恒隆集團
HANG LUNG GROUP

2015
Interim Report

Hang Lung Group Limited
Stock Code: 00010

WE DO IT RIGHT

Corporate Information

DIRECTORS

Ronnie C. Chan *(Chairman)*
Philip N.L. Chen *(Managing Director)*
Gerald L. Chan #
Simon S.O. Ip *CBE, JP* *
L.C. Tsui *OC, GBS, JP* *
Martin C.K. Liao *SBS, JP* *
P.W. Liu *SBS, JP* *
George K.K. Chang #
Roy Y.C. Chen #
(appointed on September 19, 2015)
H.C. Ho

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

AUDIT COMMITTEE

Simon S.O. Ip *CBE, JP (Chairman)*
L.C. Tsui *OC, GBS, JP*
P.W. Liu *SBS, JP*
George K.K. Chang
(appointed on August 4, 2015)

NOMINATION AND REMUNERATION COMMITTEE

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

AUTHORIZED REPRESENTATIVES

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

COMPANY SECRETARY

Bella P.L. Chhoa

REGISTERED OFFICE

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AUDITOR

KPMG
Certified Public Accountants

RESULTS AND DIVIDEND

For the six months ended June 30, 2015, turnover grew at 3% to HK$4,893 million. Net profit attributable to shareholders fell by 14% to HK$1,779 million due to a much smaller amount of gain on property revaluation. Earnings per share decreased similarly to HK$1.31 compared to the last corresponding period. When excluding all the effects of revaluation gains, the underlying net profit attributable to shareholders was flat at HK$1,509 million and the underlying earnings per share slipped 1% to HK$1.11.

The Board has declared an interim dividend of HK19 cents per share payable on September 30, 2015 to shareholders of record on September 16, 2015.

BUSINESS REVIEW

Despite a very difficult economic environment, the set of results we have turned out is quite acceptable. For our bread-and-butter business of property leasing, overall rental grew at over 7% in Hong Kong and 8% on the Mainland. If we exclude the just-completed projects of Tianjin Riverside 66 and the two new office towers at Wuxi Center 66 and Shenyang Forum 66, rental income increased by 4%.

Our Shanghai business has grown nicely. In size it is almost as big as that in our home market Hong Kong. We collected HK$1,668 million as opposed to HK$1,816 million in Hong Kong.

Although we sold fewer units of Hong Kong apartments than last year and hence saw a drop in the property sales by 17%, profit therefrom actually rose by 4% to HK$562 million. The reason was that in the latest six-month period we parted with higher-margin homes. Overall profit margin was 75% and in the case of The HarbourSide, 82%.

Asset revaluation gain was anemic especially on the Mainland. Taking into account related deferred taxes and minority interests, net gain was HK$270 million which was less than that in the previous year. Due also to the change in the treatment of interest expenses when projects are completed, profit attributable to shareholders fell by 14% to HK$1,779 million. However, underlying earnings before interest and tax actually increased by 5%.

In my letter to shareholders of Hang Lung Properties, I have a lengthy report on the property rental business which I will summarize below. Here I will also discuss the home sales market both on the Mainland and in Hong Kong.

In spite of the slowing down in consumption growth, we registered a healthy increase in rents in our two Shanghai shopping centers. We received 12% more at Plaza 66 and 6% more at Grand Gateway 66. Offices however presented a mixed picture. Due to an oversupply of new space in the neighborhood, Plaza 66 met with strong competition. To defend our leadership position and to keep occupancy high, we collected 7% less revenue. At Grand Gateway 66, turnover actually increased by 5%. All told, rent rose by 3% in Shanghai compared to the same six-month period of last year. All properties remain basically full except for the serviced apartments in Grand Gateway 66.

Outside of Shanghai, rental income on the Mainland rose by 23%. This includes the newly opened Tianjin Riverside 66. If we look only at the four malls with more than one year of operations, rents fell by 6% from the year before – Shenyang Palace 66 saw a growth of 5% and Wuxi Center 66, 7%; Jinan Parc 66 retreated by 2% and Shenyang Forum 66 by 4%. Both new office towers in Center 66 and in Forum 66 are leasing up nicely.

In terms of mall occupancy, Palace 66 retreated slightly from 86% a year ago to 84%, although the overall trend is on the rise. Parc 66 continued its progress from 81% to 90%. Forum 66 fell to 88% from 92% a year ago and Center 66 fell 10 points to 80%. Riverside 66 rose to 88%. The new office tower in Center 66 is now 60% leased while the one at Forum 66, which opened three months later in January this year, has almost one-third committed.

Tenant retail sales have done well so far. Reversing a downward trend, Plaza 66 registered a slight gain of 1%. Grand Gateway 66 grew nicely at 6%. Continuing on the path of recovery, our tenants at Palace 66 did 10% more business and in Center 66, 15% more. The last number is due mainly to the strong sales of luxury cars. Sales in Parc 66 fell by 1% and those in Forum 66, 5%.

In Hong Kong, total rental turnover grew by 7% while that for commercial space, 6%. Tenant sales rose by 3% on a like-for-like basis. Retail space at Hang Lung Center in Causeway Bay was closed for renovation and will reopen later this year with an H&M flagship store. As in the case of all our recent Asset Enhancement Initiatives, rental turnover will jump once new tenants are in place. But for now, due to a reduction in rentable space, tenant sales fell by 3%. With a few exceptions, all properties in our Hong Kong portfolio remain basically fully leased.

The Mainland economy has plenty of challenges. After two decades of growth at breakneck pace, a slowdown is inevitable. The earlier rapid development, while spectacular in quantitative terms, left much to be desired in qualitative terms. Monetary easing popular in the West since the Great Recession of 2008 has been used extensively by Beijing for some time. While supporting growth, it has also presented problems. Export-led advances through manufacturing were accomplished basically by brute force. Throwing raw material, manpower and capital at factories churns out huge quantities of products that are usually not so refined. Given the herd instinct and lack of policy coordination, there is a glut of capacity as well as basic materials like steel and cement.

In the short run, such activities kept the economy roaring. However they are wasteful and unsustainable. Employing the same strategy for further growth becomes more and more difficult. At best it brings greatly diminished returns. After all, the base is no longer small like it once was. New sources of growth must be found. Such is the challenge that the Chinese economy is facing today.

The government has proposed various ways to stimulate the economy. It is doubtful if any of them will bear fruit anytime soon. One can hardly object to encouraging the citizenry to innovate and young people to start new businesses. Although the latter may help alleviate some of the job creation pressures, will it produce sufficient activities to lift the economy? Probably, but not in the short run.

Then there is the initiative of “One Belt, One Road” or as some have coined it, “OBOR” or “Belt & Road.” In essence it is the new Silk Road by land (“one belt”) and by sea (“one road” or “one route”). When asked, my response is: why not?! Globalization arguably began some two thousand years ago along the original Silk Road. After some fifteen centuries, the center of gravity of the global economy shifted to Europe and later also to North America. From there, it reached Africa and Latin America through colonization and finally East Asia after World War II. The part of the world that is today the least globalized is west of China and east of Europe, namely the Silk Road, old or new.

Recognizing the geoeconomic and geopolitical rationales behind the initiative, it seems that for China, there is a lot more upside than downside. What I do not know is how fast it can bring economic dividends to the country, although in time it probably will. So the question remains: in the immediate term, how can Beijing leaders spur the economy on?

In this regard, the real estate market is like a microcosm of the overall economy. How to achieve steady growth with the least disruptive price and transaction volume swings has long taxed the minds of Beijing leaders.

Housing stock has grown at an unprecedented pace in the past two decades. Land sales were one sure way for city leaders to quickly obtain cash for other necessary projects such as infrastructure developments. Developers on the other hand were all too happy to snap up sites for a quick return. The result was the mushrooming of poorly built housing everywhere. Oversupply was perhaps at its worst in 2013 when construction seemed to have suddenly stopped. At the same time, there was a glut of retail space in many cities. With real estate being related to some 20% of all economic activities, its slowdown will always bring grave consequences.

Some think that the recent sharp fall in the stock market will have lasting effects on the economy. I am not sure I agree. All fast-developing economies at some point would experience such shocks but they always somehow recover, as long as their banking systems remain intact. This is certainly the case in China now. Furthermore, the stock index at today's level is still much higher than it was a year ago or at the beginning of this year.

To me, what is far more problematic is the slowdown in housing construction. Although government stimulation measures had been effective and, after a slow 2014, activities have picked up in the second quarter of this year, it remains doubtful if the level will be sufficient to keep the economy strong.

Ironically, while the slowdown of recent years is problematic to the overall economy in the immediate term, it is very good for the long-term health of the housing market. I believe that for once, it has a chance of achieving a supply-demand equilibrium. Like national leaders everywhere, those in Beijing have long worried about the wild swings in housing prices. They greatly affect the all-important middle class. Plummeting prices will hurt since as much as 90% of city dwellers in China are home owners. Runaway prices on the other hand will make many unhappy as their hopes of home ownership or upgrading will be dashed. The best solution is to keep prices gently rising along with inflation. This is easier said than done.

To be sure, there is an excess of housing inventory to be worked off, but time will take care of this. Home prices as well as transaction volume have of late been steady. It is now high time for the government to put in place reasonable mechanisms for land sales so that supply does not get out of hand again.

Before proceeding further, let me say a word on the side about how most in the West read the Chinese economy. They observe phenomena and process information through the prism of Western eyes. They seem to forget that China is not exactly a free market like their own. Whether one likes it or not, Beijing retains considerable power to influence and even direct economic activities, although they tend to leave the day-to-day business to the market. It is a hybrid economy similar in some ways to that of Singapore.

Most outsiders also do not bother to try to understand the Chinese mindset – how people relate to the market, the society and the government. After all, the economy is comprised of individuals, so to know the former requires a certain understanding of the latter. No wonder that on many occasions, the conclusions drawn by Western observers are more often than not erroneous.

So to those who insisted a few years ago that the Chinese housing market would have a hard landing, I have always disagreed. The past year has proven me correct. On the contrary, the industry may have finally matured sufficiently that it is about to enter a period of relative stability, inevitable volatility notwithstanding which is the nature of long-dated assets like real estate. I trust that I am correct.

In Hong Kong, I believe that the housing market may also be moving towards some degree of stability. It will remain somewhat strong since land supply, while increasing, is still inadequate. With the execution of proper government policies, a supply-demand equilibrium will sooner rather than later be achieved. I believe that in the next year or so, as the market realizes that there will be more land for sale, rise in home prices will begin to moderate. Again I hope that I am correct.

It is this belief that has driven us to sell down our Hong Kong portfolio of completed apartments in the past few years. One does not want to be caught selling into a weakening market. We will try to part with the remaining 678 units at The Long Beach as long as prices stay relatively strong. As shareholders know, our strategy is to maximize profit. We have so far done well and I expect that our timing for the remaining units will be equally auspicious.

PROSPECTS

While we welcome the medium-term health of the Mainland and Hong Kong housing markets, the immediate outlook for our Mainland retail rental business is not as rosy. Negative rental reversion in second-tier cities is a real threat. Hopefully your management's efforts with regard to tenant remixing and marketing initiatives will partially or wholly mitigate the effects. We are also progressing steadily with our EST (Experience, Service and Technology) program which should help keep our facilities competitive.

Even in places where we are doing well, we are not complacent. Over the next two to three years, we will expend HK$1.3 billion to refresh and upgrade our two complexes in Shanghai.

Under new management, we have worked our assets in Hong Kong a lot harder than in the previous few years. Our Asset Enhancement Initiatives have borne wonderful fruit. When we first started the program, the local retail market was still strong. Little did we know at that time that primarily due to the unwise behavior of a small group of locals towards Mainland tourists, retail sales would have stagnated or even fallen. Fortunately the actions we have taken should keep our rental turnover and profit growing.

With the aforementioned initiatives and the opening of Dalian Olympia 66 in December, total rental turnover should grow despite this very tough environment. I trust that profit therefrom will do likewise, the chances of which are high for Hong Kong and reasonably so for the Mainland. The situation at Plaza 66, Grand Gateway 66 and Palace 66 should hold; Parc 66 and Riverside 66 should continue to improve; and efforts are being exerted at Center 66 and Forum 66 to reverse their fortunes, and reverse they will.

As I have said before, never waste a bear market. This is an opportunity for us to iron out the technical bugs in our newer properties, upgrade our older facilities, strengthen our team further, and hunt for opportunities to buy more land. When the good days return and sooner or later they will, we will be stronger than ever. Our very healthy financial position will enable this.

As I have previously pointed out, top brands like Chanel and Hermès realistically do not have more than one or two quality shopping centers in each tier-two city to choose from. We are invariably one of them if not the only one. As such our potential competitor is at most one, and certainly not the proliferation of inferior malls. Luxury goods customers who frequent our stores are also not the same crowd as those who flock to the facilities tailored for the lower economic strata. Nevertheless, the excess space will take away some footfall and peripheral business from us.

Obviously we do not mind witnessing the closure of other malls and department stores, a phenomenon that has begun in earnest in the past months. In Tianjin alone, six retail properties have closed down since the opening of our Riverside 66 last September. Similar is happening in other cities. I know of some well-located shopping centers in even tier-one cities being converted to other usage. Market cleansing has begun and will continue as long as consumption remains feeble. Although we like bull markets as others do, a periodic bear is not bad. In fact the bigger the bear the better, for our relative competitive position is greatly strengthened at such times. As the Chinese say, when the (tail) wind is strong, even pigs can fly. The opposite is true today and we are not altogether unhappy about it.

But for now, Dalian Olympia 66 will open in the coming December in the midst of a very weak market. Many top brands have ceased expansion plans; some are even cutting the number of stores in China. This is by far our biggest mall at almost 220,000 square meters, and filling it in an intelligent way is a challenge. Nevertheless, your management has done a decent job.

We will inaugurate in two phases, with the first accounting for 87% of total space. We expect to be 80% full at the time of opening which is about 70% of the entire center. We believe that we will soon be able to deliver an initial return at the promised level of 4-5%. Once the entire mall is filled, it should yield about 5-6%.

A reasonable question is: why did we buy such a big plot? It was previously occupied by a sports stadium and we purchased the entire block in order to have an island site. Otherwise, it would have meant inviting a neighbor who could have a totally different design and usage than ours. We deemed the marginally higher land cost to be worth paying for as we will have far more design flexibility. Our decision has been well rewarded for this development has garnered numerous international design awards.

We are frankly a little surprised by how well our two new office towers in Wuxi and Shenyang are leasing. They are at present respectively 60% and 30% committed. By year-end, we expect the numbers to be over 80% and 60%. Our strategy is to attract the best possible tenants the city can offer. Given location and quality, as long as we are not overly aggressive with pricing, we should be able to lure and keep the best ones. We should become the undisputed best office towers in town as we were with Plaza 66 in Shanghai.

As readers of my previous letters know, we are very cautious about the office market in tier-two cities. We simply do not think that there are that many high caliber tenants around. Our focus is always retail space, but in order to secure the land for it, at times we were compelled by the seller, i.e. the municipal government, to do comprehensive developments with an office element. Such a trend will only continue.

As a result, not only must we ensure that our location is among the very best, which is invariably the case, we must also deliver the best in terms of building quality – in design, construction and on-going management. In tier-two cities where the market for Class A offices is not that big, only the best will survive. It will generate the highest income when the market is up, and more importantly, be the most defensive when the market is down. Moreover, a world-class shopping mall with office towers above do complement each other. The former brings prestige to the latter and the latter brings footfall and sales dollars to the former.

All told, we should round off the year with acceptable rental profits. Total profits will depend on how many Hong Kong completed apartments we will be able to sell. The year before, we parted with many expensive units at The HarbourSide. We simply do not have that many more to sell. The only unknown is how well our 18 semi-detached houses on Blue Pool Road will be received by the market. Their unit price should be much higher than that of The HarbourSide apartments which is all but sold out.

Ronnie C. Chan
Chairman of the Board of Directors
Hong Kong, July 30, 2015

Addendum to Chairman's Letter to Shareholders

To Our Shareholders

I am pleased to announce that Mr. Roy Y. Chen has joined our Board as a Non-Executive Director on September 19, 2015. This took place after my latest letter dated July 30.

Roy is the Chairman and Chief Executive Officer of Grace Financial Limited and has been associated with Sterling Enterprises Limited managing various investments in global markets for over two decades. Since 2000, he has been actively involved in promoting and improving corporate governance with a special interest in family business situations. Roy has previously served as a member of the Listing Committee of the Hong Kong Stock Exchange and a member of the Takeovers and Mergers Panel of the Securities and Futures Commission of Hong Kong. I look forward to his many contributions.

Ronnie C. Chan
Chairman of the Board of Directors
Hong Kong, September 19, 2015

Financial Highlights

in HK$ Million (unless otherwise stated)

RESULTS

	Note	For the six months ended June 30 2015	2014	Change
Turnover		4,893	4,746	+3%
Property Leasing		4,148	3,845	+8%
Property Sales		745	901	-17%
Operating Profit		3,725	3,613	+3%
Property Leasing		3,163	3,073	+3%
Property Sales		562	540	+4%
Net Profit Attributable to Shareholders		1,779	2,060	-14%
Earnings Per Share (HK$)		$1.31	$1.52	-14%
Interim Dividend Per Share (HK$)		$0.19	$0.19	—

UNDERLYING RESULTS

	Note	For the six months ended June 30 2015	2014	Change
Underlying Net Profit Attributable to Shareholders	1	1,509	1,516	—
Underlying Earnings Per Share (HK$)	2	$1.11	$1.12	-1%

FINANCIAL POSITION

	Note	At June 30 2015	At December 31 2014	Change
Shareholders' Equity		77,048	76,026	+1%
Net Assets		145,229	144,696	—
(Net Debt)/Net Cash	3	(2,947)	228	N/A
Debt to Equity Ratio	3	27.1%	27.7%	-0.6pts
Shareholders' Equity Per Share (HK$)		$56.9	$56.1	+1%
Net Assets Per Share (HK$)		$107.2	$106.8	—

Notes:

1. 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.
2. The relevant calculation is based on underlying net profit attributable to shareholders.
3. (Net debt)/Net cash represents bank loans and other borrowings net of cash and deposits with banks. Equity comprises shareholders' equity and non-controlling interests.

GROUP RESULTS

For the first half of 2015, total turnover of the Group was up 3% to HK$4,893 million. Rental turnover rose 8% to HK$4,148 million while property sales income decreased 17% to HK$745 million because of fewer residential units sold compared to the last corresponding period. Overall operating profit of the Group increased by 3% to HK$3,725 million.

Underlying net profit attributable to shareholders stayed at HK$1,509 million. When including a smaller revaluation gain on investment properties compared to the same period last year, net profit attributable to shareholders decreased by 14% to HK$1,779 million. Earnings per share decreased similarly to HK$1.31.

DIVIDEND

The Board of Directors has declared an interim dividend of HK19 cents per share (2014: HK19 cents) to be paid by cash on September 30, 2015 to shareholders. Details of the payment of the interim dividend are set out in “Financial Calendar” on page 54 of this interim report.

PROPERTY LEASING

Turnover of our core business, property leasing, increased by 8% to HK$4,148 million year-on-year. When excluding new investment properties which commenced operation for less than 12 months, leasing turnover rose 4% against a year ago. Operating profit advanced by 3% as profit growth from the Hong Kong portfolio was partially offset by a lower contribution from newly opened properties in mainland China. The overall leasing profit margin was 76%.

Mainland China

Rental income of our mainland China leasing portfolio grew 8% to HK$2,332 million in the first half of 2015. When excluding new properties such as the Riverside 66 shopping mall in Tianjin, the office towers at Center 66 in Wuxi and Forum 66 in Shenyang, turnover on a like-for-like basis was up 1%. Operating profit slipped 1% to HK$1,607 million as new properties generally contributed lower profits during their early years. Overall rental margin retreated six points to 69%.

Our seven shopping malls in mainland China collectively posted an 11% rental income growth to HK$1,684 million. The portfolio comprises two malls each in Shanghai and Shenyang, and one each in Jinan, Wuxi and Tianjin. The two malls in Shanghai, Plaza 66 and Grand Gateway 66, contributed 9% more in rents to HK$1,059 million and were almost fully let. The young malls outside Shanghai cumulatively contributed 16% more in rents year-on-year mainly attributable to contribution from the Riverside 66 shopping mall in Tianjin which commenced operation last September. All the young malls are going through different stages of gestation period with ongoing tenants or trade adjustments. Their occupancy rates ranged from 80% to 90%.

Total rental turnover of our five Grade A office towers in mainland China rose 3% to HK$585 million. Three of the office towers are located in Shanghai, and one each at Center 66 in Wuxi and Forum 66 in Shenyang. Against the backdrop of increase in supply of office space in Shanghai, rental income of our Shanghai offices declined 4% over a year ago. The office tower at Center 66 opened last October and that at Forum 66 commenced operation in January 2015. Rental turnover of apartments in Shanghai contracted by 20% to HK$63 million due to lower occupancy, as the ambience was persistently affected by construction works nearby.

Hong Kong

Rental turnover of our diversified Hong Kong leasing portfolio posted a 7% growth to HK$1,816 million against the backdrop of declining overall retail sales in the local market. All business segments of our portfolio recorded growth with total profit rose 7% to HK$1,556 million. The resulting leasing margin was 86%.

Benefitted from positive rental reversions, our commercial portfolio in Hong Kong generated 6% more in rents to HK$1,040 million. All the malls, which are situated in prime locations of Hong Kong, were virtually fully let. Grand Plaza in Mongkok and Amoy Plaza in Kowloon East both enjoyed a 13% rental growth. The Causeway Bay commercial portfolio posted a 5% rental income growth, despite Hang Lung Centre has been closed for renovation by H&M since January 2015. The properties in Central collected 7% more in rents. The Peak Galleria at the Peak contributed extra 5% leasing income to the Group. Kornhill Plaza, our regional mall in Hong Kong East, posted a stable rental growth of 4% during the period.

The entire office portfolio in Hong Kong collected 9% more in rents to HK$619 million compared with a year ago. The occupancy rate of the office portfolio improved two points to 96%. Rental turnover of our residential and serviced apartments gained 14% to HK$157 million as marketing efforts boosted up occupancy effectively.

PROPERTY SALES

Property sales contributed HK$745 million to the Group's turnover in the first half of 2015. We sold a total of 26 apartments (first half of 2014: 88 units) and some car parking spaces. Due to a different product mix, operating profit was higher by 4% when compared to the same period last year, despite a decrease in turnover by 17%. Overall profit margin realized was 75%.

Relevant information about the 18 semi-detached houses at 23-39 Blue Pool Road was released to the market in April 2015. The houses will be launched for sale when appropriate.

PROPERTY REVALUATION

For the first half of 2015, the total property revaluation gain was HK$445 million, compared to a gain of HK$763 million in the corresponding period last year. Our investment properties portfolio was re-valued by independent valuer Savills as at June 30, 2015. Hong Kong investment properties recorded a revaluation gain of HK$352 million. Mainland portfolio had a moderate gain of HK$93 million.

PROPERTY DEVELOPMENT AND CAPITAL COMMITMENT

The aggregate value of investment properties under development was HK$24 billion. They comprised projects in Dalian, Kunming, Wuhan and the remaining phases of those in Shenyang and Wuxi in mainland China. The portfolio comprises shopping malls, office towers, serviced apartments and hotels. Upon completion of these projects, the total gross floor area of the Group in mainland China will increase 2.6 million square meters to 4.7 million square meters. These projects represented the majority of the Group's capital commitments amounting to HK$44 billion as at June 30, 2015. Those projects will take many years to develop. The Group has ample financial resources to complete their development.

Final preparations are underway for the opening of our shopping mall at Olympia 66 in Dalian towards the end of the year. This new landmark in Dalian comprises almost 222,000 square meters of retail area and 1,200 car parking spaces.

LIQUIDITY AND FINANCIAL RESOURCES

The Group continued to maintain a strong balance sheet. As at June 30, 2015, the Group had liquid funds of HK$36,481 million (December 31, 2014: HK$40,323 million). The majority of the liquid funds were held as RMB bank deposits to meet future construction payments in mainland China while earning much higher deposit yields than HKD deposits. In addition, the Group had approximately HK$18,300 million of committed undrawn banking facilities and a bond issuance platform under the Medium Term Note Program established in 2012 by a wholly owned subsidiary under Hang Lung Properties Limited.

As at the balance sheet date, the Group had total borrowings of HK$39,428 million (December 31, 2014: HK$40,095 million) with an average tenor of 3.6 years. The maturity profile of the Group's total borrowings as at June 30, 2015 was as follows: HK$8,816 million was repayable within one year, HK$3,543 million was repayable in more than one year but not exceeding two years, HK$11,300 million was repayable in more than two years but not exceeding five years, and HK$15,769 million was repayable beyond five years.

The loan portfolio comprised 40% HKD floating rates bank borrowings, 32% fixed rates bonds, and 28% RMB bank loans raised in mainland China. The increasing portion of the fixed rate bonds, when compared to a year ago, will help the Group to further mitigate future interest rate volatility and re-financing risks. The coupon rates of those bonds range from 2.95% to 4.75% per annum. The average remaining tenor of the bonds was 6.6 years.

Out of the total fixed rate bonds issued, HK$7,753 million (US$1,000 million) was denominated in USD. With the Group's strict policy on management of foreign currency risks, the related USD foreign exchange exposure was fully covered by cross currency swap contracts entered into during the current period. The swap contracts were entered into in order to fix the exchange rate between USD and HKD for future interest payments and principal repayments. The Group also benefits from interest savings compared to the coupon rates throughout the remaining tenure of the bonds, but this was only incidental to the currency hedging objective. However, accounting rules stipulate that the swap contracts be marked to market value at each balance sheet date. Any differences in the marked to market valuation between the reporting dates shall be recognized as other gain or loss for the period. For the six months ended June 30, 2015, the Group's swap contracts had unrealized fair value losses amounting to HK$65 million. Any related valuation gains and losses will be self-correcting at the end of the swap contracts.

After netting off the bank deposits, the Group had a net debt balance of HK$2,947 million, representing a net debt to equity ratio of 2% at the reporting date. With this strong financial position and recurring cash flows generated from its operations, the Group has ample financial capacity to meet all capital commitments and other obligations, and is well positioned to seize new investment opportunities when they arise.

Assets of the Group were not charged to any third parties as at June 30, 2015. Except for guarantees given to banks to secure the borrowings drawn by the Company's subsidiaries, as disclosed in note 18 of the Notes to the Interim Financial Report, there were no other contingent liabilities of the Group or Company as at June 30, 2015.

OUTLOOK

In the absence of unforeseen circumstances, rental turnover of the Group is expected to grow in the second half of 2015. In mainland China, newly opened investment properties will make additional contributions to the Group. Our diversified Hong Kong portfolio is expected to generate higher leasing income upon the progressive completion of various asset enhancement initiatives.

The Group will closely monitor the residential property market in Hong Kong. We will seize opportunities to part with some of the residential units on hand when market conditions are favorable.

Final preparations are taking place for the opening of the Group's shopping mall in Dalian, Olympia 66. It is scheduled for opening in the last quarter of 2015.

CORPORATE GOVERNANCE

We are committed to maintaining highest standards of corporate governance. During the six-month period ended June 30, 2015, 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 2014 annual report, which is available on our website.

The Board

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

△ Subsequently, Mr Roy Y.C. Chen was appointed a Non-Executive Director on September 19, 2015.

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, 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, 2015, 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 29 to 30 of this interim report.

Subsequently, Mr George K.K. Chang, Non-Executive Director, was appointed a member of the Audit Committee on August 4, 2015.

Compliance with Corporate Governance Code

During the six-month period ended June 30, 2015, 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, 2015.

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

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

Mr Gerald L. Chan

- a non-executive director of Aduro Biotech, Inc. (common stocks of which were listed on the NASDAQ Global Select Market in April 2015).

Professor L.C. Tsui

- appointed as a member of our Audit Committee*; and
- an independent non-executive director of PuraPharm Corporation Limited (shares of which were listed on the Stock Exchange in July 2015).

Mr Martin C.K. Liao

- appointed as a member of our Nomination and Remuneration Committee*.

Professor P.W. Liu

- appointed as the chairman of the Advisory Committee on Post-office Employment for Former Chief Executives and Politically Appointed Officials;
- appointed as an independent director of China Zheshang Bank Co. Ltd. (a non-listed company incorporated in the People's Republic of China);
- appointed as a member of our Audit Committee, and a member and subsequently as the chairman of our Nomination and Remuneration Committee*; and
- ceased to be a member of the audit committee and the chairman of the nomination and remuneration committee of Hang Lung Properties Limited, our listed subsidiary.

* The directors' fees which are subject to review by the Board from time to time pursuant to the power given to it by the shareholders of the Company would be adjusted accordingly.

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

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

As at June 30, 2015, the interests or short positions of each of the Directors in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code or which were recorded in the register required to be kept by the Company under section 352 of the SFO are as follows:

		The Company (Long Position)			*Hang Lung Properties Limited (Long Position)*		
Name of Directors	Capacity	Number of Shares	% of Number of Issued Shares	Number of Shares under Option *(Note 1)*	Number of Shares	% of Number of Issued Shares	Number of Shares under Option *(Note 2)*
Ronnie C. Chan	Personal	5,090,000	0.38	6,700,000	5,090,000	0.11	38,730,000
Philip N.L. Chen	Personal	—	—	—	—	—	21,500,000
Gerald L. Chan	—	—	—	—	—	—	—
Simon S.O. Ip	—	—	—	—	—	—	—
L.C. Tsui	—	—	—	—	—	—	—
Martin C.K. Liao	—	—	—	—	—	—	—
P.W. Liu	Personal & Family	—	—	—	100,000	—	—
George K.K. Chang	—	—	—	—	—	—	—
H.C. Ho	Personal	—	—	—	—	—	10,450,000

Notes

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

		Number of Shares under Option					
Date Granted (mm/dd/yyyy)	Name	As at Jan 1, 2015	Exercised during the Period	As at Jun 30, 2015	Exercise Price per Share (HK$)	Vested Dates (mm/dd/yyyy)	Expiry Date (mm/dd/yyyy)
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: As at Jan 1, 2015	Number of Shares under Option: Exercised during the Period	Number of Shares under Option: As at Jun 30, 2015	Exercise Price per Share (HK$)	Vested Dates (mm/dd/yyyy)	Expiry Date (mm/dd/yyyy)
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
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

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: As at Jan 1, 2015	Exercised during the Period	As at Jun 30, 2015	Exercise Price per Share (HK$)	Vested Dates (mm/dd/yyyy)	Expiry Date (mm/dd/yyyy)
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	4,500,000	–	4,500,000	$30.79	06/13/2013 : 10%	06/12/2021
	Philip N.L. Chen	4,500,000	–	4,500,000		06/13/2014 : 20%	
	H.C. Ho	3,000,000	–	3,000,000		06/13/2015 : 30%	
						06/13/2016 : 40%	

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

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

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

Save as disclosed above, none of the Directors of the Company or any of their associates had, as at June 30, 2015, 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, 2015 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, 2015, 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:

		Number of Shares or Underlying Shares Held		% of Number of Issued Shares	
Name	*Note*	Long Position	Short Position	Long Position	Short Position
Chan Tan Ching Fen	*1*	498,428,580	—	36.79	—
Cole Enterprises Holdings (PTC) Limited (formerly known as 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*	268,305,877	—	19.80	—
Dodge & Cox	*3*	121,985,900	—	9.00	—

Notes

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

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

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

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

Save as disclosed above, as at June 30, 2015, no other interest required to be recorded in the register kept under section 336 of the SFO has been notified to the Company.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six-month period ended June 30, 2015, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities.

EMPLOYEES

As at June 30, 2015, the number of employees in the Group was 4,737 (including 1,225 Hong Kong employees and 3,512 mainland China staff). The total employees' costs for the six-month period ended June 30, 2015 amounted to HK$658 million. The Group provides competitive remuneration packages for all employees including discretionary bonuses which are payable to the employees based on individual performance. The Group regularly reviews the remuneration packages to ensure that they comply with relevant regulatory requirements and market conditions. The Group has share option scheme for the executives and provides professional and high-quality training for all employees.

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 31 to 53 which comprises the consolidated statement of financial position of Hang Lung Group Limited ("the Company") as of June 30, 2015 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, 2015 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 30, 2015

Consolidated Income Statement

For the six months ended June 30, 2015 (Unaudited)

	Note	2015 HK$ Million	2014 HK$ Million
Turnover	2(a)	4,893	4,746
Direct costs and operating expenses		(1,168)	(1,133)
Gross profit		3,725	3,613
Other net income/(loss)	3	68	(3)
Administrative expenses		(367)	(341)
Operating profit before change in fair value of investment properties		3,426	3,269
Increase in fair value of investment properties		445	763
Operating profit after change in fair value of investment properties		3,871	4,032
Interest income		628	534
Finance costs		(588)	(305)
Net interest income	4	40	229
Share of profits of joint ventures		135	218
Profit before taxation	2(a) & 5	4,046	4,479
Taxation	6(a)	(716)	(697)
Profit for the period		3,330	3,782
Attributable to:			
Shareholders		1,779	2,060
Non-controlling interests		1,551	1,722
		3,330	3,782
Earnings per share	8(a)		
Basic		HK$1.31	HK$1.52
Diluted		HK$1.31	HK$1.52

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, 2015 (Unaudited)

	Note	2015 HK$ Million	2014 HK$ Million
Profit for the period		3,330	3,782
Other comprehensive income	6(b)		
Items that may be reclassified subsequently to profit or loss:			
Net movement in investment revaluation reserve		(38)	1
Exchange difference arising from translation of overseas subsidiaries		(6)	(1,471)
Other comprehensive income for the period		(44)	(1,470)
Total comprehensive income for the period		3,286	2,312
Total comprehensive income attributable to:			
Shareholders		1,748	1,258
Non-controlling interests		1,538	1,054
		3,286	2,312

The accompanying notes form part of the interim financial report.

Consolidated Statement of Financial Position

At June 30, 2015

	Note	(Unaudited) June 30, 2015 HK$ Million	(Audited) December 31, 2014 HK$ Million
Non-current assets			
Fixed assets			
Investment properties	9	133,547	128,357
Investment properties under development	9	23,932	25,611
Other fixed assets		294	306
		157,773	154,274
Interest in joint ventures		3,402	3,300
Other assets		1,344	1,438
Deferred tax assets		30	23
		162,549	159,035
Current assets			
Cash and deposits with banks	10	36,481	40,323
Trade and other receivables	11	1,273	1,947
Properties for sale		3,955	4,068
		41,709	46,338
Current liabilities			
Bank loans and other borrowings	12	8,816	7,937
Trade and other payables	13	7,164	8,249
Taxation payable		1,618	1,606
		17,598	17,792
Net current assets		24,111	28,546
Total assets less current liabilities		186,660	187,581

	Note	(Unaudited) June 30, 2015 HK$ Million	(Audited) December 31, 2014 HK$ Million
Non-current liabilities			
Bank loans and other borrowings	12	30,612	32,158
Deferred tax liabilities		10,819	10,727
		41,431	42,885
NET ASSETS		145,229	144,696
Capital and reserves			
Share capital	14	3,893	3,893
Reserves		73,155	72,133
Shareholders' equity		77,048	76,026
Non-controlling interests		68,181	68,670
TOTAL EQUITY		145,229	144,696

The accompanying notes form part of the interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended June 30, 2015 (Unaudited)

	Shareholders' equity					
	Share capital HK$ Million (Note 14)	Other reserves HK$ Million (Note 16)	Retained profits HK$ Million (Note 16)	Total HK$ Million	Non-controlling interests HK$ Million	Total equity HK$ Million
At January 1, 2015	3,893	7,258	64,875	76,026	68,670	144,696
Profit for the period	—	—	1,779	1,779	1,551	3,330
Net movement in investment revaluation reserve	—	(38)	—	(38)	—	(38)
Exchange difference arising from translation of overseas subsidiaries	—	7	—	7	(13)	(6)
Total comprehensive income for the period	—	(31)	1,779	1,748	1,538	3,286
Final dividends in respect of previous financial year	—	—	(840)	(840)	—	(840)
Employee share-based payments	—	35	6	41	34	75
Change in non-controlling interests arising from increase of the Group's shareholding in a subsidiary	—	73	—	73	(278)	(205)
Dividends paid to non-controlling interests	—	—	—	—	(1,783)	(1,783)
At June 30, 2015	3,893	7,335	65,820	77,048	68,181	145,229

	Shareholders' equity					
	Share capital HK$ Million (Note 14)	Other reserves HK$ Million (Note 16)	Retained profits HK$ Million (Note 16)	Total HK$ Million	Non-controlling interests HK$ Million	Total equity HK$ Million
At January 1, 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

The accompanying notes form part of the interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended June 30, 2015 (Unaudited)

	2015 HK$ Million	2014 HK$ Million
Operating activities		
Cash generated from operations	3,342	4,913
Tax paid	(621)	(547)
Net cash generated from operating activities	2,721	4,366
Investing activities		
Payment for fixed assets	(3,042)	(2,336)
(Increase)/Decrease in bank deposits with maturity greater than three months	(8,592)	239
Other cash flows arising from investing activities	798	624
Net cash used in investing activities	(10,836)	(1,473)
Financing activities		
Proceeds from new bank loans and other borrowings	2,917	8,511
Repayment of bank loans	(3,618)	(7,756)
Interest and other borrowing costs paid	(812)	(724)
Dividends paid	(840)	(827)
Dividends paid to non-controlling interests	(1,783)	(1,220)
Other cash flows arising from financing activities	(202)	(524)
Net cash used in financing activities	(4,338)	(2,540)
(Decrease)/Increase in cash and cash equivalents	(12,453)	353
Effect of foreign exchange rate change	19	(833)
Cash and cash equivalents at January 1	40,219	39,109
Cash and cash equivalents at June 30	27,785	38,629
Analysis of the balance of cash and cash equivalents:		
Cash and deposits with banks	36,481	38,981
Less: Bank deposits with maturity greater than three months	(8,696)	(352)
Cash and cash equivalents	27,785	38,629

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 29 to 30.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2014 annual financial statements.

The HKICPA has issued certain amendments to Hong Kong Financial Reporting Standards ("HKFRSs") that are first effective for the current accounting period of the Group. The adoption of these 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.

The property leasing segment relates to the leasing of the Group's investment properties portfolio in Hong Kong and mainland China, which consists of commecial/mall, office, residential, serviced apartments and carparks. The property sales segment relates to the 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

	Turnover		Profit before taxation	
	2015 $ Million	2014 $ Million	2015 $ Million	2014 $ Million
Segment				
Property leasing				
– Mainland China	2,332	2,155	1,607	1,621
– Hong Kong	1,816	1,690	1,556	1,452
	4,148	3,845	3,163	3,073
Property sales				
– Hong Kong	745	901	562	540
Segment total	4,893	4,746	3,725	3,613
Other net income/(loss)			68	(3)
Administrative expenses			(367)	(341)
Operating profit before change in fair value of investment properties			3,426	3,269
Increase in fair value of investment properties			445	763
– property leasing in Hong Kong			352	718
– property leasing in mainland China			93	45
Interest income			628	534
Finance costs			(588)	(305)
Net interest income			40	229
Share of profits of joint ventures			135	218
Profit before taxation			4,046	4,479

2. TURNOVER AND SEGMENT INFORMATION (continued)

(b) Total assets by segments

	Total assets	
	June 30, 2015 HK$ Million	December 31, 2014 HK$ Million
Segment		
Property leasing		
– Mainland China	99,335	96,318
– Hong Kong	59,490	58,917
	158,825	155,235
Property sales		
– Hong Kong	4,176	5,054
Segment total	163,001	160,289
Interest in joint ventures	3,402	3,300
Other assets	1,344	1,438
Deferred tax assets	30	23
Cash and deposits with banks	36,481	40,323
Total assets	204,258	205,373

3. OTHER NET INCOME/(LOSS)

	2015 HK$ Million	2014 HK$ Million
Gain on disposal of investment properties	67	3
Gain on disposal of listed investments	62	—
Dividend income from listed investments	—	4
Dividend income from unlisted investments	1	—
Loss on remeasurement of derivative financial instruments (note)	(65)	—
Net exchange gain/(loss)	3	(10)
	68	(3)

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

4 NET INTEREST INCOME

	2015 HK$ Million	2014 HK$ Million
Interest income on bank deposits	628	534
Interest expenses on borrowings	757	699
Other borrowing costs	67	51
Total borrowing costs	824	750
Less: Borrowing costs capitalized	(236)	(445)
Finance costs	588	305
Net interest income	40	229

5. PROFIT BEFORE TAXATION

	2015 HK$ Million	2014 HK$ Million
Profit before taxation is arrived at after charging:		
Cost of properties sold	113	267
Staff costs, including employee share-based payments of HK$75 million (2014: HK$77 million)	658	563
Depreciation	28	25

6. TAXATION

(a) Provision for Hong Kong Profits Tax is calculated at 16.5% (2014: 16.5%) of the estimated assessable profits for the period. China Income Tax mainly represents China Corporate Income Tax calculated at 25% (2014: 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.

	2015 HK$ Million	2014 HK$ Million
Current tax		
Hong Kong Profits Tax	269	254
China Income Tax	365	377
	634	631
Deferred tax		
Change in fair value of investment properties	24	11
Other origination and reversal of temporary differences	58	55
	82	66
Total income tax expense	716	697

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

7. DIVIDENDS

(a) Interim dividend

	2015 HK$ Million	2014 HK$ Million
Proposed after the end of the reporting period:		
HK19 cents (2014: HK19 cents) per share	257	257

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

(b) Final dividend approved and paid during the period

	2015 HK$ Million	2014 HK$ Million
2014 Final dividend of HK62 cents (2013: HK61 cents) per share	840	827

8. EARNINGS PER SHARE

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

	2015 HK$ Million	2014 HK$ Million
Earnings for calculation of basic and diluted earnings per share net profit attributable to shareholders	1,779	2,060

	Number of shares 2015 Million	 2014 Million
Weighted average number of shares used in calculating basic earnings per share	1,355	1,352
Effect of dilutive potential shares - share options	3	4
Weighted average number of shares used in calculating diluted earnings per share	1,358	1,356

(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:

	2015 HK$ Million	2014 HK$ Million
Net profit attributable to shareholders	1,779	2,060
Effect of changes in fair value of investment properties	(445)	(763)
Effect of corresponding deferred tax	24	11
Effect of change in fair value of investment properties of joint ventures	(49)	(144)
	(470)	(896)
Non-controlling interests	200	352
	(270)	(544)
Underlying net profit attributable to shareholders	1,509	1,516

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

	2015	2014
Basic	HK$1.11	HK$1.12
Diluted	HK$1.11	HK$1.12

9. INVESTMENT PROPERTIES AND INVESTMENT PROPERTIES UNDER DEVELOPMENT

(a) Additions

During the period, additions to investment properties and investment properties under development amounted to HK$3,061 million (2014: HK$2,651 million).

(b) Valuation

The investment properties and investment properties under development of the Group were revalued as at June 30, 2015 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, 2015 HK$ Million	December 31, 2014 HK$ Million
Hong Kong Dollars equivalent of:		
Renminbi	32,807	35,592
Hong Kong Dollars	3,662	4,721
United States Dollars	12	10
	36,481	40,323

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/(net cash) position of the Group at the end of the reporting period was as follows:

	June 30, 2015 HK$ Million	December 31, 2014 HK$ Million
Bank loans and other borrowings	39,428	40,095
Less: Cash and deposits	(36,481)	(40,323)
Net debt/(Net cash)	2,947	(228)

11. TRADE AND OTHER RECEIVABLES

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

	June 30, 2015 HK$ Million	December 31, 2014 HK$ Million
Current and within 1 month	253	1,008
1 - 3 months	18	8
Over 3 months	10	8
	281	1,024

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

(b) Included in other receivables of the Group is deposit of land acquisition in mainland China of HK$317 million (December 31, 2014: HK$317 million).

12. BANK LOANS AND OTHER BORROWINGS

At the end of the reporting period, the Group had HK$18,253 million (December 31, 2014: HK$25,389 million) of committed undrawn banking facilities.

In addition, a wholly-owned subsidiary of Hang Lung Properties Limited ("HLP") has a US$3 billion (December 31, 2014: US$3 billion) Medium Term Note Program (the "Program"). At the end of the reporting period, the Group issued in total an equivalent of HK$12,741 million (December 31, 2014: HK$12,743 million) of bonds with coupon rates which ranged from 2.95% to 4.75% (December 31, 2014: 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, 2015 HK$ Million	December 31, 2014 HK$ Million
Due within 1 month	3,395	4,350
Due after 3 months	629	565
	4,024	4,915

14. SHARE CAPITAL

Under the new Hong Kong Companies Ordinance (Cap. 622), 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 Hong Kong Companies Ordinance (Cap. 622). 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, 2015		December 31, 2014	
	Number of shares Million	Amount of share capital HK$ Million	Number of shares Million	Amount of share capital HK$ Million
Ordinary shares, issued and fully paid:				
At January 1	1,355	3,893	1,350	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	1,355	3,893

15. SHARE OPTION SCHEME

The Company

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

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

Date granted	Number of share options: Outstanding on January 1, 2015	Exercised	Forfeited/ Lapsed	Outstanding on June 30, 2015	Period during which options are exercisable	Exercise price (HK$)
November 20, 2006	6,700,000	–	–	**6,700,000**	November 20, 2007 to November 19, 2016	20.52
Total	6,700,000	–	–	**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.

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

	Number of share options					
Date granted	Outstanding on January 1, 2015	Exercised	Forfeited/ Lapsed	Outstanding on June 30, 2015	Period during which options are exercisable	Exercise price (HK$)
November 14, 2006 to March 19, 2007	4,125,000	(20,000)	—	**4,105,000**	November 14, 2007 to March 18, 2017	16.75 - 22.55
August 21, 2007 to December 31, 2008	40,268,000	(146,000)	—	**40,122,000**	August 21, 2008 to December 30, 2018	17.36 - 27.90
February 8, 2010 to June 1, 2010	13,380,000	—	—	**13,380,000**	February 8, 2012 to May 31, 2020	26.46 - 27.27
July 29, 2010 to June 13, 2011	33,840,000	—	(278,000)	**33,562,000**	July 29, 2012 to June 12, 2021	30.79 - 36.90
Total	91,613,000	(166,000)	(278,000)	**91,169,000**		

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.

No share options of HLP were exercised by the director 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 HK$24.87.

The weighted average share price of HLP at the dates of exercise for share options during the period was HK$25.10.

15. SHARE OPTION SCHEME (continued)

Hang Lung Properties Limited ("HLP") (continued)

(b) 2012 Share Option Scheme

	Number of share options					
Date granted	Outstanding on January 1, 2015	Exercised	Forfeited/ Lapsed	Outstanding on June 30, 2015	Period during which options are exercisable	Exercise price (HK$)
June 4, 2013	33,550,000	—	(860,000)	**32,690,000**	June 4, 2015 to June 3, 2023	28.20
December 5, 2014	32,470,000	—	(640,000)	**31,830,000**	December 5, 2016 to December 4, 2024	22.60
Total	66,020,000	—	(1,500,000)	**64,520,000**		

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

	Other reserves							
	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, 2015	38	4,741	387	275	1,817	7,258	64,875	72,133
Profit for the period	—	—	—	—	—	—	1,779	1,779
Net movement in investment revaluation reserve	(38)	—	—	—	—	(38)	—	(38)
Exchange difference arising from translation of overseas subsidiaries	—	7	—	—	—	7	—	7
Total comprehensive income for the period	(38)	7	—	—	—	(31)	1,779	1,748
Final dividends in respect of previous financial year	—	—	—	—	—	—	(840)	(840)
Employee share-based payments	—	—	35	—	—	35	6	41
Change in non-controlling interests arising from increase of the Group's shareholding in a subsidiary	—	—	—	—	73	73	—	73
At June 30, 2015	—	4,748	422	275	1,890	7,335	65,820	73,155

16. RESERVES (continued)

	Other reserves									
	Share premium HK$ Million (Note)	Capital redemption reserve HK$ Million (Note)	Investment revaluation reserve HK$ Million	Exchange reserve HK$ Million	Employee share-based compensation reserve HK$ Million	General reserve HK$ Million	Other capital reserve HK$ Million	Total HK$ Million	Retained profits HK$ Million	Total reserves HK$ Million
At January 1, 2014	2,457	26	22	5,320	352	275	1,669	10,121	59,101	69,222
Transition to no-par value regime on March 3, 2014	(2,457)	(26)	—	—	—	—	—	(2,483)	—	(2,483)
Profit for the period	—	—	—	—	—	—	—	—	2,060	2,060
Net movement in investment revaluation reserve	—	—	1	—	—	—	—	1	—	1
Exchange difference arising from translation of overseas subsidiaries	—	—	—	(803)	—	—	—	(803)	—	(803)
Total comprehensive income for the period	—	—	1	(803)	—	—	—	(802)	2,060	1,258
Final dividends in respect of previous financial year	—	—	—	—	—	—	—	—	(827)	(827)
Issue of shares	—	—	—	—	(12)	—	—	(12)	—	(12)
Employee share-based payments	—	—	—	—	15	—	—	15	22	37
Change in non-controlling interests arising from increase of the Group's shareholding in a subsidiary	—	—	—	—	—	—	118	118	—	118
At June 30, 2014	—	—	23	4,517	355	275	1,787	6,957	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 Hong Kong Companies Ordinance (Cap. 32). In accordance with the transitional provisions set out in section 37 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), 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 Hong Kong Companies Ordinance (Cap. 622).

17. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The fair value of the Group's financial instruments is measured at the end of the reporting period on a recurring basis, categorized into the three-level fair value hierarchy as defined in HKFRS 13 "Fair value measurement". The level into which a fair value measurement is classified and determined with reference to the observability and significance of the inputs used in the valuation technique is as follows:

- Level 1 valuations: Fair value measured using only level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using level 2 inputs i.e. observable inputs which fail to meet level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

(a) Financial assets and liabilities carried at fair value

The fair value of listed investments, classified as available-for-sale equity securities, are measured using quoted prices in an active market for identical assets (level 1).

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

The fair value of cross currency swaps as at June 30, 2015 of HK$65 million (December 31, 2014: Nil) in Level 2 is determined based on the amount that the Group would receive or pay to terminate the swaps at the end of the reporting period taking into account current interest rates and current market conditions.

During the six months ended 30 June 2015, there were no transfers of instruments between Level 1 and Level 2, or transfers into or out of Level 3.

(b) 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, 2015 HK$ Million	December 31, 2014 HK$ Million
Guarantees given to banks to secure borrowings drawn by subsidiaries	4,330	5,030

19. COMMITMENTS

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

	June 30, 2015 HK$ Million	December 31, 2014 HK$ Million
Contracted for	1,840	3,448
Authorized but not contracted for	41,929	43,220
	43,769	46,668

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

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, 2015, the Group advanced to this joint venture a total of HK$845 million (December 31, 2014: HK$865 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 30, 2015.

FINANCIAL CALENDAR

Financial period	January 1, 2015 to June 30, 2015
Announcement of interim results	July 30, 2015
Latest time for lodging transfers	4:30 p.m. on September 14, 2015
Closure of share register	September 15 to 16, 2015 (both days inclusive)
Record date for interim dividend	September 16, 2015
Payment date for interim dividend	September 30, 2015

SHARE LISTING

As at June 30, 2015, 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, 2015: HK$34.15
Market capitalization as at June 30, 2015: HK$46.27 billion

SHARE REGISTRAR

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