恒隆地產
HANG LUNG PROPERTIES

2018
Interim Report

Hang Lung Properties Limited
Stock Code: 00101

WE DO IT RIGHT

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Ronnie C. Chan *GBM (Chairman)*
Weber W.P. Lo *(Chief Executive Officer)*
Ronald J. Arculli *GBM, CVO, GBS, OBE, JP* *
Nelson W.L. Yuen *
Dominic C.F. Ho *
Philip N.L. Chen #
Andrew K.C. Chan *BBS, JP* *
H.K. Chang *GBS, JP* *
Anita Y.M. Fung *BBS, JP* *
H.C. Ho *(Chief Financial Officer)*
Adriel W. Chan

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

AUDIT COMMITTEE

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

NOMINATION AND REMUNERATION COMMITTEE

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

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AUDITOR

KPMG
Certified Public Accountants

RESULTS AND DIVIDEND

For the six months ended June 30, 2018, revenue decreased 19% to HK$5,150 million as fewer residential units were sold. With a larger amount of revaluation gain, net profit attributable to shareholders increased 22% to HK$4,689 million. Earnings per share rose similarly to HK$1.04.

When excluding the property revaluation gain and all related effects, the underlying net profit attributable to shareholders declined 24% to HK$2,319 million. Underlying earnings per share fell correspondingly to HK52 cents.

The Board has declared an interim dividend of HK17 cents per share payable on September 27, 2018 to shareholders of record on September 13, 2018.

BUSINESS REVIEW

During the six months under review, much has happened in both the external and internal environments. The former can be described as tumultuous and challenging, while much of the latter is pleasing and encouraging. I will begin with the latter.

Six months ago, I wrote extensively about the Company's viewpoint and process regarding succession. At that time, your Board, led by its Nomination and Remuneration Committee (NRC), was in fact undergoing a most critical task – finding a worthy successor to the retiring Chief Executive Officer (CEO) Mr. Philip Chen. It was a rigorous and in fact rather long process in which all Non-Executive Directors engaged.

Now I am happy to report that we have succeeded. Mr. Weber Lo joined us on May 16, 2018 at the age of 47 as CEO Designate. His appointment was a unanimous decision of the Board of both this Company and that of our majority shareholder, Hang Lung Group Limited. After two months of transition, he assumed the CEO post on July 16 on which day Philip retired.

Locally born and bred, Weber, like Philip, attended The University of Hong Kong. He began his career with Procter & Gamble and later joined Coca-Cola Company in Hong Kong and mainland China. For the past 18 years, he was with Citi, where he became head of its Hong Kong and Macau operations in 2013.

When Philip joined us in 2010, he did not have any experience in real estate companies but quickly learned. The industry is not technically complicated but it takes the right temperament with adequate experience to become good at it. Philip succeeded, and I believe so will Weber.

In the 1990's and 2000's, then Managing Director Mr. Nelson Yuen and I set the strategy for the Company which, upon repeated review, is still valid today. Philip led the building of our management team which should prove capable of executing the strategy. Now, Weber's task is to complete that building process and run with it. There is little doubt in my mind that he and the team will score successes in the years and decades to come. I am excited about our future.

The second encouraging event in the past six months was the successful purchase of a beautiful piece of land in Hangzhou. Just 48 minutes from Shanghai by high-speed train, it is the capital of Zhejiang Province which has one of the highest per capita incomes in China. We have been eyeing the city for about 15 years and have been working on this particular piece for about four. I fell in love with it the first time I laid eyes on it.

The official ranking in China regards four cities as first-tier: Beijing, Shanghai, Guangzhou, and Shenzhen. As a then top leader of Hangzhou said to us not long ago, his should not be called a tier-2 city. Rather, it should be reckoned as a tier-1.1 city. This perhaps is a bit of an exaggeration but frankly not much.

In the entire country, there are two cities which are most desirable for commercial properties – Shanghai and Beijing. The next three best are probably Guangzhou, Hangzhou, and Chengdu. An ideal portfolio should include a strong position in these five cities. We have a commanding presence in Shanghai, and now we have an excellent opportunity to also be a leader in Hangzhou.

To be sure, Shenzhen is also an extraordinary place with some good malls, but it is so close to Hong Kong that its residents can easily come and shop in my city. When the high-speed train service connecting Guangzhou, Shenzhen, and Hong Kong opens in a few short months from now, the entire journey will take only 48 minutes. From Hong Kong to Futian, a station in southern Shenzhen, it will take merely 14 minutes, and to Shenzhen North, 23. In the long term, Hong Kong and Shenzhen should be more economically integrated by virtue of the Greater Bay Area Initiative proposed by Beijing. It is to everyone's, and surely to Hong Kong's, benefit.

Consider the facts: whereas the per capita GDP of Zhejiang Province is almost US$14,000, the number for Hangzhou with a population of about 10 million is close to US$21,000. (These numbers were considerably higher four months ago when the RMB was stronger.) It has many good universities including one of the best in the country – Zhejiang University. The city is also universally recognized as one of the most beautiful in China.

Zhejiang is one of the most entrepreneurial provinces in the country, with many cities each boasting hundreds and thousands of successful small to medium businesses. Hangzhou is not the only one; others include Wenzhou, Taizhou, Huzhou, Shaoxing, Dongyang, Yiwu, and Jinhua, just to name a few. Many of their companies are top industry leaders not only in China but also, in some cases, the world. They are mostly privately held but an increasing number are listed publicly. Of significance is that when some of these have grown to a certain size, they move their headquarters to Hangzhou for a number of good reasons, such as ease of transportation, communication, and, most importantly, finding talent. I personally know many bosses of these companies; they can only be described as an impressive bunch.

Hangzhou is one of the top three technology cities in China, the other two being Beijing and Shenzhen. Everyone knows Alibaba and NetEase but there are hundreds of smaller companies. In the coming years, some of them may well become household names. The city is also known for its consumer products enterprises and transportation-related machinery operations. Suffice to say that the economy there is among the most vibrant.

Historically, Hangzhou is known for its rich culture. This may be the reason for as well as the result of its being one of only two cities south of the Yangtze River that had served as the national capital. Its citizens have always been highly educated, and many famous poets and artists, past and present, hail from there. Just look at how people dress today as one walks down its streets. It is obviously a wealthy and sophisticated metropolis.

Our piece of land measures just shy of 45,000 square meters, and with a plot ratio of 4.33, the buildable space is over 194,000 square meters. This excludes the basement area of 50,000 square meters, so in total we have 244,000 square meters. (This number does not include car parking space which may be another 200,000 square meters or so.) The retail mall will take up at least 104,000 square meters, with the rest being mid- and high-rise office towers. Land clearance has been accomplished by the municipal government so the plot has few complications.

Not only is Hangzhou an excellent retail city; its premium office leasing market is also very strong, especially in the downtown area. The present rents are about 10% below their equivalent in Shanghai. The height restriction for part of our land has recently been relaxed to 150 meters, thus allowing us to be the tallest in the neighborhood. We will command a view of the most famous lake in the country – the West Lake, or Xihu. Frankly, the office element is as much a reason for the plot's desirability as the anticipated world-class mall.

We paid RMB10.7 billion for the piece and the preliminary total project cost is about RMB16 billion. The per square meter land cost is approximately RMB55,000 excluding the basement, or just below RMB44,000 when including it. We will take possession of the land next February, and completion is projected to begin from 2024 in phases. Once leased up, we believe that an initial yield of 4%-5% can be achieved.

In line with our tradition, the land is among the best located in the city – Wulin Square at the very center of downtown. All the top retail space in the city surrounds this square; we are across the street from its southeastern corner. A subway station is just one block away, and will be linked to us by an underground passageway. The piece may well be the last sizable one in this prime district for some time to come. In fact, it is difficult to conceive finding anything better.

The land, however, is not without challenges. Street frontage could be longer, but there may be an opportunity in the not too distant future to improve that situation. Traffic patterns in the neighborhood will require careful planning. Our coming retail mall is not without competitors but, as I shall explain later, we should be able to prevail.

A very satisfactory outcome notwithstanding, the process that we went through in the past four years was rather tortuous. There were apparently a number of formidable suitors for this site. City officials were struggling to decide on the land usage and hence its development brief. Fortunately, the ultimate decision was a sensible one which we found acceptable. But before we finally won the bid, there were many occasions when victory looked highly uncertain.

I cannot emphasize enough the significance of a reasonable development brief for any piece of land. Even if it is best-located, a project cannot be world-class nor its profit maximized if the government imposes unwise or even unreasonable conditions on its development. Many times the problem is that the city wants more money and therefore sets the plot ratio too high. The developer must cram a lot of buildable space into a plot with limited footprint. If there happens to be a height restriction, the situation will be worse. The resulting development, no matter how experienced the developer and architect are, cannot be good.

I remember a piece of well-located land in an excellent commercial city on which we once worked. We identified the land and brought it to the attention of the city officials. They insisted on development briefs that would have preempted a world-class project. That blunted our interest and we eventually lost the land at the bidding. The winner did a reasonable job in developing it and the retail space, as we expected, is doing well. However, the office towers, from what we can tell, are struggling. Sadly, there is no way that the project can be considered world-class. It is not the fault of the developer; the city officials who sold the land must bear that responsibility.

This is another reason we like our piece in Hangzhou. Plot ratio is not too high, and the height limit has been relaxed. If street frontage can soon be lengthened, then I am confident that a truly world-class project can be built. Both aesthetics and profitability can be maximized.

Now let me turn to the more troublesome issues. They are all external to our business and are in the geo-economic and geopolitical spheres. Since such developments will inevitably impact our operations, it is necessary to share my views here. After all, some shareholders have repeatedly asked about it. The focus is China-U.S. relations but the real situation is far more serious than that.

China-U.S. relations have always been uncertain in the past many decades, but under U.S. President Donald Trump they have been brought to a new level of direct confrontation. The trade war is just the surface; there is much that is unspoken and graver. Even so, I believe that the relationship is manageable and will not spin out of control. As explained later, its effect on our operations will not be that serious. In fact, it may be beneficial.

Since this writing is not primarily on China-U.S. relations, I will only lay out my basic thinking without getting into lengthy explanations. I am merely informing our shareholders and potential shareholders of my analyses of the geopolitical and geo-economic environment in which our business operates. Some of my fellow directors of the Company may hold very different views. For whatever it is worth, here are some of my thoughts after having observed the world for 40-some years. I have also spoken at various international forums on this topic.

Over the past two decades, the U.S. increasingly sees China as a strategic threat in three dimensions: military, currency, and trade, in descending order of significance. Whereas Russia must be America's number one military threat in the near term, it will be less of a worry later on. The reason is simple: it takes economic development to generate money that is necessary for continuous technological advancement. It is technology that lays the foundation of weapons development and fuels military capabilities. China is economically significant, and apparently has the science and engineering to further develop her military in all domains, whether land, air, sea, space, or cyber.

This is why before the 2016 U.S. presidential election, then candidate Trump, like some others in the U.S., wanted to work with Russia to contain China. In the long haul, Russia was perceived as a lesser threat than China because of her weak and single industry economy.

The U.S. must also be concerned that international trade and investments are increasingly denominated in RMB, thus potentially eroding the international reserve currency status of the U.S. dollar. This will force America to be fiscally more responsible. Frankly, this is not a bad outcome, for no country should or can live beyond her means forever. Whatever the case, the RMB is far from that position. About a decade ago, I publicly asked the 1999 Nobel Laureate in Economics and "father of the euro" Professor Robert Mundell, "How long will it take?" His answer: not in a hundred years! But that does not mean that today the U.S. will not want to keep the advancement of the RMB in check.

Trade is the least significant threat compared to the other two above, and is more short-term oriented.

The question for the U.S. is how best to influence Chinese behavior with the hope that China will do what is best for American interests while advancing her own goals. As a friend or foe? I believe it is the former, but the powers in Washington, D.C. apparently think otherwise. Increasingly, Beijing is viewed as a threat if not yet an enemy. Incident after incident around the world have shown that America has been working hard to contain China.

At the root of the problem is America's miscalculation of China's long-term intentions. This is doubly sad because, even today, China still wants to work with the U.S. as a friend. In fact, I have always held the view that China will be very happy to play second fiddle to the U.S. So why turn this friend into a foe?! All China wants is to better the livelihood of her 1.4 billion people and to become a respected member of the global community. Can the opposition of a foreign country, no matter how powerful she may be, stop the wishes of 1.4 billion people? Hardly!

So how will China react to this belligerent neighbor across the Pacific amidst a shrinking world? She will do her utmost to work with the U.S., keep the peace as much as possible, and not let the U.S. derail her own economic progress. After all, like governments elsewhere, the legitimacy of the Beijing regime depends on its ability to deliver improved livelihood to its citizens.

With this in mind, it is not difficult to predict how the trade war initiated by President Trump may evolve. After all, trade is a rather rational issue where the currency is literally dollars and numbers. History tells us that in such disputes where both parties are relatively strong, everyone will lose out. It will be painful for all. In today's situation, China may get hurt more, but neither can the U.S. go unscathed.

On the tariffs side, frankly there is much room for China to give. Understandably, the country takes trade very seriously. However, more than once since Trump became president, mutually agreed deals negotiated by at least cabinet-level officials on both sides were turned down by President Trump. For domestic political considerations such as the upcoming mid-term elections and thereafter his own re-election, he does not want a deal now. No wonder China feels betrayed and, for a while, refuses to further engage.

This notwithstanding, the two sides will have to come together sooner rather than later. China now understands that unless President Trump is himself party to a discussion, there cannot be a real agreement. Some would say that even a personal promise from the president may still mean nothing, for he often changes his mind and goes back on his words. Who can blame those who hold this view?! Nevertheless, since China potentially has more to lose, she will be more willing to concede.

Then there are the non-tariff barriers and other bundled terms and conditions. In the latter category, it is unclear what the currency is: it is not just dollars and numbers. No doubt China will do her utmost to gain as much here as she may yield on tariff and non-tariff barriers. At the end, God knows who will be ahead – each will get something and give up something. Such is the reality of negotiations between nations. One thing however seems probable: China will let President Trump claim victory on tariff concessions, while winning something valuable elsewhere in return. China can do that because she has less pressure from her domestic constituents. Beijing is freer to negotiate what it considers to be in the best interests of China. In a more democratic state like the U.S., national interests are often sacrificed or ignored purely because of domestic politics.

Here is a question worth pondering: since none of the U.S. presidents who negotiated previous trade agreements were traitors, nor did they run a charity to benefit their counterparts, those agreements must have been the best deals that could have been obtained at the time. After all, no sovereign state handles her international trade altruistically; few if any issue in cross-border relations are not self-serving. Even the Marshall Plan for the benefit of Western Europe after World War II was necessary to help the U.S. contain the then Soviet Union.

Given that, what then does President Trump mean when he says that other countries like China are taking advantage of the U.S.? Or could it be that he is being ideological and keeps deceiving himself? If times have changed and new agreements are necessary, then why not simply renegotiate? Why tear up previous frameworks such as the North American Free Trade Agreement or NAFTA?

In light of the above, I have two serious worries. The first is of immediate concern. The U.S. is not picking only on China for a trade dispute; Mexico, Canada, the European Union, Japan, and even countries like Rwanda are all targets. It is doubtful if President Trump knows when to stop. If he does not, the world would run the risk of having certain critical supply chains disrupted. This may then spook the capital markets, which may in turn bring about economic disasters. This reminds me of the late 1920's, when global trade was severely curtailed, also caused by the U.S., that eventually led to the Great Depression. This could be serious.

My second worry is that the U.S. is once again isolating herself. This cannot be good for the world. To be sure, President Trump did not invent the process; America always has that tendency. But doubtless he is accelerating the movement by leaps and bounds. As a country founded in isolationism – remember the Monroe Doctrine of the early 19th century; American exceptionalism even present today; the Roosevelt Corollary of the early 20th century; refusing to join the League of Nations after World War I; recently pulling out of several international bodies under the United Nations; for decades even to this day being in arrears on its United Nations dues – she is merely returning to her old habits. In her young age of 242 years, only about 30% of the time – the 70-some years since World War II – was the country guided by internationalism.

With the American economy accounting for about 24% of global GDP, will its multinational corporations cede the 76% to someone else such as China? Obviously not. As such, the country will have to find a way to be commercially engaged with the world while politically retreating therefrom. No one knows how this can be done. After all, the world today is an interconnected place, economically or otherwise.

A less obvious, more gradual, but equally serious corollary to the recent U.S. actions and her increasing isolation is the gradual erosion of America's moral standing as the world's sole hegemon. On final analysis, it was the U.S. during World War II which saved Europe from Nazi Germany and Asia from imperial Japan, and, some may add, during the Cold War saved the world from the then Soviet Union. These lay at the core of America's moral leadership. Many decades have since passed and unless properly maintained, that leadership will naturally fade. Sadly we are witnessing it. As it gradually sets in, the world will become a more chaotic place. Again, this phenomenon did not begin with President Trump but surely he greatly exacerbates it.

As a beneficiary of the existing international systems, from the United Nations to the Bretton Woods Institutions – their creation led by the U.S. after World War II – China will in the foreseeable future remain one of their strongest supporters. She will be joined by the European Union, India, Japan, and much of the rest of the world. The world has changed a lot since 1945, so certain adjustments to the system are inevitable. The U.S. should neither resist reasonable changes nor abandon the system altogether. It is, however, doing the former and increasingly, many believe, also the latter.

As the U.S. voluntarily retreats from multilateral organizations, there is no one on the horizon that can fill the leadership role. China certainly does not have the intention or the ability. What then will a post U.S.-led world look like? To arrive at the correct answer is not easy but also urgently necessary.

What seems certain is that whether China likes it or not, reality will force her to come forward more in most, if not all, global affairs. This is inevitable, for when a sizable country grows powerful economically, her political influence will increase. To protect her ever increasing global trade and investments, Beijing has little choice but to expand her military.

For example, China's dependence on imported energy is growing by the day. What if a Chinese oil tanker on the way home from the Strait of Hormuz in the Persian Gulf (or Arabian Gulf) runs into Somali pirates? Who will the Chinese "Captain Phillips"– remember the American movie by this name – call? The 5th Fleet or the 7th Fleet of the United States, which treats China as an enemy? Like everyone else's, Chinese trade routes must be somehow protected.

Whatever the ramifications of the U.S.-initiated trade war, I find her rationale problematic. First, it is very mercantilist. Second, increasing tariffs is tantamount to raising taxes for American consumers and the American companies involved. While President Trump is lowering taxes elsewhere in the U.S., why is he increasing it through tariffs? Third, there are some 68,000 American companies in China that supposedly make as much as US$260 billion of profit annually. A good portion of the U.S. tariffs levied on China actually affects those entities! So who will be hurt?

Fourth, the overall American economy is much more sophisticated than that of China. Many of its high technologies are superior to not only those of China but also of much of the world. The U.S. trade deficit with China can easily be wiped out by selling high-tech products and natural gas. Until recently, Washington, D.C. did not even want to export the energy source that is a totally undifferentiated commodity. So who is to blame for the trade deficit with China?

Fifth, China is today the world's first or second largest trading nation along with the U.S. It is not like a small country which has no wherewithal to retaliate with. In fact, strong reactions commensurate with U.S. trade actions are inevitable. The result is that both sides will be hurt. After all, with the exception of certain advanced technologies, all else that China imports from the U.S. has alternative sources. Look at the subsidies that Washington, D.C. now has to pay to her farmers. I also doubt if there are enough cold storage warehouses in the U.S. for the unsold pork!

Finally, along with many other currencies both of advanced economies like the European Union, Japan and Singapore, and of developing ones like fellow BRICS countries (Brazil, Russia, India and South Africa), the RMB has fallen like a rock in the past few months. This partially offsets the effects of higher American tariffs. In fact, a lower RMB benefits China's exports to many other parts of the world. In RMB terms, the profit decrease in selling to the U.S. maybe compensated by exporting more elsewhere. At the end, China may come out ahead. After all, the U.S. accounts for only 18% of China's total exports.

Even if my arguments above are only partially correct, the U.S.-instigated trade war with China is ill-conceived. It will not be viewed favorably by history. Does President Trump care? All his predecessors, as far as I can tell, did. Perhaps this is the root of the troubles caused by this administration. Some breaks from history are at times necessary, but the quantity and manner we see today are truly mind-boggling.

What will be the likely outcome of the present U.S.-China trade war, and how will it affect our business? I believe that the trade dispute, while serious, should be manageable. But as long as it persists, China's economic growth will slow down. To tackle this eventuality, Beijing will counter by encouraging private consumption and executing more public investments. Actions such as the recent lowering of import duties for goods including luxury items are clear measures which will benefit our retail malls.

Hong Kong as an entrepôt will suffer even less than the Mainland. In fact, whereas formerly many Chinese companies that went public chose to list in stock exchanges in America, increasingly they will come to Hong Kong. Companies everywhere including many in China are now wary about the U.S. as a place to do business. The American market, especially its financial market, is perceived as being overregulated. The higher likelihood of political interference further scares foreigners. Hong Kong is for the most part free of these concerns. This will help cushion the undesirable effects of collateral damages from the U.S.-China trade war.

Let me now turn to our performance of the past six months. The set of results was basically in line with what I had predicted when I last wrote to you.

Hong Kong's residential prices continued to climb. With the exception of a breather a year ago from summer to early fall, the rise has been relentless for the past two years. Our government is still struggling to find more land. Various measures have been introduced to moderate prices but they are of limited value. Only more supply will be able to correct the problem.

Retail performance in mainland China has recovered further, although the pace was not brisk. That for luxury goods was more encouraging. Many top brands are beginning to expand again, which can only be beneficial to us.

Our home city's recovery in retail spending continued. In fact, it has picked up speed. After a few years of stagnation, the total number of visitor arrivals, especially from the Mainland, has risen nicely. City-wide retail sales in percentage terms grew even faster than before.

Our total rental revenue grew 7% in Hong Kong dollar terms – 11% on the Mainland and 3% in Hong Kong. The Mainland now accounts for 53% of total rental revenue; the figure for Hong Kong is 47%.

In Hong Kong, our office rents rose 3% and residential and serviced apartments 5%. Our retail centers saw rents advanced between 2% and 8%. These numbers should indicate a higher than 3% rise for the Hong Kong portfolio. The apparent discrepancy is due to the asset enhancement program at The Peak Galleria, where 60% of leasable area was taken out of the market. All other properties remained basically full. Rental margin, average unit rent, as well as tenant retail sales were all healthy.

The Mainland figure of 11% growth warrants some explanation. During the six-month period under review, the RMB on average rose almost 9%. This means that in local currency terms, we only advanced 2%. However, one should bear in mind that Grand Gateway 66 in Shanghai was undergoing a massive renovation. A total of 32% of lettable space was taken out of the market but, on a like-for-like basis, retail rent received still went up 1% in the local currency. On the same basis and again in RMB terms, rents collected from the Mainland rose 5% and not the reported 2%.

Looking at our Mainland retail rental revenue mall by mall, it rose or held steady everywhere except at Forum 66 in Shenyang. Occupancy rates advanced or remained about the same on a comparable basis in all our properties, including Forum 66 where it went up from 77% to 87%. Even that for Olympia 66 in Dalian achieved 86% of all available space, thus giving us the confidence to start leasing phase two which accounts for 12% of the total mall area.

With a few exceptions, the average daily footfall jumped by double digits including that for Forum 66 and Olympia 66. Grand Gateway 66 was obviously an exception due to the major renovation. Our two malls along a pedestrian street – Palace 66 in Shenyang and Riverside 66 in Tianjin – saw a slight fall. These two cases bear some discussion.

When we opened Palace 66 in 2010, there were already three very large retail centers with numerous street-front shops along the pedestrian street called Zhongjie. (In Chinese it means Center Street and was one of the first, if not the very first, pedestrian shopping streets in the country. It is also considered one of the best.) Right after our opening, the city began to dig underground along the road and turned the space into many shops. Longtime readers of this letter will remember that the resulting disruption to pedestrian flow, together with our own internal challenges at the time, were the causes of our then severe difficulties.

By 2014, we had resolved all these problems, both external and internal. The numbers have improved and we have since done well. We began to take shoppers from our neighbors. In fact, we have been so successful that two of the malls mentioned above started to falter. One of them that was previously the market leader and the oldest on the pedestrian street is now being closed. Two new facilities abutting Palace 66 opened after us, and the first one that was relatively well-designed has long closed down. The other one, like the underground shops, is struggling. Only one odd-shaped but sizable property on the opposite end of the pedestrian street is still performing acceptably.

In other words, we have made ourselves the leader of that traditional shopping district. Are we happy? Yes and no. We are pleased with our success but now we begin to worry that, in the absence of reasonable competitors, the entire pedestrian street may suffer. We are working with the district government on how to breathe new life into the neighborhood.

The situation in Riverside 66 in Tianjin is somewhat different. There may be some interesting opportunities to remake the pedestrian street in order to benefit our mall. We are exploring these with the local government.

We are quickly selling down our Hong Kong development portfolio. Sales of three semi-detached houses on Blue Pool Road and five apartments of The Long Beach were recognized, as were some car parking spaces. Now we only have 12 houses and five apartments unsold in these two developments. Four of the five apartments have actually found buyers, but under the new accounting rules, their profit recognition will be pushed to the coming months.

Due solely to the lack of Hong Kong residential projects to sell, overall revenue and profit fell. Compared to the first half of 2017, top line retreated 19% to HK$5,150 million and net profit attributable to shareholders increased 22% to HK$4,689 million. Earnings per share rose to HK$1.04. Taking out revaluation gain and related items of HK$2,370 million, the underlying net profit attributable to shareholders was HK$2,319 million and underlying earnings per share was HK52 cents, a fall of 24% for both numbers.

PROSPECTS

In a macro environment as troublesome as today, it takes conviction to voice optimism about one's business. This I will do. Longtime readers of this letter would know that I always shoot straight. We were perhaps the first among Hong Kong property companies to point out back in the summer of 2011 the chill in the Mainland economy. Soon after, I wrote about the arrival of "winter", and last year the return of "spring". I am never one to shy away from taking a position, sometimes a strong one, when I believe that it is warranted.

The same is true about my views regarding the Company. I have probably been as forthright as anyone in this town in informing our shareholders of the difficulties experienced, and even mistakes made, by management. I see this as my responsibility.

So I am here today to express my optimism about the future of the Company. Otherwise, I would not be honest. What my readers do with the information is, of course, up to them. My job is to convey the management's assessment of the external and internal environments. We are of course aware of our share price movements, but my team's main task is to manage the business and not the ups and downs of the scrip.

Needless to say, there are serious challenges. But barring geopolitical and geo-economic catastrophes whose possibility remains, as well as persistent domestic turmoil which is rather unlikely, our future should be bright. The strategy which we laid out for ourselves in 2004 is being played out. Previously we expected fruition in the early 2010's – we opened our first mall outside of Shanghai in 2010 – but this was postponed due to the "perfect storm" (see my letter six months ago to shareholders of Hang Lung Group, our majority owner) which lasted until late last year. Now better days should lie ahead.

The six difficult years gave us the opportunity to work out our internal kinks. We corrected the inadequacies in management and solved the problems in the newly opened properties. We also had time to learn about each of the markets in which we opened new centers. Now the way forward is much clearer than before.

Let me begin with some statistics. Until 2010, we did not have any property outside of Shanghai and Hong Kong. Our total rental portfolio at the time was about 1.09 million square meters of which Shanghai accounted for 0.44 million square meters, or 40% of the total. Today we own over 2.9 million square meters, of which about 2.27 million square meters are on the Mainland. Our Hong Kong and Shanghai portfolios did not change much; the increase of 1.81 million square meters is located in our six other developments in five Mainland cities.

In the past eight years, on average we completed almost 0.23 million square meters of space annually. This is roughly equivalent to finishing one Empire State Building in New York City each year for eight straight years! Few if any other company can boast such a record. Every one of our projects is nothing less than world-class, the likes of which are seldom seen in mainland Chinese cities.

Moreover, in the next two years or so, we expect to complete at least another 0.72 million square meters of space. More will follow in the two to three years thereafter. In other words, the pace of completion will speed up. This will bring us close to 2024 when phase one of our Hangzhou project should open.

Our goal is obviously not just to construct commercial space but to financially profit therefrom. Having operated on the Mainland outside of Shanghai for about eight years, notwithstanding six of which being bear markets, we are now more confident than ever in our forthcoming success. Let me present what to us is a compelling reason by summarizing our experiences so far. I will first focus on shopping centers and later turn to offices.

We have completed eight shopping centers in six cities on the Mainland. They can be grouped into three categories. The first is where we truly enjoy a first-mover advantage. The second is where we were not the first in the city but the first in top quality malls. The third is where another good retail facility preceded our entry.

Of the eight properties we have completed, only one had the benefit of being the first-mover. When Plaza 66 opened in Shanghai in 2000, there were no luxury malls in the entire city. We built the right product and managed it well. Since then, a number of quality facilities have opened, but we still enjoy a market leadership position. With Shanghai being a top commercial city in fast-growing China, everyone there makes money, although some more than others. In terms of the number of top global brands, average unit rent, and sales efficiency, we are the best.

All but one (namely Forum 66 in Shenyang) of the other seven malls fall into category two – when we opened our shopping center, there were already one or more sizable competitors in the city or in the same district. Because the rival malls were of a lower quality, our world-class properties were able to displace them and became the dominant market player. Four of our six shopping centers in this category have already achieved that position; the other two are on their way.

Consider Grand Gateway 66 in Shanghai. When we opened in 1999, there were already four rather large retail properties, all surrounding the same circle with us. Together, we form the shopping center of the affluent Xujiahui District. We were the fifth major player to enter the market. Competition was severe, and some existing facilities tried to block our entry using tactics that would be considered unacceptable in many other parts of the world. But because of our superior design, adequate size, and at least equally good location and management, we were able to become number one in that commercial hub in about six years. Today our unit rent is by far the highest.

The same story can be found in Palace 66 in Shenyang as explained earlier. Both average unit rent and sales efficiency are much higher than those of its competitors. It took us four to five years to achieve leadership position.

Parc 66 today occupies the same position in Jinan. There were several major players in the city when we opened in 2011, and many more have since joined the fray. But within about four years, we have established ourselves as the most prestigious mall in the city. Average unit rent is about twice that of all competitors. Due to the retrenchment of luxury brands in the past six years, we have yet to upgrade ourselves from a four-star facility to a five-star one. However, this should only be a matter of time, now that the top global brand names are once again expanding. As long as they remain in the city, we will almost invariably be their number one choice.

Center 66 is already considered the best shopping center in Wuxi. When we recruited tenants ahead of the 2013 opening, many world-class fashion names signed up. Because the market turned nasty right before our inauguration, those who opened shops could not achieve their forecasted sales, and a few who had not yet opened simply reneged. Tenants, like elsewhere, demanded rent reduction and our revenue fell. But when the market warmed up last year, which took place after the opening of our first office tower as part of the same complex, momentum began to pick up. More top brands have recently signed up and others are negotiating. Almost all of them are moving in from neighboring facilities.

During the difficult years, some of our neighboring property owners used unsavory tactics to keep their luxury goods tenants. Headquarters of fashion companies, mostly based in Europe, also froze their location changes then. Now that the market has turned, there is no reason to stay at inferior facilities. Moreover, they do not want to be a late-mover for fear that the best locations within our Center 66 may be taken by their competitors. A similar situation can be observed in our properties in some other cities. The ascendancy of Center 66 to its leadership position took three to four years. If not for the recent bear market, we would have achieved it much sooner.

The average time it took for the above four malls to become market leader was four to five years, or about two lease terms. For our other properties, which all opened within the past four years, the length of time will depend on the local competitive landscape, but it is just a matter of time. Once leadership position is achieved, rents should rise considerably. By the second lease term, initial opening expenses should taper off, leading to higher rental margin. The result of all this is of course improved profitability and investment return.

Riverside 66 in Tianjin opened in 2014, and Olympia 66 in Dalian in 2016. Both began their lives in the depths of a bear market. In the case of the former, there is so far no clear leader in four- or five-star malls in the city. What we do know is that certain former dominant players which opened before we did are struggling today. While we are working to improve the pedestrian street where we are located, we may be quietly gaining on our competitors.

Several luxury brands have told us that Olympia 66, with some 220,000 square meters, is by far the best mall in Dalian. Elsewhere in the city, there is a longstanding facility housing most of the top fashion names. According to our knowledge, its investment return was supposedly superb perhaps until the recent bear market. In our opinion, their design is far from ideal and this gives us hope. There is another district in the city with several sizable retail outlets. Because none is properly designed or built, the entire area is going downhill.

Then came Olympia 66. Given our superior design and size, there is little doubt in my mind that in the next few years, many world-class luxury brands will make us their local home. Like Parc 66 in Jinan which is also sizable, the layout of the property allows part of the mall to house five-star brands, and another part four-star ones.

Our next two malls to open within the coming two years – Spring City 66 in Kunming and Heartland 66 in Wuhan – should also fall into this category. Namely, although not the first player in their respective city, they are by far the best in quality compared to anything else. As a result, I fully expect them to in time become the top retail center in their markets. Competition is less in Kunming, so Spring City 66 should achieve this status almost from day one. Heartland 66 will have to fight harder to earn that place. Whatever the case, both metropolises are excellent retail markets. The competitive landscape of our latest Hangzhou piece should, once completed, be somewhere between that of Spring City 66 and Heartland 66.

Forum 66 in Shenyang is the only mall in category three. Because of a worthy first-mover in the city, our property is struggling. Our plight was to a large extent self-inflicted. We could have opened ahead of the competitor but we were unaware of the seriousness of the situation. By building the office tower long after the retail center opened, management of the latter was more challenging. And as I previously reported, we also had some personnel issues before and after its opening. Fortunately, many of these problems have now been resolved.

All told, we have no one to blame but ourselves for the trouble. It will serve as a strong reminder of what not to do. Nevertheless, there are enough positive aspects of the project that will bode well for the mall to remain a very strong player in the city in the long run. For example, mall design improvements are being implemented, the first office tower has been completed and successfully opened, the inauguration of the Conrad Hotel will take place next year, and the subway connection to our facility has been completed. Improvements, while slow, are continuing. Also beneficial to the mall will be the eventual completion of the second and possibly third office tower, as well as several serviced apartment blocks. Indeed, our location is probably the best in the city and the land price we paid was by far the lowest.

Consider the fact that when Forum 66 first opened in 2012, there were already two sizable retail facilities in the neighborhood, one of which being the market leader. The other has since our opening been basically marginalized. So for now, we are number two in the market. We will certainly fight to narrow the gap. After all, I love challenges; they invigorate me and my team.

Looking ahead, we will continue to look for attractive opportunities to expand our portfolio. It will be hard to find vibrant metropolises where we will be the first-mover. Those opportunities have all but disappeared perhaps two decades ago. We will most likely enter markets considered to be category two as mentioned above – there will already be other players, but they are not that strong.

Reviewing our history as presented above, what lessons can we draw, and what will the future hold for us? What are the critical factors that we must have in order to remain among the most competitive? The conclusion seems clear enough. Real estate genetics mentioned in my 2014 year-end letter is the answer. The four elements are location, size and developmental conditions, design, and construction, with the first three as absolute necessities. (Beyond these, management quality is, of course, vital. However, since it is prudent to assume that others also have decent management, this is not a relative competitive advantage.) If the existing players in the city do not have these “genetics” hardwired into their properties, then it is almost game over for them once a newcomer with the four elements appear.

As mentioned, this was exactly the way how many of our malls – Grand Gateway 66, Palace 66, Parc 66, Center 66, and more to come – gained their leadership positions in their respective cities. Each has at least as good a location as its competitors; each is big enough to be a force in the market place; each has a design that is superior to all earlier entrants; and each is at least as well constructed as others. When we add reasonable management to it, success is within reach for all our new projects, as long as our competitors lack certain or all of the four genetic elements.

How long it will take for a property to gain prominence will depend on the magnitude of the advantage we have over our competitors. Moreover, once we win on that basis, it is not easy for others to displace us. Even if someone with all four elements joins the game later, we will already have a head start.

This explains why it takes us so long to buy land, and why it takes us longer than most companies to convert land into buildings. To buy land is easy; to buy the right piece of land is very difficult. Some analysts recently reminded everyone that the last time we bought land before the Hangzhou piece was in 2013. True indeed, but no one in this business can afford to buy wrong. A good location is usually recognizable by most, but few have the discipline to only buy the best. Also, few developers have the experience to negotiate the right developmental conditions for a particular plot.

Likewise, to properly design a four- or five-star mall requires much experience. From what I have observed, so far few Mainland developers have that knowledge; a number of longtime Hong Kong players like us can usually do a better job. Yet we are still learning. This is why I have publicly stated that anyone who can churn out a shopping center from land possession in 18 months is a novice. So are those who think that hiring a good or famous architect will get the job done. Such people do not know what they are doing; all they have is at best money and dreams of grandeur. There is plenty of money in the system, but ambition, if not matched by caution, calculation, and expertise, can only end in disappointment.

Developing Class A offices requires less expertise than world-class malls. This is one reason why the former usually yields a lower return. Nevertheless, they are complementary to the retail space beneath, and the effect can be considerable for they bring quality footfall. Shenyang and Wuxi, for example, are not easy markets, but our offices in both cities have done well. They enhance the performance of the malls. Initial gross yield of around 4% is achievable for an office tower, but it will not grow as fast nor by as much as a well-run mall. Neither will they take up as much management attention. All things considered, we like to do more offices especially if they form part of a shopping complex. This is the case with our three newest projects – Spring City 66 in Kunming, Heartland 66 in Wuhan, and the latest purchase in Hangzhou. They are not unlike our earlier ones, Grand Gateway 66, Forum 66, and Center 66.

In time, serviced apartments for sale will likewise be accretive to the shopping center beneath or immediately adjacent. Conversely, by developing high-end commercial space first, we add value to the surrounding neighborhood. Constructing residences for sale is one way to capture some of that value for ourselves. Selling will also bring faster cash inflow. Again, like Grand Gateway 66, Forum 66, and Center 66, our two recent projects under construction, Spring City 66 and Heartland 66, both have quite a bit of this product type.

There is no doubt that private consumption is becoming more important on the Mainland. Last December, the Chinese government lowered import duty on many categories of products. Even certain luxury items have been included. Together with the rising demand for high-end fashion, many top brands are again opening new stores. This is a reversal of their policy of the past five to six years.

This is a welcoming development for us. Once Grand Gateway 66 in Shanghai has completed its major refurbishment in mid-2019, it will be a very different place than before. It will look much more like Plaza 66 in the same city. A year from now, I also expect Center 66 in Wuxi to become the city's first truly luxury mall. In the same time frame, when Spring City 66 in Kunming opens its door to customers, this biggest city in southwestern China will boast its first top-end shopping center. There will be many world-class fashion brands, some of which entering the capital of Yunnan Province for the first time.

Thereafter, I will not be surprised if Parc 66 in Jinan and Olympia 66 in Dalian will progress in the same direction. When each of these properties welcomes such tenants, unit rent should rise. Top names in turn will attract sub-luxury brands, and together they will raise the total rents collected.

My best estimate for our retail rental in the coming six to 12 months is as follows: Plaza 66, Parc 66, Center 66, and Olympia 66 should continue to perform well. Palace 66 and Riverside 66 will make less progress by comparison. Forum 66 will still be struggling although, like the first half of this year, further improvements will be made.

Like in the recent past, 32% of Grand Gateway 66 will be undergoing upgrading. Works in the coming months will affect the very core of the mall. This means that total rents received will inevitably be affected, but we will soon have a very different place that will command higher unit rents.

The offices in Shanghai are expected to hold steady. The other two towers, one each in Shenyang and Wuxi, may well be fully leased by year-end, or at least very close to that. The quality of tenants should continue to improve.

Before leaving the Mainland market, I should mention that in the past three months or so, the RMB has depreciated by over 8% against the U.S. dollar. (This followed a rise in currency of similar magnitude when comparing the first half of 2018 to the same period of 2017.) If the present trend remains unchanged, or if the currency is stabilized at today's level of about RMB6.8 to US$1, the effects on us will be at least twofold. Since our home currency the Hong Kong dollar is pegged to the U.S. dollar, a weaker RMB will translate into lower reported earnings, if all else remains constant.

A second consequence is that fewer Chinese will go overseas to buy luxury items. This effect will be similar to the lowering of import tariffs. There are reasons to believe that much of the sales overseas have yet to become domestic, but as long as present trends persist, common sense dictates that they sooner or later will. Whatever the case, almost all currencies fluctuate and increasingly the RMB as well. For now, we can only wait and see how the RMB will move for the rest of the year.

The picture for commercial rental performance in Hong Kong in the coming six months is expected to remain similar to that of the first half of the year. Our portfolio will likely grow again at low single digits.

By now, I trust that my readers will agree with me that the Company's future should be bright. Completing new space is of course exciting, for it will grow the top line. However, what invigorates me the most is the organic growth of our Mainland properties outside of Shanghai. It should deliver improved bottom line. As you have just read, much operational progress has been made, and there is more to come. Its effects are only beginning to be felt, for fixed lease terms have so far held back its manifestation. But in the next one to two years, the situation should become clearer. It will be very rewarding when our labors in the past few years finally translate into higher profits. In time, this should be reflected in our share price.

After eight years with Hang Lung and 41 years as a business executive, Mr. Philip Chen retired on July 16. He has kindly agreed to serve for a year as my advisor and has since become a Non-Executive Director of the Company. In the past I have written several times on the critical contributions he has made. I will not repeat them here except to mention that he has also ably served as a mentor to our youngest Executive Director, Mr. Adriel Chan. One can hardly find a better teacher than Philip. I count him as a great fortune for the Company in general and for the young man in particular. His efforts will have very long-term effects on Hang Lung.

For that and for his many extraordinary accomplishments, I thank him most sincerely. I wish Philip the best of health and look forward to his advice and contributions in his new capacities.

Ronnie C. Chan
Chiarman
Hong Kong, July 30, 2018

Financial Highlights

In HK$ Million (unless otherwise stated)

RESULTS

	For the Six Months Ended June 30		
	2018	2017	Change
Revenue	5,150	6,358	-19%
Property Leasing	4,118	3,835	7%
Property Sales	1,032	2,523	-59%
Operating Profit	3,682	4,541	-19%
Property Leasing	3,117	2,899	8%
Property Sales	565	1,642	-66%
Net Profit Attributable to Shareholders	4,689	3,830	22%
Earnings Per Share (HK$)	$1.04	$0.85	22%
Interim Dividend Per Share (HK$)	$0.17	$0.17	–

UNDERLYING RESULTS

	For the Six Months Ended June 30		
	2018	2017	Change
Underlying Net Profit Attributable to Shareholders	2,319	3,040	-24%
Underlying Earnings Per Share (HK$)	$0.52	$0.68	-24%

FINANCIAL POSITION

	At June 30 2018	At December 31 2017	Change
Shareholders' Equity	137,593	136,158	1%
Net Assets	143,531	142,245	1%
Net Debt	7,748	2,714	185%
Financial Ratio			
Net Debt to Equity Ratio	5.4%	1.9%	3.5 pts
Debt to Equity Ratio	17.8%	17.4%	0.4 pt
Shareholders' Equity Per Share (HK$)	$30.6	$30.3	1%
Net Assets Per Share (HK$)	$31.9	$31.6	1%

CONSOLIDATED RESULTS

For the six months ended June 30, 2018, total revenue of Hang Lung Properties Limited (the Company) and its subsidiaries (collectively known as "Hang Lung Properties") decreased 19% to HK$5,150 million due to lower property sales. Revenue from property leasing rose 7% to HK$4,118 million. Property sales revenue decreased 59% to HK$1,032 million because fewer residential units were sold during the period. Total operating profit fell 19% to HK$3,682 million.

Underlying net profit attributable to shareholders decreased 24% to HK$2,319 million. After including a revaluation gain on properties, net profit attributable to shareholders advanced 22% to HK$4,689 million. Earnings per share increased to HK$1.04.

Revenue and Operating Profit for the Six Months Ended June 30

	Revenue			Operating Profit		
	2018 HK$ Million	2017 HK$ Million	Change	**2018 HK$ Million**	2017 HK$ Million	Change
Property Leasing	**4,118**	3,835	7%	**3,117**	2,899	8%
Mainland China	**2,171**	1,949	11%	**1,447**	1,274	14%
Hong Kong	**1,947**	1,886	3%	**1,670**	1,625	3%
Property Sales	**1,032**	2,523	-59%	**565**	1,642	-66%
Total	**5,150**	6,358	-19%	**3,682**	4,541	-19%

DIVIDEND

The Board of Directors has declared an interim dividend of HK17 cents per share for 2018 (2017: HK17 cents) to be paid by cash on September 27, 2018, to shareholders whose names appeared on the register of members on September 13, 2018.

PROPERTY LEASING

Total revenue of our leasing properties increased 7% to HK$4,118 million in the first half of 2018. Income of the Hong Kong leasing portfolio grew 3% and that of the Mainland properties increased 11%. Total operating profit rose 8%. Overall rental margin was 76%.

The growth was achieved against a backdrop of positive economic data for the Mainland. The under-currents of the US-China trade war might have posed uncertainty on the economic outlook. But the long term fundamentals of China are likely to remain solid. There are signs of store openings and store relocations among brands in premium shopping facilities in larger cities on the Mainland. We are in a position to benefit from such opportunities in the matching process. According to research published, Chinese consumers reported higher confidence levels in the first quarter of this year. This is complemented by the pricing strategy among brands in response to tariff reductions. The Company's continuous drive to enhance customer experience throughout our projects via trade mix enhancement, project refurbishment and customer relationship management would uphold our long term competitiveness.

Outstanding examples of the beneficial impact of our renovation programs were seen at Plaza 66 in Shanghai and Kingston in Causeway Bay, Hong Kong, both of which achieved higher returns. Conversely, expected short-term disruptions of income were seen at Grand Gateway 66 in Shanghai and The Peak Galleria in Hong Kong, which are undergoing large-scale upgrades to cater for expanded business.

Mainland China

Revenue of the entire mainland China leasing portfolio increased 2% to RMB1,764 million, and was up 5% when excluding areas closed for renovation at Shanghai Grand Gateway 66 mall. Operating profit advanced 4% to RMB1,175 million. Average margin increased two points to 67%.

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

	Revenue (RMB Million)			Occupancy Rate*	
Name and City of the Property	2018	2017	Change	Mall	Office
Shanghai Plaza 66	**763**	710	7%	97%	94%
Shanghai Grand Gateway 66	**410**	451	-9%#	68%#	N/A
Shenyang Palace 66	**77**	77	–	87%	N/A
Shenyang Forum 66	**105**	105	–	87%	85%
Jinan Parc 66	**141**	133	6%	94%	N/A
Wuxi Center 66	**121**	105	15%	87%	91%
Tianjin Riverside 66	**90**	90	–	86%	N/A
Dalian Olympia 66	**57**	52	10%	75%	N/A
Total	**1,764**	1,723	2%		
Total in HK$ Million equivalent	***2,171***	*1,949*	*11%*		

About 32% of leasable area was temporarily void for major asset upgrading.

* All occupancy rates stated therein were as of June 30, 2018.

- *Malls*

Our eight malls in mainland China collected 2% more in rents to RMB1,367 million. Plaza 66 in Shanghai, benefitting from the successful completion of its major upgrade program last year, continued its strong growth in both revenue and retail sales. At our second major property in Shanghai, Grand Gateway 66, rental slipped by 9% because of an interruption caused by major upgrading work now in progress. Outside of Shanghai, the six malls collected more in rents period-on-period, and most of their occupancy rates and retail sales were also on a rising trend.

Revenue at **Plaza 66** mall, our flagship high-end mall in Shanghai, increased 13%. Retail sales increased 15%, riding on the recovery of the luxury sector consumption and more joint promotions with tenants as well as the successful completion of the enhancement program. Occupancy of the mall increased eight points to 97%.

The performance of **Grand Gateway 66** mall in Shanghai was affected by the three-year upgrading program which started last year. By the end of June 2018, 32% of the leasable area was closed for renovation. Revenue of the mall decreased 9% to RMB410 million, but advanced 1% if excluding the closed areas. The first phase of upgrade works will be handed over to tenants in the third quarter of 2018. The brand-new area will house many young and trend-setting brands, with most making their first appearance at the mall. From the second half of 2018, the renovation will focus on transforming the main entrance of the mall and the basement, which is linked to Metro Link 9. These works are expected to be completed in 2019. During the renovation, many exclusive pop-up stores were introduced to maintain business continuity for the key tenants, while innovative promotional activities maintained the mall's vibrant ambience. Retail sales dropped 5% on a like-for-like basis.

The revenue of Shenyang **Palace 66** mall stayed flat at RMB77 million. Occupancy rate slipped one point to 87% amidst tenant reshuffling. Retails sales slightly decreased 1% as a result. Palace 66 mall now houses many major international and local lifestyle fashion brands.

Income of Jinan **Parc 66** mall increased 6% to RMB141 million. Occupancy rose two points to 94%. Benefitting from ongoing tenant upgrading, retail sales jumped 20%.

Rental income of **Forum 66** mall in Shenyang decreased 16% as major tenant reshuffling exercise continued. Retail sales at the mall fell 2%. More lifestyle and entertainment tenants were introduced while maintaining the mall's high-end positioning. The efforts have started to bear fruit. Occupancy rate increased 10 points to 87%.

Center 66 mall in Wuxi continued on its growth momentum. Income increased 18% driven by higher occupancy which advanced three points to 87%. This meant the remaining area available for leasing was only 4% of the leasable area as 9% of the area was temporarily void for the construction of the second office tower. This void area will be handed over to tenants for fitting out in the second half of 2018 and re-open in the first half of 2019, housing a new cinema with about 800 seats as well as quality food & beverage tenants. Retail sales increased 15% because of the enhanced tenant mix, growth in the luxury sector and higher occupancy.

Rental income of Tianjin **Riverside 66** mall was flat at RMB90 million. Occupancy rate fell one point to 86%. The mall, opened in 2014, was going through a major tenant reshuffling process after completion of the first lease term. More lifestyle and trendy fashion tenants were introduced to enhance the trade mix, including a new cinema with 570 seats. Retail sales decreased 11% amidst the changing tenant mix.

Olympia 66 mall in Dalian collected 10% more in rents in the first half of 2018 driven by an 11 points increase in occupancy to 75%. The mall's ambience has been enriched with more trendy lifestyle and food & beverage tenants. Retail sales jumped 45%.

- *Offices*

Income from our four office towers in mainland China increased 3% to RMB397 million as a result of higher occupancy. The total office rental accounted for 23% of Mainland leasing revenue.

Income of the Shanghai **Plaza 66** office slipped 1% to RMB299 million. Following the completed relocation of a major tenant from one tower to the other, overall occupancy rate increased eight points to 94%. The enhancement works for Office Tower Two were completed.

Revenue of the office tower at **Forum 66** in Shenyang advanced 20% to RMB57 million driven by higher occupancy. Occupancy rate increased 16 points to 85%. The six floors in the high zone of the tower, representing 14% of leasable area, are ready for hand-over to tenants in phases from mid-2018. The leasing results have been encouraging. The fitting out of a Conrad hotel, housed on the top 19 floors of the office tower, is progressing well. The hotel is expected to open in the first half of 2019.

Benefitting from higher occupancy, income of **Center 66** office tower in Wuxi increased 13% to RMB41 million. Occupancy rate increased 14 points to 91% as a result of new lettings and expansions by reputable corporations. The good reputation earned by the existing office tower benefitted the leasing activities for the second tower, which is expected to open in mid-2019.

Hong Kong

Total revenue and operating profit of our Hong Kong leasing portfolio both increased 3% to HK$1,947 million and HK$1,670 million, respectively. Retail sales rose 10% period-on-period. Overall rental margin was 86%.

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

	Revenue (HK$ Million)			Occupancy Rate*
	2018	2017	Change	
Commercial	1,155	1,118	3%	97%
Office and Industrial/Offices	638	622	3%	94%
Residential & Serviced Apartments	154	146	5%	75%
Total	1,947	1,886	3%	

* All occupancy rates stated therein were as of June 30, 2018.

- *Commercial*

Revenue of the Hong Kong commercial portfolio increased 3% to HK$1,155 million. Overall occupancy advanced four points to 97%.

The solid result was a combination of a steady rental uplift across the portfolio and the rental contribution following the re-opening of Kingston in Causeway Bay upon completion of the final phase of renovation.

The **Causeway Bay portfolio** collected 5% more in rents to HK$313 million. Kingston, representing 25% of the retail space of the Causeway Bay portfolio was fully re-open during the period. The re-opening marked the successful completion of the major asset enhancement initiative on Fashion Walk that began in 2015. Fashion Walk is now a uniquely stylish destination for shopping, entertainment, dining, experiencing and socializing. Retail sales of our tenants in Causeway Bay recorded an 8% growth period-on-period.

Rental revenue of **Kornhill Plaza in Hong Kong East** increased 8% as a result of positive rental reversions. Kornhill Plaza was fully let. Retail sales at the mall increased 11%. The good performance of the key anchor tenants, including AEON STYLE and Grand Kornhill Cinema, contributed more rents to the mall.

Revenues of **Grand Plaza and Gala Place in Mongkok** were up 2% mainly due to additional leasing close to capacity at Grand Plaza. Both properties were fully leased. The retail line-up of Grand Plaza has been reinforced with the introduction of more beauty and health stores, stylish fashion labels, and an exciting array of new restaurants. With tourists returning from mainland China, the retail landscape of Mongkok is ready for a fresh and exciting new impetus. Total retail sales increased 17% during the period.

Income of **Amoy Plaza in Kowloon East** was up 4% attributable to positive rental reversions. The ongoing tenant upgrade brings a new level of excitement to the catchment area. A UA Cinema with more than 600 seats in three houses will be introduced in the second half of 2018. This cinema will offer a unique entertainment experience to audiences with its stylish design, 4D technology, and food & beverage offerings.

The Peak Galleria continued its Phase 1 major renovation program during the period. The 60% of the leasable area currently closed for upgrading will re-open in phases from 2019. Pre-leasing was making good progress.

- *Offices*

The Hong Kong office portfolio achieved a 3% rental growth to HK$638 million mainly because of positive rental reversions. Overall occupancy rate fell one point to 94%. Our offices in Central and Mongkok recorded rental growth of 5% and 8% respectively, but those in Causeway Bay dropped 1%. The Hong Kong office rental accounted for 33% of total Hong Kong rental turnover.

As part of the ongoing commitment to enhance our core properties, the refurbishment of Gala Place in Mongkok has commenced. The works cover the façade, elevator lobbies and car park of the office tower. The entire program is scheduled for completion in 2019 and will have minimal adverse impact on revenue.

- *Residential and Serviced Apartments*

Revenue of residential and serviced apartments advanced 5% to HK$154 million mainly driven by higher occupancy at Kornhill Apartments and The Summit.

PROPERTY SALES

With the new accounting standard on revenue recognition effective on January 1, 2018, recognition of property sales revenue is upon completion of legal assignment (i.e. sale completion).

For the first half of 2018, revenue from property sales decreased 59% to HK$1,032 million because of fewer completed sales of residential units during the period. The sales comprised three semi-detached houses at 23-39 Blue Pool Road (2017: Nil) and five units of The Long Beach apartments (2017: 197 units). Profit from property sales decreased 66% to HK$565 million. Overall profit margin was 55%.

PROPERTY REVALUATION

The total value of our investment properties amounted to HK$136,433 million as of June 30, 2018, comprising the value of the Hong Kong portfolio and the mainland China portfolio of HK$64,160 million and HK$72,273 million, respectively. Our investment properties were revalued by Savills, an independent valuer, as of June 30, 2018.

An overall revaluation gain of HK$2,456 million was recorded in the first half of 2018 (2017: HK$737 million), representing a 2% growth when compared to the value at year-end of 2017. Properties in Hong Kong and the Mainland recorded a revaluation gain of HK$2,216 million and HK$240 million, respectively.

PROPERTY DEVELOPMENT AND CAPITAL COMMITMENT

The aggregated value of investment properties under development was HK$26,098 million. They comprised mainland China projects in Kunming, Wuhan, Hangzhou and the remaining phases of the developments in Shenyang and Wuxi. The portfolio consists of malls, office towers, hotels and serviced apartments.

The construction work for Kunming Spring City 66 is progressing as planned. Total gross floor area of the entire mixed-use development is 432,000 square meters, comprising a premier mall of 156,700 square meters, a 63-story Grade A office tower with a total gross floor area of 177,600 square meters, serviced apartments and 2,000 car parking spaces. The mall is expected to open in mid-2019. Leasing activities for the mall have commenced and the response is encouraging. About 50% of the leasable areas has been committed, including to some key anchor tenants.

Wuhan Heartland 66 covers a total gross floor area of 460,000 square meters. This prestigious mixed-use commercial project will house a 177,000-square-meter mall, a 61-story Grade A office tower with a total gross floor area of 151,500 square meters, serviced apartments and 2,800 car parking spaces. The project is planned for completion in stages from 2020 onwards. Leasing activities for the mall have commenced.

The conversion of the top 19 floors of the office tower at Shenyang Forum 66 into a Conrad hotel is in progress. This five-star hotel will have 315 keys and a standalone grand ballroom to accommodate more than 500 guests. The addition of this hotel will complement our vision of the Forum 66 as the destination of choice for customers seeking high-end shopping, entertainment, business and hospitality experiences. The General Manager of the hotel has been on board since May 2018 to prepare for the opening in the first half of 2019.

The construction work for the second office tower at Wuxi Center 66 is progressing as planned. This 30-story Grade A office tower has a total gross floor area of 52,000 square meters. It is being built above the southeastern part of the Center 66 mall. The office tower was topped out on June 29, 2018, and was followed by the commencement of interior fitting out works. The new tower will be ready for occupancy in the second half of 2019; leasing activities have commenced with good progress achieved.

The master plan for Wuxi Phase 2 development was submitted for government approval in April 2018. The project includes luxury serviced apartments and a small boutique hotel.

On May 28, 2018, Hang Lung Properties won the bidding for a prime land site in Hangzhou at RMB10.7 billion. The acquisition of this site enables Hang Lung Properties to extend its portfolio into another strategic city in order to capitalize on the opportunities arising across the Mainland. We will develop the site into a large-scale commercial mixed-use complex, comprising a world-class mall and office tower(s) with a maximum floor area of approximately 194,100 square meters (above ground).

We plan to re-develop Amoycan Industrial Centre (AIC) in Ngau Tau Kok, Hong Kong, in which Hang Lung Properties owns almost 85% interests. An application for a Land Compulsory Sale for the remaining interests in AIC was submitted to the Lands Tribunal in December 2017.

The projects mentioned above represented the majority of Hang Lung Properties' capital commitments at the reporting date, amounting to HK$43 billion. They will be completed in phases over a number of years. With a solid base of high quality recurrent income and ample financial resources, we are able to meet the funding requirements of those projects and are well placed to seize further growth opportunities.

LIQUIDITY AND FINANCIAL RESOURCES

A major aim of our financial management is to maintain an appropriate capital structure with sufficient financial resources to meet new investment needs and support business growth. Multiple channels of debt finance have also been established to mitigate financial risks. All related risk management, including debt re-financing, foreign exchange exposure and interest rate volatility, etc., are centrally managed and controlled at the corporate level.

- *Liquidity Management*

The cash flow position and funding needs are closely reviewed and monitored to ensure that Hang Lung Properties has a good degree of financial flexibility and liquidity. This is achieved by keeping sufficient cash resources and maintaining multiple channels of fund-raising in both Hong Kong and mainland China.

As of June 30, 2018, Hang Lung Properties had total cash and bank balances of HK$17,786 million (December 31, 2017: HK$22,106 million). While optimizing the yield on our cash resources, all the deposits are placed with banks with strong credit ratings and the counterparty risk is monitored on a regular basis.

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

	At June 30, 2018		At December 31, 2017	
	HK$ Million	*% of Total*	HK$ Million	*% of Total*
Denominated in:				
HKD	**9,248**	*52.0%*	12,761	*57.7%*
RMB	**8,531**	*48.0%*	9,341	*42.3%*
USD	**7**	–	4	–
Total cash and bank balances	**17,786**	*100%*	22,106	*100%*

- *Financing Management*

Hang Lung Properties manages the debt portfolio with a focus on mitigating the re-financing and interest rate risks. These risks are well managed by maintaining an appropriate mix of fixed/floating rate borrowings, a staggered debt repayment profile and a diversified source of funding.

As of June 30, 2018, Hang Lung Properties had undrawn committed banking facilities amounting to HK$13,057 million. The available balance of the USD3 billion Medium Term Note Program was equivalent to HK$11,084 million.

In February 2018, the National Association of Financial Market Institutional Investors (NAFMII) in mainland China gave approval for Hang Lung Properties to establish an on-shore RMB10 billion bond issuance platform. This subsequently qualified as a green bond program, making Hang Lung Properties the first Hong Kong property developer to gain such an approval in mainland China. The approval recognizes our long-standing and strong commitment to sustainability. The RMB green bond issuance platform also enables us to further diversify the source of debt financing in mainland China. On July 16, 2018, green panda bonds of RMB1 billion with a tenor of three years were issued to finance the construction of some of our investment properties under development in mainland China.

Total borrowings of Hang Lung Properties amounted to HK$25,534 million as of June 30, 2018. The higher debt balance against last year-end was due to the construction payments of various projects under development in mainland China. The following table shows the composition of our debt portfolio.

	At June 30, 2018		At December 31, 2017	
	HK$ Million	*% of Total*	HK$ Million	*% of Total*
Floating rate HKD bank loans	**271**	*1.1%*	296	*1.2%*
Floating rate RMB bank loans	**12,884**	*50.5%*	11,814	*47.6%*
Fixed rate bonds	**12,379**	*48.4%*	12,710	*51.2%*
Denominated in USD	***7,849***	*30.7%*	*7,816*	*31.5%*
Denominated in HKD	***4,530***	*17.7%*	*4,894*	*19.7%*
Total borrowings	**25,534**	*100%*	24,820	*100%*

On the reporting date, the average tenor of the entire loan portfolio was 3.1 years (December 31, 2017: 3.4 years). The maturity profile was well staggered and spread over a period of 7 years. Around 74% of the loans were repayable after 2 years.

	At June 30, 2018		At December 31, 2017	
	HK$ Million	*% of Total*	HK$ Million	*% of Total*
Repayable:				
Within 1 year	**3,151**	*12.3%*	2,112	*8.5%*
After 1 but within 2 years	**3,518**	*13.8%*	3,605	*14.5%*
After 2 but within 5 years	**16,434**	*64.4%*	15,981	*64.4%*
Over 5 years	**2,431**	*9.5%*	3,122	*12.6%*
Total borrowings	**25,534**	*100%*	24,820	*100%*

- *Gearing Ratios & Interest Cover*

As of June 30, 2018, Hang Lung Properties had a net debt balance of HK$7,748 million (December 31, 2017: HK$2,714 million). Net debt to equity ratio was 5.4% (December 31, 2017: 1.9%) and debt to equity ratio was 17.8% (December 31, 2017: 17.4%).

For the six months ended June 30, 2018, the amount of total gross interest expense incurred was HK$642 million (2017: HK$646 million). The amount of finance costs charged to the statement of profit or loss for the first half of 2018 decreased HK$80 million to HK$542 million because of a larger amount of interest capitalized for construction of Mainland projects.

Interest income for the period was HK$256 million (2017: HK$312 million). The decrease in interest income was mainly due to a lower average balance of deposits.

The amount of net interest expense for the first half of 2018, i.e. the excess of finance costs over interest income, decreased to HK$286 million. With about 50% of total borrowings denominated in RMB, the average effective cost of borrowings during the period was 4.9% (2017: 5.2%).

Interest cover, a key indicator for debt servicing capability, for the first six months of 2018 was 9 times (2017: 13 times).

- *Foreign Exchange Management*

The activities of Hang Lung Properties are exposed to foreign currency risks which mainly arise from its operations in mainland China and certain bank deposits denominated in RMB held in and relating to mainland China entities. In addition, it has exposure to USD arising from the two USD500 million bonds issued. Appropriate measures have been taken to mitigate the foreign exchange risk exposure.

(a) RMB Exposure

The RMB exposure of Hang Lung Properties is mainly derived from two respects of the operations. These are, firstly, the currency translation risk arising from the net assets of our Mainland subsidiaries. Secondly, they are the RMB deposits held in and relating to mainland China entities which are primarily for the purposes of settling future construction payments in RMB.

As of June 30, 2018, net assets denominated in RMB accounted for about 53% of Hang Lung Properties' total net assets. The re-translation of those net assets denominated in RMB into HKD using the exchange rate as of the reporting date resulted in a re-translation loss of HK$759 million (2017: gain of HK$2,318 million), as RMB depreciated by about 1% against HKD compared to December 31, 2017. The re-translation loss was recognized in other comprehensive income/exchange reserve.

(b) USD Exposure

The USD foreign exchange exposure is related to the two USD500 million fixed rate bonds issued, equivalent to HK$7,849 million at the reporting date. The related currency exchange risk was covered back-to-back by two USD/HKD cross currency swap contracts. The swap contracts were entered into in order to effectively fix the exchange rate between USD and HKD for future interest payments and principal repayments.

The changes in the fair value of both swap contracts did not impact the cash flows and the profit or loss materially as they qualified for cash flow hedge accounting.

- *Charge of Assets*

Assets of Hang Lung Properties were not charged to any third parties as of June 30, 2018.

- *Contingent Liabilities*

Hang Lung Properties did not have any material contingent liabilities as of June 30, 2018.

OUTLOOK

The current US-China trade disputes show no sign of abating. Inevitably, this has posed uncertainties concerning the Mainland's economic outlook and growth prospect. However, the long term fundamentals of China are likely to remain solid.

In the meantime, we will continue to upgrade our property content, tenancy and service quality throughout the portfolio as part of the constant pursuit for an improved customer experience. Investments in the Customer Relationship Management (CRM) programs together with other new initiatives in digital marketing and loyalty programs will be stepped up in the face of keen competition for both traffic and retail sales. We have also increased our investments in adoption of new technologies including smart parking, mobile applications and mobile payments.

In Shanghai the continuing growth of Plaza 66 will be complemented by the rising tempo of leasing activities elsewhere in the Mainland over the remaining months of 2018. Backed by our financial strength, asset upgrading programs will be a continuing feature of our operations in both Hong Kong and Shanghai. Depending on market conditions, there is a possibility we will sell more Hong Kong residential units. Meanwhile projects under development in mainland China will forge ahead as planned.

CORPORATE GOVERNANCE

We are committed to maintaining the highest standards of corporate governance. During the six months ended June 30, 2018, 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 2017 annual report, which is available on our website under Financial Report of Financial Information of the Investor Relations section.

The Board

The Board currently consists of eleven members: comprising four Executive Directors; one Non-Executive Director; and six Independent Non-Executive Directors. There is a clear division of responsibilities between the Chairman and the Chief Executive Officer to ensure a balance of power and authority. The Board continues to review its practices from time to time, constantly seeking to improve the Group's corporate governance procedures in accordance with international best practices. An updated list of Board members identifying their roles and functions and whether they are Independent Non-Executive Directors is maintained on our website and the website of Hong Kong Exchanges and Clearing Limited ("HKEx"). The biographical details of Board members are also maintained on our website under Board of Directors of Corporate Governance of the Investor Relations section.

Nomination and Remuneration Committee

Our Nomination and Remuneration Committee, which is chaired by an Independent Non-Executive Director, currently consists of three Independent Non-Executive Directors. The Committee members meet not less than once a year. Its duties include reviewing significant changes to the salary structure of the Group and the terms and conditions affecting Executive Directors of the Board 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 of the Board and suchlike. The terms of reference of the Committee can be accessed on both our website and the website of HKEx.

Audit Committee

Our Audit Committee, which is chaired by an Independent Non-Executive Director, currently consists of four Independent Non-Executive Directors. The Committee members meet not less than four times a year. Meetings are normally attended by external and internal auditors, the Chief Financial Officer and the Company Secretary for the purposes of, inter alia, discussing the nature and scope of internal audit work and assessing the Company's internal controls. The terms of reference of the Committee, which include duties pertaining to corporate governance functions and the oversight of risk management, are available on both our website and the website of HKEx. The Audit Committee has reviewed this interim report, including the unaudited interim financial report for the six months ended June 30, 2018, 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 49 and 50 of this interim report.

Compliance with Corporate Governance Code

During the six months ended June 30, 2018, we 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 the Listing Rules

We have adopted a code of conduct with regard to securities transactions by Directors of the Board (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 with all Directors of the Board and confirmed that they have complied with the required standard set out in the Model Code and the Code of Conduct regarding securities transactions by Directors of the Board throughout the six months ended June 30, 2018.

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

As at June 30, 2018, the interests or short positions of each of the Directors of the Board in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code or which were recorded in the register required to be kept by the Company under section 352 of the SFO are as follows:

		The Company (Long Position)			*Hang Lung Group Limited (Long Position)*	
Name	Capacity	Number of Shares	% of Number of Issued Shares	Number of Shares under Option *(Note 2)*	Number of Shares	% of Number of Issued Shares
Ronnie C. Chan	Personal	16,330,000	0.36	21,000,000	11,790,000	0.87
Philip N.L. Chen	Personal	–	–	24,000,000	–	–
Weber W.P. Lo	Personal	–	–	10,000,000	–	–
Ronald J. Arculli	Personal & Corporate	724,346	0.02	–	1,089,975	0.08
Dominic C.F. Ho	–	–	–	–	–	–
Nelson W.L. Yuen	Personal	–	–	15,410,000	–	–
Andrew K.C. Chan	–	–	–	–	–	–
H.K. Chang	–	–	–	–	–	–
Anita Y.M. Fung	–	–	–	–	–	–
H.C. Ho	Personal	–	–	12,300,000	–	–
Adriel W. Chan	Personal & Other *(Note 1)*	2,583,896,340	57.45	2,200,000	498,428,580	36.61

Notes

1. Other interests included 2,583,896,340 shares of the Company and 498,428,580 shares of Hang Lung Group Limited ("HLG") held/deemed to be held by a trust of which Mr. Adriel W. Chan was a discretionary beneficiary. Accordingly, Mr. Adriel W. Chan was deemed to be interested in such shares under the SFO.

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

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

Date Granted (mm/dd/yyyy)	Name	Number of Shares under Option: As at Jan 1, 2018	Exercised during the Period	As at Jun 30, 2018	Exercise Price per Share (HK$)	Vested Dates (mm/dd/yyyy)	Expiry Date (mm/dd/yyyy)
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	Nelson W.L. Yuen H.C. Ho	8,910,000 300,000	– –	8,910,000 300,000	$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 Nelson W.L. Yuen	6,500,000 6,500,000	– –	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 the Company (continued)

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

Date Granted (mm/dd/yyyy)	Name	Number of Shares under Option: As at Jan 1, 2018	Granted during the Period	As at Jun 30, 2018	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%	
	Adriel W. Chan	200,000	–	200,000		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%	
	Adriel W. Chan	150,000	–	150,000		12/05/2019: 40%	
08/10/2017	Ronnie C. Chan	2,750,000	–	2,750,000	$19.98	08/10/2019: 10%	08/09/2027
	Philip N.L. Chen	2,500,000	–	2,500,000		08/10/2020: 20%	
	H.C. Ho	1,850,000	–	1,850,000		08/10/2021: 30%	
	Adriel W. Chan	1,850,000	–	1,850,000		08/10/2022: 40%	
05/16/2018	Weber W.P. Lo	–	10,000,000	10,000,000	$18.98	05/16/2020: 10%	05/15/2028
						05/16/2021: 20%	
						05/16/2022: 30%	
						05/16/2023: 40%	

Save as disclosed above, none of the Directors of the Board had, as at June 30, 2018, any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations.

Other than as stated above, at no time during the six months ended June 30, 2018 was the Company, its holding company or any of their respective subsidiaries a party to any arrangement to enable the Directors of the Board to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at June 30, 2018, details of substantial shareholders' and other persons' (who are required to disclose their interests pursuant to Part XV of the SFO) interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO are as follows:

Name	*Note*	**Number of Shares or Underlying Shares Held *(Long Position)***	**% of Number of Issued Shares *(Long Position)***
Chan Tan Ching Fen	*1*	2,583,896,340	57.45
Cole Enterprises Holdings (PTC) Limited	*1*	2,583,896,340	57.45
Merssion Limited	*1*	2,583,896,340	57.45
Adriel W. Chan	*1*	2,583,896,340	57.45
Hang Lung Group Limited	*2*	2,555,563,240	56.82
Prosperland Housing Limited	*3*	1,267,608,690	30.60
Purotat Limited	*3*	354,227,500	8.55
First Eagle Investment Management, LLC	*4*	269,877,183	6.00

Notes

1. These shares were the same parcel of shares held by controlled corporations of Merssion Limited which was held under a trust. As Ms. Chan Tan Ching Fen was the founder, Cole Enterprises Holdings (PTC) Limited was the trustee and Mr. Adriel W. Chan was a discretionary beneficiary of the trust, they were deemed to be interested in such shares under the SFO.

   The controlled corporations included HLG in which Merssion Limited had 36.61% interests. Accordingly, the 2,555,563,240 shares held by HLG through its subsidiaries were included in the 2,583,896,340 shares.

2. These shares were held by the wholly-owned subsidiaries of HLG.

3. These companies were wholly-owned subsidiaries of HLG. Their interests were included in the 2,555,563,240 shares held by HLG.

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

Save as disclosed above, as at June 30, 2018, no other interests or short positions in the shares or underlying shares of the Company required to be recorded in the register kept under section 336 of the SFO has been notified to the Company.

CHANGES IN INFORMATION OF DIRECTORS PURSUANT TO LISTING RULES

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

Mr. Weber W.P. Lo

– appointed as Executive Director and Chief Executive Officer Designate on May 16, 2018, and became Chief Executive Officer on July 16, 2018, of both the Company and HLG (the listed holding company of the Company)

Mr. Philip N.L. Chen

– retired as Chief Executive Officer and ceased to be a member of the Executive Committee of the Company and HLG, appointed as Adviser to Chairman and re-designated as Non-Executive Director of the Company on July 16, 2018

Ms. Anita Y.M. Fung

– ceased to be a non-official member of Hong Kong Housing Authority

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended June 30, 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities.

EMPLOYEES

As at June 30, 2018, the number of employees was 4,535 (comprising 1,192 Hong Kong employees and 3,343 mainland China employees). The total employee costs for the six months ended June 30, 2018 amounted to HK$755 million. We provide competitive remuneration packages for all employees including discretionary bonuses payable based on individual performance. We regularly review the remuneration packages to ensure that they comply with relevant regulatory requirements and market conditions. The Company has share option schemes for the executives and provides professional and high-quality training for all employees.

KPMG

Review Report to the Board of Directors of Hang Lung Properties Limited

(Incorporated in the Hong Kong with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 51 to 74 which comprises the consolidated statement of financial position of Hang Lung Properties Limited ("the Company") as at June 30, 2018 and the related consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

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

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at June 30, 2018 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, 2018

Consolidated Statement of Profit or Loss

For the six months ended June 30, 2018 (Unaudited)

	Note	2018 HK$ Million	2017 HK$ Million	2018 RMB Million *(For information purpose only)*	2017 RMB Million *(For information purpose only)*
Revenue	3(a)	**5,150**	6,358	**4,187**	5,618
Direct costs and operating expenses		**(1,468)**	(1,817)	**(1,193)**	(1,606)
Gross profit		**3,682**	4,541	**2,994**	4,012
Other net income	4	**70**	70	**58**	61
Administrative expenses		**(292)**	(293)	**(237)**	(258)
Operating profit before changes in fair value of properties		**3,460**	4,318	**2,815**	3,815
Net increase in fair value of properties		**2,456**	737	**2,021**	642
Operating profit after changes in fair value of properties		**5,916**	5,055	**4,836**	4,457
Interest income		**256**	312	**208**	276
Finance costs		**(542)**	(622)	**(441)**	(550)
Net interest expense	5	**(286)**	(310)	**(233)**	(274)
Share of profits of joint ventures		**54**	28	**44**	25
Profit before taxation	3(a) & 6	**5,684**	4,773	**4,647**	4,208
Taxation	7(a)	**(736)**	(734)	**(599)**	(649)
Profit for the period		**4,948**	4,039	**4,048**	3,559
Attributable to:					
Shareholders		**4,689**	3,830	**3,837**	3,375
Non-controlling interests		**259**	209	**211**	184
		4,948	4,039	**4,048**	3,559
Earnings per share	9(a)				
Basic		**HK$1.04**	HK$0.85	**RMB0.85**	RMB0.75
Diluted		**HK$1.04**	HK$0.85	**RMB0.85**	RMB0.75

The accompanying notes form part of the interim financial report.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended June 30, 2018 (Unaudited)

	Note	2018 HK$ Million	2017 HK$ Million	*For information purpose only* 2018 RMB Million	2017 RMB Million
Profit for the period		**4,948**	4,039	**4,048**	3,559
Other comprehensive income	7(b)				
Items that are or may be reclassified subsequently to profit or loss:					
Exchange difference arising from translation of foreign subsidiaries/ to presentation currency		**(759)**	2,318	**552**	(1,619)
Movement in hedging reserve:					
Effective portion of changes in fair value		**38**	(194)	**30**	(169)
Net amount transferred to profit or loss		**(27)**	(44)	**(22)**	(38)
Item that will not be reclassified to profit or loss:					
Net change in fair value of equity investments		**2**	1	**1**	1
		(746)	2,081	**561**	(1,825)
Total comprehensive income for the period		**4,202**	6,120	**4,609**	1,734
Total comprehensive income attributable to:					
Shareholders		**4,007**	5,739	**4,404**	1,550
Non-controlling interests		**195**	381	**205**	184
		4,202	6,120	**4,609**	1,734

The accompanying notes form part of the interim financial report.

Consolidated Statement of Financial Position

At June 30, 2018

	Note	(Unaudited) June 30, 2018 HK$ Million	(Audited) December 31, 2017 HK$ Million	*For information purpose only* June 30, 2018 RMB Million	*For information purpose only* December 31, 2017 RMB Million
Non-current assets					
Property, plant and equipment					
Investment properties	10	136,433	134,444	115,159	112,374
Investment properties under development	10	26,098	21,592	22,003	18,049
Other property, plant and equipment		217	220	183	184
		162,748	156,256	137,345	130,607
Interest in joint ventures		1,309	1,277	1,106	1,067
Other assets		87	85	74	71
Deposits with banks	11	3,051	3,705	2,579	3,097
		167,195	161,323	141,104	134,842
Current assets					
Cash and deposits with banks	11	14,735	18,401	12,446	15,379
Trade and other receivables	12	1,754	2,036	1,480	1,702
Properties for sale		1,262	1,612	1,067	1,347
Assets held for sale	15	77	214	65	179
		17,828	22,263	15,058	18,607
Current liabilities					
Bank loans and other borrowings	13	3,151	2,112	2,657	1,765
Trade and other payables	14	6,079	6,673	5,130	5,579
Finance lease obligations		22	19	19	16
Current tax payable		517	483	437	404
Liabilities directly associated with the assets held for sale	15	–	2	–	2
		9,769	9,289	8,243	7,766
Net current assets		8,059	12,974	6,815	10,841
Total assets less current liabilities		175,254	174,297	147,919	145,683

	Note	(Unaudited) June 30, 2018 HK$ Million	(Audited) December 31, 2017 HK$ Million	*For information purpose only* June 30, 2018 RMB Million	December 31, 2017 RMB Million
Non-current liabilities					
Bank loans and other borrowings	13	**22,383**	22,708	**18,897**	18,980
Finance lease obligations		**314**	319	**265**	267
Deferred tax liabilities		**9,026**	9,025	**7,611**	7,527
		31,723	32,052	**26,773**	26,774
NET ASSETS		**143,531**	142,245	**121,146**	118,909
Capital and reserves					
Share capital	16	**39,915**	39,912	**37,433**	37,431
Reserves		**97,678**	96,246	**78,707**	76,390
Shareholders' equity		**137,593**	136,158	**116,140**	113,821
Non-controlling interests		**5,938**	6,087	**5,006**	5,088
TOTAL EQUITY		**143,531**	142,245	**121,146**	118,909

The accompanying notes form part of the interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2018 (Unaudited)

	Shareholders' equity					
	Share capital HK$ Million (Note 16)	Other reserves HK$ Million (Note 18)	Retained profits HK$ Million (Note 18)	Total HK$ Million	Non-controlling interests HK$ Million	Total equity HK$ Million
At January 1, 2018	39,912	2,251	93,995	136,158	6,087	142,245
Profit for the period	–	–	4,689	4,689	259	4,948
Exchange difference arising from translation of foreign subsidiaries	–	(695)	–	(695)	(64)	(759)
Cash flow hedges: net movement in hedging reserve	–	11	–	11	–	11
Net change in fair value of equity investments	–	2	–	2	–	2
Total comprehensive income for the period	–	(682)	4,689	4,007	195	4,202
Final dividend in respect of previous financial year	–	–	(2,609)	(2,609)	–	(2,609)
Issue of shares	3	–	–	3	–	3
Employee share-based payments	–	22	12	34	–	34
Dividends paid to non-controlling interests	–	–	–	–	(344)	(344)
At June 30, 2018	**39,915**	**1,591**	**96,087**	**137,593**	**5,938**	**143,531**
At January 1, 2017	39,912	(2,354)	89,092	126,650	5,580	132,230
Profit for the period	–	–	3,830	3,830	209	4,039
Exchange difference arising from translation of foreign subsidiaries	–	2,146	–	2,146	172	2,318
Cash flow hedges: net movement in hedging reserve	–	(238)	–	(238)	–	(238)
Net change in fair value of equity investments	–	1	–	1	–	1
Total comprehensive income for the period	–	1,909	3,830	5,739	381	6,120
Final dividend in respect of previous financial year	–	–	(2,608)	(2,608)	–	(2,608)
Employee share-based payments	–	20	13	33	–	33
Dividends paid to non-controlling interests	–	–	–	–	(45)	(45)
At June 30, 2017	39,912	(425)	90,327	129,814	5,916	135,730

The accompanying notes form part of the interim financial report.

For information purpose only

	Shareholders' equity					
	Share capital RMB Million	Other reserves RMB Million	Retained profits RMB Million	Total RMB Million	Non-controlling interests RMB Million	Total equity RMB Million
At January 1, 2018	37,431	(2,308)	78,698	113,821	5,088	118,909
Profit for the period	–	–	3,837	3,837	211	4,048
Exchange difference arising from translation to presentation currency	–	558	–	558	(6)	552
Cash flow hedges: net movement in hedging reserve	–	8	–	8	–	8
Net change in fair value of equity investments	–	1	–	1	–	1
Total comprehensive income for the period	–	567	3,837	4,404	205	4,609
Final dividend in respect of previous financial year	–	–	(2,115)	(2,115)	–	(2,115)
Issue of shares	2	–	–	2	–	2
Employee share-based payments	–	18	10	28	–	28
Dividends paid to non-controlling interests	–	–	–	–	(287)	(287)
At June 30, 2018	37,433	(1,723)	80,430	116,140	5,006	121,146
At January 1, 2017	37,431	1,589	74,519	113,539	4,991	118,530
Profit for the period	–	–	3,375	3,375	184	3,559
Exchange difference arising from translation to presentation currency	–	(1,619)	–	(1,619)	–	(1,619)
Cash flow hedges: net movement in hedging reserve	–	(207)	–	(207)	–	(207)
Net change in fair value of equity investments	–	1	–	1	–	1
Total comprehensive income for the period	–	(1,825)	3,375	1,550	184	1,734
Final dividend in respect of previous financial year	–	–	(2,305)	(2,305)	–	(2,305)
Employee share-based payments	–	18	11	29	–	29
Dividends paid to non-controlling interests	–	–	–	–	(40)	(40)
At June 30, 2017	37,431	(218)	75,600	112,813	5,135	117,948

Condensed Consolidated Cash Flow Statement

For the six months ended June 30, 2018 (Unaudited)

	2018 HK$ Million	2017 HK$ Million	2018 RMB Million (For information purpose only)	2017 RMB Million (For information purpose only)
Operating activities				
Cash generated from operations	**3,929**	7,120	**3,202**	6,276
Income tax paid	**(626)**	(588)	**(511)**	(523)
Net cash generated from operating activities	**3,303**	6,532	**2,691**	5,753
Investing activities				
Payment for property, plant and equipment	**(5,331)**	(2,164)	**(4,356)**	(1,921)
Decrease/(Increase) in bank deposits with maturity greater than three months	**3,934**	(6,602)	**3,199**	(5,826)
Other cash flows arising from investing activities	**555**	360	**450**	319
Net cash used in investing activities	**(842)**	(8,406)	**(707)**	(7,428)
Financing activities				
Proceeds from new bank loans and other borrowings	**3,235**	359	**2,629**	317
Repayment of bank loans and other borrowings	**(2,423)**	(4,078)	**(1,970)**	(3,599)
Interest and other borrowing costs paid	**(652)**	(618)	**(531)**	(547)
Interest element of finance lease rentals paid	**(8)**	–	**(7)**	–
Dividend paid	**(2,609)**	(2,608)	**(2,115)**	(2,305)
Dividends paid to non-controlling interests	**(344)**	(45)	**(287)**	(40)
Other cash flows arising from financing activities	**3**	–	**2**	–
Net cash used in financing activities	**(2,798)**	(6,990)	**(2,279)**	(6,174)
Decrease in cash and cash equivalents	**(337)**	(8,864)	**(295)**	(7,849)
Effect of foreign exchange rate changes	**(81)**	347	**32**	(214)
Cash and cash equivalents at January 1	**10,373**	23,379	**8,670**	20,986
Cash and cash equivalents at June 30	**9,955**	14,862	**8,407**	12,923
Analysis of the balance of cash and cash equivalents:				
Cash and deposits with banks	**17,786**	22,449	**15,025**	19,524
Less: Bank deposits with maturity greater than three months	**(7,831)**	(7,587)	**(6,618)**	(6,601)
Cash and cash equivalents	**9,955**	14,862	**8,407**	12,923

The accompanying notes form part of the interim financial report.

1. BASIS OF PREPARATION

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

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

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on pages 49 to 50.

The HKICPA has issued a number of new or amended Hong Kong Financial Reporting Standards (HKFRSs) that are first effective for the current accounting period of the Company and its subsidiaries (collectively the "Group"). Except for HKFRS 15, *Revenue from contracts with customers*, the adoption of these new or amended HKFRSs does not have significant impact on the Group's interim financial report. The Group has early adopted the complete version of HKFRS 9, *Financial Instruments*, since January 1, 2017.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements, except for the changes in accounting policies that are described in note 2.

The presentation currency of these consolidated financial statements is Hong Kong dollar. In view of the Group's significant business operations in mainland China, management has included additional financial information prepared in Renminbi in the consolidated financial statements. Such supplementary information is prepared on the same basis as 2017 as if the presentation currency is Renminbi.

The financial information relating to the financial year ended December 31, 2017 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended December 31, 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or 407(3) of the Hong Kong Companies Ordinance.

2. CHANGES IN ACCOUNTING POLICIES

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The key changes to the Group's accounting policies resulting from the adoption of HKFRS 15 are summarized below.

HKFRS 15 establishes a comprehensive framework for recognizing revenue from contracts with customers. HKFRS 15 replaces the previous revenue standard, HKAS 18, *Revenue*, which covers revenue arising from sale of goods and rendering of services.

HKFRS 15 contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. The five steps are as follows:

1. Identify the contract with the customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations
5. Recognize revenue when (or as) the entity satisfies a performance obligation

The core principle of HKFRS 15 is that revenue is recognized when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

Changes in accounting policy on sale of properties

As a result of the adoption of HKFRS 15, changes in the Group's accounting policy on sale of properties are as follows:

Policy applicable on or before December 31, 2017

Revenue from sale of completed properties is recognized upon the later of the signing of sale and purchase agreements or the issue of occupation permit by the relevant government authorities, which is taken to be the point in time when the risks and rewards of ownership of the property have passed to the buyer.

Policy applicable from January 1, 2018

Revenue from sale of completed properties is recognized when the legal assignment is completed, which is the point in time when the buyer has the ability to direct the use of the property and obtain substantially all of the remaining benefits of the property.

The adoption of HKFRS 15 would result in the revenue from sale of completed properties recognized later than it would have been under previous accounting policy.

2. CHANGES IN ACCOUNTING POLICIES (continued)

Transition

The Group has elected to use the cumulative effect transition method and has recognized the cumulative effect of the initial application of HKFRS 15 as an adjustment to the opening balance of equity at January 1, 2018. Therefore, the comparative information has not been restated and continues to be reported under HKAS 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before January 1, 2018.

Impacts on the consolidated financial statements

No adjustments to the opening balance of equity at January 1, 2018 have been made on the initial application of HKFRS 15 as the Group did not have contracts that were not completed before January 1, 2018.

The following tables summarize the estimated impact of the adoption of HKFRS 15 on the Group's consolidated financial statements for the six months ended June 30, 2018, by comparing the amounts reported under HKFRS 15 with estimates of the hypothetical amounts that would have been recognized under HKAS 18 if it had continued to be applied in 2018 instead of HKFRS 15. These tables show only those line items impacted by the adoption of HKFRS 15.

(i) Consolidated statement of profit or loss (extract)

	Impact of changes in accounting policies		
For the six months ended June 30, 2018	**Amounts reported in accordance with HKFRS 15 HK$ Million**	**Estimated impact of the adoption of HKFRS 15 HK$ Million**	**Hypothetical amounts under HKAS 18 HK$ Million**
Revenue	5,150	195	5,345
Direct costs and operating expenses	(1,468)	(45)	(1,513)
Other net income	70	42	112
Net increase in fair value of properties	2,456	(35)	2,421
Taxation	(736)	(26)	(762)
Profit for the period	4,948	131	5,079

2. CHANGES IN ACCOUNTING POLICIES (continued)

Impacts on the consolidated financial statements (continued)

(ii) Consolidated statement of financial position (extract)

At June 30, 2018	Amounts reported in accordance with HKFRS 15 HK$ Million	Estimated impact of the adoption of HKFRS 15 HK$ Million	Hypothetical amounts under HKAS 18 HK$ Million
	Impact of changes in accounting policies		
Assets			
Investment properties	136,433	(2)	136,431
Trade and other receivables	1,754	250	2,004
Properties for sale	1,262	(30)	1,232
Assets held for sale	77	(77)	–
Liabilities			
Trade and other payables	6,079	(16)	6,063
Current tax payable	517	26	543
Equity			
Retained profits	96,087	131	96,218

(iii) Condensed consolidated cash flow statement

The adoption of HKFRS 15 has no impact to the net cash flow from operating, investing and financing activities on the condensed consolidated cash flow statement.

3. REVENUE AND SEGMENT INFORMATION

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

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

3. REVENUE AND SEGMENT INFORMATION (continued)

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, cash and deposits with banks and assets held for sale. The investment properties of the Group are included in segment assets at their fair values whilst the changes in fair value of properties are not included in segment profits. No segment liabilities analysis is presented as the Group monitors and manages its liabilities on a group basis.

(a) Revenue and results by segments

	Revenue		Profit before taxation	
	2018 HK$ Million	2017 HK$ Million	**2018 HK$ Million**	2017 HK$ Million
Segment				
Property leasing				
– Mainland China	**2,171**	1,949	**1,447**	1,274
– Hong Kong	**1,947**	1,886	**1,670**	1,625
	4,118	3,835	**3,117**	2,899
Property sales				
– Hong Kong	**1,032**	2,523	**565**	1,642
Segment total	**5,150**	6,358	**3,682**	4,541
Other net income			**70**	70
Administrative expenses			**(292)**	(293)
Operating profit before changes in fair value of properties			**3,460**	4,318
Net increase in fair value of properties			**2,456**	737
– property leasing in Hong Kong			**2,216**	990
– property leasing in mainland China			**240**	(253)
Net interest expense			**(286)**	(310)
– interest income			**256**	312
– finance costs			**(542)**	(622)
Share of profits of joint ventures			**54**	28
Profit before taxation			**5,684**	4,773

3. REVENUE AND SEGMENT INFORMATION (continued)

(b) Total assets by segments

	Total assets	
	June 30, 2018 HK$ Million	December 31, 2017 HK$ Million
Segment		
Property leasing		
– Mainland China	**99,808**	95,414
– Hong Kong	**64,693**	62,361
	164,501	157,775
Property sales		
– Hong Kong	**1,263**	2,129
Segment total	**165,764**	159,904
Interest in joint ventures	**1,309**	1,277
Other assets	**87**	85
Cash and deposits with banks	**17,786**	22,106
Assets held for sale	**77**	214
Total assets	**185,023**	183,586

4. OTHER NET INCOME

	2018 HK$ Million	2017 HK$ Million
Gain on disposal of investment properties	**45**	2
Gain on disposal of assets held for sale	**25**	–
Ineffectiveness on cash flow hedges	**–**	(5)
Net exchange gain	**–**	73
	70	70

5. NET INTEREST EXPENSE

	2018 HK$ Million	2017 HK$ Million
Interest income on bank deposits	**256**	312
Interest expense on bank loans and other borrowings	**619**	574
Finance charges on finance lease obligations	**8**	–
Other borrowing costs	**15**	72
Total borrowing costs	**642**	646
Less: Borrowing costs capitalized	**(100)**	(24)
Finance costs	**542**	622
Net interest expense	**(286)**	(310)

6. PROFIT BEFORE TAXATION

	2018 HK$ Million	2017 HK$ Million
Profit before taxation is arrived at after charging:		
Cost of properties sold	**350**	707
Staff costs, including employee share-based payments of HK$34 million (2017: HK$33 million)	**755**	679
Depreciation	**22**	26

7. TAXATION

(a) Provision for Hong Kong Profits Tax is calculated at 16.5% (2017: 16.5%) of the estimated assessable profits for the period. Mainland China Income Tax mainly represents mainland China Corporate Income Tax calculated at 25% (2017: 25%) and mainland 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.

	2018 HK$ Million	2017 HK$ Million
Current tax		
Hong Kong Profits Tax	**283**	470
Mainland China Income Tax	**379**	342
	662	812
Deferred tax		
Changes in fair value of properties	**66**	(63)
Other origination and reversal of temporary differences	**8**	(15)
	74	(78)
Total income tax expense	**736**	734

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

8. DIVIDENDS

(a) Interim dividend

	2018 HK$ Million	2017 HK$ Million
Proposed after the end of the reporting period: HK17 cents (2017: HK17 cents) per share	**765**	765

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

	2018 HK$ Million	2017 HK$ Million
2017 Final dividend of HK58 cents (2016: HK58 cents) per share	**2,609**	2,608

9. EARNINGS PER SHARE

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

	2018 HK$ Million	2017 HK$ Million
Earnings used in calculating basic and diluted earnings per share (net profit attributable to shareholders)	**4,689**	3,830

	Number of shares	
	2018 Million	2017 Million
Weighted average number of shares used in calculating basic earnings per share	**4,498**	4,498
Effect of dilutive potential shares – share options	**–**	1
Weighted average number of shares used in calculating diluted earnings per share	**4,498**	4,499

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

	2018 HK$ Million	2017 HK$ Million
Net profit attributable to shareholders	**4,689**	3,830
Effect of changes in fair value of properties	**(2,456)**	(737)
Effect of corresponding deferred tax	**66**	(63)
Effect of changes in fair value of investment properties of joint ventures	**(28)**	–
	(2,418)	(800)
Non-controlling interests	**48**	10
	(2,370)	(790)
Underlying net profit attributable to shareholders	**2,319**	3,040

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

	2018	2017
Basic	**HK$0.52**	HK$0.68
Diluted	**HK$0.52**	HK$0.68

10. INVESTMENT PROPERTIES AND INVESTMENT PROPERTIES UNDER DEVELOPMENT

(a) Additions

During the period, additions to investment properties and investment properties under development amounted to HK$4,936 million (2017: HK$2,504 million). The additions included partial payment to Hangzhou Land Resources Bureau for acquiring the land in Xiacheng District, Hangzhou, Zhejiang Province, PRC.

(b) Valuation

The investment properties and investment properties under development of the Group were revalued as of June 30, 2018 by Mr. Charles C.K. Chan, Registered Professional Surveyor (General Practice), of Savills Valuation and Professional Services Limited, on a market value basis.

11. CASH AND DEPOSITS WITH BANKS

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

	June 30, 2018 HK$ Million	December 31, 2017 HK$ Million
Hong Kong Dollars	**9,248**	12,761
Hong Kong Dollars equivalent of:		
Renminbi	**8,531**	9,341
United States Dollars	**7**	4
	17,786	22,106

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, 2018 HK$ Million	December 31, 2017 HK$ Million
Bank loans and other borrowings	**25,534**	24,820
Less: Cash and deposits	**(17,786)**	(22,106)
Net debt	**7,748**	2,714

12. TRADE AND OTHER RECEIVABLES

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

	June 30, 2018 HK$ Million	December 31, 2017 HK$ Million
Not past due or less than 1 month past due	**13**	510
1–3 months past due	**4**	6
More than 3 months past due	**4**	3
	21	519

The allowance for expected credit losses 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 a deposit of land acquisition in mainland China of HK$297 million (December 31, 2017: HK$299 million).

13. BANK LOANS AND OTHER BORROWINGS

At the end of the reporting period, the Group had HK$13,057 million (December 31, 2017: HK$9,969 million) committed undrawn banking facilities.

In addition, a wholly-owned subsidiary of the Company has a USD3 billion (December 31, 2017: USD3 billion) Medium Term Note Program (the "Program"). At the end of the reporting period, the Group issued in total an equivalent of HK$12,379 million (December 31, 2017: HK$12,710 million) of bonds with coupon rates which ranged from 2.95% to 4.75% (December 31, 2017: 2.95% to 4.75%) per annum under the Program.

14. TRADE AND OTHER PAYABLES

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

	June 30, 2018 HK$ Million	December 31, 2017 HK$ Million
Due within 3 months	**1,627**	1,759
Due after 3 months	**1,486**	1,768
	3,113	3,527

15. ASSETS HELD FOR SALE

On April 20, 2018, the Group entered into a sale and purchase agreement with an independent third party to dispose of a residential unit and two car parking spaces at Garden Terrace in Hong Kong. Accordingly, the relevant assets are presented as assets held for sale. The completion of the transaction is scheduled to take place by the end of July 2018.

The balance at December 31, 2017 represented the Group's subsidiaries and shareholder's loan held for sale. The assets held by the subsidiaries were the retail arcade and some car parking spaces at Carmel-on-the-Hill in Hong Kong. The completion of the transaction took place on January 22, 2018.

	June 30, 2018 HK$ Million	December 31, 2017 HK$ Million
Investment properties	**77**	213
Properties for sale	**–**	1
Assets held for sale	**77**	214
Deposits received	**–**	2
Liabilities directly associated with the assets held for sale	**–**	2

16. SHARE CAPITAL

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

	June 30, 2018		December 31, 2017	
	Number of shares Million	**Amount of share capital HK$ Million**	Number of shares Million	Amount of share capital HK$ Million
Ordinary shares, issued and fully paid:				
At January 1	**4,498**	**39,912**	4,498	39,912
Shares issued under share option scheme	**–**	**3**	–	–
At June 30/December 31	**4,498**	**39,915**	4,498	39,912

17. SHARE OPTION SCHEMES

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

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

(a) 2002 Share Option Scheme

	Number of share options					
Date granted	Outstanding on January 1, 2018	Exercised	Forfeited/ Lapsed	**Outstanding on June 30, 2018**	Period during which options are exercisable	Exercise price (HK$)
April 1, 2008 to December 31, 2008	12,372,000	(143,000)	(200,000)	**12,029,000**	April 1, 2009 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	31,210,000	–	–	**31,210,000**	July 29, 2012 to June 12, 2021	30.79 – 36.90
Total	56,962,000	(143,000)	(200,000)	**56,619,000**		

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

No share options were exercised by the directors during the period. The weighted average closing price of the shares immediately before the dates of exercise by the employees during the period was HK$18.60.

The weighted average closing share price at the dates of exercise for share options during the period was HK$18.64.

During the period, 200,000 options (2017: 890,000 options) lapsed due to the expiry of the period for exercising the options and no options (2017: 140,000 options) were forfeited upon cessations of the grantees' employments.

17. SHARE OPTION SCHEMES (continued)

(b) 2012 Share Option Scheme

Date granted	Number of share options: Outstanding on January 1, 2018	Granted	Forfeited/ Lapsed	**Outstanding on June 30, 2018**	Period during which options are exercisable	Exercise price (HK$)
June 4, 2013	28,218,000	–	(348,000)	**27,870,000**	June 4, 2015 to June 3, 2023	28.20
December 5, 2014	25,412,000	–	(660,000)	**24,752,000**	December 5, 2016 to December 4, 2024	22.60
August 10, 2017	43,310,000	–	(1,700,000)	**41,610,000**	August 10, 2019 to August 9, 2027	19.98
May 16, 2018	–	10,000,000	–	**10,000,000**	May 16, 2020 to May 15, 2028	18.98
Total	96,940,000	10,000,000	(2,708,000)	**104,232,000**		

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

During the period, 2,708,000 (2017: 1,234,000) options were forfeited upon cessations of the grantees' employments.

The fair value of share options granted was estimated at the date of grant using the Black-Scholes pricing model taking into account the terms and conditions upon which the options were granted. In respect of the share options granted during the period, the fair value, the terms and conditions and weighted average assumptions are as follows:

Fair value at grant date	HK$2.84
Share price at grant date	HK$18.98
Exercise price	HK$18.98
Risk-free interest rate	2.14%
Expected life (in years)	6
Expected volatility	23.86%
Expected dividends per share	HK$0.75

The expected volatility is based on the historical volatility and the expected dividends per share are based on historical dividends. Changes in the above assumptions could materially affect the fair value estimate.

18. RESERVES

	Other reserves						
	Employee reserve HK$ Million	Hedging reserve HK$ Million	Investment revaluation reserve HK$ Million	Employee share-based compensation reserve HK$ Million	Total HK$ Million	Retained profits HK$ Million	Total reserves HK$ Million
At January 1, 2018	1,573	(134)	85	727	2,251	93,995	96,246
Profit for the period	–	–	–	–	–	4,689	4,689
Exchange difference arising from translation of foreign subsidiaries	(695)	–	–	–	(695)	–	(695)
Cash flow hedges: net movement in hedging reserve	–	11	–	–	11	–	11
Net change in fair value of equity investments	–	–	2	–	2	–	2
Total comprehensive income for the period	(695)	11	2	–	(682)	4,689	4,007
Final dividend in respect of previous financial year	–	–	–	–	–	(2,609)	(2,609)
Employee share-based payments	–	–	–	22	22	12	34
At June 30, 2018	878	(123)	87	749	1,591	96,087	97,678
At January 1, 2017	(3,240)	–	85	801	(2,354)	89,092	86,738
Profit for the period	–	–	–	–	–	3,830	3,830
Exchange difference arising from translation of foreign subsidiaries	2,146	–	–	–	2,146	–	2,146
Cash flow hedges: net movement in hedging reserve	–	(238)	–	–	(238)	–	(238)
Net change in fair value of equity investments	–	–	1	–	1	–	1
Total comprehensive income for the period	2,146	(238)	1	–	1,909	3,830	5,739
Final dividend in respect of previous financial year	–	–	–	–	–	(2,608)	(2,608)
Employee share-based payments	–	–	–	20	20	13	33
At June 30, 2017	(1,094)	(238)	86	821	(425)	90,327	89,902

19. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

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

- Level 1 valuations: Fair value measured using only level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

- Level 2 valuations: Fair value measured using level 2 inputs i.e. observable inputs which fail to meet level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 valuations: Fair value measured using significant unobservable inputs

(a) Financial assets and liabilities carried at fair value

i) Derivative financial instruments – cross currency swaps

The fair value of cross currency swaps as of June 30, 2018 of HK$38 million recorded under "Trade and other receivables" (December 31, 2017: HK$7 million recorded under "Trade and other receivables" and HK$3 million recorded under "Trade and other payables") in Level 2 is determined based on the amount that the Group would receive or pay to terminate the swaps at the end of the reporting period taking into account current interest rates and current creditworthiness of the swap counter-parties.

ii) Investment in equity instruments

The fair value of non-publicly traded equity investments as of June 30, 2018 of HK$87 million (December 31, 2017: HK$85 million) in Level 3 is determined by reference to the net asset value of these investments.

iii) Transfers of instruments between the three-level fair value hierarchy

During the six months ended June 30, 2018, there were no transfers of instruments between Level 1 and Level 2, or transfers into or out of Level 3 (2017: Nil). The Group's policy is to recognize transfers between levels of fair value hierarchy as of the end of the reporting period in which they occur.

(b) Financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortized cost were not materially different from their fair values as of December 31, 2017 and June 30, 2018.

20. COMMITMENTS

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

	June 30, 2018 HK$ Million	December 31, 2017 HK$ Million
Contracted for	**21,027**	12,660
Authorized but not contracted for	**22,345**	22,914
	43,372	35,574

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.

21. COMPARATIVE FIGURES

The Group has initially applied HKFRS 15 at January 1, 2018. Under the transition method chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2.

22. 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, 2018.

FINANCIAL TERMS

Finance costs: Total of interest expense on total borrowings and other borrowing costs, net of amount capitalized

Total borrowings: Total of bank loans and other borrowings, net of unamortized other borrowing costs

Net debt: Total borrowings net of cash and deposits with banks

Net profit attributable to shareholders: Profit for the period (after tax) less amounts attributable to non-controlling interests

Underlying net profit attributable to shareholders: Net profit attributable to shareholders excluded changes in fair value of properties net of related deferred tax and non-controlling interests

FINANCIAL RATIOS

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

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

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

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

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

FINANCIAL CALENDAR

Financial period	January 1, 2018 to June 30, 2018
Announcement of interim results	July 30, 2018
Latest time for lodging transfers	4:30 p.m. on September 11, 2018
Closure of share register	September 12 to 13, 2018 (both days inclusive)
Record date for interim dividend	September 13, 2018
Payment date for interim dividend	September 27, 2018

SHARE LISTING

As at June 30, 2018, 4,497,718,670 shares are listed on The Stock Exchange of Hong Kong Limited. It has a sponsored American Depositary Receipt (ADR) Program in the New York market.

STOCK CODE

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

SHARE INFORMATION

Share price as at June 30, 2018: HK$16.18
Market capitalization as at June 30, 2018: HK$72.77 billion

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