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RESULTS AND DIVIDEND

For the six months ended June 30, 2020, revenue remained stable at HK$4,184 million despite the coronavirus (COVID-19) pandemic. Owing to property revaluation loss, net loss attributable to shareholders was HK$2,537 million. Loss per share was HK56 cents.

When excluding property revaluation and all related effects, underlying net profit attributable to shareholders decreased 11% to HK$1,989 million. The corresponding earnings per share declined to HK44 cents.

The Board has declared an interim dividend of HK17 cents per share payable on September 29, 2020 to shareholders of record on September 16, 2020. The amount is the same as the year before.

BUSINESS REVIEW

Since my last letter on January 21, the world has changed substantially. Within a day or two after I wrote, China – and the world – woke up to a novel coronavirus, now called COVID-19. It was first reported in Wuhan, one of the largest cities in Central China, where we are completing a huge mall and an office tower. Like many similar epidemics in human history, it spread quickly. Soon it became a global pandemic given globalization and international air travel. Although the virus is not particularly deadly – globally about 4% of the affected have died – it being asymptomatic in some people makes it particularly troublesome. An infected person without symptoms or has not yet developed symptoms can already be contagious. Since it usually takes as many as 14 days for symptoms to develop, such a person can still travel around the world, thus spreading the virus, albeit unknowingly.

Fortunate for our mainland China business, the country contained the spread well. Timely and drastic measures taken have been effective. Even at the epicenter in Wuhan, seven months on, the problem is for the time being behind us. But history tells us that there is often a second or even a third wave before a pandemic disappears. In fact, the later rounds could be more serious than the first. There are indications that a second wave is now surfacing in some parts of China, although it seems to be not that severe. We will have to see.

Hong Kong, our other market, also contained the pandemic relatively well. Until the third wave arrived a week or two ago, there were only about 1,200 cases, the majority of which were imported. The death rate was also very low. However, the third wave has proven to be more aggressive, and the city has again gone into emergency mode.

Ironically, COVID-19 may, in some ways, prove to be beneficial for our business in both markets. Locally, it ended the riots that began a year ago in June. Just as the street violence was about to rear its ugly head again in January after a lull, the pandemic stopped it. While the negative effect on our business due to the public health threat is more severe in the immediate term, there should be fewer lingering effects. The social disturbance, however, has lasting ones. I wrote about the latter six months ago and will expand on it later in this letter.

It is beyond question that the violent mobs seriously threatened and harmed their fellow citizens, and engaged in the wanton destruction of property, including some shopping centers. If not stopped, they may one day damage our malls and offices as well. Fortunately, so far, our facilities have not been seriously affected. Nevertheless, our business has been hurt.

The aftermath of the pandemic may also turn out to be advantageous to our business on the Mainland. Recall that last year I wrote about a 2018 research report by a reputable consulting firm, Bain & Company. It stated that at the time of writing, only about 27% of luxury goods purchases by Mainland Chinese were transacted within the country, not counting Hong Kong. By 2025, the number is expected to reach 50%, while global sales by the Chinese will double. This means that domestic purchases will quadruple in the coming four to five years on the strength of existing customers, even before new customers are considered. I also told my readers that a leader of a top luxury brand thought that this estimate was conservative. Whatever the case, this is good news for us.

The pandemic has greatly brought forward this repatriation of purchases. In fact, with the cessation of international travel, it may now be reaching 100%. Consider our experience during the first half of this year.

Six months ago, I predicted that our Mainland retail rental business would experience a boom. This was truly the case for the whole of January until the pandemic broke. Right around Chinese New Year, which fell on January 25 this year, people recognized the seriousness of the public health threat and our tenant sales suddenly plummeted. When the problem appeared to somewhat come under control in late March, and social distancing rules were partially relaxed, our business began to come back to life. Retail sales figures for April were already back to levels seen in the same month of 2019. By May, the luxury brands in our malls saw their sales soar. This upward surge has continued to this day. High-end shopping is alive and well, but regular purchases, while also recovering, remain stalled at levels well below the previous year.

The immediate explanation for the vibrant sales in luxury items is "shopping with a vengeance". The wealthy folks have been starved for many months of the pleasure of shopping. Here I should mention a rarely discussed but significant psychological difference: luxury shopping is for pleasure, while regular purchases are mainly for necessity.

However, there is a much more significant long-term reason. With almost all international flights cancelled, the only places to shop nowadays are in domestic malls like ours. After all, price equalization in the past year or two, through the lowering of import taxes by Beijing and through price adjustments by the brands themselves, means that shopping overseas does not make that much sense anymore.

Once international travel fully resumes, some purchases may leak out again, but it may not be significant. Here are a few reasons. First, Sinophobia is growing in the West. If one is no longer welcome in New York City, London, or Paris, why go there to shop? Even Hong Kong, which is part of China, had riots last year partly targeting the Mainland Chinese. This will strike this city out from the list of desirable shopping destinations.

Secondly, recognizing that China is already their number one market globally and growing the fastest, top international brands now stock their Chinese shops with the latest products and carry the most complete lines. They are as good as their counterparts in any metropolis in the world.

Thirdly, customer service and hence the shopping experience of wealthy shoppers in China is now as exquisite as anywhere outside China. While in Paris, these top spenders may have to line up from the end of a queue to enter a boutique on a busy day, but in China we know our important customers! Consider Hang Lung's CRM (Customer Relationship Management) program "HOUSE 66". It now covers all of our malls in the country and is thriving. Purchases by our members have accounted for an increasing percentage of total luxury sales. From our highly successful annual VVIP events for top customers, we have learned that many of them met each other at our events and have become friends. No doubt they exchange ideas on fashion. As such, it makes sense to them, economically, socially, and otherwise, to keep shopping at our facilities.

Fourthly, being creatures of habit like everyone else, once accustomed to the pleasures of buying domestically, inertia will build against shopping overseas.

Of late I have heard some mall owners complain that, in spite of the pandemic being contained and the government's encouragement to spend, they have not seen much improvement in their business. This is the case for those retailers positioned to cater to the masses. Both footfall and retail sales are still below the norm. The same is true of our sub-luxury malls. The question is why.

Let me offer a few plausible reasons. First, COVID-19 definitely hurt the average citizen more than the affluent. The former had more to worry about, including keeping their jobs. Again, with all of us married to our habits, buying daily necessities on the Internet has become even more prevalent during the lockdown period. Unlike shopping for luxury items, which is far less likely to be done online and there are few alternatives, the convenience of e-commerce for everyday items is unmatched in China. The country may well be the most advanced in any of the major economies in the world in this regard. Finally, footfall in all malls has not fully recovered, including the high-end ones. It is just that those who visit expensive stores are more likely to buy, and the value of their purchases are so much higher.

That said, I have little doubt that people will, in time, flock once again to shopping malls of all kinds. Being social creatures, human beings have a need to interact with one another. As I have written before, in some parts of the world, for centuries people have been gathering at souks, not just for the shopping but also for the social interactions. Now they go to malls. In the West, there are more choices of activities and Westerners tend to like outdoor pastimes, yet the opposite is true of Asians. So, my advice to those mall owners who are experiencing a slow recovery is as follows: just wait a little longer. Or, better yet, use this lull to improve your properties so that they will be more competitive once the market recovers – for recover it will. This is, of course, not just my advice to others but to my colleagues as well, especially those in charge of our four-star facilities.

Whatever the case, the impact of the pandemic has been severe for about two months. Beginning in February, many types of commercial activities were ordered to close by the local governments. In our malls, it included cinemas, gyms, and education-related operations. It was not uncommon, given the large size of our facilities, to have 30 to 40 such tenants temporarily out of business, accounting for perhaps 20% to 25% of lettable area. Some of these are only now beginning to reopen.

In extreme cases, all malls in some cities were ordered to close (except grocery stores) beginning in early February. Riverside 66 in Tianjin was shut for 36 days, and Center 66 in Wuxi for 13 days. This was why the former was the worst performer in our portfolio. Retail sales were down 40% compared to the first half of 2019. Center 66, however, demonstrated amazing resilience. Despite being closed for almost half a month, it still sold 13% more goods in the first six months than the year before. This shows how strong luxury spending is on the Mainland.

Since April, all of our top-end malls – Plaza 66 and Grand Gateway 66 in Shanghai, Center 66 in Wuxi, Spring City 66 in Kunming, and to a lesser extent, Forum 66 in Shenyang – have been going gangbusters. Those in Shanghai and Wuxi were executing 40% to 60% more sales during April to June than in the same months the year before. Even Grand Gateway 66, which is still undergoing its Asset Enhancement Initiative (AEI), did 41% more. All these took place while footfall was still far below that of the previous corresponding period. Spring City 66 in Kunming was opened last August so there is nothing to compare it with, but sales were robust. The strength has continued to this day.

COVID-19 will one day subside. Putting it aside for the moment, it seems that all the stars are aligned for our Mainland business. China is now by far the world's biggest and fastest growing luxury goods market. This has not escaped the notice of top international brands; in fact, they must have been the first to know. Terrible China-U.S. relations notwithstanding, they are rushing to open stores all over the Mainland. Given the quality of all our malls, we are one of their top choices for a landlord.

As those familiar with this Company know, many of our malls have successfully migrated to become a "Home to Luxury", as we call them, with more entering the ranks. In Shanghai, Grand Gateway 66 has joined Plaza 66 as a solid five-star facility. Our first outside Shanghai was Center 66 in Wuxi. Less successful so far, but definitely of the same genre, is Forum 66 in Shenyang. Then came Spring City 66 in Kunming last August which was born as a "Home to Luxury". Olympia 66 in Dalian is also well on its way to join this league, as many first-tier global brands have already signed up and are in the process of moving in. Once completed a little over a year from now, it will be the only truly luxury mall in that city, a position which we have targeted from the day we bought the land in 2009.

Heartland 66 in Wuhan already has many top names committed. Delayed for about six months by COVID-19, we now expect inauguration next March or April. Not much over a year from now, all luxury brands should have opened for business. Plans are in place to transform Parc 66 in Jinan to the same league, although the outcome is as yet less clear. Chances are also very good for our latest project, Westlake 66 in Hangzhou, to achieve the same eminence once it is ready in 2024. After all, it was planned as such.

All told, within 14 months from now, at least seven of our 10 completed malls will be luxury ones – by global standards. In the past, I have more than once explained why such facilities have much higher financial returns. Our goal is that by 2024, nine out of our then 11 properties will be five-star. They should be among the best in the world in terms of profitability as well as aesthetics.

The process entails the signing up with many top-tier fashion brands. Consider this pipeline: in the three years from 2019 to 2021, we are executing over 70 such leases. In 2019, we did 13, of which all brands have moved in. This year, the number now stands at 38 of which the majority has already opened for business. Next year, at least 19 more will join us. Those that moved in last year were mostly in Spring City 66 in Kunming and Grand Gateway 66 in Shanghai, with the rest in Plaza 66 in Shanghai and Center 66 in Wuxi. The majority of those who were signed this year went to Spring City 66, followed by Grand Gateway 66 and Center 66. The rest are spread over Forum 66 in Shenyang and Olympia 66 in Dalian, and one in Plaza 66. Those slated for 2021 are so far concentrated in Olympia 66 in Dalian and Heartland 66 in Wuhan.

Now let me turn to a troubling issue, that of the situation in Hong Kong. A month after mass rioting began in June 2019, I wrote to you about it. It died down in January 2020 partly due to the pandemic, and partly due to the movement running out of steam. The latter is not unlike the fate of mass social uprisings elsewhere. Nonetheless, discontent among the more radical definitely bubbles under the surface. On June 30, the Standing Committee of China's National People's Congress enacted the National Security Law (NSL) regarding Hong Kong, which will likely become a turning point.

With Hong Kong being our home base from which 46% of our rental revenue is derived, we are obviously concerned with such a major piece of legislation. It cannot but introduce uncertainties. Will it be for the better or the worse where our business is concerned? Upon study and reflection, I have come to the conclusion that it is for the better, not because I like it, but because Hong Kong can no longer survive without it.

In my letter of six months ago to shareholders of our majority shareholder Hang Lung Group Limited (HLG), I wrote quite extensively about the history of Hong Kong after her return to the Motherland. I will not repeat it here except to summarize it in one sentence: Beijing had been way too soft on implementing the Basic Law that guides Hong Kong. This has emboldened the opposition to damage the “One Country, Two Systems” construct. The radicals advocating independence from China – or two countries, two systems – had gained momentum, which if go unchecked would spell the death of “One Country, Two Systems”. Violence has greatly escalated over the past decade. It has gotten to the point of spiraling out of control. The police force, which was ordered to exercise great restraint, did so, and was on the brink of collapse. Something needed to be done to rescue the “One Country, Two Systems” framework. Things had evolved to such an extent that without the NSL, it could not be done.

As a businessman, I also examine the situation from a practical perspective. For six to seven months last year, average citizens were deprived of social stability and personal safety. Walking on our streets had become unsafe. The city had almost succumbed to the law of the jungle. How can businesses exist under such conditions?! If uncorrected, the economy would sooner or later collapse, but that was one of the intentions of the opposition, in order to force the local government to resign. Their stated purpose in writing was to ensure the destruction of both Hong Kong and Beijing on the international front.

There are only two ways to restore social stability and personal safety: send in the PLA (People’s Liberation Army), or enact the NSL. The opposition was trying to force Beijing’s hand to do the former. The consequences would have been dire and far-reaching, and Beijing was not so foolish as to fall into that trap. So, the NSL had to be introduced. It is altogether legal; at this stage Beijing does not only have the right but also the obligation to do it.

Does Beijing want to legislate for Hong Kong? Of course not. If they had wanted to, they could have done it anytime in the past 23 years. According to Article 23 of the Basic Law, Hong Kong is obligated to pass a locally legislated national security law. In my opinion, that would have been the best. We tried it in 2003 but failed. Since that time, the local political environment has become so toxic that there is now no hope of passing it. Probably China was the only country on earth where part of her territory was not covered by some form of national security legislation.

So, for two primary reasons, Beijing was forced to enact it for Hong Kong: to safeguard "One Country, Two Systems" and to restore social stability. Initial indications are that the NSL has been effective, but like any new law, there are still many details, especially on how it is applied, that are yet unclear.

In my Letter to Shareholders in the 2019 Interim Report, I analyzed extensively the developments in China-U.S. relations, since it cannot but affect Hong Kong and mainland China, and so our business. In my letter of the same day to the HLG shareholders, I ventured further on the subject but from a different angle. Later in this letter, I will give an update. But for now, I will only say that the latest developments of this most important bilateral relationship in the world has something to do with Hong Kong's present NSL.

As we all know, the U.S. in the past few years has chosen to fall into Thucydides's Trap, a term coined by Professor Graham Allison of Harvard University. In more normal times, Beijing would have cared very much about the reactions of Washington, D.C. to whatever she does regarding Hong Kong. That was the case before and after 1997. But in the past year or so, the U.S. has taken the gloves off and put on brass knuckles. It has publicly called China her enemy number one. As a result, Beijing has no more reason to care what Washington, D.C. thinks regarding Hong Kong. It gives Beijing a free hand to do what is necessary to save Hong Kong, namely, to enact the NSL. From my perspective, this is one of the very few good outcomes of the deteriorating China-U.S. relations.

America's reaction has been expectedly fierce. It is directed at Beijing more than at Hong Kong. Today what the U.S. leaders say about this city is just political talk. It has almost nothing to do with facts, truths, or righteousness. In the arena of global politics, all these matter little. When two elephants fight, it is the grass that suffers. Hong Kong is but collateral damage. Since there is nothing that any of us can do to change the situation, we will just have to live with it. As a business enterprise operating here, we should understand the big picture and plan accordingly. This we try to do, and here I report.

Now let me turn to our business performance. Whereas the second half of 2019 was dominated by the effects of the Hong Kong riots, the first six months of this year was all about COVID-19. The impact of the public health threat on our retail rental is more severe than the social unrest of last year. The former's effect, however, will be short-lived. Social unrest, however, has fundamentally damaged many parts of Hong Kong's economy.

Consider our retail sales and the hospitality industry, both of which are big job creators. Before last year, it is estimated that some 30% of all private consumption was related to the Mainlanders visiting our city. 80% to 90% of our tourist arrivals were from north of the border. The riots last year amply demonstrated that a good number of our citizens do not welcome these visitors. As such, it is plausible that at least two-thirds of their spending has been chased away. This translates to a roughly 20% drop in Hong Kong's total retail sales and a far higher percentage of hotel vacancies. I wonder how many industries can see their top line fall by this magnitude and still survive.

As a result, many of our shops, restaurants, and hotels will be closed. The associated jobs will be cut, and unemployment will inevitably rise. Salary increases will slow greatly if not fall. The economy may even shrink for a few years. Who should bear this responsibility?

Since October last year, we had to grant rent relief to selected Hong Kong tenants. It has a prolonged effect because the amount foregone has to be amortized over the remaining lease term. If more relief were to be yielded, then there would be a cascading effect that might last another two years. Given the third wave of the pandemic which Hong Kong is now experiencing, this is a distinct possibility.

Six months ago, I wrote something prescient, but was wrong in the reason. I penned, "Let me paint a somewhat harsh scenario where Hong Kong rents would fall by 5% per annum for the next two years." The presumption then was that the street riots would continue. It turned out that the social unrest was forestalled by the pandemic, something which I mentioned but could not have foreseen its impact. So for a different reason, at least for the past six months, our Hong Kong rental revenue did fall by 5%. Operating profit therefrom was down 10%.

So far, we have been able to keep occupancy rates up, but this will be difficult moving forward. Rental margin, average unit rent, and rental reversion have all retreated somewhat. Retail tenant sales for the first five months of the year dropped almost 30% and, as a result, occupancy cost has gone up. Our Hong Kong offices have performed about the same as our retail portfolio.

Due to COVID-19, we had to grant a one-time across-the-board relief on base rent for retail tenants on the Mainland. They paid 50% base rent for three weeks. Nevertheless, for the half year under review, rental revenue in RMB terms still rose 9% compared to the same period a year ago. But since the currency depreciated against the Hong Kong dollar by 4.5%, it only grew 4% on our books. Excluding new properties, revenue went up 3% in RMB. Shanghai advanced by 8% and those outside fell 6%.

In the past six months, the external environment did not allow us to sell many properties. We did part with the last penthouse at the Hong Kong residential project, The Long Beach. Unit price was quite satisfactory. In accordance with the accounting rules, recognition of revenue and profit of this sale took place this month, i.e. in the second half of this year. Ahead of the sale of Mainland serviced apartments in the coming few years beginning 2021, we had to build up a sales team, whose costs were fully reflected in the interim results.

Given the horrific external environment, a valuation loss was to be expected. The total amount of HK$4,642 million represents about 2.5% of our investment property portfolio. The number in Hong Kong was approximately 3.6% of its book value, and on the Mainland, 1.9%.

Taking advantage of the low interest rate environment, we optimized our debt portfolio by issuing some new bonds to refinance the old ones and repay more expensive bank loans. Net debt to equity held at a healthy level of 20.8%.

In terms of rental revenue split, Hong Kong now accounts for less than 46%, and the Mainland over 54%. The gap will continue to widen, as our RMB denominated business should continue to outstrip our performance in Hong Kong. We are also adding many square meters on the Mainland.

To summarize, in Hong Kong dollar terms, revenue was almost exactly the same as last year. Locally it was down 5%, but on the Mainland it was up 4%. Underlying net profit attributable to shareholders retreated 11% to just shy of HK$2 billion. Due to the sizable revaluation loss compared to the gain in the previous year, we recorded a net loss attributable to shareholders of a little over HK$2.5 billion. This is the first time the Company has ever seen a loss. Since we had warned shareholders in a public statement dated June 5, this should not be a surprise to anyone. This is only an accounting loss and does not affect any of our operations, including our cashflow.

There are two cash items whose amounts would have been too small to be mentioned here, but I will do so now due to their symbolic significance. The first is that, like other responsible enterprises, we donated RMB10 million to help Hong Kong and the Mainland fight the pandemic. The other is that we have decided not to apply for the Hong Kong Government's Employment Support Scheme (ESS) designed to help employers during the pandemic. Under this scheme, cash is given to eligible enterprises to offset staff salaries with the condition that they promise not to lay off staff for a defined period of time. For us, the total amount could come to almost HK$70 million.

Upon deliberation, your Board decided unanimously not to apply for ESS, and announced our decision early to the community. The scheme is meant to help companies with genuine financial needs. Although our business, like everyone else's, is hurt, our finances are strong and can weather the storm. As such, we should free up limited public resources for the needy. We also made known that we have no plans to lay off staff or reduce salaries.

This is a good time to share with my English readers about the meaning of the Company's motto, "We Do It Right". It is a short form of the Chinese motto which is equally succinct but even more meaningful. In Chinese it means, "We Choose Only the Best, and We Do Only What is Right". When there are choices, we always pick the best. What "the best" is depends on the situation. For example, when hiring a staff, we pick the candidate who is the most competent and ethical. There is no room for nepotism, a problem that plagues many Asian corporations, even the publicly listed ones. Or, when we buy land on the Mainland for a mall, we will not settle for second best.

To "Do Only What is Right", or in our English motto, simply "We Do it Right", will often touch upon ethical and moral issues. Adhering strictly to this principle over the long years has built us a pristine reputation in the investment community. This is why we have won most of the reputable awards in corporate social responsibility for our industry in recent decades. We do not win these awards for the sake of winning. We win because integrity is ingrained in our corporate culture.

Not applying for the ESS is just one manifestation of "Do Only What is Right". We do not object to others' applying for it as it is not against the law to do so, but we hold ourselves to a higher moral standard. Since HK$70 million is not that small a sum, I wanted all our shareholders to know the reason behind the decision of your management and your Board.

PROSPECTS

The external environment in the past year could not be more disturbing – the COVID-19 pandemic, Hong Kong's social unrest, and the unfolding specter of China-U.S. relations. All have a direct impact on our two markets in Hong Kong and mainland China. Those who have read my letters of the past two years should not be surprised that I am very concerned about Hong Kong, but quite bullish about the Mainland.

The impact of COVID-19 on the retail sector is as severe as anything I have known, but it should be short-lived. Once gone, it is gone. We just do not know when it will go.

Last year's social unrest in Hong Kong almost dealt a death blow to Hong Kong as the Pearl of the Orient. As I will explain later, to restore her to her former glory is perhaps possible, but it will require Hong Kong people to work together with Beijing. If not, Hong Kong will gradually wane and lose her luster.

In the 2018 year-end letter dated January 2019 and the 2019 Interim Report of July 2019, I have written extensively on China-U.S. relations. However, to the surprise of many, myself included, the deterioration has greatly accelerated and so requires further comment. I fear that it may have reached a point of no return. It is said that the U.S. is always in need of an enemy. The saddest thing is that it is, in my opinion, unnecessary.

Thucydides's Trap is not new in history. Under the right set of circumstances, it will happen, as human nature will dictate so. If the incumbent power believes that it can defeat the rising power, it will try. The U.S. is now thinking that this is her last chance before China becomes inordinately powerful. At such a juncture, America has a highly unusual president in Donald Trump. Being surrounded by people with even more extreme views than himself, he has led the country straight into the trap. History will show this move to be one of the greatest follies of the 21st century.

In recent months, the U.S. has coerced other English-speaking countries and a few Continental European states to join her. Some of them reversed previous decisions and have toughened their stance on China. In the latest manifestation of this contrived animosity, they are now lumping China and Russia together, almost as a joint target. This, to me, is indeed unwise. Russia and China are not natural friends – they share a 4,200-kilometer border, with one side full of people but poor in natural resources, and the exact opposite on the other side – but they are now forced to work together.

Frankly, with Russia being rich in energy resources and Western Europe deficient in these, I doubt if most Continental European countries will in the longer term go along with the U.S. In fact, as America becomes even more of a bully than before, many key European capitals may consider Washington, D.C. to be more difficult to work with than Moscow. A transatlantic rift may not be too far away, although I foresee the U.K. will always side with the U.S. Just as during World War II (WWII), she has no choice, especially now given Brexit.

The Cold War has returned, and this time it is even more dangerous. China today is not the U.S.S.R. of yesteryear. With China and Russia working together, they can be a formidable opponent, and Continental Europe will become the key battleground. Having been on the wane politically and economically since WWII, perhaps this will shake up these countries and put them back on the global front stage. They will, at least, rearm, which will have the side benefit of stimulating their moribund economies.

As to the U.S., McCarthyism has returned domestically. A few brave souls are still voicing sensible words of reason. I fear that, very soon, these too will fall silent. There are already clear signs. What happened to freedom of speech? For reasons different from those of Russia and China, America is increasingly practicing the same tenets. The former pair did it to keep their respective countries strong; the U.S. now does it to keep her newfound and self-created enemies at bay.

So the world has arrived at another pivotal moment. What happens today will change the course of the world in the coming few decades. It is akin to the onset of the Cold War after WWII, China's opening up to the world, and the fall of the Berlin Wall. For China, these three globally significant events draw parallel with three defining moments: the Korean War, U.S. President Nixon's visit, and the June 4, 1989 incident that took place the same year as the fall of the Berlin Wall. Each of these events changed the world and took decades to change again.

Let us not blame President Trump for everything. Soon after 1989, there had been discussions already in U.S. policy circles of the perceived need to contain China. Many experts argued against it, and I was in that camp. But as China gained economic strength, her opponents became more worried and more vocal. Once the issue is raised to the level of national security, whether it is true or not somehow becomes irrelevant. Few people will dare to speak his or her mind. All of a sudden, everyone sees China as a threat. It became a chorus.

In this regard, the role of the media is critical: it magnified the negative sentiments. Given human nature, anything negative is reported more in the press, for only bad news is news. The tide thus created can and usually does drown out all contrary opinions, such that freedom of the press becomes hollow. Opposing views would be unreported or at least go unnoticed. It can be deliberate or inadvertent, but the result is the same. When that happens – and we are close to that point – it will take tremendous moral courage for anyone to speak up.

The last Cold War ended almost 30 years ago. Sadly, it coincided with the June 4, 1989 tragedy in China. Together, these two events brought on the beginning of a divergence between China and the U.S. The decline was gradual until Donald Trump arrived on the scene. A man prone to take unexpected positions and make not well-considered decisions, he has snuffed out possibilities for moderation, thus a new Cold War is born.

Recent polls in the West show that their citizens feel more negative towards China now than any time in the past few decades. Are these views informed and based on independent thinking? I doubt. People everywhere are the same. They react primarily to external stimuli, such as the words of their leaders or the press. Many people disagree with President Trump's domestic policies because they are knowledgeable on the issues. But when it comes to international affairs, frankly most people everywhere are ill-informed. I find it to be the case in the U.S. as in China.

A year ago, I wrote that the trade dispute was only a tertiary conflict between the U.S. and China. The primary and secondary ones are technology superiority leading to military supremacy, and currency domination. In fact, the center stage has of late been shifted from trade to the far more serious issue of technology.

In the past few years, the U.S. targeted China's Huawei, which is a hardware company. One reason would be that America's monopoly in spying is being threatened. Now even Chinese software application companies are targeted. The reason given is incredulous: data integrity. Frankly, any government with a network can already tap into the personal data of almost anyone they want. There is no such thing as a Clean Network.

Of late, there are indications that the U.S. may also weaponize financial flows. This can well be a "nuclear" option. In this regard, I worry for America more than China. As the victim, China will surely suffer, but she can handle it. What about the instigator?

America's economy to a good extent relies on the U.S. dollar being by far the world's most significant reserve currency. Her ability to print an inordinate amount of the greenback enables the country to live beyond her means. It is not too much to say that much of the global financial system is built on the confidence on the U.S. dollar. It does not take too much imagination to see how this confidence can be shaken. When this happens, everyone will suffer but especially the U.S. Who can bring the U.S. dollar down? Only one country – the U.S.

So, what will happen to trade between China and the U.S.? For now, it does not matter that much since COVID-19 is slowing it down anyway, but what will happen when international transportation returns to normal levels? In the first Cold War, which lasted about 40 years, commercial interactions between the two camps were minimal. Now the U.S. and China are the top two trading countries in the world and are intricately connected to each other. How will international trade evolve in a post-COVID-19 world? It is hard to foresee at this stage. I refer my readers to my letter to the HLG shareholders of even date on a discussion of this topic.

Fortunately for China, the three-pronged onslaught did not happen 20 years ago or even 10 years ago, when her ability to withstand was much weaker. Now, after 40 years of Reform and Opening-up, there should be sufficient capital, human talent, technologies, international networks, and a domestic market to get by acceptably.

I do not believe that the U.S. will be able to beat China to submission, which may well be the unspoken intention of Washington, D.C. (Interestingly, the present U.S. administration has never declared its endgame!) If so, the best alternative for the U.S. is to work with China. As I have previously written, the number two is not a challenger, except in the minds of the number one, nor does the former have the ability to be a global leader. In fact, China is very happy to play second fiddle to America. Sadly, the U.S. cannot accept that. America is never good at compromising or at diplomacy, since she can always resort to her military and economic might.

There is no denying that America is the most creative country in the world. One of her inventions that the Chinese can never come up with is the oxymoron “First among equals”. The Chinese, on the other hand, is supposed to be good at adaptation or copying with a twist. So please allow me to adopt something that few Westerners have concocted: China is happy to be “Second among equals”. Unfortunately, the U.S. does not understand this, nor is she willing to accept it.

Despite this hostile relationship with the West, China will not give up on her many foreign friends. In fact, she will try her best to build even closer and more comprehensive relations with, among others, developing economies such as those in Africa and Latin America. These countries are rich in natural resources that China needs, but their consumption power for Chinese manufactured products cannot compare to that in the U.S. and Western Europe. Ultimately, the biggest market for Chinese goods would still be the domestic one. As such, I expect an ever-rising local consumerism to lead her economy.

Look at China another way. For the first 30 years or so since her Reform and Opening-up began in 1978, the country relied on muscle and sweat to make money. Thanks to her population size and hardworking citizens, who were willing to sacrifice for a better future for their children, if not for themselves, she began to gather initial wealth. In the past 20 some years, aside from blue-collar workers, the educated – and there are many of them – began to primarily use their brains to create fortunes. Experimentation in technologies of all sorts took off, and some were eventually employed to build huge companies. For example, today China is probably the first, if not the only, truly cashless society among all major economies. Finally, considerable wealth has been accumulated in the society, to the extent that the huge middle class began to join the early wealthy to use capital to make more money. Witness all the investment houses, insurance companies, and pension funds that have popped up in the past decade or two. So now all three cylinders of wealth creation are proceeding. We will see a continuous expansion of the nouveau riche.

As long as the Chinese domestic society remains relatively peaceful, the country should still be one of the best places to do business and make money. We are fortunate to be well established there to participate in the many opportunities that the commercial real estate sector offers.

Back in Hong Kong, the city should remain Asia's leading international financial center and perform acceptably. Our clients these days are mainly from the Mainland, and we are still by far their best choice. In this regard, I expect closer financial ties between this city and those north of the border. Increased connectivity can only be good for both sides. Shanghai-Hong Kong Stock Connect, Shenzhen-Hong Kong Stock Connect, and now Bond Connect are just the beginning. Much more money can flow in both directions. Just as in the old days when this city was the main channel for international money to enter the Mainland, today we will also play a key role in channeling funds out. There is a lot of wealth in the country that is looking for global investment opportunities.

Now that the U.S. is making an issue of Hong Kong because she wants to hurt China, it is conceivable that Washington, D.C. may take even more drastic actions. Consider the recently passed Hong Kong Autonomy Act. However, many of the severe measures that the U.S. can muster will likely end up hurting herself more. As such, she has to tread carefully.

One of the long-lasting effects of COVID-19 is the exponential growth of money supply. This is prevalent around the world, including the U.S. and China. While the increased amount will keep interest rates low, which is critical for America, it may also make the U.S. Dollar more vulnerable to the confidence placed on it by the international capital markets.

Aside from financial services, I can hardly think of any other significant industries that Hong Kong can rely on to keep her economy strong. Since 1997, whenever Hong Kong needed help, our citizens would ask Beijing for favors. Personally, I was unhappy with that. We should first rely on ourselves. After all, that was the spirit that had prevailed in this city for decades, knowing that our then colonial master was only interested in extracting benefit from us and not bestowing it. Such a fighting spirit has served us well. But somehow after 1997, many of my fellow citizens no longer feel embarrassed to ask the Motherland for economic goodies. And for better or worse, Beijing always obliged.

This time round, with the self-created conundrum that we are in, I do not see how Hong Kong as an economy can continue to thrive without the help from the Motherland. Today, only Beijing can make Hong Kong prosper again. But will they? I believe they are willing, but with certain conditions. Equally significant is a question for my fellow Hong Kong citizens: are they aware of the seriousness of the economic perils that some of them have exacted on our city as a result of last year's riots? I fear the answer. If it is on the negative, then perhaps the city is not yet ready to recover.

Hong Kong must alleviate Beijing's worry about political trouble. This is a real test on the intelligence of Hong Kong people. Most of them do not have any clue about what really took place in the past 23 years. Some even actively participated in hurting Hong Kong. Now facing a systemically damaged economy and rising unemployment, many will lose their jobs. What will they do? I suppose their answer may again be: blame Beijing. If so, then Hong Kong does not deserve to shine again.

As we all know, as a small entrepôt, Hong Kong must serve our clients well, whomever they are. This is even more so today, since the service sector now accounts for some 94% of our economy. In the first 40 years or so after WWII, we made money mainly from serving the West. This was why we had to learn English and speak it as well as possible. In the past 20 some years, our clients from the rest of China are increasing. So now we had better speak Putonghua well.

I love Hong Kong; I grew up here and have built a business and my career here. As I have told my friends, I am pessimistic about my home city but I am not passively so. That was also my attitude as I worked in the past three decades to better China-U.S. relations. Whatever the case, having lived for many years overseas and now still traveling (before COVID-19) the world incessantly, I consider myself a global citizen. I am not wedded to any single place. This should somehow ease the pain of watching Hong Kong wane. Hopefully that day will never arrive.

Many Chinese believe that the U.S. is on the decline. I disagree. Similarly, a good number of my American friends think that China will implode, especially with pressure from the outside. I seriously doubt. I believe both nations will be fine. This is why I am at ease in both places, as I am also in many other parts of the world.

Personal endeavors aside, as Chairman of your Company, I have to be realistic. In business, many things are beyond our control and we have to be nimble to minimize risk and maximize profit potential. So, what should we do with our Hong Kong assets, which are not inconsequential?

As we all know, there are often good opportunities to make money in troubled times. Those who remember our history should be aware of how we took advantage of the Asian Financial Crisis of 1997 to 2002 and greatly benefitted our shareholders. Similarly, we grasped the opportunities proffered by the cash-strapped district governments of Mainland cities about a decade ago, and bought prime pieces of land on the cheap. Now we are considering what to do next.

For the remaining months of this year, my belief is that we will still likely be under the threat of the pandemic, although it may ebb and flow. It is possible that, in this regard, the situation on the Mainland will be better than in Hong Kong.

As far as Hong Kong's street riots are concerned, it seems that, so far, the NSL has ushered in some much-needed quiescence. It is still too early to say whether this situation will hold.

If my assessment is not too far from the truth, then Hong Kong rents will still come under pressure for the rest of the year. It is hard to imagine having good news on this front. As to selling more luxury homes on Blue Pool Road, where we still have nine for sale and two for lease, it is almost impossible to predict. If there is good news, it may come from this direction.

On the Mainland, we should do well – perhaps very well – as long as the virus does not return with a vengeance. Once the threat is over, I expect a very strong market for several years to come. After all, we are perhaps better positioned to benefit therefrom than most, if not all.

I would like to take this opportunity to thank our colleagues who remained in Wuhan, the epicenter of the pandemic, throughout the lockdown period. During that time, we had almost 200 staff there including almost 20 from Hong Kong. They have been most professional, prudent, and loyal. The same was true of the other cities where we have a presence. In addition, under Hong Kong leadership, especially our Human Resources team, morale was kept high everywhere. We were most relieved that not a single member of our staff in Wuhan was tested positive for the virus. Before the resumption of work, we paid for the testing of not only our own colleagues, but all the workers of our contractors who were employed on our site.

It is also appropriate that I should single out our frontline staff who could not work from home during these challenging times. They were the most exposed to the danger, and I salute them all.

Ronnie C. Chan
Chairman
Hong Kong, July 30, 2020

Financial Highlights

in HK$ Million (unless otherwise stated)

RESULTS

	For the six months ended June 30					
	2020			2019		
	Property Leasing	**Property Sales**	**Total**	Property Leasing	Property Sales	Total
Revenue	**4,184**	**–**	**4,184**	4,204	–	4,204
Mainland China	**2,277**	**–**	**2,277**	2,190	–	2,190
Hong Kong	**1,907**	**–**	**1,907**	2,014	–	2,014
Operating profit	**3,045**	**(4)**	**3,041**	3,217	–	3,217
Mainland China	**1,480**	**(2)**	**1,478**	1,487	–	1,487
Hong Kong	**1,565**	**(2)**	**1,563**	1,730	–	1,730
Underlying net profit attributable to shareholders	**1,993**	**(4)**	**1,989**	2,229	–	2,229
Net (decrease)/increase in fair value of properties attributable to shareholders	**(4,526)**	**–**	**(4,526)**	1,287	–	1,287
Net (loss)/profit attributable to shareholders	**(2,533)**	**(4)**	**(2,537)**	3,516	–	3,516

	At June 30, 2020	At December 31, 2019
Shareholders' equity	**131,820**	138,669
Net assets attributable to shareholders per share (HK$)	**$29.3**	$30.8

Earnings and Dividend (HK$)

	2020	2019
(Loss)/earnings per share		
– based on underlying net profit attributable to shareholders	**$0.44**	$0.50
– based on net (loss)/profit attributable to shareholders	**($0.56)**	$0.78
Interim dividend per share	**$0.17**	$0.17

Financial ratio

	At June 30, 2020	At December 31, 2019
Net debt to equity ratio	**20.8%**	17.8%
Debt to equity ratio	**23.1%**	20.1%

CONSOLIDATED RESULTS

Total revenue of Hang Lung Properties Limited (the Company) and its subsidiaries (collectively known as "Hang Lung Properties") for the six months ended June 30, 2020 stayed flat at HK$4,184 million, and operating profit decreased 5% to HK$3,041 million, mainly attributable to the adverse effects brought on by the outbreak of the novel coronavirus disease (COVID-19). The remarkable performance of our Mainland operations was mitigated by a 4.5% Renminbi (RMB) depreciation against the Hong Kong Dollar (HKD) over the corresponding period of last year. No property sales revenue was recognized during the first half year in 2020, as was the case for 2019.

Underlying net profit attributable to shareholders fell 11% to HK$1,989 million. Underlying earnings per share decreased correspondingly to HK$0.44.

After taking into account the net revaluation loss of properties attributable to shareholders of HK$4,526 million, Hang Lung Properties reported a net loss attributable to shareholders of HK$2,537 million (2019: net profit of HK$3,516 million). The loss per share was HK$0.56 (2019: earnings per share of HK$0.78).

Revenue and Operating Profit for the Six Months Ended June 30

	Revenue			Operating Profit		
	2020	2019	Change	**2020**	2019	Change
	HK$ Million	HK$ Million		**HK$ Million**	HK$ Million	
Property Leasing	**4,184**	4,204	–	**3,045**	3,217	–5%
Mainland China	**2,277**	2,190	4%	**1,480**	1,487	–
Hong Kong	**1,907**	2,014	–5%	**1,565**	1,730	–10%
Property Sales	**–**	–	–	**(4)**	–	N/A
Total	**4,184**	4,204	–	**3,041**	3,217	–5%

DIVIDEND

The Board of Directors has declared an interim dividend of HK17 cents per share for 2020 (2019: HK17 cents) to be paid by cash on September 29, 2020, to shareholders whose names appeared on the register of members on September 16, 2020.

PROPERTY LEASING

Hong Kong leasing revenue fell by 5% period-on-period, reflecting the dual impact of the COVID-19 pandemic and social unrest. Steps were taken to alleviate the extreme pressure on tenants' businesses, including the provision of rent relief and other supporting measures. While facing primarily the COVID-19 challenges in the early part of the year, Mainland businesses recovered swiftly and sharply starting from April onwards, resulting in the growth of 9% in RMB terms and 4% in HKD terms.

The overall leasing performance of Hang Lung Properties for the first half of 2020 stayed flat at HK$4,184 million.

A donation of RMB10 million was made to establish a relief fund in support of measures to stem the spread of COVID-19 on the Mainland and in Hong Kong.

Mainland China

In the first six months of 2020, leasing revenue of the Mainland portfolio rose by 9% to RMB2,062 million while retail sales grew by 6%. Such growth was partly contributed by new leasing properties which commenced business in the third quarter of 2019, namely Kunming Spring City 66, Office Tower 2 at Wuxi Center 66 and Conrad Shenyang at Shenyang Forum 66. Excluding the income from these new properties, leasing revenue still increased by 3% as compared to the first half of last year despite the impact of COVID-19. This set of performance was remarkable in the face of the pandemic.

Retail sales at Shanghai Plaza 66, Shanghai Grand Gateway 66 and Wuxi Center 66 recorded growth in the range of 7% to 17%, with corresponding increase of 6% to 15% in rental revenue, reflecting the strength of their luxury content.

As COVID-19 in mainland China subsided, luxury sales rebounded significantly starting from April, reflecting the pent-up demand that was also fueled by reshoring of spending in this sector. Major luxury brands did their part with product innovation, redistribution of merchandise and targeted promotions on omni-channels. On the other hand, the recovery among other retail properties carrying lighter luxury contents, has been modest, reflecting a much more prudent approach on the part of both government and business towards resumption of normal life. These retail properties presented negative growth primarily due to the sales loss during lock-down.

The office portfolio on the Mainland was less affected by COVID-19, which reflected the tenacity of high quality tenants and the high standard of hygiene and sanitation maintained by our property management. Occupancy receded in Wuxi Center 66 Office Tower 1, which was more than compensated by the new tenancies added to the new Office Tower 2 of the same project. Office leasing at the new Kunming Spring City 66 office tower progressed well. Therefore the office portfolio enjoyed a 2% growth in revenue in the first half of 2020.

Overall operating profit for the Mainland portfolio grew by 4% while the average rental margin was 65%.

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

City and Name of Property	Revenue (RMB Million) 2020	2019	Change	Occupancy Rate* Mall	Office
Shanghai Plaza 66	**861**	827	4%	95%	91%
Shanghai Grand Gateway 66	**453**	394	15%	94%	N/A
Shenyang Palace 66	**85**	95	–11%	83%	N/A
Shenyang Forum 66 #	**127**	113	12%	83%	88%
Jinan Parc 66	**148**	158	– 6%	92%	N/A
Wuxi Center 66 #	**154**	140	10%	92%	64%
Tianjin Riverside 66	**80**	93	–14%	84%	N/A
Dalian Olympia 66	**67**	74	– 9%	80%	N/A
Kunming Spring City 66 #	**87**	–	N/A	84%	22%
Total	**2,062**	1,894	9%		
Total in HK$ Million equivalent	***2,277***	*2,190*	*4%*		

* All occupancy rates stated herein were as of June 30, 2020.

\# New properties opened in the second half of 2019: Conrad Shenyang at Shenyang Forum 66, Office Tower 2 at Wuxi Center 66, and the mall and office tower at Kunming Spring City 66.

- *Malls*

With the addition of the new mall in Kunming, which opened in August 2019, to our eight existing malls in mainland China, our portfolio collected 9% more revenue at RMB1,618 million, while the revenue of the eight existing malls grew by 4% period-on-period.

The Shanghai **Plaza 66** mall collected 9% more in rents despite rent relief offered during the height of COVID-19 and the transitional voids to accommodate brand expansions and relocations. Firmly positioned as the Home to Luxury and leveraging on HOUSE 66, our nationwide customer relationship management (CRM) program, the mall recorded the strongest rebound from the COVID-19 pandemic among Mainland malls. It benefitted from pent-up demand and, more specifically, the repatriation of luxury spending. Retail sales rose by 17% for the six months of the reporting period despite business interruptions during the outbreak. We will continue to cultivate customer loyalty and drive tenant sales by taking advantage of the upward trend in local luxury spending.

The Shanghai **Grand Gateway 66** mall delivered remarkable results with revenue jumping 15% to RMB453 million, as the benefits of its Asset Enhancement Initiatives (AEI) began to flow through. The basement was reopened in June 2019, followed by the opening of the main atrium of the South Building to a strong collection of luxury brands in December 2019. The North Building, housing a trendy mix of lifestyle brands and a refurbished cinema, complimented the much-enhanced luxury offering in the South Building. Together, they have turned the mall into a popular hub for young and affluent customers. The second phase of the renovation covering the upper floors of the South Building is scheduled for completion in the third quarter of 2020. Total retail sales have seen a strong recovery in the post-COVID-19, exceeding the first half of last year by 7%. It is worth noting that there was a strong recovery in the second quarter with a 41% increase compared to the same period last year.

The Shenyang **Palace 66** mall was deeply affected by the postponement of new store openings and the closure of some stores under local government directives amidst COVID-19. Revenue fell by 11% to RMB85 million. With the resumption of business by over 96% of stores as of June 2020, shopping sentiment has recovered modestly but daily footfall has yet to return to pre-pandemic levels. The mall business was also affected by extensive public roadworks along the pedestrianized zone during the reporting period. As a result, retail sales dropped by 34% period-on-period. Occupancy fell by eight points to 83%. In spite of these challenges, Palace 66 launched an array of sales-driven promotional campaigns to boost retail sales and footfall riding on the back of its 10th Anniversary in June.

The Shenyang **Forum 66** mall was likewise negatively impacted by the pandemic and witnessed a drop in footfall, overall sales and revenue in the first half of the reporting year. Both retail sales and revenue retreated 14%. However, sales in luxury segment rebounded strongly in May and June. The nationwide CRM program HOUSE 66 will also be launched in August to provide bespoke service to our Very Important Customers (VICs) and capture high-level spending and loyalty.

Revenue at the Jinan **Parc 66** mall declined by 6% period-on-period to RMB148 million, again due to the impact of COVID-19. Retail sales fell by 34% period-on-period but are beginning to see the first signs of recovery as a result of strong marketing efforts and the engagement of the HOUSE 66 program.

The Wuxi **Center 66** mall is fast establishing itself as the center of luxury in the city. As the trade mix continued to improve, the mall recorded a 6% growth in revenue. Higher base and turnover rent from luxury brands were more than compensated for the impact of COVID-19. The HOUSE 66 program, launched in 2019, played its part in driving solid and sustainable growth in luxury sales. Retail sales advanced by 13%, most notably in the second quarter which saw a leap of 50% against the corresponding period of last year, as the mall recovered strongly from the outbreak.

The Tianjin **Riverside 66** mall did not fare as well in the first half, as it was subject to a government-ordered shutdown for disease prevention, for five weeks between February and March. Revenue decreased by 14% period-on-period to RMB80 million. As a result of the business closure, retail sales dropped by 40%. The mall has been collaborating with tenants since its reopening and is on the road to recovery.

The Dalian **Olympia 66** mall was also not spared from the wrath of COVID-19. It offered rent relief to tenants and revenue fell by 9% to RMB67 million. On a brighter note, Olympia 66 has secured a strong line-up of luxury brands and several of them started to take possession in the second quarter, paving the way for the arrival of a very attractive cluster over the rest of the year and into 2021. During the reporting period, retail sales retreated 27% but have been showing a healthy rebound since the second quarter. The HOUSE 66 program was successfully launched in June 2020.

The Kunming **Spring City 66** mall is preparing for the planned arrival of a line-up of new luxury brands throughout the summer. The mall collected RMB74 million in rents during the reporting period. Retail performance of key luxury brands led a rebound to pre-pandemic levels, while sales in other trades also showed upward momentum.

- *Offices*

During the reporting period, our six office towers in four cities recorded a revenue growth of 2% to RMB422 million, driven by the new income contribution from the second office tower at Wuxi Center 66 and the office tower at Kunming Spring City 66, both of which commenced operations in the third quarter of 2019. Revenue from existing office towers retreated mildly by 3% as leasing activities remained subdue in the wake of the COVID-19 pandemic.

Income from the two office towers at Shanghai **Plaza 66** fell by 4% period-on-period. While a handful of smaller tenants gave up space amidst COVID-19, larger international groups in the fashion and professional service sectors continued to use the opportunity to expand under one roof at this desirable address, enhancing the overall quality of our tenant portfolio. By and large, Plaza 66 was able to retain its long-term tenants on the strength of quality services and facilities. Income is expected to stabilize once the pandemic-related transitional adjustments are settled.

Revenue from the office tower at Shenyang **Forum 66** dropped by 1% period-on-period. The period-end occupancy rate fell slightly by one point to 88% as a small number of tenants reacted to the impact of the pandemic by downsizing.

With tenants gradually taking occupancy at the new Office Tower 2 at Wuxi **Center 66**, total income from the two towers increased by 18% in the first half of 2020. The new lettings and occupancy of Office Tower 2 more than compensated the minor retreat in Office Tower 1 due, again, to the effects of the pandemic. The absorption rate of Office Tower 2 was satisfactory with occupancy reaching 33% as of June 30, 2020. It successfully captured demand from the insurance and technology sectors as well as industries from the new economy.

The office tower at Kunming **Spring City 66** collected rental revenue of RMB13 million for the first half of 2020. The occupancy rate was 22% at period-end. With the advantage of prime location and premium facilities, the office tower attracted renowned tenants from fast growing industries in Southwest China, including insurance, banking, finance, e-commerce and pharmaceutical.

- *Hotel*

Conrad Shenyang, opened in September 2019, contributed revenue of RMB22 million for the reporting period. Both room sales and the food and beverage business were significantly hampered by the COVID-19 pandemic. Revenue was gradually recovering in May as the restaurants were reopened and business and leisure travels started to resume. The pace of recovery would depend on the stability of disease control measures on a nationwide scale.

Hong Kong

The Hong Kong economy was hit hard by the COVID-19 pandemic and social unrest, our portfolio unavoidably felt the impact. Revenue fell by 5% to HK$1,907 million while operating profit dropped by 10% to HK$1,565 million. Rental margin was at 82%.

The more tourist-oriented trades with street frontage in Fashion Walk Causeway Bay and Mongkok were the worst hit within the portfolio, both in terms of tenant sales and rental revenue, while community malls like Kornhill Plaza and Amoy Plaza were more resilient.

The office sector also faced challenges with a decline in business for the semi-retail trades and food and beverage tenants, a decrease of patients at medical clinics, and extensive shut-down of education centers, gyms and beauty services, some by government order.

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

	Revenue (HK$ Million)			Occupancy Rate*
	2020	2019	Change	
Commercial	**1,133**	1,198	–5%	97%
Office and Industrial/Offices	**635**	655	–3%	90%
Residential & Serviced Apartments	**139**	161	–14%	58%
Total	**1,907**	2,014	–5%	

* All occupancy rates stated herein were as of June 30, 2020.

- *Commercial*

Revenue from our Hong Kong commercial portfolio decreased by 5% period-on-period to HK$1,133 million. The overall occupancy rate increased one point to 97%.

The **Causeway Bay portfolio** was the hardest hit due to the significant decrease in tourists and associated retail spending. Revenue from this portfolio dropped by 13% to HK$281 million period-on-period, with the occupancy rate declining seven points to 92%.

Our Mongkok portfolio was severely affected as well, given its exposure to tourism related businesses. Revenue at **Grand Plaza** and **Gala Place in Mongkok** decreased by 9% during the period. Both properties remained fully let at the reporting date.

Kornhill Plaza in Hong Kong East and **Amoy Plaza in Kowloon East**, our community malls, were less affected. Revenue at Kornhill Plaza increased by 1% while revenue at Amoy Plaza retreated moderately at 5%. In contrast to other trades, our mega department store AEON STYLE at Kornhill Plaza continued to perform well, reflecting its strong positioning even under adverse market conditions.

Peak Galleria was reopened in the second half of 2019 after the completion of a two-year extensive AEI. Despite reopening at a challenging time, the occupancy rate of the mall reached 89% by the end of the reporting period.

- *Offices*

The Hong Kong office portfolio was also directly affected by COVID-19. Its revenue dropped by 3% period-on-period to HK$635 million. The overall occupancy rate fell by two points to 90%. Our offices in Central were more resilient and collected 4% more rents during the reporting period mainly due to positive rental reversions and stable occupancy. Revenue from the Mongkok and Causeway Bay portfolios, which have a heavy mix of medical and semi-retail uses, decreased by 5% and 10% respectively as a result of lower occupancy and rent relief granted. Hong Kong office rental accounted for 33% of total leasing income in Hong Kong.

- *Residential and Serviced Apartments*

Revenue from the apartments shrank by 14% period-on-period to HK$139 million, mainly due to lower occupancy at Kornhill Apartments and The Summit.

PROPERTY SALES

During the first six months, the last unit (duplex) of The Long Beach was sold. As the sale was recognized upon completion of legal assignment in July 2020, no revenue or profit in respect of the transaction was recorded in the first half of 2020.

PROPERTY REVALUATION

The total value of our investment properties and investment properties under development amounted to HK$180,865 million as of June 30, 2020, comprising the value of the Hong Kong portfolio and the mainland China portfolio standing at HK$62,849 million and HK$118,016 million, respectively. These properties were revalued by Savills, an independent valuer, as of June 30, 2020.

A revaluation loss of HK$4,642 million (2019: gain of HK$1,438 million) was recorded, representing a 2% decrease in valuation compared to the value as of December 31, 2019.

The mainland China portfolio recorded a loss of HK$2,307 million (2019: HK$362 million), mainly reflecting the drop in market rents during the period. Although the performance of our Mainland leasing portfolio has been demonstrating a healthy recovery since the second quarter, tenants remained cautious about capital expenditures on expansions and rental reversions on lease renewals, particularly for the office tenants.

The Hong Kong portfolio had a revaluation loss of HK$2,335 million (2019: gain of HK$1,800 million). The decrease in appraised value of our investment properties in Hong Kong reflected the drop in market rents and weakened consumer spending as a result of the pandemic and in the aftermath of social unrest.

As our investment properties are held as long-term investments for stable and recurring income and the revaluation loss is non-cash in nature, there will be no material effect on the operating cash flow and dividend distribution capability.

PROPERTY DEVELOPMENT AND CAPITAL COMMITMENT

The aggregated values of development projects in investment properties for leasing and properties for sale were HK$26,441 million and HK$5,389 million, respectively. These comprised mainland China projects in Wuhan, Wuxi, Kunming, Hangzhou and Shenyang, and redevelopment projects in Hong Kong. At the reporting date, our capital commitments for investment properties amounted to HK$24 billion.

Mainland China

The next Mainland project to commence operations will be Wuhan **Heartland 66**, which will house a premier mall, a Grade A office tower and serviced apartments for sale, with a total gross floor area of 460,000 square meters. Construction works were suspended after the COVID-19 outbreak in January, but have resumed since April 2020. The completion of the mall and the office tower will be around the last quarter of 2020. Construction of the three residential towers has commenced and is scheduled for completion, in stages, beginning in the last quarter of 2022.

Phase two of Wuxi **Center 66** comprises luxury serviced apartments and a boutique hotel, with a total gross floor area of 108,982 square meters. The master layout plan of the project has been approved and excavation works commenced in 2019. The project is expected to reach completion from 2023 onwards.

The remaining development at Kunming **Spring City 66** comprises a five-star hotel and luxury apartments. The planning permit was obtained in May 2020. Project completion is planned for 2023.

Hangzhou **Westlake 66**, a high-end commercial complex with a total gross floor area of 194,100 square meters above-ground, has been underway since September 2019. The entire project, comprises a retail podium with five Grade A office towers and a luxury hotel is scheduled for completion, in phases, from 2024.

The master layout plan of the remaining phases of Shenyang **Forum 66**, consisting of offices, apartments and a retail podium with a total gross floor area of 502,660 square meters, was approved in April 2020. Construction works will commence, in phases, beginning the second half of 2020.

Hong Kong

In 2019, joining hands with our parent company, Hang Lung Group Limited, we commenced a redevelopment project at 226-240 Electric Road in North Point for the construction of a Grade A office tower with a total gross floor area of approximately 105,000 square feet, inclusive of a retail area on lower floors. Construction works have been started and the project is expected to complete in 2022.

The former Amoycan Industrial Centre in Ngau Tau Kok, close to MTR Kowloon Bay Station and the future East Kowloon Cultural Centre, will be redeveloped into residential units for sale with a total gross floor area of 155,000 square feet, and some commercial areas on the podium floors. Construction works are progressing well and the project is targeted for completion in 2023.

LIQUIDITY AND FINANCIAL RESOURCES

Our major financial management objective is to maintain an appropriate capital structure with a high degree of agility. This is to ensure access to sufficient financial resources for meeting operational needs and business expansions. We also strive to establish multiple channels of debt financing for risk mitigation purposes. All financial risk management, including debt re-financing, foreign exchange exposure, and interest rate volatility, etc., are centrally managed and controlled at the corporate level.

- *Liquidity and Financing Management*

Cash flow position and funding needs are closely monitored and regularly reviewed to ensure that we have a good degree of financial flexibility and liquidity while optimizing net financial costs.

As of June 30, 2020, total cash and bank balances amounted to HK$3,190 million (December 31, 2019: HK$3,306 million). All deposits are placed with banks with strong credit ratings and the counterparty risk is monitored on a regular basis.

For debt portfolio management, we focus on mitigating foreign exchange, interest rate, and re-financing risks. An appropriate mix of RMB/HKD/USD borrowings, fixed/floating rate debts, a staggered debt repayment profile, and a diversified source of funding are maintained.

As of June 30, 2020, total borrowings amounted to HK$32,582 million (December 31, 2019: HK$29,673 million), of which about 36% was denominated in RMB. The higher debt balance against the previous year-end was due to construction payments for the various projects under development in mainland China and Hong Kong.

During the period, Hang Lung Properties entered into a number of interest rate swap contracts swapping a total of HK$4.5 billion floating rate borrowings to fixed rate with the objectives of mitigating interest rate volatility risks and optimizing interest costs. Additional Medium Term Notes of HK$4.0 billion has also been issued in the first half of 2020, of which HK$1.2 billion were issued as green bonds under our Green Finance Framework established in 2019 as part of our ESG (environmental, social and governance) initiatives. As a result, fixed rate borrowings accounted for 66% of our total borrowings as of June 30, 2020.

The composition of our debt portfolio can be categorized as follows:

i) by currency (after currency swap):

	At June 30, 2020		At December 31, 2019	
	HK$ Million	*% of Total*	HK$ Million	*% of Total*
Denominated in:				
HKD	**20,847**	*64%*	18,116	*61%*
RMB	**11,735**	*36%*	11,557	*39%*
Total borrowings	**32,582**	*100%*	29,673	*100%*

ii) by fixed or floating interest (after interest rate swap):

	At June 30, 2020		At December 31, 2019	
	HK$ Million	*% of Total*	HK$ Million	*% of Total*
Fixed	**21,464**	*66%*	13,466	*45%*
Floating	**11,118**	*34%*	16,207	*55%*
Total borrowings	**32,582**	*100%*	29,673	*100%*

At the reporting date, the average tenure of the entire loan portfolio was 3.0 years (December 31, 2019: 2.9 years). The maturity profile was well staggered and spread over a period of over 10 years. Around 57% of the loans were repayable after 2 years.

	At June 30, 2020		At December 31, 2019	
	HK$ Million	*% of Total*	HK$ Million	*% of Total*
Repayable:				
Within 1 year	**6,344**	*19%*	2,694	*9%*
After 1 but within 2 years	**7,743**	*24%*	7,235	*25%*
After 2 but within 5 years	**15,277**	*47%*	18,172	*61%*
Over 5 years	**3,218**	*10%*	1,572	*5%*
Total borrowings	**32,582**	*100%*	29,673	*100%*

As of June 30, 2020, total undrawn committed banking facilities amounted to HK$11,129 million (December 31, 2019: HK$9,399 million). The available balances of the USD4 billion (December 31, 2019: USD3 billion) Medium Term Note Program amounted to USD1,941 million, equivalent to HK$15,044 million in total (December 31, 2019: HK$10,965 million).

- *Gearing Ratios and Interest Cover*

As of June 30, 2020, the net debt balance amounted to HK$29,392 million (December 31, 2019: HK$26,367 million). Net debt to equity ratio was 20.8% (December 31, 2019: 17.8%) and debt to equity ratio was 23.1% (December 31, 2019: 20.1%).

For the six months ended June 30, 2020, gross amount of finance costs decreased by 5% to HK$719 million. The net amount charged to the statement of profit or loss for the first half of 2020 increased to HK$53 million due to a reduction in finance costs being capitalized to projects under development after the completion and opening of a few new properties during 2019.

Interest income for the period decreased 68% to HK$31 million. The decrease was mainly the result of the utilization of surplus cash to meet construction payments.

For the first six months of 2020, the amount of finance costs in excess of interest income, i.e. net interest expense, was HK$22 million (2019: net interest income of HK$88 million). The average effective cost of borrowings for the period was lowered to 4.6% (2019: 4.8%).

Interest cover for the first six months of 2020 was 4 times (2019: 4 times).

- *Foreign Exchange Management*

Our business activities are exposed to foreign exchange risks, mainly arising from normal operations in mainland China and the two USD500 million bonds issued. Appropriate measures have been taken to mitigate the exposure to foreign exchange risk.

The cash and bank balances at the reporting date comprised the following currencies:

	At June 30, 2020		At December 31, 2019	
	HK$ Million	*% of Total*	HK$ Million	*% of Total*
Denominated in:				
HKD	**2,105**	*66%*	2,056	*62%*
RMB	**985**	*31%*	1,150	*35%*
USD	**100**	*3%*	100	*3%*
Total cash and bank balances	**3,190**	*100%*	3,306	*100%*

(a) RMB Exposure

Our RMB exposure is mainly derived from the currency translation risk arising from the net assets of our subsidiaries in mainland China.

As of June 30, 2020, net assets denominated in RMB accounted for about 64% of our total net assets. As the RMB has depreciated by about 1.9% against the HKD compared to December 31, 2019, the re-translation of these net assets denominated in RMB into HKD using the exchange rate as of the reporting date resulted in a re-translation loss of HK$1,897 million (2019: HK$402 million). The re-translation loss was recognized in other comprehensive income/exchange reserve.

Our business operations and projects under development in mainland China are funded by cash inflows from mainland China operations and RMB borrowings in addition to capital injections from Hong Kong. We have adopted a systematic approach to mitigate the currency risks and practiced the strict discipline of not taking any speculative position on the movement of the RMB against the HKD. Regular business reviews were undertaken to assess the level of funding needs for our mainland China projects after taking into account various factors such as regulatory constraints, project development timelines, and the market environment. Appropriate modifications to our funding plan will be conducted in light of the change of circumstances.

(b) USD Exposure

The USD foreign exchange exposure is related to the two USD500 million fixed rate bonds issued, equivalent to HK$7,751 million at the reporting date. The related currency exchange risk was covered back-to-back by two USD/HKD cross currency swap contracts.

- *Charge of Assets*

Assets of Hang Lung Properties were not charged to any third parties as of June 30, 2020.

- *Contingent Liabilities*

Hang Lung Properties did not have any material contingent liabilities as of June 30, 2020.

OUTLOOK

Our performance in the second half of 2020 will depend on the retail sales recovery on the Mainland, particularly in the lifestyle sector given the luxury sector proved to recover much faster than expected as well as the socio-economic stability in Hong Kong.

Our Mainland properties are expected to fully recover by the end of third quarter and will continue to deliver solid organic growth. Properties commencing business in 2019 will show their full year effect in 2020. On the marketing side, the gradual maturity of the portfolio-wide CRM program HOUSE 66 and the deployment of a variety of digital social platforms will complement the rise in our malls' luxury offering. By strengthening the Hang Lung branded experience and delivering tailor-made services to customers and tenants alike, these programs will continue to bring in new business and enhance relationships. The continued opening of new luxury shops according to plan in various malls, along with the completion of the AEI at Shanghai Grand Gateway 66 mall in the second half of this year, are drivers of revenue growth.

Subject to market conditions, we will continue to sell completed residential properties in Hong Kong and explore opportunities to dispose of non-core properties.

On the property development side, two redevelopment projects in Hong Kong are in progress and we will continue to look for development opportunities. On the Mainland, construction of luxury/high-end serviced apartments in our projects in Wuhan, Wuxi, Kunming and Shenyang will continue. Sales and marketing plans for the sales of those apartments are being developed.

CORPORATE GOVERNANCE

We are committed to maintaining the highest standards of corporate governance. During the six months ended June 30, 2020, 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 2019 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 11 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 both 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 at least 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. 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 at least 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, 2020, 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. The Independent Auditor's Review Report is set out on pages 46 and 47 of this interim report.

Compliance with Corporate Governance Code

During the six months ended June 30, 2020, 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, 2020.

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

As at June 30, 2020, 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 3)*	**Number of Shares**	**% of Number of Issued Shares**
Ronnie C. Chan	Personal & Other	16,330,000	0.36	17,525,000	14,470,500 *(Note 1)*	1.06
Weber W.P. Lo	Personal	–	–	12,750,000	–	–
Ronald J. Arculli	Personal & Corporate	724,346	0.02	–	1,089,975	0.08
Nelson W.L. Yuen	Personal	8,000,000	0.18	–	–	–
Dominic C.F. Ho	–	–	–	–	–	–
Philip N.L. Chen	Personal	–	–	24,000,000	–	–
Andrew K.C. Chan	–	–	–	–	–	–
H.K. Chang	–	–	–	–	–	–
Anita Y.M. Fung	–	–	–	–	–	–
H.C. Ho	Personal	–	–	13,600,000	–	–
Adriel W. Chan	Personal & Other	2,644,956,340 *(Note 2)*	58.81	4,400,000	525,102,080 *(Notes 1 & 2)*	38.56

Notes

1. Other interests included 2,680,500 shares of Hang Lung Group Limited ("HLG") held by a trust of which Mr. Ronnie C. Chan and Mr. Adriel W. Chan were discretionary beneficiaries. Accordingly, Mr. Ronnie C. Chan and Mr. Adriel W. Chan were deemed to be interested in such shares under the SFO.

2. Other interests included 2,644,956,340 shares of the Company and another 522,421,580 shares of HLG held/deemed to be held by another 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.

3. Movements of Options under the Share Option Schemes of the Company

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

		Number of Shares under Option					
Date Granted (mm/dd/yyyy)	**Name**	**As at Jan 1, 2020**	**Lapsed during the Period**	**As at Jun 30, 2020**	**Exercise Price per Share** (HK$)	**Vested Dates** (mm/dd/yyyy)	**Expiry Date** (mm/dd/yyyy)
02/08/2010	Ronnie C. Chan	6,500,000	6,500,000	–	$26.46	02/08/2012: 10%	02/07/2020
	Nelson W.L. Yuen	6,500,000	6,500,000	–		02/08/2013: 20%	
						02/08/2014: 30%	
						02/08/2015: 40%	
07/29/2010	Philip N.L. Chen	10,000,000	–	10,000,000	$33.05	07/29/2012: 10%	07/28/2020
						07/29/2013: 20%	
						07/29/2014: 30%	
						07/29/2015: 40%	
09/29/2010	H.C. Ho	2,000,000	–	2,000,000	$36.90	09/29/2012: 10%	09/28/2020
						09/29/2013: 20%	
						09/29/2014: 30%	
						09/29/2015: 40%	
06/13/2011	Ronnie C. Chan	4,500,000	–	4,500,000	$30.79	06/13/2013: 10%	06/12/2021
	Philip N.L. Chen	4,500,000	–	4,500,000		06/13/2014: 20%	
	H.C. Ho	3,000,000	–	3,000,000		06/13/2015: 30%	
						06/13/2016: 40%	

3. Movements 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, 2020	Exercised/ Lapsed during the Period	As at Jun 30, 2020	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%	
06/28/2019	Ronnie C. Chan	3,025,000	–	3,025,000	$18.58	06/28/2021: 10%	06/27/2029
	Weber W.P. Lo	2,750,000	–	2,750,000		06/28/2022: 20%	
	H.C. Ho	1,900,000	–	1,900,000		06/28/2023: 30%	
	Adriel W. Chan	2,200,000	–	2,200,000		06/28/2024: 40%	

Save as disclosed above, none of the Directors of the Board had, as at June 30, 2020, 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, 2020 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 the acquisition of shares in or debentures of the Company or any other body corporate.

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

As at June 30, 2020, 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*	2,644,956,340	58.81
Cole Enterprises Holdings (PTC) Limited	*1*	2,644,956,340	58.81
Merssion Limited	*1*	2,644,956,340	58.81
Adriel W. Chan	*1*	2,644,956,340	58.81
Hang Lung Group Limited	*2*	2,616,623,240	58.18
Prosperland Housing Limited	*3*	1,267,608,690	30.60
Purotat Limited	*3*	354,227,500	8.55

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 38.37% interests. Accordingly, the 2,616,623,240 shares held by HLG through its subsidiaries were included in the 2,644,956,340 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 2,616,623,240 shares held by HLG.

Save as disclosed above, as at June 30, 2020, 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 the information of the Directors of the Board are set out below:

Mr. Philip N.L. Chen

– elected as chairman of The Hong Kong Jockey Club

Ms. Anita Y.M. Fung

– retired as an independent non-executive director of Westpac Banking Corporation

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, 2020, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities.

EMPLOYEES

As of June 30, 2020, the number of employees was 4,516 (comprising 1,155 Hong Kong employees and 3,361 mainland China employees). The total employee costs for the six months ended June 30, 2020, amounted to HK$807 million. We provide competitive remuneration packages for all employees including discretionary bonuses payable based on individual performance. We regularly review remuneration packages to ensure that they comply with relevant regulatory requirements and market conditions. The Company has share option schemes for the employees and provides professional and high-quality training opportunities.

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 48 to 72 which comprises the consolidated statement of financial position of Hang Lung Properties Limited ("the Company") as at June 30, 2020 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, 2020 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, 2020

Consolidated Statement of Profit or Loss

For the six months ended June 30, 2020 (Unaudited)

				For information purpose only	
		2020	2019	**2020**	2019
	Note	**HK$ Million**	HK$ Million	**RMB Million**	RMB Million
Revenue	2(a)	**4,184**	4,204	**3,791**	3,639
Direct costs and operating expenses		**(1,143)**	(987)	**(1,036)**	(854)
		3,041	3,217	**2,755**	2,785
Other net income	3	**25**	4	**23**	3
Administrative expenses		**(292)**	(317)	**(265)**	(275)
Profit from operations before changes in fair value of properties		**2,774**	2,904	**2,513**	2,513
Net (decrease)/increase in fair value of properties		**(4,642)**	1,438	**(4,245)**	1,259
(Loss)/profit from operations after changes in fair value of properties		**(1,868)**	4,342	**(1,732)**	3,772
Interest income		**31**	96	**28**	83
Finance costs		**(53)**	(8)	**(48)**	(7)
Net interest (expense)/income	4	**(22)**	88	**(20)**	76
Share of (losses)/profits of joint ventures		**(38)**	38	**(35)**	33
(Loss)/profit before taxation	5	**(1,928)**	4,468	**(1,787)**	3,881
Taxation	6	**(415)**	(698)	**(375)**	(604)
(Loss)/profit for the period	2(b)	**(2,343)**	3,770	**(2,162)**	3,277
Attributable to:					
Shareholders		**(2,537)**	3,516	**(2,336)**	3,057
Non-controlling interests		**194**	254	**174**	220
		(2,343)	3,770	**(2,162)**	3,277
(Loss)/earnings per share	8(a)				
Basic		**(HK$0.56)**	HK$0.78	**(RMB0.52)**	RMB0.68
Diluted		**(HK$0.56)**	HK$0.78	**(RMB0.52)**	RMB0.68

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, 2020 (Unaudited)

	2020 HK$ Million	2019 HK$ Million	*For information purpose only* 2020 RMB Million	2019 RMB Million
(Loss)/profit for the period	**(2,343)**	3,770	**(2,162)**	3,277
Other comprehensive income				
Items that are or may be reclassified subsequently to profit or loss:				
Movement in exchange reserve:				
Exchange difference arising from translation to presentation currency	**(1,897)**	(402)	**853**	46
Net investment hedge – net gain	**20**	–	**18**	–
Movement in hedging reserve:				
Effective portion of changes in fair value	**(44)**	48	**(40)**	41
Net amount transferred to profit or loss	**46**	22	**42**	20
Deferred tax	**3**	–	**3**	–
Other comprehensive income for the period, net of tax	**(1,872)**	(332)	**876**	107
Total comprehensive income for the period	**(4,215)**	3,438	**(1,286)**	3,384
Total comprehensive income attributable to:				
Shareholders	**(4,228)**	3,213	**(1,459)**	3,165
Non-controlling interests	**13**	225	**173**	219
	(4,215)	3,438	**(1,286)**	3,384

The accompanying notes form part of the interim financial report.

Consolidated Statement of Financial Position

At June 30, 2020

	Note	(Unaudited) June 30, 2020 HK$ Million	(Audited) December 31, 2019 HK$ Million	*For information purpose only* June 30, 2020 RMB Million	*For information purpose only* December 31, 2019 RMB Million
Non-current assets					
Property, plant and equipment					
Investment properties	9	**154,424**	159,534	**141,019**	142,956
Investment properties under development	9	**26,441**	27,602	**24,152**	24,726
Other property, plant and equipment		**234**	234	**214**	210
		181,099	187,370	**165,385**	167,892
Interest in joint ventures		**1,238**	1,296	**1,130**	1,162
Other assets		**87**	87	**79**	78
Deferred tax assets		**3**	–	**3**	–
		182,427	188,753	**166,597**	169,132
Current assets					
Cash and deposits with banks	10	**3,190**	3,306	**2,913**	2,963
Trade and other receivables	11	**2,356**	2,279	**2,152**	2,042
Properties for sale		**6,343**	5,642	**5,791**	5,057
Assets held for sale	12	**3**	–	**3**	–
		11,892	11,227	**10,859**	10,062
Current liabilities					
Bank loans and other borrowings		**6,344**	2,694	**5,792**	2,414
Trade and other payables	13	**7,817**	8,911	**7,139**	7,986
Lease liabilities		**23**	23	**21**	21
Current tax payable		**474**	809	**433**	725
		14,658	12,437	**13,385**	11,146
Net current liabilities		**2,766**	1,210	**2,526**	1,084
Total assets less current liabilities		**179,661**	187,543	**164,071**	168,048

	Note	(Unaudited) June 30, 2020 HK$ Million	(Audited) December 31, 2019 HK$ Million	*For information purpose only* June 30, 2020 RMB Million	*For information purpose only* December 31, 2019 RMB Million
Non-current liabilities					
Bank loans and other borrowings		**26,238**	26,979	**23,956**	24,182
Lease liabilities		**284**	293	**259**	262
Deferred tax liabilities		**12,163**	12,459	**11,110**	11,161
		38,685	39,731	**35,325**	35,605
NET ASSETS		**140,976**	147,812	**128,746**	132,443
Capital and reserves					
Share capital	14	**39,915**	39,915	**37,433**	37,433
Reserves		**91,905**	98,754	**82,950**	86,820
Shareholders' equity		**131,820**	138,669	**120,383**	124,253
Non-controlling interests		**9,156**	9,143	**8,363**	8,190
TOTAL EQUITY		**140,976**	147,812	**128,746**	132,443

The accompanying notes form part of the interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended June 30, 2020 (Unaudited)

HK$ Million	Shareholders' equity					
	Share capital (Note 14)	Other reserves (Note 16)	Retained profits (Note 16)	Total	Non-controlling interests	Total equity
At January 1, 2020	39,915	(2,844)	101,598	138,669	9,143	147,812
Loss for the period	–	–	(2,537)	(2,537)	194	(2,343)
Exchange difference arising from translation to presentation currency	–	(1,716)	–	(1,716)	(181)	(1,897)
Net investment hedge – net gain	–	20	–	20	–	20
Cash flow hedges: net movement in hedging reserve	–	5	–	5	–	5
Total comprehensive income for the period	–	(1,691)	(2,537)	(4,228)	13	(4,215)
Final dividend in respect of previous year	–	–	(2,653)	(2,653)	–	(2,653)
Employee share-based payments	–	(81)	113	32	–	32
At June 30, 2020	39,915	(4,616)	96,521	131,820	9,156	140,976
At January 1, 2019	39,915	(1,117)	98,763	137,561	6,033	143,594
Profit for the period	–	–	3,516	3,516	254	3,770
Exchange difference arising from translation to presentation currency	–	(373)	–	(373)	(29)	(402)
Cash flow hedges: net movement in hedging reserve	–	70	–	70	–	70
Total comprehensive income for the period	–	(303)	3,516	3,213	225	3,438
Final dividend in respect of previous year	–	–	(2,609)	(2,609)	–	(2,609)
Employee share-based payments	–	10	16	26	–	26
Dividends paid to non-controlling interests	–	–	–	–	(206)	(206)
At June 30, 2019	39,915	(1,410)	99,686	138,191	6,052	144,243

The accompanying notes form part of the interim financial report.

For information purpose only

RMB Million	Shareholders' equity					
	Share capital	Other reserves	Retained profits	Total	Non-controlling interests	Total equity
At January 1, 2020	**37,433**	**1,596**	**85,224**	**124,253**	**8,190**	**132,443**
Loss for the period	**–**	**–**	**(2,336)**	**(2,336)**	**174**	**(2,162)**
Exchange difference arising from translation to presentation currency	**–**	**854**	**–**	**854**	**(1)**	**853**
Net investment hedge – net gain	**–**	**18**	**–**	**18**	**–**	**18**
Cash flow hedges: net movement in hedging reserve	**–**	**5**	**–**	**5**	**–**	**5**
Total comprehensive income for the period	**–**	**877**	**(2,336)**	**(1,459)**	**173**	**(1,286)**
Final dividend in respect of previous year	**–**	**–**	**(2,440)**	**(2,440)**	**–**	**(2,440)**
Employee share-based payments	**–**	**(75)**	**104**	**29**	**–**	**29**
At June 30, 2020	**37,433**	**2,398**	**80,552**	**120,383**	**8,363**	**128,746**
At January 1, 2019	37,433	498	82,733	120,664	5,286	125,950
Profit for the period	–	–	3,057	3,057	220	3,277
Exchange difference arising from translation to presentation currency	–	47	–	47	(1)	46
Cash flow hedges: net movement in hedging reserve	–	61	–	61	–	61
Total comprehensive income for the period	–	108	3,057	3,165	219	3,384
Final dividend in respect of previous year	–	–	(2,288)	(2,288)	–	(2,288)
Employee share-based payments	–	8	14	22	–	22
Dividends paid to non-controlling interests	–	–	–	–	(181)	(181)
At June 30, 2019	37,433	614	83,516	121,563	5,324	126,887

Condensed Consolidated Cash Flow Statement

For the six months ended June 30, 2020 (Unaudited)

	2020 HK$ Million	2019 HK$ Million	*For information purpose only* 2020 RMB Million	*For information purpose only* 2019 RMB Million
Operating activities				
Cash generated from operations	**2,370**	2,808	**2,153**	2,407
Income tax paid	**(807)**	(529)	**(732)**	(460)
Net cash generated from operating activities	**1,563**	2,279	**1,421**	1,947
Investing activities				
Payment for property, plant and equipment	**(1,516)**	(9,478)	**(1,344)**	(8,155)
Decrease in bank deposits with maturity greater than three months	**–**	659	**–**	570
Other cash flows arising from investing activities	**37**	123	**32**	106
Net cash used in investing activities	**(1,479)**	(8,696)	**(1,312)**	(7,479)
Financing activities				
Proceeds from new bank loans and other borrowings	**10,693**	9,671	**9,699**	8,375
Repayment of bank loans and other borrowings	**(7,523)**	(5,276)	**(6,824)**	(4,565)
Capital element of lease rentals paid	**(3)**	(4)	**(3)**	(3)
Interest and other borrowing costs paid	**(685)**	(704)	**(620)**	(610)
Interest element of lease rentals paid	**(8)**	(8)	**(7)**	(7)
Dividend paid	**(2,653)**	(2,609)	**(2,440)**	(2,288)
Dividends paid to non-controlling interests	**–**	(206)	**–**	(181)
Net cash (used in)/generated from financing activities	**(179)**	864	**(195)**	721
Decrease in cash and cash equivalents	**(95)**	(5,553)	**(86)**	(4,811)
Effect of foreign exchange rate changes	**(21)**	57	**4**	(5)
Cash and cash equivalents at January 1	**1,373**	8,556	**1,230**	7,507
Cash and cash equivalents at June 30	**1,257**	3,060	**1,148**	2,691
Analysis of the balance of cash and cash equivalents:				
Cash and deposits with banks	**3,190**	6,208	**2,913**	5,461
Less: Bank deposits with maturity greater than three months	**(1,933)**	(3,148)	**(1,765)**	(2,770)
Cash and cash equivalents	**1,257**	3,060	**1,148**	2,691

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 46 to 47.

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"). The adoption of these new or amended HKFRSs does not have significant impact on the Group's interim financial report.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements.

1. BASIS OF PREPARATION (Continued)

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 2019 as if the presentation currency is Renminbi.

The financial information relating to the financial year ended December 31, 2019 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, 2019 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. REVENUE AND SEGMENT INFORMATION

The Group manages businesses according to the nature of services and products provided. Management has determined property leasing and property sales to be the reportable operating segments for the measurement of performance and the allocation of resources.

Segment assets principally comprise all non-current assets and current assets directly attributable to each segment with the exception of interest in joint ventures, other assets, deferred tax assets and cash and deposits with banks. No segment liabilities analysis is presented as the Group monitors and manages liabilities on a group basis.

(a) Disaggregation of revenue

Revenue for the six months ended June 30, 2020 is analyzed as follows:

HK$ Million	**2020**	2019
Under the scope of HKFRS 16, *Leases:*		
Rental income	**3,751**	3,808
Under the scope of HKFRS 15, *Revenue from contracts with customers:*		
Building management fees and other income from property leasing	**433**	396
	4,184	4,204

2. REVENUE AND SEGMENT INFORMATION (Continued)

(b) Revenue and results by segments

HK$ Million	2020			2019		
	Property Leasing	**Property Sales**	**Total**	Property Leasing	Property Sales	Total
Revenue						
– Mainland China	**2,277**	**–**	**2,277**	2,190	–	2,190
– Hong Kong	**1,907**	**–**	**1,907**	2,014	–	2,014
	4,184	**–**	**4,184**	4,204	–	4,204
Profit from operations before changes in fair value of properties						
– Mainland China	**1,359**	**(2)**	**1,357**	1,340	–	1,340
– Hong Kong	**1,419**	**(2)**	**1,417**	1,564	–	1,564
	2,778	**(4)**	**2,774**	2,904	–	2,904
Net (decrease)/increase in fair value of properties	**(4,642)**	**–**	**(4,642)**	1,438	–	1,438
Net interest (expense)/income	**(22)**	**–**	**(22)**	88	–	88
– Interest income	**31**	**–**	**31**	96	–	96
– Finance costs	**(53)**	**–**	**(53)**	(8)	–	(8)
Share of (losses)/profits of joint ventures	**(38)**	**–**	**(38)**	38	–	38
(Loss)/profit before taxation	**(1,924)**	**(4)**	**(1,928)**	4,468	–	4,468
Taxation	**(415)**	**–**	**(415)**	(698)	–	(698)
(Loss)/profit for the period	**(2,339)**	**(4)**	**(2,343)**	3,770	–	3,770
Net (loss)/profit attributable to shareholders	**(2,533)**	**(4)**	**(2,537)**	3,516	–	3,516

2. REVENUE AND SEGMENT INFORMATION (Continued)

(c) Total segment assets

HK$ Million	June 30, 2020			December 31, 2019		
	Property Leasing	Property Sales	Total	Property Leasing	Property Sales	Total
Mainland China	**119,954**	**2,225**	**122,179**	123,824	1,604	125,428
Hong Kong	**63,500**	**4,122**	**67,622**	65,824	4,039	69,863
	183,454	**6,347**	**189,801**	189,648	5,643	195,291
Interest in joint ventures			**1,238**			1,296
Other assets			**87**			87
Deferred tax assets			**3**			–
Cash and deposits with banks			**3,190**			3,306
			194,319			199,980

3. OTHER NET INCOME

HK$ Million	2020	2019
Government grants	**21**	–
Ineffectiveness on cash flow hedges	**1**	1
Others	**3**	3
	25	4

4. NET INTEREST (EXPENSE)/INCOME

HK$ Million	**2020**	2019
Interest income on bank deposits	**31**	96
Interest expense on bank loans and other borrowings	**687**	724
Interest on lease liabilities	**8**	8
Other borrowing costs	**24**	23
Total borrowing costs	**719**	755
Less: Borrowing costs capitalized	**(666)**	(747)
Finance costs	**53**	8
Net interest (expense)/income	**(22)**	88

5. (LOSS)/PROFIT BEFORE TAXATION

HK$ Million	**2020**	2019
(Loss)/profit before taxation is arrived at after charging:		
Staff costs (Note)	**670**	652
Depreciation	**28**	22

Note: The staff costs included employee share-based payments of HK$32 million (2019: HK$26 million). If the amounts not recognized in the statement of profit or loss, including amounts capitalized, were accounted for, staff costs would have been HK$807 million (2019: HK$813 million).

6. TAXATION IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Provision for Hong Kong Profits Tax is calculated at 16.5% (2019: 16.5%) of the estimated assessable profits for the period. Mainland China Income Tax represents mainland China Corporate Income Tax calculated at 25% (2019: 25%) and mainland China withholding income tax calculated at the applicable rates. The withholding tax rate applicable to Hong Kong companies in respect of dividend distributions from foreign investment enterprises in mainland China was 5% (2019: 5%).

HK$ Million	**2020**	2019
Current tax		
Hong Kong Profits Tax	**170**	269
Mainland China Income Tax	**306**	327
Total current tax	**476**	596
Deferred tax		
Changes in fair value of properties	**(153)**	40
Other origination and reversal of temporary differences	**92**	62
Total deferred tax	**(61)**	102
Total income tax expense	**415**	698

7. DIVIDENDS

(a) Interim dividend

HK$ Million	2020	2019
Proposed after the end of the reporting period: HK17 cents (2019: 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 six months ended June 30, 2020

HK$ Million	2020	2019
2019 final dividend of HK59 cents (2018: HK58 cents) per share	**2,653**	2,609

8. (LOSS)/EARNINGS PER SHARE

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

HK$ Million	2020	2019
(Loss)/earnings for calculation of basic and diluted (loss)/earnings per share (net (loss)/profit attributable to shareholders)	**(2,537)**	3,516

	Number of shares	
	2020	2019
Weighted average number of shares used in calculating basic and diluted (loss)/earnings per share (Note)	**4,497,718,670**	4,497,718,670

Note: Diluted (loss)/earnings per share were the same as the basic (loss)/earnings per share as there was no dilutive effect on the potential ordinary shares during the periods.

8. (LOSS)/EARNINGS PER SHARE (Continued)

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

HK$ Million	**2020**	2019
Net (loss)/profit attributable to shareholders	**(2,537)**	3,516
Effect of changes in fair value of properties	**4,642**	(1,438)
Effect of corresponding income tax	**(153)**	107
Effect of changes in fair value of investment properties of joint ventures	**60**	(13)
	4,549	(1,344)
Non-controlling interests	**(23)**	57
	4,526	(1,287)
Underlying net profit attributable to shareholders	**1,989**	2,229

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

	2020	2019
Basic	**HK$0.44**	HK$0.50
Diluted	**HK$0.44**	HK$0.50

9. INVESTMENT PROPERTIES AND INVESTMENT PROPERTIES UNDER DEVELOPMENT

(a) Additions

During the six months ended June 30, 2020, additions to investment properties and investment properties under development amounted to HK$1,327 million (2019: HK$9,929 million).

(b) Valuation

The investment properties and investment properties under development of the Group were revalued as of June 30, 2020 by Mr. Charles C.K. Chan, Registered Professional Surveyor (General Practice), of Savills Valuation and Professional Services Limited, on a market value basis.

10. CASH AND DEPOSITS WITH BANKS

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

HK$ Million	**June 30, 2020**	December 31, 2019
Hong Kong Dollars	**2,105**	2,056
Hong Kong Dollar equivalent of:		
Renminbi	**985**	1,150
United States Dollars	**100**	100
	3,190	3,306

10. CASH AND DEPOSITS WITH BANKS (Continued)

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:

HK$ Million	**June 30, 2020**	December 31, 2019
Bank loans and other borrowings	**32,582**	29,673
Less: Cash and deposits	**(3,190)**	(3,306)
Net debt	**29,392**	26,367

11. TRADE AND OTHER RECEIVABLES

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

HK$ Million	**June 30, 2020**	December 31, 2019
Not past due or less than 1 month past due	**79**	23
1–3 months past due	**32**	27
More than 3 months past due	**8**	2
	119	52

(b) The Group maintains a defined credit policy including stringent credit evaluation on and payment of a rental deposit from tenants. In addition to the payment of rental deposits, tenants are required to pay monthly rents in respect of leased properties in advance. Receivables are regularly reviewed and closely monitored to minimize any associated credit risk.

Provision for expected credit losses was assessed and adequately made on a case-by-case basis, based on the historical default experience and forward-looking information that may impact the tenants' ability to repay the outstanding balances.

(c) Included in other receivables of the Group is a deposit of land acquisition in mainland China of HK$274 million (December 31, 2019: HK$279 million).

12. ASSETS HELD FOR SALE

On June 22, 2020, the Group entered into a sale and purchase agreement with an independent third party to dispose of investment properties of two car parking spaces at The Long Beach in Hong Kong. Accordingly, the assets are presented as assets held for sale. The completion of the transaction took place in July 2020.

13. TRADE AND OTHER PAYABLES

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

HK$ Million	**June 30, 2020**	December 31, 2019
Due within 3 months	**2,754**	3,995
Due after 3 months	**953**	816
	3,707	4,811

(b) Included in trade and other payables is an amount of HK$601 million (December 31, 2019: HK$601 million) due to a fellow subsidiary, which is the joint developer of a project in which the Group and the fellow subsidiary hold respective interests of 66.67% and 33.33%. The amount represents the contribution by the fellow subsidiary in proportion to its interest to finance the project, and is unsecured, non-interest bearing and has no fixed terms of repayment.

14. SHARE CAPITAL

	At January 1, 2020 and June 30, 2020		At January 1, 2019 and December 31, 2019	
	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:	**4,498**	**39,915**	4,498	39,915

There was no movement in the share capital of the Company during the year ended December 31, 2019 and the six months ended June 30, 2020.

15. 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 of the Company.

The movements of share options of the Company during the six months ended June 30, 2020 were as follows:

(a) 2002 Share Option Scheme

	Number of share options			Period during	Exercise
Date granted	Outstanding on January 1, 2020	Forfeited/ Lapsed	**Outstanding on June 30, 2020**	which options are exercisable	price (HK$)
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	30,340,000	–	**30,340,000**	July 29, 2012 to June 12, 2021	30.79 – 36.90
Total	43,720,000	(13,380,000)	**30,340,000**		

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 six months ended June 30, 2020.

During the six months ended June 30, 2020, 13,380,000 options (2019: Nil) lapsed due to the expiry of the period for exercising the options and no options (2019: 300,000 options) were forfeited upon cessations of grantees' employments.

15. SHARE OPTION SCHEMES (Continued)

(b) 2012 Share Option Scheme

Date granted	Number of share options: Outstanding on January 1, 2020	Forfeited/ Lapsed	**Outstanding on June 30, 2020**	Period during which options are exercisable	Exercise price (HK$)
June 4, 2013	26,050,000	(240,000)	**25,810,000**	June 4, 2015 to June 3, 2023	28.20
December 5, 2014	22,460,000	(710,000)	**21,750,000**	December 5, 2016 to December 4, 2024	22.60
August 10, 2017	35,572,500	(1,214,000)	**34,358,500**	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
June 28, 2019	53,196,000	(2,038,000)	**51,158,000**	June 28, 2021 to June 27, 2029	18.58
Total	147,278,500	(4,202,000)	**143,076,500**		

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 granted, exercised or cancelled during the six months ended June 30, 2020.

During the six months ended June 30, 2020, 4,202,000 options (2019: 3,147,000 options) were forfeited upon cessations of the grantees' employments.

16. RESERVES

HK$ Million	Other reserves						
	Exchange reserve	Hedging reserve	Investment revaluation reserve	Employee share-based compensation reserve	Total	Retained profits	Total reserves
At January 1, 2020	(3,688)	(7)	87	764	(2,844)	101,598	98,754
Loss for the period	-	-	-	-	-	(2,537)	(2,537)
Exchange difference arising from translation to presentation currency	(1,716)	-	-	-	(1,716)	-	(1,716)
Net investment hedge – net gain	20	-	-	-	20	-	20
Cash flow hedges: net movement in hedging reserve	-	5	-	-	5	-	5
Total comprehensive income for the period	(1,696)	5	-	-	(1,691)	(2,537)	(4,228)
Final dividend in respect of previous year	-	-	-	-	-	(2,653)	(2,653)
Employee share-based payments	-	-	-	(81)	(81)	113	32
At June 30, 2020	(5,384)	(2)	87	683	(4,616)	96,521	91,905
At January 1, 2019	(1,801)	(143)	93	734	(1,117)	98,763	97,646
Profit for the period	–	–	–	–	–	3,516	3,516
Exchange difference arising from translation to presentation currency	(373)	–	–	–	(373)	–	(373)
Cash flow hedges: net movement in hedging reserve	–	70	–	–	70	–	70
Total comprehensive income for the period	(373)	70	–	–	(303)	3,516	3,213
Final dividend in respect of previous year	–	–	–	–	–	(2,609)	(2,609)
Employee share-based payments	–	–	–	10	10	16	26
At June 30, 2019	(2,174)	(73)	93	744	(1,410)	99,686	98,276

17. 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 measured at fair value

(i) The level of fair value hierarchy within which the fair value measurements are categorized and analyzed below:

HK$ Million	**Fair value**		Fair value measurements categorized into
	June 30, 2020	December 31, 2019	
Financial assets			
Trade and other receivables			
Cross currency swaps (cash flow hedges)	**41**	67	Level 2
Other assets			
Investment in equity instruments	**87**	87	Level 3
Financial liabilities			
Trade and other payables			
Interest rate swaps (cash flow hedges)	**19**	–	Level 2

17. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

(a) Financial assets and liabilities measured at fair value (Continued)

The fair value of the cross currency swaps and interest rate swaps 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.

The fair value of non-publicly traded equity investments is determined by reference to the net asset value of these investments.

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

During the six months ended June 30, 2020, there were no transfers of instruments between Level 1 and Level 2, or transfers into or out of Level 3 (2019: 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) Fair value of financial instruments 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, 2019 and June 30, 2020.

18. COMMITMENTS

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

HK$ Million	**June 30, 2020**	December 31, 2019
Contracted for	**4,230**	4,721
Authorized but not contracted for	**19,569**	21,117
	23,799	25,838

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

19. 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, 2020.

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 & other borrowings, net of unamortized other borrowing costs

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

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

Underlying net profit attributable to shareholders: Net (loss)/profit attributable to shareholders excluding changes in fair value of properties net of related income tax and non-controlling interests

FINANCIAL RATIOS

$$\text{Basic (loss)/ earnings per share} = \frac{\text{Net (loss)/profit attributable to shareholders}}{\text{Weighted average number of shares in issue during the period}}$$

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

$$\text{Net assets attributable to shareholders per share} = \frac{\text{Shareholders' equity}}{\text{Weighted average number of shares in issue during the period}}$$

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

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

FINANCIAL CALENDAR

Financial period	January 1, 2020 to June 30, 2020
Announcement of interim results	July 30, 2020
Latest time for lodging transfers	4:30 p.m. on September 14, 2020
Closure of share register	September 15 to 16, 2020 (both days inclusive)
Record date for interim dividend	September 16, 2020
Payment date for interim dividend	September 29, 2020

SHARE LISTING

As at June 30, 2020, 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, 2020: HK$18.36
Market capitalization as at June 30, 2020: HK$82.58 billion

SHARE REGISTRAR

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