恒隆集團
HANG LUNG GROUP

# 2012
## *Interim Report*

Stock Code: 10 HK

WE DO IT RIGHT

# Corporate Information

## DIRECTORS

Ronnie C. Chan *(Chairman)*
S.S. Yin *(Vice Chairman)* *
Philip N.L. Chen *(Managing Director)*
Gerald L. Chan #
H.K. Cheng *GBS, OBE, JP* *
Laura L.Y. Chen *
Simon S.O. Ip *CBE, JP* *
William P.Y. Ko
H.C. Ho

\# *Non-Executive Director*
* *Independent Non-Executive Director*

## AUDIT COMMITTEE

Simon S.O. Ip *CBE, JP (Chairman)*
H.K. Cheng *GBS, OBE, JP*
Laura L.Y. Chen

## NOMINATION AND REMUNERATION COMMITTEE

H.K. Cheng *GBS, OBE, JP (Chairman)*
Laura L.Y. Chen
Simon S.O. Ip *CBE, JP*

## AUTHORIZED REPRESENTATIVES

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

## COMPANY SECRETARY

Bella P.L. Chhoa

## REGISTERED OFFICE

28th Floor, Standard Chartered Bank Building
4 Des Voeux Road Central, Hong Kong
Tel: 2879 0111
Fax: 2868 6086

## INTERNET ADDRESS

Website: http://www.hanglunggroup.com
Email address: HLGroup@hanglung.com

## AUDITOR

KPMG
*Certified Public Accountants*

## RESULTS AND DIVIDEND

This is the first interim report since we converted from June 30 year end to calendar year end.

For the half year ended June 30, 2012, turnover grew 55% to HK$4,539 million compared to the last corresponding period. Net profit attributable to shareholders increased 29% to HK$2,101 million; earnings per share rose 29% to HK$1.56. When excluding the effect of revaluation gains, the underlying net profit attributable to shareholders advanced by 52% to HK$1,435 million and the underlying earnings per share by 51% to HK$1.06.

The Board has declared an interim dividend of HK19 cents per share payable on September 13, 2012 to shareholders of record on August 31, 2012.

## OPERATIONS REVIEW

Overall we have had a satisfactory mid-year result. Compared to the comparable six months of a year ago, overall leasing turnover rose by 12% -- 3% for Hong Kong and 20% for the Mainland. Because rental margin in both places improved -- respectively to 83% and 78% -- leasing operating profit increased by 14% overall, with Hong Kong contributing 5% and the Mainland 24%.

At Shanghai Plaza 66, rental growth of the luxury mall has slowed considerably to a mere 2%. Again because of improvement in efficiency, i.e. in rental margin, operating profit advanced by 7%. While office rents rose by 5%, profit went up by 13%. A similar situation existed at Grand Gateway 66. Rents from the shopping center grew by 13% but profit by 17%; the equivalent numbers for residential and serviced apartments were respectively 11% and 15%. Office rent and profit both came in at 10%.

In Hong Kong, while rental turnover increased by only 3%, operating profit rose by 5%. Total rents received in our home city are now less than those on the Mainland -- 48% vs. 52% while the split for profit is 49% vs. 51%.

For our two new malls on the Mainland, Shenyang Palace 66 began with difficulties while Jinan Parc 66 started with great success. Nevertheless, both have improved significantly. Rental margin in the former rose from close to zero to 30% after about two years. For the latter, although it has had only ten months of operation, the number already stands at 53%. The equivalent number in Shanghai was 84%.

In Hong Kong, our subsidiary Hang Lung Properties (HLP) has sold 108 units of The Long Beach and nine flats of The HarbourSide. Profit margins as expected were excellent. We have also begun to part with mature investment properties, as I have notified shareholders as early as two years ago. What might be surprising to some was the profit that they generated, although I had long written about the conservatism of our outside professional valuer.

Our financial condition remained healthy. HLP has further strengthened its position by issuing US$500 million of 10-year bonds. The idea was not only to secure more money but to open a new source of funding and to extend the length of maturity.

## PROSPECTS

The world economy is in a troubled state and China cannot be spared. Its powerful export machine is affected and personal consumption especially the luxury sector is weakening. The latter is new to us -- it is the first time that we have seen it since 2000 when we opened our Shanghai Plaza 66, arguably one of China's best shopping centers. Consequently, rental growth will moderate at least for months to come. Nevertheless, we will as before rely on our expertise to improve operations so as to minimize the impact of market slowdown.

In my letter to HLP shareholders a year ago, we became cautious about China's future and our concerns were not merely economic in nature. Our worry has intensified and so we may not expand our new business as fast as we have hoped. To win this game, one should not only know how to attack; it is sometimes more critical to know when not to act. Such a stance may not be appreciated by some but in the long run, it is the only sensible thing to do. Success in avoiding trouble will pave the way for reaping the harvest from future opportunities. Our history of the past twenty years clearly proves the point. As I periodically remind shareholders including my family which is the single largest block, we are here for the long term. We want to win big, and success should not be measured in the short term.

We have a very strong balance sheet and even more so in the case of HLP. For the past seven years or so, HLP basically has had zero net debt. That means we are well prepared to take advantage of upcoming opportunities to buy land. Moreover, unlike a year ago when many local Mainland residential developers invaded our specialty, i.e. commercial real estate, many of them are now strapped for cash. They can hardly buy more land, hence many city governments are in a difficult financial position. Consequently, our negotiations with officials for land acquisition were made somewhat easier.

Nevertheless, we shall resist the temptation that comes with being cash-rich. If our assessment of the overall condition of China is correct, then there is no hurry. Land may become even cheaper tomorrow. More significantly, the possibility remains that there will be a reset of land price levels. If that is the case, those who have purchased in recent years may regret their previous actions. All that tells us is that conservatism may be the correct thing to do now and in the foreseeable future.

Hong Kong's residential land market is at an inflection point. The previous administration had refused to sell land for many years until 2011 when it was forced to by society including most major developers like us. Now everyone is guessing what the new Chief Executive Mr. C.Y. Leung will do.

(As an aside, it is altogether baffling why the previous administration refused to sell land for so long. Did it misread the market or was this deliberate?! By not selling land, residential prices have risen sharply over the last few years which was a root cause of Hong Kong's social dissatisfaction. There was hardly a segment of society including the real estate sector that agreed with the then Chief Executive. The motive for his insistence must be called into question.)

It is clear from public statements made by the new Chief Executive that he will undertake at least two major actions. The ultimate way to have a healthy market is to supply enough land. That is technically feasible. The second is to reintroduce the public housing programs. It is unfortunate but perhaps necessary to relieve the serious anxiety over high residential prices prevalent in society. I would only suggest here that such a non-market-oriented measure to address an immediate societal concern should be discontinued once the need no longer exists. After all, following the Asian Financial Crisis, the then Hong Kong government in the early 2000's did stop those programs. They were no longer needed until the last Chief Executive mishandled land supply. We can restart them now and stop them later as the market indicates. In the long run, it is better to let the market operate.

Since the government basically controls the new supply of land, it must learn to read the market and act accordingly to maintain steady housing prices. It can be achieved -- Singapore has for years succeeded and why not Hong Kong?!

Given this overall picture, I remain skeptical if we can buy land in Hong Kong. We may try like last month when we failed to win a tender, but market sentiment will have to be very pessimistic before we will have a chance. So be it. As our shareholders know, we only like to buy when there are no or very few competitors. The likelihood of that happening in the foreseeable future is not high. And if it occurs, then few people will be happy because it will entail severe market corrections. History has shown that we specialized in buying in such times as 1999-2000 in Hong Kong and 2009 and again 2011 on the Mainland.

Until such opportunities arrive, our efforts will again focus on the Mainland commercial market. As always, we will be patient and wait for the best time to buy land. While waiting, we will diligently build out the six huge projects on hand. We believe that to bet on China's urbanization and consumption growth will at least in the coming decade or two be the best game in town.

In the more immediate term, rental increase in mainland China may not be strong. It is plausible that for the rest of the year, as in the case of Hong Kong, rental performance will be quite similar to that of the past six months. Fortunately we own the best products in excellent locations. This means that in the longer term, we are in a most defensible position.

While it is hard to determine if there will be another window of opportunity this year to off-load completed flats in Hong Kong, it seems quite possible that we will be able to continue selling mature and older non-core properties. For reasons given above, profit therefrom should be pleasing.

Ronnie C. Chan
*Chairman of the Board of Directors*
Hong Kong, July 31, 2012

## OVERVIEW

This is the first interim result we have announced since we made the decision last year to change the financial year-end date to December 31. We would not normally have our interim financial report audited by our long-standing auditor, KPMG. However, in the interests of good corporate governance and to facilitate a meaningful comparison of the figures with the corresponding period of last year, the current interim financial report is fully audited by KPMG.

For the six months to June 30, 2012, net profit attributable to shareholders increased by 29% to HK$2,101 million as compared with the corresponding period in the previous year. The significant increase was mainly attributable to a sustained growth in our core leasing business and the sales of nine The HarbourSide and 108 The Long Beach residential flats. During the period, rental income of our leasing business grew by 12% to HK$3,265 million. While there was no property sale during the corresponding period last year, sales of The HarbourSide and The Long Beach residential flats and some car parking spaces generated turnover and profit of HK$1,274 million and HK$799 million, respectively. In addition, two non-core investment properties in Hong Kong were disposed of with a gain of HK$220 million, which was included as part of Other Income. A revaluation gain of HK$1,381 million was also recorded for the period, an increase of HK$234 million compared to the last corresponding period. When excluding the revaluation gain and its related deferred tax applicable in mainland China and non-controlling interests, underlying net profit increased by 52% to HK$1,435 million.

The Board of Directors has declared an interim dividend of HK19 cents per share, to be paid on September 13, 2012, to shareholders registered as of August 31, 2012. The Register of Members will be closed from August 29, 2012, to August 31, 2012, both days inclusive, and no transfer of shares will be effected during that period. To qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's share registrars, Computershare Hong Kong Investor Services Limited, not later than 4:30 p.m. on August 28, 2012.

## PROPERTY LEASING

Our property leasing operations continued to deliver strong income and profit growth during the period. Total rental income and profit grew by 12% to HK$3,265 million and 14% to HK$2,633 million, respectively.

### Hong Kong

Occupancy rates of both commercial properties and offices remained high at 95%. Together with positive rental reversions achieved across the portfolio, our Hong Kong rental income and profit grew by 3% and 5% to HK$1,567 million and HK$1,306 million, respectively. Excluding the effect of discontinued property management operations such as The Wesley and Queensway Plaza and the disposal of non-core investment properties, Star Centre and Park Towers, the growth in rental income would be 6%.

### Mainland China

In Shanghai, the rental turnover of Plaza 66 rose 4% to HK$725 million. The moderate growth relative to previous years was mainly attributable to a slowdown in retail consumption and the adverse effect of extensive renovation works carried out by some major tenants at the mall. Such works will be completed by the end of 2012. The office towers at Plaza 66 were 98% leased and their rental turnover rose 5% to HK$368 million.

Benefiting from our tenant mix strategy, more high-end retailers have established a presence at the shopping mall of Grand Gateway 66. Rental turnover rose 13% to HK$490 million compared to the last corresponding period. The office tower and serviced apartments at Grand Gateway 66 recorded rental growth of 10% and 11% to HK$131 million and HK$92 million, respectively. The entire complex was almost fully let.

Palace 66 in Shenyang generated rental turnover of HK$82 million in the first half of 2012, representing 9% growth compared to the same period of 2011. The occupancy rate dropped slightly to 90% as the mall was in the process of optimizing the tenant mix.

Parc 66 in Jinan which opened in August 2011 recorded a turnover of HK$178 million in the six months ended June 30, 2012, and was almost fully let.

Overall, rental turnover and profit of our Mainland operations grew by 20% to HK$1,698 million and 24% to HK$1,327 million, respectively. Our Mainland operations now accounted for 52% and 50% of the Group's property rental turnover and operating profit, respectively, up from 48% and 46% a year ago.

## PROPERTY SALES

During the period, we sold nine units of The HarbourSide and 108 units of The Long Beach at average prices of HK$32,100 and HK$10,600 per square foot, respectively. The sales of The HarbourSide and The Long Beach units achieved a profit margin of 65% and 61%, respectively. Together with the sale of some car parking spaces, total profit from property sales amounted to HK$799 million.

## DISPOSAL OF NON-CORE PROPERTIES

Two non-core investment properties in Hong Kong, Star Centre in Kwai Chung and shops and car parking spaces of Park Towers in Causeway Bay, were sold during the period. A gain on disposal of HK$220 million was recorded as part of Other Income.

## PROPERTY DEVELOPMENT

Shenyang Forum 66 shopping mall is scheduled to open in September this year. The mall is already fully leased.

With satisfactory progress on the construction of Wuxi Center 66, we will soon commence pre-leasing activities for the shopping mall. Other projects under development on the Mainland are progressing as planned.

Major construction works of the Blue Pool Road residential project in Happy Valley, Hong Kong, will soon be complete. Interior fitout work will be carried out over the next few months.

## PROPERTY REVALUATION

For the six months ended June 30, 2012, Hong Kong's investment properties recorded a valuation gain of HK$953 million compared to HK$732 million in the previous period.

Our Mainland portfolio of investment properties recorded a total valuation gain of HK$428 million against HK$409 million in the comparable period in 2011.

For those investment properties under development on the Mainland, no revaluation gain was recorded against HK$6 million in the previous period.

Overall, investment properties including those under development on the Mainland recorded a total valuation gain of HK$1,381 million compared to HK$1,147 million in the comparable period in 2011.

## FINANCIAL POSITION

The Group continued to maintain a strong balance sheet. It had HK$31,916 million in cash and deposits with banks as at June 30, 2012, most of which was held in Renminbi (RMB) bank deposits to hedge against currency fluctuations of our RMB construction payments on the Mainland. After deducting total borrowings amounting to HK$34,491 million, the Group had a net debt balance of HK$2,575 million and a low gearing ratio of 2% at the reporting date.

Given the uncertain economic outlook, the Group through a wholly-owned subsidiary of its main subsidiary, Hang Lung Properties Limited, issued in total an equivalent of HK$5,171 million of 10-year fixed rate bonds during the six months ended June 30, 2012. The bonds were un-rated and issued with coupon rates ranged from 4.15% to 4.75% per annum under the Medium Term Note (MTN) Program established earlier. Proceeds from the bond issue were used to repay some short-term bank borrowings. As a result, the average maturity period of our debt portfolio was lengthened to 4.6 years. The bond issuance has further enhanced the Group's ability in managing future interest rate volatility and re-financing risks.

In addition to the liquid funds as mentioned above, the Group has ample financial facilities available for use if necessary. It can issue more debt securities of up to approximately HK$18.2 billion by drawing down the remaining limit of the MTN Program. Furthermore, the Group had committed undrawn banking facilities amounting to more than HK$7 billion as at June 30, 2012.

## OUTLOOK

The world economy is rather unsettled. A flat US economy and the sovereign debt problems in Europe are likely to have an adverse impact on the Chinese economy. However, this may present favorable opportunities for us to capitalize on our financial strength and buy more land.

We will continue to focus on building out the various Mainland commercial projects under development. The Shenyang Forum 66 shopping mall is due for opening in September this year. Other projects are progressing as planned.

As long as market conditions allow, we will sell more residential flats and matured properties in Hong Kong.

There are signs of a slowdown in personal consumption growth, especially in the luxury sector, on the Mainland. This is expected to bring pressure on our Shanghai rents.

Although Shenyang Palace 66 recorded a high single digit rental growth during the first half, a smaller growth in the second half is expected as the shopping mall is going through the process of changing its tenant mix for longer-term benefits.

Performance of the one-year-old Jinan Parc 66 is likely to improve further in the second half. Rental income and profit of our diversified Hong Kong investment properties portfolio would be steady.

Overall, it is plausible that rental income and leasing profit growth would be similar to that of the past six months.

# Corporate Governance

We are committed to maintaining a high standard of corporate governance. During the six-month period ended June 30, 2012, we adopted corporate governance principles that emphasize a quality Board of Directors (the "Board"), effective internal controls, stringent disclosure practices, transparency and complete accountability towards our stakeholders. The general framework of our corporate governance practices is set out in our corporate governance report in the 2011 Annual Report, which is available on our website.

## BOARD

The Board currently consists of nine members, comprising four Executive Directors, one Non-Executive Director and four Independent Non-Executive Directors. There is a clear division of responsibilities between the Chairman and the Managing Director (Chief Executive Officer). 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 the Board members, together with biographical details, is included on our website.

## 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 on a regular basis to review human resources issues, including 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 and composition, and make recommendations to the Board on the appointment, re-appointment and succession planning of Directors, etc. The terms of reference explaining the Committee's role, which have been reviewed and revised with reference to Corporate Governance Code (effective from April 1, 2012) (the "New Corporate Governance Code") and adopted by the Board, can be accessed on both our website and the website of Hong Kong Exchanges and Clearing Limited ("HKEx").

## AUDIT COMMITTEE

Our Audit Committee, which is chaired by an Independent Non-Executive Director, currently consists of three Independent Non-Executive Directors. The Committee members meet at least twice a year. Meetings are normally attended by external and internal auditors, the finance director and the company secretary for the purposes of discussing the nature and scope of our internal audit work and assessing the Group's internal controls. The terms of reference explaining the Committee's role and authority, which have been reviewed and revised with reference to the New Corporate Governance Code to include, inter alia, duties regarding corporate governance functions and adopted by the Board, are available on both our website and the website of HKEx. The Audit Committee has reviewed this interim report, including the audited interim financial report for the six-month period ended June 30, 2012, and has recommended their adoption by the Board.

This interim financial report is audited by KPMG, our auditor, in accordance with the Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. KPMG's Independent Auditor's Report is set out on pages 17 to 18 of this interim report.

## COMPLIANCE WITH CORPORATE GOVERNANCE CODE

During the six-month period ended June 30, 2012, we have complied with the code provisions set out in the Code on Corporate Governance Practices (effective until March 31, 2012) and the New Corporate Governance Code (effective from April 1, 2012) 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") save that the Non-Executive Director, Mr. Gerald L. Chan and an Independent Non-Executive Director, Ms. Laura L.Y. Chen, were unable to attend the annual general meeting of the Company held on April 18, 2012 as provided for in code provision A.6.7 as they had overseas engagements.

## COMPLIANCE WITH MODEL CODE CONTAINED IN APPENDIX 10 TO LISTING RULES

We have adopted a code of conduct with regard to securities transactions by Directors (the "Code of Conduct") on terms that are no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the "Model Code"). The Company has made specific enquiries to all Directors and confirmed that they have complied with the required standard set out in the Model Code and the Code of Conduct throughout the six-month period ended June 30, 2012.

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

Mr. Simon S.O. Ip, an Independent Non-Executive Director of the Company, ceased to be a member of The Advisory Committee on Post-service Employment of Civil Servants with effect from July 14, 2012.

Save as disclosed above, there are no changes in the information of Directors since the date of the 2011 Annual Report of the Company.

## Purchase, Sale or Redemption of Listed Securities

During the six-month period ended June 30, 2012, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities.

## Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at June 30, 2012, the interests or short positions of each of the Directors in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code or which were recorded in the register required to be kept by the Company under Section 352 of the SFO are as follows:

| | | *The Company (Long Position)* | | | *Hang Lung Properties Limited (Long Position)* | | |
|---|---|---|---|---|---|---|---|
| Name of Directors | Capacity | No. of Shares | % of Issued Capital | No. of Shares under Option *(Note 1)* | No. of Shares | % of Issued Capital | No. of Shares under Option *(Note 2)* |
| Ronnie C. Chan | Personal | – | – | 11,790,000 | – | – | 36,570,000 |
| S.S. Yin | – | – | – | – | – | – | – |
| Philip N.L. Chen | Personal | – | – | – | – | – | 14,500,000 |
| Gerald L. Chan | – | – | – | – | – | – | – |
| H.K. Cheng | – | – | – | – | – | – | – |
| Laura L.Y. Chen | – | – | – | – | – | – | – |
| Simon S.O. Ip | – | – | – | – | – | – | – |
| William P.Y. Ko | Personal | – | – | – | – | – | 25,730,000 |
| H.C. Ho | Personal | – | – | – | – | – | 5,600,000 |

Notes

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

| Date Granted (mm/dd/yyyy) | Name | No. of Shares under Option: As at Jan 1, 2012 | No. of Shares under Option: Exercised during the Period | No. of Shares under Option: As at Jun 30, 2012 | Exercise Price per Share (HK$) | Vested Dates (mm/dd/yyyy) | Expiry Date (mm/dd/yyyy) |
|---|---|---|---|---|---|---|---|
| 05/20/2004 | Ronnie C. Chan | 5,090,000 | – | 5,090,000 | $9.45 | 05/20/2005 : 25% | 05/19/2014 |
| | William P.Y. Ko | 494,000 | 494,000 | – | | 05/20/2006 : 25% | |
| | | | | | | 05/20/2007 : 25% | |
| | | | | | | 05/20/2008 : 25% | |
| 11/20/2006 | Ronnie C. Chan | 6,700,000 | – | 6,700,000 | $20.52 | 11/20/2007 : 10% | 11/19/2016 |
| | William P.Y. Ko | 500,000 | 500,000 | – | | 11/20/2008 : 20% | |
| | | | | | | 11/20/2009 : 30% | |
| | | | | | | 11/20/2010 : 40% | |

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

| Date Granted (mm/dd/yyyy) | Name | No. of Shares under Option: As at Jan 1, 2012 | No. of Shares under Option: Exercised during the Period | No. of Shares under Option: As at Jun 30, 2012 | Exercise Price per Share (HK$) | Vested Dates (mm/dd/yyyy) | Expiry Date (mm/dd/yyyy) |
|---|---|---|---|---|---|---|---|
| 05/20/2004 | Ronnie C. Chan | 5,090,000 | – | 5,090,000 | $9.20 | 05/20/2005 : 25% | 05/19/2014 |
| | William P.Y. Ko | 1,330,000 | – | 1,330,000 | | 05/20/2006 : 25% | |
| | | | | | | 05/20/2007 : 25% | |
| | | | | | | 05/20/2008 : 25% | |
| 09/01/2005 | William P.Y. Ko | 500,000 | – | 500,000 | $12.35 | 09/01/2006 : 25% | 08/31/2015 |
| | | | | | | 09/01/2007 : 25% | |
| | | | | | | 09/01/2008 : 25% | |
| | | | | | | 09/01/2009 : 25% | |
| 11/20/2006 | Ronnie C. Chan | 2,000,000 | – | 2,000,000 | $17.14 | 11/20/2007 : 10% | 11/19/2016 |
| | William P.Y. Ko | 3,700,000 | – | 3,700,000 | | 11/20/2008 : 20% | |
| | | | | | | 11/20/2009 : 30% | |
| | | | | | | 11/20/2010 : 40% | |
| 08/21/2007 | Ronnie C. Chan | 3,640,000 | – | 3,640,000 | $25.00 | 08/21/2008 : 10% | 08/20/2017 |
| | William P.Y. Ko | 2,600,000 | – | 2,600,000 | | 08/21/2009 : 20% | |
| | | | | | | 08/21/2010 : 30% | |
| | | | | | | 08/21/2011 : 40% | |

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

| Date Granted (mm/dd/yyyy) | Name | No. of Shares under Option: As at Jan 1, 2012 | No. of Shares under Option: Exercised during the Period | No. of Shares under Option: As at Jun 30, 2012 | Exercise Price per Share (HK$) | Vested Dates (mm/dd/yyyy) | Expiry Date (mm/dd/yyyy) |
|---|---|---|---|---|---|---|---|
| 08/21/2007 | Ronnie C. Chan | 5,600,000 | – | 5,600,000 | $25.00 | 08/21/2009 : 10% | 08/20/2017 |
| | William P.Y. Ko | 4,000,000 | – | 4,000,000 | | 08/21/2010 : 20% | |
| | | | | | | 08/21/2011 : 30% | |
| | | | | | | 08/21/2012 : 40% | |
| 09/01/2008 | H.C. Ho | 300,000 | – | 300,000 | $24.20 | 09/01/2010 : 10% | 08/31/2018 |
| | | | | | | 09/01/2011 : 20% | |
| | | | | | | 09/01/2012 : 30% | |
| | | | | | | 09/01/2013 : 40% | |
| 12/31/2008 | Ronnie C. Chan | 9,240,000 | – | 9,240,000 | $17.36 | 12/31/2010 : 10% | 12/30/2018 |
| | William P.Y. Ko | 6,600,000 | – | 6,600,000 | | 12/31/2011 : 20% | |
| | H.C. Ho | 300,000 | – | 300,000 | | 12/31/2012 : 30% | |
| | | | | | | 12/31/2013 : 40% | |
| 02/08/2010 | Ronnie C. Chan | 6,500,000 | – | 6,500,000 | $26.46 | 02/08/2012 : 10% | 02/07/2020 |
| | William P.Y. Ko | 4,000,000 | – | 4,000,000 | | 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% | |
| | William P.Y. Ko | 3,000,000 | – | 3,000,000 | | 06/13/2015 : 30% | |
| | H.C. Ho | 3,000,000 | – | 3,000,000 | | 06/13/2016 : 40% | |

Save as disclosed above, none of the Directors of the Company or any of their associates had, as at June 30, 2012, any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations.

Other than as stated above, at no time during the six-month period ended June 30, 2012 was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company (including their spouses and children under 18 years of age) to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

# Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

As at June 30, 2012, 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:

| | | No. of Shares or Underlying Shares Held | | % of Issued Capital | |
|---|---|---|---|---|---|
| Name | *Note* | Long Position | Short Position | Long Position | Short Position |
| Chan Tan Ching Fen | *1* | 498,428,580 | – | 36.96 | – |
| Cole Enterprises Holdings Limited | *1* | 498,428,580 | – | 36.96 | – |
| Merssion Limited | *1* | 498,428,580 | – | 36.96 | – |
| Kingswick Investment Limited | *2* | 97,965,000 | – | 7.27 | – |
| Aberdeen Asset Management Plc and its Associates | *3* | 188,865,454 | – | 14.00 | – |
| Davis Selected Advisers, L.P. | *3* | 66,870,000 | – | 5.01 | – |

Notes

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

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

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

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

Save as disclosed above, as at June 30, 2012, no other interest required to be recorded in the register kept under Section 336 of the SFO has been notified to the Company.

# Independent Auditor's Report to the Shareholders of Hang Lung Group Limited

*(Incorporated in Hong Kong with limited liability)*

We have audited the interim financial report set out on pages 19 to 38 which comprises the consolidated statement of financial position of Hang Lung Group Limited ("the Company") as of June 30, 2012 and the related consolidated income statement, consolidated statement of comprehensive income and 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 provision thereof and Hong Kong Accounting Standard 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants.

## DIRECTORS' RESPONSIBILITY FOR THE INTERIM FINANCIAL REPORT

The directors of the Company are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34 and for such internal control as the directors determine is necessary to enable the preparation of interim financial report that are free from material misstatement, whether due to fraud or error.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the interim financial report based on our audit. This report is made 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the interim financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the interim financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the interim financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the interim financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the interim financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the interim financial report for the six-month period ended June 30, 2012 is prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, Interim financial reporting.

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

July 31, 2012

# Consolidated Income Statement

*For the six months ended June 30, 2012 (Audited)*
*(Expressed in Hong Kong dollars)*

| | Note | 2012 $ Million | 2011 $ Million |
|---|---|---|---|
| Turnover | 2 | 4,539 | 2,925 |
| Other income | 3 | 522 | 159 |
| Direct costs and operating expenses | | (1,107) | (610) |
| Administrative expenses | | (336) | (139) |
| Operating profit before change in fair value of investment properties | | 3,618 | 2,335 |
| Increase in fair value of investment properties | | 1,381 | 1,147 |
| Operating profit after change in fair value of investment properties | | 4,999 | 3,482 |
| Finance costs | 4 | (184) | (73) |
| Share of profits of jointly controlled entities | | 111 | 202 |
| Profit before taxation | 2(a) & 4 | 4,926 | 3,611 |
| Taxation | 5(a) | (757) | (565) |
| Profit for the period | | 4,169 | 3,046 |
| Attributable to: | | | |
| Shareholders | | 2,101 | 1,628 |
| Non-controlling interests | | 2,068 | 1,418 |
| | | 4,169 | 3,046 |
| Earnings per share | 7(a) | | |
| Basic | | $1.56 | $1.21 |
| Diluted | | $1.55 | $1.20 |

The accompanying notes form part of the interim financial report. Details of dividends payable to equity shareholders of the Company attributable to the profit for the period are set out in note 6.

# Consolidated Statement of Comprehensive Income

*For the six months ended June 30, 2012 (Audited)*
*(Expressed in Hong Kong dollars)*

| | Note | 2012 $ Million | 2011 $ Million |
|---|---|---|---|
| **Profit for the period** | | 4,169 | 3,046 |
| **Other comprehensive income** | 5(b) | | |
| Increase in share of capital reserves of jointly controlled entities | | 1 | — |
| Net movement in investment revaluation reserve | | 1 | (3) |
| Exchange difference arising from translation of overseas subsidiaries | | (552) | 1,472 |
| | | (550) | 1,469 |
| **Total comprehensive income for the period** | | 3,619 | 4,515 |
| **Total comprehensive income attributable to:** | | | |
| Shareholders | | 1,814 | 2,347 |
| Non-controlling interests | | 1,805 | 2,168 |
| | | 3,619 | 4,515 |

The accompanying notes form part of the interim financial report.

# Consolidated Statement of Financial Position

*At June 30, 2012 (Audited)*

*(Expressed in Hong Kong dollars)*

| | Note | 30/6/2012 $ Million | 31/12/2011 $ Million |
|---|---|---|---|
| **Non-current assets** | | | |
| Fixed assets | | | |
| Investment properties | 8 | 102,687 | 101,833 |
| Investment properties under development | 8 | 25,748 | 23,613 |
| Other fixed assets | | 264 | 226 |
| | | 128,699 | 125,672 |
| Interest in jointly controlled entities | | 2,138 | 2,152 |
| Other assets | 9 | 1,692 | 1,697 |
| Deferred tax assets | | 17 | 45 |
| | | 132,546 | 129,566 |
| **Current assets** | | | |
| Cash and deposits with banks | 10 | 31,916 | 26,149 |
| Trade and other receivables | 11 | 2,187 | 779 |
| Other assets | 9 | 445 | 449 |
| Properties for sale | | 5,935 | 6,145 |
| | | 40,483 | 33,522 |
| **Current liabilities** | | | |
| Bank loans and other borrowings | 12 | – | 5,400 |
| Trade and other payables | 13 | 4,539 | 4,134 |
| Taxation payable | | 641 | 455 |
| | | 5,180 | 9,989 |
| **Net current assets** | | 35,303 | 23,533 |
| **Total assets less current liabilities** | | 167,849 | 153,099 |

| | Note | 30/6/2012<br>$ Million | 31/12/2011<br>$ Million |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Bank loans and other borrowings | 12 | 34,491 | 22,294 |
| Deferred tax liabilities | | 9,781 | 9,637 |
| | | 44,272 | 31,931 |
| **NET ASSETS** | | 123,577 | 121,168 |
| **Capital and reserves** | | | |
| Share capital | | 1,350 | 1,348 |
| Reserves | | 60,520 | 59,162 |
| Shareholders' equity | | 61,870 | 60,510 |
| Non-controlling interests | | 61,707 | 60,658 |
| **TOTAL EQUITY** | | 123,577 | 121,168 |

The accompanying notes form part of the interim financial report.

# Consolidated Statement of Changes in Equity

*For the six months ended June 30, 2012 (Audited)*
*(Expressed in Hong Kong dollars)*

| | Shareholders' equity | | | | | |
|---|---|---|---|---|---|---|
| | Share capital $ Million | Other reserves $ Million (Note 15) | Retained profits $ Million (Note 15) | Total $ Million | Non-controlling interests $ Million | Total equity $ Million |
| At January 1, 2012 | 1,348 | 8,180 | 50,982 | 60,510 | 60,658 | 121,168 |
| Profit for the period | – | – | 2,101 | 2,101 | 2,068 | 4,169 |
| Increase in share of capital reserves of jointly controlled entities | – | 1 | – | 1 | – | 1 |
| Net movement in investment revaluation reserve | – | 1 | – | 1 | – | 1 |
| Exchange difference arising from translation of overseas subsidiaries | – | (289) | – | (289) | (263) | (552) |
| Total comprehensive income for the period | – | (287) | 2,101 | 1,814 | 1,805 | 3,619 |
| Final dividends in respect of previous financial year | – | – | (513) | (513) | – | (513) |
| Issue of shares | 2 | 15 | – | 17 | – | 17 |
| Employee share-based payments | – | 40 | 5 | 45 | 50 | 95 |
| Change in non-controlling interests arising from decrease of the Group's shareholding in a subsidiary | – | (3) | – | (3) | 19 | 16 |
| Dividends paid to non-controlling interests | – | – | – | – | (794) | (794) |
| Repayment to non-controlling interests | – | – | – | – | (31) | (31) |
| At June 30, 2012 | 1,350 | 7,945 | 52,575 | 61,870 | 61,707 | 123,577 |

| | Shareholders' equity | | | | | |
|---|---|---|---|---|---|---|
| | Share capital $ Million | Other reserves $ Million (Note 15) | Retained profits $ Million (Note 15) | Total $ Million | Non-controlling interests $ Million | Total equity $ Million |
| At January 1, 2011 | 1,348 | 6,808 | 48,796 | 56,952 | 59,847 | 116,799 |
| Profit for the period | – | – | 1,628 | 1,628 | 1,418 | 3,046 |
| Net movement in investment revaluation reserve | – | (3) | – | (3) | – | (3) |
| Exchange difference arising from translation of overseas subsidiaries | – | 722 | – | 722 | 750 | 1,472 |
| Total comprehensive income for the period | – | 719 | 1,628 | 2,347 | 2,168 | 4,515 |
| Interim dividends in respect of current financial year | – | – | (256) | (256) | – | (256) |
| Issue of shares | – | 4 | – | 4 | – | 4 |
| Employee share-based payments | – | 16 | 1 | 17 | 29 | 46 |
| Change in non-controlling interests arising from increase of the Group's shareholding in a subsidiary | – | (92) | – | (92) | (201) | (293) |
| Dividends paid to non-controlling interests | – | – | – | – | (413) | (413) |
| Repayment to non-controlling interests | – | – | – | – | (205) | (205) |
| At June 30, 2011 | 1,348 | 7,455 | 50,169 | 58,972 | 61,225 | 120,197 |

The accompanying notes form part of the interim financial report.

# Condensed Consolidated Cash Flow Statement

*For the six months ended June 30, 2012 (Audited)*
*(Expressed in Hong Kong dollars)*

| | 2012<br>$ Million | 2011<br>$ Million |
|---|---|---|
| Net cash generated from operating activities | 2,211 | 1,669 |
| Net cash used in investing activities | (6,460) | (4,221) |
| Net cash generated from financing activities | 5,202 | 3,909 |
| Increase in cash and cash equivalents | 953 | 1,357 |
| Effect of foreign exchange rate change | (294) | 386 |
| Cash and cash equivalents at January 1 | 21,303 | 19,053 |
| Cash and cash equivalents at June 30 | 21,962 | 20,796 |
| Analysis of the balance of cash and cash equivalents: | | |
| Cash and deposits with banks | 31,916 | 28,274 |
| Less: Bank deposits with maturity greater than three months | (9,954) | (7,478) |
| Cash and cash equivalents | 21,962 | 20,796 |

The accompanying notes form part of the interim financial report.

# Notes

## 1. BASIS OF PREPARATION

The audited interim financial report has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure provisions of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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

The HKICPA has issued a few amendments to HKFRSs that are first effective for the current accounting period of the Group. These include the amendments to HKAS 12, Income taxes – Deferred tax: recovery of underlying assets, which the Group has already adopted in the prior period. None of the other developments are relevant to the Group's interim financial report and the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The accounting policies and methods of computation used in the interim financial report are consistent with those applied in the consolidated financial statements for the six-month period ended December 31, 2011, which is the preceding financial period due to change in financial year end date from June 30 to December 31.

## 2. TURNOVER AND SEGMENT INFORMATION

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

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

Management evaluates performance primarily based on profit before taxation.

Segment assets principally comprise all non-current assets and current assets directly attributable to each segment with the exception of interest in jointly controlled entities, other assets, deferred tax assets and cash and deposits with banks. The investment properties of the Group are included in segment assets at their fair values whilst the change in fair value of investment properties is not included in segment profits.

## 2. TURNOVER AND SEGMENT INFORMATION (continued)

(a) Turnover and results by segments

| | Turnover | | Profit before taxation | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | $ Million | $ Million | $ Million | $ Million |
| **Segment** | | | | |
| Property leasing | | | | |
| – Hong Kong | 1,567 | 1,515 | 1,306 | 1,243 |
| – Mainland China | 1,698 | 1,410 | 1,327 | 1,072 |
| | 3,265 | 2,925 | 2,633 | 2,315 |
| Property sales | | | | |
| – Hong Kong | 1,274 | – | 799 | – |
| Segment total | 4,539 | 2,925 | 3,432 | 2,315 |
| Other income | | | 522 | 159 |
| Administrative expenses | | | (336) | (139) |
| Operating profit before change in fair value of investment properties | | | 3,618 | 2,335 |
| Increase in fair value of investment properties | | | 1,381 | 1,147 |
| – property leasing in Hong Kong | | | 953 | 732 |
| – property leasing in mainland China | | | 428 | 415 |
| Finance costs | | | (184) | (73) |
| Share of profits of jointly controlled entities | | | 111 | 202 |
| Profit before taxation | | | 4,926 | 3,611 |

## 2. TURNOVER AND SEGMENT INFORMATION (continued)

(b) Total assets by segments

| | Total assets 30/6/2012 $ Million | Total assets 31/12/2011 $ Million |
|---|---|---|
| **Segment** | | |
| Property leasing | | |
| – Hong Kong | 57,464 | 56,857 |
| – Mainland China | 72,019 | 69,554 |
| | 129,483 | 126,411 |
| Property sales | | |
| – Hong Kong | 7,338 | 6,185 |
| Segment total | 136,821 | 132,596 |
| Interest in jointly controlled entities | 2,138 | 2,152 |
| Other assets | 2,137 | 2,146 |
| Deferred tax assets | 17 | 45 |
| Cash and deposits with banks | 31,916 | 26,149 |
| Total assets | 173,029 | 163,088 |

## 3. OTHER INCOME

| | 2012 $ Million | 2011 $ Million |
|---|---|---|
| Gain on disposal of investment properties | 220 | – |
| Bank interest income | 290 | 135 |
| Interest income from unlisted held-to-maturity investments | 10 | 9 |
| Other interest income | – | 1 |
| Dividend income from listed investments | 3 | 3 |
| Dividend income from unlisted investments | 2 | – |
| Net exchange (loss)/gain | (3) | 11 |
| | 522 | 159 |

## 4. PROFIT BEFORE TAXATION

| | 2012 $ Million | 2011 $ Million |
|---|---|---|
| Profit before taxation is arrived at after charging: | | |
| Finance costs | | |
| Interest on borrowings | 303 | 141 |
| Other borrowing costs | 29 | 28 |
| Total borrowing costs | 332 | 169 |
| Less: Borrowing costs capitalized | (148) | (96) |
| | 184 | 73 |
| Cost of properties sold | 355 | — |
| Staff costs, including employee share-based payments of $95 million (2011: $46 million) | 441 | 321 |
| Depreciation | 18 | 16 |

## 5. TAXATION

(a) Provision for Hong Kong Profits Tax is calculated at 16.5% (2011: 16.5%) of the estimated assessable profits for the period. China Income Tax mainly represents China Corporate Income Tax calculated at 25% (2011: 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.

| | 2012 $ Million | 2011 $ Million |
|---|---|---|
| Current tax | | |
| Hong Kong Profits Tax | 258 | 158 |
| China Income Tax | 265 | 216 |
| | 523 | 374 |
| Deferred tax | | |
| Change in fair value of investment properties | 108 | 102 |
| Other origination and reversal of temporary differences | 126 | 89 |
| | 234 | 191 |
| Total income tax expense | 757 | 565 |

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

## 6. DIVIDENDS

(a) Dividends attributable to the period

| | 2012<br>$ Million | 2011<br>$ Million |
|---|---|---|
| Interim dividend declared and paid of 19 cents per share | – | 256 |
| Proposed after the reporting date: | | |
| Final dividend of 57 cents per share | – | 769 |
| Interim dividend of 19 cents per share | 256 | – |
| | 256 | 1,025 |

Dividends proposed after the reporting dates have not been recognized as liabilities at the respective reporting dates.

(b) Dividends attributable to the previous financial year, approved and paid during the period

| | 2012<br>$ Million | 2011<br>$ Million |
|---|---|---|
| Dividend in respect of the previous financial year of 38 cents per share | 513 | – |

## 7. EARNINGS PER SHARE

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

| | 2012<br>$ Million | 2011<br>$ Million |
|---|---|---|
| Earnings for calculation of basic and diluted earnings per share (net profit attributable to shareholders) | 2,101 | 1,628 |

| | Number of shares<br>2012<br>(Million) | 2011<br>(Million) |
|---|---|---|
| Weighted average number of shares used in calculating basic earnings per share | 1,349 | 1,348 |
| Effect of dilutive potential shares - share options | 9 | 9 |
| Weighted average number of shares used in calculating diluted earnings per share | 1,358 | 1,357 |

## 7. EARNINGS PER SHARE (continued)

(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:

| | 2012<br>$ Million | 2011<br>$ Million |
|---|---|---|
| Net profit attributable to shareholders | 2,101 | 1,628 |
| Effect of changes in fair value of investment properties | (1,381) | (1,147) |
| Effect of corresponding deferred tax | 108 | 102 |
| Effect of changes in fair value of investment properties of jointly controlled entities | (45) | (151) |
| | (1,318) | (1,196) |
| Non-controlling interests | 652 | 511 |
| | (666) | (685) |
| Underlying net profit attributable to shareholders | 1,435 | 943 |

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

| | 2012 | 2011 |
|---|---|---|
| Basic | $1.06 | $0.70 |
| Diluted | $1.06 | $0.69 |

## 8. INVESTMENT PROPERTIES AND INVESTMENT PROPERTIES UNDER DEVELOPMENT

(a) Additions

During the period, additions to investment properties and investment properties under development amounted to $2,496 million (2011: $2,213 million).

(b) Valuation

The investment properties and investment properties under development of the Group were revalued as at June 30, 2012 by Mr. Charles C.K. Chan, Registered Professional Surveyor (General Practice), of Savills Valuation and Professional Services Limited, on a market value basis.

## 9. OTHER ASSETS

At the reporting date, the Group held investments in unlisted bonds which will mature from September 2012 to December 2013. The effective yield of the bonds ranged from 1.6% to 2.9% (December 31, 2011: 1.6% to 2.9%) per annum, payable quarterly or semi-annually.

## 10. CASH AND DEPOSITS WITH BANKS

At the reporting date, the Group had cash and deposits with banks with currency denominated in:

| | 30/6/2012<br>$ Million | 31/12/2011<br>$ Million |
|---|---|---|
| Hong Kong Dollars equivalent of: | | |
| Renminbi | 23,479 | 21,457 |
| Hong Kong Dollars | 2,881 | 3,531 |
| United States Dollars | 5,556 | 1,161 |
| | 31,916 | 26,149 |

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

## 11. TRADE AND OTHER RECEIVABLES

(a) Included in trade and other receivables are trade receivables with the following terms:

| | 30/6/2012<br>$ Million | 31/12/2011<br>$ Million |
|---|---|---|
| Current and within 1 month | 1,427 | 68 |
| 1 - 3 months | 8 | 4 |
| Over 3 months | 2 | 3 |
| | 1,437 | 75 |

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 $307 million (December 31, 2011: $308 million).

## 12. BANK LOANS AND OTHER BORROWINGS

At June 30, 2012, the Group had $7,063 million (December 31, 2011: $7,280 million) committed undrawn banking facilities.

In addition, the Group has a US$3 billion (December 31, 2011: US$2 billion) Medium Term Note Program (the "Program"). At the reporting date, the Group has issued in total an equivalent of $5,171 million (December 31, 2011: $Nil) 10-year bonds with the coupon rates ranged from 4.15% 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:

| | 30/6/2012<br>$ Million | 31/12/2011<br>$ Million |
|---|---|---|
| Due within 1 month | 2,266 | 1,759 |
| Due after 3 months | 275 | 287 |
| | 2,541 | 2,046 |

## 14. SHARE OPTION SCHEME

*The Company*

At June 30, 2012, the directors and employees had the following interests in share options of the Company granted at nominal consideration under the share option scheme of the Company. 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:

| Date granted | Number of share options | | | | | Period during which options are exercisable | Exercise price (HK$) |
|---|---|---|---|---|---|---|---|
| | Outstanding on January 1, 2012 | Granted | Exercised | Lapsed | Outstanding on June 30, 2012 | | |
| May 20, 2004 | 6,027,000 | – | (619,000) | – | **5,408,000** | May 20, 2005 to May 19, 2014 | 9.45 |
| November 20, 2006 | 7,200,000 | – | (500,000) | – | **6,700,000** | November 20, 2007 to November 19, 2016 | 20.52 |
| Total | 13,227,000 | – | (1,119,000) | – | **12,108,000** | | |

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

The weighted average closing prices of the shares immediately before the dates of exercise by the directors and employees during the period was $52.17 and $45.20 respectively.

The weighted average share price at the dates of exercise for share options during the period was $52.19.

## 14. SHARE OPTION SCHEME (continued)

*Hang Lung Properties Limited ("HLP")*

At June 30, 2012, the directors and employees of HLP, the Company's subsidiary, had the following interests in share options of HLP granted at nominal consideration under the share option scheme of HLP. Each share option gives the holder the right to subscribe for one share of HLP.

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

| | Number of share options | | | | | | |
|---|---|---|---|---|---|---|---|
| Date granted | Outstanding on January 1, 2012 | Granted | Exercised | Lapsed | Outstanding on June 30, 2012 | Period during which options are exercisable | Exercise price (HK$) |
| May 20, 2004 | 7,431,625 | – | – | – | **7,431,625** | May 20, 2005 to May 19, 2014 | 9.20 |
| September 1, 2005 | 500,000 | – | – | – | **500,000** | September 1, 2006 to August 31, 2015 | 12.35 |
| November 14, 2006 to March 19, 2007 | 10,534,000 | – | (520,000) | – | **10,014,000** | November 14, 2007 to March 18, 2017 | 16.75 - 22.55 |
| August 21, 2007 to December 31, 2008 | 59,908,000 | – | (376,000) | (140,000) | **59,392,000** | August 21, 2008 to December 30, 2018 | 17.36 - 27.90 |
| February 8, 2010 to June 1, 2010 | 21,450,000 | – | – | (200,000) | **21,250,000** | February 8, 2012 to May 31, 2020 | 26.46 - 27.27 |
| July 29, 2010 to June 13, 2011 | 46,650,000 | – | – | (780,000) | **45,870,000** | July 29, 2012 to June 12, 2021 | 30.79 - 36.90 |
| December 7, 2011 | 1,350,000 | – | – | – | **1,350,000** | December 7, 2013 to December 6, 2021 | 24.10 |
| Total | 147,823,625 | – | (896,000) | (1,120,000) | **145,807,625** | | |

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

No options of HLP were granted during the period.

No share options of HLP were exercised by the directors during the period. The weighted average closing price of the shares of HLP immediately before the dates of exercise by the employees during the period was $28.22.

The weighted average share price of HLP at the dates of exercise for share options during the period was $28.58.

## 15. RESERVES

| | Share premium $ Million | Share of capital reserves of jointly controlled entities $ Million | Capital redemption reserve $ Million | Investment revaluation reserve $ Million | Exchange reserve $ Million | Employee share-based compensation reserve $ Million | General reserve $ Million | Other capital reserve $ Million | Total $ Million | Retained profits $ Million | Total reserves $ Million |
|---|---|---|---|---|---|---|---|---|---|---|---|
| At January 1, 2012 | 2,435 | – | 26 | (2) | 3,503 | 294 | 275 | 1,649 | 8,180 | 50,982 | 59,162 |
| Profit for the period | – | – | – | – | – | – | – | – | – | 2,101 | 2,101 |
| Increase in share of capital reserves of jointly controlled entities | – | 1 | – | – | – | – | – | – | 1 | – | 1 |
| Net movement in investment revaluation reserve | – | – | – | 1 | – | – | – | – | 1 | – | 1 |
| Exchange difference arising from translation of overseas subsidiaries | – | – | – | – | (289) | – | – | – | (289) | – | (289) |
| Total comprehensive income for the period | – | 1 | – | 1 | (289) | – | – | – | (287) | 2,101 | 1,814 |
| Final dividends in respect of previous financial year | – | – | – | – | – | – | – | – | – | (513) | (513) |
| Issue of shares | 15 | – | – | – | – | – | – | – | 15 | – | 15 |
| Employee share-based payments | 4 | – | – | – | – | 36 | – | – | 40 | 5 | 45 |
| Change in non-controlling interests arising from decrease of the Group's shareholding in a subsidiary | – | – | – | – | – | – | – | (3) | (3) | – | (3) |
| **At June 30, 2012** | 2,454 | 1 | 26 | (1) | 3,214 | 330 | 275 | 1,646 | 7,945 | 52,575 | 60,520 |

## 15. RESERVES (continued)

| | Share premium $ Million | Share of capital reserves of jointly controlled entities $ Million | Capital redemption reserve $ Million | Investment revaluation reserve $ Million | Exchange reserve $ Million | Employee share-based compensation reserve $ Million | General reserve $ Million | Other capital reserve $ Million | Total $ Million | Retained profits $ Million | Total reserves $ Million |
|---|---|---|---|---|---|---|---|---|---|---|---|
| At January 1, 2011 | 2,430 | 1 | 26 | 17 | 1,781 | 225 | 275 | 2,053 | 6,808 | 48,796 | 55,604 |
| Profit for the period | – | – | – | – | – | – | – | – | – | 1,628 | 1,628 |
| Net movement in investment revaluation reserve | – | – | – | (3) | – | – | – | – | (3) | – | (3) |
| Exchange difference arising from translation of overseas subsidiaries | – | – | – | – | 722 | – | – | – | 722 | – | 722 |
| Total comprehensive income for the period | – | – | – | (3) | 722 | – | – | – | 719 | 1,628 | 2,347 |
| Interim dividends in respect of current financial year | – | – | – | – | – | – | – | – | – | (256) | (256) |
| Issue of shares | 4 | – | – | – | – | – | – | – | 4 | – | 4 |
| Employee share-based payments | – | – | – | – | – | 16 | – | – | 16 | 1 | 17 |
| Change in non-controlling interests arising from increase of the Group's shareholding in a subsidiary | – | – | – | – | – | – | – | (92) | (92) | – | (92) |
| At June 30, 2011 | 2,434 | 1 | 26 | 14 | 2,503 | 241 | 275 | 1,961 | 7,455 | 50,169 | 57,624 |

## 16. CONTINGENT LIABILITIES

At the reporting date, contingent liabilities were as follows:

| | 30/6/2012<br>$ Million | 31/12/2011<br>$ Million |
|---|---:|---:|
| Guarantees given to banks to secure credit facilities drawn by subsidiaries | 7,151 | 7,001 |

## 17. COMMITMENTS

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

| | 30/6/2012<br>$ Million | 31/12/2011<br>$ Million |
|---|---:|---:|
| Contracted for | 9,295 | 6,441 |
| Authorized but not contracted for | 22,511 | 27,574 |
| | 31,806 | 34,015 |

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.

## 18. RELATED PARTY TRANSACTIONS

The Group has a 20% interest in a jointly controlled entity which participated in the development of Package One of the MTRC Tung Chung Station Development Project. At June 30, 2012, the Group advanced to this jointly controlled entity a total of $568 million (December 31, 2011: $631 million). All advances are unsecured, non-interest bearing and have no fixed terms of repayment.

## 19. REVIEW AND APPROVAL OF INTERIM FINANCIAL REPORT

The interim financial report is audited and has been reviewed by the Audit Committee. It was authorized for issue by the Board of Directors on July 31, 2012.

# FINANCIAL BRIEFS

| Financial Briefs<br>as at June 30, 2012 | HK$ Million<br>(unless otherwise stated) |
|---|---|
| Turnover | 4,539 |
| Net profit attributable to shareholders | 2,101 |
| Total assets | 173,029 |
| Shareholders' equity | 61,870 |
| Per share data | |
| Earnings – Basic | $1.56 |
| – Diluted | $1.55 |
| Interim dividend | $0.19 |
| Net assets (including non-controlling interests) | $91.5 |
| Shareholders' equity | $45.8 |
| Gearing ratio (note 1) | 2% |
| Pay-out ratio | 12% |
| Number of shares issued (in million) | 1,350 |

| Underlying Results<br>as at June 30, 2012 | HK$ Million<br>(unless otherwise stated) |
|---|---|
| Underlying net profit attributable to shareholders (note 2) | 1,435 |
| Per share data | |
| Underlying earnings (note 3) – Basic | $1.06 |
| – Diluted | $1.06 |

Notes:

1. Gearing ratio represents net debt over equity plus net debt. Net debt represents bank loans and other borrowings and finance lease obligations, less cash and deposits with banks. Equity comprises shareholders' equity and non-controlling interests.

2. The underlying profit is presented by excluding the effect of adopting Hong Kong Accounting Standard 40, Investment Property, which requires changes in fair value of investment properties and investment properties under development, net of related deferred tax and non-controlling interests be accounted for in the income statement.

3. The calculation of underlying earnings per share is based on the underlying net profit attributable to shareholders.

## FINANCIAL CALENDAR

| | |
|---|---|
| Financial period | January 1, 2012 to June 30, 2012 |
| Announcement of interim results | July 31, 2012 |
| Latest time for lodging transfers | 4:30 p.m. on August 28, 2012 |
| Closure of share register | August 29 to 31, 2012 (both days inclusive) |
| Record date for interim dividend | August 31, 2012 |
| Payment date for interim dividend | September 13, 2012 |

## SHARE LISTING

As at June 30, 2012, 1,349,560,242 shares of HK$1.00 each 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

| | |
|---|---|
| The Stock Exchange of Hong Kong Limited | 00010 |
| Reuters | 0010.HK |
| Bloomberg | 10 HK |
| Ticker Symbol for ADR Code | HNLGY |
| CUSIP reference number | 41043E102 |

## SHARE INFORMATION

Share price as at June 30, 2012 : HK$47.55
Market capitalization as at June 30, 2012 : HK$64.17 billion

## SHARE REGISTRARS

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## INVESTOR RELATIONS CONTACT

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