恒隆集團有限公司
HANG LUNG GROUP LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00010)

2016 INTERIM RESULTS

CONTENTS

FINANCIAL HIGHLIGHTS

in HK$ Million (unless otherwise stated)

RESULTS

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

UNDERLYING RESULTS

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

FINANCIAL POSITION

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

REVIEW OF OPERATIONS

CONSOLIDATED RESULTS

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

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

Revenue and Operating Profit for the Six Months Ended June 30

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

DIVIDEND

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

PROPERTY LEASING

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

Mainland China

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

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

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

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

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

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

* Soft opening on December 18, 2015.

- *Shopping Malls*

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

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

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

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

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

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

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

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

- *Office*

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

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

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

- *Residential and Serviced Apartments*

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

Hong Kong

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

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

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

- *Commercial*

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

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

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

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

- *Office*

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

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

- *Residential and Serviced Apartments*

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

PROPERTY SALES

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

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

PROPERTY REVALUATION

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

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

PROPERTY DEVELOPMENT AND CAPITAL COMMITMENT

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

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

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

LIQUIDITY AND FINANCIAL RESOURCES

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

- *Liquidity Management*

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

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

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

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

- *Debt Management*

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

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

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

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

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

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

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

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

- *Foreign Exchange Management*

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

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

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

(a) RMB Exposure

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

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

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

(b) USD Exposure

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

- *Gearing Ratios and Interest Cover*

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

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

- *Charge of Assets*

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

- *Contingent Liabilities*

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

OUTLOOK

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

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

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE SIX MONTHS ENDED JUNE 30, 2016 (UNAUDITED)

	Note	**2016** **HK$ Million**	2015 HK$ Million
Revenue	*2(a)*	**6,610**	4,893
Direct costs and operating expenses		**(2,079)**	(1,168)
Gross profit		**4,531**	3,725
Other net income	*3*	**159**	68
Administrative expenses		**(346)**	(367)
Operating profit before changes in fair value of investment properties		**4,344**	3,426
Net (decrease)/increase in fair value of investment properties		**(314)**	445
Operating profit after changes in fair value of investment properties		**4,030**	3,871
Interest income		**479**	628
Finance costs		**(587)**	(588)
Net interest (expense)/income	*4*	**(108)**	40
Share of profits of joint ventures		**107**	135
Profit before taxation	*2(a) & 5*	**4,029**	4,046
Taxation	*6(a)*	**(708)**	(716)
Profit for the period		**3,321**	3,330
Attributable to:			
Shareholders		**1,790**	1,779
Non-controlling interests		**1,531**	1,551
		3,321	3,330
Earnings per share	*8(a)*		
Basic		**HK$1.32**	HK$1.31
Diluted		**HK$1.32**	HK$1.31

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2016 (UNAUDITED)

	Note	**2016 HK$ Million**	2015 HK$ Million
Profit for the period		**3,321**	3,330
Other comprehensive income	*6(b)*		
Items that may be reclassified subsequently to profit or loss:			
- Net movement in investment revaluation reserve		**-**	(38)
- Exchange difference arising from translation of foreign subsidiaries		**(1,774)**	(6)
Other comprehensive income for the period		**(1,774)**	(44)
Total comprehensive income for the period		**1,547**	3,286
Total comprehensive income attributable to:			
Shareholders		**847**	1,748
Non-controlling interests		**700**	1,538
		1,547	3,286

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT JUNE 30, 2016

	Note	**(Unaudited) June 30, 2016 HK$ Million**	(Audited) December 31, 2015 HK$ Million
Non-current assets			
Investment properties	*9*	**135,798**	137,338
Investment properties under development	*9*	**16,961**	16,709
Other property, plant and equipment		**334**	338
Interest in joint ventures		**3,535**	3,455
Other assets		**1,342**	1,343
Deferred tax assets		**21**	19
		157,991	159,202
Current assets			
Cash and deposits with banks		**29,006**	31,482
Trade and other receivables	*10*	**2,245**	1,170
Properties for sale		**3,166**	3,852
		34,417	36,504
Current liabilities			
Bank loans and other borrowings		**4,107**	6,640
Trade and other payables	*11*	**6,394**	7,353
Taxation payable		**742**	577
		11,243	14,570
Net current assets		**23,174**	21,934
Total assets less current liabilities		**181,165**	181,136
Non-current liabilities			
Bank loans and other borrowings		**31,860**	30,690
Deferred tax liabilities		**9,910**	10,144
		41,770	40,834
NET ASSETS		**139,395**	140,302
Capital and reserves			
Share capital		**3,989**	3,893
Reserves		**72,111**	71,577
Shareholders' equity		**76,100**	75,470
Non-controlling interests		**63,295**	64,832
TOTAL EQUITY		**139,395**	140,302

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The interim results set out in the announcement do not constitute the Group's interim report for the six months ended June 30, 2016 but are extracted from the report.

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 this 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 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 this announcement of interim results as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those consolidated 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.

1. Basis of preparation (Continued)

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.

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

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

2. Revenue and segment information (Continued)

(b) Total assets by segments

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

3. Other net income

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

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

4. Net interest (expense)/income

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

5. Profit before taxation

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

6. Taxation

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

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

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

7. Dividend

(a) Interim dividend

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

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

(b) Final dividend approved and paid during the period

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

8. Earnings per share

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

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

8. Earnings per share (Continued)

(a) (Continued)

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

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

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

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

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

9. Investment properties and investment properties under development

(a) Addition

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

(b) Valuation

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

10. Trade and other receivables

(a) Included in trade and other receivables, aging analysis of trade receivables (based on the due date) is as follows:

	June 30, 2016 HK$ Million	December 31, 2015 HK$ Million
Current and within 1 month (note)	**1,082**	42
1 to 3 months	**17**	8
Over 3 months	**16**	4
Total trade receivables	**1,115**	54

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

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

10. Trade and other receivables (Continued)

(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).

11. Trade and other payables

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

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

OTHER INFORMATION

Employees

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

Purchase, Sale or Redemption of Listed Securities

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

Compliance with Corporate Governance Code

During the six months ended June 30, 2016, the Company has 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 on The Stock Exchange of Hong Kong Limited.

Review of Interim Results

The interim results for the six months ended June 30, 2016 have been reviewed by the Company's Audit Committee and auditor, KPMG.

Book Close Dates

Book close dates (both days inclusive)	September 14 to 15, 2016
Latest time to lodge transfers	4:30 pm on September 13, 2016
Record date for interim dividend	September 15, 2016
Payment date for interim dividend	September 29, 2016

On Behalf of the Board
Ronnie C. Chan
Chairman

Hong Kong, July 28, 2016

As at the date of this announcement, the board of directors of the Company comprises the following directors:
Executive Directors: Mr. Ronnie C. CHAN, Mr. Philip N.L. CHEN and Mr. H.C. HO
Non-Executive Directors: Mr. Gerald L. CHAN, Mr. George K.K. CHANG and Mr. Roy Y.C. CHEN
Independent Non-Executive Directors: Mr. Simon S.O. IP, Prof. L.C. TSUI, Mr. Martin C.K. LIAO and Prof. P.W. LIU

GLOSSARY

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

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

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

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

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

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