恒隆集團
HANG LUNG GROUP

2016
Interim Report

Hang Lung Group Limited
Stock Code: 00010

WE DO IT RIGHT

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Philip N.L. Chen *(Managing Director)*
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Simon S.O. Ip *CBE, JP* *
L.C. Tsui *OC, GBM, GBS, JP* *
Martin C.K. Liao *SBS, JP* *
P.W. Liu *SBS, JP* *
George K.K. Chang #
Roy Y.C. Chen #
H.C. Ho

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

AUDIT COMMITTEE

Simon S.O. Ip *CBE, JP (Chairman)*
L.C. Tsui *OC, GBM, GBS, JP*
P.W. Liu *SBS, JP*
George K.K. Chang

NOMINATION AND REMUNERATION COMMITTEE

P.W. Liu *SBS, JP (Chairman)*
Simon S.O. Ip *CBE, JP*
Martin C.K. Liao *SBS, JP*

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RESULTS AND DIVIDEND

Compared to the corresponding period last year, revenue advanced 35% to HK$6,610 million. Net profit attributable to shareholders rose 1% to HK$1,790 million. Earnings per share increased similarly to HK$1.32.

Underlying net profit attributable to shareholders grew 24% to HK$1,864 million when excluding revaluation loss and related deferred taxes and non-controlling interests. Underlying earnings per share likewise increased to HK$1.37.

The Board has declared an interim dividend of HK19 cents per share payable on September 29, 2016 to shareholders of record on September 15, 2016. This is the same as last year.

BUSINESS REVIEW

The Chinese economic winter continues and I see little signs of spring. This is not all bad. Seasons exist in nature and are in fact necessary. Similarly, economic cycles exist no matter how free or unfree the economy is, and corporations can hardly escape this fate.

Economic activities are conducted by mostly feeble men who tend to overreact on the upside and downside. As a result, cycles are inevitable. For businessmen who are coolheaded, cycles present them with money-making opportunities. This phenomenon is particularly severe in industries with high unit prices and long production periods. Real estate is a typical case.

Many recognize that Hang Lung has in the past 20 some years done well in exploiting such opportunities to the benefit of its shareholders. We usually buy land, sell completed flats, and execute capital market activities such as fundraising in a prudent manner. In other words, we time the market fairly well.

Cycles, however, are not just useful in maximizing earnings in the short run. Economic lulls in particular also afford management the opportunity to rejuvenate itself. When the market is hot, everyone is busy making money. However, such activities almost always create long-term issues for a company. For example, organizational structure may be strained due to its sheer size and speed of growth. Human resources may not be able to keep up, and corporate culture may be weakened. Risk control may also become lax. So when the economic winter arrives and market activities subside somewhat, it is high time to strengthen all these areas.

At times there may be dislocations in the industry which are revealed or being incubated during a recession. Market downturns afford management a time to reflect and, as necessary, regroup. All these will position the company well for the next cycle of growth. This is why I have previously written that no one should waste a bear market. It is very precious and companies should embrace it.

Sadly this is not the case with most businessmen. Everyone likes bull markets but few appreciate the opposite. All too many are emotional about the market or their business. At Hang Lung, we try our best to be rational. My conviction is that we will emerge stronger than ever.

Our results of the past six months bear out the fact that winter is still with us. It has already lasted for three to four years, a period during which the economy both on the Mainland and in Hong Kong has continued to weaken. While rental income growth was weak, I suspect our performance was acceptable compared to the market and to our peers, with our tenant retail sales holding up better than most.

Our commitment to the Asset Enhancement Initiative (AEI) across our Hong Kong portfolio has enabled us to maintain a reasonable rental revenue growth in the territory. We recorded a 13% increase in retail rents and 4% for offices. Although our residential properties and serviced apartments collected 10% less rent than the same period a year ago, overall rental rose 7%.

On the Mainland, overall rental revenue was up 3% in RMB terms. The RMB however fell 6% against the Hong Kong Dollar from a year ago. Excluding new properties, the top line retreated slightly by 1%. Growth for retail space was minus 2% in local currency terms; excluding new properties, the number was down 4%. The corresponding numbers for offices were respectively plus 13% and plus 6%. Every property in this product type saw a rise. Rent from residential properties and serviced apartments rose 34%.

This outcome is perhaps acceptable given the tough trading environment. The fact that our shopping malls are among the best-located in each city, together with good brand recognition, might have helped ease the effect of the headwind.

As a result of management efforts, the two Shanghai properties performed reasonably despite a reduction in operational space due to AEI. Palace 66 in Shenyang did quite well while Parc 66 in Jinan held its own. Forum 66 in Shenyang and Center 66 in Wuxi remained the two underperformers. The two newest facilities, Riverside 66 in Tianjin and Olympia 66 in Dalian, were improving.

On a like-for-like basis, retail sales rose in Plaza 66, Palace 66, Center 66 and Riverside 66, but retreated in Grand Gateway 66, Parc 66 and Forum 66. Footfall increased everywhere except in Parc 66 and Riverside 66.

Six months ago I wrote that the Mainland residential market was fairly healthy. Nevertheless, of late we have observed some worrying signs, namely land prices in some places are rising too fast. To be sure, this has only happened in selective cities; as such, it cannot yet be construed as a national phenomenon.

There are a few possible explanations for this. First, prices in cities that were held down the strongest in former boom years are now rising the most. Second, due mainly to relaxed monetary policies, there is simply too much money in the system. The problem is exacerbated by the lack of available instruments for investments.

Third, many developers are running out of land reserves. Those active in better second-tier cities have sold their properties well in the first half of the year, hence the need to replenish raw materials. As a sizeable developer has told me recently, if he does not buy land now at very high prices, he will die immediately, in the sense that he will no longer have flour to make bread. On the other hand, if he buys the "king of land", in other words pays record-breaking prices, he may die three to five years later as he may then record a loss. Given the two evils, he will choose the latter; at least there is a chance that the market may bail him out.

Finally there are hoards of investment groups each comprising friends from the same region. Some of them have cash on hand but nowhere to invest; others borrow heavily. Several very active groups of late, for example, come from the province of Fujian. At different times they may buy different asset classes but real estate has remained one of their favorites. Unlike Western institutional fund managers who run other people's money and therefore have to regularly answer for their actions, these Chinese entrepreneurs only answer to themselves. As a result, they are more daring and can act much faster. Driven by herd instinct, these "investment clubs" can move from city to city and buy up properties including land for development.

No wonder in some places, it is estimated that around 30% of all residential transactions are not for occupancy or rental purposes. They are purely for financial investment or speculation. Many of these investors do not bother to rent out the units, especially since Chinese people like to buy brand new properties. Renting out apartments is troublesome and may make their ultimate sale more difficult and less profitable.

For speculators who are heavily leveraged, falling prices will create problems for them and for those around them. However, taken as a whole, the Chinese residential market is very low-geared. Most end users and investors have rather low mortgage commitment, and this is why the market is quite healthy.

For this reason, I have always maintained that high unit price notwithstanding, China does not have a “housing bubble”. By definition bubbles lack substance and can burst at the lightest touch. But if end users and investors are not highly geared, they are not in danger of having loans being called by banks or other lenders. Consequently, such a market is more like an “iron ball” than a “bubble”. This phenomenon is somewhat unique to China.

While we do have some luxury residential towers being planned in a few of our projects, namely Forum 66 in Shenyang, Spring City 66 in Kunming, Heartland 66 in Wuhan and possibly Center 66 in Wuxi, this is not the only reason why we are concerned with the housing market. Since home purchases usually represent the biggest transaction ever undertaken by most people, their effect on social behaviors, especially consumption, is significant.

The housing market also greatly impacts the economy as a whole. Several years ago when housing construction was booming, the economy also flourished. In fact such activity was encouraged by the government to stimulate the economy. Now that home building has slowed, the overall economy is down. This is the case everywhere in the world and China is no exception.

The Hong Kong residential market is far simpler and is rather healthy. Prices which bottomed out in August 2003 during the SARS outbreak have been rising almost incessantly since. The only major exception was during the Global Financial Crisis of 2007-2008. As a result of government actions, prices finally peaked in mid-September last year. Since then they have fallen by about 12%. It was the first drop of over 10% in eight years.

As we all know, since the Asian Financial Crisis of 1997-1999, Hong Kong has suffered from a shortage of land supply. The government, which had a near monopoly of raw land, simply refused to sell. This was incredibly foolish and irresponsible. At the latest, in 2005, two years after SARS, supply should have increased along with population growth. Equally irresponsible was the fact that no land bank was prepared. As a result, when the government was finally determined to sell land, there was nothing to sell.

The situation only began to change for the better when the present administration under Mr. C.Y. Leung took office in 2012. The first step it undertook was to administratively control demand. While not optimal, there were nonetheless not many alternatives. Remember the Double Stamp Duty (DSD), Buyer Stamp Duty (BSD), Special Stamp Duty (SSD), the lowering of the maximum loan-to-value (LTV) ratio and of the debt-servicing ratio (DSR), among other policy actions; all these were accomplished in less than two years.

However, controlling demand can never bring prices down on a sustainable basis when there is real market demand. The long-term solution is to supply more land. This was what this administration did once it was sworn into office. The first step was to scour the city for sellable plots of land. The second was to make more land available by rezoning, reclamation, or otherwise leveling land and connecting utilities. This required time but at least serious work was undertaken.

After three years, the market was finally convinced that the government has succeeded in supplying an adequate amount of land on a more or less sustainable basis. Aided by a weak economy, home prices finally peaked last September. As long as the current administration stays on, and there is no reason to believe otherwise, we can finally expect a healthier residential market in the coming few years.

Recognizing this major policy change, we have picked up the pace of our sales campaigns for completed flats over the past few years. What we have done in the six months under review was a step in the same direction. So far our major subsidiary, Hang Lung Properties, has been able to sustain very satisfactory profit margins. They are believed to be among the highest in the industry for similar products. Now we are only left with 446 units at The Long Beach, 2 units at The HarbourSide, and 18 semi-detached houses on Blue Pool Road.

PROSPECTS

The cautious approach adopted by our management in the past six months will continue. We do not see what may lift the global economy including the Chinese economy. As uncertainties abound, it is not easy to point to one or two factors that may significantly change the situation for the better in the near future.

If this is indeed the case, then our results for the rest of the year will not be stellar. We will do our best to prevent a further slide but market forces may be stronger than our best efforts. Hopefully management endeavors will help make things palatable. Knowing my team, I have confidence.

The Hong Kong retail market is expected to remain limp. There is no reason to expect otherwise. Having already reaped significant benefits from recent AEI, we shall have to rely on organic growth to overcome market headwind. This can be done; the question is by how much we can advance over last year. Our stretch target is to replicate the first six months' results.

Due to major renovations, the two shopping centers in Shanghai will inevitably be affected. On a like-for-like basis, our goal is to hold the line from the period under review, but this will be challenging. The offices, on the other hand, should fare acceptably.

Outside of Shanghai, Palace 66 may improve further. We would be pleased if Parc 66 performs as well as the first half of the year. It is quite possible that the slide in Forum 66 and Center 66 will slow down or even be reversed. Riverside 66 will require some hard work to improve. Olympia 66 in Dalian, on the other hand, should perform better as we fill up the space.

In the long term, we are quite sanguine about our business prospects. Over the past 30 years, mainland Chinese have transformed from owning little to owning a lot now. This is especially true in the cities. However, their newly acquired possessions, from apartments, cars, clothing and electrical appliances to daily necessities such as food, for the most part, are of a lower quality. The same is true of the level of service quality. The need for better goods and services is enormous. A key trend in personal consumption for many years to come is continuous upgrade. This will be the story of the 750 million city dwellers. The fact that we specialize in four- and five-star malls will make us a beneficiary.

While luxury goods, like everywhere else, is purchased only by a small percentage of the population, this group will nevertheless be significant when the percentage is multiplied by a huge number such as 750 million and growing. It is not just foreign top fashion brands that will benefit; we can also expect some local names to rise in prestige. What consumers are looking for is not just brand image but product quality as well.

Having worked with Chinese consumers for the past 17 years since the opening of our first Shanghai mall, Grand Gateway 66, we have witnessed the speed at which they have moved up the quality ladder. While admittedly only a very small proportion of our shopping mall space is leased to top fashion brands, all the rest of our shops should benefit from this upward movement.

Moreover, as city dwellers demand better goods and services, their need for basic things will be taken up by new migrants from rural areas. In time, this latter group will also move up the value chain. Such waves of demand are expected to continue in the coming few decades. This is why your Management believes that we cannot be in a better business than the one we are now in.

Barring unforeseen circumstances, construction in Spring City 66 and Heartland 66 are expected to proceed as planned.

There is a possibility of selling more residential units at The Long Beach within the next 12 months at a profit margin not unlike last April.

All told, Management will do its best to keep up the performance like the six months just reviewed.

Ronnie C. Chan
Chairman
Hong Kong, July 28, 2016

Financial Highlights

In HK$ Million (unless otherwise stated)

RESULTS

	For the Six Months Ended June 30 2016	2015	Change
Revenue	6,610	4,893	35%
Property Leasing	4,206	4,148	1%
Property Sales	2,404	745	223%
Operating Profit	4,531	3,725	22%
Property Leasing	3,142	3,163	-1%
Property Sales	1,389	562	147%
Net Profit Attributable to Shareholders	1,790	1,779	1%
Earnings Per Share (HK$)	$1.32	$1.31	1%
Interim Dividend Per Share (HK$)	$0.19	$0.19	–

UNDERLYING RESULTS

	For the Six Months Ended June 30 2016	2015	Change
Underlying Net Profit Attributable to Shareholders	1,864	1,509	24%
Underlying Earnings Per Share (HK$)	$1.37	$1.11	23%

FINANCIAL POSITION

	At June 30 2016	At December 31 2015	Change
Shareholders' Equity	76,100	75,470	1%
Net Assets	139,395	140,302	-1%
Net Debt	6,961	5,848	19%
Financial Ratio			
Net Debt to Equity Ratio	5.0%	4.2%	0.8pt
Debt to Equity Ratio	25.8%	26.6%	-0.8pt
Shareholders' Equity Per Share (HK$)	$56.0	$55.7	1%
Net Assets Per Share (HK$)	$102.6	$103.5	-1%

CONSOLIDATED RESULTS

For the first half of 2016, total revenue of the Group increased 35% to HK$6,610 million attributable to a higher contribution from property sales. Revenue of property sales increased 223% to HK$2,404 million as more residential units were sold during the first six months of 2016. Property leasing revenue had a moderate growth to HK$4,206 million, or up 5% if excluding the 6% period-on-period Renminbi ("RMB") depreciation against the Hong Kong Dollar ("HKD"). Correspondingly, total operating profit advanced 22% to HK$4,531 million.

Underlying net profit attributable to shareholders increased 24% to HK$1,864 million. After including a revaluation loss on investment properties due to a lower valuation of the mainland China leasing portfolio, net profit attributable to shareholders increased 1% to HK$1,790 million. Earnings per share increased similarly to HK$1.32.

Revenue and Operating Profit for the Six Months Ended June 30

	Revenue			Operating Profit		
	2016 HK$ Million	2015 HK$ Million	Change	2016 HK$ Million	2015 HK$ Million	Change
Property Leasing	4,206	4,148	1%	3,142	3,163	-1%
Mainland China	2,259	2,332	-3%	1,478	1,607	-8%
Hong Kong	1,947	1,816	7%	1,664	1,556	7%
Property Sales	2,404	745	223%	1,389	562	147%
Total	6,610	4,893	35%	4,531	3,725	22%

DIVIDEND

The Board of Directors has declared an interim dividend of HK19 cents per share for 2016 (2015: HK19 cents) to be paid by cash on September 29, 2016, to shareholders whose names appeared on the register of members on September 15, 2016.

PROPERTY LEASING

For the first half of 2016, revenue of our entire property leasing portfolios posted a moderate growth of 1% to HK$4,206 million. Revenue of the leasing properties in mainland China decreased 3% to HK$2,259 million, but was up 3% when excluding the 6% RMB depreciation effect. As the benefits of various asset enhancement initiatives continued to flow through, our Hong Kong leasing portfolio recorded a rental growth of 7% amidst a challenging environment. Overall operating profit of property leasing slipped 1% to HK$3,142 million.

Mainland China

The business environment in mainland China remained challenging during the first half of 2016. Sales of high-end goods continued to be sluggish.

In response to these challenges, the Group implemented various measures to alleviate pressure on revenue and reduce costs. These included accelerating tenant remix, upgrading our facilities and service standards, launching more creative and effective promotion campaigns, and implementing various cost reduction measures, etc.

On May 1, 2016, the Value Added Tax ("VAT") regime replaced the Business Tax and became applicable to the real estate sector, among other industries. We have taken appropriate measures to ensure a smooth transition to the new tax regime.

Total revenue of mainland China properties decreased 3% to HK$2,259 million. Operating profit retreated by 8% to HK$1,478 million. Average margin dropped four points to 65%. If excluding the 6% RMB depreciation effect, revenue and operating profit of our mainland China portfolio increased by 3% and decreased by 2%, respectively. The mainland China portfolio accounted for 54% and 47% of the total leasing revenue and operating profit of the Group, respectively.

Mainland China Property Leasing Portfolio for the Six Months Ended June 30

Name and City of the Property	Revenue (HK$ Million) 2016	2015	Change	Change In RMB Terms	Occupancy Rate at June 30, 2016 Mall	Office
Shanghai Plaza 66	778	847	-8%	-2%	83%	96%
Shanghai Grand Gateway 66	797	821	-3%	3%	96%	95%
Shenyang Palace 66	83	84	-1%	5%	89%	N/A
Shenyang Forum 66	142	136	4%	11%	84%	49%
Jinan Parc 66	160	168	-5%	1%	84%	N/A
Wuxi Center 66	142	155	-8%	-2%	76%	58%
Tianjin Riverside 66	114	121	-6%	–	82%	N/A
Dalian Olympia 66 *	43	N/A	N/A	N/A	62%	N/A
Total	2,259	2,332	-3%	3%		

* Soft opening on December 18, 2015.

- *Shopping Malls*

Revenue of our eight shopping malls in mainland China retreated by 7% to HK$1,559 million. They accounted for 69% of the total revenue of mainland China. The malls are located in six cities on the Mainland, including two each in Shanghai and Shenyang, and one each in Jinan, Wuxi, Tianjin and Dalian.

Rental revenue of our two flagship malls in Shanghai decreased 8% to HK$971 million due to short-term disruption to revenue as a result of asset enhancement works. Revenue of Plaza 66 decreased 13% to HK$395 million. Revenue of Grand Gateway 66 declined by 5% to HK$576 million, but was up 1% in RMB terms.

The asset enhancement works at the Shanghai Plaza 66 shopping mall started in September 2015. The basement of the mall has been closed for renovation since March 2016. All the works shall be completed in stages by early 2017. Similar upgrade works at Shanghai Grand Gateway 66 shopping mall will start in the first quarter of 2017. Although some leases were renewed on a short-term basis during this period, a small amount was not renewed pending imminent commencement of work in those spaces. As a result, the occupancy rate of the shopping malls at Plaza 66 and Grand Gateway 66 decreased 17 points and two points, respectively, against a year ago. The short-term disruption to revenue of these enhancement initiatives are expected in return for our long-term competitiveness and profitability.

Rental revenue of the six malls outside Shanghai was HK$588 million. Their performance was mixed as they were at different stages of their gestation period. Revenue of Palace 66 in Shenyang, the first mall opened outside Shanghai, was up 5% in RMB terms, otherwise down 1%. Occupancy rate rose five points to 89% with continued enhancement in tenant mix. Revenue of Parc 66 in Jinan increased 1% in RMB terms, otherwise down 5%. In the interim, occupancy dropped six points to 84% due to planned replacement of both fashion and F&B tenants during the year. Such improvements are consistent with the strategy of a gradual tenancy upgrade, led by the grand opening of the first Apple Store in Jinan at Parc 66 in May 2016.

Occupancy of Shenyang Forum 66 fell four points to 84% and at Wuxi Center 66 it slipped one point to 76%. Both malls were affected by the weakened luxury market and therefore had to make some downward adjustment to rent and work with non-renewals as they house a relatively larger number of high-end tenants. Their total revenue decreased by 25%. With the growing occupancy of their newly opened Grade A office towers, we expect that the increased footfall and the benefits of continuous refinement on trade mix will help to improve the future performance of both malls.

Revenue of Riverside 66 in Tianjin was stable in RMB terms. While more popular brands were introduced to the mall during the period, Apple chose Riverside 66 as the home of their first Norman Foster (world renowned architect) designed flagship store in China, which opened in March 2016. During the course of trade mix reshuffle, occupancy rate dropped six points to 82% by the end of June 2016.

Our newest mall, Olympia 66 in Dalian, had its soft opening last December. Occupancy of Olympia 66 reached 62% by the end of June 2016, with a lively trade mix including Apple Store, Palace Cinema, Olé supermarket and up-market fashion and accessories.

For the first half of 2016, retail sales at our eights malls were mixed. Shenyang Palace 66 and Tianjin Riverside 66 both reported a sales growth of 6%. Wuxi Center 66 posted a moderate growth. Retail sales at the Shanghai Plaza 66 mall and Shanghai Grand Gateway 66 mall decreased by 2% and 6%, respectively, due to renovation interruptions. Retail sales at Jinan Parc 66 and Shenyang Forum 66 declined 7% and 5%, respectively. The aforesaid figures excluded car sales at Wuxi Center 66, and at the Apple Stores.

- *Offices*

The office portfolio in mainland China posted a 6% rental growth to HK$620 million, mainly attributable to higher contributions from the new office towers in Wuxi and Shenyang.

Revenue of the two office towers at Shanghai Plaza 66 increased by 3% in RMB terms. Occupancy rate stayed flat at 96%. While major upgrade works for Office Tower One at Plaza 66 were almost completed, the upgrade program for Office Tower Two has also started. The whole upgrade program will be completed in phases by 2018 and has had no adverse impact on revenue so far. Revenue of the office tower at Shanghai Grand Gateway 66 was stable in RMB terms and occupancy rate was 95% at the reporting date.

Total revenue of our new office towers at Wuxi Center 66 and Shenyang Forum 66 increased 146% to HK$96 million. The office tower at Wuxi Center 66 and Shenyang Forum 66 commenced operation in October 2014 and January 2015, respectively. Both Grade A office towers have already established a leading position in their respective markets and commanded rents well above the market average. At June 30, 2016, occupancy rate of the office tower at Center 66 was 58% and that of the Forum 66 office tower was 49%.

- *Residential and Serviced Apartments*

Benefitting from higher occupancy after adopting a different pricing strategy, revenue of residential and serviced apartments at Grand Gateway 66 in Shanghai rose 27% to HK$80 million.

Hong Kong

Our asset enhancement initiatives in Hong Kong continued to bear fruits. Despite slowing economic growth and sliding retail sales in Hong Kong, revenue and operating profit of our diversified portfolio were both up 7% to HK$1,947 million and HK$1,664 million, respectively. Overall rental margin was 85%.

Hong Kong Property Leasing Portfolio for the Six Months Ended June 30

	Revenue (HK$ Million)			Occupancy Rate at June 30, 2016
	2016	2015	Change	
Commercial	**1,089**	967	13%	99%
Office and Industrial/Offices	**646**	619	4%	93%
Residential & Serviced Apartments	**142**	157	-10%	67%
Car Parking	**70**	73	-4%	N/A
Total	**1,947**	1,816	7%	

- *Commercial*

The market environment in Hong Kong remained subdue during the first half of 2016. But our commercial portfolio achieved a 13% rental growth to HK$1,089 million capitalizing the completion of various asset enhancement programs. Occupancy rate was up two points to 99% by the reporting date, mainly attributable to the progressive completion of the upgrade program at Hang Lung Centre in Causeway Bay and the opening of an H&M flagship store in October 2015.

In May 2016, adidas opened a 14,586 square feet flagship store at Hang Lung Centre, which combined shopping and training experiences for sports lovers. H&M unveiled its 54,000 square feet full concept flagship store in January 2016 at Mongkok Gala Place, transforming the mall into a fashionable regional destination. Grand Plaza has become increasingly vibrant with the opening of a 6,900 square feet Quiksilver/Roxy flagship store. Amoy Plaza, our community shopping mall in Kowloon East, is much refreshed with better zoning, including a sports zone featuring a variety of trendy brands. For the first five months of 2016, retail sales at our properties decreased by 2% against the same period last year, due partly to the phased closure and revamp of the largest department store in our portfolio, AEON STYLE store in Kornhill Plaza. Even then, overall retail sales in our malls compared favorably to the city-wide drop of 11% in Hong Kong during the same period.

Rental revenue of the Causeway Bay and Mongkok commercial portfolio grew by 20% and 17%, respectively, attributable to remarkable rental reversions after completion of asset upgrade programs. Our Central commercial portfolio recorded a 7% rental growth. Kornhill Plaza and Amoy Plaza posted an 11% and 5% increase in income, respectively.

Other asset enhancement programs are progressing as planned. The upgrade program at The Peak Galleria is expected to complete in 2018. Kornhill Plaza, our community mall in Hong Kong East, has its major tenant, AEON STYLE store, undergo a major refurbishment. It was successfully executed and re-opened on July 8, paying a higher rent. These initiatives will offer unique shopping experiences and upon completion provide further impetus to long-term rental growth.

- *Office and Industrial/Offices*

The Hong Kong office portfolio recorded a stable rental growth of 4% to HK$646 million, mainly attributable to positive rental reversions. Hang Lung Centre in Causeway Bay achieved a 9% rental growth. The Central office portfolio collected 3% more in rents. The Mongkok portfolio, which includes more service centers and semi-retail tenants, posted a moderate rental growth of 2%. Occupancy rate of our office portfolio decreased two points to 93% largely because of a slight drop in occupancy rate in the Mongkok portfolio.

On June 21, 2016, a fire broke out at Amoycan Industrial Centre, an industrial building which is about 73% jointly owned by the Group and its subsidiary, Hang Lung Properties Limited. We were deeply saddened by the tragic death of two courageous firefighters in the course of fighting the blaze. The fire was eventually put out on June 25, after some 108 hours. We have commissioned authorized professionals to conduct a thorough inspection of the safety and structural integrity of the building and will continue to fully support the relevant government authorities on the investigations into the cause of the fire. Based on our preliminary assessment, the overall financial impact to us should not be significant.

- *Residential and Serviced Apartments*

Demand for our luxury apartments at The Summit was soft as corporate clients were more cost conscious and had tighter accommodation budgets. Our Kornhill Apartments faced keen competition from hotels which discounted room rates in response to the decreasing number of visitors from mainland China. Revenue of residential and serviced apartments decreased 10% to HK$142 million due to lower occupancy rate.

PROPERTY SALES

During the first half of 2016, 226 residential units of The Long Beach and the last two apartments of Carmel-on-the-Hill were sold, compared to nine units of The HarbourSide and 17 apartments of AquaMarine being sold in the first six months of 2015. Consequently, revenue of property sales jumped 223% to HK$2,404 million. Overall profit margin realized was 58%.

As at June 30, 2016, the completed residential properties available for sale included 18 semi-detached houses at 23-39 Blue Pool Road, 446 units of The Long Beach and two duplex units of The HarbourSide. Their aggregated book costs were HK$3,166 million at June 30, 2016. These properties will be released for sale when market conditions are favorable.

PROPERTY REVALUATION

At the balance sheet date, the value of Hong Kong portfolio and mainland China portfolio was HK$59,910 million and HK$75,888 million, respectively. Overall, the value of our investment properties amounted to HK$135,798 million. The valuation exercise was carried out by Savills, an independent valuer.

Our Hong Kong investment properties recorded a revaluation gain of HK$97 million attributable to significant positive rental reversions of offices in Central. The mainland China portfolio had a revaluation loss of HK$411 million mainly due to lower valuation of the malls at Forum 66 in Shenyang and Center 66 in Wuxi. For the first half of 2016, the Group recorded an overall revaluation loss of HK$314 million, compared to a gain of HK$445 million in the corresponding period in 2015.

PROPERTY DEVELOPMENT AND CAPITAL COMMITMENT

The aggregated value of the investment properties under development was HK$16,961 million. They comprised Mainland projects in Kunming, Wuhan and the remaining phases of the Shenyang and Wuxi projects. The portfolio mainly consists of shopping malls, office towers, and serviced apartments, etc. These projects represented the majority of the Group's capital commitments at the reporting date, amounting to HK$39 billion. They will be completed in phases over many years and the Group has ample financial resources to meet future obligations.

The construction work of Kunming Spring City 66 is progressing as planned. Total gross floor area of the entire complex is 434,000 square meters comprising a world-class shopping center, a Grade A office tower, serviced apartments and about 2,000 car parking spaces. The shopping mall of Spring City 66 is scheduled to open in late 2018.

Wuhan Heartland 66, covering a total gross floor area of 460,000 square meters, is a world class commercial project which will house a 177,000 square meters shopping mall, a Grade A office tower, serviced apartments and about 2,400 car parking spaces. This project is scheduled for completion, in stages, from late 2019.

LIQUIDITY AND FINANCIAL RESOURCES

The Group centrally manages liquidity and financial resources. The aims are to maintain a high degree of liquidity and ample financial resources to meet future funding needs of both capital commitments and new investment opportunities.

- *Liquidity Management*

The Group's objective of liquidity management is to ensure a high degree of flexibility and liquidity to meet working capital needs and to capture investment opportunities when they arise. This is achieved by keeping sufficient cash resources, having adequate undrawn committed banking facilities available, and maintaining the USD3 billion Medium Term Note Program ("MTN"). At June 30, 2016, it had cash and bank balances of HK$29,006 million. About 92% of the liquid funds were held as RMB bank deposits. The RMB bank deposits are held as a natural hedge for meeting future construction payments of projects under development in mainland China.

The currencies of cash and bank balances at the reporting date were as follows:

	At June 30, 2016		At December 31, 2015	
	HK$ Million	***% of Total***	HK$ Million	*% of Total*
Denominated in:				
RMB	**26,595**	***91.7%***	30,164	*95.8%*
HKD	**2,400**	***8.3%***	1,306	*4.2%*
USD	**11**	**–**	12	–
Total cash and bank balances	**29,006**	***100%***	31,482	*100%*

Besides having a strong cash position arising from operating cashflow, the Group has HK$13,110 million of committed undrawn banking facilities and the capacity to further issue HK$10,529 million in bonds under the MTN program at the reporting date. With the ability to raise funding through multiple channels, it is well positioned to seize opportunities for long-term expansion.

- *Debt Management*

The Group manages its debt portfolio focusing on mitigating the re-financing and interest rate risks. These risks are managed by maintaining an appropriate mix of fixed/floating rate borrowings and a well staggered maturity profile.

As at June 30, 2016, total borrowings of the Group were HK$35,967 million. During the period, proceeds from property sales were used to repay some of the floating rate HKD bank borrowings, resulting in a lower proportion of floating rate borrowings. The table below shows the mix of floating rate bank borrowings and fixed rate bonds at the reporting date.

	At June 30, 2016		At December 31, 2015	
	HK$ Million	***% of Total***	HK$ Million	*% of Total*
Floating rate HKD bank loans	**12,671**	***35.2%***	13,695	*36.7%*
Floating rate RMB bank loans	**10,674**	***29.7%***	11,031	*29.5%*
Fixed rate bonds	**12,622**	***35.1%***	12,604	*33.8%*
Denominated in USD	***7,758***	***21.6%***	*7,751*	*20.8%*
Denominated in HKD	***4,864***	***13.5%***	*4,853*	*13.0%*
Total borrowings	**35,967**	***100%***	37,330	*100%*

The average tenor of the entire loan portfolio was 3.7 years as at June 30, 2016 (December 31, 2015: 3.6 years). The maturity profile of the loan portfolio is appropriately structured to mitigate repayment risk in any one year.

The maturity profile of total borrowings at the balance sheet date was as follows:

	At June 30, 2016		At December 31, 2015	
	HK$ Million	***% of Total***	HK$ Million	*% of Total*
Repayable:				
Within 1 year	**4,107**	***11.4%***	6,640	*17.8%*
After 1 but within 2 years	**2,610**	***7.3%***	2,062	*5.5%*
After 2 but within 5 years	**19,835**	***55.1%***	14,567	*39.0%*
Over 5 years	**9,415**	***26.2%***	14,061	*37.7%*
Total borrowings	**35,967**	***100%***	37,330	*100%*

The overall average cost of borrowings for the first half of 2016 was 3.9% (2015: 4.0%), comprising average cost of borrowings of floating rate bank borrowings at 3.5% (2015: 3.8%) and fixed rate bonds at 4.6% (2015: 4.6%). For the six months ended June 30, 2016, gross interest expenses of HK$715 million (2015: HK$824 million) were lower than the corresponding period of last year. Two factors contributed to this outcome. Firstly, the average bank borrowings balance in Hong Kong was lower after repayment of some borrowings from cash generated from property sales. Secondly, average interest rates in mainland China decreased after lending rates cuts by the People's Bank of China. After netting off a lower interest capitalization upon completion of projects under development, finance costs charged to the statement of profit or loss for the first six months of 2016 amounted to HK$587 million (2015: HK$588 million).

For the first half of 2016, interest income of HK$479 million (2015: HK$628 million) was lower than the same period of last year due to lower RMB deposit rates and deposit balance. Overall, net finance costs, i.e. excess of finance costs over interest income, charged to the statement of profit or loss for the first half of 2016 was HK$108 million (2015: net interest income of HK$40 million).

- *Foreign Exchange Management*

The activities of the Group are exposed to foreign currency risks which mainly arise from its operations in mainland China and certain bank deposits denominated in RMB held in and relating to mainland China entities. In addition, it has exposure to USD arising from the two USD500 million bonds issued.

If appropriate, the Group may use derivative financial instruments for controlling or hedging foreign exchange risk exposures. Use of such instruments for speculative purposes is strictly prohibited. Derivative financial instruments currently used by the Group are cross currency swaps with details set out in section (b) below.

Given that certain of the investments and operations are located in mainland China, the Group has exposure represented by the amount of net assets denominated in RMB. It endeavors to establish an appropriate level of external local borrowings in RMB up to the extent permitted by the prevailing regulations in order to minimize the foreign currency exposure.

(a) RMB Exposure

The RMB exposure of the Group is mainly derived from two respects. These are, firstly, the net assets of its Mainland subsidiaries which mostly comprise investment properties such as shopping malls, office towers and projects under development. Secondly, there are RMB deposits held in and relating to mainland China entities which are primarily for the purpose of settling future construction payments in RMB of those projects under development in mainland China.

At June 30, 2016, the amount of net assets on the Mainland amounted to RMB63 billion. The re-translation of these net assets denominated in RMB into HKD using the exchange rate as at the reporting date resulted in a re-translation loss of HK$1,543 million, as RMB depreciated by 2% compared to December 31, 2015. By the same token, the RMB deposits held in Hong Kong equivalent to HK$20,144 million had to be re-translated into HKD as well and they accounted for HK$231 million of the re-translation loss for the first six months of 2016. The total re-translation loss of HK$1,774 million for the first half of 2016 (2015: HK$6 million) was recognized in other comprehensive income/exchange reserve.

As a result of the continuous update of our business plan and changes in relevant rules and regulations in mainland China, the amount of funds needed in mainland China will change over time. Taking into consideration various factors such as regulatory constraints on local RMB borrowings, the business environment and project progress, etc., regular reviews have been conducted to assess the level of funding requirements in mainland China. We will make necessary modifications to the currency hedging arrangement when appropriate.

(b) USD Exposure

The USD foreign exchange exposure of the Group is related to the USD1 billion fixed rate bonds issued, equivalent to HK$7,758 million at the reporting date. The related currency exchange risk was covered back-to-back by two USD/HKD cross currency swap contracts. The swap contracts were entered into in order to fix the exchange rate between USD and HKD for future interest payments and principal repayments. Accounting rules stipulate that the swap contracts be marked to market value at each reporting date. Any differences in the marked to market valuation between the reporting dates shall be treated as unrealized gain or loss for the period. For the six months ended June 30, 2016, the swap contracts had an unrealized fair value gain of HK$164 million (2015: fair value loss of HK$65 million). Related unrealized valuation gains and losses will be self-correcting upon expiry of the swap contracts.

- *Gearing Ratios and Interest Cover*

As at June 30, 2016, the Group had a net debt balance of HK$6,961 million (December 31, 2015: HK$5,848 million). Net debt to equity ratio and debt to equity ratio as at June 30, 2016, were 5.0% (December 31, 2015: 4.2%) and 25.8% (December 31, 2015: 26.6%), respectively.

The debt servicing capability, interest cover, for the first six months of 2016 was 18 times (2015: 17 times).

- *Charge of Assets*

Assets of the Group were not charged to any third parties as at June 30, 2016.

- *Contingent Liabilities*

The Group did not have any material contingent liabilities as at June 30, 2016.

OUTLOOK

It is expected that both mainland China and Hong Kong will continue to face the challenges due to slower economic growth and weaker retail consumption sentiments in the second half of 2016. The long-term effect of Britain's decision of leaving the European Union ("Brexit') remains unclear, although the immediate impact to our business is unlikely to be significant. In response to these tough market environment and the uncertainties of Brexit, we will monitor the situation closely. We will continue to enhance our properties during economic down cycle and raise our facilities and service standards to enhance the shopping experience at our malls as long-term investment in our brand. In addition to introducing new retail ideas to our malls, we will also launch more promotion programs in order to help our tenants drive their sales.

Backed by our financial strength, various asset enhancement programs in Hong Kong and Shanghai and those projects under development in mainland China will proceed as planned. It is anticipated that the completion of those projects will match the gradual recovery in the retail cycle, further strengthening our position for long-term growth.

We will continue to closely monitor the residential property market in Hong Kong, and will sell some of the residential units on hand and may further build our land bank when opportunities arise.

CORPORATE GOVERNANCE

We are committed to maintaining highest standards of corporate governance. During the six months ended June 30, 2016, we adopted corporate governance principles that emphasize a qualified Board of Directors (the "Board"), sound internal control and effective risk management to enhance transparency and accountability towards our stakeholders. The general framework of our corporate governance practices is set out in our corporate governance report in the 2015 annual report, which is available on our website under Financial Report of Financial Information of the Investor Relations section.

The Board

The Board currently consists of ten members: comprising three Executive Directors; three Non-Executive Directors; and four Independent Non-Executive Directors. There is a clear division of responsibilities between the Chairman and the Managing Director. The Board continues to review its practices from time to time, constantly seeking to improve the Group's corporate governance procedures in accordance with international best practices. An updated list of Board members identifying their roles and functions and whether they are Independent Non-Executive Directors is maintained on our website and the website of Hong Kong Exchanges and Clearing Limited ("HKEx"). The biographical details of Board members are also maintained on our website under Board of Directors of Corporate Governance of the Investor Relations section.

Nomination and Remuneration Committee

Our Nomination and Remuneration Committee, which is chaired by an Independent Non-Executive Director, currently consists of three Independent Non-Executive Directors. The Committee members meet not less than once a year. Its duties include reviewing significant changes in the salary structure of the Group and terms and conditions affecting Executive Directors and senior management. The Committee members also conduct regular reviews of the Board's structure, size and diversity, and make recommendations to the Board on the appointment, re-appointment and succession planning of Directors and suchlike. The terms of reference of the Committee can be accessed on both our website and the website of HKEx.

Audit Committee

Our Audit Committee, which is chaired by an Independent Non-Executive Director, currently consists of three Independent Non-Executive Directors and one Non-Executive Director. The Committee members meet not less than four times a year. Meetings are normally attended by external and internal auditors, the chief financial officer and the company secretary for the purposes of, inter alia, discussing the nature and scope of internal audit work and assessing the Company's internal control. The terms of reference of the Committee, which include duties regarding corporate governance functions, are available on both our website and the website of HKEx. The Audit Committee has reviewed this interim report, including the unaudited interim financial report for the six months ended June 30, 2016, and has recommended their adoption by the Board.

This interim financial report is unaudited but has been reviewed by KPMG, our auditor, in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants. KPMG's Review Report to the Board of the Company is set out on pages 32 to 33 of this interim report.

Compliance with Corporate Governance Code

During the six months ended June 30, 2016, we have complied with the code provisions set out in the revised Corporate Governance Code (effective from accounting period beginning on January 1, 2016) as stated in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Compliance with Model Code contained in Appendix 10 to the Listing Rules

We have adopted a code of conduct with regard to securities transactions by Directors (the "Code of Conduct") on terms that are no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the "Model Code"). The Company has made specific enquiries to all Directors and confirmed that they have complied with the required standard set out in the Model Code and the Code of Conduct regarding Directors' securities transactions throughout the six months ended June 30, 2016.

CHANGES IN INFORMATION OF DIRECTORS PURSUANT TO LISTING RULE 13.51B(1)

The changes in information of the Directors are set out below:

Prof. L.C. Tsui
- awarded the Grand Bauhinia Medal.

Prof. P.W. Liu
- an independent non-executive director of China Zheshang Bank Co., Ltd. (the shares of which were listed on the Stock Exchange in March 2016); and
- retired as an independent non-executive director of Hang Lung Properties Limited, a listed subsidiary of the Company.

Save as disclosed above, there is no other information to be disclosed pursuant to rule 13.51B(1) of the Listing Rules.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at June 30, 2016, the interests or short positions of each of the Directors in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code or which were recorded in the register required to be kept by the Company under section 352 of the SFO are as follows:

		The Company (Long Position)			*Hang Lung Properties Limited (Long Position)*		
Name of Directors	Capacity	Number of Shares	% of Number of Issued Shares	Number of Shares under Option *(Note 1)*	Number of Shares	% of Number of Issued Shares	Number of Shares under Option *(Note 2)*
Ronnie C. Chan	Personal	8,840,000	0.65	2,950,000	16,330,000	0.36	27,490,000
Philip N.L. Chen	Personal	–	–	–	–	–	21,500,000
Gerald L. Chan	–	–	–	–	–	–	–
Simon S.O. Ip	–	–	–	–	–	–	–
L.C. Tsui	–	–	–	–	–	–	–
Martin C.K. Liao	–	–	–	–	–	–	–
P.W. Liu	Personal & Family	–	–	–	100,000	–	–
George K.K. Chang	–	–	–	–	–	–	–
Roy Y.C. Chen	–	–	–	–	–	–	–
H.C. Ho	Personal	–	–	–	–	–	10,450,000

Notes

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

		Number of Shares under Option					
Date Granted (mm/dd/yyyy)	Name	As at Jan 1, 2016	Exercised during the Period	As at Jun 30, 2016	Exercise Price per Share (HK$)	Vested Dates (mm/dd/yyyy)	Expiry Date (mm/dd/yyyy)
11/20/2006	Ronnie C. Chan	6,700,000	3,750,000	2,950,000	$20.52	11/20/2007: 10% 11/20/2008: 20% 11/20/2009: 30% 11/20/2010: 40%	11/19/2016

2. Movement of Options under the Share Option Schemes of Hang Lung Properties Limited

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

Date Granted (mm/dd/yyyy)	Name	Number of Shares under Option: As at Jan 1, 2016	Exercised during the Period	As at Jun 30, 2016	Exercise Price per Share (HK$)	Vested Dates (mm/dd/yyyy)	Expiry Date (mm/dd/yyyy)
08/21/2007	Ronnie C. Chan	3,640,000	–	3,640,000	$25.00	08/21/2008: 10% 08/21/2009: 20% 08/21/2010: 30% 08/21/2011: 40%	08/20/2017
08/21/2007	Ronnie C. Chan	5,600,000	–	5,600,000	$25.00	08/21/2009: 10% 08/21/2010: 20% 08/21/2011: 30% 08/21/2012: 40%	08/20/2017
09/01/2008	H.C. Ho	300,000	–	300,000	$24.20	09/01/2010: 10% 09/01/2011: 20% 09/01/2012: 30% 09/01/2013: 40%	08/31/2018
12/31/2008	H.C. Ho	300,000	–	300,000	$17.36	12/31/2010: 10% 12/31/2011: 20% 12/31/2012: 30% 12/31/2013: 40%	12/30/2018
02/08/2010	Ronnie C. Chan	6,500,000	–	6,500,000	$26.46	02/08/2012: 10% 02/08/2013: 20% 02/08/2014: 30% 02/08/2015: 40%	02/07/2020
07/29/2010	Philip N.L. Chen	10,000,000	–	10,000,000	$33.05	07/29/2012: 10% 07/29/2013: 20% 07/29/2014: 30% 07/29/2015: 40%	07/28/2020
09/29/2010	H.C. Ho	2,000,000	–	2,000,000	$36.90	09/29/2012: 10% 09/29/2013: 20% 09/29/2014: 30% 09/29/2015: 40%	09/28/2020
06/13/2011	Ronnie C. Chan Philip N.L. Chen H.C. Ho	4,500,000 4,500,000 3,000,000	– – –	4,500,000 4,500,000 3,000,000	$30.79	06/13/2013: 10% 06/13/2014: 20% 06/13/2015: 30% 06/13/2016: 40%	06/12/2021

2. Movement of Options under the Share Option Schemes of Hang Lung Properties Limited *(continued)*

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

Date Granted (mm/dd/yyyy)	Name	Number of Shares under Option: As at Jan 1, 2016	Exercised during the Period	As at Jun 30, 2016	Exercise Price per Share (HK$)	Vested Dates (mm/dd/yyyy)	Expiry Date (mm/dd/yyyy)
#06/04/2013	Ronnie C. Chan	4,500,000	–	4,500,000	$28.20	06/04/2015: 10%	06/03/2023
	Philip N.L. Chen	4,500,000	–	4,500,000		06/04/2016: 20%	
	H.C. Ho	3,000,000	–	3,000,000		06/04/2017: 30%	
						06/04/2018: 40%	
#12/05/2014	Ronnie C. Chan	2,750,000	–	2,750,000	$22.60	12/05/2016: 10%	12/04/2024
	Philip N.L. Chen	2,500,000	–	2,500,000		12/05/2017: 20%	
	H.C. Ho	1,850,000	–	1,850,000		12/05/2018: 30%	
						12/05/2019: 40%	

Mr. Adriel Wenbwo Chan (a full time employee of Hang Lung Properties Limited ("HLPL") and an associate of a director of the Company and HLPL) was granted and held share options to subscribe for 200,000 shares and 150,000 shares in HLPL at respective exercise prices per share of HK$28.20 and HK$22.60.

Save as disclosed above, none of the Directors of the Company had, as at June 30, 2016, any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations.

Other than as stated above, at no time during the six months ended June 30, 2016 was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company (including their spouses and children under 18 years of age) to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at June 30, 2016, details of substantial shareholders' and other persons' (who are required to disclose their interests pursuant to Part XV of the SFO) interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO are as follows:

Name	*Note*	Number of Shares or Underlying Shares Held *(Long Position)*	% of Number of Issued Shares *(Long Position)*
Chan Tan Ching Fen	*1*	498,428,580	36.69
Cole Enterprises Holdings (PTC) Limited	*1*	498,428,580	36.69
Merssion Limited	*1*	498,428,580	36.69
Kingswick Investment Limited	*2*	97,965,000	7.21
Aberdeen Asset Management Plc and its associates	*3*	257,221,307	18.98
Dodge & Cox	*3*	135,909,600	10.03

Notes

1. These shares were the same parcel of shares held by a trust of which Ms. Chan Tan Ching Fen was the founder. Cole Enterprises Holdings (PTC) Limited was the trustee of the trust.

   Merssion Limited held 498,428,580 shares, of which 97,965,000 shares were held by its subsidiary, Kingswick Investment Limited.

2. The 97,965,000 shares held by Kingswick Investment Limited were included in the above-mentioned number of 498,428,580 shares held by Ms. Chan Tan Ching Fen/Cole Enterprises Holdings (PTC) Limited/Merssion Limited.

3. These shares were held in the capacity of investment managers.

Save as disclosed above, as at June 30, 2016, no other interests or short positions in the shares or underlying shares of the Company which are required to be recorded in the register kept under section 336 of the SFO has been notified to the Company.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended June 30, 2016, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities.

EMPLOYEES

As at June 30, 2016, the number of employees was 4,722 (comprising 1,272 Hong Kong employees and 3,450 mainland China employees). The total employee costs for the six months ended June 30, 2016 amounted to HK$699 million. We provide competitive remuneration packages for all employees including discretionary bonuses payable to employees based on individual performance. We regularly review the remuneration packages to ensure that they comply with relevant regulatory requirements and market conditions. The Group has share option schemes for the executives and provides professional and high-quality training for all employees.

KPMG

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

(Incorporated in Hong Kong with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 34 to 54 which comprises the consolidated statement of financial position of Hang Lung Group Limited ("the Company") as of June 30, 2016 and the related consolidated income 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 an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

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

SCOPE OF REVIEW

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

CONCLUSION

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

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

July 28, 2016

Consolidated Statement of Profit or Loss

For the six months ended June 30, 2016 (Unaudited)

	Note	2016 HK$ Million	2015 HK$ Million	*For information purpose only* 2016 RMB Million	2015 RMB Million
Revenue	2(a)	**6,610**	4,893	**5,563**	3,900
Direct costs and operating expenses		**(2,079)**	(1,168)	**(1,749)**	(929)
Gross profit		**4,531**	3,725	**3,814**	2,971
Other net income	3	**159**	68	**135**	55
Administrative expenses		**(346)**	(367)	**(291)**	(294)
Operating profit before changes in fair value of investment properties		**4,344**	3,426	**3,658**	2,732
Net (decrease)/increase in fair value investment properties		**(314)**	445	**(266)**	355
Operating profit after changes in fair value of investment properties		**4,030**	3,871	**3,392**	3,087
Interest income		**479**	628	**403**	503
Finance costs		**(587)**	(588)	**(494)**	(469)
Net interest (expense)/income	4	**(108)**	40	**(91)**	34
Share of profits of joint ventures		**107**	135	**90**	108
Profit before taxation	2(a) & 5	**4,029**	4,046	**3,391**	3,229
Taxation	6(a)	**(708)**	(716)	**(595)**	(569)
Profit for the period		**3,321**	3,330	**2,796**	2,660
Attributable to:					
Shareholders		**1,790**	1,779	**1,507**	1,424
Non-controlling interests		**1,531**	1,551	**1,289**	1,236
		3,321	3,330	**2,796**	2,660
Earnings per share	8(a)				
Basic		**HK$1.32**	HK$1.31	**RMB1.11**	RMB1.05
Diluted		**HK$1.32**	HK$1.31	**RMB1.11**	RMB1.05

The accompanying notes form part of the interim financial report. Details of dividends payable to equity shareholders of the Company attributable to the period are set out in note 7.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended June 30, 2016 (Unaudited)

				For information purpose only	
	Note	**2016 HK$ Million**	2015 HK$ Million	**2016 RMB Million**	2015 RMB Million
Profit for the period		**3,321**	3,330	**2,796**	2,660
Other comprehensive income	6(b)				
Items that may be reclassified subsequently to profit or loss:					
Net movement in investment revaluation reserve		**–**	(38)	**–**	(30)
Exchange difference arising from translation of foreign subsidiaries/ to presentation currency		**(1,774)**	(6)	**469**	(60)
Other comprehensive income for the period		**(1,774)**	(44)	**469**	(90)
Total comprehensive income for the period		**1,547**	3,286	**3,265**	2,570
Total comprehensive income attributable to:					
Shareholders		**847**	1,748	**1,776**	1,365
Non-controlling interests		**700**	1,538	**1,489**	1,205
		1,547	3,286	**3,265**	2,570

The accompanying notes form part of the interim financial report.

Consolidated Statement of Financial Position

At June 30, 2016

	Note	(Unaudited) June 30, 2016 HK$ Million	(Audited) December 31, 2015 HK$ Million	*For information purpose only* June 30, 2016 RMB Million	December 31, 2015 RMB Million
Non-current assets					
Property, plant and equipment					
Investment properties	9	**135,798**	137,338	**116,253**	115,631
Investment properties under development	9	**16,961**	16,709	**14,496**	13,998
Other property, plant and equipment		**334**	338	**286**	285
		153,093	154,385	**131,035**	129,914
Interest in joint ventures		**3,535**	3,455	**3,033**	2,928
Other assets		**1,342**	1,343	**1,151**	1,138
Deferred tax assets		**21**	19	**18**	16
		157,991	159,202	**135,237**	133,996
Current assets					
Cash and deposits with banks	10	**29,006**	31,482	**24,862**	26,595
Trade and other receivables	11	**2,245**	1,170	**1,923**	985
Properties for sale		**3,166**	3,852	**2,716**	3,264
		34,417	36,504	**29,501**	30,844
Current liabilities					
Bank loans and other borrowings	12	**4,107**	6,640	**3,519**	5,611
Trade and other payables	13	**6,394**	7,353	**5,472**	6,182
Taxation payable		**742**	577	**636**	485
		11,243	14,570	**9,627**	12,278
Net current assets		**23,174**	21,934	**19,874**	18,566
Total assets less current liabilities		**181,165**	181,136	**155,111**	152,562

	Note	(Unaudited) June 30, 2016 HK$ Million	(Audited) December 31, 2015 HK$ Million	*For information purpose only* June 30, 2016 RMB Million	December 31, 2015 RMB Million
Non-current liabilities					
Bank loans and other borrowings	12	**31,860**	30,690	**27,301**	25,915
Deferred tax liabilities		**9,910**	10,144	**8,471**	8,503
		41,770	40,834	**35,772**	34,418
NET ASSETS		**139,395**	140,302	**119,339**	118,144
Capital and reserves					
Share capital	14	**3,989**	3,893	**3,096**	3,015
Reserves		**72,111**	71,577	**62,058**	60,544
Shareholders' equity		**76,100**	75,470	**65,154**	63,559
Non-controlling interests		**63,295**	64,832	**54,185**	54,585
TOTAL EQUITY		**139,395**	140,302	**119,339**	118,144

The accompanying notes form part of the interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended June 30, 2016 (Unaudited)

	Shareholders' equity					
	Share capital HK$ Million (Note 14)	Other reserves HK$ Million (Note 16)	Retained profits HK$ Million (Note 16)	Total HK$ Million	Non-controlling interests HK$ Million	Total equity HK$ Million
At January 1, 2016	3,893	4,565	67,012	75,470	64,832	140,302
Profit for the period	–	–	1,790	1,790	1,531	3,321
Exchange difference arising from translation of foreign subsidiaries	–	(943)	–	(943)	(831)	(1,774)
Total comprehensive income for the period	–	(943)	1,790	847	700	1,547
Final dividend in respect of previous financial year	–	–	(827)	(827)	–	(827)
Issue of shares	96	(19)	–	77	–	77
Employee share-based payments	–	24	9	33	18	51
Change in non-controlling interests arising from increase of the Group's shareholding in a subsidiary	–	500	–	500	(993)	(493)
Dividends paid to non-controlling interests	–	–	–	–	(1,262)	(1,262)
At June 30, 2016	**3,989**	**4,127**	**67,984**	**76,100**	**63,295**	**139,395**
At January 1, 2015	3,893	7,258	64,875	76,026	68,670	144,696
Profit for the period	–	–	1,779	1,779	1,551	3,330
Net movement in investment revaluation reserve	–	(38)	–	(38)	–	(38)
Exchange difference arising from translation of foreign subsidiaries	–	7	–	7	(13)	(6)
Total comprehensive income for the period	–	(31)	1,779	1,748	1,538	3,286
Final dividend in respect of previous financial year	–	–	(840)	(840)	–	(840)
Employee share-based payments	–	35	6	41	34	75
Change in non-controlling interests arising from increase of the Group's shareholding in a subsidiary	–	73	–	73	(278)	(205)
Dividends paid to non-controlling interests	–	–	–	–	(1,783)	(1,783)
At June 30, 2015	3,893	7,335	65,820	77,048	68,181	145,229

The accompanying notes form part of the interim financial report.

For information purpose only

	Shareholders' equity					
	Share capital RMB Million	Other reserves RMB Million	Retained profits RMB Million	Total RMB Million	Non-controlling interests RMB Million	Total equity RMB Million
At January 1, 2016	3,015	4,987	55,557	63,559	54,585	118,144
Profit for the period	–	–	1,507	1,507	1,289	2,796
Exchange difference arising from translation to presentation currency	–	269	–	269	200	469
Total comprehensive income for the period	–	269	1,507	1,776	1,489	3,265
Final dividend in respect of previous financial year	–	–	(697)	(697)	–	(697)
Issue of shares	81	(16)	–	65	–	65
Employee share-based payments	–	20	8	28	16	44
Change in non-controlling interests arising from increase of the Group's shareholding in a subsidiary	–	423	–	423	(841)	(418)
Dividends paid to non-controlling interests	–	–	–	–	(1,064)	(1,064)
At June 30, 2016	3,096	5,683	56,375	65,154	54,185	119,339
At January 1, 2015	3,015	3,569	53,820	60,404	54,540	114,944
Profit for the period	–	–	1,424	1,424	1,236	2,660
Net movement in investment revaluation reserve	–	(30)	–	(30)	–	(30)
Exchange difference arising from translation to presentation currency	–	(29)	–	(29)	(31)	(60)
Total comprehensive income for the period	–	(59)	1,424	1,365	1,205	2,570
Final dividend in respect of previous financial year	–	–	(673)	(673)	–	(673)
Employee share-based payments	–	28	5	33	27	60
Change in non-controlling interests arising from increase of the Group's shareholding in a subsidiary	–	58	–	58	(224)	(166)
Dividends paid to non-controlling interests	–	–	–	–	(1,423)	(1,423)
At June 30, 2015	3,015	3,596	54,576	61,187	54,125	115,312

Condensed Consolidated Cash Flow Statement

For the six months ended June 30, 2016 (Unaudited)

	2016 HK$ Million	2015 HK$ Million	*For information purpose only* 2016 RMB Million	2015 RMB Million
Operating activities				
Cash generated from operations	**3,678**	3,342	**3,102**	2,668
Income tax paid	**(592)**	(621)	**(497)**	(492)
Net cash generated from operating activities	**3,086**	2,721	**2,605**	2,176
Investing activities				
Payment for property, plant and equipment	**(1,358)**	(3,042)	**(1,136)**	(2,393)
Decrease/(Increase) in bank deposits with maturity greater than three months	**3,698**	(8,592)	**3,121**	(6,881)
Other cash flows arising from investing activities	**582**	798	**484**	638
Net cash generated from/(used in) investing activities	**2,922**	(10,836)	**2,469**	(8,636)
Financing activities				
Proceeds from new bank loans and other borrowings	**4,691**	2,917	**3,956**	2,320
Repayment of bank loans	**(5,844)**	(3,618)	**(4,928)**	(2,903)
Interest and other borrowing costs paid	**(749)**	(812)	**(632)**	(646)
Dividends paid	**(827)**	(840)	**(697)**	(673)
Dividends paid to non-controlling interests	**(1,262)**	(1,783)	**(1,064)**	(1,423)
Other cash flows used in financing activities	**(416)**	(202)	**(352)**	(164)
Net cash used in financing activities	**(4,407)**	(4,338)	**(3,717)**	(3,489)
Increase/(Decrease) in cash and cash equivalents	**1,601**	(12,453)	**1,357**	(9,949)
Effect of foreign exchange rate change	**(387)**	19	**28**	(1)
Cash and cash equivalents at January 1	**27,019**	40,219	**22,816**	32,095
Cash and cash equivalents at June 30	**28,233**	27,785	**24,201**	22,145
Analysis of the balance of cash and cash equivalents:				
Cash and deposits with banks	**29,006**	36,481	**24,862**	29,108
Less: Bank deposits with maturity greater than three months	**(773)**	(8,696)	**(661)**	(6,963)
Cash and cash equivalents	**28,233**	27,785	**24,201**	22,145

The accompanying notes form part of the interim financial report.

Notes to the Consolidated Financial Statements

1. BASIS OF PREPARATION

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

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

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on page 32 to 33.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2015 annual financial statements.

The HKICPA has issued certain amendments to Hong Kong Financial Reporting Standards ("HKFRSs") that are first effective for the current accounting period of the Group. The adoption of these amendments to HKFRSs does not have significant impact on the Group's interim financial report.

The financial information relating to the financial year ended December 31, 2015 that is included in the interim financial report 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 these statutory financial statements 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 December 31, 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.

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 407(3) of the Hong Kong Companies Ordinance.

The interim financial report of the Group are presented in Hong Kong dollars. The presentation of Renminbi amounts in this interim financial report is for information purpose only.

1. BASIS OF PREPARATION (continued)

The results and financial position of all operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities are translated at the closing exchange rated at the end of the reporting period;

(b) income and expenses are translated at the exchange rates approximating the exchange rates ruling at the dates of the transactions; and

(c) all resulting exchange differences are recognized in other comprehensive income and accumulated separately in equity in the exchange reserve.

2. REVENUE AND SEGMENT INFORMATION

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

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

Management evaluates performance primarily based on profit before taxation.

Segment assets principally comprise all non-current assets and current assets directly attributable to each segment with the exception of interest in joint ventures, other assets, deferred tax assets and cash and deposits with banks. The investment properties of the Group are included in segment assets at their fair values whilst the changes in fair value of investment properties is not included in segment profits. No segment liabilities analysis is presented as the Group monitors and manages its liabilities on a group basis.

2. REVENUE AND SEGMENT INFORMATION (continued)

(a) Revenue and results by segments

	Revenue		Profit before taxation	
	2016 **HK$ Million**	2015 HK$ Million	**2016** **HK$ Million**	2015 HK$ Million
Segment				
Property leasing				
– Mainland China (Note)	**2,259**	2,332	**1,478**	1,607
– Hong Kong	**1,947**	1,816	**1,664**	1,556
	4,206	4,148	**3,142**	3,163
Property sales				
– Hong Kong	**2,404**	745	**1,389**	562
Segment total	**6,610**	4,893	**4,531**	3,725
Other net income			**159**	68
Administrative expenses			**(346)**	(367)
Operating profit before changes in fair value of investment properties			**4,344**	3,426
Net (decrease)/increase in fair value of investment properties			**(314)**	445
– property leasing in Hong Kong			**97**	352
– property leasing in mainland China			**(411)**	93
Interest income			**479**	628
Finance costs			**(587)**	(588)
Net interest (expense)/income			**(108)**	40
Share of profits of joint ventures			**107**	135
Profit before taxation			**4,029**	4,046

Note: Pursuant to Caishui [2016] No. 36 jointly issued by China's Ministry of Finance and State Administration of Taxation, from May 1, 2016, Value-Added Tax ("VAT") has replaced Business Tax ("BT") to cover all the sectors which were previously falling under the BT regime. The VAT rate for property leasing is 11% and VAT is excluded from revenue. With effect from May 1, 2016, the Group is no longer required to pay BT for property leasing.

2. REVENUE AND SEGMENT INFORMATION (continued)

(b) Total assets by segments

	Total assets	
	June 30, 2016 HK$ Million	December 31, 2015 HK$ Million
Segment		
Property leasing		
– Mainland China	**93,778**	95,189
– Hong Kong	**60,522**	60,344
	154,300	155,533
Property sales		
– Hong Kong	**4,204**	3,874
Segment total	**158,504**	159,407
Interest in joint ventures	**3,535**	3,455
Other assets	**1,342**	1,343
Deferred tax assets	**21**	19
Cash and deposits with banks	**29,006**	31,482
Total assets	**192,408**	195,706

3. OTHER NET INCOME

	2016 HK$ Million	2015 HK$ Million
Gain on disposal of investment properties	**2**	67
Gain on disposal of listed investments	**–**	62
Dividend income from unlisted investments	**–**	1
Unrealized gain/(loss) on remeasurement of derivative financial instruments (Note)	**164**	(65)
Net exchange (loss)/gain	**(7)**	3
	159	68

Note: Derivative financial instruments represent USD/HKD cross currency swaps, which were entered into for the purpose of fixing the exchange rate for the Medium Term Notes denominated in USD.

4. NET INTEREST (EXPENSE)/INCOME

	2016 HK$ Million	2015 HK$ Million
Interest income on bank deposits	**479**	628
Interest expenses on bank loans and other borrowings	**670**	757
Other borrowing costs	**45**	67
Total borrowing costs	**715**	824
Less: Borrowing costs capitalized	**(128)**	(236)
Finance costs	**587**	588
Net interest (expense)/income	**(108)**	40

5. PROFIT BEFORE TAXATION

	2016 HK$ Million	2015 HK$ Million
Profit before taxation is arrived at after charging:		
Cost of properties sold	**820**	113
Staff costs, including employee share-based payments of HK$51 million (2015: HK$75 million)	**699**	658
Depreciation	**29**	28

6. TAXATION

(a) Provision for Hong Kong Profits Tax is calculated at 16.5% (2015: 16.5%) of the estimated assessable profits for the period. Mainland China Income Tax represents China Corporate Income Tax calculated at 25% (2015: 25%) and China withholding income tax at the applicable rates. A withholding tax of 5% is levied on the Hong Kong companies in respect of dividend distributions arising from profits of foreign investment enterprises in mainland China earned after January 1, 2008.

	2016 **HK$ Million**	2015 HK$ Million
Current tax		
Hong Kong Profits Tax	**418**	269
Mainland China Income Tax	**343**	365
	761	634
Deferred tax		
Changes in fair value of investment properties	**(104)**	24
Other origination and reversal of temporary differences	**51**	58
	(53)	82
Total income tax expense	**708**	716

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

7. DIVIDENDS

(a) Interim dividend

	2016 **HK$ Million**	2015 HK$ Million
Proposed after the end of the reporting period: HK19 cents (2015: HK19 cents) per share	**258**	257

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

(b) Final dividend approved and paid during the period

	2016 **HK$ Million**	2015 HK$ Million
2015 Final dividend of HK61 cents (2014: HK62 cents) per share	**827**	840

8. EARNINGS PER SHARE

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

	2016 HK$ Million	2015 HK$ Million
Earnings for calculation of basic and diluted earnings per share (net profit attributable to shareholders)	**1,790**	1,779

	Number of shares	
	2016 Million	2015 Million
Weighted average number of shares used in calculating basic earnings per share	**1,356**	1,355
Effect of dilutive potential shares – share options	**–**	3
Weighted average number of shares used in calculating diluted earnings per share	**1,356**	1,358

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

	2016 HK$ Million	2015 HK$ Million
Net profit attributable to shareholders	**1,790**	1,779
Effect of changes in fair value of investment properties	**314**	(445)
Effect of corresponding deferred tax	**(104)**	24
Effect of changes in fair value of investment properties of joint ventures	**(34)**	(49)
	176	(470)
Non-controlling interests	**(102)**	200
	74	(270)
Underlying net profit attributable to shareholders	**1,864**	1,509

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

	2016	2015
Basic	**HK$1.37**	HK$1.11
Diluted	**HK$1.37**	HK$1.11

9. INVESTMENT PROPERTIES AND INVESTMENT PROPERTIES UNDER DEVELOPMENT

(a) Additions

During the period, additions to investment properties and investment properties under development amounted to HK$891 million (2015: HK$3,061 million).

(b) Valuation

The investment properties and investment properties under development of the Group were revalued as at June 30, 2016 by Mr. Charles C.K. Chan, Registered Professional Surveyor (General Practice), of Savills Valuation and Professional Services Limited, on a market value basis.

10. CASH AND DEPOSITS WITH BANKS

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

	June 30, 2016 HK$ Million	December 31, 2015 HK$ Million
Hong Kong Dollars equivalent of:		
Renminbi	**26,595**	30,164
Hong Kong Dollars	**2,400**	1,306
United States Dollars	**11**	12
	29,006	31,482

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

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

	June 30, 2016 HK$ Million	December 31, 2015 HK$ Million
Bank loans and other borrowings	**35,967**	37,330
Less: Cash and deposits	**(29,006)**	(31,482)
Net debt	**6,961**	5,848

11. TRADE AND OTHER RECEIVABLES

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

	June 30, 2016 HK$ Million	December 31, 2015 HK$ Million
Current and within 1 month (Note)	1,082	42
1–3 months	17	8
Over 3 months	16	4
	1,115	54

Note: Current and within 1 month receivables mainly represented property sales receivables for residential units sold in the first half of 2016. Most of the sales receivables would be settled over the next few months upon sales completion.

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

(b) Included in other receivables of the Group is deposit of land acquisition in mainland China of HK$293 million (December 31, 2015: HK$298 million).

12. BANK LOANS AND OTHER BORROWINGS

At the end of the reporting period, the Group had HK$13,110 million (December 31, 2015: HK$18,115 million) of committed undrawn banking facilities.

In addition, a wholly-owned subsidiary of Hang Lung Properties Limited ("HLPL") has a US$3 billion (December 31, 2015: US$3 billion) Medium Term Note Program (the "Program"). At the end of the reporting period, the Group issued in total an equivalent of HK$12,746 million (December 31, 2015: HK$12,739 million) of bonds with coupon rates which ranged from 2.95% to 4.75% (December 31, 2015: 2.95% to 4.75%) per annum under the Program.

13. TRADE AND OTHER PAYABLES

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

	June 30, 2016 HK$ Million	December 31, 2015 HK$ Million
Due within 1 month	2,220	2,150
Due after 3 months	797	583
	3,017	2,733

14. SHARE CAPITAL

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

	June 30, 2016		December 31, 2015	
	Number of shares Million	**Amount of share capital HK$ Million**	Number of shares Million	Amount of share capital HK$ Million
Ordinary shares, issued and fully paid:				
At January 1	**1,355**	**3,893**	1,355	3,893
Shares issued under share option scheme	**4**	**96**	–	–
At June 30/December 31	**1,359**	**3,989**	1,355	3,893

15. SHARE OPTION SCHEME

The Company

The share option scheme adopted by the Company on November 24, 2000 has expired. No further options shall be offered thereunder, but all options granted prior to such expiration and not exercised at the expiry date shall remain valid. The share options granted under the share option scheme to the directors and employees are at nominal consideration and each share option gives the holder the right to subscribe for one share.

The movement of share options of the Company during the period is as follows:

	Number of share options					
Date granted	Outstanding on January 1, 2016	Exercised	Forfeited/ Lapsed	**Outstanding on June 30, 2016**	Period during which options are exercisable	Exercise price (HK$)
November 20, 2006	6,700,000	(3,750,000)	–	**2,950,000**	November 20, 2007 to November 19, 2016	20.52
Total	6,700,000	(3,750,000)	–	**2,950,000**		

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

The weighted average closing price of the shares immediately before the dates of exercise by the director during the period was HK$20.93. No share options were exercised by the employee during the period.

The weighted average share price at the dates of exercise for share options during the period was HK$20.83.

15. SHARE OPTION SCHEME (continued)

Hang Lung Properties Limited ("HLPL")

The share option scheme adopted by HLPL, the Company's subsidiary, on November 22, 2002 (the "2002 Share Option Scheme") was terminated upon the adoption of a new share option scheme on April 18, 2012 (the "2012 Share Option Scheme") by HLPL. No further options shall be offered under the 2002 Share Option Scheme, but all options granted prior to such termination and not exercised at the date of termination shall remain valid. The share options granted under the above two share option schemes to the directors and employees of HLPL are at nominal consideration and each share option gives the holder the right to subscribe for one share of HLPL.

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

(a) 2002 Share Option Scheme

	Number of share options					
Date granted	Outstanding on January 1, 2016	Exercised	Forfeited/ Lapsed	**Outstanding on June 30, 2016**	Period during which options are exercisable	Exercise price (HK$)
November 14, 2006 to March 19, 2007	1,725,000	–	–	**1,725,000**	November 14, 2007 to March 18, 2017	16.75 – 22.55
August 21, 2007 to December 31, 2008	30,722,000	–	(100,000)	**30,622,000**	August 21, 2008 to December 30, 2018	17.36 – 27.90
February 8, 2010 to June 1, 2010	13,380,000	–	–	**13,380,000**	February 8, 2012 to May 31, 2020	26.46 – 27.27
July 29, 2010 to June 13, 2011	32,018,000	–	(300,000)	**31,718,000**	July 29, 2012 to June 12, 2021	30.79 – 36.90
Total	77,845,000	–	(400,000)	**77,445,000**		

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

(b) 2012 Share Option Scheme

	Number of share options					
Date granted	Outstanding on January 1, 2016	Exercised	Forfeited/ Lapsed	**Outstanding on June 30, 2016**	Period during which options are exercisable	Exercise price (HK$)
June 4, 2013	31,580,000	–	(1,056,000)	**30,524,000**	June 4, 2015 to June 3, 2023	28.20
December 5, 2014	30,350,000	–	(1,330,000)	**29,020,000**	December 5, 2016 to December 4, 2024	22.60
Total	61,930,000	–	(2,386,000)	**59,544,000**		

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

16. RESERVES

	Other reserves							
	Investment revaluation reserve HK$ Million	Exchange reserve HK$ Million	Employee share-based compensation reserve HK$ Million	General reserve HK$ Million	Other capital reserve HK$ Million	Total HK$ Million	Retained profits HK$ Million	Total reserves HK$ Million
At January 1, 2016	–	1,529	433	275	2,328	4,565	67,012	71,577
Profit for the period	–	–	–	–	–	–	1,790	1,790
Exchange difference arising from translation of foreign subsidiaries	–	(943)	–	–	–	(943)	–	(943)
Total comprehensive income for the period	–	(943)	–	–	–	(943)	1,790	847
Final dividend in respect of previous financial year	–	–	–	–	–	–	(827)	(827)
Issue of shares	–	–	(19)	–	–	(19)	–	(19)
Employee share-based payments	–	–	24	–	–	24	9	33
Change in non-controlling interests arising from increase of the Group's shareholding in a subsidiary	–	–	–	–	500	500	–	500
At June 30, 2016	**–**	**586**	**438**	**275**	**2,828**	**4,127**	**67,984**	**72,111**
At January 1, 2015	38	4,741	387	275	1,817	7,258	64,875	72,133
Profit for the period	–	–	–	–	–	–	1,779	1,779
Net movement in investment revaluation reserve	(38)	–	–	–	–	(38)	–	(38)
Exchange difference arising from translation of foreign subsidiaries	–	7	–	–	–	7	–	7
Total comprehensive income for the period	(38)	7	–	–	–	(31)	1,779	1,748
Final dividend in respect of previous financial year	–	–	–	–	–	–	(840)	(840)
Employee share-based payments	–	–	35	–	–	35	6	41
Change in non-controlling interests arising from increase of the Group's shareholding in a subsidiary	–	–	–	–	73	73	–	73
At June 30, 2015	–	4,748	422	275	1,890	7,335	65,820	73,155

17. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The fair value of the Group's financial instruments are measured at the end of the reporting period on a recurring basis, categorized 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 and determined with reference to the observability and significance of the inputs used in the valuation technique is 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.

(a) Financial assets and liabilities carried at fair value

Derivative financial instruments are recognized initially at fair value. At the end of each reporting period, the fair value is remeasured. The gain or loss on remeasurement of fair value is recognized immediately in the consolidated statement of profit or loss.

The fair value of cross currency swaps as at June 30, 2016 of HK$63 million recorded under "Trade and other receivables" (December 31, 2015: HK$101 million recorded under "Trade and other payables") in Level 2 is determined based on the amount that the Group would receive or pay to terminate the swaps at the end of the reporting period taking into account current interest rates and current creditworthiness of the swap counter-parties.

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

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

The carrying amounts of the Group's financial instruments carried at cost or amortized cost were not materially different from their fair values as at December 31, 2015 and June 30, 2016.

18. COMMITMENTS

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

	June 30, 2016 HK$ Million	December 31, 2015 HK$ Million
Contracted for	1,585	1,540
Authorized but not contracted for	37,245	37,927
	38,830	39,467

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

19. REVIEW AND APPROVAL OF INTERIM FINANCIAL REPORT

The interim financial report is unaudited, but has been reviewed by the Audit Committee. It was authorized for issue by the Board of Directors on July 28, 2016.

FINANCIAL TERMS

Finance costs:	Total of interest expenses on total borrowings and other borrowing costs, net of amount capitalized
Total borrowings:	Total of bank loans & other borrowings, net of unamortized other borrowing costs
Net debt:	Total borrowings net of cash and deposits with banks
Net profit attributable to shareholders:	Profit for the period (after tax) less amounts attributable to non-controlling interests
Underlying net profit attributable to shareholders:	Net profit attributable to shareholders excluded changes in fair value of investment properties net of related deferred tax and non-controlling interests

FINANCIAL RATIOS

$$\text{Basic earnings per share} = \frac{\text{Profit attributable to shareholders}}{\text{Weighted average number of shares in issue during the period}}$$

$$\text{Debt to equity} = \frac{\text{Total borrowings}}{\text{Total equity}}$$

$$\text{Net assets per share} = \frac{\text{Net assets}}{\text{Weighted average number of shares in issue during the period}}$$

$$\text{Net debt to equity} = \frac{\text{Net debt}}{\text{Total equity}}$$

$$\text{Interest cover} = \frac{\text{Operating profit before changes in fair value of investment properties}}{\text{Finance costs before capitalization less interest income}}$$

FINANCIAL CALENDAR

Financial period	January 1, 2016 to June 30, 2016
Announcement of interim results	July 28, 2016
Latest time for lodging transfers	4:30 p.m. on September 13, 2016
Closure of share register	September 14 to 15, 2016 (both days inclusive)
Record date for interim dividend	September 15, 2016
Payment date for interim dividend	September 29, 2016

SHARE LISTING

As at June 30, 2016, 1,358,668,242 shares are listed on The Stock Exchange of Hong Kong Limited. It has a sponsored American Depositary Receipt (ADR) Program in the New York market.

STOCK CODE

Hong Kong Stock Exchange: 00010
Reuters: 0010.HK
Bloomberg: 10HK
CUSIP Number/Ticker Symbol for ADR Code: 41043E102/HNLGY

SHARE INFORMATION

Share price as at June 30, 2016: HK$23.25
Market capitalization as at June 30, 2016: HK$31.59 billion

SHARE REGISTRAR

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