恒隆地產有限公司
HANG LUNG PROPERTIES LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00101)

2018 INTERIM RESULTS

恒隆地產
HANG LUNG PROPERTIES

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FINANCIAL HIGHLIGHTS

in HK$ Million (unless otherwise stated)

RESULTS

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

UNDERLYING RESULTS

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

FINANCIAL POSITION

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

REVIEW OF OPERATIONS

CONSOLIDATED RESULTS

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

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

Revenue and Operating Profit for the Six Months Ended June 30

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

DIVIDEND

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

PROPERTY LEASING

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

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

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

Mainland China

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

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

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

About 32% of leasable area was temporarily void for major asset upgrading.
* All occupancy rates stated therein were as of June 30, 2018.

- *Malls*

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

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

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

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

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

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

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

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

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

- *Offices*

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

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

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

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

Hong Kong

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

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

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

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

- *Commercial*

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

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

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

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

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

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

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

- *Offices*

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

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

- *Residential and Serviced Apartments*

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

PROPERTY SALES

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

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

PROPERTY REVALUATION

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

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

PROPERTY DEVELOPMENT AND CAPITAL COMMITMENT

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

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

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

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

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

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

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

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

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

LIQUIDITY AND FINANCIAL RESOURCES

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

- *Liquidity Management*

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

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

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

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

- *Financing Management*

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

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

In February 2018, the National Association of Financial Market Institutional Investors (NAFMII) in mainland China gave approval for Hang Lung Properties to establish an on-shore RMB10 billion bond issuance platform. This subsequently qualified as a green bond program, making Hang Lung Properties the first Hong Kong property developer to gain such an approval in mainland China. The approval recognizes our long-standing and strong commitment to sustainability. The RMB green bond issuance platform also enables us to further diversify the source of debt financing in mainland China. On July 16, 2018, green panda bonds of RMB 1 billion with a tenor of three years were issued to finance the construction of some of our investment properties under development in mainland China.

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

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

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

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

- *Gearing Ratios & Interest Cover*

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

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

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

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

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

- *Foreign Exchange Management*

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

(a) RMB Exposure

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

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

(b) USD Exposure

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

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

- *Charge of Assets*

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

- *Contingent Liabilities*

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

OUTLOOK

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

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

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE SIX MONTHS ENDED JUNE 30, 2018 (UNAUDITED)

	Note	**2018 HK$ Million**	2017 HK$ Million	*For information purpose only* **2018 RMB Million**	2017 RMB Million
Revenue	*2(a)*	**5,150**	6,358	**4,187**	5,618
Direct costs and operating expenses		**(1,468)**	(1,817)	**(1,193)**	(1,606)
Gross profit		**3,682**	4,541	**2,994**	4,012
Other net income	*3*	**70**	70	**58**	61
Administrative expenses		**(292)**	(293)	**(237)**	(258)
Operating profit before changes in fair value of properties		**3,460**	4,318	**2,815**	3,815
Net increase in fair value of properties		**2,456**	737	**2,021**	642
Operating profit after changes in fair value of properties		**5,916**	5,055	**4,836**	4,457
Interest income		**256**	312	**208**	276
Finance costs		**(542)**	(622)	**(441)**	(550)
Net interest expense	*4*	**(286)**	(310)	**(233)**	(274)
Share of profits of joint ventures		**54**	28	**44**	25
Profit before taxation	*2(a) & 5*	**5,684**	4,773	**4,647**	4,208
Taxation	*6(a)*	**(736)**	(734)	**(599)**	(649)
Profit for the period		**4,948**	4,039	**4,048**	3,559
Attributable to:					
Shareholders		**4,689**	3,830	**3,837**	3,375
Non-controlling interests		**259**	209	**211**	184
		4,948	4,039	**4,048**	3,559
Earnings per share	*8(a)*				
Basic		**HK$1.04**	HK$0.85	**RMB0.85**	RMB0.75
Diluted		**HK$1.04**	HK$0.85	**RMB0.85**	RMB0.75

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED JUNE 30, 2018 (UNAUDITED)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT JUNE 30, 2018

	Note	(Unaudited) June 30, 2018 HK$ Million	(Audited) December 31, 2017 HK$ Million	*For information purpose only* June 30, 2018 RMB Million	December 31, 2017 RMB Million
Non-current assets					
Property, plant and equipment					
Investment properties	*9*	**136,433**	134,444	**115,159**	112,374
Investment properties under development	*9*	**26,098**	21,592	**22,003**	18,049
Other property, plant and equipment		**217**	220	**183**	184
		162,748	156,256	**137,345**	130,607
Interest in joint ventures		**1,309**	1,277	**1,106**	1,067
Other assets		**87**	85	**74**	71
Deposits with banks		**3,051**	3,705	**2,579**	3,097
		167,195	161,323	**141,104**	134,842
Current assets					
Cash and deposits with banks		**14,735**	18,401	**12,446**	15,379
Trade and other receivables	*10*	**1,754**	2,036	**1,480**	1,702
Properties for sale		**1,262**	1,612	**1,067**	1,347
Assets held for sale	*12*	**77**	214	**65**	179
		17,828	22,263	**15,058**	18,607
Current liabilities					
Bank loans and other borrowings		**3,151**	2,112	**2,657**	1,765
Trade and other payables	*11*	**6,079**	6,673	**5,130**	5,579
Finance lease obligations		**22**	19	**19**	16
Current tax payable		**517**	483	**437**	404
Liabilities directly associated with the assets held for sale	*12*	**-**	2	**-**	2
		9,769	9,289	**8,243**	7,766
Net current assets		**8,059**	12,974	**6,815**	10,841
Total assets less current liabilities		**175,254**	174,297	**147,919**	145,683
Non-current liabilities					
Bank loans and other borrowings		**22,383**	22,708	**18,897**	18,980
Finance lease obligations		**314**	319	**265**	267
Deferred tax liabilities		**9,026**	9,025	**7,611**	7,527
		31,723	32,052	**26,773**	26,774
NET ASSETS		**143,531**	142,245	**121,146**	118,909
Capital and reserves					
Share capital		**39,915**	39,912	**37,433**	37,431
Reserves		**97,678**	96,246	**78,707**	76,390
Shareholders' equity		**137,593**	136,158	**116,140**	113,821
Non-controlling interests		**5,938**	6,087	**5,006**	5,088
TOTAL EQUITY		**143,531**	142,245	**121,146**	118,909

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The interim results set out in the announcement do not constitute the interim report for the six months ended June 30, 2018 of Hung Lung Properties Limited (the "Company") and its subsidiaries (collectively the "Group") but are extracted from the report.

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

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

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements, except for the changes summarized below.

Impact of adoption of HKFRS 15, Revenue from contracts with customers

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

1. Basis of preparation (Continued)

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

Policy applicable on or before December 31, 2017

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

Policy applicable from January 1, 2018

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

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

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

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

1. Basis of preparation (Continued)

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

(a) Consolidated statement of profit or loss (Extract)

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

1. **Basis of preparation (Continued)**

(b) Consolidated statement of financial position (Extract)

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

(c) Condensed consolidated cash flow statement

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

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

1. Basis of preparation (Continued)

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

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

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

2. Revenue and segment information

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

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

Management evaluates performance primarily based on profit before taxation.

Segment assets principally comprise all non-current assets and current assets directly attributable to each segment with the exception of interest in joint ventures, other assets, cash and deposits with banks and assets held for sale. The investment properties of the Group are included in segment assets at their fair values whilst the changes in fair value of properties are not included in segment profits. No segment liabilities analysis is presented as the Group monitors and manages its liabilities on a group basis.

2. Revenue and segment information (Continued)

(a) Revenue and results by segments

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

2. Revenue and segment information (Continued)

(b) Total assets by segments

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

3. Other net income

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

4. Net interest expense

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

5. Profit before taxation

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

6. Taxation

(a) Provision for Hong Kong Profits Tax is calculated at 16.5% (2017: 16.5%) of the estimated assessable profits for the period. Mainland China Income Tax mainly represents mainland China Corporate Income Tax calculated at 25% (2017: 25%) and mainland China withholding income tax at the applicable rates. A withholding tax of 5% is levied on the Hong Kong companies in respect of dividend distributions arising from profits of foreign investment enterprises in mainland China earned after January 1, 2008.

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

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

7. Dividends

(a) Interim dividend

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

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

(b) Final dividend approved and paid during the period

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

8. Earnings per share

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

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

8. Earnings per share (Continued)

(a) (Continued)

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

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

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

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

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

9. Investment properties and investment properties under development

(a) Additions

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

(b) Valuation

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

10. Trade and other receivables

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

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

10. Trade and other receivables (Continued)

(a) (Continued)

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

(b) Included in other receivables of the Group is a deposit of land acquisition in mainland China of HK$297 million (December 31, 2017: HK$299 million).

11. Trade and other payables

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

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

12. Assets held for sale

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

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

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

OTHER INFORMATION

Employees

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

Purchase, Sale or Redemption of Listed Securities

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

Compliance with Corporate Governance Code

During the six months ended June 30, 2018, the Company 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 on The Stock Exchange of Hong Kong Limited.

Review of Interim Results

The interim results for the six months ended June 30, 2018, have been reviewed by the Company's Audit Committee and auditor, KPMG.

Book Close Dates

Book close dates (both days inclusive)	September 12 to 13, 2018
Latest time to lodge transfers	4:30 pm on September 11, 2018
Record date for interim dividend	September 13, 2018
Payment date for interim dividend	September 27, 2018

On Behalf of the Board
Ronnie C. Chan
Chairman

Hong Kong, July 30, 2018

As of the date of this announcement, the board of directors of the Company comprises the following directors:
Executive Directors: Mr. Ronnie C. CHAN, Mr. Weber W.P. LO, Mr. H.C. HO and Mr. Adriel W. CHAN
Non-Executive Director: Mr. Philip N.L. CHEN
Independent Non-Executive Directors: Mr. Ronald J. ARCULLI, Mr. Nelson W.L. YUEN, Mr. Dominic C.F. HO, Dr. Andrew K.C. CHAN, Prof. H.K. CHANG and Ms. Anita Y.M. FUNG

GLOSSARY

Financial Terms

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

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

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

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

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

Financial Ratios

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

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

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

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

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