slowdown in retail sales in mainland China and Hong Kong, total rental turnover and operating profit from property leasing rose 10% and 8% to HK$3,556 million and HK$2,868 million, respectively. When excluding the contributions from Center 66 in Wuxi, which opened in September 2013, the comparable growth rates would be 6% and 5%, respectively.

Hong Kong

Rental turnover and operating profit generated from Hong Kong investment properties were both up by 7% to HK$1,623 million and HK$1,398 million, respectively. The resulting margin stayed at 86%.

The commercial sector generated 9% more rents to HK$972 million during the period as a result of positive rental reversions and higher occupancy. All the spaces were virtually fully let. Average unit rent increased by 6%. Retail sales of our tenants continued to record positive growth despite an overall reduction in Hong Kong retail sales since February 2014 against a year ago.

Our office portfolio collected 6% more rents to HK$513 million, mainly attributable to positive rental reversions. Occupancy of the office portfolio stood at 95% as at the balance sheet date.

The performance of the residential and serviced apartments sectors was relatively sluggish with revenue decreased by 2% to HK$138 million. Demand for luxury apartments for renting remained soft as corporate clients became more cost conscious.

Mainland China

Rental turnover advanced by 14% to HK$1,933 million and operating profit grew 10% to HK$1,470 million for the six months ended June 30, 2014. When excluding the first time effect of Center 66 in Wuxi, property leasing income and profit increased by 5% and 4%, respectively, amidst declining retail sales of luxury goods and moderate economic growth. The mainland China portfolio now accounted for 54% and 51% of the Group's rental turnover and operating profit, respectively.

The Shanghai portfolio, Plaza 66 and Grand Gateway 66, collected 7% more rents to HK$1,395 million mainly benefitting from positive rental reversions. Rents from the two malls reached HK$972 million, achieving a 7% growth period-on-period. Grand Gateway 66 mall remained fully let while occupancy of Plaza 66 mall stood at 95%. Retail sales of the two malls, however, dropped by about 2% compared to the last corresponding period while the anti-corruption and anti-opulence campaigns continued. The two office towers of Plaza 66 achieved 8% rental growth in total to HK$423 million despite new supplies in the area. Occupancy of Plaza 66 office towers stood at 94% during the period with average unit rent increased by 10% against a year ago.

For the first half of 2014, our younger malls outside Shanghai contributed HK$538 million rents collectively. That total included the first time contribution by Center 66 in Wuxi. Since its grand opening last September, the occupancy of Center 66 has increased to 92%. The malls of Palace 66 and Forum 66 in Shenyang and Parc 66 in Jinan were undergoing the normal process of tenant reshuffling after completing their first lease cycle. Such an exercise would inevitably have a temporary adverse effect on occupancy, but it is nonetheless important for the long-term benefit of any shopping mall. An encouraging sign was that all these three malls recorded positive growth in retail sales compared to a year ago while going through the tenant remix exercise.

PROPERTY SALES

Turnover of property sales boosted 9.9 times to HK$901 million and profit surged 8 times to HK$540 million. Average profit margin realized was 60%.

During the first six months of 2014, 110 units of The Long Beach apartments were sold, of which 88 units were recognized as sales upon the signing of formal sales and purchase agreements. During the last corresponding period, only one unit of The HarbourSide and four units of AquaMarine apartments were sold.

PROPERTY DEVELOPMENT AND CAPITAL COMMITMENT

Investment properties under development comprised several projects in mainland China. They included projects in Tianjin, Dalian, Kunming, Wuhan and the remaining phases of Center 66 in Wuxi and Forum 66 in Shenyang. These projects represented the majority of the Group's capital commitments amounting to HK$47 billion as at June 30, 2014. The Group has ample financial resources to meet these commitments, particularly as they would take many years to be completed.

The shopping mall in Tianjin, Riverside 66, is scheduled to open on September 26 this year. Offering 152,800 square meters of retail area and 800 car park spaces, Riverside 66 will provide customers with an all-round luxurious and diversified shopping and lifestyle experience backed by trend-setting facilities and premium services. 80% of the retail space has been leased.

The 250 meter-high Grade A Office Tower 1 of Center 66 in Wuxi, having a total gross floor area of 88,560 square meters, is our first office project to be completed outside Shanghai. The opening of this tower is scheduled in the fourth quarter of 2014. Pre-leasing activities are making good progress.

Another world-class office tower at Forum 66 in Shenyang is due for completion in 2015. The 350 meter-high tower will provide more than 190,000 square meters of leasing space in the heart of Shenyang, the capital city of Liaoning province.

Construction of the superstructure of Olympia 66 in Dalian, a stunning development comprising over 220,000 square meters of retail space and 1,200 car park spaces, is nearly completed. Interior fitting out work will commence soon. Pre-leasing activities have recently been started ahead of a scheduled grand opening in the third quarter of 2015.

All other Mainland projects are progressing as planned.

The interior fitting out work for 23-39 Blue Pool Road, a luxury residential development in Happy Valley, Hong Kong, is finished. The complex is expected to receive its occupation permit shortly. The 18 residential units will be ready for release later this year if market conditions are favorable.

PROPERTY REVALUATION

Our investment properties portfolio was revalued by Savills, an independent valuer, as at June 30, 2014. Hong Kong investment properties recorded a revaluation gain of HK$712 million while Mainland properties had a moderate gain of HK$36 million. Overall, a revaluation gain of HK$748 million was recorded for the first half of 2014, compared to a gain of HK$1,014 million in the corresponding period last year.

FINANCIAL POSITION

Under the current market situation, the Group considers it appropriate to adopt a strategy of using Renminbi ("RMB") cash deposits to hedge against the currency fluctuation of our Mainland construction costs, which are denominated in RMB. At the balance sheet date, the Group had HK$36,119 million liquid funds, with more than 95% held in RMB bank deposits. After deducting total borrowings of HK$38,042 million, the Group had a net debt balance of HK$1,923 million and a resulting net debt to equity ratio of 1.5% as at June 30, 2014.

We continue to refine our debt capital structure to further mitigate future interest rate and refinancing risks. During the first six months of 2014, we issued HK$5,180 million fixed rate bonds via the Medium Term Note ("MTN") Program. As at June 30, 2014, an equivalent of HK$12,470 million fixed rate bonds were issued under the MTN Program. Altogether, the fixed rate bonds accounted for 32% of total borrowings, with a weighted average remaining tenor of 7.5 years. Those bonds were un-rated and issued with coupon rates ranging from 2.95% to 4.75% per annum. The average loan tenor of the Group was 4.1 years as at June 30, 2014.

At the reporting date, we had committed undrawn banking facilities amounting to HK$12,135 million. Together with the strong cash flows generated from operations, the Group has a strong balance sheet with a high degree of liquidity to meet the funding needs of all capital commitments and new investment opportunities when they arise.

OUTLOOK

The market environment in the first half of 2014 was full of challenges. We do not expect such challenges will go away in the second half of the year. During the first five months of 2014, Hong Kong experienced its first contraction of retail sales after years of growth. In mainland China, the anti-corruption and anti-opulence measures are expected to remain in place. Online sales are expected to become more popular. All these affect various segments of the retail sector to a different degree.

While the anti-corruption measures will have a temporary adverse impact on high-end retail sales, they will also promote a healthier and cleaner society, which is essential for a sustainable long-term economic growth. This should work in favor of long-term players like Hang Lung.

We believe that online sales and physical shopping malls will co-exist and make the whole market bigger. The increasing popularity of online sales will act as a catalyst for bricks and mortar players to evolve. The key for landlords is to adopt appropriate technologies to enhance service quality and unleash creativity in providing a unique experience that cannot be matched by the online world. The various initiatives being undertaken by Hang Lung, together with our projects' prime location, best possible hardware and excellent management will strengthen the Group's long-term competitiveness.

Barring unforeseeable events, our well-established investment properties in Hong Kong and Shanghai will continue to deliver a steady rental growth in the second half of 2014. For those younger commercial properties on the Mainland, we will continue to optimize the tenant remix and turn them into a valuable source of future income growth.

Recent improvements in the sentiment of the Hong Kong residential property market have resulted in an increase in sales price and transaction volume compared to a year ago. This may present an opportunity for us to sell some of our residential units on hand.

Final preparations are taking place for the grand opening of the shopping mall in Tianjin, Riverside 66, on September 26 this year.

We are committed to maintaining a high standard of corporate governance. During the six-month period ended June 30, 2014, 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 2013 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 not less than once a year. Its duties include reviewing 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, size and diversity, and make recommendations to the Board on the appointment, re-appointment and succession planning of Directors and suchlike. 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 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, 2014, 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 the 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 23 to 24 of this interim report.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

During the six-month period ended June 30, 2014, 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, 2014.

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

Mr Ronald J. Arculli, an Independent Non-Executive Director of the Company, resigned as a non-executive director of Power Assets Holdings Limited upon the listing of HK Electric Investments and HK Electric Investments Limited on the Stock Exchange on January 29, 2014. Mr Arculli is a non-executive director of HK Electric Investments Manager Limited (as trustee-manager of HK Electric Investments) and HK Electric Investments Limited.

Mr Arculli also retired as an independent non-executive director of SCMP Group Limited on June 3, 2014.

Save as disclosed above, there are no changes in the information of Directors since the date of the 2013 annual report of the Company.

Purchase, Sale or Redemption of Listed Securities

During the six-month period ended June 30, 2014, 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, 2014, 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:

		The Company (Long Position)			*Hang Lung Group Limited (Long Position)*		
Name of Directors	Capacity	Number of Shares	% of Issued Capital	Number of Shares under Option *(Note 1)*	Number of Shares	% of Issued Capital	Number of Shares under Option *(Note 2)*
Ronnie C. Chan	Personal	5,090,000	0.11	35,980,000	5,090,000	0.38	6,700,000
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. Movement of Options under the Share Option Schemes of the Company

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

		Number of Shares under Option					
Date Granted (mm/dd/yyyy)	Name	As at Jan 1, 2014	Exercised during the Period	As at Jun 30, 2014	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. Movement 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, 2014	Exercised during the Period	As at Jun 30, 2014	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. Movement 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, 2014	Exercised during the Period	As at Jun 30, 2014	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, 2014	Exercised during the Period	As at Jun 30, 2014	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, 2014, 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, 2014 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, 2014, 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*	2,409,929,340	–	53.73	–
Cole Enterprises Holdings Limited	*1*	2,409,929,340	–	53.73	–
Merssion Limited	*1*	2,409,929,340	–	53.73	–
Hang Lung Group Limited	*2*	2,381,596,240	–	53.10	–
Prosperland Housing Limited	*3*	1,267,608,690	–	30.60	–
Purotat Limited	*3*	354,227,500	–	8.55	–
JPMorgan Chase & Co.	*4*	268,951,652	6,409,309	5.99	0.14
OppenheimerFunds, Inc.	*5*	224,617,800	–	5.01	–

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 36.79% interests in Hang Lung Group Limited ("HLGL"). The shares held by HLGL and its subsidiaries were included in the above-mentioned number of 2,409,929,340.

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 2,381,596,240 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 183,096,502 shares in the lending pool.

5. These shares were held in the capacity of investment manager.

Save as disclosed above, as at June 30, 2014, no other interest required to be recorded in the register kept under section 336 of the SFO has been notified to the Company.

KPMG

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 25 to 45 which comprises the consolidated statement of financial position of Hang Lung Properties Limited ("the Company") as of June 30, 2014 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, 2014 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, 2014

Consolidated Income Statement

For the six months ended June 30, 2014 (Unaudited)
(Expressed in Hong Kong dollars)

	Note	2014 $ Million	2013 $ Million
Turnover	2(a)	4,457	3,305
Direct costs and operating expenses		(1,049)	(600)
Gross profit		3,408	2,705
Other net (loss)/income	3	(2)	15
Administrative expenses		(313)	(282)
Operating profit before change in fair value of investment properties		3,093	2,438
Increase in fair value of investment properties		748	1,014
Operating profit after change in fair value of investment properties		3,841	3,452
Interest income		428	395
Finance costs		(218)	(213)
Net interest income	4	210	182
Share of profits of joint ventures		24	45
Profit before taxation	2(a) & 5	4,075	3,679
Taxation	6(a)	(634)	(600)
Profit for the period		3,441	3,079
Attributable to:			
Shareholders		3,217	2,828
Non-controlling interests		224	251
		3,441	3,079
Earnings per share	8(a)		
Basic		$0.72	$0.63
Diluted		$0.72	$0.63

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 7.

Consolidated Statement of Comprehensive Income

For the six months ended June 30, 2014 (Unaudited)
(Expressed in Hong Kong dollars)

	Note	2014 $ Million	2013 $ Million
Profit for the period		3,441	3,079
Other comprehensive income	6(b)		
Item that may be reclassified subsequently to profit or loss:			
Exchange difference arising from translation of overseas subsidiaries		(1,248)	1,471
Total comprehensive income for the period		2,193	4,550
Total comprehensive income attributable to:			
Shareholders		2,027	4,199
Non-controlling interests		166	351
		2,193	4,550

The accompanying notes form part of the interim financial report.

Consolidated Statement of Financial Position

At June 30, 2014
(Expressed in Hong Kong dollars)

	Note	(Unaudited) June 30, 2014 $ Million	(Audited) December 31, 2013 $ Million
Non-current assets			
Fixed assets			
Investment properties	9	108,050	107,587
Investment properties under development	9	32,619	30,478
Other fixed assets		302	289
		140,971	138,354
Interest in joint ventures		1,266	1,030
Other assets		7	8
Deferred tax assets		9	7
		142,253	139,399
Current assets			
Cash and deposits with banks	10	36,119	34,321
Trade and other receivables	11	1,348	2,865
Properties for sale		5,504	5,695
		42,971	42,881
Current liabilities			
Bank loans and other borrowings	12	5,185	1,657
Trade and other payables	13	6,085	5,977
Taxation payable		716	633
		11,986	8,267
Net current assets		30,985	34,614
Total assets less current liabilities		173,238	174,013

	Note	(Unaudited) June 30, 2014 $ Million	(Audited) December 31, 2013 $ Million
Non-current liabilities			
Bank loans and other borrowings	12	32,857	33,322
Deferred tax liabilities		9,476	9,524
		42,333	42,846
NET ASSETS		130,905	131,167
Capital and reserves			
Share capital	14	39,661	4,479
Reserves		84,445	120,055
Shareholders' equity		124,106	124,534
Non-controlling interests		6,799	6,633
TOTAL EQUITY		130,905	131,167

The accompanying notes form part of the interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended June 30, 2014 (Unaudited)
(Expressed in Hong Kong dollars)

	Shareholders' equity					
	Share capital $ Million (Note 14)	Other reserves $ Million (Note 16)	Retained profits $ Million (Note 16)	Total $ Million	Non-controlling interests $ Million	Total equity $ Million
At January 1, 2014	4,479	43,944	76,111	124,534	6,633	131,167
Transition to no-par value regime on March 3, 2014	35,100	(35,100)	–	–	–	–
Profit for the period	–	–	3,217	3,217	224	3,441
Exchange difference arising from translation of overseas subsidiaries	–	(1,190)	–	(1,190)	(58)	(1,248)
Total comprehensive income for the period	–	(1,190)	3,217	2,027	166	2,193
Final dividends in respect of previous financial year	–	–	(2,601)	(2,601)	–	(2,601)
Issue of shares	82	(13)	–	69	–	69
Employee share-based payments	–	37	40	77	–	77
At June 30, 2014	39,661	7,678	76,767	124,106	6,799	130,905

	Shareholders' equity					
	Share capital $ Million (Note 14)	Other reserves $ Million (Note 16)	Retained profits $ Million (Note 16)	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

The accompanying notes form part of the interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended June 30, 2014 (Unaudited)
(Expressed in Hong Kong dollars)

	2014 $ Million	2013 $ Million
Net cash generated from operating activities	4,298	2,000
Net cash used in investing activities	(1,563)	(8,555)
Net cash (used in)/generated from financing activities	(30)	1,018
Increase/(Decrease) in cash and cash equivalents	2,705	(5,537)
Effect of foreign exchange rate change	(660)	387
Cash and cash equivalents at January 1	33,761	27,989
Cash and cash equivalents at June 30	35,806	22,839
Analysis of the balance of cash and cash equivalents:		
Cash and deposits with banks	36,119	33,559
Less: Bank deposits with maturity greater than three months	(313)	(10,720)
Cash and cash equivalents	35,806	22,839

The accompanying notes form part of the interim financial report.

Notes

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 23 to 24.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2013 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2014 annual financial statements.

The HKICPA has issued certain amendments to HKFRSs and one new interpretation that are first effective for the current accounting period of the Group. The adoption of these revised HKFRSs does not have significant impact on the Group's interim financial report.

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	
	2014	2013	2014	2013
	$ Million	$ Million	$ Million	$ Million
Segment				
Property leasing				
– Hong Kong	1,623	1,521	1,398	1,308
– Mainland China	1,933	1,701	1,470	1,337
	3,556	3,222	2,868	2,645
Property sales				
– Hong Kong	901	83	540	60
Segment total	4,457	3,305	3,408	2,705
Other net (loss)/income			(2)	15
Administrative expenses			(313)	(282)
Operating profit before change in fair value of investment properties			3,093	2,438
Increase in fair value of investment properties			748	1,014
– property leasing in Hong Kong			712	687
– property leasing in mainland China			36	327
Interest income			428	395
Finance costs			(218)	(213)
Net interest income			210	182
Share of profits of joint ventures			24	45
Profit before taxation			4,075	3,679

2. TURNOVER AND SEGMENT INFORMATION (continued)

(b) Total assets by segments

	Total assets June 30, 2014 $ Million	Total assets December 31, 2013 $ Million
Segment		
Property leasing		
– Hong Kong	55,828	55,009
– Mainland China	86,153	84,417
	141,981	139,426
Property sales		
– Hong Kong	5,842	7,488
Segment total	147,823	146,914
Interest in joint ventures	1,266	1,030
Other assets	7	8
Deferred tax assets	9	7
Cash and deposits with banks	36,119	34,321
Total assets	185,224	182,280

3. OTHER NET (LOSS)/INCOME

	2014 $ Million	2013 $ Million
Gain on disposal of investment properties	3	7
Net exchange (loss)/gain	(5)	8
	(2)	15

4 NET INTEREST INCOME

	2014 $Million	2013 $Million
Interest income on		
Bank deposits	428	389
Unlisted held-to-maturity investments	–	6
	428	395
Interest expenses on		
Bank loans and other borrowings	623	503
Other borrowing costs	40	26
Total borrowing costs	663	529
Less: Borrowing costs capitalized	(445)	(316)
Finance costs	218	213
Net interest income	210	182

5. PROFIT BEFORE TAXATION

	2014 $Million	2013 $Million
Profit before taxation is arrived at after charging:		
Cost of properties sold	267	15
Staff costs, including employee share-based payments of $77 million (2013: $65 million)	538	402
Depreciation	23	19

6. TAXATION

(a) Provision for Hong Kong Profits Tax is calculated at 16.5% (2013: 16.5%) of the estimated assessable profits for the period. China Income Tax mainly represents China Corporate Income Tax calculated at 25% (2013: 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.

	2014 $ Million	2013 $ Million
Current tax		
Hong Kong Profits Tax	250	181
China Income Tax	344	278
	594	459
Deferred tax		
Change in fair value of investment properties	9	82
Other origination and reversal of temporary differences	31	59
	40	141
Total income tax expense	634	600

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

7. DIVIDENDS

(a) Dividends attributable to the period

	2014 $ Million	2013 $ Million
Proposed after the end of the reporting period:		
17 cents (2013: 17 cents) per share	762	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

	2014 $ Million	2013 $ Million
Final dividend in respect of the previous financial year of 58 cents (2013: 57 cents) per share	2,601	2,553

8. EARNINGS PER SHARE

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

	2014 $ Million	2013 $ Million
Earnings for calculation of basic and diluted earnings per share (net profit attributable to shareholders)	3,217	2,828

	Number of shares 2014 (Million)	 2013 (Million)
Weighted average number of shares used in calculating basic earnings per share	4,481	4,478
Effect of dilutive potential shares - share options	2	17
Weighted average number of shares used in calculating diluted earnings per share	4,483	4,495

(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:

	2014 $ Million	2013 $ Million
Net profit attributable to shareholders	3,217	2,828
Effect of changes in fair value of investment properties	(748)	(1,014)
Effect of corresponding deferred tax	9	82
Effect of change in fair value of investment properties of joint ventures	(1)	(18)
	(740)	(950)
Non-controlling interests	7	55
	(733)	(895)
Underlying net profit attributable to shareholders	2,484	1,933

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

	2014	2013
Basic	$0.55	$0.43
Diluted	$0.55	$0.43

9. INVESTMENT PROPERTIES AND INVESTMENT PROPERTIES UNDER DEVELOPMENT

(a) Additions

During the period, additions to investment properties and investment properties under development amounted to $2,650 million (2013: $6,639 million).

(b) Valuation

The investment properties and investment properties under development of the Group were revalued as at June 30, 2014 by Mr. Charles C.K. Chan, Registered Professional Surveyor (General Practice), of Savills Valuation and Professional Services Limited, on a market value basis.

10. CASH AND DEPOSITS WITH BANKS

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

	June 30, 2014 $ Million	December 31, 2013 $ Million
Hong Kong Dollars equivalent of:		
Renminbi	34,546	31,815
Hong Kong Dollars	1,546	2,193
United States Dollars	27	313
	36,119	34,321

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

After deducting cash and deposits from bank loans and other borrowings, the net debt position of the Group at the end of the reporting period was as follows:

	June 30, 2014 $ Million	December 31, 2013 $ Million
Bank loans and other borrowings	38,042	34,979
Less: Cash and deposits	(36,119)	(34,321)
Net debt	1,923	658

11. TRADE AND OTHER RECEIVABLES

(a) Included in trade and other receivables are trade receivables (based on the due date) with the following terms:

	June 30, 2014 $ Million	December 31, 2013 $ Million
Current and within 1 month	372	1,830
1 - 3 months	7	12
Over 3 months	5	9
	384	1,851

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 $315 million (December 31, 2013: $318 million) and amount recoverable from a joint venture of $112 million (December 31, 2013: $212 million) which is unsecured, interest-free and has no fixed terms of repayment.

12. BANK LOANS AND OTHER BORROWINGS

At the end of the reporting period, the Group had $12,135 million (December 31, 2013: $7,981 million) committed undrawn banking facilities.

In addition, a wholly-owned subsidiary of the Company has a US$3 billion (December 31, 2013: US$3 billion) Medium Term Note Program (the "Program"). At the end of the reporting period, the Group issued in total an equivalent of $12,470 million (December 31, 2013: $7,290 million) bonds with coupon rates ranged from 2.95% to 4.75% (December 31, 2013: 2.95% 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:

	June 30, 2014 $ Million	December 31, 2013 $ Million
Due within 1 month	2,741	2,633
Due after 3 months	569	548
	3,310	3,181

14. SHARE CAPITAL

As at December 31, 2013, 6,000 million ordinary shares, with par value of HK$1 each, were authorized for issue. Under the new Companies Ordinance (Chapter 622 of the laws of Hong Kong) (the "New Companies Ordinance"), which commenced operation on March 3, 2014, the concepts of "authorized share capital" and "par value" no longer exist. As part of the transition to the no-par value regime, the amounts standing to the credit of the share premium account and the capital redemption reserve on March 3, 2014 have become part of the Company's share capital, under the transitional provisions set out in section 37 of Schedule 11 to the New Companies Ordinance. These changes do not have an impact on the number of shares in issue or the relative entitlement of any of the members.

Movements of the Company's ordinary shares are set out below:

	June 30, 2014		December 31, 2013	
	Number of shares (Million)	Amount of share capital ($ Million)	Number of shares (Million)	Amount of share capital ($ Million)
Ordinary shares, issued and fully paid:				
At January 1	4,479	4,479	4,477	4,477
Shares issued under share option scheme	6	82	2	2
Transition to no-par value regime on March 3, 2014	–	35,100	–	–
At June 30/December 31	4,485	39,661	4,479	4,479

15. SHARE OPTION SCHEMES

The share option scheme adopted by the Company on November 22, 2002 (the "2002 Share Option Scheme") was terminated upon the adoption of a new share option scheme on April 18, 2012 (the "2012 share Option Scheme"). No further options shall be offered under the 2002 Share Option Scheme, but all options granted prior to such termination and not exercised at the date of termination shall remain valid. 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, 2014	Exercised	Forfeited/ Lapsed	Outstanding on June 30, 2014	Period during which options are exercisable	Exercise price (HK$)
May 20, 2004	5,290,000	(5,290,000)	–	–	May 20, 2005 to May 19, 2014	9.20
November 14, 2006 to March 19, 2007	4,545,000	(400,000)	–	**4,145,000**	November 14, 2007 to March 18, 2017	16.75 - 22.55
August 21, 2007 to December 31, 2008	41,624,000	(622,000)	(82,000)	**40,920,000**	August 21, 2008 to December 30, 2018	17.36 - 27.90
February 8, 2010 to June 1, 2010	13,780,000	–	(400,000)	**13,380,000**	February 8, 2012 to May 31, 2020	26.46 - 27.27
July 29, 2010 to June 13, 2011	35,852,000	–	(1,687,000)	**34,165,000**	July 29, 2012 to June 12, 2021	30.79 - 36.90
Total	101,091,000	(6,312,000)	(2,169,000)	**92,610,000**		

All the above options may vest after one/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 exercise by the director during the period was $22.30. The weighted average closing price of the shares immediately before the dates of exercise by the employees during the period was $23.22.

The weighted average share price at the dates of exercise for share options during the period was $23.31.

15. SHARE OPTION SCHEMES (continued)

(b) 2012 Share Option Scheme

Date granted	Number of share options: Outstanding on January 1, 2014	Exercised	Forfeited/ Lapsed	Outstanding on June 30, 2014	Period during which options are exercisable	Exercise price (HK$)
June 4, 2013	38,620,000	–	(2,990,000)	**35,630,000**	June 4, 2015 to June 3, 2023	28.20
Total	38,620,000	–	(2,990,000)	**35,630,000**		

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 granted nor cancelled during the period.

16. RESERVES

	Share premium $ Million (Note)	Capital redemption reserve $ Million (Note)	Exchange reserve $ Million	Employee share-based compensation reserve $ Million	Total $ Million	Retained profits $ Million	Total reserves $ Million
At January 1, 2014	33,031	2,066	8,265	582	43,944	76,111	120,055
Transition to no-par value regime on March 3, 2014	(33,034)	(2,066)	–	–	(35,100)	–	(35,100)
Profit for the period	–	–	–	–	–	3,217	3,217
Exchange difference arising from translation of overseas subsidiaries	–	–	(1,190)	–	(1,190)	–	(1,190)
Total comprehensive income for the period	–	–	(1,190)	–	(1,190)	3,217	2,027
Final dividends in respect of previous financial year	–	–	–	–	–	(2,601)	(2,601)
Issue of shares	3	–	–	(16)	(13)	–	(13)
Employee share-based payments	–	–	–	37	37	40	77
At June 30, 2014	–	–	7,075	603	7,678	76,767	84,445

Note:

Prior to March 3, 2014, the application of the share premium account and the capital redemption reserve was governed by sections 48B and 49H respectively of the predecessor Companies Ordinance (Chapter 32 of the laws of Hong Kong). In accordance with the transitional provisions set out in section 37 of Schedule 11 to the New Companies Ordinance, on March 3, 2014 any amount standing to the credit of the share premium account and the capital redemption reserve has become part of the Company's share capital. The use of share capital as from March 3, 2014 is governed by the New Companies Ordinance.

16. 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, 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

17. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The fair value of 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.

18. CONTINGENT LIABILITIES

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

	June 30, 2014 $ Million	December 31, 2013 $ Million
Guarantees given to banks to secure credit facilities drawn by subsidiaries	38,372	35,257

19. COMMITMENTS

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

	June 30, 2014 $ Million	December 31, 2013 $ Million
Contracted for	3,459	5,250
Authorized but not contracted for	43,580	44,021
	47,039	49,271

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.

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, 2014.

FINANCIAL CALENDAR

Financial period	January 1, 2014 to June 30, 2014
Announcement of interim results	July 31, 2014
Latest time for lodging transfers	4:30 p.m. on September 15, 2014
Closure of share register	September 16 to 17, 2014 (both days inclusive)
Record date for interim dividend	September 17, 2014
Payment date for interim dividend	September 30, 2014

SHARE LISTING

As at June 30, 2014, 4,485,207,670 shares 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

Hong Kong Stock Exchange	00101
Reuters	0101.HK
Bloomberg	101HK
CUSIP Number/Ticker Symbol for ADR Code	41043M104/HLPPY

SHARE INFORMATION

Share price as at June 30, 2014: HK$23.90
Market capitalization as at June 30, 2014: HK$107.20 billion

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