恒隆地產
HANG LUNG PROPERTIES

2016
Interim Report

Hang Lung Properties Limited
Stock Code: 00101

WE DO IT RIGHT

Corporate Information

DIRECTORS

Ronnie C. Chan *(Chairman)*
Philip N.L. Chen *(Managing Director)*
Ronald J. Arculli *GBM, CVO, GBS, OBE, JP* *
Dominic C.F. Ho *
Nelson W.L. Yuen *
Andrew K.C. Chan *BBS, JP* *
H.K. Chang *GBS, JP* *
Anita Y.M. Fung *BBS, JP* *
H.C. Ho

* *Independent Non-Executive Director*

AUDIT COMMITTEE

Dominic C.F. Ho *(Chairman)*
Andrew K.C. Chan *BBS, JP*
H.K. Chang *GBS, JP*
Anita Y.M. Fung *BBS, JP*

NOMINATION AND REMUNERATION COMMITTEE

Ronald J. Arculli *GBM, CVO, GBS, OBE, JP (Chairman)*
Dominic C.F. Ho
H.K. Chang *GBS, JP*

AUTHORIZED REPRESENTATIVES

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

COMPANY SECRETARY

Bella P.L. Chhoa

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AUDITOR

KPMG
Certified Public Accountants

RESULTS AND DIVIDEND

For the six months ended June 30, 2016, revenue increased 37% to HK$6,311 million. Net profit attributable to shareholders grew 3% to HK$2,935 million, and earnings per share advanced similarly to HK65 cents.

Excluding property revaluation loss, related deferred taxes and non-controlling interests, underlying net profit attributable to shareholders rose 29% to HK$3,167 million. Underlying earnings per share went up by 27% to HK70 cents.

The Board has declared an interim dividend of HK17 cents per share payable on September 29, 2016 to shareholders of record on September 15, 2016. This is the same as the previous year.

BUSINESS REVIEW

Perhaps I should begin with a brief overview of a few global events. This is atypical of this letter but some of these events will sooner or later affect our business. The world has always been a turbulent place but previously most of the causes and consequences were local in nature. However, these happenings of late are truly of global significance.

I have foremost Brexit in mind. Is this the beginning of the end of the European Union (EU) as we know it? How will it affect global trade? At the minimum, the global financial map will be redrawn. This may in the short run benefit Asia, particularly Hong Kong and Singapore, the region's two premium international financial centers. In fact, one of the world's largest fund management companies has just opened its first bond-trading operation in our part of the world. Is this a harbinger of more to come? In the meantime, EU is embroiled in turmoil after the latest mass migration from the Middle East. What worries the business community is that for sure there will be more uncertainties ahead.

As well, terrorist threat in the Middle East and Europe has gone from bad to worse. Even America has not been spared, although the causes are quite different. Coupled with the rise of nationalism everywhere, it is possible that globalization, which has been thriving for decades, may be entering a phase of retreat: consider the "Buy American" campaign. Or as Donald Trump said in his speech officially accepting the Republican nomination for the U.S. presidency, it is Americanism, not globalism, that will be the country's credo. So far international travel and cross-border businesses have not suffered, but they may.

In such a highly uncertain global environment, China, which is our main market, may not be able to rely on the rest of the world as much as before. Fortunately, it has a huge domestic market and has amassed sufficient wealth and technology to survive in a less globalized world. If the uncertainties of late were to take place in the 1980's, 1990's or even the 2000's, China would have been affected more. To be sure, the country will continue to develop global connectivity as exemplified in the "One Belt, One Road" initiative. However, it seems certain that the domestic market will play a more significant role moving forward.

Looking ahead, the U.S. and China will remain the twin engines of the global economy. America still has by far the strongest and most advanced economy in the world. For the foreseeable future, no country can challenge its leadership position. That China has over four times the population and may surpass the U.S. in absolute GDP size cannot take away the fact that the American society and economy are the most innovative and the most resilient. Barring financial meltdowns like in 2008, the U.S. will remain the most significant player in the world.

The Chinese economy, on the other hand, is big in size due to its population and is vibrant in many areas. However, it has social and structural weaknesses which may render its economy, if not the entire society, vulnerable. Nevertheless, since all other major economies such as the EU and Japan are going nowhere, by default, China becomes the only other dynamic place aside from the U.S.

Provided that the two engines do not stall, global economic gravity will move further from the Atlantic to the Pacific. As a matter of fact, this shift has been ongoing for half a century, but it has never been as obvious as it is today. Headquartered in Hong Kong, a city that understands both nations and in many ways helps connect the two, Hang Lung is in a privileged position. With the Mainland being one of the fastest growing major economies and it having been the focus of our growth strategy since the mid-2000's, few companies are as well-positioned as we are.

Given the above description of the present world such as the likely retreat of globalization, China will have to quickly develop its internal market to compensate for the possible adversities in the international arena. There may be no one externally on whom the country can rely for further economic growth. It must look inward. This reluctant move is in contrast with the self-motivated retreat from the global marketplace on the part of the U.S. Whatever the case, speeding up private consumption seems inevitable for China. This area is exactly where your Company plays.

We are headquartered in the best city, focused on the most dynamic market and positioned in the right industry, so what more can one ask for? Short-term volatility and periodic market lulls are inevitable but your management, which has always kept a healthy long-term horizon, can look beyond them. Having very little net debt, we are well-positioned to weather the present downturn. We can foresee better days ahead.

But for now, the economic environment is not encouraging. The pathetic condition I described six months ago has only gotten worse. Perhaps more so than any other time in history, negative interest rates are seen everywhere. In almost all major economies, growth has proven evasive.

China, on her part, is still searching for a new economic impetus. Growth in private consumption continues to slow, and the luxury goods market remains particularly weak. No one knows when and how the anti-corruption campaign will end. Just as in the West, there is much uncertainty.

Given this highly unfavorable trading environment, many major retailers such as department stores have for the past two or three years recorded decreases in both top line and bottom line. It is not uncommon that of late the former has fallen by about 10% annually and the latter by over 50%. The slide has in fact gotten worse in the past year or so.

Compared to this, our tenants have performed better. Retail sales in four of our seven Mainland shopping centers have recorded growth compared to the same period a year ago. In the four advancing malls, increases ranged from 2% to 6% while the other three recorded a decrease of 5% to 7%. Taken as a whole and not counting Olympia 66 in Dalian which is less than a year old, total tenant retail sales were about the same as the year before. I suspect that our long-held strategy to concentrate in top central locations is a key reason for this out-performance.

Before turning to our overall result, a word should be said about currency translation. On the Mainland, we collect rents in RMB but as a Hong Kong-based company, we report numbers in Hong Kong dollars. Calculated on the basis of weighted average daily exchange rates, the six months under review saw a drop in RMB of about 6% from the same period a year ago. Comparing June 30 this year to last December 31, the fall was about 2%. In order to get a true picture of performance, I have excluded the effect of currency fluctuation in the reporting of Mainland rents here, although in the financial statements, all figures are reported in Hong Kong dollars.

A related issue is foreign exchange translation loss due to RMB devaluation. By far the bulk of the loss came from re-translation of our vast net assets on the Mainland. This relates to the value of the many completed complexes we own, which is not inconsequential. A lesser amount of the loss arose from the RMB that we hold as cash. In past years when RMB appreciated, there were huge translation gains. These translations, either gain or loss, went into our reserve account and were not reported on the profit-and-loss statements.

Rental revenue in Hong Kong and on the Mainland (in RMB terms) grew by 7% and 2% respectively. Since the RMB devalued 6% against the Hong Kong dollar, any increase on the Mainland less than this amount will result in a negative number in our home currency. In this case, reported rental revenue from the Mainland was minus 4%.

Compared to the same period last year, we sold over three times more Hong Kong completed apartments in monetary terms. As a result, overall revenue growth was 37%. Due to lower rents at the shopping centers of Forum 66 in Shenyang and Center 66 in Wuxi, the two properties suffered a revaluation loss while all other facilities scored a slight revaluation gain. Consequently, net profit attributable to shareholders as well as per share earnings only advanced by 3%. When the net revaluation loss, a non-cash item, was taken out, the underlying net profit attributable to shareholders rose 29%, and the underlying earnings per share advanced by 27%.

We sold 226 units of The Long Beach as well as the two remaining flats at Carmel-on-the-Hill. The sales brought in over HK$2.4 billion, resulting in an operating profit of almost HK$1.4 billion. Profit margin was 58%, which for these properties was quite good.

Hong Kong rental income was 7% higher than the same period a year ago; retail space was up 13% and offices, 4%. Occupancy stood at 99% and 92% respectively. The main reason for the strong performance in retail properties was that several facilities previously under renovation are now open. Hong Kong now accounts for 48% of total rents received; the Mainland 52%.

Overall Mainland rental rose by 2%. Due to RMB devaluation of 6% as mentioned before, the book in Hong Kong dollars showed a fall of 4%. If we exclude new properties – the office towers at Forum 66 and Olympia 66 in Dalian – organic growth was minus 2% in local currency terms or minus 8% when translated into our home currency.

Shopping centers had a particularly difficult time. Rents therefrom retreated 2%. If we exclude the newly opened Olympia 66, they fell by 4%. Office rents increased by 17% with reasonable organic growth.

The two shopping centers in Shanghai deserve special mention. Due to the Asset Enhancement Initiative (AEI) at Plaza 66, 13% of the space was taken out of operation. This was why we collected 7% less rent than the year before. On a like-for-like basis excluding the area under renovation, rents received were basically the same as last year. Although Grand Gateway 66 will not officially undertake AEI until later this year, a small portion of space was already affected. Consequently, occupancy fell two points to 96%. Nevertheless, we received 1% more rent than in the same period last year. This was due to higher rental reversions.

For the other five Mainland shopping centers, revenue in three of them either remained unchanged or increased. The two most challenging ones were Forum 66 and Center 66 whose revenue fell by a whopping 20%. Occupancy improved in Palace 66 but retreated in the other four.

Across the entire investment portfolio, rental margin decreased by 2 points to 75%. Hong Kong held steady at 86% while the Mainland fell from 69% to 65%. This is mainly due to the margin retreat in the two Shanghai shopping centers by 0.85 point, and to a lesser extent the loss arising from the new Olympia 66 in Dalian. Perhaps surprising to many, margins rose in all of the other five complexes, including Forum 66 and Center 66. Both were helped by the addition of office space. But in the case of Forum 66, even the shopping center alone recorded a healthy rise. After a few years of operation, these properties saw a drop in the high initial costs associated with new facilities.

This is an encouraging phenomenon. Over time as rental rates increase, more will fall to the bottom line. When this happens, with the present cost control efforts in place, these projects will become even more profitable. But for now, we will have to wait until the market recovers.

Compared to a year ago, footfall in all our shopping centers improved except in Parc 66 in Jinan and Riverside 66 in Tianjin. The former, being our second busiest next only to Grand Gateway 66, saw a drop of almost 5%, and the latter, almost 3%. By far the best percentage increase in footfall took place in Center 66. This was followed by Forum 66 and Plaza 66. Thanks to the new office towers, the top two growths were from our most troubled malls. This is encouraging, but to translate this into higher retail sales and in time improved rent will require more efforts.

The two new office towers, one each in Forum 66 and Center 66, are leasing up gradually. In the former, committed space has increased from 44% six months ago to 52% now, with 49% being occupied. The number for Center 66 is 58% leased and occupied.

As previously reported, certain tenants, especially in Center 66 which are in the private financing business, had come under government scrutiny and some were even in financial difficulties. As such, we had to terminate some of those leases. In the past six months, the vacated space has been almost completely re-let. Encouragingly, the quality of tenants is much better and rents received have gone up nicely. In short, the two new office towers are becoming a meaningful source of income for the Company.

At Forum 66, we have signed a management contract with an international chain for a five-star hotel with over 300 rooms on the high zone of the existing office tower. We are also adding a ballroom on the ground floor. In the meantime, preparation for construction is being carried out. Hopefully these projects will be ready by the first half of 2019.

The second office tower at Center 66 is progressing. A cinema will be added to the podium to help drive traffic. The total size is about 55,000 square meters, which is much smaller than the first building of 89,000 square meters.

In mid-December, 2015, we had a soft opening at Olympia 66 in Dalian. The name comes from the huge park in front of our facility called Olympia Park. Six months ago, I wrote that its initial success would depend in part on "government actions or inactions." Subsequent events have proven this forecast to be true. For example, through no fault of ours, we encountered much difficulty with the local fire services department. A serious fire elsewhere in the city had caused the government to suddenly tighten-up policy. Fortunately most difficulties have been resolved or are expected to be very soon.

To refresh the memory of our regular readers, in Phase 1, we will open 87% of this huge shopping center of 220,000 square meters. With clever design, shoppers should hardly notice the remaining 13% space that will be opened later as Phase 2. We expect over 70% of Phase 1 to be leased by early September with over 60% ready for business. Once the entire shopping center is fully leased, we expect a gross return of 4% to 5%, very tough trading environment notwithstanding.

Construction works at Spring City 66 in Kunming and Heartland 66 in Wuhan are proceeding as planned. The latter is somewhat behind schedule due to government intervention and inclement weather. We will try to catch up.

In the past year, there were several Mainland articles circulating on the Internet that said we had stopped construction in Kunming. Some of the rumors went even further to suggest that we were negotiating with the local government to return the land. There is not a shred of truth in these allegations.

There are two plausible explanations for such repeated articles. One is ignorance and the other, malicious attacks by our competitors. As we all know, many media concerns can easily be “bought” in mainland China.

Unlike certain local developers who boast of their ability to inaugurate a shopping center within 18 months of land acquisition, we devote more time to crafting an optimal design. This is a tedious yet critical process. As I have previously written, this is why those quickly slapped-together projects are of inferior quality and will not survive the test of time. A cookie cutter design may work for two- or three-star facilities, but we build four- and five-star ones where good design is of paramount importance. It is an iterative as well as a collaborative effort between the architect and the developer. Careful consideration must be given to balance aesthetics and functionality. I have yet to meet a single person who can bypass this process and produce a perfect or near perfect outcome.

Moreover, in China, all schemes must be approved by the municipal government. All it takes is one official, with or without adequate expertise, to disrupt the timetable. Building regulations are also becoming more complicated, or even impractical if not unreasonable. As such, the design process is a complicated tripartite endeavor between the developer, the architect and the government. Since we uphold the highest design standards, a certain passage of time is inevitable.

While waiting for this to work its course, a process which will take many months even if there is no serious hiccup, we will to the extent possible carry out soil testing and the like. However, if there are complications like those in Kunming, we will just have to exercise patience while pressing forward as best as we can.

It is thus conceivable that the construction site may be temporarily hoarded up, such that even if there are minor works being carried out inside, outsiders will hardly notice. So for journalists who are used to projects of inferior design that are slapped together quickly, they see only what they want to see and may think we have stopped work. With design being one of the four key elements of “real estate genetics” as I have previously written in detail – the other three being location, size and shape of the plot, and construction – we do not take shortcuts. In the long run, it is simply not worthwhile.

If the falsely-reported articles were from a poorly informed journalist, then we are not as concerned. After all, there are many of them. Worse is the strong suspicion that the whole saga may be orchestrated by a competitor. There are reasonable grounds for this suspicion.

For one, these articles go to the extent of accusing your Company of negotiating with the city to return the land. Since this is simply untrue, government officials could not have confirmed the story. The author then further surmised that Hang Lung was running out of money or was otherwise very negative about market conditions. A simple search on the Internet will show your Company is in excellent financial health, if not the strongest in the industry. One can also easily locate this letter to shareholders from the same source and see that I was never that pessimistic about the market. In fact I have previously stated that when the market is down and other developers have stopped or slowed down construction, it affords us the best opportunity to become the first to enter the market. Our strong financial position enables us to do that.

The reality is that ever since Hang Lung entered the Mainland in 1992, we have never stopped or even slowed down construction due to lack of funds or pessimism. We may well be the only developer in Hong Kong or the Mainland that can unreservedly make this claim.

So why did the journalist not check these sources before he or she embellished the article as if stating a fact? We smell maliciousness.

In the past year or two when we speak to institutional investors in the West as we regularly do, we have received strong signals that perhaps someone has been speaking negatively about us. Some investors may, out of a good heart, advise us not to be overly bothered, as it may prove that we are truly a market leader; otherwise why have we become the target of negative attacks? However, such a terrible practice on the part of our competitors, if true, is not healthy for the development of the Chinese equity market. In our opinion, every participant therein should uphold the highest standards of integrity.

In Hong Kong as well as in any other major stock markets around the world, there is an unspoken rule that we do not bad-mouth our competitors. In fact we try to avoid commenting on other companies in the same industry. Hang Lung certainly abides by this. Unfortunately this civility is most likely not practiced by some in mainland China, not even by those so-called large and reputable firms. For those who know anything about the local culture, sadly this is perhaps not unexpected.

At Hang Lung, not only do we practice good governance, but when pressed or when the situation calls for it, we will also speak up in favor of better standards for the industry. In doing so, we may in some small ways contribute to the healthy development of the capital market and our industry.

For example, a few years ago, certain professionals in Hong Kong called for the shortening of reporting deadlines for results announcements. At that time, Hong Kong was the most relaxed of all major stock markets in the world. In the ensuing public discussion, Hang Lung was the only major real estate company agreeing with the better rules. We have long practiced it and have always announced company results within one month of period end.

Arguments employed by our competitors then were frankly absurd. They wanted to keep longer reporting deadlines so that major shareholders cum management can legally, albeit unfairly, trade in their own shares in the stock market. Partly due to sound arguments which we put forth then, I am happy to report that at least a few of those who previously disagreed with us are now reporting much earlier than they had previously done. We practice more than good governance; when appropriate, we promote it.

My sincere hope is that mainland Chinese companies, which for the most part are new to the stock market and to the international arena of institutional investors, will practice civility.

Back to your Company: although we finally incurred a net debt, it remains at an insignificant level. Net debt to equity ratio stood at 2.1%, which is very low by any standard.

PROSPECTS

For the next six to even 12 months, it is not easy to envisage a scenario where the global economy will substantially or even perceptibly improve. The same is true for China including Hong Kong. There is little good news on the horizon; instead, uncertainties abound everywhere. The only government that can do a lot about its own economy is China. Yet I do not foresee Beijing being able to come up with a remedy soon. A panacea may not exist.

What we do see is that growth in public investments and private consumption are both slowing down. Export figures are also not encouraging. All these trends seem to signify that winter is not yet over. In fact it is hard to foresee anything that will warm up the economy. The only "hot spot" is residential real estate where land prices in some cities keep rising, but this is hardly good news.

In Hong Kong, the situation is no better. Tourism is down, and so is retail. Given the weakness in Mainland exports, our trade and logistics sectors cannot be encouraging. With China's overall lethargy and the uncertainties in Europe and the U.S., our financial market will not grow much in the near future. Even residential real estate is not strong. In other words, there is no bright spot on the horizon.

If all these are correct, then the markets in which we play may for the rest of the year see more or less a repeat of the past six months. In fact, they may weaken further before they can get better. Given this scenario, we would be fortunate if we can maintain the same performance as in the half-year under review.

So what can management do to maintain growth, or at least contain a further slide? First, our two new office towers on the Mainland will give new impetus in the coming year or two. The newly opened Olympia 66 in Dalian should provide top line increase. Net profit from these three sources is however not expected to be big, especially from the new retail space.

Nevertheless, this will tide us over until the second half of 2018 when Spring City 66 in Kunming opens, barring no further delay. It is possible that the shopping center, office, and possibly even the serviced apartments will be ready around the same time. A year or so beyond that, we should see the inauguration of Heartland 66 in Wuhan. The opening of the office tower there will soon follow.

In other words, in the coming four years, we will have a pipeline of new space being steadily added to the portfolio. If the Chinese economy recovers within this time frame, then these newly completed properties should bring much growth for the Company.

For our older retail facilities on the Mainland, we will adopt a defensive mode. A lot of AEI is being carried out which should prepare us well for the next bull market. Here I have in mind our two complexes in Shanghai. For the newer properties, they will improve but with some difficulty as the economy faces headwinds. Nevertheless, the success of Palace 66 and Parc 66 tells us that after teething problems are resolved, better days lie ahead.

For two reasons our Hong Kong rental business may not see serious improvements. In fact it will not be easy to maintain the high single-digit top line growth of the past few years. First, the economy is weaker today and may yet slide a little more. Second, advances brought upon by recent AEI will produce a higher base moving forward. Growth rate will thus become more difficult to sustain.

The one area which should bring higher profit is the sale of the 446 flats remaining at The Long Beach, the last two units at The HarbourSide, and the 18 luxury duplexes on Blue Pool Road. Our willingness to part with them will depend on our read on the market conditions.

Looking further down the road, I am quite sanguine about the Mainland economy. The chances of something seriously bad happening are limited. Private consumption will gradually take over as the main engine of economic growth. Beijing leaders may have little choice but to encourage this since overseas markets will unlikely be vibrant. More efforts must be directed internally. Nevertheless, the domestic market will need further reform to spur growth. The bad thing about reform is that it is never easy; the good thing is that the upside can be substantial.

Consider this: at least 1% of China's total population is expected to move from the rural areas to the cities each year. In about a decade, city dwellers will increase by some 150-200 million people. The latter population figure is bigger than all but five countries in the world. In time, the consumption they generate will be impressive. This is in addition to the inevitable rise in consumption of the existing 750 million or so city folks.

Since retail space rental is our main business, we are well-positioned to grow further. While cautious about the short-term outlook, I am optimistic about our long-term future.

One thing we may yet do is to buy more land on the Mainland. We do not know if the time has come, but whatever the case, we will be very selective. In fact, of late we have turned down certain attractive offers. Unless a plot satisfies most if not all of our criteria, we will not jump. But even with these rather stringent conditions, I will not be too surprised if we score a success in the coming year or two. In this regard, we would love to see the market go further south!

Six months ago I reported that your Company has been the recipient of many international and local awards. In just the first six months of this year, we have garnered 33 more. The area that received the most accolades was sustainability, followed by human resources development, marketing, and investor relations. Not surprisingly, we were also recognized for design and architecture (Center 66 in Wuxi) and crisis management.

On this last point of crisis management, it is with great sadness that I report on a recent incident in Hong Kong. A mini-storage facility operated by a tenant in one of our industrial buildings caught fire on June 21, 2016. The blaze raged continuously for 108 hours and claimed the lives of two heroic firefighters from the Hong Kong Fire Services Department. We salute them and their colleagues and we are doing our utmost to offer assistance to the two surviving families. We are also working with our tenants to ensure that the same will not happen again in the future.

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	**6,311**	4,607	37%
Property Leasing	**3,907**	3,862	1%
Property Sales	**2,404**	745	223%
Operating Profit	**4,320**	3,523	23%
Property Leasing	**2,931**	2,961	-1%
Property Sales	**1,389**	562	147%
Net Profit Attributable to Shareholders	**2,935**	2,841	3%
Earnings Per Share (HK$)	**$0.65**	$0.63	3%
Interim Dividend Per Share (HK$)	**$0.17**	$0.17	–

UNDERLYING RESULTS

	For the Six Months Ended June 30 2016	2015	Change
Underlying Net Profit Attributable to Shareholders	**3,167**	2,448	29%
Underlying Earnings Per Share (HK$)	**$0.70**	$0.55	27%

FINANCIAL POSITION

	At June 30 2016	At December 31 2015	Change
Shareholders' Equity	**127,817**	128,989	-1%
Net Assets	**133,677**	134,892	-1%
Net Debt	**2,834**	1,482	91%
Financial Ratio			
Net Debt to Equity Ratio	**2.1%**	1.1%	1.0pt
Debt to Equity Ratio	**23.6%**	24.3%	-0.7pt
Shareholders' Equity Per Share (HK$)	**$28.4**	$28.7	-1%
Net Assets Per Share (HK$)	**$29.7**	$30.0	-1%

CONSOLIDATED RESULTS

For the six months ended June 30, 2016, total revenue of Hang Lung Properties Limited and its subsidiaries (collectively known as "Hang Lung Properties") increased 37% to HK$6,311 million driven by higher property sales. Property sales revenue rose 223% to HK$2,404 million as more residential units were sold during the first half of 2016. Revenue of property leasing posted a moderate growth to HK$3,907 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 23% to HK$4,320 million.

Underlying net profit attributable to shareholders advanced 29% to HK$3,167 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 3% to HK$2,935 million. Earnings per share increased similarly to HK$0.65.

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	**3,907**	3,862	1%	**2,931**	2,961	-1%
Mainland China	**2,038**	2,118	-4%	**1,327**	1,464	-9%
Hong Kong	**1,869**	1,744	7%	**1,604**	1,497	7%
Property Sales	**2,404**	745	223%	**1,389**	562	147%
Total	**6,311**	4,607	37%	**4,320**	3,523	23%

DIVIDEND

The Board of Directors has declared an interim dividend of HK17 cents per share for 2016 (2015: HK17 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 six months of 2016, total revenue of property leasing increased 1% to HK$3,907 million. The Hong Kong leasing portfolio recorded a rental growth of 7% amidst a challenging environment. The benefits of asset enhancement initiatives and tenant mix optimization continued to materialize. Revenue of our investment properties in mainland China decreased by 4% to HK$2,038 million. On a like-for-like basis, however, rental income in mainland China grew 2% when excluding the 6% RMB depreciation effect during the first half of 2016. Overall operating profit of property leasing declined 1% to HK$2,931 million.

Mainland China

For the first half of 2016, the economy in mainland China remained weak. Against the backdrop of slower economic growth coupled with RMB depreciation, sales of high-end goods continued to be sluggish. Moreover, rental income of our Plaza 66 in Shanghai was affected during the mall's renovation and this short-term interruption has been carefully managed with good progress in the pre-leasing of renovated spaces.

In response to these challenges, we implemented various measures to relieve 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 final phase of the transition from the Business Tax to Value Added Tax ("VAT") regime took effect 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 4% to HK$2,038 million. Operating profit retreated by 9% to HK$1,327 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 2% and decreased by 3%, respectively. The mainland China portfolio accounted for 52% and 45% of the total leasing revenue and operating profit of Hang Lung Properties, respectively.

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

Name and City of the Property	Revenue (HK$ Million)				Occupancy Rate at June 30, 2016	
	2016	2015	Change	*In RMB Terms*	Mall	Office
Shanghai Plaza 66	778	847	-8%	-2%	83%	96%
Shanghai Grand Gateway 66	576	607	-5%	1%	96%	N/A
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	2,038	2,118	-4%	2%		

* Soft opening on December 18, 2015.

- *Shopping Malls*

Our eight shopping malls in mainland China collectively generated HK$1,559 million in rents in the first half of 2016, down 7% over the previous corresponding period. Revenue of the malls accounted for 76% of the total revenue of mainland China.

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 should be completed in stages by early 2017. The asset enhancement 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 by 17 points and two points, respectively, compared to a year ago. While these asset enhancement initiatives will mean a short-term disruption of revenue, they help to enhance our long-term competitiveness and profitability. Rental revenue of our two flagship malls in Shanghai fell 8% to HK$971 million, with Plaza 66 decreasing by 13% to HK$395 million (or down 7% in RMB terms) and Grand Gateway 66 retreating by 5% to HK$576 million (but up 1% in RMB terms). Retail sales at the Plaza 66 mall and Grand Gateway 66 mall also decreased by 2% and 6%, respectively.

The performance of our six malls outside Shanghai was mixed as they were at different stages of their gestation period. Amidst a challenging retail market, revenue of Palace 66 in Shenyang, the first mall opened outside Shanghai, was up 5% in RMB terms, otherwise was down 1%. Occupancy rate rose five points to 89% with continued enhancement in tenant mix. Revenue of Parc 66 in Jinan rose 1% in RMB terms, otherwise was 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.

Our shopping malls at Forum 66 in Shenyang and Center 66 in Wuxi, which house a relatively larger number of high-end tenants, were affected by the weakened luxury market and therefore had to make some downward adjustment to rent and work with non-renewals. Occupancy of Forum 66 retreated by four points to 84% and that at Center 66 slipped one point to 76%. Their aggregated revenue dropped by 25%. Retail sales at the Forum 66 mall declined 5% while Center 66 mall (excluding car sales) recorded moderate growth. With the growing occupancy of their newly opened Grade A office towers, we expect that the increased footfall and continuous optimization of 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. Retail sales increased by 6%.

Our newest mall, Olympia 66 in Dalian, had its soft opening last December. Occupancy 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.

- *Offices*

The office portfolio in mainland China posted a 10% rental growth to HK$479 million, mainly attributable to higher contributions from the new office towers in Wuxi and Shenyang.

The enhancement works for Office Tower One at Plaza 66 in Shanghai were almost completed. A similar program for Office Tower Two has also started. The whole upgrade program will be completed in phases by 2018. So far the works have had no adverse impact on the revenue of the two office towers at Plaza 66. Revenue increased by 3% in RMB terms, otherwise was down 3% year-on-year. Occupancy rate stayed flat at 96%.

Our new office towers 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 and commanded premium rents in their respective markets. Revenue of the two office towers jumped 146% to HK$96 million. Occupancy rate of the Center 66 office tower was 58%, one point up, and that of the Forum 66 office tower increased to 49% at the reporting date.

Hong Kong

The benefits of asset enhancement initiatives continued to flow through. Despite lukewarm economic growth and sliding retail sales in Hong Kong, revenue and operating profit of our diversified Hong Kong leasing portfolio increased 7% to HK$1,869 million and HK$1,604 million. Overall rental margin was 86%.

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	**1,084**	963	13%	99%
Office and Industrial/Offices	**581**	559	4%	92%
Residential & Serviced Apartments	**142**	157	-10%	67%
Car Parking	**62**	65	-5%	N/A
Total	**1,869**	1,744	7%	

- *Commercial*

The Hong Kong commercial portfolio achieved a 13% rental growth to HK$1,084 million in a challenging environment. The efforts of asset enhancement were rewarded by significant rental reversions. Occupancy rate was up two points to 99% by the end of June 2016, 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 with a training experience 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 the asset enhancement 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 efforts to upgrade our properties and further optimize our trade mix in phases will continue. The Peak Galleria is undergoing an upgrade program, which 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 deliver unique shopping experiences and upon completion provide an impetus to long-term rental growth.

- *Office and Industrial/Offices*

The Hong Kong office portfolio recorded a stable rental growth of 4% to HK$581 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 four points to 92% 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 Hang Lung Properties and its parent company, Hang Lung Group 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 on us should not be significant.

- *Residential and Serviced Apartments*

Revenue of residential and serviced apartments decreased 10% to HK$142 million due to lower occupancy rate. Demand for our luxury apartments at The Summit was soft as corporate clients tightened their accommodation budgets in light of the economic slowdown. Our Kornhill Apartments faced keen competition from hotels, which offered deep discounts in response to the decreasing number of visitors from mainland China.

PROPERTY SALES

For the six months ended June 30, 2016, revenue and operating profit of property sales were up 223% and 147% to HK$2,404 million and HK$1,389 million, respectively. 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. Overall profit margin realized was 58%.

As at June 30, 2016, the book cost of the completed residential properties available for sale was HK$3,144 million. The properties included 18 semi-detached houses at 23-39 Blue Pool Road, 446 units of The Long Beach and two duplex units of The HarbourSide. These properties will be released for sale when market conditions are favorable.

PROPERTY REVALUATION

The total value of our investment properties amounted to HK$127,976 million as at June 30, 2016, which comprised the value of the Hong Kong portfolio and the mainland China portfolio of HK$57,744 million and HK$70,232 million, respectively. Our investment properties portfolio was revalued by Savills, an independent valuer, as at June 30, 2016.

An overall revaluation loss of HK$335 million was recorded in the first half of 2016, compared to a gain of HK$427 million in the corresponding period in 2015. Benefitting from positive rental reversions of offices in Central, the Hong Kong investment properties recorded a revaluation gain of HK$78 million. The mainland China portfolio had a revaluation loss of HK$413 million mainly due to lower valuation of the malls at Forum 66 in Shenyang and Center 66 in Wuxi.

PROPERTY DEVELOPMENT AND CAPITAL COMMITMENT

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

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 prestigious 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

Hang Lung Properties 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 cash flow position and funding needs are closely monitored to ensure that Hang Lung Properties has a high degree of flexibility and liquidity to meet operational requirements and seize investment opportunities. 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$28,733 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	**26,531**	***92.3%***	30,102	*96.2%*
HKD	**2,198**	***7.7%***	1,181	*3.8%*
USD	**4**	**–**	6	–
Total cash and bank balances	**28,733**	***100%***	31,289	*100%*

With a strong cash position arising from operating cash flow and multiple funding channels, Hang Lung Properties is well positioned to seize opportunities for long-term expansion.

- *Debt Management*

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

As at June 30, 2016, total borrowings of Hang Lung Properties were HK$31,567 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	**8,271**	***26.2%***	9,136	*27.9%*
Floating rate RMB bank loans	**10,674**	***33.8%***	11,031	*33.7%*
Fixed rate bonds	**12,622**	***40.0%***	12,604	*38.4%*
Denominated in USD	***7,758***	***24.6%***	*7,751*	*23.6%*
Denominated in HKD	***4,864***	***15.4%***	*4,853*	*14.8%*
Total borrowings	**31,567**	***100%***	32,771	*100%*

At the balance sheet date, the average tenor of the entire loan portfolio was 4.0 years (December 31, 2015: 3.9 years), with a well staggered maturity profile as below:

	At June 30, 2016		At December 31, 2015	
	HK$ Million	% of Total	HK$ Million	% of Total
Repayable:				
Within 1 year	2,308	7.3%	4,693	14.3%
After 1 but within 2 years	2,313	7.3%	1,862	5.7%
After 2 but within 5 years	17,673	56.0%	12,155	37.1%
Over 5 years	9,273	29.4%	14,061	42.9%
Total borrowings	31,567	100%	32,771	100%

The overall average cost of borrowings for the first half of 2016 was 4.1% (2015: 4.2%), comprising average cost of borrowings of floating rate bank borrowings at 3.8% (2015: 4.1%) and fixed rate bonds at 4.6% (2015: 4.6%). Gross interest expenses incurred during the period amounted to HK$668 million (2015: HK$764 million), which was lower than the corresponding period last year. Two factors contributed to the decrease in gross interest expenses. Firstly, the average bank borrowings balance in Hong Kong has reduced because of cash generated from property sales. Secondly, the average cost of borrowings in mainland China has also reduced due to the reductions in benchmark lending rates 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 half of 2016 amounted to HK$540 million (2015: HK$528 million).

For the first half of 2016, interest income was HK$470 million (2015: HK$614 million). Decrease in interest income was due to lower RMB deposit rates and deposit balance. Overall, net finance costs i.e. the excess of finance costs over interest income for the first half of 2016 was HK$70 million (2015: net interest income of HK$86 million).

- *Foreign Exchange Management*

The activities of Hang Lung Properties 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, Hang Lung Properties 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 Hang Lung Properties 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, Hang Lung Properties 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 Hang Lung Properties is mainly derived from two respects of our operations. These are, firstly, the net assets of our Mainland subsidiaries which mostly comprise investment properties such as shopping malls, office towers and projects under development. Secondly, they are the RMB deposits held in and relating to mainland China entities which are primarily for the purposes 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 RMB59 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$1,430 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$1,661 million for the first half of 2016 (2015: re-translation gain of HK$12 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 modification to the currency hedging arrangement when appropriate.

(b) USD Exposure

The USD foreign exchange exposure of Hang Lung Properties 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, Hang Lung Properties had a net debt balance of HK$2,834 million (December 31, 2015: HK$1,482 million). Net debt to equity ratio and debt to equity ratio as at June 30, 2016, were 2.1% (December 31, 2015: 1.1%) and 23.6% (December 31, 2015: 24.3%), respectively.

The debt servicing capability, interest cover, for the first six months of 2016 was 21 times (2015: 21 times).

- *Charge of Assets*

Assets of Hang Lung Properties were not charged to any third parties as at June 30, 2016.

- *Contingent Liabilities*

Hang Lung Properties did not have any material contingent liabilities as at June 30, 2016.

OUTLOOK

In the second half of 2016, it is expected that both mainland China and Hong Kong will continue to face the challenges posed by slow economic growth and weak retail consumption sentiment. The decision of Britain leaving the European Union ("Brexit") has also increased the uncertainty of global economic outlook. Although the immediate impact of Brexit on our business is unlikely to be significant, the medium to long-term effect remains unknown. We will closely monitor the ensuing development. In response to these tough market conditions, we will continue to raise our facilities and service standards to enhance the shopping experience at our malls and at the same time closely manage our operating costs. In addition to introducing new retail ideas to our malls, we will launch more promotion programs to help our tenants drive sales.

Backed by our financial strength, various asset enhancement programs will continue both in Hong Kong and in Shanghai. Some short-term rental loss may be inevitable during the renovation period. Projects under development in mainland China will continue to proceed as planned. It is anticipated that the completion of various enhancement programs and projects will match the gradual recovery in the retail cycle, yielding highly positive results in the future.

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 nine members: comprising three Executive Directors and six Independent Non-Executive Directors. There is a clear division of responsibilities between the Chairman and the Managing Director. The Board continues to review its practices from time to time, constantly seeking to improve the Group's corporate governance procedures in accordance with international best practices. An updated list of Board members identifying their roles and functions and whether they are Independent Non-Executive Directors is maintained on our website and the website of Hong Kong Exchanges and Clearing Limited ("HKEx"). The biographical details of Board members are also maintained on our website 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 four Independent Non-Executive Directors. The Committee members meet not less than four times a year. Meetings are normally attended by external and internal auditors, the chief financial officer and the company secretary for the purposes of, inter alia, discussing the nature and scope of internal audit work and assessing the 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 36 to 37 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:

Dr. Andrew K.C. Chan
- appointed as the president of the Hong Kong Academy of Engineering Sciences.

Ms. Anita Y.M. Fung
- appointed as a director of The Hong Kong Mortgage Corporation Limited; and
- appointed as a trustee of Asia Society Hong Kong Center.

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 Group 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	16,330,000	0.36	27,490,000	8,840,000	0.65	2,950,000
Philip N.L. Chen	Personal	–	–	21,500,000	–	–	–
Ronald J. Arculli	Personal & Corporate	724,346	0.02	–	1,089,975	0.08	–
Dominic C.F. Ho	–	–	–	–	–	–	–
Nelson W.L. Yuen	Personal	–	–	24,320,000	–	–	–
Andrew K.C. Chan	–	–	–	–	–	–	–
H.K. Chang	–	–	–	–	–	–	–
Anita Y.M. Fung	–	–	–	–	–	–	–
H.C. Ho	Personal	–	–	10,450,000	–	–	–

Notes

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

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

Date Granted (mm/dd/yyyy)	Name	Number of Shares under Option: As at Jan 1, 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%	08/20/2017
	Nelson W.L. Yuen	3,510,000	–	3,510,000		08/21/2009: 20%	
						08/21/2010: 30%	
						08/21/2011: 40%	
08/21/2007	Ronnie C. Chan	5,600,000	–	5,600,000	$25.00	08/21/2009: 10%	08/20/2017
	Nelson W.L. Yuen	5,400,000	–	5,400,000		08/21/2010: 20%	
						08/21/2011: 30%	
						08/21/2012: 40%	
09/01/2008	H.C. Ho	300,000	–	300,000	$24.20	09/01/2010: 10%	08/31/2018
						09/01/2011: 20%	
						09/01/2012: 30%	
						09/01/2013: 40%	
12/31/2008	Nelson W.L. Yuen	8,910,000	–	8,910,000	$17.36	12/31/2010: 10%	12/30/2018
	H.C. Ho	300,000	–	300,000		12/31/2011: 20%	
						12/31/2012: 30%	
						12/31/2013: 40%	
02/08/2010	Ronnie C. Chan	6,500,000	–	6,500,000	$26.46	02/08/2012: 10%	02/07/2020
	Nelson W.L. Yuen	6,500,000	–	6,500,000		02/08/2013: 20%	
						02/08/2014: 30%	
						02/08/2015: 40%	
07/29/2010	Philip N.L. Chen	10,000,000	–	10,000,000	$33.05	07/29/2012: 10%	07/28/2020
						07/29/2013: 20%	
						07/29/2014: 30%	
						07/29/2015: 40%	
09/29/2010	H.C. Ho	2,000,000	–	2,000,000	$36.90	09/29/2012: 10%	09/28/2020
						09/29/2013: 20%	
						09/29/2014: 30%	
						09/29/2015: 40%	
06/13/2011	Ronnie C. Chan	4,500,000	–	4,500,000	$30.79	06/13/2013: 10%	06/12/2021
	Philip N.L. Chen	4,500,000	–	4,500,000		06/13/2014: 20%	
	H.C. Ho	3,000,000	–	3,000,000		06/13/2015: 30%	
						06/13/2016: 40%	

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

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

Date Granted (mm/dd/yyyy)	Name	Number of Shares under Option: As at Jan 1, 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 the Company and an associate of a director of the Company) was granted and held share options to subscribe for 200,000 shares and 150,000 shares in the Company at respective exercise prices per share of HK$28.20 and HK$22.60.

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

Date Granted (mm/dd/yyyy)	Name	Number of Shares under Option: As at Jan 1, 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%	11/19/2016
						11/20/2008: 20%	
						11/20/2009: 30%	
						11/20/2010: 40%	

Save as disclosed above, none of the Directors of the Company 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, its holding company or any of their respective 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*	2,504,982,340	55.70
Cole Enterprises Holdings (PTC) Limited	*1*	2,504,982,340	55.70
Merssion Limited	*1*	2,504,982,340	55.70
Hang Lung Group Limited	*2*	2,476,649,240	55.07
Prosperland Housing Limited	*3*	1,267,608,690	30.60
Purotat Limited	*3*	354,227,500	8.55
First Eagle Investment Management, LLC	*4*	243,099,203	5.41

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. Cole Enterprises Holdings (PTC) Limited and Merssion Limited held 36.69% interests in Hang Lung Group Limited ("HLGL"). The shares held by HLGL and its subsidiaries were included in the above-mentioned number of 2,504,982,340.

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

3. These companies are wholly-owned subsidiaries of HLGL. Their interests were included in the above-mentioned number of 2,476,649,240 shares held by HLGL.

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

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$671 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 Company 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 Properties Limited

(Incorporated in Hong Kong with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 38 to 58 which comprises the consolidated statement of financial position of Hang Lung Properties Limited ("the Company") as of June 30, 2016 and the related consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of 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)	**6,311**	4,607	**5,311**	3,673
Direct costs and operating expenses		**(1,991)**	(1,084)	**(1,674)**	(862)
Gross profit		**4,320**	3,523	**3,637**	2,811
Other net income	3	**159**	8	**135**	6
Administrative expenses		**(307)**	(330)	**(259)**	(265)
Operating profit before changes in fair value of investment properties		**4,172**	3,201	**3,513**	2,552
Net (decrease)/increase in fair value of investment properties		**(335)**	427	**(284)**	341
Operating profit after changes in fair value of investment properties		**3,837**	3,628	**3,229**	2,893
Interest income		**470**	614	**396**	491
Finance costs		**(540)**	(528)	**(455)**	(420)
Net interest (expense)/income	4	**(70)**	86	**(59)**	71
Share of profits of joint ventures		**30**	37	**25**	30
Profit before taxation	2(a) & 5	**3,797**	3,751	**3,195**	2,994
Taxation	6(a)	**(656)**	(665)	**(551)**	(529)
Profit for the period		**3,141**	3,086	**2,644**	2,465
Attributable to:					
Shareholders		**2,935**	2,841	**2,471**	2,271
Non-controlling interests		**206**	245	**173**	194
		3,141	3,086	**2,644**	2,465
Earnings per share	8(a)				
Basic		**HK$0.65**	HK$0.63	**RMB0.55**	RMB0.51
Diluted		**HK$0.65**	HK$0.63	**RMB0.55**	RMB0.51

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		**3,141**	3,086	**2,644**	2,465
Other comprehensive income	6(b)				
Item that may be reclassified subsequently to profit or loss:					
Exchange difference arising from translation of foreign subsidiaries/ to presentation currency		**(1,661)**	12	**476**	(50)
Total comprehensive income for the period		**1,480**	3,098	**3,120**	2,415
Total comprehensive income attributable to:					
Shareholders		**1,385**	2,858	**2,940**	2,225
Non-controlling interests		**95**	240	**180**	190
		1,480	3,098	**3,120**	2,415

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	**127,976**	129,425	**109,561**	108,981
Investment properties under development	9	**16,961**	16,709	**14,496**	13,998
Other property, plant and equipment		**334**	336	**286**	283
		145,271	146,470	**124,343**	123,262
Interest in joint ventures		**1,245**	1,241	**1,068**	1,052
Other assets		**3**	4	**3**	3
Deferred tax assets		**11**	11	**9**	9
		146,530	147,726	**125,423**	124,326
Current assets					
Cash and deposits with banks	10	**28,733**	31,289	**24,628**	26,432
Trade and other receivables	11	**2,282**	1,173	**1,955**	987
Properties for sale		**3,144**	3,830	**2,697**	3,245
		34,159	36,292	**29,280**	30,664
Current liabilities					
Bank loans and other borrowings	12	**2,308**	4,693	**1,976**	3,961
Trade and other payables	13	**5,945**	6,806	**5,088**	5,723
Taxation payable		**692**	501	**593**	421
		8,945	12,000	**7,657**	10,105
Net current assets		**25,214**	24,292	**21,623**	20,559
Total assets less current liabilities		**171,744**	172,018	**147,046**	144,885

	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	**29,259**	28,078	**25,070**	23,702
Deferred tax liabilities		**8,808**	9,048	**7,529**	7,584
		38,067	37,126	**32,599**	31,286
NET ASSETS		**133,677**	134,892	**114,447**	113,599
Capital and reserves					
Share capital	14	**39,903**	39,903	**37,423**	37,423
Reserves		**87,914**	89,086	**72,016**	71,231
Shareholders' equity		**127,817**	128,989	**109,439**	108,654
Non-controlling interests		**5,860**	5,903	**5,008**	4,945
TOTAL EQUITY		**133,677**	134,892	**114,447**	113,599

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	**39,903**	**2,849**	**86,237**	**128,989**	**5,903**	**134,892**
Profit for the period	**–**	**–**	**2,935**	**2,935**	**206**	**3,141**
Exchange difference arising from translation of foreign subsidiaries	**–**	**(1,550)**	**–**	**(1,550)**	**(111)**	**(1,661)**
Total comprehensive income for the period	**–**	**(1,550)**	**2,935**	**1,385**	**95**	**1,480**
Final dividend in respect of previous financial year	**–**	**–**	**(2,608)**	**(2,608)**	**–**	**(2,608)**
Employee share-based payments	**–**	**34**	**17**	**51**	**–**	**51**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**(138)**	**(138)**
At June 30, 2016	**39,903**	**1,333**	**86,581**	**127,817**	**5,860**	**133,677**
At January 1, 2015	39,663	8,151	84,513	132,327	6,676	139,003
Profit for the period	–	–	2,841	2,841	245	3,086
Exchange difference arising from translation of foreign subsidiaries	–	17	–	17	(5)	12
Total comprehensive income for the period	–	17	2,841	2,858	240	3,098
Final dividend in respect of previous financial year	–	–	(2,646)	(2,646)	–	(2,646)
Issue of shares	4	(1)	–	3	–	3
Employee share-based payments	–	64	11	75	–	75
Dividends paid to non-controlling interests	–	–	–	–	(558)	(558)
At June 30, 2015	39,667	8,231	84,719	132,617	6,358	138,975

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	37,423	(786)	72,017	108,654	4,945	113,599
Profit for the period	–	–	2,471	2,471	173	2,644
Exchange difference arising from translation to presentation currency	–	469	–	469	7	476
Total comprehensive income for the period	–	469	2,471	2,940	180	3,120
Final dividend in respect of previous financial year	–	–	(2,199)	(2,199)	–	(2,199)
Employee share-based payments	–	30	14	44	–	44
Dividends paid to non-controlling interests	–	–	–	–	(117)	(117)
At June 30, 2016	37,423	(287)	72,303	109,439	5,008	114,447
At January 1, 2015	37,224	(2,656)	70,611	105,179	5,266	110,445
Profit for the period	–	–	2,271	2,271	194	2,465
Exchange difference arising from translation to presentation currency	–	(46)	–	(46)	(4)	(50)
Total comprehensive income for the period	–	(46)	2,271	2,225	190	2,415
Final dividend in respect of previous financial year	–	–	(2,119)	(2,119)	–	(2,119)
Issue of shares	3	–	–	3	–	3
Employee share-based payments	–	51	9	60	–	60
Dividends paid to non-controlling interests	–	–	–	–	(442)	(442)
At June 30, 2015	37,227	(2,651)	70,772	105,348	5,014	110,362

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	*For information purpose only* 2015 RMB Million
Operating activities				
Cash generated from operations	**3,577**	3,037	**3,008**	2,428
Income tax paid	**(535)**	(613)	**(451)**	(485)
Net cash generated from operating activities	**3,042**	2,424	**2,557**	1,943
Investing activities				
Payment for property, plant and equipment	**(1,345)**	(3,018)	**(1,131)**	(2,385)
Decrease/(Increase) in bank deposits with maturity greater than three months	**3,654**	(8,621)	**3,084**	(6,904)
Other cash flows arising from investing activities	**569**	649	**480**	519
Net cash generated from/(used in) investing activities	**2,878**	(10,990)	**2,433**	(8,770)
Financing activities				
Proceeds from new bank loans and other borrowings	**2,481**	2,917	**2,092**	2,320
Repayments of bank loans	**(3,495)**	(2,918)	**(2,946)**	(2,341)
Interest and other borrowing costs paid	**(684)**	(748)	**(576)**	(594)
Dividends paid	**(2,608)**	(2,646)	**(2,199)**	(2,119)
Dividends paid to non-controlling interests	**(138)**	(558)	**(117)**	(442)
Other cash flows arising from financing activities	**–**	3	**–**	3
Net cash used in financing activities	**(4,444)**	(3,950)	**(3,746)**	(3,173)
Increase/(Decrease) in cash and cash equivalents	**1,476**	(12,516)	**1,244**	(10,000)
Effect of foreign exchange rate changes	**(386)**	18	**33**	(1)
Cash and cash equivalents at January 1	**26,870**	39,887	**22,690**	31,830
Cash and cash equivalents at June 30	**27,960**	27,389	**23,967**	21,829
Analysis of the balance of cash and cash equivalents:				
Cash and deposits with banks	**28,733**	36,069	**24,628**	28,779
Less: Bank deposits with maturity greater than three months	**(773)**	(8,680)	**(661)**	(6,950)
Cash and cash equivalents	**27,960**	27,389	**23,967**	21,829

The accompanying notes form part of the interim financial report.

1. BASIS OF PREPARATION

The unaudited interim financial report has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, *Interim Financial Reporting,* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure provisions of 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 36 to 37.

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

Management evaluates performance primarily based on profit before taxation.

Segment assets principally comprise all non-current assets and current assets directly attributable to each segment with the exception of interest in joint ventures, other assets, deferred tax assets and cash and deposits with banks. The investment properties of the Group are included in segment assets at their fair values whilst the changes in fair value of investment properties are 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)	**2,038**	2,118	**1,327**	1,464
– Hong Kong	**1,869**	1,744	**1,604**	1,497
	3,907	3,862	**2,931**	2,961
Property sales				
– Hong Kong	**2,404**	745	**1,389**	562
Segment total	**6,311**	4,607	**4,320**	3,523
Other net income			**159**	8
Administrative expenses			**(307)**	(330)
Operating profit before changes in fair value of investment properties			**4,172**	3,201
Net (decrease)/increase in fair value of investment properties			**(335)**	427
– property leasing in Hong Kong			**78**	334
– property leasing in mainland China			**(413)**	93
Interest income			**470**	614
Finance costs			**(540)**	(528)
Net interest (expense)/income			**(70)**	86
Share of profits of joint ventures			**30**	37
Profit before taxation			**3,797**	3,751

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	**88,149**	89,419
– Hong Kong	**58,366**	58,202
	146,515	147,621
Property sales		
– Hong Kong	**4,182**	3,852
Segment total	**150,697**	151,473
Interest in joint ventures	**1,245**	1,241
Other assets	**3**	4
Deferred tax assets	**11**	11
Cash and deposits with banks	**28,733**	31,289
Total assets	**180,689**	184,018

3. OTHER NET INCOME

	2016 HK$ Million	2015 HK$ Million
Gain on disposal of investment properties	**2**	67
Unrealized gain/(loss) on remeasurement of derivative financial instruments (Note)	**164**	(65)
Net exchange (loss)/gain	**(7)**	6
	159	8

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 Note denominated in USD.

4. NET INTEREST (EXPENSE)/INCOME

	2016 HK$ Million	2015 HK$ Million
Interest income on bank deposits	470	614
Interest expenses on bank loans and other borrowings	640	716
Other borrowing costs	28	48
Total borrowing costs	668	764
Less: Borrowing costs capitalized	(128)	(236)
Finance costs	540	528
Net interest (expense)/income	(70)	86

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)	671	632
Depreciation	27	24

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	**414**	265
Mainland China Income Tax	**316**	331
	730	596
Deferred tax		
Change in fair value of investment properties	**(104)**	24
Other origination and reversal of temporary differences	**30**	45
	(74)	69
Total income tax expense	**656**	665

(b) There is no tax effect relating to the component 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: HK17 cents (2015: HK17 cents) per share	**765**	763

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 HK58 cents (2014: HK59 cents) per share	**2,608**	2,646

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)	**2,935**	2,841

	Number of shares	
	2016 Million	2015 Million
Weighted average number of shares used in calculating basic and diluted earnings per share (Note)	**4,497**	4,485

Note: Diluted earnings per share were the same as the basic earnings per share for the periods as there were no dilutive potential ordinary shares in existence during both periods.

(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	**2,935**	2,841
Effect of changes in fair value of investment properties	**335**	(427)
Effect of corresponding deferred tax	**(104)**	24
Effect of changes in fair value of investment properties of joint ventures	**–**	(8)
	231	(411)
Non-controlling interests	**1**	18
	232	(393)
Underlying net profit attributable to shareholders	**3,167**	2,448

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

	2016	2015
Basic	**HK$0.70**	HK$0.55
Diluted	**HK$0.70**	HK$0.55

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$889 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 currencies denominated in:

	June 30, 2016 HK$ Million	December 31, 2015 HK$ Million
Hong Kong Dollars equivalent of:		
Renminbi	**26,531**	30,102
Hong Kong Dollars	**2,198**	1,181
United States Dollars	**4**	6
	28,733	31,289

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	**31,567**	32,771
Less: Cash and deposits	**(28,733)**	(31,289)
Net debt	**2,834**	1,482

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)	**1,080**	41
1–3 months	**16**	8
Over 3 months	**16**	4
	1,112	53

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

(b) Included in other receivables of the Group is deposit of land acquisition in mainland China of 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$7,670 million (December 31, 2015: HK$11,715 million) committed undrawn banking facilities.

In addition, a wholly-owned subsidiary of the Company 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	**2,201**	2,094
Due after 3 months	**796**	582
	2,997	2,676

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	**4,497**	**39,903**	4,485	39,663
Shares issued under share option scheme	**–**	**–**	12	240
At June 30/December 31	**4,497**	**39,903**	4,497	39,903

15. SHARE OPTION SCHEMES

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

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

(a) 2002 Share Option Scheme

	Number of share options					
Date granted	Outstanding on January 1, 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 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 were granted or cancelled during the period.

16. RESERVES

	Other reserves				
	Exchange reserve HK$ Million	Employee share-based compensation reserve HK$ Million	Total HK$ Million	Retained profits HK$ Million	Total reserves HK$ Million
At January 1, 2016	2,116	733	2,849	86,237	89,086
Profit for the period	–	–	–	2,935	2,935
Exchange difference arising from translation of foreign subsidiaries	(1,550)	–	(1,550)	–	(1,550)
Total comprehensive income for the period	(1,550)	–	(1,550)	2,935	1,385
Final dividend in respect of previous financial year	–	–	–	(2,608)	(2,608)
Employee share-based payments	–	34	34	17	51
At June 30, 2016	566	767	1,333	86,581	87,914
At January 1, 2015	7,490	661	8,151	84,513	92,664
Profit for the period	–	–	–	2,841	2,841
Exchange difference arising from translation of foreign subsidiaries	17	–	17	–	17
Total comprehensive income for the period	17	–	17	2,841	2,858
Final dividend in respect of previous financial year	–	–	–	(2,646)	(2,646)
Issue of shares	–	(1)	(1)	–	(1)
Employee share-based payments	–	64	64	11	75
At June 30, 2015	7,507	724	8,231	84,719	92,950

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**	1,539
Authorized but not contracted for	**37,171**	37,850
	38,756	39,389

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

19. 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, 4,497,175,670 shares are listed on The Stock Exchange of Hong Kong Limited. It has a sponsored American Depositary Receipt (ADR) Program in the New York market.

STOCK CODE

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

SHARE INFORMATION

Share price as at June 30, 2016: HK$15.62
Market capitalization as at June 30, 2016: HK$70.25 billion

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