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

Stock Code 股份代號：12

# Interim Report 中期報告

# 2016

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# Highlights of 2016 Interim Results

| | Note | For the six months ended 30 June<br>**2016**<br>**unaudited**<br>**HK$ million** | 2015<br>unaudited<br>HK$ million | Change |
|---|---|---|---|---|
| Property sales | | | | |
| – Revenue | *1* | **6,136** | 7,083 | -13.4% |
| – Pre-tax profit contribution | *1* | **1,191** | 1,551 | -23.2% |
| Property leasing | | | | |
| – Gross rental income | *1* | **4,070** | 4,027 | +1.1% |
| – Pre-tax net rental income | *1* | **3,262** | 3,134 | +4.1% |
| Profit attributable to equity shareholders | | | | |
| – Underlying profit | *2* | **4,782** | 5,443 (restated) | -12.1% |
| – Reported profit | | **8,611** | 9,846 | -12.5% |
| | | **HK$** | HK$ | |
| Earnings per share | | | | |
| – Based on underlying profit | *2, 3* | **1.31** | 1.50 (restated) | -12.7% |
| – Based on reported profit | *3* | **2.37** | 2.71 (restated) | -12.5% |
| Interim dividend per share | | **0.42** | 0.38 | +10.5% |

| | Note | **At 30 June**<br>**2016**<br>**unaudited**<br>**HK$** | At 31 December<br>2015<br>audited<br>HK$ | Change |
|---|---|---|---|---|
| Net asset value per share | *3* | **70.01** | 69.08 (restated) | +1.3% |
| Net debt to shareholders' equity | | **14.5%** | 16.0% | -1.5 percentage points |

| | | **Million square feet** | Million square feet |
|---|---|---|---|
| **Properties in Hong Kong** | | | |
| Land bank (attributable floor area) | | | |
| – Properties under development | *4* | **13.5** | 13.4 |
| – Unsold units from major launched projects | | **0.8** | 0.9 |
| | **Sub-total:** | **14.3** | 14.3 |
| – Completed properties (including hotels) for rental | | **10.0** | 10.1 |
| | **Total:** | **24.3** | 24.4 |
| New Territories land (attributable land area) | | **45.2** | 45.0 |
| **Properties in Mainland China** | | | |
| Land bank (attributable floor area) | | | |
| – Properties held for/under development | | **107.1** | 116.7 |
| – Completed stock for sale | | **3.0** | 2.9 |
| – Completed properties for rental | | **7.3** | 7.3 |
| | | **117.4** | 126.9 |

*Notes:*

*1 This amount includes the Group's attributable share of contributions from subsidiaries, associates and joint ventures ("JVs").*

*2 Excluding the Group's attributable share of fair value change (net of tax) of the investment properties held by subsidiaries, associates and JVs. In order to fully exclude the effects of changes in fair value from the Group's underlying profit, the Group's attributable share of the cumulative fair value change (net of tax) of investment properties disposed of during the period (which has been included in calculating the net gain on disposal of investment properties and hence the profit attributable to equity shareholders of the Company during the period) of HK$194 million (2015: HK$152 million) was added back in arriving at the underlying profit. The comparative underlying profit and underlying earnings per share for the same period last year have been restated to conform to the presentation basis for the period under review.*

*3 The earnings per share were calculated based on the weighted average number of shares as adjusted for the effect of the bonus issues under Hong Kong Accounting Standard 33, "Earnings Per Share". The net asset value per share at 30 June 2016 was calculated based on the number of issued shares outstanding at 30 June 2016, whilst the net asset value per share at 31 December 2015 was calculated based on the number of issued shares outstanding at 31 December 2015 and as adjusted for the bonus issue effected in 2016.*

*4 Including the total developable area of about 4.9 million square feet from the projects in Fanling North/Kwu Tung and Wo Shang Wai, which are subject to finalisation of land premium.*

## Interim Results and Dividend

The Board of Directors announces that for the six months ended 30 June 2016, the (unaudited) Group's reported profit attributable to equity shareholders amounted to HK$8,611 million, representing a decrease of HK$1,235 million or 12.5% from HK9,846 million for the same period last year. Reported earnings per share were HK$2.37 (2015: HK$2.71 as adjusted for the bonus issue in 2016).

Excluding the fair value change (net of non-controlling interests and tax) of investment properties and investment properties under development, the Group's Underlying Profit[Note] attributable to equity shareholders for the period under review was HK$4,782 million, representing a decrease of HK$661 million or 12.1% from HK$5,443 million for the same period last year. Underlying Earnings Per Share were HK$1.31 (2015: HK$1.50 as adjusted for the bonus issue in 2016).

The Board has resolved to pay an interim dividend of HK$0.42 per share (2015: HK$0.38 per share) to shareholders whose names appear on the Register of Members of the Company on Thursday, 8 September 2016 and such interim dividend will not be subject to any withholding tax in Hong Kong.

## Closure of Register of Members

The Register of Members of the Company will be closed on Wednesday, 7 September 2016 and Thursday, 8 September 2016, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's Registrar, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 6 September 2016. Interim dividend will be distributed to shareholders on Tuesday, 20 September 2016.

*Note: In order to fully exclude the effects of changes in fair value from the Group's Underlying Profit, the Group's attributable share of the cumulative fair value change (net of tax) of investment properties disposed of during the period (which has been included in calculating the net gain on disposal of investment properties and hence the profit attributable to equity shareholders of the Company during the period) of HK$194 million (2015: HK$152 million) was added back in arriving at the Underlying Profit. The comparative Underlying Profit and Underlying Earnings Per Share for the same period last year have been restated to conform to the presentation basis for the period under review.*

# Management Discussion and Analysis

## Business Review

The Group's Underlying Profit attributable to equity shareholders for the six months ended 30 June 2016 was down by 12.1% to HK$4,782 million. Pre-tax profit contribution from property sales (including the attributable contribution from subsidiaries, associates and joint ventures) decreased by 23.2% period-on-period to HK$1,191 million, whilst pre-tax net rental income (including the attributable contribution from subsidiaries, associates and joint ventures) increased by 4.1% period-on-period to HK$3,262 million.

### Hong Kong

#### Property Sale

At the beginning of this year, the uncertain outlook in global financial markets and concerns over the slowdown in the mainland economy posed a drag on Hong Kong's housing market. However, with the growing expectation that any interest rate hike in the US would be mild, confidence among homebuyers has gradually been restored. The release of their pent-up demand, coupled with the flexible financing schemes offered by developers as a spur to greater affordability of homebuyers, has led to a revival in market activities since the second quarter of 2016.

The Group released three residential developments for sale during the period, namely "Harbour Park" in Cheung Sha Wan, "Wellesley" in Mid-Levels and "Double Cove Summit" (Phase 5 of "Double Cove") in Ma On Shan, all of which sold well. Developments re-launched for sale such as "39 Conduit Road" in Mid-Levels, "Double Cove" (Phases 1-4) in Ma On Shan, as well as an array of urban redevelopment boutique residences under "The H Collection" were also well received. Together with the disposal of other properties such as the industrial units at "Global Gateway Tower" in Cheung Sha Wan, the shop units at "The Zutten" in Ma Tau Kok and "PARKER33" in Shau Kei Wan, as well as some commercial properties, the Group sold HK$6,233 million worth of Hong Kong properties in attributable terms for the six months ended 30 June 2016.

#### Property Development

The Group has 45 urban redevelopment projects with 80% to 100% of their ownerships acquired, representing about 3.9 million square feet in total attributable gross floor area.

The Group has made use of multiple channels to expand its development land bank in Hong Kong. With the exception of a few projects earmarked for rental purposes, there will be abundant supply of saleable areas for the Group's property sales in the coming years (details are shown as follows).

Below is a summary of properties under development and major completed stock:

| | | | No. of projects | Attributable saleable/gross floor area (million sq. ft.) (Note 1) | Remarks |
|---|---|---|---|---|---|
| **(A)** | **Area available for sale in the second half of 2016:** | | | | |
| 1. | Unsold units from major development projects offered for sale | (Table 1) | 24 | 0.8 | |
| 2. | Projects pending sale in the second half of 2016 | (Table 2) | 5 | 0.9 | |
| | | | **Sub-total:** | **1.7** | Of which an attributable floor area of about 540,000 sq. ft. was sourced from urban redevelopment projects |
| **(B)** | **Projects in Urban Areas:** | | | | |
| 3. | Existing urban redevelopment projects | (Table 3) | 5 | 1.4 | Dates of sales launch are not yet fixed and one of them is pending finalisation of land premium with the Government |
| 4. | Newly-acquired Urban Redevelopment Projects<br>– Ownership Fully Consolidated | (Table 4) | 18 | 1.9 | Most of them are expected to be available for sale or leasing in 2017-2018 |
| 5. | Newly-acquired Urban Redevelopment Projects<br>– with over 80% ownership secured | (Table 5) | 27 | 2.0 | Most of them are expected to be available for sale in 2018-2020 |
| 6. | Newly-acquired Urban Redevelopment Projects<br>– with over 20% but less than 80% ownership secured | (Table 6) | 33 | 0.9 | Redevelopments of these projects are subject to successful consolidation of their ownerships |
| 7. | 15 Middle Road, Tsim Sha Tsui, Kowloon (acquired through public tender) | | 1 | 0.3 | To be held for rental purposes upon completion of development |
| | | | **Sub-total:** | **6.5** | |
| | **Total for the above categories (A) and (B) development projects:** | | | **8.2** | |

| | | Attributable saleable/gross floor area (million sq. ft.) (Note 1) | Remarks |
|---|---|---|---|
| **(C)** | **Major development projects in the New Territories:** | | |
| | – Fanling North/Kwu Tung | 4.0 | (Note 2) |
| | – Wo Shang Wai | 0.9 | (Note 2) |
| | – Kwun Chui Road, Area 56, Tuen Mun Town Lot No. 500 (acquired through public tender) | 0.8 | |
| | – Others | 0.4 | |
| | **Sub-total:** | **6.1** | |
| | **Total for categories (A) to (C):** | **14.3** | |

Note 1: Gross floor area is calculated on the basis of the Buildings Department's approved plans or the Government's latest town planning parameters, as well as the Company's development plans. For certain projects, it may be subject to change depending on the actual needs in future.

Note 2: Developable area is subject to finalisation of land premium.

## (Table 1) Unsold units from the major development projects offered for sale

There are 24 development projects available for sale:

| | Project name and location | Site area (sq. ft.) | Gross floor area (sq. ft.) | Type of development | Group's interest (%) | At 30 June 2016 No. of residential units remaining unsold | At 30 June 2016 Saleable area remaining unsold (sq. ft.) |
|---|---|---|---|---|---|---|---|
| 1. | Double Cove – Phases 1-5<br>8 Wu Kai Sha Road<br>Ma On Shan | 1,006,407 | 2,960,031 | Commercial/ Residential | 59.00 | 472 | 565,374 |
| 2. | The Reach<br>11 Shap Pat Heung Road<br>Yuen Long | 371,358 | 1,299,744 | Residential | 79.03 | 24 | 24,739 |
| 3. | Green Code<br>1 Ma Sik Road<br>Fanling | 95,800 | 538,723 | Commercial/ Residential | 33.41 | 8 | 8,409 |
| 4. | High Park*<br>51 Boundary Street | 5,880 | 52,919 | Commercial/ Residential | 100.00 | 5 | 3,463 |
| 5. | High Point*<br>188 Tai Po Road<br>Cheung Sha Wan | 8,324 | 70,340 | Commercial/ Residential | 100.00 | 3 | 1,542 |
| 6. | High Place*<br>33 Carpenter Road | 3,582 | 31,632 | Commercial/ Residential | 100.00 | 4 | 2,014 |
| 7. | The Gloucester*<br>212 Gloucester Road<br>Wanchai | 11,545 | 113,977 | Residential | 100.00 | 4 | 3,998 |
| 8. | 39 Conduit Road*<br>Mid-Levels | 56,748 | 229,255 | Residential | 60.00 | 15 | 38,997 |
| 9. | Hill Paramount<br>18 Hin Tai Street<br>Shatin | 95,175 | 358,048 | Residential | 100.00 | 4 | 11,742 |
| 10. | Green Lodge<br>23 Ma Fung Ling Road<br>Tong Yan San Tsuen | 78,781 | 78,781 | Residential | 100.00 | 6 | 12,762 |
| 11. | Metro6<br>121 Bulkeley Street<br>Hung Hom | 6,268 | 55,557 | Commercial/ Residential | 33.41 | 12 | 4,995 |
| 12. | High One Grand*<br>188 Fuk Wing Street<br>Cheung Sha Wan | 7,350 | 62,858 | Commercial/ Residential | 100.00 | 5 | 3,158 |
| 13. | High One*<br>571 Fuk Wa Street<br>Cheung Sha Wan | 7,560 | 63,788 | Commercial/ Residential | 100.00 | 9 | 3,344 |

| | Project name and location | Site area (sq. ft.) | Gross floor area (sq. ft.) | Type of development | Group's interest (%) | At 30 June 2016 No. of residential units remaining unsold | At 30 June 2016 Saleable area remaining unsold (sq. ft.) |
|---|---|---|---|---|---|---|---|
| 14. | H • Bonaire*<br>68 Main Street<br>Ap Lei Chau | 7,953 | 65,761 | Commercial/ Residential | 100.00 | 39 | 20,903 |
| 15. | Jones Hive*<br>8 Jones Street<br>Causeway Bay | 6,529 | 65,267 | Residential | 79.762 | 37 | 17,636 |
| 16. | High Park Grand*<br>68 Boundary Street<br>Mong Kok | 6,750 | 60,750 | Commercial/ Residential | 100.00 | 36 | 39,325 |
| 17. | AXIS*<br>200 Ma Tau Wai Road<br>Hung Hom | 4,905 | 41,314 | Commercial/ Residential | 100.00 | 61 | 15,323 |
| 18. | PARKER33*<br>33 Shing On Street<br>Shau Kei Wan | 7,513 | 80,079 | Commercial/ Residential | 100.00 | 43 | 13,567 |
| 19. | Eltanin • Square Mile*<br>11 Li Tak Street<br>Mong Kok | 19,600 | 176,373 | Commercial/ Residential | 100.00 | 50 | 13,507 |
| 20. | The Zutten*<br>50 Ma Tau Kok Road | 11,400 | 102,570 | Commercial/ Residential | 100.00 | 59 | 16,094 |
| 21. | Harbour Park*<br>208 Tung Chau Street<br>Cheung Sha Wan | 6,528 | 55,077 | Commercial/ Residential | 33.41 | 69 | 16,680 |
| 22. | Wellesley*<br>23 Robinson Road<br>Mid-Levels | 31,380 | 156,901 | Residential | 25.07 | 68 | 110,097 |
| 23. | Global Gateway Tower*<br>61A-61E and<br>63 Wing Hong Street<br>Cheung Sha Wan | 28,004 | 336,052 | Industrial | 100.00 | Not applicable | 149,401 (Note) |
| 24. | E-Trade Plaza<br>24 Lee Chung Street<br>Chai Wan | 11,590 | 173,850 | Office | 100.00 | Not applicable | 60,359 (Note) |
| | | | | | **Sub-total:** | **1,033** | **1,157,429** |
| | | | | | **Area attributable to the Group:** | | **794,737** |

Note: Representing the office or industrial area.

* Urban redevelopment projects totalling approximately 350,000 square feet of remaining area attributable to the Group.

### (Table 2) Projects pending sale in the second half of 2016

In the absence of unforeseen delays, the following 5 projects will be available for sale in the second half of 2016:

| | Project name and location | Site area (sq. ft.) | Gross floor area (sq. ft.) | Type of development | Group's interest (%) | No. of residential units | Residential gross floor area (sq. ft.) |
|---|---|---|---|---|---|---|---|
| 1. | 38 Hillwood Road<br>Tsim Sha Tsui* | 4,586 | 55,031 | Commercial | 100.00 | Not applicable | 55,031<br>(Note 1) |
| 2. | 1-19 Nam Cheong Street<br>Sham Shui Po* | 8,559 | 77,027 | Commercial/<br>Residential | 100.00 | 129 | 64,189 |
| 3. | 7-7G Victory Avenue<br>Ho Man Tin* | 9,865 | 83,245 | Commercial/<br>Residential | 100.00 | 250 | 73,987 |
| 4. | Big Star Centre<br>8 Wang Kwong Road<br>Kowloon Bay | 21,528 | 171,194 | Office | 100.00 | Not applicable | 171,194<br>(Note 1) |
| 5. | No. 88 Castle Peak Road<br>Kwu Tung, adjacent to<br>The Hong Kong Golf Club in<br>Fanling<br>(Note 2) | 154,280 | 555,399 | Residential | 100.00 | 590 | 555,399 |
| | | | | | **Total:** | **969** | **919,800** |

Note 1: Representing the commercial/office area.

Note 2: Pending the issue of pre-sale consent.

* Urban redevelopment projects totalling approximately 190,000 square feet of area attributable to the Group.

### (Table 3) Existing urban redevelopment projects

The Group has a total of 5 existing projects under planning for redevelopment or land-use conversion and the dates of their sales launch are not yet fixed. As outlined below, they are expected to provide about 1.4 million square feet in attributable gross floor area in the urban areas based on the Buildings Department's approved plans or the Government's latest town planning:

| | Project name and location | Site area (sq. ft.) | Expected gross floor area upon redevelopment (sq. ft.) | Group's interest (%) | Expected attributable gross floor area upon redevelopment (sq. ft.) |
|---|---|---|---|---|---|
| 1. | 45-47 Pottinger Street and Ezra's Lane, Central Hong Kong (Note 1) | 9,067 | 135,995 | 19.10 | 25,968 |
| 2. | 29 Lugard Road The Peak, Hong Kong | 23,649 | 11,824 | 100.00 | 11,824 |
| 3. | 18 King Wah Road North Point, Hong Kong (Notes 1 and 2) | 52,689 | 329,755 | 100.00 | 329,755 |
| 4. | 218 Electric Road North Point, Hong Kong (Note 1) | 9,600 | 143,997 | 100.00 | 143,997 |
| 5. | Yau Tong Bay Kowloon (Note 3) | 810,454 | 3,991,981 | 22.80 | 910,172 |
| | **Total:** | **905,459** | **4,613,552** | | **1,421,716** |

Note 1: Investment property.

Note 2: It is being developed into an office tower with its scheduled completion in the second half of 2017.

Note 3: The modified master layout plan was approved in February 2015 and it is pending finalisation of land premium with the Government.

### (Table 4) Newly-acquired Urban Redevelopment Projects – Ownership Fully Consolidated

There are 18 newly-acquired urban redevelopment projects with ownership fully consolidated. In the absence of unforeseen delays, most of these projects are expected to be available for sale or leasing in 2017-2018 and their expected attributable gross floor areas, based on the Buildings Department's approved plans or the Government's latest town planning, are as follows:

| | Project name and location | Site area (sq. ft.) | Expected attributable gross floor area upon redevelopment (sq. ft.) | |
|---|---|---|---|---|
| **Hong Kong** | | | | |
| 1. | 450-456G Queen's Road West, Western District | 28,027 | 272,065 | |
| 2. | 852-858 King's Road and 21-39 Mansion Street, North Point | 17,720 | 169,709 | |
| 3. | 62C Robinson Road and 6 Seymour Terrace, Mid-Levels | 3,851 | 33,099 | |
| 4. | 206-212 Johnston Road, Wanchai | 4,341 | 65,115 | (Note 1) |
| 5. | 12-18 Tin Wan Street, Aberdeen | 4,060 | 37,566 | |
| 6. | 1-3 and 9-11 Chung Ching Street, Sheung Wan | 3,166 | 26,911 | |
| 7. | 4A-4P Seymour Road, Mid-Levels (65% stake held by the Group) | 52,466 | 306,920 | |
| | **Sub-total:** | **113,631** | **911,385** | |
| **Kowloon** | | | | |
| 8. | 8-30A Ka Shin Street, Tai Kok Tsui | 19,519 | 175,555 | |
| 9. | 25-29 Kok Cheung Street, Tai Kok Tsui | 22,885 | 205,965 | |
| 10. | 456-466 Sai Yeung Choi Street North and 50-56 Wong Chuk Street, Sham Shui Po | 22,965 | 206,690 | (Note 2) |
| 11. | 1-15 Berwick Street, Shek Kip Mei | 9,788 | 78,304 | |
| 12. | 202-208 Nam Cheong Street, Shek Kip Mei | 4,200 | 33,600 | |
| 13. | 214-220 Nam Cheong Street, Shek Kip Mei | 4,200 | 33,600 | |
| 14. | 342-348 Un Chau Street, Cheung Sha Wan | 4,579 | 38,922 | |
| 15. | 352-354 Un Chau Street, Cheung Sha Wan | 2,289 | 19,457 | |
| 16. | 11-19 Wing Lung Street, Cheung Sha Wan | 6,510 | 58,577 | (Note 2) |
| 17. | 69-83 Fuk Lo Tsun Road, Kowloon City | 9,543 | 81,116 | (Note 2) |
| 18. | 31-33 Whampoa Street, Hung Hom | 3,000 | 25,500 | |
| | **Sub-total:** | **109,478** | **957,286** | |
| | **Total:** | **223,109** | **1,868,671** | |

Note 1: To be held for rental purposes upon completion of development.

Note 2: Developable area may be subject to payment of land premium.

### (Table 5) Newly-acquired Urban Redevelopment Projects – with over 80% ownership secured

There are 27 newly-acquired urban redevelopment projects with over 80% ownership secured and their ownership will be consolidated by proceeding to the court for compulsory sale under the "Land (Compulsory Sale for Redevelopment) Ordinance". In the event that no court order is granted, the Group may not be able to complete the consolidation of the ownership for development. If legal procedures go smoothly and in the absence of unforeseen delays, most of the projects set out below are expected to be available for sale in 2018-2020. On the basis of the Government's latest town planning, the expected attributable gross floor areas are shown as follows:

| | Project name and location | Site area (sq. ft.) | Expected attributable gross floor area upon redevelopment (sq. ft.) |
|---|---|---|---|
| **Hong Kong** | | | |
| 1. | 73-73E Caine Road, Mid-Levels | 6,781 | 60,659 |
| 2. | 13-15 Wood Road, Wanchai | 3,993 | 33,941 |
| 3. | 2 Tai Cheong Street, Sai Wan Ho | 13,713 | 123,417 |
| 4. | 85-95 Shek Pai Wan Road, Aberdeen | 4,950 | 42,075 |
| 5. | 4-6 Tin Wan Street, Aberdeen | 1,740 | 14,790 |
| 6. | 9-13 Sun Chun Street, Tai Hang | 2,019 | 18,171 |
| 7. | 5-7 and 13-17 Chung Ching Street, Sheung Wan | 3,905 | 33,193 |
| 8. | 40-46 Pan Hoi Street, Quarry Bay (50% stake held by the Group) | 3,734 | 15,870 |
| 9. | 72-94 Pan Hoi Street, Quarry Bay (50% stake held by the Group) | 11,488 | 54,568 |
| 10. | 983-987A King's Road and 16-22 Pan Hoi Street, Quarry Bay (50% stake held by the Group) | 6,696 | 31,806 |
| | **Sub-total:** | **59,019** | **428,490** |
| **Kowloon** | | | |
| 11. | 57-69 Ma Tau Wai Road, 2-20 Bailey Street and 18A-30 Sung Chi Street, To Kwa Wan | 23,031 | 207,277 |
| 12. | 2A-2F Tak Shing Street, Jordan | 10,614 | 84,912 |
| 13. | 35-47 Li Tak Street, 2-16 Kok Cheung Street and 32-44 Fuk Chak Street, Tai Kok Tsui | 20,114 | 181,009 |
| 14. | 1 Ka Shin Street, 39-53 Tai Kok Tsui Road and 2 Pok Man Street, Tai Kok Tsui | 9,642 | 86,778 |

| | Project name and location | | Site area (sq. ft.) | Expected attributable gross floor area upon redevelopment (sq. ft.) |
|---|---|---|---|---|
| 15. | 74-74C Waterloo Road and 15-25 Yau Moon Street<br>Ho Man Tin<br>(49% stake held by the Group) | | 10,677 | 39,240 |
| 16. | 21-27 Berwick Street, Shek Kip Mei | | 5,288 | 42,304 |
| 17. | 210-212 Nam Cheong Street, Shek Kip Mei | | 2,100 | 16,800 |
| 18. | 3-8 Yiu Tung Street, Shek Kip Mei | | 7,312 | 58,496 |
| 19. | 6-28 Gillies Avenue South and 76-78 Baker Street<br>Hung Hom | | 19,975 | 179,775 |
| 20. | 1-21C Whampoa Street and 80-86 Baker Street<br>Hung Hom | | 19,725 | 177,525 |
| 21. | 2-16A Whampoa Street, Hung Hom | | 14,400 | 129,600 |
| 22. | 22-24 Whampoa Street and 88-90A Baker Street<br>Hung Hom | | 4,675 | 42,075 |
| 23. | 30-44 Gillies Avenue South and 75-77 Baker Street<br>Hung Hom | | 13,175 | 118,575 |
| 24. | 23-25 Whampoa Street and 79-81 Baker Street<br>Hung Hom | | 2,625 | 23,625 |
| 25. | 35-37 Whampoa Street, Hung Hom | | 3,000 | 27,000 |
| 26. | 26-36A Whampoa Street and 83-85 Baker Street<br>Hung Hom | | 9,775 | 87,975 |
| 27. | 39-41 Whampoa Street, 12A-22A Bulkeley Street and<br>46-50 Gillies Avenue South, Hung Hom | | 11,900 | 107,100 |
| | | **Sub-total:** | **188,028** | **1,610,066** |
| | | **Total:** | **247,047** | **2,038,556** |

### (Table 6) Newly-acquired Urban Redevelopment Projects – with over 20% but less than 80% ownership secured

The Group has other acquisitions in progress, involving 33 projects located in prime urban areas in Hong Kong and Kowloon. Currently, ownership ranging from more than 20% to less than 80% of each project has been achieved. The attributable land areas of these projects total about 225,000 square feet. If and when their ownerships are successfully consolidated, based on the Government's latest town planning, the total estimated attributable gross floor area would be about 2 million square feet upon completion of redevelopment. Based on the respective ownership currently secured by the Group for each project, the total pro-rata attributable gross floor area is about 850,000 square feet.

Successful acquisitions of the above projects bear uncertainty. The Group may not be able to consolidate ownerships of all projects. Redevelopments can only be implemented upon acquisition of the full ownership of the relevant projects.

### Land Bank

The Group continues to replenish its land bank by acquiring old tenement buildings for redevelopment and applying for land-use conversion for its portfolio of New Territories land. This dual approach to land banking has proven to be a reliable source of land supply with a lower acquisition cost, which is beneficial to the Group's development returns in the long term.

"Double Cove" in Ma On Shan, which has been completed recently with the entire project of about 1.75 million square feet in attributable gross floor area, is a manifest example. Its Phase 5 – "Double Cove Summit", in terms of saleable area, has an average selling price for the units sold at about HK$14,500 per square foot, whereas its acquisition cost (including the cost for acquisition of New Territories land and the land conversion premium) was only about HK$4,200 per square foot (excluding construction cost and other expenses). Hence, it is evident that profit contribution from this project is highly satisfactory.

The Group currently has a land bank in Hong Kong comprising a total attributable gross floor area of approximately 24.3 million square feet, made up as follows:

| | | Attributable gross floor area (million sq. ft.) |
|---|---|---|
| Properties under development (Note) | | 13.5 |
| Unsold units from major launched projects | | 0.8 |
| | **Sub-total:** | **14.3** |
| Completed properties (including hotels) for rental | | 10.0 |
| | **Total:** | **24.3** |

Note: Including the total developable area of about 4.9 million square feet from the projects in Fanling North/Kwu Tung and Wo Shang Wai, which are subject to finalisation of land premium.

**Land in Urban Areas**

As aforesaid, there are currently 45 urban redevelopment projects of old tenement buildings with entire or over 80% ownership acquired, representing a total attributable gross floor area of about 3.9 million square feet, which are expected to be ready for sale or leasing in 2017 or beyond. The total land cost of such projects is estimated to be about HK$25,500 million (in spite of the inclusion of pricey street shops and the project at the prestigious Seymour Road in Mid-Levels), translating into a land cost of approximately HK$6,500 per square foot of gross floor area.

The Group so far in this financial year completed the acquisition of the entire interests in the projects at 4A-4P Seymour Road in Mid-Levels, 9-11 Chung Ching Street in Sheung Wan, as well as 464-466 Sai Yeung Choi Street North and 50-56 Wong Chuk Street in Sham Shui Po. The site for the current project at 39-41 Whampoa Street and 12A-12B Bulkeley Street, Hung Hom, was enlarged following the acquisition of the adjacent buildings.

For the industrial site at 18 King Wah Road, North Point, the amount of land premium for its conversion into a 330,000-square-foot waterfront office building was already agreed with the Government at about HK$2,218.7 million. With the estimated land cost (including the above land premium) and construction cost per square foot of gross floor area of approximately HK$8,700 and HK$3,300 respectively, this will be another valuable waterfront project in the Group's sizeable asset portfolio. In addition, the residential-cum-commercial project at Yau Tong Bay is in the process of application for land exchange.

**New Territories land**

During the period under review, the Group acquired further New Territories land lots of about 0.2 million square feet, increasing its New Territories land reserves to approximately 45.2 million square feet at 30 June 2016. This represents the largest holding among all property developers in Hong Kong.

In July 2013, the Government announced the result of the "North East New Territories New Development Areas Planning and Engineering Study", of which Kwu Tung North and Fanling North would be treated as the extension of Fanling/Sheung Shui New Town. The Government has also decided to adopt an enhanced Conventional New Town Approach and, subject to specified criteria, private land owners are allowed to apply for in-situ land exchange for private developments. Outline Zoning Plans for both Kwu Tung North and Fanling North were already approved by the Chief Executive-in-Council. Of the Group's land holding of 2.4 million square feet in Fanling North New Development Area, a total land area of roughly over 800,000 square feet is assessed to be eligible for in-situ land exchange and the Government may resume the other parts of its lands for public use by payment of cash compensation. The Group has previously applied for in-situ land exchange for two separate land lots in Fanling North and Kwu Tung, which have just been accepted by the Government for further review. The two sites are expected to provide total developable gross floor areas of approximately 600,000 square feet and 340,000 square feet respectively, against their respective site areas of 172,000 square feet and 45,000 square feet. Applications in respect of three other land lots in Fanling North, with respective site areas of 228,000 square feet, 241,000 square feet and 240,000 square feet, were also submitted for in-situ land change. The above four land lots in Fanling North are expected to provide an aggregate commercial gross floor area of 440,000 square feet and residential gross floor area of 3.64 million square feet approximately. Developable areas for these sites are subject to finalisation of land premium.

According to the aforementioned "North East New Territories New Development Areas Planning and Engineering Study", the region at Ping Che/Ta Kwu Ling will be re-planned, in response to the "2013 Policy Address" which proposed an initiative to review the development potential of New Territories North, including new opportunities brought about by the new railway infrastructure. In January 2014, the Government commenced its "Preliminary Feasibility Study on Developing the New Territories North" on a study area of about 5,300 hectares. In September 2014, the Government announced the "Railway Development Strategy", including its long-term extension plan to further extend the railway line to Kwu Tung and Ping Che. The Group has a land holding of about 1.34 million square feet in Ping Che/Ta Kwu Ling which are embodied in the Master Layout Plan of the original "North East New Territories New Development Areas Planning and Engineering Study". In addition, the Group has about 1.09 million square feet of land in the adjacent areas, making a total of about 2.43 million square feet in the region. In order to increase land supply for housing, the Government formulated the Preliminary Outline Development Plan for "Planning and Engineering Study for Housing Sites in Yuen Long South – Investigation" and launched its Stage 2 Community Engagement. It also released the "Land Use Review for Kam Tin South and Pat Heung". The Group holds certain pieces of land in these Study Areas.

As for "Hung Shui Kiu New Development Area Planning and Engineering Study", the Group holds a total land area of approximately 6.31 million square feet in this location, which covers an area of about 714 hectares. Under the Preliminary Outline Development Plan, it was proposed to accommodate a new town of a population comprising about 215,000 people and 60,000 additional flats, of which about 50% are private developments. Impacts to the Group arising from these proposals are to be assessed. The Group will continue to work in line with the Government's development policies and follow up closely on its development plans.

Besides, the development of houses cum wetland restoration project in Wo Shang Wai, Yuen Long has been approved by the Town Planning Board. With a site area of approximately 2.23 million square feet, this project will comprise about 400 houses, providing a total residential floor area of approximately 890,000 square feet. Negotiation of the land premium is now under way and project implementation is subject to the finalisation of the land premium amount with the Government.

### Investment Properties

For the six months ended 30 June 2016, the Group's attributable gross rental income in Hong Kong, including the attributable contribution from subsidiaries, associates and joint ventures, increased by 1.4% period-on-period to HK$3,214 million. The attributable pre-tax net rental income, including the attributable contribution from subsidiaries, associates and joint ventures, was HK$2,558 million, representing a growth of 3.2% over the corresponding period of the previous year. Included therein is attributable gross rental income of HK$953 million (2015: HK$918 million) contributed from the Group's attributable 40.77% interest in The International Finance Centre ("ifc") project. At the end of June 2016, the leasing rate for the Group's core rental properties was 97%. Besides, the Group held about 10,000 car parking bays, providing additional rental income.

As at 30 June 2016, the Group held a total attributable gross floor area of approximately 9.1 million square feet of completed investment properties of excellent quality in Hong Kong:

| By type: | Attributable gross floor area (million sq. ft.) | Percentage (%) |
|---|---|---|
| Shopping arcade or retail | 4.6 | 50.5 |
| Office | 3.7 | 40.7 |
| Industrial/Office | 0.4 | 4.4 |
| Residential and hotel apartment | 0.4 | 4.4 |
| **Total:** | **9.1** | **100.0** |

| By geographical area: | Attributable gross floor area (million sq. ft.) | Percentage (%) |
|---|---|---|
| Hong Kong Island | 2.3 | 25.3 |
| Kowloon | 3.0 | 33.0 |
| New Territories | 3.8 | 41.7 |
| **Total:** | **9.1** | **100.0** |

According to the information released by The Census and Statistics Department, the value of total retail sales in Hong Kong for the first half of 2016 decreased by 10.5% from the same period a year earlier mainly due to the drop in tourists spending as well as dampened local consumption. However, the Group's regional malls spanning across the New Territories continued to perform well during the period under review. "Metro City Phase II" in Tseung Kwan O, for instance, successfully reinforced its leading role in the neighbourhood and attracted more shoppers after the recent launch of a customer loyalty programme and iBeacon technology. With its prestigious international retailers, the ifc mall in Central also remains a popular shopping destination. All of the Group's major shopping malls (except those under renovation or realignment of tenant mix) were virtually fully let at 30 June 2016 and positive rental reversions were recorded for most of the renewals and new leases.

Leasing demand for office space remained robust in Hong Kong due to the influx of mainland companies and limited new supply. On the back of high standard of specifications, comprehensive facilities and professional property management services, the Group's premium office buildings in the core areas, such as "ifc" in Central, "AIA Tower" in North Point, as well as "Golden Centre" and "FWD Financial Centre" in Sheung Wan, all performed well. Meanwhile, the Group's portfolio of office and industrial/office premises in Kowloon East, including "Manulife Financial Centre", "AIA Financial Centre", "78 Hung To Road" and "Bamboos Centre", also recorded steady rental growth.

The Group will continue to expand its investment property portfolio in the years ahead. A prime waterfront site at 18 King Wah Road, North Point is being developed into a Grade-A office tower with a total gross floor area of about 330,000 square feet. Designed by the world-renowned Cesar Pelli, it is poised to be another metropolitan landmark upon its scheduled completion in the second half of 2017. Pre-leasing marketing has been encouraging, with many multinational corporations and mainland enterprises enquiring about the development. Meanwhile, the Group will continue its pursuit of ever-higher quality for the existing investment properties so as to maintain their competitiveness. "Metro City Phase II", "KOLOUR • Tsuen Wan I", "Sunshine City Plaza", "Fanling Centre" and "Shatin Centre" are undergoing a series of renovation works which are set to give customers a fresh shopping experience after the revamp. For the office buildings, phased renovations for "AIA Tower", "FWD Financial Centre" and "Golden Centre" are also underway.

### Hotel Operations

During the period under review, Hong Kong's hospitality industry has been operating under difficult conditions, including a drop in visitor arrivals and the strong US dollar which has eroded Hong Kong's price competitiveness. In order to improve the yield of the Group's assets, Newton Hotel Hong Kong ceased its operation in August 2015 and the site is being redeveloped into an office building. The Group's remaining two Newton hotels (namely, the 317-room Newton Inn North Point and the 598-room Newton Place Hotel), despite recording a steady occupancy, suffered a lower average room rate amid growing competition in their market sector. Performance of Four Seasons Hotel Hong Kong was relatively resilient backed by strong brand recognition and top-notch services. Being named by Forbes Travel Guide 2016 as one of the finest 5-star Properties in the World, this deluxe hotel's signature restaurant, Lung King Heen, also received the top 3-star honour in the Michelin Guide to Hong Kong and Macau 2016. For the six months ended 30 June 2016, the Group's pre-tax profit from hotel operations, including the attributable contribution from its subsidiaries, associates and joint ventures, decreased by 12.5% to HK$98 million.

### Construction

The Group has always been committed to building excellence in all its property developments. "Double Cove" achieved the top honour of Grand Award Winner in the Hong Kong Residential (Multiple Buildings) Category of the Quality Building Award 2016. These biennial awards are strictly accredited by a panel of judges drawn from nine professional industry organizations, giving the honours unrivalled credibility and prestige. Meanwhile, newly-completed urban redevelopment projects, "The Hemispheres" and "High One", were highly applauded for their outstanding craftsmanship by Hong Kong Professional Building Inspection Academy and local media organizations after they conducted quality inspections. Besides, the Grade-A office development at 18 King Wah Road, North Point also won the top Regional Platinum Prize in the first Asia Pacific Intelligence Green Building Alliance Award.

Meticulous planning throughout the construction process is the key to the Group's success. For instance, advanced eco-friendly features recommended by the Leadership in Energy and Environmental Design (LEED) and Building Environmental Assessment Method (BEAM) Plus rating systems are adopted in the Group's projects. In addition to the use of self-developed pre-fabricated building components, the Group also self-contracted for the foundation piling works of its development projects so as to expedite the construction process and minimise disruption to neighbourhoods. Against the prevailing backdrop of high material costs and a shortage of construction workers, all the above measures help improve quality and cost efficiency by reducing construction waste and manpower. Furthermore, with a large number of projects under development, the Group has implemented a series of measures, such as bulk purchases of building materials and outsourcing to more well-qualified sub-contractors, to further reduce construction costs by economies of scale.

For the Group's workforce, their safety on site tops the Group's priority. With the accident rate for the Group's construction activities well below the industry average, numerous accolades, including "The Considerate Contractors Site Award" and "Safety Merit Award", were received during the period in recognition of the Group's unwavering commitment to site safety.

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

| | Project name and location | Site area (sq. ft.) | Gross floor area (sq. ft.) | Type of development | Group's interest (%) | Attributable gross floor area (sq. ft.) |
|---|---|---|---|---|---|---|
| 1. | High One<br>571 Fuk Wa Street<br>Cheung Sha Wan | 7,560 | 63,788 | Commercial/<br>Residential | 100.00 | 63,788 |
| 2. | Double Cove Grandview<br>(Double Cove – Phase 4)<br>8 Wu Kai Sha Road<br>Ma On Shan | 194,532 | 387,166 | Residential | 59.00 | 228,428 |
| | | | | | **Total:** | **292,216** |

In mainland China, the Group's Construction Department monitors all the key areas, such as tender evaluation, contract execution, development progress and product quality, throughout the construction process and gauges them closely against a set of pre-determined standards. It also provides timely feedback, aiming at achieving building quality excellence and consistency for all of the Group's products.

### Property Management

The Group's property management companies, namely, Hang Yick Properties Management Limited, Well Born Real Estate Management Limited and Goodwill Management Limited, manage in total over 80,000 apartments and industrial/commercial units, 10 million square feet of shopping and office space, as well as 20,000 car parking spaces in Hong Kong and mainland China.

The Group's Property Management team has attached great importance to quality customer service, which is understandably a vital complement to the Group's dedication to building quality properties. The team constantly upgrades its services to ensure the utmost convenience for customers. For instance, following the upgrade of its mobile apps, residents can enjoy hassle-free living by accessing the latest information on estate events (including booking clubhouse facilities, browsing notices as well as learning about shopping privileges in the neighbourhood). The Group's commitment to service excellence has also been extended to the Group's property developments in mainland China. "Hengbao Huating" in Guangzhou received the designation as "Leading Enterprise for Maintaining Stability and Social Order in Duobao District 2015".

Aligning with the Group's "HOME. WHERE LOVE RESIDES." philosophy, these property management subsidiaries have taken their initiatives to offer care to the community. Following the success of the preceding "Year of Senior", the Property Management team launched "The Year of Youth" so as to raise public awareness of the all-round development of young people. Their volunteer team also won the "Highest Service Hour Award" championship, setting a new record by achieving such a top honour for the tenth year.

## Mainland China

In the first half of 2016, the Central Government continued its relaxation policies towards the property sector on the mainland, with the lowering of down-payment proportion, alleviation of tax charges and easing of credit. This served to spur demand across all cities, which rendered an overall increase in price and volume in the property market. A surge in housing prices first emerged in the prime cities. Dramatic increases in transaction volumes in certain popular second-tier cities also triggered a rise in prices. In most of the third or fourth-tier cities, however, housing prices were still under pressure due to excessive stock and oversupply. The local governments, to cope with their own conditions and specific needs, adopted differentiated policies to regulate the market demand and supply. To bring about the long term and healthy development of the property market, many significant policies were put forward by the Central Government during the period, which included the stimulation of both end-user and upgrading demands, the establishment of a housing regime to accommodate rental and buying demands, the implementation of the reform from Business Tax to Value Added Tax in the real estate sector, as well as the comprehensive registration of the immovable assets nationwide.

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

| | Project name | Type of development | Group's interest (%) | Attributable gross floor area (million sq. ft.) |
|---|---|---|---|---|
| 1. | Phase 2, Emerald Valley, Nanjing | Residential | 100.00 | 0.6 |
| 2. | Phase 3A, The Arch of Triumph, Changsha | Residential | 100.00 | 1.3 |
| 3. | Phase 2B, Xuzhou Lakeview Development, Xuzhou | Residential | 100.00 | 1.2 |
| 4. | Phase F1F2-1B, Riverside Park, Suzhou | Commercial | 100.00 | 0.2 |
| 5. | Part of Phase 4-R1, La Botanica, Xian | Residential | 50.00 | 0.3 |
| | | | **Total:** | **3.6** |

At 30 June 2016, the Group had approximately 3.0 million square feet in attributable gross floor area of completed property stock. The Group also held a development land bank in 14 cities with a total attributable gross floor area of about 107.1 million square feet, of which around 78% were planned for residential development.

## Land bank under development or held for future development

| | Group's share of developable gross floor area* (million sq. ft.) |
|---|---|
| **Prime cities** | |
| Shanghai | 2.7 |
| Guangzhou | 14.5 |
| **Sub-total:** | **17.2** |
| **Second-tier cities** | |
| Anshan | 17.6 |
| Changsha | 10.6 |
| Chengdu | 3.6 |
| Dalian | 9.1 |
| Fuzhou | 1.2 |
| Nanjing | 0.7 |
| Shenyang | 10.6 |
| Suzhou | 7.6 |
| Tieling | 8.7 |
| Xian | 12.7 |
| Xuzhou | 0.6 |
| Yixing | 6.9 |
| **Sub-total:** | **89.9** |
| **Total:** | **107.1** |

* *Excluding basement areas and car parks*

### Usage of development land bank

| | Estimated developable gross floor area (million sq. ft.) | Percentage (%) |
|---|---|---|
| Residential | **83.8** | 78 |
| Commercial | **11.3** | 11 |
| Office | **9.8** | 9 |
| Others (including clubhouses, schools and community facilities) | **2.2** | 2 |
| **Total:** | **107.1** | **100** |

### Property Sales

During the period under review, the Group achieved attributable contracted sales of approximately HK$5,525 million in value and 4.71 million square feet in attributable gross floor area, representing period-on-period increases of 60% and 33% respectively. Most of the attributable contracted sales were contributed by major projects including "Riverside Park" and "Henderson CIFI City" in Suzhou, "Amber Garden" in Shanghai, "Emerald Valley" Phase II in Nanjing, "Grand Lakeview" in Yixing, as well as "La Bontanica" in Xian.

### Investment Properties

At 30 June 2016, the Group had 7.3 million square feet of completed investment properties in mainland China, comprising mainly offices and shopping malls in the centres of major cities such as Beijing, Shanghai and Guangzhou. During the period under review, the Group's attributable gross rental income remained steady at HK$856 million, whilst its attributable pre-tax net rental income increased by 7.3% period-on-period to HK$704 million despite the 6% period-on-period depreciation of Renminbi against the Hong Kong Dollar.

In Shanghai, "Henderson Metropolitan" was over 95% let at the end of June 2016. The shopping mall of this building, which houses a number of flagship stores of world famous retail brands, has an innovative game zone opened in April 2016. This entertainment theme has enriched the overall tenant mix and customer experience for this mall. "Henderson 688" in the bustling Jingan District was virtually fully let with many quality multinational corporations as its tenants. "Grand Gateway II" atop the Xujiahui subway station was 97% let by the end of June 2016. "Greentech Tower" and "Centro", which are both located in the Zhabei district, benefited from the continual development in the neighbouring Suzhou Creek area. The leasing rates of these two buildings were 98% and 93% respectively at the end of June 2016.

In Beijing, "World Financial Centre" has been achieving a satisfactory occupancy rate. Newly committed office tenants included State Street Bank and CITIC Financial Leasing. Located next to the Beijing Railway Station with a direct link to the subway station, the "Henderson Centre" shopping mall provides unrivalled shopping convenience to both travelers and local customers. Its leasing rate was over 95% at 30 June 2016. An asset enhancement plan for this property is now in the pipeline.

In Guangzhou, "Hengbao Plaza" atop the Changshou Road subway station was 87% let as at 30 June 2016. This mall strives to leverage technology and social media (such as WeChat) to enhance the interaction between shoppers and tenants. Popular celebrities are also invited to perform in its promotion activities so as to enrich the shopping experience of its customers.

## Henderson Investment Limited ("HIL")

For the six months ended 30 June 2016, HIL's (unaudited) profit attributable to equity shareholders amounted to HK$58 million, representing a decrease of HK$352 million or 86% from HK$410 million for the corresponding period in 2015.

The above decrease in profit was mainly due to the recognition of a one-off gain of approximately HK$355 million from the discontinued operation of infrastructure business during the corresponding period in 2015. In terms of continuing operation, HIL's profit attributable to equity shareholders for the six months ended 30 June 2016 amounted to HK$58 million, representing an increase of HK$3 million or 5% as compared with that of HK$55 million (after excluding the one-off gain) for the corresponding period in 2015. The growth is mainly due to the interest income in relation to the compensation payment received in July 2015 regarding the discontinued operation.

HIL operates a department store business in six densely-populated residential districts (namely, Tsuen Wan, Yuen Long, Ma On Shan, Tseung Kwan O, Tai Kok Tsui and Tuen Mun) under the name of "Citistore" and they aim at providing customers with a "one-stop" shopping convenience through a vast selection of merchandise at reasonable and competitive prices. A specialty store has also been established in the Tsim Sha Tsui shopping hub, offering a collection of apparel brands from Japan and Korea under the "id:c" brand.

Due to the fall in tourists spending, as well as the cautious local consumer sentiment amid the gloomy economic outlook, the value of total retail sales in Hong Kong decreased by 10.5% period-on-period for the six months ended 30 June 2016. Nevertheless, by offering affordable household necessities for the consumers in the neighbourhood, over the same period HIL's "Citistore" operation recorded only a moderate period-on-period decrease of 2% in total sales proceeds (which were derived from the sales of own goods, as well as from concessionaire and consignment sales).

During the period under review, Citistore's sales of own goods decreased slightly to HK$224 million with a lower gross margin of 35% due to the intensified price competition in the retail market. The Household & Toys category made up approximately 52% of the total revenue from sales of goods, the Apparel category contributed approximately 35% and the balance of approximately 13% came from the categories of Food and Cosmetics.

Citistore's concessionaire sales are conducted by licensing portions of shop spaces to its concessionaires for setting up their own concession counters to sell their products, whilst consignment sales comprise the sales of consignors' own products on or in designated shelves, areas or spaces. Citistore charges these concessionaire and consignment counters on the basis of revenue sharing or basic rent (if any), whichever is higher, as its rental income. During the period under review, the total rental income derived from these concessionaire and consignment counters decreased by 2% to HK$215 million, in line with the decrease of 3% to HK$725 million in the total sales proceeds from these counters.

Despite reductions in both gross profit from sales of own goods, as well as rental income from concessionaire and consignment counters, Citistore's after-tax profit contribution for the six months ended 30 June 2016 remained stable at HK$55 million mainly due to its improvement in operating efficiency and stringent controls over expenses. With the interest income in relation to the compensation payment received by HIL in July 2015 regarding the discontinued operation, HIL's profit attributable to equity shareholders from continuing operation for the six months ended 30 June 2016 amounted to HK$58 million, representing an increase of HK$3 million or 5% over HK$55 million (after excluding the one-off gain) for the corresponding period in 2015.

Given the continuing uncertainty in the economic outlook, the overall operating environment is expected to remain challenging in the second half of this year. HIL will reinforce the brand recognition of "Citistore" by launching various promotional campaigns so as to reach out to more customers and to drive business growth. HIL will also continue to optimise its product mix and implement cost savings measures, thereby further enhancing the overall results of Citistore.

## Associated Companies

### The Hong Kong and China Gas Company Limited ("Hong Kong and China Gas")

The unaudited profit after taxation attributable to shareholders of Hong Kong and China Gas for the six months ended 30 June 2016 amounted to HK$4,331 million, an increase of HK$134 million compared to the same period last year.

**Town Gas Business in Hong Kong**

Total volume of gas sales in Hong Kong for the first half of 2016 increased by 1.8% to 15,774 million MJ while appliance sales revenue also achieved good growth, reaching HK$843 million, an increase of 21.4%, both compared to the same period last year. As at 30 June 2016, the number of customers was 1,847,390, an increase of 8,129 since the end of December 2015. Its increase in its standard gas tariff on 1 August 2015 has helped offset some of the pressure on its own rising operating costs.

**Utility Businesses in Mainland China**

At the end of June 2016, this group held approximately 63.38% of the total issued shares of Towngas China Company Limited ("Towngas China"; stock code: 1083). This subsidiary developed steadily during the first half of 2016 with its project companies on the mainland contributing a profit, denominated in renminbi, amounting to RMB678 million, an increase of 11% compared to the same period last year. However, due to the devaluation of the renminbi and an increase in finance costs resulted from the switch to renminbi loan financing during this period, Towngas China's profit after taxation attributable to its shareholders for the first half of 2016 amounted to HK$564 million, a decrease of 12% compared to the same period last year. Project development of Towngas China progressed well during the first half of 2016 with an investment in SCEI Distributed Energy Systems Co., Ltd., the first distributed energy project, added to its portfolio.

Inclusive of Towngas China, this group currently has a total of 131 city-gas projects in mainland cities spread across 23 provinces, autonomous regions and municipalities. The total volume of gas sales for these projects for the first half of 2016 was approximately 8,630 million cubic metres, an increase of 9% over the same period last year. As at the end of June 2016, this group's mainland gas customers stood at 21.91 million, an increase of 10% over the same period last year.

Construction of its natural gas storage facility in underground salt caverns in Jintan district, Changzhou city, Jiangsu province, is in progress. Upon completion, this facility will be the first of its kind developed by a city-gas enterprise on the mainland. Total storage capacity will be approximately 460 million standard cubic metres. Completion of phase one of this project, with a storage capacity of 150 million standard cubic metres, is expected during the first quarter of 2017.

This group's development of natural gas vehicular refilling stations in mainland China, under the brand name "Towngas", is progressing well with 103 stations spread across different provinces to date. This group is also actively developing refilling projects for marine vessels and is currently investing in a joint venture project with six refilling sites for barges along the Yangtze River in Jiangsu province. This is the country's first, and largest project in terms of number of refilling sites, along this river. In September 2013, the joint venture constructed and put into service the country's first floating LNG refilling station barge. Classified by the government as a pilot project, this venture represents the start of a new era for the mainland's marine industry in LNG applications.

This group stepped into the mainland water market under the brand name "Hua Yan Water" over ten years ago and has so far invested in, and operates, six water projects. These include water supply joint venture projects in Wujiang district, Suzhou city, Jiangsu province and in Wuhu city, Anhui province; wholly-owned water supply projects in Zhengpugang Xin Qu, Maanshan city and in Jiangbei Xin Qu, Wuhu city, both in Anhui province; and an integrated water supply and wastewater treatment joint venture project, together with an integrated wastewater treatment joint venture project for a special industry, both in Suzhou Industrial Park, Suzhou city, Jiangsu province. In addition, this group is constructing a plant to handle 600 tonnes of food waste, green waste and landfill leachate daily for conversion into natural gas, oil products, solid fuel and fertilizer, under "Hua Yan Water" brand in Suzhou Industrial Park. This will be this group's first project converting waste into high-value products.

Overall, inclusive of projects of Towngas China, this group currently has 235 projects on the mainland, 13 more than at the end of 2015, spread across 26 provinces, autonomous regions and municipalities. These projects encompass upstream, midstream and downstream natural gas sectors, water sectors, environmentally-friendly energy applications and exploration and utilisation of new emerging energy sources, as well as telecommunications.

**Emerging Environmentally-Friendly Energy Businesses**

This group's development of emerging environmentally-friendly energy businesses and related research and development of new technologies, through its wholly-owned subsidiary ECO Environmental Investments Limited and the latter's subsidiaries (collectively known as "ECO"), are progressing steadily.

ECO's major businesses in Hong Kong – an aviation fuel facility, dedicated liquefied petroleum gas ("LPG") vehicular refilling stations and landfill gas utilisation projects – are all operating smoothly. Total turnover for ECO's aviation fuel facility for the first half of 2016 was 3.66 million tonnes. The business of five LPG vehicular refilling stations under the brand name "ECO" is progressing steadily, providing a quality and reliable fuel supply to the territory's taxi and minibus sectors. ECO's landfill gas project in the North East New Territories, after operating for several years, is generating noticeable environmental benefits. On this basis, ECO commenced the development of a South East New Territories landfill gas utilisation project in 2015, with commissioning expected to start in the second half of 2016, which will increase the proportion of landfill gas used by this group.

Facing the continuing fall in international oil prices, output of ECO's oilfield project in Thailand was adjusted to 740,000 barrels during the first half of 2016, a decrease of 29% compared to the same period last year.

ECO's coalbed methane liquefaction facility, located in Jincheng city, Shanxi province, suffered a downturn in output due to low LNG market prices during the first half of 2016. Construction of a project in Xuzhou city, Jiangsu province to produce LNG by methanation of coke oven gas has been largely completed; trial production is expected to commence in the second half of 2016.

A network of ECO natural gas refilling stations is gradually taking shape in provinces and autonomous regions including Shaanxi, Inner Mongolia, Ningxia, Shandong, Shanxi, Jiangsu, Henan and Liaoning. All in all, ECO currently has 60 refilling stations in operation, under construction or at the planning stage.

ECO is constructing a plant to upgrade inedible bio-oil, expected to be completed in mid-2017 for trial production. Located in Zhangjiagang city, Jiangsu province, the facility will handle approximately 220,000 tonnes of palm acid oil annually for conversion into high-quality chemical products and low-sulphur fuels.

ECO has successfully developed new technologies to convert agricultural and forestry waste into syngas and chemical raw materials such as furfural and levulinic acid through thermal gasification and hydrolysis – a kind of development which effectively transforms waste of this kind into high-value products using advanced technologies. ECO is planning to start a pilot project within this year using these technologies and to commission a facility next year, which will lay the foundation for future mass commercial application.

ECO's coal-based methanol production plant in Inner Mongolia Autonomous Region operated smoothly during the first half of 2016 with a yield of 138,000 tonnes, a similar level to the same period last year. To overcome the adverse impact of continuous falls in methanol and gasoline prices, ECO has enhanced methanol production to 340,000 tonnes annually, and plans to optimise its facility to convert methanol into natural gasoline, thus laying the foundation for further methanol upgrading business.

ECO is also developing innovative resource conversion technologies for the production of high value-added environmentally-friendly new energy. Related research and development has achieved a breakthrough in results, with noticeable economic and environmental benefits, especially in areas of coal tar oil conversion into carbon materials, upgrading and utilisation of oil-rich powder coal and conversion of agricultural waste into syngas and fuel additives.

**Financing Programmes**

This group established a medium term note programme in 2009. Medium term notes totalling HK$464 million, with maturity ranging from 10 to 12 years, were issued during the first half of 2016. At 30 June 2016, the amount of medium term notes issued was HK$11,100 million with tenors ranging from 10 to 40 years, with an average fixed interest rate of 3.63% and an average tenor of 16 years.

## Hong Kong Ferry (Holdings) Company Limited ("Hong Kong Ferry")

During the six months ended 30 June 2016, Hong Kong Ferry's revenue amounted to HK$294 million, representing a decrease of 63% as compared with that recorded in the same period last year. This was mainly attributable to the decrease in the sale of the residential units of Green Code and Metro6. Its unaudited consolidated net profit after taxation for the six months ended 30 June 2016 was HK$124 million, representing a decrease of 31% as compared with a profit of HK$180 million for the same period last year. During the period under review, its profit was mainly derived from the sale of residential units in Green Code and Shining Heights.

### Property Development and Investment Operations

During the period, the profit of Hong Kong Ferry from the sale of residential units in Green Code and Shining Heights amounted to HK$84 million. At the end of the reporting period, the unsold units of Green Code and Metro6 were 8 units and 12 units respectively.

The gross rental income from its commercial arcades amounted to HK$43 million during the period. At the end of the reporting period, the commercial arcades of Shining Heights and The Spectacle were fully let whereas the occupancy rate of commercial arcades of Metro Harbour Plaza was 97%. The commercial podium of Green Code consists of two floors with a total gross floor area of approximately 136,000 square feet and the committed tenancy was around 73%. The commercial podium of Metro6 has a gross floor area of approximately 10,000 square feet and the occupancy rate was 97%.

The presale of Harbour Park was launched in January 2016 and the response was satisfactory. At present, 68% of the residential units of Harbour Park had been sold.

### Ferry, Shipyard and Related Operations

During the period, the Ferry, Shipyard and Related Operations recorded a profit of HK$4.4 million, a decrease of 50% as compared with the same period last year. The decrease was mainly due to increased expenditure resulting from major repair and maintenance of ferry.

### Travel Operation

The operating results of Travel Operation recorded a deficit of HK$5.1 million this period, representing an increase of 6% in deficit as compared with the same period last year. Due to the fact that its small scale operations in the travel business were not efficient enough to generate decent profits, Hong Kong Ferry decided to sell the travel business to Miramar Travel Limited, an affiliate of the Group in June 2016 at a consideration of HK$5 million, subject to adjustments. A Letter of Intent was signed on 10 June 2016 and the relevant sale and purchase agreement was signed on 14 July 2016. The sale is expected to be completed this year.

**Securities Investment**

During the period, a loss of HK$44 million in securities investment was recorded, mainly due to the poor performance of the Hong Kong stock market in the first half year and the effect of the news of Brexit near the end of the reporting period, necessitating impairment on securities investments.

On 8 August 2016, Hong Kong Ferry through its 50% – 50% partnership with the Empire Group Holdings Limited which is owned by Dr Walter, Kwok Ping Sheung, successfully bid for the land at Tuen Mun Town Lot No. 547 at Castle Peak Road, Castle Peak Bay, Area 48, Tuen Mun, New Territories at a land premium of HK$2,708.80 million. The area of the land was approximately 165,766 square feet with a gross floor area of approximately 663,062 square feet. It is expected to be developed into 1,800 condominiums by phases within six years. The land is situated facing Harrow International School Hong Kong at the back and Gold Coast in the front. The scenery of the land is good and transportation convenient. It is suitable for the construction of medium to small residential units. It is expected that the project would bring reasonable returns to Hong Kong Ferry in future.

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

For the six months ended 30 June 2016, Miramar's unaudited revenue was HK$1,485 million, representing a decrease of 6% compared to the last corresponding period. Unaudited profit attributable to shareholders, at HK$623 million, decreased by 29% compared to the last corresponding period. Excluding the net increase in fair value of investment properties and the one-off net gain of HK$122 million from the sale of No. 6 Knutsford Terrace in the last corresponding period, unaudited underlying profit attributable to shareholders decreased by 21% to HK$263 million.

**Property Rental Business**

Revenue and EBITDA for Miramar's property rental business grew to HK$422 million and HK$372 million, respectively.

Miramar continued to refine its tenant mix, aligning it with the changing needs of its target segment. Complimenting this, a series of promotional programs brought life and energy to its malls and enhanced the shopping experience for both shoppers and tenants. Miramar continued to invest in its core properties to enhance their long-term value, and integrate Miramar Shopping Centre and Mira Mall into a high-quality shopper and tenant friendly hub and destination.

**Hotels and Serviced Apartments Business**

The Mira Hong Kong and Mira Moon continued to execute strategies to defend their revenue base. This included working closely with their distribution partners, shifting their distribution channel mix and improving their effectiveness. Miramar will also actively develop the MICE (meetings, incentives, conferences and exhibitions) segment.

**Food and Beverage Business**

Miramar took a number of measures to attract customers and boost revenue, including participating in cross-promotions with reputable brands to enhance its brand synergy, as well as introducing unique food and beverage experiences to stimulate customer's spending. The School Food brand opened its ninth Korean cuisine outlet in Tsuen Wan Plaza, and introduced fresh dishes to all its outlets in response to the shift in dining trends and increased competition from new Korean eateries.

**Travel Business**

Revenue for the travel business dropped by about 11% during the reporting period. Miramar broadened its travel offering by entering into a sale and purchase agreement in early July with Hong Kong Ferry to acquire HYFCO Travel Agency Limited. The acquisition is expected to be completed by this year end.

## Corporate Finance

The Group has always adhered to prudent financial management principles. At 30 June 2016, net debt (including the shareholder's loan totalling HK$306 million (31 December 2015: HK$1,185 million)) amounted to HK$36,972 million (31 December 2015: HK$40,317 million) giving rise to a financial gearing ratio of 14.5% (31 December 2015: 16.0%).

In light of the low interest rate levels resulting from quantitative easing measures adopted by major economies around the world over the past years, the Group has concluded Hong Kong dollar interest rate swap contracts for certain medium and long-term periods. Such contracts were entered into for the purpose of converting part of the Group's Hong Kong dollar borrowings from floating interest rates into fixed interest rates. It is considered that such a treasury management strategy will be of benefit to the Group in the long run.

## Prospects

The recent decision of Britain to leave the European Union has obscured the global economic outlook. This may as a result lead to the decision to defer the interest rate rise in the US, whilst the negative interest rates in other major economies are also expected to prevail given their possible launch of deepening quantitative easing monetary policies. Despite growing housing supply in Hong Kong, the ample liquidity in the financial market should hopefully lend support to the property market.

Encouraging progress has been made so far in this financial year towards replenishing the Group's land bank in Hong Kong: (i) for the existing project at 18 King Wah Road, North Point, the amount of land premium for its conversion into an office building was agreed with the Government at about HK$2,219 million; (ii) for the newly-acquired urban redevelopment projects with 80% to 100% of their ownerships acquired, the total attributable gross floor area available for sale or leasing was enlarged to about 3.9 million square feet from a total of 45 projects. The ownership of the project at the prestigious Seymour Road in Mid-Levels was entirely consolidated, providing an attributable gross floor area of about 310,000 square feet, whilst acquisitions of old buildings for redevelopment purposes along various streets in Hung Hom would provide a total gross floor area of about 920,000 square feet; and (iii) for the Group's land reserves in the New Territories, the land area involved was increased to about 45.2 million square feet, which represents the largest holding among all property developers in Hong Kong. With diversified means of land bank replenishment, the Group has managed to secure a stable supply of land for property development over the long term, enabling the sustainable growth of its property sales business.

As regards "**property sales**", five development projects are in the pipeline for sales launch in the second half of this year. Together with the unsold stocks, a total of over 2,000 residential units and 430,000 square feet of quality commercial space in Hong Kong will be available for sale in the second half of this year. Besides, "Double Cove Summit" in Ma On Shan, the final masterpiece of "Double Cove" series, was completed in July 2016. "Jones Hive" in Causeway Bay, "H • Bonaire" in Ap Lei Chau and "PARKER33" in Shau Kei Wan are also scheduled for completion within this year. Up to the end of June 2016, their attributable sales revenue amounted to HK$3,526 million in total. The profit arising from these sales may be accounted for in the second half of this year, upon completion of these projects.

Turning to mainland China, the two basic policies of "destocking" and "facilitating the sustainable and healthy development of the property market" are expected to remain unchanged for the second half of this year. It is anticipated that the existing easing policies will persist, whereas growth in transaction volume and price may become more moderate. The property market is expected to be stable and on an upward path for the latter half of this year, thus lending support to the Group's sales activities.

As regards "**rental business**", the Group's portfolio of completed investment properties comprised an attributable gross floor area of 9.1 million square feet in Hong Kong and 7.3 million square feet in mainland China, providing the Group with a steady rental income stream. All rental properties under development or under planning have been progressing well in both Hong Kong and mainland China, paving the way for the Group's further growth in recurrent rental income. Notably, these include the 330,000-square-foot office development at 18 King Wah Road in North Point, the 340,000-square-foot project at Middle Road, Tsim Sha Tsui, the 1,800,000-square-foot Haizhu Plaza in Guangzhou and the 2,000,000-square-foot Xu Hui Riverside Commercial Project in Shanghai.

The "**associates**", namely, Hong Kong and China Gas, Miramar and Hong Kong Ferry, serve as another steady recurrent income stream to the Group. As Hong Kong's first public utility company, Hong Kong and China Gas has developed into a multi-business corporation spanning upstream, midstream and downstream natural gas sectors, water sectors, environmental-friendly energy applications, energy resources' exploration and utilization, as well as telecommunications. Its portfolio included 235 projects in 26 provinces, autonomous regions and municipalities in mainland China, as well as one in Thailand. With a total of over 23.7 million piped-gas customers in Hong Kong and mainland China, as well as its expanding scope of businesses, it will provide promising contributions to the Group.

The above three major income pillars (namely, "**property sales**", "**rental business**" and "**associates**") have been progressing well, providing the Group with a solid foundation. Besides, the Group has put together numerous good quality and low-cost projects. Such "sowing" in the past will give rise to "bearing fruit" in the coming few years. Substantial returns are expected for the years to come.

## Appreciation

Mr Lee King Yue and Dr Chung Shui Ming, Timpson, stepped down from their respective positions of Executive Director and Independent Non-executive Director of the Company on 2 June 2016. The Board would like to express its gratitude to Mr Lee King Yue and Dr Chung Shui Ming, Timpson for their support, devotion and invaluable contribution to the Company during their tenure of office, and in particular to Mr Lee King Yue's long services to the Board for 40 years.

# Condensed Interim Financial Statements

## Consolidated Statement of Profit or Loss – unaudited

| | Note | For the six months ended 30 June<br>2016<br>HK$ million | <br>2015<br>HK$ million |
|---|---|---|---|
| **Revenue** | 3, 10 | **9,725** | 11,019 |
| **Direct costs** | | **(5,186)** | (5,860) |
| | | **4,539** | 5,159 |
| Other revenue | 4 | **234** | 204 |
| Other net (loss)/income | 5 | **(218)** | 388 |
| Selling and marketing expenses | | **(489)** | (613) |
| Administrative expenses | | **(848)** | (902) |
| **Profit from operations before changes in fair value of investment properties and investment properties under development** | | **3,218** | 4,236 |
| Increase in fair value of investment properties and investment properties under development | 11(b) | **2,683** | 3,730 |
| **Profit from operations after changes in fair value of investment properties and investment properties under development** | | **5,901** | 7,966 |
| Finance costs | 6(a) | **(398)** | (447) |
| Share of profits less losses of associates | | **2,227** | 2,286 |
| Share of profits less losses of joint ventures | | **1,751** | 1,156 |
| **Profit before taxation** | 6 | **9,481** | 10,961 |
| Income tax | 7 | **(745)** | (832) |
| **Profit for the period** | | **8,736** | 10,129 |

# Condensed Interim Financial Statements

## Consolidated Statement of Profit or Loss – unaudited (continued)

| | Note | For the six months ended 30 June **2016** **HK$ million** | 2015 HK$ million |
|---|---|---|---|
| **Attributable to:** | | | |
| Equity shareholders of the Company | | **8,611** | 9,846 |
| Non-controlling interests | | **125** | 283 |
| **Profit for the period** | | **8,736** | 10,129 |
| ***Earnings per share based on profit attributable to equity shareholders of the Company (reported earnings per share)*** | | | |
| *Basic and diluted* | *8(a)* | ***HK$2.37*** | *HK$2.71** |
| ***Earnings per share excluding the effects of changes in fair value of investment properties and investment properties under development (net of deferred tax) (underlying earnings per share)*** | | | |
| *Basic and diluted* | *8(b)* | ***HK$1.31*** | *HK$1.50** |

* *Adjusted for the bonus issue effected in 2016.*

The notes on pages 40 to 73 form part of these condensed interim financial statements. Details of dividends payable to equity shareholders of the Company are set out in note 9.

# Condensed Interim Financial Statements

## Consolidated Statement of Profit or Loss and Other Comprehensive Income – unaudited

| | For the six months ended 30 June | |
|---|---|---|
| | **2016** | 2015 |
| | **HK$ million** | HK$ million |
| **Profit for the period** | **8,736** | 10,129 |
| **Other comprehensive income for the period (after tax and reclassification adjustments):** | | |
| Items that may be reclassified subsequently to profit or loss: | | |
| – Exchange differences: net movement in the exchange reserve | **(1,058)** | (199) |
| – Cash flow hedges: net movement in the hedging reserve | **(133)** | (138) |
| – Available-for-sale securities: net movement in the fair value reserve | **86** | 438 |
| – Share of other comprehensive income of associates and joint ventures | **(595)** | (94) |
| Other comprehensive income for the period | **(1,700)** | 7 |
| **Total comprehensive income for the period** | **7,036** | 10,136 |
| **Attributable to:** | | |
| Equity shareholders of the Company | **6,918** | 9,895 |
| Non-controlling interests | **118** | 241 |
| **Total comprehensive income for the period** | **7,036** | 10,136 |

The notes on pages 40 to 73 form part of these condensed interim financial statements.

# Condensed Interim Financial Statements

## Consolidated Statement of Financial Position

| | Note | **At 30 June 2016 (unaudited) HK$ million** | At 31 December 2015 (audited) HK$ million |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment properties | 11 | **131,506** | 128,597 |
| Other property, plant and equipment | | **1,428** | 1,692 |
| Interest in associates | | **52,640** | 51,953 |
| Interest in joint ventures | | **36,763** | 35,619 |
| Derivative financial instruments | 12 | **325** | 300 |
| Other financial assets | 13 | **10,644** | 8,322 |
| Deferred tax assets | | **641** | 527 |
| | | **233,947** | 227,010 |
| **Current assets** | | | |
| Deposits for acquisition of properties | 14 | **4,758** | 4,820 |
| Inventories | 15 | **79,885** | 81,556 |
| Trade and other receivables | 16 | **8,280** | 8,371 |
| Cash held by stakeholders | | **2,873** | 2,733 |
| Cash and bank balances | 17 | **17,663** | 11,779 |
| | | **113,459** | 109,259 |
| **Current liabilities** | | | |
| Trade and other payables | 18 | **23,592** | 19,098 |
| Bank loans and overdrafts | 19 | **8,607** | 10,216 |
| Guaranteed notes | | **6,572** | 2,192 |
| Amount due to a fellow subsidiary | | **–** | 8 |
| Tax payable | | **996** | 790 |
| | | **39,767** | 32,304 |
| **Net current assets** | | **73,692** | 76,955 |
| **Total assets less current liabilities** | | **307,639** | 303,965 |

# Condensed Interim Financial Statements

## Consolidated Statement of Financial Position (continued)

| | Note | **At 30 June 2016 (unaudited) HK$ million** | At 31 December 2015 (audited) HK$ million |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Bank loans | 19 | **30,846** | 24,798 |
| Guaranteed notes | | **8,304** | 13,705 |
| Amount due to a fellow subsidiary | | **306** | 1,177 |
| Derivative financial instruments | 12 | **1,650** | 1,773 |
| Deferred tax liabilities | | **6,425** | 6,243 |
| | | **47,531** | 47,696 |
| **NET ASSETS** | | **260,108** | 256,269 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | | **52,345** | 52,345 |
| Other reserves | | **202,280** | 198,902 |
| **Total equity attributable to equity shareholders of the Company** | | **254,625** | 251,247 |
| **Non-controlling interests** | | **5,483** | 5,022 |
| **TOTAL EQUITY** | | **260,108** | 256,269 |

The notes on pages 40 to 73 form part of these condensed interim financial statements.

# Condensed Interim Financial Statements

## Consolidated Statement of Changes in Equity – unaudited

| | | Attributable to equity shareholders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Note | Share capital HK$ million | Property revaluation reserve HK$ million | Exchange reserve HK$ million | Fair value reserve HK$ million | Hedging reserve HK$ million | Other reserves HK$ million | Retained profits HK$ million | Total HK$ million | Non-controlling interests HK$ million | Total equity HK$ million |
| **Balance at 1 January 2015** | | 52,010 | 16 | 7,884 | 515 | (343) | 3 | 178,065 | 238,150 | 5,067 | 243,217 |
| **Changes in equity for the six months ended 30 June 2015:** | | | | | | | | | | | |
| Profit for the period | | – | – | – | – | – | – | 9,846 | 9,846 | 283 | 10,129 |
| Other comprehensive income for the period | | – | – | (182) | 412 | (181) | – | – | 49 | (42) | 7 |
| Total comprehensive income for the period | | – | – | (182) | 412 | (181) | – | 9,846 | 9,895 | 241 | 10,136 |
| Transfer to other reserves | | – | – | – | – | – | 19 | (19) | – | – | – |
| Dividend approved in respect of the previous financial year | 9(b) | – | – | – | – | – | – | (2,280) | (2,280) | – | (2,280) |
| Dividends paid to non-controlling interests | | – | – | – | – | – | – | – | – | (20) | (20) |
| Increase of shareholding in a subsidiary | | – | – | – | – | – | – | – | – | (1) | (1) |
| Repayment to non-controlling interests, net | | – | – | – | – | – | – | – | – | (72) | (72) |
| Share of associate's reserves | | – | – | – | – | – | 6 | – | 6 | – | 6 |
| **Balance at 30 June 2015** | | 52,010 | 16 | 7,702 | 927 | (524) | 28 | 185,612 | 245,771 | 5,215 | 250,986 |

# Condensed Interim Financial Statements

## Consolidated Statement of Changes in Equity – unaudited (continued)

| | | Attributable to equity shareholders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Note | Share capital HK$ million | Property revaluation reserve HK$ million | Exchange reserve HK$ million | Fair value reserve HK$ million | Hedging reserve HK$ million | Other reserves HK$ million | Retained profits HK$ million | Total HK$ million | Non-controlling interests HK$ million | Total equity HK$ million |
| **Balance at 1 January 2016** | | 52,345 | 16 | 3,591 | 259 | (648) | 92 | 195,592 | 251,247 | 5,022 | 256,269 |
| **Changes in equity for the six months ended 30 June 2016:** | | | | | | | | | | | |
| Profit for the period | | – | – | – | – | – | – | 8,611 | 8,611 | 125 | 8,736 |
| Other comprehensive income for the period | | – | – | (1,688) | 85 | (90) | – | – | (1,693) | (7) | (1,700) |
| Total comprehensive income for the period | | – | – | (1,688) | 85 | (90) | – | 8,611 | 6,918 | 118 | 7,036 |
| Transfer to other reserves | | – | – | – | – | – | 48 | (48) | – | – | – |
| Bonus shares issued | 20 | – | – | – | – | – | – | – | – | – | – |
| Dividend approved in respect of the previous financial year | 9(b) | – | – | – | – | – | – | (3,538) | (3,538) | – | (3,538) |
| Dividends paid to non-controlling interests | | – | – | – | – | – | – | – | – | (860) | (860) |
| Advance from non-controlling interests, net | | – | – | – | – | – | – | – | – | 1,203 | 1,203 |
| Share of associate's reserves | | – | – | – | – | – | – | (2) | (2) | – | (2) |
| **Balance at 30 June 2016** | | 52,345 | 16 | 1,903 | 344 | (738) | 140 | 200,615 | 254,625 | 5,483 | 260,108 |

The notes on pages 40 to 73 form part of these condensed interim financial statements.

# Condensed Interim Financial Statements

## Condensed Consolidated Cash Flow Statement – unaudited

| | Note | For the six months ended 30 June 2016 HK$ million | 2015 HK$ million |
|---|---|---|---|
| **Operating activities** | | | |
| Increase in forward sales deposits received | | **3,757** | 3,556 |
| Decrease in inventories | | **1,163** | 886 |
| Other cash flows (used in)/generated from operations | | **(2,605)** | 898 |
| Tax paid | | **(448)** | (805) |
| **Net cash generated from operating activities** | | **1,867** | 4,535 |
| **Investing activities** | | | |
| Dividends received from associates | | **1,162** | 1,083 |
| Dividends received from joint ventures | | **537** | 443 |
| Decrease/(increase) in deposits with banks and other financial institutions over three months of maturity at acquisition | | **572** | (823) |
| Repayment from/(contribution to) associates, net | | **865** | (70) |
| Repayment from/(contribution to) joint ventures, net | | **1,373** | (1,288) |
| Other cash flows generated from investing activities | | **529** | 209 |
| **Net cash generated from/(used in) investing activities** | | **5,038** | (446) |
| **Financing activities** | | | |
| Proceeds from new bank loans | | **15,039** | 23,313 |
| Repayment of existing bank loans and guaranteed notes | | **(11,832)** | (24,119) |
| Repayment to a fellow subsidiary | | **(878)** | (3,549) |
| Advance from/(repayment to) non-controlling interests, net | | **1,203** | (72) |
| Dividends paid to equity shareholders of the Company | | **(3,538)** | – |
| Dividends paid to non-controlling interests | | **(860)** | (20) |
| Other cash flows used in financing activities | | **(844)** | (1,053) |
| **Net cash used in financing activities** | | **(1,710)** | (5,500) |
| **Net increase/(decrease) in cash and cash equivalents** | | **5,195** | (1,411) |
| **Cash and cash equivalents at 1 January** | 17 | **8,465** | 8,560 |
| **Effect of foreign exchange rate changes** | | **(66)** | 2 |
| **Cash and cash equivalents at 30 June** | 17 | **13,594** | 7,151 |

The notes on pages 40 to 73 form part of these condensed interim financial statements.

# Notes to the Unaudited Condensed Interim Financial Statements

## 1 Basis of preparation

The condensed interim financial statements comprise Henderson Land Development Company Limited ("the Company") and its subsidiaries (collectively referred to as "the Group") and the Group's interests in associates and joint ventures.

These condensed interim financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting,* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They were authorised for issuance on 23 August 2016.

The condensed interim financial statements have been prepared in accordance with the same accounting policies adopted in the Company's consolidated financial statements for the year ended 31 December 2015 ("the 2015 financial statements"), except for the accounting policy changes that are expected to be reflected in the Company's consolidated financial statements for the year ending 31 December 2016. Details of these changes in accounting policies are set out in note 2.

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

These condensed interim financial statements contain condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2015 financial statements. The condensed interim financial statements and notes thereon do not include all of the information required for full set of financial statements in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA.

The condensed interim financial statements are unaudited, but have been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on page 96. In addition, the condensed interim financial statements have been reviewed by the Company's Audit Committee.

# Notes to the Unaudited Condensed Interim Financial Statements

## 1 Basis of preparation (continued)

The financial information relating to the financial year ended 31 December 2015 that is included in these condensed interim financial statements as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to such statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622).

The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622).

## 2 Changes in accounting policies

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company, which are relevant to the Group's condensed interim financial statements for the current accounting period:

- Annual improvements to HKFRSs 2012-2014 cycle
- Amendments to HKFRS 10 and HKAS 28, *Sale or contribution of assets between an investor and its associate and joint venture*
- Amendments to HKAS 1, *Disclosure initiative*
- Amendments to HKAS 16 and HKAS 38, *Clarification of acceptable methods of depreciation and amortisation*
- Amendments to HKAS 27, *Equity method in separate financial statements*

None of these developments have had a material effect on the preparation or presentation of the Group's results and financial position for the current or prior periods. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

# Notes to the Unaudited Condensed Interim Financial Statements

## 3 Revenue

Revenue of the Group represents those generated from the sale of properties, rental income, hotel operation and management, department store operation and management, and others mainly including income from construction, provision of finance, investment holding, project management, property management, agency services, cleaning and security guard services, as well as the trading of building materials and disposal of leasehold land.

The major items are analysed as follows:

| | For the six months ended 30 June | |
|---|---|---|
| | **2016** | 2015 |
| | **HK$ million** | HK$ million |
| Sale of properties | **5,886** | 7,176 |
| Rental income | **2,739** | 2,764 |
| Hotel operation | **30** | 50 |
| Department store operation | **443** | 449 |
| Others | **627** | 580 |
| Total (note 10(b)) | **9,725** | 11,019 |

## 4 Other revenue

| | For the six months ended 30 June | |
|---|---|---|
| | **2016** | 2015 |
| | **HK$ million** | HK$ million |
| Bank interest income | **143** | 111 |
| Other interest income (note) | **4** | 12 |
| Others | **87** | 81 |
| | **234** | 204 |

Note: Other interest income for the corresponding six months ended 30 June 2015 included overdue interest income (before tax) of HK$8 million received by the Group during the period in relation to refunds of land deposits to the Group.

# Notes to the Unaudited Condensed Interim Financial Statements

## 5 Other net (loss)/income

| | For the six months ended 30 June | |
|---|---|---|
| | **2016** | 2015 |
| | **HK$ million** | HK$ million |
| Net gain/(loss) on disposal of: | | |
| – Investment properties | **9** | 28 |
| – Other property, plant and equipment | **–** | (3) |
| Other property, plant and equipment written off | **–** | (21) |
| Provision on inventories, net | **(149)** | – |
| Net fair value (loss)/gain on derivative financial instruments | **(21)** | 21 |
| Net realised gain on redemption of held-to-maturity debt securities | **10** | – |
| Impairment loss on available-for-sale securities | **(21)** | – |
| Reversal of impairment loss/(impairment loss) on held-to-maturity debt securities | **3** | (17) |
| Impairment loss on trade debtors (note 10(c)) | **(15)** | (11) |
| Net foreign exchange gain | **47** | 18 |
| Cash flow hedges: reclassified from hedging reserve to profit or loss (note (i)) | **(12)** | – |
| Net gain recognised by HIL arising from the Compensation Payment (net of expenses in relation to the Arbitration) and after deducting the Joint Venture Company Impairment (note (ii)) | **–** | 230 |
| Net gain on disposal of available-for-sale securities | **–** | 164 |
| Others | **(69)** | (21) |
| | **(218)** | 388 |

Notes:

(i) The net cumulative loss (before tax) of HK$12 million (2015: Nil) was reclassified from equity to profit or loss upon the revocation of the hedge relationship between certain bank loans and guaranteed notes of the Company's wholly-owned subsidiaries (as hedged items) and their underlying interest rate swap contracts and cross-currency interest rate swap contracts (as hedging instruments) during the period.

(ii) In relation to the intangible operating right of the Hangzhou Qianjiang Third Bridge (the "Bridge") in Hangzhou, mainland China held by Henderson Investment Limited ("HIL", a subsidiary of the Company) on 30 April 2015, the arbitral tribunal of China International Economic and Trade Arbitration Commission ("CIETAC", 中國國際經濟貿易仲裁委員會) made certain final arbitral award having legal binding effect on all parties (including HIL) to an arbitration application ("Arbitration") filed by Hangzhou Henderson Qianjiang Third Bridge Company, Limited (the"Joint Venture Company", a subsidiary of HIL which held the operating right of the Bridge) with CIETAC on 17 September 2012 against 杭州市市區公共停車場(庫)建設發展中心 (Hangzhou City Urban Public Carpark Construction & Development Centre, formerly known as 杭州市城市"四自"工程道路綜合收費管理處 or Hangzhou City "Sizi" Engineering & Highway General Toll Fee Administration Office) (the "Hangzhou Toll Office") as the first respondent and Hangzhou Municipal People's Government (杭州市人民政府) as the second respondent for an arbitration award that, inter alia, the first respondent and the second respondent should continue to perform their obligations under an agreement dated 5 February 2004 entered into between the Joint Venture Company and the Hangzhou Toll Office by paying toll fees of the Bridge to the Joint Venture Company and be liable for the relevant outstanding toll fees together with the legal and arbitration costs incurred.

# Notes to the Unaudited Condensed Interim Financial Statements

## 5 Other net (loss)/income (continued)

Notes: (continued)

(ii) (continued)
As a result of the final arbitral award made by the arbitral tribunal of CIETAC, HIL received an amount of RMB376 million (equivalent to HK$477 million) (the "Compensation Payment") from Hangzhou Municipal People's Government. The entire Compensation Payment was settled by Hangzhou Municipal People's Government on 29 July 2015. Based on the proceeds from the Compensation Payment (net of expenses incurred in relation to the Arbitration) of HK$471 million and after (i) deducting HIL's impairment loss on toll bridge operating right and related net assets of the Joint Venture Company of HK$379 million (the "Joint Venture Company Impairment"); and (ii) recognising the reversal of the exchange reserve attributable to the Joint Venture Company of HK$138 million to other comprehensive income for the six months ended 30 June 2015, a net gain of HK$230 million was recognised by HIL for the corresponding six months ended 30 June 2015.

## 6 Profit before taxation

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

| | For the six months ended 30 June | |
|---|---|---|
| | **2016** | 2015 |
| | **HK$ million** | HK$ million |
| **(a) Finance costs:** | | |
| Bank loans interest | **378** | 347 |
| Interest on loans wholly repayable within five years | **367** | 425 |
| Interest on loans repayable after five years | **37** | 36 |
| Other borrowing costs | **91** | 95 |
| | **873** | 903 |
| Less: Amount capitalised (note) | **(475)** | (456) |
| | **398** | 447 |

Note: The borrowing costs have been capitalised at weighted average interest rates (based on the principal amounts of the Group's bank loans and overdrafts, guaranteed notes and amount due to a fellow subsidiary during the period under which interest capitalisation is applicable) ranging from 3.20% to 5.97% (2015: 3.70% to 6.20%) per annum.

# Notes to the Unaudited Condensed Interim Financial Statements

## 6 Profit before taxation (continued)

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

| | For the six months ended 30 June 2016 HK$ million | 2015 HK$ million |
|---|---|---|
| **(b) Staff costs:** | | |
| Salaries, wages and other benefits | **937** | 964 |
| Contributions to defined contribution retirement plans | **49** | 46 |
| | **986** | 1,010 |

| | For the six months ended 30 June 2016 HK$ million | 2015 HK$ million |
|---|---|---|
| **(c) Other items:** | | |
| Depreciation | **53** | 63 |
| Amortisation of intangible operating right | **–** | 10 |
| Cost of sales | | |
| – completed properties for sale | **4,032** | 4,581 |
| – trading stocks | **148** | 158 |
| Dividend income from investments in available-for-sale securities | | |
| – listed | **(52)** | (44) |
| – unlisted | **(66)** | (3) |

# Notes to the Unaudited Condensed Interim Financial Statements

## 7 Income tax

| | For the six months ended 30 June | |
|---|---|---|
| | **2016** | 2015 |
| | **HK$ million** | HK$ million |
| **Current tax** | | |
| Provision for Hong Kong Profits Tax | **355** | 294 |
| Provision for taxation outside Hong Kong | **167** | 218 |
| Provision for Land Appreciation Tax | **2** | 34 |
| | **524** | 546 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **221** | 286 |
| | **745** | 832 |

Provision for Hong Kong Profits Tax has been made at 16.5% (2015: 16.5%) on the estimated assessable profits for the period.

Provision for taxation outside Hong Kong is provided for at the applicable rates of taxation for the period on the estimated assessable profits arising in the relevant tax jurisdictions during the period.

Land Appreciation Tax is levied on properties in mainland China developed by the Group for sale, at progressive rates ranging from 30% to 60% (2015: 30% to 60%) on the appreciation of land value, which under the applicable regulations is calculated based on the revenue from sale of properties less deductible expenditure including lease charges of land use rights, borrowing costs and all property development expenditure.

# Notes to the Unaudited Condensed Interim Financial Statements

## 8 Earnings per share

### (a) Reported earnings per share

The calculation of basic earnings per share is based on the consolidated profit attributable to equity shareholders of the Company of HK$8,611 million (2015: HK$9,846 million) and the weighted average number of 3,637 million ordinary shares in issue during the period (2015: 3,630 million ordinary shares*), calculated as follows:

| | For the six months ended 30 June | |
|---|---|---|
| | **2016** | 2015 |
| | **million** | million |
| Number of issued ordinary shares at 1 January | **3,306** | 3,000 |
| Weighted average number of ordinary shares issued in respect of the bonus issue in 2015 | – | 300 |
| Weighted average number of ordinary shares issued in respect of the bonus issue in 2016 | **331** | 330 |
| Weighted average number of ordinary shares for the period (2015: as adjusted) | **3,637** | 3,630 |

Diluted earnings per share were the same as the basic earnings per share for the period and the corresponding six months ended 30 June 2015 as there were no dilutive potential ordinary shares in existence during both periods.

* *Adjusted for the bonus issue effected in 2016.*

# Notes to the Unaudited Condensed Interim Financial Statements

## 8 Earnings per share (continued)

### (b) Underlying earnings per share

For the purpose of assessing the underlying performance of the Group, basic and diluted earnings per share are additionally calculated based on the underlying profit attributable to equity shareholders of the Company ("Underlying Profit") of HK$4,782 million (2015: HK$5,443 million), which excludes the effects of changes in fair value of investment properties and investment properties under development. A reconciliation of profit is as follows:

| | For the six months ended 30 June | |
|---|---|---|
| | **2016** | 2015 |
| | **HK$ million** | HK$ million |
| Profit attributable to equity shareholders of the Company | **8,611** | 9,846 |
| Changes in fair value of investment properties and investment properties under development during the period (note 11(b)) | **(2,683)** | (3,730) |
| Effect of deferred tax on changes in fair value of investment properties and investment properties under development during the period (note 11(b)) | **206** | 12 |
| Share of changes in fair value of investment properties (net of deferred tax) during the period: | | |
| – associates | **(429)** | (317) |
| – joint ventures | **(1,121)** | (535) |
| Cumulative fair value change of investment properties disposed of during the period, net of tax (note): | | |
| – subsidiaries | **311** | 116 |
| – associates and joint ventures | **–** | 76 |
| Effect of share of non-controlling interests | **(113)** | (25) |
| Underlying Profit | **4,782** | 5,443 |
| Underlying earnings per share | **HK$1.31** | HK$1.50* |

* *Adjusted for the bonus issue effected in 2016.*

Note: In order to fully exclude the aforesaid effects of changes in fair value from the Underlying Profit, the Group's attributable share of the cumulative fair value change (net of tax) of investment properties disposed of during the period (which has been included in calculating the net gain on disposal of investment properties and hence the profit attributable to equity shareholders of the Company during the period) of HK$194 million (2015: HK$152 million) was added back in arriving at the Underlying Profit. The comparative Underlying Profit and Underlying earnings per share for the same period last year have been restated to conform to the current period's presentation basis.

# Notes to the Unaudited Condensed Interim Financial Statements

## 9 Dividends

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

| | For the six months ended 30 June | |
|---|---|---|
| | **2016** | 2015 |
| | **HK$ million** | HK$ million |
| Interim dividend declared after the interim period of HK$0.42 (2015: HK$0.38) per share | **1,528** | 1,256 |

The interim dividend declared after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

### (b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid/payable during the interim period

| | For the six months ended 30 June | |
|---|---|---|
| | **2016** | 2015 |
| | **HK$ million** | HK$ million |
| Final dividend in respect of the previous financial year, approved and paid (2015: payable) during the following interim period, of HK$1.07 (2015: HK$0.76) per share | **3,538** | 2,280 |

# Notes to the Unaudited Condensed Interim Financial Statements

## 10 Segment reporting

The Group manages its businesses by a mixture of business lines and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following reportable segments. No operating segments have been aggregated to form the following reportable segments.

| | | |
|---|---|---|
| Property development | : | Development and sale of properties |
| Property leasing | : | Leasing of properties |
| Hotel operation | : | Hotel operation and management |
| Department store operation | : | Department store operation and management |
| Others | : | Construction, provision of finance, investment holding, project management, property management, agency services, cleaning and security guard services, as well as the trading of building materials and disposal of leasehold land |
| Utility and energy | : | Production, distribution and marketing of gas, water supply and emerging environmentally-friendly energy businesses |

For the purposes of assessing segment performance and allocating resources between segments, the Group's most senior executive management monitors the results attributable to each reportable segment on the following bases.

Revenue and expenses are allocated to the reportable segments with reference to revenues generated by those segments and the expenses incurred by those segments. Segment results form the basis of measurement used for assessing segment performance and represent profit or loss before bank interest income, (provision)/reversal of provision on inventories, fair value adjustment of investment properties and investment properties under development, finance costs, income tax and items not specifically attributed to individual reportable segments, such as unallocated head office and corporate expenses, net.

# Notes to the Unaudited Condensed Interim Financial Statements

## 10 Segment reporting (continued)

### (a) Results of reportable segments

Information regarding the Group's and its share of associates and joint ventures on reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended 30 June 2016 and 2015 is set out below:

| | Company and its subsidiaries (before deducting non-controlling interests) | | Associates and joint ventures | | | | Attributable to non-controlling interests | | Attributable to equity shareholders of the Company | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Revenue HK$ million (note (i)) | Segment results HK$ million | Share of revenue HK$ million | Share of segment results HK$ million | Combined revenue HK$ million | Consolidated segment results HK$ million | Revenue HK$ million | Segment results HK$ million | Combined revenue HK$ million | Consolidated segment results HK$ million |
| **For the six months ended 30 June 2016** | | | | | | | | | | |
| Property development | | | | | | | | | | |
| Hong Kong | 4,071 | 1,192 | 41 | 32 | 4,112 | 1,224 | (458) | (129) | 3,654 | 1,095 |
| Mainland China | 1,815 | (5) | 671 | 103 | 2,486 | 98 | (4) | (2) | 2,482 | 96 |
| | 5,886 | 1,187 | 712 | 135 | 6,598 | 1,322 | (462) | (131) | 6,136 | 1,191 |
| Property leasing | | | | | | | | | | |
| Hong Kong | 1,889 | 1,441 | 1,332 | 1,119 | 3,221 | 2,560 | (7) | (2) | 3,214 | 2,558 |
| Mainland China | 850 | 699 | 6 | 5 | 856 | 704 | - | - | 856 | 704 |
| | (note (ii)) 2,739 | 2,140 | 1,338 | 1,124 | 4,077 | 3,264 | (7) | (2) | 4,070 | 3,262 |
| Hotel operation | 30 | (20) | | 118 | | 98 | | - | | 98 |
| Department store operation | 443 | 155 | | - | | 155 | | (20) | | 135 |
| Others | 627 | 280 | | (52) | | 228 | | (10) | | 218 |
| | 9,725 | 3,742 | | 1,325 | | 5,067 | | (163) | | 4,904 |
| Utility and energy | - | - | | 2,025 | | 2,025 | | - | | 2,025 |
| | 9,725 | 3,742 | | 3,350 | | 7,092 | | (163) | | 6,929 |
| Bank interest income | | 143 | | 39 | | 182 | | (2) | | 180 |
| Provision on inventories, net | | (149) | | (1) | | (150) | | - | | (150) |
| Unallocated head office and corporate expenses, net | | (note (iii)) (518) | | (136) | | (654) | | 12 | | (642) |
| Profit from operations | | 3,218 | | 3,252 | | 6,470 | | (153) | | 6,317 |
| Increase in fair value of investment properties and investment properties under development | | 2,683 | | 1,555 | | 4,238 | | (4) | | 4,234 |
| Finance costs | | (398) | | (296) | | (694) | | 7 | | (687) |
| Profit before taxation | | 5,503 | | 4,511 | | 10,014 | | (150) | | 9,864 |
| Income tax | | (745) | | (533) | | (1,278) | | 25 | | (1,253) |
| Profit for the period | | 4,758 | | 3,978 | | 8,736 | | (125) | | 8,611 |

# Notes to the Unaudited Condensed Interim Financial Statements

## 10 Segment reporting (continued)

### (a) Results of reportable segments (continued)

In relation to the share of profits less losses of associates and joint ventures:

| | Property development HK$ million | Property leasing HK$ million | Hotel operation HK$ million | Department store operation HK$ million | Others HK$ million | Subtotal HK$ million | Utility and energy HK$ million | Total HK$ million |
|---|---|---|---|---|---|---|---|---|
| **For the six months ended 30 June 2016** | | | | | | | | |
| Share of profits less losses of associates (note (iv)) | | | | | | | | |
| – Listed associates | | | | | | | | |
| The Hong Kong and China Gas Company Limited | – | 351 | 10 | – | (133) | 228 | 1,570 | 1,798 |
| Miramar Hotel and Investment Company, Limited | – | 316 | 15 | – | (21) | 310 | – | 310 |
| Hong Kong Ferry (Holdings) Company Limited | 28 | 23 | – | – | (12) | 39 | – | 39 |
| – Unlisted associates | 42 | 37 | – | – | 1 | 80 | – | 80 |
| | 70 | 727 | 25 | – | (165) | 657 | 1,570 | 2,227 |
| Share of profits less losses of joint ventures (note (v)) | (3) | 1,692 | 59 | – | 3 | 1,751 | – | 1,751 |
| | 67 | 2,419 | 84 | – | (162) | 2,408 | 1,570 | 3,978 |

# Notes to the Unaudited Condensed Interim Financial Statements

## 10 Segment reporting (continued)

### (a) Results of reportable segments (continued)

| | Company and its subsidiaries (before deducting non-controlling interests) | | Associates and joint ventures | | | | Attributable to non-controlling interests | | Attributable to equity shareholders of the Company | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Revenue HK$ million (note (i)) | Segment results HK$ million | Share of revenue HK$ million | Share of segment results HK$ million | Combined revenue HK$ million | Consolidated segment results HK$ million | Revenue HK$ million | Segment results HK$ million | Combined revenue HK$ million | Consolidated segment results HK$ million |
| **For the six months ended 30 June 2015** | | | | | | | | | | |
| Property development | | | | | | | | | | |
| Hong Kong | 4,372 | 1,466 | 282 | 81 | 4,654 | 1,547 | (605) | (335) | 4,049 | 1,212 |
| Mainland China | 2,804 | 358 | 233 | (14) | 3,037 | 344 | (3) | (5) | 3,034 | 339 |
| | 7,176 | 1,824 | 515 | 67 | 7,691 | 1,891 | (608) | (340) | 7,083 | 1,551 |
| Property leasing | | | | | | | | | | |
| Hong Kong | 1,912 | 1,404 | 1,268 | 1,081 | 3,180 | 2,485 | (11) | (7) | 3,169 | 2,478 |
| Mainland China | 852 | 651 | 6 | 5 | 858 | 656 | – | – | 858 | 656 |
| | (note (ii)) 2,764 | 2,055 | 1,274 | 1,086 | 4,038 | 3,141 | (11) | (7) | 4,027 | 3,134 |
| Hotel operation | 50 | (15) | | 127 | | 112 | | – | | 112 |
| Department store operation | 449 | 155 | | – | | 155 | | (20) | | 135 |
| Others | 580 | 586 | | 146 | | 732 | | 38 | | 770 |
| | 11,019 | 4,605 | | 1,426 | | 6,031 | | (329) | | 5,702 |
| Utility and energy | – | – | | 1,976 | | 1,976 | | – | | 1,976 |
| | 11,019 | 4,605 | | 3,402 | | 8,007 | | (329) | | 7,678 |
| Bank interest income | | 111 | | 82 | | 193 | | (3) | | 190 |
| Provision on inventories, net | | – | | (1) | | (1) | | – | | (1) |
| Unallocated head office and corporate expenses, net | | (note (iii)) (480) | | (75) | | (555) | | (4) | | (559) |
| Profit from operations | | 4,236 | | 3,408 | | 7,644 | | (336) | | 7,308 |
| Increase in fair value of investment properties and investment properties under development | | 3,730 | | 854 | | 4,584 | | (15) | | 4,569 |
| Finance costs | | (447) | | (261) | | (708) | | 2 | | (706) |
| Profit before taxation | | 7,519 | | 4,001 | | 11,520 | | (349) | | 11,171 |
| Income tax | | (832) | | (559) | | (1,391) | | 66 | | (1,325) |
| Profit for the period | | 6,687 | | 3,442 | | 10,129 | | (283) | | 9,846 |

# Notes to the Unaudited Condensed Interim Financial Statements

## 10 Segment reporting (continued)

### (a) Results of reportable segments (continued)

In relation to the share of profits less losses of associates and joint ventures:

| | Property development HK$ million | Property leasing HK$ million | Hotel operation HK$ million | Department store operation HK$ million | Others HK$ million | Subtotal HK$ million | Utility and energy HK$ million | Total HK$ million |
|---|---|---|---|---|---|---|---|---|
| For the six months ended 30 June 2015 | | | | | | | | |
| Share of profits less losses of associates (note (iv)) | | | | | | | | |
| – Listed associates | | | | | | | | |
| The Hong Kong and China Gas Company Limited | – | 174 | 11 | – | 26 | 211 | 1,531 | 1,742 |
| Miramar Hotel and Investment Company, Limited | – | 328 | 23 | – | 43 | 394 | – | 394 |
| Hong Kong Ferry (Holdings) Company Limited | 37 | 11 | – | – | 12 | 60 | – | 60 |
| – Unlisted associates | – | 86 | – | – | 4 | 90 | – | 90 |
| | 37 | 599 | 34 | – | 85 | 755 | 1,531 | 2,286 |
| Share of profits less losses of joint ventures (note (v)) | 13 | 1,082 | 63 | – | (2) | 1,156 | – | 1,156 |
| | 50 | 1,681 | 97 | – | 83 | 1,911 | 1,531 | 3,442 |

# Notes to the Unaudited Condensed Interim Financial Statements

## 10 Segment reporting (continued)

### (a) Results of reportable segments (continued)

Notes:

(i) The revenue figures above are arrived at after the elimination of inter-segment revenues, in the amounts of HK$160 million (2015: HK$129 million) and HK$759 million (2015: HK$723 million) in relation to the reportable segments under property leasing and others, respectively.

(ii) Revenue for the property leasing segment comprises rental income of HK$2,471 million (2015: HK$2,446 million) and rental-related income of HK$268 million (2015: HK$318 million), which in aggregate amounted to HK$2,739 million for the six months ended 30 June 2016 (2015: HK$2,764 million).

(iii) Unallocated head office and corporate expenses, net for the period is stated after netting off the net gain on disposal of investment properties of HK$9 million (2015: HK$28 million) (see note 5). Excluding the aforementioned gain, the Group's unallocated head office and corporate expenses for the period amounted to HK$527 million (2015: HK$508 million).

(iv) The Group's share of profits less losses of associates contributed from the property leasing segment during the period of HK$727 million (2015: HK$599 million) includes the increase in fair value of investment properties (net of deferred tax) during the period of HK$429 million (2015: HK$317 million).

(v) The Group's share of profits less losses of joint ventures contributed from the property leasing segment during the period of HK$1,692 million (2015: HK$1,082 million) includes the increase in fair value of investment properties (net of deferred tax) during the period of HK$1,121 million (2015: HK$535 million).

### (b) Geographical information

The following table sets out information about the geographical segment location of (i) the Group's revenue from external customers; and (ii) the Group's investment properties, other property, plant and equipment, interests in associates and joint ventures (together, the "Specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods were delivered. The geographical location of the Specified non-current assets is based on the physical location of the asset in the case of investment properties and other property, plant and equipment, and the location of operations in the case of interests in associates and joint ventures.

| | Revenue from external customers | | Specified non-current assets | |
|---|---|---|---|---|
| | For the six months ended 30 June | | | |
| | **2016** | 2015 | **At 30 June 2016** | At 31 December 2015 |
| | **(unaudited)** | (unaudited) | **(unaudited)** | (audited) |
| | **HK$ million** | HK$ million | **HK$ million** | HK$ million |
| Hong Kong | **7,048** | 7,353 | **180,880** | 176,287 |
| Mainland China | **2,677** | 3,666 | **41,457** | 41,574 |
| | **9,725** | 11,019 | **222,337** | 217,861 |
| | **(note 3)** | (note 3) | | |

# Notes to the Unaudited Condensed Interim Financial Statements

## 10 Segment reporting (continued)

### (c) Other segment information

| | Amortisation and depreciation | | Impairment loss on trade debtors | |
|---|---|---|---|---|
| | For the six months ended 30 June | | For the six months ended 30 June | |
| | **2016 (unaudited) HK$ million** | 2015 (unaudited) HK$ million | **2016 (unaudited) HK$ million** | 2015 (unaudited) HK$ million |
| Property development | **6** | 7 | **–** | – |
| Property leasing | **4** | 4 | **–** | – |
| Hotel operation | **15** | 20 | **–** | – |
| Department store operation | **12** | 13 | **–** | – |
| Others | **16** | 29 | **15** | 11 |
| | **53** | 73 | **15** | 11 |

## 11 Investment properties

### (a) Disposals

Items of investment properties with an aggregate net book value of HK$220 million were disposed of during the six months ended 30 June 2016 (2015: HK$47 million), resulting in a net gain on disposal of HK$9 million for the period (2015: HK$28 million) (see note 5).

# Notes to the Unaudited Condensed Interim Financial Statements

## 11 Investment properties (continued)

### (b) Fair value measurement of investment properties and investment properties under development

**Valuation process**

The Group's investment properties and investment properties under development were revalued at 30 June 2016 by DTZ Cushman & Wakefield Limited, an independent firm of professional surveyors who have among their staff Members of The Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued, on a market value basis.

The Group's management has reviewed the valuation results performed by the independent surveyors for financial reporting purposes by verifying all major inputs and assumptions, and assessing the reasonableness of property valuation. Such valuation is performed at each interim and annual reporting date and is reviewed and approved by senior management.

**Valuation methodologies**

The valuations of completed investment properties in Hong Kong and mainland China were based on income capitalisation approach which capitalised the net income of the properties and taking into account the reversionary potential of the properties after expiry of the current lease.

For certain investment properties in Hong Kong and mainland China which are still under development, the valuations were determined on redevelopment basis and by taking into account the fair value of the completed investment property and then deducting from that amount the estimated costs to complete the construction, financing costs and a reasonable profit margin.

**Valuation**

As a result, a net fair value gain of HK$2,683 million (2015: HK$3,730 million) and deferred tax charge in respect of the fair value change on investment properties in mainland China of HK$206 million (2015: HK$12 million) have been recognised in the consolidated statement of profit or loss for the period (see note 8(b)).

# Notes to the Unaudited Condensed Interim Financial Statements

## 12 Derivative financial instruments

| | At 30 June 2016 (unaudited) | | At 31 December 2015 (audited) | |
|---|---|---|---|---|
| | Assets HK$ million | Liabilities HK$ million | Assets HK$ million | Liabilities HK$ million |
| **Cash flow hedges:** | | | | |
| Cross currency interest rate swap contracts (note 21(a)(i)) | – | 627 | 216 | 928 |
| Interest rate swap contracts (note 21(a)(i)) | – | 968 | – | 848 |
| | – | 1,595 | 216 | 1,776 |
| **Fair value through profit or loss:** | | | | |
| Cross currency interest rate swap contracts (notes 5(i) and 21(a)(i)) | 262 | 148 | – | – |
| Interest rate swap contracts (notes 5(i) and 21(a)(i)) | – | 131 | – | – |
| Other derivatives (note 21(a)(i)) | 63 | – | 84 | – |
| | 325 | 279 | 84 | – |
| | 325 | 1,874 | 300 | 1,776 |
| **Representing:** | | | | |
| Non-current portion | 325 | 1,650 | 300 | 1,773 |
| Current portion (note 18) | – | 224 | – | 3 |
| | 325 | 1,874 | 300 | 1,776 |

# Notes to the Unaudited Condensed Interim Financial Statements

## 12 Derivative financial instruments (continued)

### (a) Derivatives under cash flow hedges

Swap contracts which have been entered into with certain counterparty banks comprise:

- cross currency interest rate swap contracts to hedge against the interest rate risk and foreign currency risk in respect of guaranteed notes denominated in United States dollars ("US$"), Pound Sterling ("£") and Singapore dollars ("S$") with aggregate principal amounts of US$10 million, £50 million and S$200 million at 30 June 2016 (31 December 2015: US$672 million, £50 million and S$200 million) and bank loans denominated in Japanese Yen ("¥") with an aggregate principal amount of ¥10,000 million at 30 June 2016 (31 December 2015: ¥10,000 million); and

- interest rate swap contracts to hedge against the interest rate risk in respect of certain bank loans denominated in Hong Kong dollars with an aggregate principal amount of HK$9,300 million at 30 June 2016 (31 December 2015: HK$11,700 million).

These cross currency interest rate swap contracts and interest rate swap contracts were designated as cash flow hedges of the interest rate risk and foreign currency risk in relation to the guaranteed notes and bank loans. They will mature between 28 February 2017 and 17 March 2026 (31 December 2015: between 13 June 2016 and 20 October 2026).

### (b) Other derivatives

The carrying value of other derivatives represents the fair value of the bonus warrants of Miramar Hotel and Investment Company, Limited (a listed associate of the Group) which remained unexercised at the end of the reporting period.

# Notes to the Unaudited Condensed Interim Financial Statements

## 13 Other financial assets

| | **At 30 June 2016 (unaudited) HK$ million** | At 31 December 2015 (audited) HK$ million |
|---|---|---|
| **Available-for-sale securities** | | |
| Unlisted (note 21(b)) | **1,128** | 1,123 |
| Listed: | | |
| – in Hong Kong | **2,779** | 2,637 |
| – outside Hong Kong | **225** | 79 |
| | **4,132** | 3,839 |
| **Held-to-maturity debt securities** (note 21(b)) | | |
| Listed: | | |
| – in Hong Kong | **522** | 522 |
| – outside Hong Kong | **518** | 613 |
| | **1,040** | 1,135 |
| **Instalments receivable** | **4,473** | 2,306 |
| **Loans receivable** | **999** | 1,042 |
| | **10,644** | 8,322 |
| Market value of listed available-for-sale securities (note 21(a)(i)) | **3,004** | 2,716 |
| Market value of listed held-to-maturity debt securities (note 21(b)) | **1,100** | 1,164 |
| Fair value of individually impaired available-for-sale securities | **577** | 480 |

### (a) Available-for-sale securities

Certain of the Group's listed available-for-sale securities were individually determined to be impaired on the basis of significant or prolonged decline in their fair value below cost.

Included in the carrying amount of available-for-sale securities at 30 June 2016 was an aggregate amount of HK$92 million (31 December 2015: HK$91 million) being pledged in favour of certain financial institutions for credit facilities granted to a wholly-owned subsidiary of the Group. Such credit facilities were not utilised by the Group at 30 June 2016.

# Notes to the Unaudited Condensed Interim Financial Statements

## 13 Other financial assets (continued)

### (b) Held-to-maturity debt securities

Held-to-maturity debt securities are listed, issued by corporate entities with sound credit standing and are neither past due nor impaired, except for an aggregate carrying amount of HK$24 million at 30 June 2016 (31 December 2015: HK$20 million) which was impaired due to the principal's default in interest payment during the six months ended 30 June 2016.

Included in the carrying amount of held-to-maturity debt securities at 30 June 2016 was an aggregate amount of HK$541 million (31 December 2015: HK$598 million) being pledged in favour of certain financial institutions for credit facilities granted to a wholly-owned subsidiary of the Group. Such credit facilities were not utilised by the Group at 30 June 2016.

### (c) Instalments receivable

Instalments receivable represents the proceeds receivable from the sale of properties due after one year from the end of the reporting period. The balance included in "Other financial assets" is neither past due nor impaired. Instalments receivable due within one year from the end of the reporting period is included in "Trade and other receivables" under current assets (see note 16).

### (d) Loans receivable

At 30 June 2016, loans receivable included amounts of HK$648 million (31 December 2015: HK$684 million) and HK$351 million (31 December 2015: HK$358 million) which are secured, interest-bearing at Hong Kong Interbank Offered Rate plus 4% (31 December 2015: Hong Kong Interbank Offered Rate plus 4%) per annum and 12% (31 December 2015: 12%) per annum, respectively. The balance is due after one year from the end of the reporting period and is neither past due nor impaired.

The current portion of HK$225 million (31 December 2015: HK$236 million) which is expected to be recovered within one year is included in "Trade and other receivables" under current assets (see note 16).

## 14 Deposits for acquisition of properties

The Group's deposits for acquisition of properties mainly include HK$3,758 million (31 December 2015: HK$3,834 million) and HK$561 million (31 December 2015: HK$561 million) paid relating to the acquisition of certain pieces of land/properties located in mainland China and Macau, respectively.

In respect of the deposit paid relating to the land in Macau, the conditions precedent for the acquisition have not yet been fulfilled. The parties to the agreement have agreed to extend the date for the fulfillment of the conditions precedent. If the acquisition shall not proceed, then the Group is entitled to recover the deposit paid.

# Notes to the Unaudited Condensed Interim Financial Statements

## 15 Inventories

| | At 30 June 2016 (unaudited) HK$ million | At 31 December 2015 (audited) HK$ million |
|---|---|---|
| **Property development** | | |
| Leasehold land held for development for sale | **10,194** | 10,130 |
| Properties held for/under development for sale | **58,895** | 61,884 |
| Completed properties for sale | **10,722** | 9,460 |
| | **79,811** | 81,474 |
| **Other operations** | | |
| Trading stocks | **74** | 82 |
| | **79,885** | 81,556 |

## 16 Trade and other receivables

| | At 30 June 2016 (unaudited) HK$ million | At 31 December 2015 (audited) HK$ million |
|---|---|---|
| Instalments receivable (note 13(c)) | **1,622** | 2,146 |
| Loans receivable (note 13(d)) | **225** | 236 |
| Debtors, prepayments and deposits | **6,213** | 5,781 |
| Gross amount due from customers for contract work | **70** | 18 |
| Amounts due from associates | **100** | 144 |
| Amounts due from joint ventures | **50** | 46 |
| | **8,280** | 8,371 |

Loans receivable included amounts of HK$150 million (31 December 2015: HK$200 million) and HK$75 million (31 December 2015: HK$36 million) which are secured, interest-bearing at Hong Kong Interbank Offered Rate plus 5.65% (31 December 2015: Hong Kong Interbank Offered Rate plus 5.65%) per annum and Hong Kong Interbank Offered Rate plus 4% (31 December 2015: Hong Kong Interbank Offered Rate plus 4%) per annum, respectively. These balances are expected to be recovered within one year from the end of the reporting period and are neither past due nor impaired.

# Notes to the Unaudited Condensed Interim Financial Statements

## 16 Trade and other receivables (continued)

At the end of the reporting period, the ageing analysis of trade debtors (which are included in trade and other receivables) net of allowance for doubtful debts is as follows:

| | **At 30 June 2016 (unaudited) HK$ million** | At 31 December 2015 (audited) HK$ million |
|---|---|---|
| Current or up to 1 month overdue | **2,390** | 2,888 |
| More than 1 month overdue and up to 3 months overdue | **76** | 73 |
| More than 3 months overdue and up to 6 months overdue | **37** | 24 |
| More than 6 months overdue | **54** | 63 |
| | **2,557** | 3,048 |

Regular review and follow-up actions are carried out on overdue amounts of instalments receivable from sale of properties and loans receivable which enable management to assess their recoverability and to minimise exposure to credit risk. In respect of rental income from leasing properties, monthly rents are received in advance and sufficient rental deposits are held to cover potential exposure to credit risk.

For other trade receivables, credit terms given to customers are generally based on the financial strength and repayment history of each customer. As such, the Group does not obtain collateral from its customers. An ageing analysis of the receivables is prepared on a regular basis and is closely monitored to minimise any credit risk associated with the receivables. Adequate allowances for impairment losses have been made for estimated irrecoverable amounts.

# Notes to the Unaudited Condensed Interim Financial Statements

## 17 Cash and bank balances

| | At 30 June 2016 (unaudited) HK$ million | At 31 December 2015 (audited) HK$ million |
|---|---|---|
| Deposits with banks and other financial institutions | **13,017** | 6,771 |
| Cash at bank and in hand | **4,646** | 5,008 |
| Cash and bank balances in the consolidated statement of financial position | **17,663** | 11,779 |
| Less: | | |
| Deposits with banks and other financial institutions over three months of maturity at acquisition | **(357)** | (928) |
| Cash restricted for use | **(3,712)** | (2,380) |
| Cash and cash equivalents | **13,594** | 8,471 |
| Bank overdrafts | **–** | (6) |
| Cash and cash equivalents in the condensed consolidated cash flow statement | **13,594** | 8,465 |

At 30 June 2016, cash and bank balances in the consolidated statement of financial position included balances of bank deposits in mainland China which were subject to exchange controls, and of which an amount of HK$3,712 million (31 December 2015: HK$2,380 million) was restricted for use and primarily comprised the guarantee deposits for the construction of certain property development projects under pre-sales in mainland China.

## 18 Trade and other payables

| | At 30 June 2016 (unaudited) HK$ million | At 31 December 2015 (audited) HK$ million |
|---|---|---|
| Creditors and accrued expenses | **6,826** | 8,484 |
| Gross amount due to customers for contract work | **3** | 16 |
| Rental and other deposits | **1,443** | 1,412 |
| Forward sales deposits received | **11,832** | 8,235 |
| Derivative financial instruments (note 12) | **224** | 3 |
| Amounts due to associates | **908** | 143 |
| Amounts due to joint ventures | **2,356** | 805 |
| | **23,592** | 19,098 |

# Notes to the Unaudited Condensed Interim Financial Statements

## 18 Trade and other payables (continued)

At the end of the reporting period, the ageing analysis of trade creditors (which are included in trade and other payables) is as follows:

| | **At 30 June 2016 (unaudited) HK$ million** | At 31 December 2015 (audited) HK$ million |
|---|---|---|
| Due within 1 month or on demand | **642** | 1,686 |
| Due after 1 month but within 3 months | **957** | 1,120 |
| Due after 3 months but within 6 months | **1,295** | 1,183 |
| Due after 6 months | **2,577** | 2,599 |
| | **5,471** | 6,588 |

## 19 Bank loans and overdrafts

During the six months ended 30 June 2016, the Group obtained new bank loans amounting to HK$15,039 million (2015: HK$23,313 million) and repaid bank loans amounting to HK$10,715 million (2015: HK$24,119 million). The new bank loans bear interest at rates ranging from 0.58% to 1.54% (2015: 0.80% to 1.47%) per annum.

At 30 June 2016 and 31 December 2015, all bank loans and overdrafts of the Group were unsecured.

## 20 Bonus shares issued

On 23 June 2016, an aggregate of 331 million bonus shares were issued on the basis of one new share for every ten shares held to shareholders whose names appeared on the Company's register of members on 13 June 2016. There is no change to the Company's share capital as the Company's shares no longer have a par or nominal value in accordance with section 135 of the Hong Kong Companies Ordinance (Cap. 622).

# Notes to the Unaudited Condensed Interim Financial Statements

## 21 Fair value measurement of financial instruments

### (a) Financial assets and liabilities measured at fair value

#### (i) Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs, i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

- Level 2 valuations: Fair value measured using Level 2 inputs, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 valuations: Fair value measured using significant unobservable inputs.

| | Fair value at 30 June 2016 HK$ million | Fair value measurements at 30 June 2016 categorised into Level 1 HK$ million | Level 2 HK$ million |
|---|---|---|---|
| **Recurring fair value measurement** | | | |
| *Financial assets:* | | | |
| Available-for-sale securities: | | | |
| – Listed (note 13) | **3,004** | **3,004** | – |
| Derivative financial instruments: | | | |
| – Cross currency interest rate swap contracts (note 12) | **262** | – | **262** |
| – Other derivatives (note 12) | **63** | **63** | – |
| *Financial liabilities:* | | | |
| Derivative financial instruments: | | | |
| – Cross currency interest rate swap contracts (note 12) | **775** | – | **775** |
| – Interest rate swap contracts (note 12) | **1,099** | – | **1,099** |

# Notes to the Unaudited Condensed Interim Financial Statements

## 21 Fair value measurement of financial instruments (continued)

### (a) Financial assets and liabilities measured at fair value (continued)

#### (i) Fair value hierarchy (continued)

| | Fair value at 31 December 2015 HK$ million | Fair value measurements at 31 December 2015 categorised into | |
|---|---|---|---|
| | | Level 1 HK$ million | Level 2 HK$ million |
| **Recurring fair value measurement** | | | |
| *Financial assets:* | | | |
| Available-for-sale securities: | | | |
| – Listed (note 13) | 2,716 | 2,716 | – |
| Derivative financial instruments: | | | |
| – Cross currency interest rate swap contracts (note 12) | 216 | – | 216 |
| – Other derivatives (note 12) | 84 | 84 | – |
| *Financial liabilities:* | | | |
| Derivative financial instruments: | | | |
| – Cross currency interest rate swap contracts (note 12) | 928 | – | 928 |
| – Interest rate swap contracts (note 12) | 848 | – | 848 |

During the six months ended 30 June 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2015: Nil). The Group's policy is to recognise transfers between levels of fair value hierarchy at the end of the reporting period during which they occur.

#### (ii) Valuation techniques and inputs used in Level 2 fair value measurement

The fair values of cross currency interest rate swap contracts and interest rate swap contracts are calculated as the present value of the estimated future cash flows based on the terms and maturity of each contract, taking into account the current interest rates and the current creditworthiness of the swap counterparties.

# Notes to the Unaudited Condensed Interim Financial Statements

## 21 Fair value measurement of financial instruments (continued)

### (b) Financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments measured at cost or amortised cost are not materially different from their fair values at 30 June 2016 and 31 December 2015 except as follows:

– **Certain amounts due from associates and joint ventures and all the amounts due to associates and joint ventures**

Certain amounts due from associates and joint ventures and all the amounts due to associates and joint ventures are unsecured, interest-free and have no fixed terms of repayment. Given these terms it is not meaningful to quantify their fair values and therefore they are stated at cost.

– **Unlisted investments**

Unlisted available-for-sale securities of HK$1,128 million (31 December 2015: HK$1,123 million) (see note 13) do not have a quoted market price in an active market and their fair values cannot be reliably measured. They are recognised at cost less impairment losses at the end of the reporting period.

– **Held-to-maturity debt securities**

Held-to-maturity debt securities of HK$1,040 million (31 December 2015: HK$1,135 million) (see note 13) with fair values of HK$1,100 million (31 December 2015: HK$1,164 million) (see note 13) are recognised at amortised cost less impairment losses at the end of the reporting period.

# Notes to the Unaudited Condensed Interim Financial Statements

## 22 Capital commitments

At 30 June 2016, the Group had capital commitments not provided for in these condensed interim financial statements as follows:

| | **At 30 June 2016 (unaudited) HK$ million** | At 31 December 2015 (audited) HK$ million |
|---|---|---|
| **(a)** Contracted for acquisition of property and future development expenditure and the related costs of internal fixtures and fittings | **5,221** | 6,060 |
| Future development expenditure and the related costs of internal fixtures and fittings approved by the directors but not contracted for | **21,373** | 21,113 |
| | **26,594** | 27,173 |
| **(b) In relation to the capital commitments undertaken by joint ventures and certain associates attributable to the Group:** | | |
| Contracted for acquisition of property and future development expenditure and the related costs of internal fixtures and fittings | **1,646** | 1,178 |
| Future development expenditure and the related costs of internal fixtures and fittings approved by the directors but not contracted for | **172** | 1,043 |
| | **1,818** | 2,221 |

# Notes to the Unaudited Condensed Interim Financial Statements

## 23 Contingent liabilities

At 30 June 2016, contingent liabilities of the Group were as follows:

(a) In connection with the sale of certain subsidiaries and shareholders' loans to Sunlight Real Estate Investment Trust ("Sunlight REIT") (the "Sale") in December 2006, the Group entered into Deeds of Tax Covenant with Sunlight REIT. Under the Deeds of Tax Covenant, the Group has undertaken to indemnify Sunlight REIT for any tax liabilities relating to events occurred on or before the completion of the Sale (the "Completion"), clawback of commercial building allowances and capital allowances granted up to the Completion and re-classification of the properties before or upon the Completion. At 30 June 2016, the Group had contingent liabilities in this connection of HK$11 million (31 December 2015: HK$13 million).

(b) At 30 June 2016, the Company had contingent liabilities in respect of performance bonds to guarantee for the due and proper performance of the obligations undertaken by the Group's subsidiaries and projects amounting to HK$36 million (31 December 2015: HK$38 million).

(c) At 30 June 2016, the Group had given guarantees to financial institutions in the aggregate amount of HK$1,205 million (31 December 2015: HK$1,324 million) on behalf of purchasers of property units in mainland China in relation to which the related Building Ownership Certificate (房產證) had not yet been issued at 30 June 2016. Such guarantees will be released upon the issuance of the Building Ownership Certificate.

## 24 Material related party transactions

In addition to the transactions and balances disclosed elsewhere in these condensed interim financial statements, the Group entered into the following material related party transactions during the period:

### (a) Transactions with fellow subsidiaries

Details of material related party transactions during the period between the Group and its fellow subsidiaries are as follows:

| | For the six months ended 30 June | |
|---|---|---|
| | **2016** | 2015 |
| | **HK$ million** | HK$ million |
| Other interest expense (note (i)) | **22** | 53 |
| Income from sales of construction materials (note (iii)) | **–** | 7 |
| Sales commission income (note (iii)) | **4** | 3 |
| Administration fee income (note (ii)) | **4** | 4 |

# Notes to the Unaudited Condensed Interim Financial Statements

## 24 Material related party transactions (continued)

### (b) Transactions with associates and joint ventures

Details of material related party transactions during the period between the Group and its associates and joint ventures are as follows:

| | For the six months ended 30 June | |
|---|---|---|
| | **2016** | 2015 |
| | **HK$ million** | HK$ million |
| Security guard service fee income (note (iii)) | **13** | 12 |
| Management fee income (note (iii)) | **3** | 6 |
| Rental income (note (iii)) | **9** | 8 |
| Rental expenses (note (iii)) | **67** | 67 |
| Venue-related expenses (note (iii)) | **31** | 31 |
| Other interest income (note (i)) | **1** | 17 |
| Rental commission income (note (iii)) | **4** | 2 |

### (c) Transactions with related companies

Details of material related party transactions during the period between the Group and its related companies which are controlled by private family trusts of a director of the Company are as follows:

| | For the six months ended 30 June | |
|---|---|---|
| | **2016** | 2015 |
| | **HK$ million** | HK$ million |
| Income from sales of construction materials (note (iii)) | **3** | – |
| Rental income (note (iii)) | **5** | 9 |
| Tax indemnity receipt | **2** | 5 |

Notes:

(i) Interest income and expense are calculated on the balance of loans outstanding from time to time by reference to Hong Kong Interbank Offered Rate, Hong Kong dollar prime rate or Renminbi benchmark loan rates announced by the People's Bank of China.

(ii) These transactions represent cost reimbursements or cost reimbursements plus certain percentage thereon as service fees.

(iii) In the opinion of the directors, these transactions were carried out on normal commercial terms and in the ordinary course of business.

# Notes to the Unaudited Condensed Interim Financial Statements

## 24 Material related party transactions (continued)

### (d) Transactions with Sunlight REIT

Details of the material related party transactions during the period between the Group and Sunlight REIT (which is deemed as a connected person of the Company under the Listing Rules as from 30 April 2009) are as follows:

| | For the six months ended 30 June | |
|---|---|---|
| | **2016** | 2015 |
| | **HK$ million** | HK$ million |
| Rental expenses | **5** | 5 |
| Property and leasing management service fee income and other ancillary property service fee income | **24** | 24 |
| Asset management service fee income | **43** | 46 |
| Security service fee income | **1** | 1 |

The above transactions were conducted in accordance with the terms of the respective agreements/deeds entered into between the Group and Sunlight REIT. At 30 June 2016, the amount due from Sunlight REIT was HK$28 million (31 December 2015: HK$26 million) and is unsecured, interest-free and has no fixed terms of repayment. The amount is included in "Trade and other receivables" under current assets (see note 16).

### (e) Transactions with a company owned by a director of the Company

Dr Lee Ka Kit, a director of the Company, through a company owned by him (the "entity") has separate interest in an associate of the Group and through which the Group holds its interest in a development project in mainland China. The entity agreed to provide and had provided finance in the form of non interest-bearing advances to such associate in accordance with the percentage of its equity interest in such associate.

At 30 June 2016, the advance by the entity to the abovementioned associate amounted to HK$80 million (31 December 2015: HK$80 million). Such amount is unsecured and has no fixed terms of repayment.

# Notes to the Unaudited Condensed Interim Financial Statements

## 25 Non-adjusting events after the reporting period

After the end of the reporting period, the directors declared an interim dividend. Further details are disclosed in note 9(a).

## 26 Comparative figures

Certain comparative figures have been reclassified to conform to the current period's presentation.

# Financial Review

## Results of operations

The following discussions should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements for the six months ended 30 June 2016.

### Revenue and profit

| | Revenue | | | Contribution/(loss) from operations | | |
|---|---|---|---|---|---|---|
| | **Six months ended 30 June** | | *Increase/* | **Six months ended 30 June** | | *Increase/* |
| | **2016** | 2015 | *(Decrease)* | **2016** | 2015 | *(Decrease)* |
| | **HK$ million** | HK$ million | *%* | **HK$ million** | HK$ million | *%* |
| Reportable segments | | | | | | |
| – Property development | **5,886** | 7,176 | *–18%* | **1,187** | 1,824 | *–35%* |
| – Property leasing | **2,739** | 2,764 | *–1%* | **2,140** | 2,055 | *+4%* |
| – Hotel operation | **30** | 50 | *–40%* | **(20)** | (15) | *+33%* |
| – Department store operation | **443** | 449 | *–1%* | **155** | 155 | – |
| – Other businesses | **627** | 580 | *+8%* | **280** | 586 | *–52%* |
| | **9,725** | 11,019 | *–12%* | **3,742** | 4,605 | *–19%* |

| | **Six months ended 30 June** | | |
|---|---|---|---|
| | **2016** | 2015 | *Decrease* |
| | **HK$ million** | HK$ million | *%* |
| Profit attributable to equity shareholders of the Company | | | |
| – including the Group's attributable share of changes in fair value of investment properties and investment properties under development (net of deferred taxation) held by the Group's subsidiaries, associates and joint ventures | **8,611** | 9,846 | *–13%* |
| – excluding the Group's attributable share of changes in fair value of investment properties and investment properties under development (net of deferred taxation) held by the Group's subsidiaries, associates and joint ventures ("Underlying Profit") (Note) | **4,782** | 5,443 | *–12%* |

Note:

Underlying profit attributable to equity shareholders of the Company ("Underlying Profit") excludes the Group's attributable share of fair value change (net of deferred tax) of the investment properties and investment properties under development held by subsidiaries, associates and joint ventures. In order to fully exclude the aforesaid effects of changes in fair value from the Underlying Profit, the Group's attributable share of the cumulative fair value change (net of tax) of investment properties disposed of during the period (which has been included in calculating the net gain on disposal of investment properties and hence the profit attributable to equity shareholders of the Company during the period) of HK$194 million (2015: HK$152 million) was added back in arriving at the Underlying Profit. The comparative figure of the Underlying Profit for the corresponding six months ended 30 June 2015 has been restated to conform to the current period's presentation basis.

Excluding the effects of certain one-off income/expense items from the Underlying Profit for the six months ended 30 June 2016 and 2015, the adjusted Underlying Profit for the two financial periods is as follows:

| | Six months ended 30 June | | | |
|---|---|---|---|---|
| | **2016** | 2015 | *Increase/(Decrease)* | |
| | **HK$ million** | HK$ million | *HK$ million* | *%* |
| Underlying Profit | **4,782** | 5,443 | *(661)* | *–12%* |
| (Less)/add: | | | | |
| *One-off (income)/expense items –* | | | | |
| The Group's attributable share of a one-off gain arising from the Compensation Payment (as referred to in the paragraph headed "Hotel operation and other businesses" below) | – | (246) | *246* | |
| Impairment loss in the carrying amount of a development land site in mainland China which was surrendered during the period | **75** | – | *75* | |
| Gain on disposal of certain available-for-sale securities | – | (164) | *164* | |
| **Adjusted Underlying Profit** | **4,857** | 5,033 | *(176)* | *–3%* |

Discussions on the major reportable segments are set out below.

## Property development

*Gross revenue – subsidiaries*

The gross revenue from property sales during the six months ended 30 June 2016 and 2015 generated by the Group's subsidiaries, and by geographical contribution, is as follows:

| | Six months ended 30 June | | | |
|---|---|---|---|---|
| | **2016** | 2015 | *Decrease* | |
| | **HK$ million** | HK$ million | *HK$ million* | *%* |
| *By geographical contribution :* | | | | |
| Hong Kong | **4,071** | 4,372 | *(301)* | *–7%* |
| Mainland China | **1,815** | 2,804 | *(989)* | *–35%* |
| | **5,886** | 7,176 | *(1,290)* | *–18%* |

The gross revenue from property sales in Hong Kong during the six months ended 30 June 2016 was contributed from "High One" and "Double Cove Grandview" (both being property development projects completed during the period) in the aggregate amount of HK$2,289 million, as well as from the other major completed projects such as "39 Conduit Road", "The Gloucester" and "Double Cove Starview Prime" in the aggregate amount of HK$1,782 million. By comparison, the gross revenue from property sales in Hong Kong during the corresponding six months ended 30 June 2015 was contributed as to HK$1,228 million from property development projects which were completed during the corresponding period, and as to HK$3,144 million from the other completed projects.

The gross revenue from property sales in mainland China during the six months ended 30 June 2016 was contributed as to HK$922 million from the sold and delivered units in relation to "Emerald Valley" Phase 2 in Nanjing which was completed during the period, and as to HK$893 million from the sold and delivered units in relation to the other projects which were completed prior to 1 January 2016. By comparison, the gross revenue from property sales in mainland China during the corresponding six months ended 30 June 2015 was contributed as to HK$1,574 million from the sold and delivered units in relation to the property development projects which were completed during the corresponding period, and as to HK$1,230 million from the sold and delivered units in relation to the other projects which were completed prior to 1 January 2015.

*Pre-tax profits – subsidiaries, associates and joint ventures*

The Group's attributable share of pre-tax profits from property sales, by geographical contribution and from subsidiaries (after deducting non-controlling interests), associates and joint ventures during the six months ended 30 June 2016 and 2015, is as follows:

| | **Six months ended 30 June** | | | |
|---|---|---|---|---|
| | **2016** | 2015 | *Decrease* | |
| | **HK$ million** | HK$ million | *HK$ million* | *%* |
| *By geographical contribution :* | | | | |
| Hong Kong | **1,095** | 1,212 | *(117)* | *–10%* |
| Mainland China | **96** | 339 | *(243)* | *–72%* |
| | **1,191** | 1,551 | *(360)* | *–23%* |

The decrease in the Group's share of pre-tax profits from property sales in Hong Kong during the six months ended 30 June 2016 of HK$117 million, or 10%, is attributable to the decrease in the Group's attributable share of pre-tax profit contributions from the property sales of (i) subsidiaries, in the aggregate amount of HK$68 million as a result of the decrease in gross revenue contribution as referred to above; (ii) associates, in the amount of HK$12 million due to the decrease in property sales of Hong Kong Ferry (Holdings) Company Limited ("HK Ferry", a listed associate of the Group); and (iii) joint ventures, in the aggregate amount of HK$37 million mainly due to the decrease in the property sales of "Mount Parker Residences" and the carparking spaces of "Royal Peninsula".

The decrease in the Group's share of pre-tax profits from property sales in mainland China during the six months ended 30 June 2016 of HK$243 million, or 72%, is attributable to the decrease in the Group's attributable share of pre-tax profit contributions from the property sales of subsidiaries in the aggregate amount of HK$360 million (from pre-tax profit of HK$353 million for the corresponding six months ended 30 June 2015 to pre-tax loss of HK$7 million for the six months ended 30 June 2016) as a result of the decrease in gross revenue contribution as referred to above, which is being partially offset by (i) the increase in the Group's attributable share of pre-tax profit contribution from the property sales of "Henderson CIFI Centre" in Shanghai, being a project held by an associate, in the amount of HK$72 million; and (ii) the net increase in the Group's attributable share of pre-tax profit contributions from joint ventures in the net aggregate amount of HK$45 million.

| | **Six months ended 30 June** | | | |
|---|---|---|---|---|
| | **2016** | 2015 | *Increase/(Decrease)* | |
| | **HK$ million** | HK$ million | *HK$ million* | *%* |
| *By contribution from subsidiaries (after deducting non-controlling interests), associates and joint ventures:* | | | | |
| Subsidiaries | **1,056** | 1,484 | *(428)* | *–29%* |
| Associates | **111** | 45 | *66* | *+147%* |
| Joint ventures | **24** | 22 | *2* | *+9%* |
| | **1,191** | 1,551 | *(360)* | *–23%* |

The decrease in the Group's share of pre-tax profit contribution from the property sales of subsidiaries during the six months ended 30 June 2016 is mainly attributable to the decrease in gross revenue as referred to above.

The increase in the Group's share of pre-tax profit contribution from the property sales of associates during the six months ended 30 June 2016 is mainly attributable to, as referred to above, the increase in the Group's attributable share of pre-tax profit contribution from the property sales of "Henderson CIFI Centre" in Shanghai in the amount of HK$72 million, which is nevertheless being partially offset by the decrease in the Group's attributable share of pre-tax profit contribution from the property sales of HK Ferry in the amount of HK$12 million.

The increase in the Group's share of pre-tax profit contribution from the property sales of joint ventures during the six months ended 30 June 2016 is mainly attributable to, as referred to above, the net increase in the Group's attributable share of pre-tax profit contributions from joint ventures in mainland China in the net aggregate amount of HK$45 million, which is nevertheless being partially offset by the decrease in the Group's attributable share of pre-tax profit contributions from the property sales of "Mount Parker Residences" and the carparking spaces of "Royal Peninsula" in the aggregate amount of HK$37 million.

## Property leasing

*Gross revenue – subsidiaries*

The gross revenue from property leasing during the six months ended 30 June 2016 and 2015 generated by the Group's subsidiaries, and by geographical contribution, is as follows:

| | **Six months ended 30 June** | | | |
|---|---|---|---|---|
| | **2016** | 2015 | *Decrease* | |
| | **HK$ million** | HK$ million | *HK$ million* | *%* |
| *By geographical contribution:* | | | | |
| Hong Kong | **1,889** | 1,912 | *(23)* | *–1%* |
| Mainland China | **850** | 852 | *(2)* | *–0.2%* |
| | **2,739** | 2,764 | *(25)* | *–1%* |

*Pre-tax net rental income – subsidiaries, associates and joint ventures*

The Group's attributable share of pre-tax net rental income, by geographical contribution and from subsidiaries (after deducting non-controlling interests), associates and joint ventures during the six months ended 30 June 2016 and 2015, is as follows:

| | **Six months ended 30 June** | | | |
|---|---|---|---|---|
| | **2016** | 2015 | *Increase* | |
| | **HK$ million** | HK$ million | *HK$ million* | *%* |
| *By geographical contribution:* | | | | |
| Hong Kong | **2,558** | 2,478 | *80* | *+3%* |
| Mainland China | **704** | 656 | *48* | *+7%* |
| | **3,262** | 3,134 | *128* | *+4%* |
| *By contribution from subsidiaries (after deducting non-controlling interests), associates and joint ventures:* | | | | |
| Subsidiaries | **2,138** | 2,048 | *90* | *+4%* |
| Associates | **382** | 363 | *19* | *+5%* |
| Joint ventures | **742** | 723 | *19* | *+3%* |
| | **3,262** | 3,134 | *128* | *+4%* |

For Hong Kong, the decrease in gross revenue during the six months ended 30 June 2016 is due to the fact that the gross revenue for the period excluded the recharge of rates in the amount of HK$64 million from the Group to the tenants, for the reason that such rental outgoing on rates were borne by the tenants. By comparison, the gross revenue for the corresponding six months ended 30 June 2015 included the recharge of rates in the amount of HK$59 million from the Group to the tenants. For the purpose of a like-for-like comparison, by excluding the recharge of rates from the Group to the tenants, the gross revenue for the corresponding six months ended 30 June 2015 would have become HK$1,853 million, as a result of which the gross revenue of HK$1,889 million for the six months ended 30 June 2016 demonstrates a period-on-period increase of HK$36 million, or 2%, over that for the corresponding six months ended 30 June 2015. Such period-on-period increase in gross revenue (excluding the recharge of rates in both periods), and the period-on-period increase of 3% in pre-tax net rental income, are mainly attributable to the period-on-period increase in average rentals in relation to the portfolio of investment properties in Hong Kong during the six months ended 30 June 2016.

For mainland China, on an overall portfolio basis, there was a period-on-period decrease of 0.2% in rental revenue contribution but a period-on-period increase of 7% in pre-tax net rental income contribution for the six months ended 30 June 2016. The decrease in rental revenue is due to the effect of the depreciation of Renminbi against Hong Kong dollar by approximately 6% during the six months ended 30 June 2016 when compared with the corresponding six months ended 30 June 2015. The increase in pre-tax net rental income is due to the improved operating efficiency which resulted in savings in administrative expenses during the six months ended 30 June 2016, whereby the ratio of pre-tax net rental income to rental revenue has increased from 77% for the corresponding six months ended 30 June 2015 to 83% for the six months ended 30 June 2016. In the case of "Henderson 688" in Shanghai, there was a remarkable increase in the occupancy rate by approximately 19% at 30 June 2016 when compared with that at 30 June 2015, which led to a remarkable period-on-period increase in rental revenue and pre-tax net rental income by approximately 54% and 87% respectively. On the other hand, "World Financial Centre" in Beijing experienced decreases in rental revenue and pre-tax net rental income by 9% and 2% respectively, as a result of the early surrender of the tenancy leases of four tenants during the six months ended 30 June 2016 whose aggregate leased floor area represented approximately 7% of the property's total leasable floor area. In this regard, management had subsequently successfully secured replacement tenants and committed new tenancy leases, as a result of which the occupancy rate of "World Financial Centre" in Beijing had recovered to slightly over 90% at the end of July 2016.

## Department store operation

Department store operation is carried out by Citistore (Hong Kong) Limited ("Citistore HK"), which is a wholly-owned subsidiary of Henderson Investment Limited ("HIL", a subsidiary of the Company).

For the six months ended 30 June 2016, revenue contribution from the department store operation amounted to HK$443 million (2015: HK$449 million) which represents a period-on-period decrease of HK$6 million or 1% from that for the corresponding six months ended 30 June 2015. The decrease is mainly attributable to the weakened retail market sentiment in Hong Kong during the six months ended 30 June 2016 when compared with that for the corresponding six months ended 30 June 2015, but alleviated by the increase in sales due to a colder month of January 2016 as well as the launch of proactive promotional activities during the six months ended 30 June 2016.

Profit contribution for the six months ended 30 June 2016 amounted to HK$155 million (2015: HK$155 million). Despite the abovementioned slight period-on-period decrease in revenue contribution for the six months ended 30 June 2016, profit contribution have sustained at the same level as that for the corresponding six months ended 30 June 2015, which is largely due to the savings in salaries costs and advertising and promotion expenses for the six months ended 30 June 2016 when compared with that for the corresponding six months ended 30 June 2015.

## Hotel operation and other businesses

For the hotel operation business, revenue for the six months ended 30 June 2016 decreased by HK$20 million, or 40%, to HK$30 million (2015: HK$50 million), and the operating loss for the six months ended 30 June 2016 increased by HK$5 million, or 33%, to HK$20 million (2015: operating loss of HK$15 million).

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

Revenue of other businesses for the six months ended 30 June 2016 increased by HK$47 million, or 8%, over that for the corresponding six months ended 30 June 2015. This is mainly attributable to the dividend income of HK$60 million received from the Group's investment in a property development project in Hong Kong (2015: Nil).

The profit contribution of other businesses for the six months ended 30 June 2016 decreased by HK$306 million, or 52%, from that for the corresponding six months ended 30 June 2015. This is mainly attributable to (i) the non-recurrence of the one-off gain of HK$215 million arising from the Compensation Payment regarding the infrastructure business during the corresponding six months ended 30 June 2015 (in relation to which the Group's attributable share amounts to HK$246 million, as referred to in the paragraph headed "Revenue and profit" above); and (ii) the non-recurrence of the gain on disposal of certain available-for-sale securities in the amount of HK$164 million during the corresponding six months ended 30 June 2015, while offset by the dividend income of HK$60 million received from the Group's investment in a property development project in Hong Kong (2015: Nil).

## Associates

The Group's attributable share of post-tax profits less losses of associates during the six months ended 30 June 2016 amounted to HK$2,227 million (2015: HK$2,286 million), representing a decrease of HK$59 million, or 3%, from that for the corresponding six months ended 30 June 2015. Excluding the Group's attributable share of changes in fair value of investment properties held by the associates (net of deferred taxation) of HK$429 million during the six months ended 30 June 2016 (2015: HK$317 million), the Group's attributable share of the underlying post-tax profits less losses of associates for the six months ended 30 June 2016 amounted to HK$1,798 million (2015 (restated): HK$2,045 million, as adjusted for by adding back the Group's attributable share of the cumulative fair value change of investment properties disposed of during the period of HK$76 million, which is consistent with the basis as referred to in "Note" to the paragraph headed "Revenue and profit" above), representing a decrease of HK$247 million, or 12%, from that for the corresponding six months ended 30 June 2015. Such period-on-period decrease in the underlying post-tax profits was mainly due to the following:

(i) the Group's attributable share of decrease in the underlying post-tax profit contribution from The Hong Kong and China Gas Company Limited of HK$116 million, mainly due to the decrease in the Group's attributable share of profit contribution from the new energy business as a result of the adverse impact of low international oil prices, as well as the decrease in the Group's attributable share of net financial income during the period;

(ii) the Group's attributable share of decrease in the underlying post-tax profit contribution from HK Ferry of HK$31 million, mainly due to the decrease of HK$9 million in the Group's attributable share of profit contribution from property sales, the decrease of HK$8 million in the Group's attributable share of profit contribution from disposal of securities investments and the increase of HK$12 million in the Group's attributable share of impairment loss on securities investments; and

(iii) the Group's attributable share of decrease in the underlying post-tax profit contribution from Miramar Hotel and Investment Company, Limited of HK$139 million, mainly due to the non-recurrence of the Group's attributable share of the gain on disposal of Knutsford Terrace, an investment property, in the amount of HK$131 million during the corresponding six months ended 30 June 2015 (as adjusted for by adding back the Group's attributable share of the cumulative fair value change of investment properties disposed of during the period of HK$76 million, which is consistent with the basis as referred to in "Note" to the paragraph headed "Revenue and profit" above).

### Joint ventures

The Group's attributable share of post-tax profits less losses of joint ventures during the six months ended 30 June 2016 amounted to HK$1,751 million (2015: HK$1,156 million), representing an increase of HK$595 million, or 51%, over that for the corresponding six months ended 30 June 2015. Excluding the Group's attributable share of changes in fair value of investment properties held by the joint ventures (net of deferred taxation) of HK$1,121 million during the six months ended 30 June 2016 (2015: HK$535 million), the Group's attributable share of the underlying post-tax profits less losses of joint ventures for the six months ended 30 June 2016 amounted to HK$630 million (2015: HK$621 million), representing an increase of HK$9 million, or 1%, over that for the corresponding six months ended 30 June 2015. Such period-on-period increase was mainly attributable to the increase of HK$24 million in the Group's attributable share of post-tax rental profit contribution from the IFC complex and other joint venture investment property projects and the increase of HK$51 million in the Group's attributable share of post-tax profit contribution from property sales of "Chengdu ICC" in mainland China, while offset by the decrease of HK$70 million in the Group's attributable share of post-tax profit contribution from property sales of joint venture property development projects such as "La Botanica", Xian and "Henderson CIFI City", Suzhou in mainland China as well as "Mount Parker Residences" and the carparking spaces of "Royal Peninsula" in Hong Kong.

### Finance costs

Finance costs (comprising interest expense and other borrowing costs) recognised as expenses for the six months ended 30 June 2016 were HK$398 million (2015: HK$447 million). Finance costs before interest capitalisation for the six months ended 30 June 2016 were HK$873 million (2015: HK$903 million). During the six months ended 30 June 2016, the Group's effective borrowing rate was approximately 3.23% per annum (2015: approximately 3.91% per annum).

### Revaluation of investment properties and investment properties under development

The Group recognised an increase in fair value on its investment properties and investment properties under development (before deferred taxation and non-controlling interests) of HK$2,683 million in the consolidated statement of profit or loss for the six months ended 30 June 2016 (2015: HK$3,730 million).

## Financial resources and liquidity

### Medium Term Note Programme

At 30 June 2016, the aggregate carrying amount of notes guaranteed by the Company and issued under the Group's Medium Term Note Programme established on 30 August 2011 and which remained outstanding was HK$9,226 million (31 December 2015: HK$10,202 million), with tenures of between five years and twenty years (31 December 2015: between four years and twenty years). These notes are included in the Group's bank and other borrowings at 30 June 2016 as referred to in the paragraph headed "Maturity profile and interest cover" below.

## Maturity profile and interest cover

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

| | At 30 June 2016 HK$ million | At 31 December 2015 HK$ million |
|---|---|---|
| Bank and other borrowings repayable: | | |
| – Within 1 year | **15,179** | 12,408 |
| – After 1 year but within 2 years | **11,587** | 8,454 |
| – After 2 years but within 5 years | **25,902** | 28,389 |
| – After 5 years | **1,661** | 1,660 |
| Amount due to a fellow subsidiary | **306** | 1,185 |
| Total debt | **54,635** | 52,096 |
| Less: Cash and bank balances | **(17,663)** | (11,779) |
| Net debt | **36,972** | 40,317 |
| Shareholders' funds | **254,625** | 251,247 |
| Gearing ratio (%) | **14.5%** | 16.0% |

At 30 June 2016, after taking into account the effect of swap contracts designated as cash flow hedging instruments, 45% (31 December 2015: 54%) of the Group's total debt carried fixed interest rates.

Gearing ratio is calculated based on the net debt and shareholders' funds of the Group at the end of the reporting period.

The interest cover of the Group is calculated as follows:

| | Six months ended 30 June 2016 HK$ million | 2015 HK$ million |
|---|---|---|
| Profit from operations (before changes in fair value of investment properties and investment properties under development) plus the Group's share of the underlying profits less losses of associates and joint ventures | **5,646** | 6,826 |
| Interest expense (before interest capitalisation) | **782** | 808 |
| Interest cover (times) | **7** | 8 |

With abundant banking facilities in place and the recurrent income generation from its operations, the Group has adequate financial resources in meeting the funding requirements for its ongoing operations as well as its future expansion.

## Treasury and financial management

The Group is exposed to interest rate and foreign exchange risks. To efficiently and effectively manage these risks, the Group's financing and treasury activities are centrally co-ordinated at the corporate level. As a matter of policy, all transactions in derivative financial instruments are undertaken solely for risk management purposes and no derivative financial instruments were held by the Group at the end of the reporting period for speculative purposes.

The Group conducts its businesses primarily in Hong Kong with the related cash flows, assets and liabilities being denominated mainly in Hong Kong dollars. The Group's primary foreign exchange exposure arises from its property developments and investments in mainland China which are denominated in Renminbi ("RMB"), the guaranteed notes ("Notes") which are denominated in United States dollars ("US$"), Sterling ("£") and Singapore dollars ("S$"), the bank borrowings which are denominated in Japanese Yen ("¥") ("Yen borrowings"), as well as the fixed coupon rate bond ("Bond") which is denominated in United States dollars.

In respect of the Group's operations in mainland China, apart from its capital contributions and, in some cases, loan contributions to projects which are denominated in RMB and are not hedged, the Group endeavours to establish a natural hedge by maintaining an appropriate level of external borrowings in RMB. In respect of the Notes, the Bond and the Yen borrowings in the aggregate principal amounts of US$672,000,000, £50,000,000, S$200,000,000 and ¥10,000,000,000 at 30 June 2016 (31 December 2015: US$672,000,000, £50,000,000, S$200,000,000 and ¥10,000,000,000), interest rate swap contracts and cross currency interest rate swap contracts were entered into between the Group and certain counterparty banks for the purpose of hedging against interest rate risk and foreign currency risk during their tenure. Furthermore, in respect of certain of the Group's bank loans denominated in Hong Kong dollars which bear floating interest rates in the aggregate principal amount of HK$11,450,000,000 at 30 June 2016 (31 December 2015: HK$11,700,000,000), interest rate swap contracts were entered into between the Group and certain counterparty banks for the purpose of hedging against interest rate risk during their tenure.

## Material acquisitions and disposals

The Group did not undertake any significant acquisitions or disposals of subsidiaries or assets during the six months ended 30 June 2016.

## Charge on assets

Assets of the Group's subsidiaries were not charged to any third parties at both 30 June 2016 and 31 December 2015, except for certain available-for-sale securities and held-to-maturity debt securities in the aggregate carrying amount of HK$633 million at 30 June 2016 (31 December 2015 : HK$689 million) which were pledged in favour of certain financial institutions for credit facilities granted to a wholly-owned subsidiary of the Group. Such credit facilities were not utilised by the Group at both 30 June 2016 and 31 December 2015.

## Capital commitments

At 30 June 2016, capital commitments of the Group amounted to HK$26,594 million (31 December 2015: HK$27,173 million). In addition, the Group's attributable share of capital commitments undertaken by joint ventures and certain associates at 30 June 2016 amounted to HK$1,818 million (31 December 2015: HK$2,221 million).

## Contingent liabilities

At 30 June 2016, the Group's contingent liabilities amounted to HK$1,252 million (31 December 2015: HK$1,375 million), of which:

(i) an amount of HK$36 million (31 December 2015: HK$38 million) relates to performance bonds to guarantee for the due and proper performance of the obligations undertaken by the Group's subsidiaries and projects; and

(ii) an amount of HK$1,205 million (31 December 2015: HK$1,324 million) relates to guarantees given by the Group to financial institutions on behalf of purchasers of property units in mainland China in relation to which the related Building Ownership Certificate (房產證) had not yet been issued at 30 June 2016 (and such guarantees will be released upon the issuance of the Building Ownership Certificate).

## Employees and remuneration policy

At 30 June 2016, the Group had 8,035 full-time employees (31 December 2015: 8,133 full-time employees (adjusted to include daily-paid staffs)).

The remuneration of the employees is in line with the market and commensurate with the level of pay in the industry. Discretionary year-end bonuses are payable to the employees based on individual performance. Other benefits to the employees include medical insurance, retirement scheme, training programmes and education subsidies.

Total staff costs for the six months ended 30 June 2016 amounted to HK$986 million (2015: HK$1,010 million).

# Other Information

## Revolving Credit Agreements with Covenants of the Controlling Shareholders

The Company through its wholly-owned subsidiaries as borrowers, has obtained the following credit facilities from groups of syndicate of banks under separate guarantees given by the Company:

(i) a 4-year term loan, 5-year term loan and revolving credit facilities of up to HK$13,800,000,000 obtained in January 2014; and

(ii) a 5-year term loan and revolving credit facilities of up to HK$18,000,000,000 obtained in March 2015.

The HK$10,000,000,000 5-year term loan and revolving credit facilities obtained in 2011 was fully repaid in June 2016.

In connection with each of the above credit facilities, it will be an event of default if the Company is deemed to be ultimately controlled by any person(s) other than Dr Lee Shau Kee and/or his family and/or companies controlled by any of them or any trust in which Dr Lee Shau Kee and/or his family and/or companies controlled by any of them are beneficiaries. If any event of default occurs, the outstanding amounts (if any) under the respective credit facilities may become due and payable on demand.

## Review of Interim Results

The unaudited interim results for the six months ended 30 June 2016 have been reviewed by the auditor of the Company, KPMG in accordance with Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants, the report of which is included on page 96.

## Issue of Shares

On 23 June 2016, the Company issued 330,673,246 bonus shares on the basis of one share for every ten shares held.

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

Except for the issue of bonus shares on 23 June 2016, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the period under review.

## Audit Committee

The Audit Committee met in August 2016 and reviewed the systems of internal control, risk management and compliance and the interim report for the six months ended 30 June 2016.

## Corporate Governance

During the six months ended 30 June 2016, the Company complied with the applicable code provisions as set out in the Corporate Governance Code (the "CG Code") as stated in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), with the exception that the roles of the chairman and the chief executive officer of the Company have not been segregated as required by code provision A.2.1 of the CG Code. The Company is of the view that it is in the best interest of the Company that Dr Lee Shau Kee, with his profound expertise in the property business, shall continue in his dual capacity as the Chairman and Managing Director.

## Model Code for Securities Transactions by Directors

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

## Forward-Looking Statements

This interim report contains certain statements that are forward-looking or which use certain forward-looking terminologies. These forward-looking statements are based on the current beliefs, assumptions and expectations of the Board of Directors of the Company regarding the industry and markets in which it operates. These forward-looking statements are subject to risks, uncertainties and other factors beyond the Company's control which may cause actual results or performance to differ materially from those expressed or implied in such forward-looking statements.

## Changes in the Information of Directors

Pursuant to Rule 13.51B(1) of the Listing Rules, changes in the information of Directors of the Company required to be disclosed are shown as follows:

(i) Mr Woo Ka Biu, Jackson ceased to be the Chairman (International) of Guantao Law Firm on 1 April 2016.

(ii) The Group usually makes annual adjustment to basic salaries in January and determines the discretionary bonuses near the end of the year. Therefore, the only changes to the Directors' remunerations during the period under review were the changes to the basic salaries of the Directors of the Company due to the annual adjustments. The effect of the basic salary changes are illustrated as follows:

| | Salaries, allowances and benefits (Note) for the six months ended 30 June | | Discretionary Bonuses for the year ended 31 December 2015 (For reference) |
|---|---|---|---|
| | **2016** | 2015 | |
| | **HK$'000** | HK$'000 | HK$'000 |
| Lam Ko Yin, Colin | **5,101** | 4,904 | 20,750 |
| Yip Ying Chee, John | **4,657** | 4,477 | 14,560 |
| Lee Ka Kit | **9,177** | 8,836 | 572 |
| Lee Ka Shing | **6,821** | 6,777 | 2,828 |
| Suen Kwok Lam | **3,581** | 3,441 | 6,423 |
| Fung Lee Woon King | **2,560** | 2,461 | 4,386 |
| Kwok Ping Ho | **2,487** | 2,391 | 1,273 |
| Wong Ho Ming, Augustine | **4,816** | 4,588 | 12,950 |

Note: Excluding bonuses and directors' fees.

Mr Lee King Yue stepped down as a director of the Company on 2 June 2016. Save as disclosed above, there were no changes to the basic salaries of the other current Directors of the Company for the period under review. There are no changes to the bases in determining other allowances and benefits, bonuses and retirement scheme contributions. For certain Directors of the Company, discretionary bonus is a major component of their remunerations, which will be determined near the end of the year. The discretionary bonuses for the year ended 31 December 2015 are listed above for reference.

By Order of the Board
**Timon LIU Cheung Yuen**
*Company Secretary*

Hong Kong, 23 August 2016

*As at the date of this report, the Board comprises: (1) executive directors: Lee Shau Kee (Chairman), Lee Ka Kit, Lam Ko Yin, Colin, Lee Ka Shing, Yip Ying Chee, John, Suen Kwok Lam, Fung Lee Woon King, Lau Yum Chuen, Eddie, Kwok Ping Ho and Wong Ho Ming, Augustine; (2) non-executive directors: Lee Pui Ling, Angelina and Lee Tat Man; and (3) independent non-executive directors: Kwong Che Keung, Gordon, Ko Ping Keung, Wu King Cheong, Woo Ka Biu, Jackson, Leung Hay Man and Poon Chung Kwong.*

# Disclosure of Interests

## Directors' Interests in Shares

As at 30 June 2016, the interests and short positions of each Director of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to SFO or the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

**Ordinary Shares** (unless otherwise specified)

**Long Positions**

| Name of Company | Name of Director | Note | Personal Interests | Family Interests | Corporate Interests | Other Interests | Total | % Interest |
|---|---|---|---|---|---|---|---|---|
| Henderson Land Development Company Limited | Lee Shau Kee | 1 | 11,681,944 | | 2,631,026,081 | | 2,642,708,025 | 72.65 |
| | Lee Ka Kit | 1 | | | | 2,631,026,081 | 2,631,026,081 | 72.33 |
| | Lee Ka Shing | 1 | | | | 2,631,026,081 | 2,631,026,081 | 72.33 |
| | Lee Tat Man | 2 | 165,514 | | | | 165,514 | 0.00 |
| | Lee Pui Ling, Angelina | 3 | 48,501 | | | | 48,501 | 0.00 |
| | Fung Lee Woon King | 4 | 1,873,132 | | | | 1,873,132 | 0.05 |
| | Woo Ka Biu, Jackson | 5 | | 2,928 | | | 2,928 | 0.00 |
| Henderson Investment Limited | Lee Shau Kee | 6 | | | 2,115,274,943 | | 2,115,274,943 | 69.41 |
| | Lee Ka Kit | 6 | | | | 2,115,274,943 | 2,115,274,943 | 69.41 |
| | Lee Ka Shing | 6 | | | | 2,115,274,943 | 2,115,274,943 | 69.41 |
| | Lee Tat Man | 7 | 6,666 | | | | 6,666 | 0.00 |
| The Hong Kong and China Gas Company Limited | Lee Shau Kee | 8 | | | 5,280,460,351 | | 5,280,460,351 | 41.52 |
| | Lee Ka Kit | 8 | | | | 5,280,460,351 | 5,280,460,351 | 41.52 |
| | Lee Ka Shing | 8 | | | | 5,280,460,351 | 5,280,460,351 | 41.52 |
| | Poon Chung Kwong | 9 | | | | 165,655 | 165,655 | 0.00 |
| Hong Kong Ferry (Holdings) Company Limited | Lee Shau Kee | 10 | 799,220 | | 119,017,090 | | 119,816,310 | 33.63 |
| | Lee Ka Kit | 10 | | | | 119,017,090 | 119,017,090 | 33.41 |
| | Lee Ka Shing | 10 | | | | 119,017,090 | 119,017,090 | 33.41 |
| | Lam Ko Yin, Colin | 11 | 150,000 | | | | 150,000 | 0.04 |
| | Fung Lee Woon King | 12 | 465,100 | | | | 465,100 | 0.13 |
| | Leung Hay Man | 13 | 2,250 | | | | 2,250 | 0.00 |

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

### Long Positions

| Name of Company | Name of Director | Note | Personal Interests | Family Interests | Corporate Interests | Other Interests | Total | % Interest |
|---|---|---|---|---|---|---|---|---|
| Miramar Hotel and Investment Company, Limited | Lee Shau Kee | 14 | | | 321,578,100 | | 321,578,100 | 46.43 |
| | Lee Ka Kit | 14 | | | | 321,578,100 | 321,578,100 | 46.43 |
| | Lee Ka Shing | 14 | | | | 321,578,100 | 321,578,100 | 46.43 |
| Towngas China Company Limited | Lee Shau Kee | 15 | | | 1,689,023,813 | | 1,689,023,813 | 63.38 |
| | Lee Ka Kit | 15 | | | | 1,689,023,813 | 1,689,023,813 | 63.38 |
| | Lee Ka Shing | 15 | | | | 1,689,023,813 | 1,689,023,813 | 63.38 |
| Henderson Development Limited | Lee Shau Kee | 16 | | | 8,190<br>(Ordinary A Shares) | | 8,190<br>(Ordinary A Shares) | 100.00 |
| | Lee Shau Kee | 17 | | | 3,510<br>(Non-voting B Shares) | | 3,510<br>(Non-voting B Shares) | 100.00 |
| | Lee Shau Kee | 18 | 35,000,000<br>(Non-voting Deferred Shares) | | 15,000,000<br>(Non-voting Deferred Shares) | | 50,000,000<br>(Non-voting Deferred Shares) | 100.00 |
| | Lee Ka Kit | 16 | | | | 8,190<br>(Ordinary A Shares) | 8,190<br>(Ordinary A Shares) | 100.00 |
| | Lee Ka Kit | 17 | | | | 3,510<br>(Non-voting B Shares) | 3,510<br>(Non-voting B Shares) | 100.00 |
| | Lee Ka Kit | 18 | | | | 15,000,000<br>(Non-voting Deferred Shares) | 15,000,000<br>(Non-voting Deferred Shares) | 30.00 |
| | Lee Ka Shing | 16 | | | | 8,190<br>(Ordinary A Shares) | 8,190<br>(Ordinary A Shares) | 100.00 |
| | Lee Ka Shing | 17 | | | | 3,510<br>(Non-voting B Shares) | 3,510<br>(Non-voting B Shares) | 100.00 |
| | Lee Ka Shing | 18 | | | | 15,000,000<br>(Non-voting Deferred Shares) | 15,000,000<br>(Non-voting Deferred Shares) | 30.00 |
| Best Homes Limited | Lee Shau Kee | 19 | | | 26,000 | | 26,000 | 100.00 |
| | Lee Ka Kit | 19 | | | | 26,000 | 26,000 | 100.00 |
| | Lee Ka Shing | 19 | | | | 26,000 | 26,000 | 100.00 |

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

**Long Positions**

| Name of Company | Name of Director | Note | Personal Interests | Family Interests | Corporate Interests | Other Interests | Total | % Interest |
|---|---|---|---|---|---|---|---|---|
| Feswin Investment Limited | Lee Ka Kit | 20 | | | 5,000 | 5,000 | 10,000 | 100.00 |
| Fordley Investment Limited | Fung Lee Woon King | 21 | 2,000 | | | | 2,000 | 20.00 |
| Furnline Limited | Lee Shau Kee | 22 | | | 100 (A Shares) | | 100 (A Shares) | 100.00 |
| | Lee Shau Kee | 23 | | | 1 (B Share) | | 1 (B Share) | 100.00 |
| | Lee Ka Kit | 22 | | | | 100 (A Shares) | 100 (A Shares) | 100.00 |
| | Lee Ka Kit | 23 | | | | 1 (B Share) | 1 (B Share) | 100.00 |
| | Lee Ka Shing | 22 | | | | 100 (A Shares) | 100 (A Shares) | 100.00 |
| | Lee Ka Shing | 23 | | | | 1 (B Share) | 1 (B Share) | 100.00 |
| Gain Base Development Limited | Fung Lee Woon King | 24 | 50 | | | | 50 | 5.00 |
| Heyield Estate Limited | Lee Shau Kee | 25 | | | 100 | | 100 | 100.00 |
| | Lee Ka Kit | 25 | | | | 100 | 100 | 100.00 |
| | Lee Ka Shing | 25 | | | | 100 | 100 | 100.00 |
| Perfect Bright Properties Inc. | Lee Shau Kee | 26 | | | 100 (A Shares) | | 100 (A Shares) | 100.00 |
| | Lee Shau Kee | 27 | | | 1 (B Share) | | 1 (B Share) | 100.00 |
| | Lee Ka Kit | 26 | | | | 100 (A Shares) | 100 (A Shares) | 100.00 |
| | Lee Ka Kit | 27 | | | | 1 (B Share) | 1 (B Share) | 100.00 |
| | Lee Ka Shing | 26 | | | | 100 (A Shares) | 100 (A Shares) | 100.00 |
| | Lee Ka Shing | 27 | | | | 1 (B Share) | 1 (B Share) | 100.00 |

Save as disclosed above, none of the Directors or the Chief Executive of the Company or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations as defined in the SFO.

## Share Option Schemes

The Company and its subsidiaries have no share option schemes.

## Arrangements to Purchase Shares or Debentures

At no time during the six months ended 30 June 2016 was the Company or any of its holding companies, subsidiary companies or fellow subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## Substantial Shareholders' and Others' Interests

As at 30 June 2016, the interests and short positions of every person, other than Directors of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

**Long Positions**

| | **No. of shares in which interested** | **% Interest** |
|---|---|---|
| **Substantial Shareholders:** | | |
| Rimmer (Cayman) Limited (Note 1) | 2,631,026,081 | 72.33 |
| Riddick (Cayman) Limited (Note 1) | 2,631,026,081 | 72.33 |
| Hopkins (Cayman) Limited (Note 1) | 2,631,026,081 | 72.33 |
| Henderson Development Limited (Note 1) | 2,628,830,704 | 72.27 |
| Yamina Investment Limited (Note 1) | 1,187,280,220 | 32.64 |
| Believegood Limited (Note 1) | 599,465,015 | 16.48 |
| South Base Limited (Note 1) | 599,465,015 | 16.48 |
| **Persons other than Substantial Shareholders:** | | |
| Cameron Enterprise Inc. (Note 1) | 278,847,043 | 7.67 |
| Richbond Investment Limited (Note 1) | 341,972,009 | 9.40 |

Notes:

1. Of these shares, Dr Lee Shau Kee was the beneficial owner of 11,681,944 shares, and for the remaining 2,631,026,081 shares, (i) 1,089,999,150 shares were owned by Henderson Development Limited ("HD"); (ii) 341,972,009 shares were owned by Richbond Investment Limited which was a wholly-owned subsidiary of HD; (iii) 278,847,043 shares were owned by Cameron Enterprise Inc.; 599,465,015 shares were owned by Believegood Limited which was wholly-owned by South Base Limited; 114,874,271 shares were owned by Prosglass Investment Limited which was wholly-owned by Jayasia Investments Limited; 105,703,954 shares were owned by Fancy Eye Limited which was wholly-owned by Mei Yu Ltd.; 88,389,937 shares were owned by Spreadral Limited which was wholly-owned by World Crest Ltd.; and Cameron Enterprise Inc., South Base Limited, Jayasia Investments Limited, Mei Yu Ltd. and World Crest Ltd. were wholly-owned subsidiaries of Yamina Investment Limited which in turn was 100% held by HD; (iv) 8,202,766 shares were owned by Superfun Enterprises Limited, a wholly-owned subsidiary of The Hong Kong and China Gas Company Limited ("China Gas") which was 41.52% held by Henderson Land Development Company Limited ("HL") which in turn was taken to be 72.27% held by HD; (v) 2,195,377 shares were owned by Fu Sang Company Limited ("Fu Sang"); and (vi) 937,285 shares and 439,274 shares were respectively owned by Tako Assets Limited and Thommen Limited, both of which were wholly-owned subsidiaries of Hong Kong Ferry (Holdings) Company Limited ("HKF") in which HL held 33.41% as set out in Note 10. Hopkins (Cayman) Limited ("Hopkins") as trustee of a unit trust (the "Unit Trust") owned all the issued ordinary shares of HD and Fu Sang. Rimmer (Cayman) Limited ("Rimmer") and Riddick (Cayman) Limited ("Riddick"), as trustees of respective discretionary trusts, held units in the Unit Trust. The entire issued share capital of Hopkins, Rimmer and Riddick were owned by Dr Lee Shau Kee. Dr Lee Shau Kee was taken to be interested in these shares by virtue of SFO. As directors of the Company and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Dr Lee Ka Kit and Mr Lee Ka Shing were taken to be interested in these shares by virtue of the SFO.

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

3. Mrs Lee Pui Ling, Angelina was the beneficial owner of these shares.

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

5. These shares were owned by the wife of Mr Woo Ka Biu, Jackson.

6. Of these shares, (i) 843,249,284 shares, 602,398,418 shares, 363,328,900 shares, 217,250,000 shares and 84,642,341 shares were respectively owned by Banshing Investment Limited, Markshing Investment Limited, Covite Investment Limited, Gainwise Investment Limited and Darnman Investment Limited, all of which were wholly-owned subsidiaries of Kingslee S.A. which in turn was 100% held by HL; and (ii) 3,000,000 shares and 1,406,000 shares were respectively owned by Tako Assets Limited and Thommen Limited, both of which were wholly-owned subsidiaries of HKF in which HL held 33.41% as set out in Note 10. Dr Lee Shau Kee was taken to be interested in HL as set out in Note 1 and Henderson Investment Limited by virtue of the SFO. As directors of the Company and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Dr Lee Ka Kit and Mr Lee Ka Shing were taken to be interested in these shares by virtue of the SFO.

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

8. Of these shares, 2,939,646,295 shares and 1,141,777,213 shares were respectively owned by Disralei Investment Limited and Medley Investment Limited, both of which were wholly-owned subsidiaries of Timpani Investments Limited; 1,199,036,843 shares were owned by Macrostar Investment Limited, a wholly-owned subsidiary of Chelco Investment Limited; and Timpani Investments Limited and Chelco Investment Limited were wholly-owned subsidiaries of Faxson Investment Limited which in turn was 100% held by HL. Dr Lee Shau Kee was taken to be interested in HL as set out in Note 1 and China Gas by virtue of the SFO. As directors of the Company and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Dr Lee Ka Kit and Mr Lee Ka Shing were taken to be interested in these shares by virtue of the SFO.

9. These shares were owned by Professor Poon Chung Kwong and his wife jointly.

10. Of these shares, Dr Lee Shau Kee was the beneficial owner of 799,220 shares, and for the remaining 119,017,090 shares, 48,817,090 shares were held by Wiselin Investment Limited, 23,400,000 shares each were respectively owned by Graf Investment Limited, Mount Sherpa Limited and Paillard Investment Limited, all of which were wholly-owned subsidiaries of Pataca Enterprises Limited which in turn was 100% held by HL. Dr Lee Shau Kee was taken to be interested in HL as set out in Note 1 and HKF by virtue of the SFO. As directors of the Company and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Dr Lee Ka Kit and Mr Lee Ka Shing were taken to be interested in these shares by virtue of the SFO.

11. Dr Lam Ko Yin, Colin was the beneficial owner of these shares.

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

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

14. This interest included 269,530,250 shares and 52,047,850 warrants, of which 100,612,750 shares and 20,122,550 warrants were owned by Higgins Holdings Limited ("Higgins"), 88,412,500 shares and 15,824,300 warrants were owned by Multiglade Holdings Limited ("Multiglade") and 80,505,000 shares and 16,101,000 warrants were owned by Threadwell Limited ("Threadwell"), Higgins, Multiglade and Threadwell were wholly-owned subsidiaries of Aynbury Investments Limited which in turn was 100% held by HL. Dr Lee Shau Kee was taken to be interested in HL as set out in Note 1 and Miramar Hotel and Investment Company, Limited by virtue of the SFO. As directors of the Company and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Dr Lee Ka Kit and Mr Lee Ka Shing were taken to be interested in these shares by virtue of the SFO.

15. These shares were owned by Hong Kong & China Gas (China) Limited, Planwise Properties Limited and Superfun Enterprises Limited, wholly-owned subsidiaries of China Gas. Dr Lee Shau Kee was taken to be interested in China Gas as set out in Note 8 and Towngas China Company Limited by virtue of the SFO. As directors of the Company and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Dr Lee Ka Kit and Mr Lee Ka Shing were taken to be interested in these shares by virtue of the SFO.

16. These shares were held by Hopkins as trustee of the Unit Trust.

17. These shares were held by Hopkins as trustee of the Unit Trust.

18. Of these shares, Dr Lee Shau Kee was the beneficial owner of 35,000,000 shares, and Fu Sang owned the remaining 15,000,000 shares.

19. Of these shares, (i) 10,400 shares were owned by HL; and (ii) 15,600 shares were owned by Manifest Investments Limited which was 100% held by HD.

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

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

22. These shares were owned by Jetwin International Limited.

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

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

25. Of these shares, (i) 80 shares were owned by Tactwin Development Limited, a wholly-owned subsidiary of HL; (ii) 10 shares were owned by Henderson Finance Company Limited, a wholly-owned subsidiary of HD; and (iii) 5 shares each were owned by Perfect Bright Properties Inc. and Furnline Limited, and Jetwin International Limited was the sole holder of A shares in each of Perfect Bright Properties Inc. and Furnline Limited (the "A Shares") with the A Shares being entitled to all interests and, liable for all liabilities in Heyield Estate Limited. Triton (Cayman) Limited as trustee of a unit trust owned all the issued share capital of Jetwin International Limited. Triumph (Cayman) Limited and Victory (Cayman) Limited, as trustees of respective discretionary trusts, held units in the unit trust. The entire share capital of Triton (Cayman) Limited, Triumph (Cayman) Limited and Victory (Cayman) Limited were owned by Dr Lee Shau Kee who was taken to be interested in such shares by virtue of the SFO. As discretionary beneficiaries of the discretionary trusts holding units in such unit trust, Dr Lee Ka Kit and Mr Lee Ka Shing were taken to be interested in such shares by virtue of the SFO.

26. These shares were owned by Jetwin International Limited.

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

**INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF HENDERSON LAND DEVELOPMENT COMPANY LIMITED**
*(Incorporated in Hong Kong with limited liability)*

## Introduction

We have reviewed the condensed interim financial statements set out on pages 32 to 73 which comprise the consolidated statement of financial position of Henderson Land Development Company Limited as of 30 June 2016 and the related consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of condensed interim financial statements to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting,* issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the condensed interim financial statements in accordance with Hong Kong Accounting Standard 34.

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

## Scope of review

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

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim financial statements as at 30 June 2016 are not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

**KPMG**
Certified Public Accountants

8th Floor, Prince's Building
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Central, Hong Kong

23 August 2016

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

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