



2014
Interim Report

Hang Lung Group Limited

Stock Code: 00010

WE DO IT RIGHT

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* *
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

For the six months ended June 30, 2014, turnover rose 32% to HK\$4,746 million as we sold many more completed apartments compared to a year ago. Net profit attributable to shareholders increased 17% to HK\$2,060 million and earnings per share grew correspondingly to HK\$1.52. Excluding revaluation gains, underlying net profit attributable to shareholders advanced 31% to HK\$1,516 million and earnings per share by 30% to HK\$1.12.

The Board has declared an interim dividend of HK19 cents per share payable on September 30, 2014 to shareholders of record on September 17, 2014.

BUSINESS REVIEW

While the global economy as well as the economies of mainland China and Hong Kong have apparently been somewhat steady, the same cannot be said of the real estate sector in both of our markets. In Hong Kong, with the introduction of severe administrative measures, the efforts of the present government under Chief Executive Mr. C.Y. Leung have borne fruit. The supply of land had been scarce for over a decade, hence the release of land into the market together with a reasonable expectation of more to come have moderated housing prices. However, due to real demand, prices have not fallen as some analysts have predicted. After a period of low transaction volume in 2013, activities have picked up and prices have remained steady. This is the best possible outcome.

Taking advantage of such a condition, we continued to part with completed apartments. Prices received have been very acceptable; margins have remained basically unchanged compared with our last sales prior to the latest round of government action. So far we have sold 133 units of The Long Beach this year, 110 of which took place in the first half of the calendar year and among these, 88 have completed transactions. Profits from the last group are reported here.

On the Mainland where the residential market is far more complex, recent developments are quite encouraging. Over-supply in many cities combined with government measures to curb second home purchases have produced the desired effect. The market is further dampened by the tight credit environment.

Following a period of low transaction volume, prices have thus begun to fall. Draconian policies are quietly lifted to prevent further sliding which, if allowed to continue, might have highly undesirable effects on the overall economy. It is possible that the market has entered a period of prolonged steadiness.

In some cities, the price drop of late may also have to do with the recent anti-corruption and anti-opulence campaign launched by the new government of President Xi Jinping. Officials who have parked money in many residential units are eager to turn them into cash, thus flooding the secondary markets.

Nevertheless, one should not be overly bearish about the market. Real demand from first-time purchasers in the foreseeable future will be reasonably strong. This includes a group of city dwellers not seen in the West; namely, when the government first moved 20-30 years ago towards a market economy, residential units then owned by corporations and institutions were given free to their workers. This is why home ownership in most cities is very high, approaching 90%. However, the quality of these apartments are uniformly poor; while the owners, having lived there for decades, would invariably want to move into better units built by private sector developers. The size of this group should not be underestimated.

Then there are perhaps 100 million rural people who have moved to the cities in the past two or three decades and have become potential home buyers. Indeed, certain economically more advanced cities in both the Pearl River Delta and the Yangtze River Delta have suffered because their governments in recent years have encouraged these migrants to leave. The consequent loss of buyers of inferior apartments had in turn prevented their existing owners to trade up.

Whatever the case, the over-supply in housing, while good for the industry, has serious consequences on the overall economy. It is estimated that as much as 20% of China's GDP is one way or another related to real estate. Less housing construction will negatively affect the economy.

This is perhaps another reason why the government has embarked on an aggressive expansion of subsidized housing in recent years. Suffice to say the combination of the aforementioned forces has brought prices down to a more sustainable level. It is too early to tell whether a prolonged healthy market has arrived, but at least the omen is good. If it happens, it will be the first time in the modern history of China!

Local home builders are aware of this new reality. As the CEO of a highly respected residential developer has said recently, the golden era of housing development on the Mainland is behind us. The age of unlimited demand and runaway prices is over. A more steady residential market means that land prices will be more rational. Less proceeds from land sales will put pressure on municipal governments' finances which will hopefully make them more willing to part with commercial land at reasonable prices.

Under this "new normal", residential developers will have to manage their finances much more carefully than before. The financial strength needed for commercial developments far exceeds that of home-building. This fact, even if recognized, will not prevent some home builders foray into commercial real estate. After all, we have seen such ventures a few years ago but hardly any had succeeded.

As I have repeatedly pointed out, in advanced economies, residential and commercial developments are two distinct businesses which are conducted by different groups of professionals. Only in special cases such as Hong Kong do the two sectors mix. As some observers on the Mainland have recently stated, perhaps only 10% of those who attempt the changeover will succeed. The market will become even more crowded, but the extra supply should have minimal effect on our business.

Very few home-builders-turned-commercial developers will have the financial resources to play in our league where a huge amount of long-term capital is required. They will engage mostly in community shopping centers associated with large residential projects. Those capable of competing with us are mostly state-owned enterprises (SOE) which are already in the game.

Furthermore, we already have ten huge developments on the Mainland. Since each of these requires a tremendous amount of financial resources, we can only take on a finite number of additional projects without having to further tap the capital market. It will come as no surprise if the next few projects we take on are already negotiating land acquisition. As such, new players will hardly be able to compete with us for land, which is the most significant resource.

That said, more retail space will dilute footfall. But since there are usually no more than two or three luxury malls like ours in each of the cities we operate, the shoppers drawn to community malls are hardly our target customers.

Moreover, we have two defense mechanisms. First, we are usually among the first to establish ourselves in a particular market. First-mover advantage will give us the chance to build up a reputation. It is always easier to defend a leading position than to play catch-up. The second defense is again real estate genetics — the best location, appropriately sizeable scale, superb design and quality construction — together with the best software as described in our EST program, or Experience, Service and Technology. Given the fundamental nature of high-end retail space, namely, the non-fungibility of luxury shopping malls, once they are entrenched in their respective markets, their competitiveness is more or less assured.

A few last thoughts on China's residential sector. The market is enormous but the industry is by nature local. There will always be market dislocations or imbalances between supply and demand in any local environment. Such situations still offer profitable prospects. It is just that easy money-making opportunities are no longer readily available in the market for the time being. Gone are the days when anyone with some funds, owned or borrowed, can partake in the market almost blindly and get rich fast. As such, fewer people will enter the business and instead some will redirect their resources to other productive industries. That would be a boon for the country.

When all is said and done, anyone engaged in our business especially in mainland China should not forget to take a dose of humility. The market is very complicated and the government can quickly and unexpectedly change tack. There are simply too many considerations on the part of top leaders which are unbeknown to us. We can only observe the market as it evolves and proceed cautiously.

For our investment property business on the Mainland, the bad news is winter has continued. The good news is all but one mall, Parc 66 in Jinan, saw rental growth. While retail sales fell two points in our Shanghai facilities, it rose everywhere else including Parc 66. Overall rental turnover increased 12%; excluding the newly opened Wuxi Center 66, the number was up 4%.

In Hong Kong, rents increased by 7%. Taking our home market and the Mainland together, rental turnover grew by 10% to HK\$3.8 billion.

Our major subsidiary Hang Lung Properties sold HK\$901 million worth of completed apartments which was 8.3 times more than the year before. As a result, company-wide turnover was up 32% to HK\$4.7 billion. Underlying profit attributable to shareholders advanced 31% to HK\$1.5 billion and earnings per share by 30% to HK\$1.12. With a net revaluation gain of HK\$544 million (or HK\$763 million before subtracting related deferred taxes and non-controlling interests), net profit attributable to shareholders rose 17% to HK\$2.1 billion and on a per share basis by 16% to HK\$1.52.

At mid-year, net debt stood at HK\$6.7 billion representing a net debt-to-equity ratio of 4.9%. Six months ago, the number was 3.9%.

PROSPECTS

Although China's economy is not as strong as before, it is still growing close to 7.5%. Consumption figures display a similar trend; they still stand at over 12% annual growth rate. However, the sales of luxury products remain weak. This supports the view that the present anti-corruption campaign has taken its toll. No one knows when spring will return.

The luxury goods market will have to find its new level and this will take time. What is certain however is that such products will always be in demand, especially in an economy growing at such a fast pace. The middle class in China is among the biggest in the world and wealth is amassed by more people at a faster pace than mankind has ever witnessed. A good percentage of these will become frequent visitors to malls like ours and purchasers of high-end items. Such a phenomenon is already present in major cities like Shanghai and Beijing and can only spread to second-tier cities such as those where we have established a presence.

We are confident that consumption in China will rise almost irrespective of any other social developments. The Chinese, like most people around the world, will grow to appreciate the quality and not just the absolute value of goods. This is why I believe we are in an excellent business. As long as we execute well, profit will come.

That said, it is also true that retail space has grown a lot and the momentum will likely continue for some time. The Chinese are very entrepreneurial and many have a strong desire to become rich. Besides residential units, some of the wealthy will see building commercial real estate as a way to become even richer. However, this is a dangerous game. More projects will be built and as in past years, many of them will fail. Some will even fail miserably. In such a market, quality and product differentiation are crucial, and this is where we shine.

For the rest of this year, both Mainland and Hong Kong rental income should approximate that of the past six months with the possibility of slight improvement. Since we have new facilities on the Mainland — Wuxi Center 66 completing its first full year of operation and Tianjin Riverside 66 opening in late September — nominal growth rate will be higher than that in Hong Kong. In terms of organic growth, our home market will likely be somewhat stronger.

I am hopeful that we will again be able to sell completed flats in Hong Kong. It has the potential to significantly impact our bottom line.

In the past six months, we have continued to buy shares in our major subsidiary Hang Lung Properties. We now own 53.1%.

In the past, I have devoted much time at year end to writing the annual letter to shareholders. As is common practice, the interim report is usually much shorter; it is simply a brief report of what has transpired with few analyses. This has always left me with the feeling that I am not taking the opportunity to directly communicate with shareholders in a more adequate fashion. After all, a twelve-month period is quite a long interval. As such, I have decided to write in greater detail at mid-year as I see significant developments in the market and in the Company. I hope that shareholders and soon-to-be-shareholders alike will appreciate it.

Ronnie C. Chan

Chairman of the Board of Directors

Hong Kong, July 31, 2014

FINANCIAL HIGHLIGHTS

in HK\$ Million (unless otherwise stated)

RESULTS

| | Note | Six months ended June 30 | | Change |
|---|------|--------------------------|--------|--------|
| | | 2014 | 2013 | |
| Turnover | | 4,746 | 3,605 | +32% |
| Property Leasing | | 3,845 | 3,508 | +10% |
| Property Sales | | 901 | 97 | +829% |
| Operating Profit | | 3,613 | 2,909 | +24% |
| Property Leasing | | 3,073 | 2,842 | +8% |
| Property Sales | | 540 | 67 | +706% |
| Net Profit Attributable to Shareholders | | 2,060 | 1,766 | +17% |
| Earnings Per Share (HK\$) | | \$1.52 | \$1.31 | +16% |
| Interim Dividend Per Share (HK\$) | | \$0.19 | \$0.19 | — |

UNDERLYING RESULTS

| | | Six months ended June 30 | | Change |
|--|---|--------------------------|--------|--------|
| | | 2014 | 2013 | |
| Underlying Net Profit Attributable to Shareholders | 1 | 1,516 | 1,159 | +31% |
| Underlying Earnings Per Share (HK\$) | 2 | \$1.12 | \$0.86 | +30% |

FINANCIAL POSITION

| | | At June 30, | At December 31, | Change |
|---------------------------------------|---|-------------|-----------------|-----------|
| | | 2014 | 2013 | |
| Shareholders' Equity | | 71,206 | 70,572 | +1% |
| Net Assets | | 136,226 | 136,408 | — |
| Net Debt | 3 | 6,727 | 5,320 | +26% |
| Financial Ratio | | | | |
| Net Debt to Equity Ratio | 3 | 4.9% | 3.9% | +1.0% pts |
| Debt to Equity Ratio | 3 | 33.6% | 33.0% | +0.6% pts |
| Shareholders' Equity Per Share (HK\$) | | \$52.6 | \$52.3 | +1% |
| Net Assets Per Share (HK\$) | | \$100.5 | \$101.0 | — |

Notes:

- Underlying net profit attributable to shareholders 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 profit or loss.
- The relevant calculations are based on underlying net profit attributable to shareholders.
- Net debt represents bank loans and other borrowings less cash and deposits with banks. Equity comprises shareholders' equity and non-controlling interests.

GROUP RESULTS

Total turnover of Hang Lung Group grew 32% to HK\$4,746 million compared to the corresponding period of last year. Contributing to the solid performance was an eight times increase in sales of residential properties in Hong Kong and 10% growth in rental turnover. Net profit attributable to shareholders rose 17% to HK\$2,060 million against a year ago. When excluding all the effects of property revaluation, underlying net profit attributable to shareholders rose 31% to HK\$1,516 million.

DIVIDEND

The Board of Directors has declared an interim dividend of HK19 cents per share (2013: HK19 cents) to be paid by cash on September 30, 2014, to shareholders. Details of the payment of the interim dividend are set out in “Financial Calendar” on page 46 of this interim report.

PROPERTY LEASING

Despite a slowdown in economic growth and retail sales in mainland China, rental turnover was up 10% to HK\$3,845 million and operating profit grew 8% to HK\$3,073 million compared to the last corresponding period. When excluding the first time contribution from the shopping mall of Center 66 in Wuxi, the growth rates of rental income and profit would be both at 5% on a comparable basis.

Hong Kong

Both rental turnover and operating profit of the Hong Kong portfolio grew 7% to HK\$1,690 million and HK\$1,452 million, respectively. Profit margin was maintained at 86%.

Rental turnover from the commercial portfolio advanced by 9% to HK\$985 million compared to the first half of 2013 mainly driven by positive rental reversions and higher occupancy. Average unit rent increased by 7% mainly attributable to higher rental reversions from the Kowloon portfolio. Occupancy was close to 100%. Although overall retail sales in Hong Kong had decreased since February 2014 as compared to the last corresponding period, our tenants continued to record positive sales growth which proved that our tenant mix was resilient during a challenging economic environment.

Rental income of the office portfolio was up by 7% to HK\$567 million, mainly attributable to positive rental reversions. Occupancy of the office portfolio was 95% at the balance sheet date.

The performance of the residential and serviced apartments sectors was relatively sluggish with revenue decreased by 4% to HK\$138 million. Leasing activities for luxury apartments remained soft as corporate clients were more cost conscious with their housing budget allowances.

Mainland China

Benefitting from a solid performance by the existing portfolio and new contributions from the new mall in Wuxi, Center 66, which commenced operation in September 2013, rental turnover and operating profit of our mainland China investment properties rose 12% to HK\$2,155 million and 9% to HK\$1,621 million, respectively. Isolating the contributions from Center 66, the growth rates would be 4% and 3%, respectively, amidst declining retail sales of luxury goods and moderate economic growth. Profit margin was at 75%. With four properties completed for operations on the Mainland since 2010, our mainland China portfolio now accounted for 56% and 53% of the Group's rental turnover and profit, respectively.

Rental income contributed by the Shanghai portfolio, Plaza 66 and Grand Gateway 66, reached HK\$1,617 million, representing a 6% growth period-on-period, mainly benefitting from rents increase. The two malls recorded 7% growth in rental income to HK\$972 million. Grand Gateway 66 mall remained fully let while occupancy of Plaza 66 mall stood at 95%. Retail sales of the two malls, however, dropped by 2% year-on-year amidst the anti-corruption and anti-opulence campaigns. The Shanghai office portfolio achieved 7% rental growth to HK\$566 million despite new supplies in the area. Occupancy of the offices stood at 94% during the period and average unit rent increased by 8% over a year ago. The solid results of the malls and offices were partially offset by a soft performance of residential and serviced apartments, which collected 14% less rents due to lower occupancy.

The young malls outside Shanghai contributed HK\$538 million rents collectively in the first half year of 2014. Center 66 in Wuxi has increased its occupancy to 92% since official opening last September. After completing the first lease cycle, the malls of Palace 66 and Forum 66 in Shenyang and Parc 66 in Jinan were in the process of optimizing their tenant mix and market positioning. While this is a normal stabilization exercise for young malls for the sake of longer term competitiveness, the malls would experience a temporary drop in occupancy. Despite the disruption caused by tenant reshuffling, each of the three malls recorded positive growth in tenant sales compared to a year ago.

PROPERTY SALES

Out of the 110 units of The Long Beach apartments sold in the first half of 2014, 88 units were recognized as sales upon the signing of formal sales and purchase agreements, compared to only seven apartments sold in the same period last year. Turnover and operating profit boosted 8.3 times and 7.1 times to HK\$901 million and HK\$540 million correspondingly. Average profit margin realized was 60%.

PROPERTY DEVELOPMENT AND CAPITAL COMMITMENT

Investment properties under development comprised several projects in mainland China including projects in Tianjin, Dalian, Kunming, Wuhan and the remaining phases of Center 66 in Wuxi and Forum 66 in Shenyang.

The shopping mall in Tianjin, Riverside 66, is scheduled to open on September 26 this year. Offering 152,800 square meters of retail space and 800 car park spaces, Riverside 66 will provide customers with an all-round luxurious and diversified shopping and lifestyle experience backed by trend-setting facilities and premium services. 80% of the retail space has been leased.

Following the opening of the mall last September, the Grade A Office Tower 1 of Center 66 in Wuxi will come on stream in the fourth quarter of 2014. The tower has a total gross floor area of 88,560 square meters and is our first office project to be completed outside Shanghai. Pre-leasing activities are making good progress.

The 350 meter-high, world-class office tower at Forum 66 in Shenyang is due for completion in 2015. This tower will provide more than 190,000 square meters of leasing space in the central business district of Shenyang, the capital city of Liaoning province.

Other Mainland projects are progressing as planned. In particular, construction of the superstructure of Olympia 66 in Dalian is nearly completed. Interior fitting out works will be commenced soon for this stunning mall, which has a gross floor area of over 220,000 square meters.

The luxury residential development in Hong Kong, 23-39 Blue Pool Road in Happy Valley, is expected to obtain its occupation permit later this year. The 18 residential units will then be ready for release if market conditions are favorable.

Total capital commitments of the Group amounted to HK\$47 billion at the balance sheet date, and they were mainly RMB-denominated construction costs in respect of projects under development on the Mainland. Those development projects will take many years to build out and the Group has ample financial resources to meet the commitments as they fall due.

PROPERTY REVALUATION

As at June 30, 2014, the Group recorded a revaluation gain of its investment properties amounting to HK\$763 million compared to a gain of HK\$1,090 million in the last period. Those properties were revalued by Savills, an independent valuer. Hong Kong investment properties recorded a revaluation gain of HK\$718 million while the Mainland portfolio had a moderate gain of HK\$45 million.

FINANCIAL POSITION

The Group had liquid funds of HK\$38,981 million as at June 30, 2014, of which more than 95% was held in Renminbi (“RMB”) bank deposits. It is our strategy to use RMB deposits as a natural hedge against the currency fluctuations of our RMB construction commitments on the Mainland. After deducting total borrowings of HK\$45,708 million, the Group had a net debt balance of HK\$6,727 million as at June 30, 2014. The net debt to equity ratio was 4.9%.

During the first six months of 2014, we issued HK\$5,180 million fixed rate bonds via the Medium Term Note (“MTN”) Program with the objective of mitigating future refinancing and interest rate risks. By the balance sheet date, an equivalent of HK\$12,470 million fixed rate bonds were issued in total under the MTN Program. Those bonds accounted for 27% of total borrowings, with a weighted average remaining tenor of 7.5 years, and were un-rated and issued with coupon rates ranging from 2.95% to 4.75% per annum. The average loan tenor of the Group was 3.6 years as at June 30, 2014.

At the balance sheet date, we had committed undrawn banking facilities amounting to HK\$16,705 million. Together with our strong cash flows generation capability, we have a strong balance sheet and high degree of financial flexibility to meet future funding needs of capital commitments and new investment opportunities when they arise.

OUTLOOK

For a large part of the six months ended June 30, 2014, both Hong Kong and mainland China experienced a slowdown in retail sales. In addition, the anti-corruption and anti-opulence campaigns on the Mainland were underway and are expected to continue. Online sales will continue to become more popular, affecting various segments of the retail sector to a different degree. Those challenges are likely to stay for some time.

While the anti-corruption measures will have a temporary adverse impact on high-end retail sales, they are important for the long-term health of the country. This should work in favor of long-term players like Hang Lung.

The Group sees the increasing popularity of online sales as a catalyst for modifying our operation strategy rather than as a threat. The key for landlords is to adopt appropriate technologies to enhance service quality and unleash creativity to provide a unique experience that is unmatched by e-commerce.

In the absence of unforeseeable circumstances, the performance of our investment properties in Hong Kong and mainland China in the second half of 2014 will be similar to that of the first half. If the residential market situation in Hong Kong continues to improve as in the first half, this may present an opportunity for the Group to sell some completed apartments.

Our new shopping mall in Tianjin, Riverside 66, is going through the final preparation for its grand opening on September 26 this year.

We are committed to maintaining a high standard of corporate governance. During the six-month period ended June 30, 2014, we adopted corporate governance principles that emphasize a qualified Board of Directors (the “Board”), sound internal controls and effective risk management to enhance transparency and accountability towards our stakeholders. The general framework of our corporate governance practices is set out in our corporate governance report in the 2013 annual report, which is available on our website.

THE BOARD

The Board currently consists of eight members: comprising three 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. The Board continues to review its practices from time to time, constantly seeking to improve the Group’s corporate governance procedures in accordance with international best practices. An updated list of Board members identifying their roles and functions and whether they are Independent Non-Executive Directors is maintained on our website and the website of Hong Kong Exchanges and Clearing Limited (“HKEx”). The biographical details of Board members are also maintained on our website.

NOMINATION AND REMUNERATION COMMITTEE

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

AUDIT COMMITTEE

Our Audit Committee, which is chaired by an Independent Non-Executive Director, currently consists of three Independent Non-Executive Directors. The Committee members meet not less than four times a year. Meetings are normally attended by external and internal auditors, the chief financial officer and the company secretary for the purposes of, inter alia, discussing the nature and scope of internal audit work and assessing the Group's internal controls. The terms of reference of the Committee, which include duties regarding corporate governance functions, are available on both our website and the website of HKEx. The Audit Committee has reviewed this interim report, including the unaudited interim financial report for the six-month period ended June 30, 2014, and has recommended their adoption by the Board.

This interim financial report is unaudited but has been reviewed by KPMG, our auditor, in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants. KPMG's Review Report to the Board of the Company is set out on pages 22 to 23 of this interim report.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

During the six-month period ended June 30, 2014, we have complied with the code provisions set out in the Corporate Governance Code as stated in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

COMPLIANCE WITH MODEL CODE CONTAINED IN APPENDIX 10 TO 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, 2014.

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

There are no changes in the information of Directors since the date of the 2013 annual report of the Company.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six-month period ended June 30, 2014, 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, 2014, 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:

| Name of Directors | Capacity | <i>The Company</i> <i>(Long Position)</i> | | | <i>Hang Lung Properties Limited</i> <i>(Long Position)</i> | | |
|-------------------|----------|--|---------------------|--|---|---------------------|--|
| | | Number of Shares | % of Issued Capital | Number of Shares under Option <i>(Note 1)</i> | Number of Shares | % of Issued Capital | Number of Shares under Option <i>(Note 2)</i> |
| Ronnie C. Chan | Personal | 5,090,000 | 0.38 | 6,700,000 | 5,090,000 | 0.11 | 35,980,000 |
| S.S. Yin | — | — | — | — | — | — | — |
| Phillip N.L. Chen | Personal | — | — | — | — | — | 19,000,000 |
| Gerald L. Chan | — | — | — | — | — | — | — |
| H.K. Cheng | — | — | — | — | — | — | — |
| Laura L.Y. Chen | — | — | — | — | — | — | — |
| Simon S.O. Ip | — | — | — | — | — | — | — |
| H.C. Ho | Personal | — | — | — | — | — | 8,600,000 |

Notes

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

| Date Granted (mm/dd/yyyy) | Name | Number of Shares under Option | | | Exercise Price per Share (HK\$) | Vested Dates (mm/dd/yyyy) | Expiry Date (mm/dd/yyyy) |
|------------------------------|----------------|-------------------------------|-----------------------------------|-----------------------|---------------------------------------|--|-----------------------------|
| | | As at Jan 1, 2014 | Exercised during the Period | As at Jun 30, 2014 | | | |
| 05/20/2004 | Ronnie C. Chan | 5,090,000 | 5,090,000 | – | \$9.45 | 05/20/2005 : 25% 05/20/2006 : 25% 05/20/2007 : 25% 05/20/2008 : 25% | 05/19/2014 |
| 11/20/2006 | Ronnie C. Chan | 6,700,000 | – | 6,700,000 | \$20.52 | 11/20/2007 : 10% 11/20/2008 : 20% 11/20/2009 : 30% 11/20/2010 : 40% | 11/19/2016 |

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

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

| Date Granted (mm/dd/yyyy) | Name | Number of Shares under Option | | | Exercise Price per Share (HK\$) | Vested Dates (mm/dd/yyyy) | Expiry Date (mm/dd/yyyy) |
|------------------------------|----------------|-------------------------------|-----------------------------------|-----------------------|---------------------------------------|--|-----------------------------|
| | | As at Jan 1, 2014 | Exercised during the Period | As at Jun 30, 2014 | | | |
| 05/20/2004 | Ronnie C. Chan | 5,090,000 | 5,090,000 | – | \$9.20 | 05/20/2005 : 25% 05/20/2006 : 25% 05/20/2007 : 25% 05/20/2008 : 25% | 05/19/2014 |
| 11/20/2006 | Ronnie C. Chan | 2,000,000 | – | 2,000,000 | \$17.14 | 11/20/2007 : 10% 11/20/2008 : 20% 11/20/2009 : 30% 11/20/2010 : 40% | 11/19/2016 |
| 08/21/2007 | Ronnie C. Chan | 3,640,000 | – | 3,640,000 | \$25.00 | 08/21/2008 : 10% 08/21/2009 : 20% 08/21/2010 : 30% 08/21/2011 : 40% | 08/20/2017 |

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

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

| Date Granted (mm/dd/yyyy) | Name | Number of Shares under Option | | | Exercise Price per Share (HK\$) | Vested Dates (mm/dd/yyyy) | Expiry Date (mm/dd/yyyy) |
|------------------------------|---|-------------------------------------|-----------------------------------|-------------------------------------|---------------------------------------|--|-----------------------------|
| | | As at Jan 1, 2014 | Exercised during the Period | As at Jun 30, 2014 | | | |
| 08/21/2007 | Ronnie C. Chan | 5,600,000 | — | 5,600,000 | \$25.00 | 08/21/2009 : 10% 08/21/2010 : 20% 08/21/2011 : 30% 08/21/2012 : 40% | 08/20/2017 |
| 09/01/2008 | H.C. Ho | 300,000 | — | 300,000 | \$24.20 | 09/01/2010 : 10% 09/01/2011 : 20% 09/01/2012 : 30% 09/01/2013 : 40% | 08/31/2018 |
| 12/31/2008 | Ronnie C. Chan H.C. Ho | 9,240,000 300,000 | — — | 9,240,000 300,000 | \$17.36 | 12/31/2010 : 10% 12/31/2011 : 20% 12/31/2012 : 30% 12/31/2013 : 40% | 12/30/2018 |
| 02/08/2010 | Ronnie C. Chan | 6,500,000 | — | 6,500,000 | \$26.46 | 02/08/2012 : 10% 02/08/2013 : 20% 02/08/2014 : 30% 02/08/2015 : 40% | 02/07/2020 |
| 07/29/2010 | Philip N.L. Chen | 10,000,000 | — | 10,000,000 | \$33.05 | 07/29/2012 : 10% 07/29/2013 : 20% 07/29/2014 : 30% 07/29/2015 : 40% | 07/28/2020 |
| 09/29/2010 | H.C. Ho | 2,000,000 | — | 2,000,000 | \$36.90 | 09/29/2012 : 10% 09/29/2013 : 20% 09/29/2014 : 30% 09/29/2015 : 40% | 09/28/2020 |
| 06/13/2011 | Ronnie C. Chan Philip N.L. Chen H.C. Ho | 4,500,000 4,500,000 3,000,000 | — — — | 4,500,000 4,500,000 3,000,000 | \$30.79 | 06/13/2013 : 10% 06/13/2014 : 20% 06/13/2015 : 30% 06/13/2016 : 40% | 06/12/2021 |

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

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

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

Save as disclosed above, none of the Directors of the Company or any of their associates had, as at June 30, 2014, 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, 2014 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, 2014, details of substantial shareholders' and other persons' (who are required to disclose their interests pursuant to Part XV of the SFO) interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO are as follows:

| Name | Note | Number of Shares or Underlying Shares Held | | % of Issued Capital | |
|---|------|---|----------------|---------------------|----------------|
| | | Long Position | Short Position | Long Position | Short Position |
| Chan Tan Ching Fen | 1 | 498,428,580 | — | 36.79 | — |
| Cole Enterprises Holdings Limited | 1 | 498,428,580 | — | 36.79 | — |
| Merssion Limited | 1 | 498,428,580 | — | 36.79 | — |
| Kingswick Investment Limited | 2 | 97,965,000 | — | 7.23 | — |
| Aberdeen Asset Management Plc and its associates | 3 | 201,924,756 | — | 14.96 | — |
| Dodge & Cox | 3 | 95,290,500 | — | 7.03 | — |

Notes

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

Save as disclosed above, as at June 30, 2014, no other interest required to be recorded in the register kept under section 336 of the SFO has been notified to the Company.



REVIEW REPORT TO THE BOARD OF DIRECTORS OF HANG LUNG GROUP LIMITED

(Incorporated in Hong Kong with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 24 to 45 which comprises the consolidated statement of financial position of Hang Lung Group Limited (the “Company”) as of June 30, 2014 and the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

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

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at June 30, 2014 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim financial reporting”.

KPMG

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

July 31, 2014

CONSOLIDATED INCOME STATEMENT

For the six months ended June 30, 2014 (Unaudited)

(Expressed in Hong Kong dollars)

| | Note | 2014 \$ Million | 2013 \$ Million |
|--|----------|--------------------|--------------------|
| Turnover | 2(a) | 4,746 | 3,605 |
| Direct costs and operating expenses | | (1,133) | (696) |
| Gross profit | | 3,613 | 2,909 |
| Other net (loss)/income | 3 | (3) | 25 |
| Administrative expenses | | (341) | (330) |
| Operating profit before change in fair value of investment properties | | 3,269 | 2,604 |
| Increase in fair value of investment properties | | 763 | 1,090 |
| Operating profit after change in fair value of investment properties | | 4,032 | 3,694 |
| Interest income | | 534 | 468 |
| Finance costs | | (305) | (282) |
| Net interest income | 4 | 229 | 186 |
| Share of profits of joint ventures | | 218 | 178 |
| Profit before taxation | 2(a) & 5 | 4,479 | 4,058 |
| Taxation | 6(a) | (697) | (662) |
| Profit for the period | | 3,782 | 3,396 |
| Attributable to: | | | |
| Shareholders | | 2,060 | 1,766 |
| Non-controlling interests | | 1,722 | 1,630 |
| | | 3,782 | 3,396 |
| Earnings per share | 8(a) | | |
| Basic | | \$1.52 | \$1.31 |
| Diluted | | \$1.52 | \$1.30 |

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended June 30, 2014 (Unaudited)

(Expressed in Hong Kong dollars)

| | Note | 2014 \$ Million | 2013 \$ Million |
|---|------|--------------------|--------------------|
| Profit for the period | | 3,782 | 3,396 |
| Other comprehensive income | 6(b) | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Net movement in investment revaluation reserve | | 1 | (4) |
| Exchange difference arising from translation of overseas subsidiaries | | (1,471) | 1,637 |
| Other comprehensive income for the period | | (1,470) | 1,633 |
| Total comprehensive income for the period | | 2,312 | 5,029 |
| Total comprehensive income attributable to: | | | |
| Shareholders | | 1,258 | 2,698 |
| Non-controlling interests | | 1,054 | 2,331 |
| | | 2,312 | 5,029 |

The accompanying notes form part of the interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At June 30, 2014

(Expressed in Hong Kong dollars)

| | | (Unaudited) June 30, 2014 \$ Million | (Audited) December 31, 2013 \$ Million |
|--|------|---|---|
| | Note | | |
| Non-current assets | | | |
| Fixed assets | | | |
| Investment properties | 9 | 116,241 | 115,818 |
| Investment properties under development | 9 | 32,619 | 30,478 |
| Other fixed assets | | 306 | 295 |
| | | 149,166 | 146,591 |
| Interest in joint ventures | | 3,422 | 2,991 |
| Other assets | | 1,287 | 1,282 |
| Deferred tax assets | | 15 | 19 |
| | | 153,890 | 150,883 |
| Current assets | | | |
| Cash and deposits with banks | 10 | 38,981 | 39,704 |
| Trade and other receivables | 11 | 1,233 | 2,661 |
| Properties for sale | | 5,526 | 5,717 |
| | | 45,740 | 48,082 |
| Current liabilities | | | |
| Bank loans and other borrowings | 12 | 5,885 | 1,657 |
| Trade and other payables | 13 | 6,367 | 6,250 |
| Taxation payable | | 729 | 646 |
| | | 12,981 | 8,553 |
| Net current assets | | 32,759 | 39,529 |
| Total assets less current liabilities | | 186,649 | 190,412 |

| | | (Unaudited) June 30, 2014 \$ Million | (Audited) December 31, 2013 \$ Million |
|---------------------------------|------|---|---|
| | Note | | |
| Non-current liabilities | | | |
| Bank loans and other borrowings | 12 | 39,823 | 43,367 |
| Deferred tax liabilities | | 10,600 | 10,637 |
| | | 50,423 | 54,004 |
| NET ASSETS | | 136,226 | 136,408 |
| Capital and reserves | | | |
| Share capital | 14 | 3,893 | 1,350 |
| Reserves | | 67,313 | 69,222 |
| Shareholders' equity | | 71,206 | 70,572 |
| Non-controlling interests | | 65,020 | 65,836 |
| TOTAL EQUITY | | 136,226 | 136,408 |

The accompanying notes form part of the interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2014 (Unaudited)

(Expressed in Hong Kong dollars)

| | Shareholders' equity | | | | | Total equity \$ Million |
|---|--|---|---|---------------------|---|----------------------------|
| | Share capital \$ Million (Note 14) | Other reserves \$ Million (Note 16) | Retained profits \$ Million (Note 16) | Total \$ Million | Non-controlling interests \$ Million | |
| At January 1, 2014 | 1,350 | 10,121 | 59,101 | 70,572 | 65,836 | 136,408 |
| Transition to no-par value regime on March 3, 2014 | 2,483 | (2,483) | — | — | — | — |
| Profit for the period | — | — | 2,060 | 2,060 | 1,722 | 3,782 |
| Net movement in investment revaluation reserve | — | 1 | — | 1 | — | 1 |
| Exchange difference arising from translation of overseas subsidiaries | — | (803) | — | (803) | (668) | (1,471) |
| Total comprehensive income for the period | — | (802) | 2,060 | 1,258 | 1,054 | 2,312 |
| Final dividends in respect of previous financial year | — | — | (827) | (827) | — | (827) |
| Issue of shares | 60 | (12) | — | 48 | — | 48 |
| Employee share-based payments | — | 15 | 22 | 37 | 40 | 77 |
| Change in non-controlling interests arising from increase of the Group's shareholding in a subsidiary | — | 118 | — | 118 | (690) | (572) |
| Dividends paid to non-controlling interests | — | — | — | — | (1,220) | (1,220) |
| At June 30, 2014 | 3,893 | 6,957 | 60,356 | 71,206 | 65,020 | 136,226 |

| | Shareholders' equity | | | | Non-controlling interests | Total equity |
|---|----------------------|----------------|------------------|------------|---------------------------|--------------|
| | Share capital | Other reserves | Retained profits | Total | | |
| | \$ Million | \$ Million | \$ Million | \$ Million | \$ Million | \$ Million |
| | (Note 14) | (Note 16) | (Note 16) | | | |
| At January 1, 2013 | 1,350 | 8,286 | 55,588 | 65,224 | 64,391 | 129,615 |
| Profit for the period | — | — | 1,766 | 1,766 | 1,630 | 3,396 |
| Net movement in investment revaluation reserve | — | (4) | — | (4) | — | (4) |
| Exchange difference arising from translation of overseas subsidiaries | — | 936 | — | 936 | 701 | 1,637 |
| Total comprehensive income for the period | — | 932 | 1,766 | 2,698 | 2,331 | 5,029 |
| Final dividends in respect of previous financial year | — | — | (810) | (810) | — | (810) |
| Issue of shares | — | 2 | — | 2 | — | 2 |
| Employee share-based payments | — | 25 | 11 | 36 | 29 | 65 |
| Change in non-controlling interests arising from increase of the Group's shareholding in a subsidiary | — | (14) | — | (14) | (1,410) | (1,424) |
| Dividends paid to non-controlling interests | — | — | — | — | (1,296) | (1,296) |
| Repayment to non-controlling interests | — | — | — | — | (15) | (15) |
| At June 30, 2013 | 1,350 | 9,231 | 56,555 | 67,136 | 64,030 | 131,166 |

The accompanying notes form part of the interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended June 30, 2014 (Unaudited)

(Expressed in Hong Kong dollars)

| | 2014 \$ Million | 2013 \$ Million |
|---|--------------------|--------------------|
| Net cash generated from operating activities | 4,366 | 2,007 |
| Net cash used in investing activities | (1,473) | (8,105) |
| Net cash (used in)/generated from financing activities | (2,540) | 1,433 |
| Increase/(Decrease) in cash and cash equivalents | 353 | (4,665) |
| Effect of foreign exchange rate change | (833) | 475 |
| Cash and cash equivalents at January 1 | 39,109 | 32,072 |
| Cash and cash equivalents at June 30 | 38,629 | 27,882 |
| Analysis of the balance of cash and cash equivalents: | | |
| Cash and deposits with banks | 38,981 | 38,680 |
| Less: Bank deposits with maturity greater than three months | (352) | (10,798) |
| Cash and cash equivalents | 38,629 | 27,882 |

The accompanying notes form part of the interim financial report.

Notes

1. BASIS OF PREPARATION

The unaudited interim financial report has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure provisions of 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 interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410 “Review of interim financial information performed by the independent auditor of the entity” issued by the HKICPA. KPMG’s independent review report to the Board of Directors is included on pages 22 to 23.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2013 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2014 annual financial statements.

The HKICPA has issued certain amendments to HKFRSs and one new interpretation that are first effective for the current accounting period of the Group. The adoption of these revised HKFRSs does not have significant impact on the Group’s interim financial report.

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 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 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

| Segment | Turnover | | Profit before taxation | |
|--|--------------------|--------------------|------------------------|--------------------|
| | 2014 \$ Million | 2013 \$ Million | 2014 \$ Million | 2013 \$ Million |
| Property leasing | | | | |
| – Hong Kong | 1,690 | 1,580 | 1,452 | 1,352 |
| – Mainland China | 2,155 | 1,928 | 1,621 | 1,490 |
| | 3,845 | 3,508 | 3,073 | 2,842 |
| Property sales | | | | |
| – Hong Kong | 901 | 97 | 540 | 67 |
| Segment total | 4,746 | 3,605 | 3,613 | 2,909 |
| Other net (loss)/income | | | (3) | 25 |
| Administrative expenses | | | (341) | (330) |
| Operating profit before change in fair value of investment properties | | | 3,269 | 2,604 |
| Increase in fair value of investment properties | | | 763 | 1,090 |
| – property leasing in Hong Kong | | | 718 | 704 |
| – property leasing in mainland China | | | 45 | 386 |
| Interest income | | | 534 | 468 |
| Finance costs | | | (305) | (282) |
| Net interest income | | | 229 | 186 |
| Share of profits of joint ventures | | | 218 | 178 |
| Profit before taxation | | | 4,479 | 4,058 |

2. TURNOVER AND SEGMENT INFORMATION (continued)

(b) Total assets by segments

| | Total assets | |
|------------------------------|------------------|----------------------|
| | June 30, 2014 | December 31, 2013 |
| | \$ Million | \$ Million |
| Segment | | |
| Property leasing | | |
| – Hong Kong | 57,860 | 57,042 |
| – Mainland China | 92,201 | 90,417 |
| | 150,061 | 147,459 |
| Property sales | | |
| – Hong Kong | 5,864 | 7,510 |
| Segment total | 155,925 | 154,969 |
| Interest in joint ventures | 3,422 | 2,991 |
| Other assets | 1,287 | 1,282 |
| Deferred tax assets | 15 | 19 |
| Cash and deposits with banks | 38,981 | 39,704 |
| Total assets | 199,630 | 198,965 |

3. OTHER NET (LOSS)/INCOME

| | 2014 | 2013 |
|---|------------|------------|
| | \$ Million | \$ Million |
| Gain on disposal of investment properties | 3 | 7 |
| Dividend income from listed investments | 4 | 4 |
| Dividend income from unlisted investments | – | 1 |
| Net exchange (loss)/gain | (10) | 13 |
| | (3) | 25 |

4 NET INTEREST INCOME

| | 2014 \$ Million | 2013 \$ Million |
|---------------------------------------|--------------------|--------------------|
| Interest income on | | |
| Bank deposits | 534 | 462 |
| Unlisted held-to-maturity investments | — | 6 |
| | 534 | 468 |
| Interest expenses on | | |
| Bank loans and other borrowings | 699 | 557 |
| Other borrowing costs | 51 | 41 |
| Total borrowing costs | 750 | 598 |
| Less: Borrowing costs capitalized | (445) | (316) |
| Finance costs | 305 | 282 |
| Net interest income | 229 | 186 |

5. PROFIT BEFORE TAXATION

| | 2014 \$ Million | 2013 \$ Million |
|--|--------------------|--------------------|
| Profit before taxation is arrived at after charging: | | |
| Cost of properties sold | 267 | 21 |
| Staff costs, including employee share-based payments of \$77 million (2013: \$65 million) | 563 | 424 |
| Depreciation | 25 | 20 |

6. TAXATION

- (a) Provision for Hong Kong Profits Tax is calculated at 16.5% (2013: 16.5%) of the estimated assessable profits for the period. China Income Tax mainly represents China Corporate Income Tax calculated at 25% (2013: 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.

| | 2014 \$ Million | 2013 \$ Million |
|---|--------------------|--------------------|
| Current tax | | |
| Hong Kong Profits Tax | 254 | 182 |
| China Income Tax | 377 | 282 |
| | 631 | 464 |
| Deferred tax | | |
| Change in fair value of investment properties | 11 | 97 |
| Other origination and reversal of temporary differences | 55 | 101 |
| | 66 | 198 |
| Total income tax expense | 697 | 662 |

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

7. DIVIDENDS

- (a) Dividends attributable to the period

| | 2014 \$ Million | 2013 \$ Million |
|---|--------------------|--------------------|
| Proposed after the end of the reporting period: | | |
| 19 cents (2013: 19 cents) per share | 257 | 256 |

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

| | 2014 \$ Million | 2013 \$ Million |
|--|--------------------|--------------------|
| Final dividend in respect of the previous financial year | | |
| of 61 cents (2013: 60 cents) per share | 827 | 810 |

8. EARNINGS PER SHARE

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

| | 2014 \$ Million | 2013 \$ Million |
|---|--------------------|--------------------|
| Earnings for calculation of basic and diluted earnings per share (net profit attributable to shareholders) | 2,060 | 1,766 |
| | Number of shares | |
| | 2014 (Million) | 2013 (Million) |
| Weighted average number of shares used in calculating basic earnings per share | 1,352 | 1,350 |
| Effect of dilutive potential shares - share options | 4 | 8 |
| 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:

| | 2014 \$ Million | 2013 \$ Million |
|--|--------------------|--------------------|
| Net profit attributable to shareholders | 2,060 | 1,766 |
| Effect of changes in fair value of investment properties | (763) | (1,090) |
| Effect of corresponding deferred tax | 11 | 97 |
| Effect of change in fair value of investment properties of joint ventures | (144) | (102) |
| Non-controlling interests | (896) | (1,095) |
| | 352 | 488 |
| | (544) | (607) |
| Underlying net profit attributable to shareholders | 1,516 | 1,159 |

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

| | 2014 | 2013 |
|---------|--------|--------|
| Basic | \$1.12 | \$0.86 |
| Diluted | \$1.12 | \$0.85 |

9. INVESTMENT PROPERTIES AND INVESTMENT PROPERTIES UNDER DEVELOPMENT

(a) Additions

During the period, additions to investment properties and investment properties under development amounted to \$2,651 million (2013: \$6,640 million).

(b) Valuation

The investment properties and investment properties under development of the Group were revalued as at June 30, 2014 by Mr. Charles C.K. Chan, Registered Professional Surveyor (General Practice), of Savills Valuation and Professional Services Limited, on a market value basis.

10. CASH AND DEPOSITS WITH BANKS

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

| | June 30, 2014 \$ Million | December 31, 2013 \$ Million |
|----------------------------------|--------------------------------|------------------------------------|
| Hong Kong Dollars equivalent of: | | |
| Renminbi | 37,284 | 37,100 |
| Hong Kong Dollars | 1,666 | 2,287 |
| United States Dollars | 31 | 317 |
| | 38,981 | 39,704 |

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

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

| | June 30, 2014 \$ Million | December 31, 2013 \$ Million |
|---------------------------------|--------------------------------|------------------------------------|
| Bank loans and other borrowings | 45,708 | 45,024 |
| Less: Cash and deposits | (38,981) | (39,704) |
| Net debt | 6,727 | 5,320 |

11. TRADE AND OTHER RECEIVABLES

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

| | June 30, 2014 \$ Million | December 31, 2013 \$ Million |
|----------------------------|--------------------------------|------------------------------------|
| Current and within 1 month | 376 | 1,834 |
| 1 - 3 months | 9 | 14 |
| Over 3 months | 6 | 9 |
| | 391 | 1,857 |

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 \$315 million (December 31, 2013: \$318 million).

12. BANK LOANS AND OTHER BORROWINGS

At the end of the reporting period, the Group had \$16,705 million (December 31, 2013: \$8,781 million) committed undrawn banking facilities.

In addition, a wholly-owned subsidiary of Hang Lung Properties Limited ("HLP") has a US\$3 billion (December 31, 2013: US\$3 billion) Medium Term Note Program (the "Program"). At the end of the reporting period, the Group issued in total an equivalent of \$12,470 million (December 31, 2013: \$7,290 million) bonds with coupon rates ranged from 2.95% to 4.75% (December 31, 2013: 2.95% to 4.75%) per annum under the Program.

13. TRADE AND OTHER PAYABLES

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

| | June 30, 2014 \$ Million | December 31, 2013 \$ Million |
|--------------------|--------------------------------|------------------------------------|
| Due within 1 month | 2,814 | 2,693 |
| Due after 3 months | 569 | 548 |
| | 3,383 | 3,241 |

14. SHARE CAPITAL

As at December 31, 2013, 2,000 million ordinary shares, with par value of HK\$1 each, were authorized for issue. Under the new Companies Ordinance (Chapter 622 of the laws of Hong Kong) (the "New Companies Ordinance"), which commenced operation on March 3, 2014, the concepts of "authorized share capital" and "par value" no longer exist. As part of the transition to the no-par value regime, the amounts standing to the credit of the share premium account and the capital redemption reserve on March 3, 2014 have become part of the Company's share capital, under the transitional provisions set out in section 37 of Schedule 11 to the New Companies Ordinance. These changes do not have an impact on the number of shares in issue or the relative entitlement of any of the members.

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

| | June 30, 2014 | | December 31, 2013 | |
|---|----------------------------------|--|----------------------------------|--|
| | Number of shares (Million) | Amount of share capital (\$ Million) | Number of shares (Million) | Amount of share capital (\$ Million) |
| Ordinary shares, issued and fully paid: | | | | |
| At January 1 | 1,350 | 1,350 | 1,350 | 1,350 |
| Shares issued under share option scheme | 5 | 60 | — | — |
| Transition to no-par value regime on March 3, 2014 | — | 2,483 | — | — |
| At June 30/December 31 | 1,355 | 3,893 | 1,350 | 1,350 |

15. SHARE OPTION SCHEME

The Company

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

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

| Date granted | Number of share options | | | Outstanding on June 30, 2014 | Period during which options are exercisable | Exercise price (HK\$) |
|-------------------|-----------------------------------|-------------|----------------------|---------------------------------|---|-----------------------------|
| | Outstanding on January 1, 2014 | Exercised | Forfeited/ Lapsed | | | |
| May 20, 2004 | 5,090,000 | (5,090,000) | – | – | May 20, 2005 to May 19, 2014 | 9.45 |
| November 20, 2006 | 6,700,000 | – | – | 6,700,000 | November 20, 2007 to November 19, 2016 | 20.52 |
| Total | 11,790,000 | (5,090,000) | – | 6,700,000 | | |

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 closing price of the shares immediately before the date of exercise by the director during the period was \$40.95. No share options were exercised by the employee during the period.

The share price at the date of exercise for share options during the period was \$42.10.

15. SHARE OPTION SCHEME (continued)

Hang Lung Properties Limited ("HLP")

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

(a) 2002 Share Option Scheme

| Date granted | Number of share options | | | Outstanding on June 30, 2014 | Period during which options are exercisable | Exercise price (HK\$) |
|---|-----------------------------------|--------------------|----------------------|---------------------------------|---|-----------------------------|
| | Outstanding on January 1, 2014 | Exercised | Forfeited/ Lapsed | | | |
| May 20, 2004 | 5,290,000 | (5,290,000) | – | – | May 20, 2005 to May 19, 2014 | 9.20 |
| November 14, 2006 to March 19, 2007 | 4,545,000 | (400,000) | – | 4,145,000 | November 14, 2007 to March 18, 2017 | 16.75 - 22.55 |
| August 21, 2007 to December 31, 2008 | 41,624,000 | (622,000) | (82,000) | 40,920,000 | August 21, 2008 to December 30, 2018 | 17.36 - 27.90 |
| February 8, 2010 to June 1, 2010 | 13,780,000 | – | (400,000) | 13,380,000 | February 8, 2012 to May 31, 2020 | 26.46 - 27.27 |
| July 29, 2010 to June 13, 2011 | 35,852,000 | – | (1,687,000) | 34,165,000 | July 29, 2012 to June 12, 2021 | 30.79 - 36.90 |
| Total | 101,091,000 | (6,312,000) | (2,169,000) | 92,610,000 | | |

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

The closing price of the shares of HLP immediately before the date of exercise by the director during the period was \$22.30. The weighted average closing price of the shares of HLP immediately before the dates of exercise by the employees during the period was \$23.22.

The weighted average share price of HLP at the dates of exercise for share options during the period was \$23.31.

15. SHARE OPTION SCHEME (continued)

(b) 2012 Share Option Scheme

| Date granted | Number of share options | | | Outstanding on June 30, 2014 | Period during which options are exercisable | Exercise price (HK\$) |
|--------------|-----------------------------------|-----------|----------------------|---------------------------------|---|-----------------------------|
| | Outstanding on January 1, 2014 | Exercised | Forfeited/ Lapsed | | | |
| June 4, 2013 | 38,620,000 | – | (2,990,000) | 35,630,000 | June 4, 2015 to June 3, 2023 | 28.20 |
| Total | 38,620,000 | – | (2,990,000) | 35,630,000 | | |

All the above options may vest after two to five years of the grant date and are exercisable up to the tenth anniversary of the date of grant, after which they will lapse. No options of HLP were granted nor cancelled during the period.

16. RESERVES

| | Share premium \$ Million (Note) | Capital redemption reserve \$ Million (Note) | Investment revaluation reserve \$ Million | Exchange reserve \$ Million | Employee share-based compensation reserve \$ Million | General reserve \$ Million | Other capital reserve \$ Million | Total profits \$ Million | Total reserves \$ Million |
|---|---------------------------------|--|---|-----------------------------|--|----------------------------|----------------------------------|--------------------------|---------------------------|
| At January 1, 2014 | 2,457 | 26 | 22 | 5,320 | 352 | 275 | 1,669 | 59,101 | 69,222 |
| Transition to no-par value regime on March 3, 2014 | (2,457) | (26) | — | — | — | — | — | — | (2,483) |
| Profit for the period | — | — | — | — | — | — | — | 2,060 | 2,060 |
| Net movement in investment revaluation reserve | — | — | 1 | — | — | — | — | — | 1 |
| Exchange difference arising from translation of overseas subsidiaries | — | — | — | (803) | — | — | — | — | (803) |
| Total comprehensive income for the period | — | — | 1 | (803) | — | — | — | 2,060 | 1,258 |
| Final dividends in respect of previous financial year | — | — | — | — | — | — | — | (827) | (827) |
| Issue of shares | — | — | — | — | (12) | — | — | — | (12) |
| Employee share-based payments | — | — | — | — | 15 | — | — | 22 | 37 |
| Change in non-controlling interests arising from increase of the Group's shareholding in a subsidiary | — | — | — | — | — | — | 118 | — | 118 |
| At June 30, 2014 | — | — | 23 | 4,517 | 355 | 275 | 1,787 | 60,356 | 67,313 |

Note:

Prior to March 3, 2014, the application of the share premium account and the capital redemption reserve was governed by sections 48B and 49H respectively of the predecessor Companies Ordinance (Chapter 32 of the laws of Hong Kong). In accordance with the transitional provisions set out in section 37 of Schedule 11 to the New Companies Ordinance, on March 3, 2014 any amount standing to the credit of the share premium account and the capital redemption reserve has become part of the Company's share capital. The use of share capital as from March 3, 2014 is governed by the New Companies Ordinance.

16. RESERVES (continued)

| | Share premium \$ 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, 2013 | 2,454 | 26 | 9 | 3,601 | 286 | 275 | 1,635 | 8,286 | 55,588 | 63,874 |
| Profit for the period | — | — | — | — | — | — | — | — | 1,766 | 1,766 |
| Net movement in investment revaluation reserve | — | — | (4) | — | — | — | — | (4) | — | (4) |
| Exchange difference arising from translation of overseas subsidiaries | — | — | — | 936 | — | — | — | 936 | — | 936 |
| Total comprehensive income for the period | — | — | (4) | 936 | — | — | — | 932 | 1,766 | 2,698 |
| Final dividends in respect of previous financial year | — | — | — | — | — | — | — | — | (810) | (810) |
| Issue of shares | 2 | — | — | — | — | — | — | 2 | — | 2 |
| Employee share-based payments | 1 | — | — | — | 24 | — | — | 25 | 11 | 36 |
| Change in non-controlling interests arising from increase of the Group's shareholding in a subsidiary | — | — | — | — | — | — | (14) | (14) | — | (14) |
| At June 30, 2013 | 2,457 | 26 | 5 | 4,537 | 310 | 275 | 1,621 | 9,231 | 56,555 | 65,786 |

17. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Financial assets measured at fair value

Financial assets under recurring fair value measurement comprises listed investments classified as available-for-sale equity securities, which are measured using quoted prices in an active market for identical assets (level 1). During the period, there were no transfers between levels of fair value hierarchy.

(b) Fair values of financial assets and liabilities carried at other than fair value

The fair value of unlisted equity investments, trade and other receivables, trade and other payables, cash and deposits with banks, bank loans and other borrowings are considered approximate to their carrying amounts at the end of the reporting period.

18. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities of the Company were as follows:

| | June 30, 2014 \$ Million | December 31, 2013 \$ Million |
|---|--------------------------------|------------------------------------|
| Guarantees given to banks to secure credit facilities drawn by subsidiaries | 7,710 | 10,080 |

19. COMMITMENTS

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

| | June 30, 2014 \$ Million | December 31, 2013 \$ Million |
|-----------------------------------|--------------------------------|------------------------------------|
| Contracted for | 3,459 | 5,252 |
| Authorized but not contracted for | 43,590 | 44,031 |
| | 47,049 | 49,283 |

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.

20. RELATED PARTY TRANSACTIONS

The Group has a 20% interest in a joint venture which participated in the development of Package One of the MTRC Tung Chung Station Development Project and a new commercial project in Tung Chung. At June 30, 2014, the Group advanced to this joint venture a total of \$945 million (December 31, 2013: \$945 million). All advances are unsecured, non-interest bearing and have no fixed terms of repayment.

21. REVIEW AND APPROVAL OF INTERIM FINANCIAL REPORT

The interim financial report is unaudited, but has been reviewed by the Audit Committee. It was authorized for issue by the Board of Directors on July 31, 2014.

INFORMATION FOR INVESTORS

FINANCIAL CALENDAR

| | |
|-----------------------------------|--|
| Financial period | January 1, 2014 to June 30, 2014 |
| Announcement of interim results | July 31, 2014 |
| Latest time for lodging transfers | 4:30 p.m. on September 15, 2014 |
| Closure of share register | September 16 to 17, 2014 (both days inclusive) |
| Record date for interim dividend | September 17, 2014 |
| Payment date for interim dividend | September 30, 2014 |

SHARE LISTING

As at June 30, 2014, 1,354,918,242 shares are listed on The Stock Exchange of Hong Kong Limited. It has a sponsored American Depositary Receipt (ADR) Program in the New York market.

STOCK CODE

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

SHARE INFORMATION

Share price as at June 30, 2014: HK\$41.95

Market capitalization as at June 30, 2014: HK\$56.84 billion

SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre
183 Queen's Road East, Wan Chai, Hong Kong
Tel: 2862 8555
Fax: 2865 0990

INVESTOR RELATIONS CONTACT

C.F. Kwan
Email address: ir@hanglung.com