恒隆地產
HANG LUNG PROPERTIES

2017
Interim Report

Hang Lung Properties Limited
Stock Code: 00101

WE DO IT RIGHT

Corporate Information

DIRECTORS

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

* *Independent Non-Executive Director*

AUDIT COMMITTEE

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

NOMINATION AND REMUNERATION COMMITTEE

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

AUTHORIZED REPRESENTATIVES

Philip N.L. Chen
Margaret K.M. Yan

COMPANY SECRETARY

Margaret K.M. Yan

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AUDITOR

KPMG
Certified Public Accountants

RESULTS AND DIVIDEND

Compared to the last corresponding period, revenue was slightly higher at HK$6,358 million. Net profit attributable to shareholders advanced 30% to HK$3,830 million. Earnings per share rose similarly to HK85 cents.

When excluding property revaluation gain and all related effects, the underlying net profit attributable to shareholders decreased 4% to HK$3,040 million. Underlying earnings per share fell 3% to HK68 cents.

The Board has declared an interim dividend of HK17 cents per share payable on September 28, 2017 to shareholders of record on September 14, 2017.

BUSINESS REVIEW

A year ago, I suggested here that there were gentle signs of spring in the then chilly winter of the Chinese economy, particularly in the luxury retail sector. By January this year, I was more positive but did not want to commit myself yet. Now I believe that the ice has thawed. Luxury goods tenants at our Shanghai facilities have seen strong growth in sales. It is very possible that recovery, which usually begins in tier-one cities, will spill over to other cities. Some but not all brands are beginning to expand again.

Given the nature of lease contracts, rental income has not yet reflected sales growth. But it will.

What we went through in the past six years was like a "perfect storm." It also differs in character from all previous downturns since the country's market opening in late 1978. It lasted the longest. Also, many of the earlier economic troubles had strong political overtones. A case in point was the 1989 nationwide turmoil which sparked an economic slowdown.

The latest downfall was more economic in nature although it was partially caused by government policies. But even without the anti-corruption and anti-opulence campaign, the market would have fallen sooner or later. Years of loose monetary policies resulted in huge overcapacity in production and excess inventory of commodities and manufactured goods alike. All these factors will bring on a correction.

There is at least one more difference. In the past the government has invariably tried its best to revive the market, and was successful in almost all cases. This time, Beijing was much more light-handed. Apparently it did not see the necessity to overly intervene.

There were other reasons for the economic slowdown. Diminishing export growth was one. For that, the domestication of formerly international trade as described in my letter to shareholders six months ago was, I believe, a major cause.

A factor more specific to our industry was said to be the oversupply of shop space. For example, it was said that Shenyang, a city we entered early after Shanghai, has more retail floor area than Sydney and Melbourne combined. Fortunately, very few of the shopping centers in Shenyang are world-class, with two being ours — Forum 66 and Palace 66, one each in the luxury and sub-luxury goods sectors. A similar situation exists in all other cities where we operate.

On the other hand, top international fashion brands also over extended in the late 2000's. At least they expanded too fast. Given the anti-corruption measures and subsequent market shrinkage, they were forced to quickly close down some of their shops. Let the market grow for a few more years and the previous larger portfolio may be just right, but not for now. I can imagine the psychological trauma that the senior management of those brands must have gone through, and can only wonder if they have fully recovered.

The concomitant occurrence of the above two phenomena — oversupply of space and over expansion of fashion shops — led to some unhealthy practices. As mall owners chased after a limited number of luxury brands, not only free rents but also large sums of cash for tenant improvement were offered or demanded. This was a treacherous situation for the landlord as the retailers had little at stake. They could pack up and leave anytime. What was surprising was the fact that some of the world's top brands would open shops in terrible properties just because they were rent-free. When the market turned south, they simply returned the key and there was little that the property owner could do. In fact, the fashion houses themselves also suffered in terms of reputation. Their brand equity was invariably hurt.

In such market conditions, only the best world-class facilities like ours can be spared from these practices. Without being offered such outrageous terms, top brands still chose to open in our malls because they knew that they could sell more products.

Another aspect of the "perfect storm" had to do with offshore purchases of luxury products. Tax and price differentials between mainland China and the West can be great. The annual report of one of the world's top fashion groups once stated that whereas almost a quarter of global sales were transacted with mainland Chinese, only 5% to 6% of total purchases were done within China, excluding Hong Kong. To exacerbate the problem, until the past two years the RMB was strong, which made buying overseas even more attractive.

In the past few years, e-commerce has grown tremendously, taking some market share away from physical stores. The phenomenon prompted some to pronounce the death of brick-and-mortar stores. While such predictions cannot be correct, neither should one ignore the impact of this new form of sales. Eventually a steady-state ratio between online and offline sales for each category of products in a particular market will be reached. Fortunately, for reasons explained in previous years, high-end malls like ours are definitely less affected.

Social psychology also played a part in the "perfect storm." When job creation and/or salary increases slow down, citizens are less confident about their prospects and will consume less. A periodic slowdown in residential price rises adds to this sentiment. The resulting negative wealth effect can be serious.

A point worth mentioning here is the effect that China's economic slowdown has on the rest of the world. For decades it was said that when the U.S. economy sneezed, the rest of the world would catch a cold or, in some cases, pneumonia. Such is the nature of the beast called globalization. Now the same can be said of China. Commodity rich economies like Australia felt it the most, but few countries were spared. They are all praying for China's recovery. What a far cry from only 20 years or even 10 years ago! Ancillary to this phenomenon is that after two to three decades of fast wealth accumulation, a rise in Chinese private consumption becomes inevitable and is certainly good for our business.

So what caused the market recovery of China? Here endogenous factors are much more significant than exogenous ones. It was the cleaning up of China's own house that brought new shoots to the economy.

First, there was a passage of time to work down inventory. The government has forced the closure of excess production capacities, especially the weaker facilities. Lowering inventory and removing excess capacity are accompanied by general deleveraging and credit reallocation to productive investments. All these have very positive effects on the overall economy.

Internationally, the Belt and Road Initiative (BRI) proposed by President XI Jinping in 2013 is beginning to bear fruit, not only for China. Last year a former Prime Minister of Pakistan told me that some USD40 billion are being invested in his country from ports to roads and railways. The BRI is thus good for all. For a fuller explanation, I refer readers to my letter to shareholders of our parent company, Hang Lung Group Limited.

Second, external trade, both exports and imports, has improved. The strengthening of major trading economies and a weaker RMB certainly helped in the recovery of export growth rate.

Third, public investment, which has always been an economic engine, has once again done its magic. Westerners are correct to point out that no economy can rely forever on it to drive growth. But knowing the enormous size of a genuine need for infrastructure, the country is far from the point of saturation. The environment, for instance, is but one of the many areas that requires billions if not trillions of RMB of new investments to improve it.

Fourth, private consumption has continued to expand. The luxury goods sector, which is critical to us, in fact led the charge and yielded the highest percentage gain in terms of sales growth. Since salary rises have not abated, especially for the highly educated, five to six years of a slower economy did not dampen the increase in the number of city dwellers who are now candidates for high-priced products. Rising residential prices of late can only help to improve sentiment.

What seems sure is that the market for high-end goods has found its bottom after the removal of corruption-related purchases. What we are witnessing nowadays is a real demand in normal market conditions. While there will always be ups and downs, overall we may be seeing an upward trend which should last for many years to come. The rise today is a systemic as well as a cyclical one.

In terms of retail sector recovery, Hong Kong lags behind the Mainland by perhaps a year. Twelve months ago I wrote about slight indications of a turnaround in tier-one markets like Shanghai. Now we are observing the same in our home city. How sustainable and how strong it can be remains to be seen.

Amidst a weak local market in recent years, we have definitely outperformed, due mainly to asset enhancement initiatives undertaken before conditions worsened. We seemed to have defied gravity — we grew while others stagnated. Years of outperformance have however raised the rental to a high level, which in turn makes a continual strong increase more difficult to achieve. Consequently, our growth rate may in fact moderate. This is counterintuitive but rational.

Of significance is the “new normal” for Hong Kong retail business. Years ago, when Mainland tourists poured in, rents went through the roof. Due mainly to the foolishness of some of our citizens in making hostile gestures toward our compatriots from the North, an unpalatable impression has been formed in the minds of Mainland visitors and potential visitors. Yet they are getting wealthier by the day. People in the industry know that not only does China have the biggest number of outbound tourists, they are also among the highest per capita spenders when they travel. Sadly, Hong Kong for many of them is no longer their preferred destination for shopping.

When such rich consumers began to shop in other places such as Taipei, Tokyo or Seoul, our retailers could no longer afford the very high rents that they and their landlords were both accustomed to. Vacant retail spaces that were hardly seen before began to appear. Reality soon set in and everyone had to accept a new normal — a new level of rent that was lower than before. In some cases, the percentage drop was significant. Fortunately our Hong Kong rental portfolio has always been oriented toward local shoppers, and so was not hurt.

Set against this background, our performance of the past six months was acceptable. Rental income in both Hong Kong and the Mainland edged up 1% in local currencies. Due to the 5% depreciation in the RMB vis-à-vis our reporting currency, the Hong Kong Dollar, Mainland revenue fell 4% resulting in a retreat of 2% for the entire portfolio. The contribution split was 49% Hong Kong and 51% the Mainland. Overall rental margin improved slightly to 76% with Hong Kong at 86% and the Mainland at 65%.

Plaza 66 in Shanghai was the star performer. Revenues rose 23% while retail sales went up 29%. These numbers underlined the strong recovery of the luxury retail sector just as I had previously reported. The fact that its renovation works were recently completed contributed further to the strong performance.

Grand Gateway 66 in the same city has just commenced a major HK$800 million plus refurbishment program. They are expected to be completed in late 2019. So far 19% of retail space has been removed from the market, and the total at its height will reach 31%. On a like-for-like basis, rents went up 9% in the past six months and retail sales rose 7%. The 7% drop in the reported revenue was due solely to the asset enhancement initiative now in force.

Outside of Shanghai, retail sales increased everywhere. This was true on a year-on-year basis as well as when compared to the half year immediately before. These are good signs even though rental revenue in some properties fell due to lingering downward rent reversion pressure. Occupancy rate improved in almost all projects. Occupancy cost everywhere has come down slightly or has remained the same.

As reported previously, Parc 66 in Jinan is now a successful shopping center. Riverside 66 in Tianjin is also performing quite well and improving. Management efforts have borne fruit, and I am hopeful that we will very soon see an increase in both top and bottom lines.

In the past we had two concerns: Forum 66 in Shenyang and Center 66 in Wuxi. Now just one concern remains. The latter's difficulties are not only basically resolved; it is already on an upward trajectory and should do well. The completion of the second office tower in late 2019 should further help. Forum 66 will need more work and I am confident of its eventual turnaround. Olympia 66 in Dalian, being new, has much room for improvement, but progress is being made.

Our offices in Shanghai are performing acceptably. The two new towers, one each at Forum 66 in Shenyang and Center 66 in Wuxi, are doing quite satisfactorily. We should be able to reach full or near-full occupancy by year end, or at the latest, by early next year. We have let some weaker tenants go, only to replace them with much stronger ones. Now we can boast some of the biggest commercial names in the West and in China. Offices now account for approximately 22% of our total rents received on the Mainland.

When we first entered the Mainland market, this asset class was meant to be supplemental to our main business of shopping centers. In some ways this is still true. Nevertheless, our appetite for offices has grown such that we can even look upon it as a stand-alone business. We certainly do not mind doing more of it. Besides land price, the criteria for new projects are the same as those for malls — choose only the best cities and best locations.

Taking advantage of the continued strong residential market in Hong Kong, we further sold down our inventory at an excellent profit. Compared to the same period a year ago, we parted with fewer units (198 versus 228) but pocketed 5% more in revenue and 18% more in operating profit. Profit margins improved from 58% to 65%. We have sold the last unit at The HarbourSide, thus closing what may be our longest voluntary sales campaign spanning 14 years. The project might also have broken another record — it is perhaps the single most — or at least one of the most — profitable real estate projects in Hong Kong.

A slight revaluation loss on the Mainland was compensated by gains in Hong Kong. Profit attributable to shareholders rose 30%, and earnings per share increased similarly. Because of lower interest income and capitalization of interest expenses, underlying net profit attributable to shareholders and underlying earnings per share decreased by 4% and 3%, respectively.

Construction progress everywhere is acceptable, with minor delays. As I will report later, 2019 will be an extraordinary year for us. On average, a project will be completed every other month.

PROSPECTS

In my letter to shareholders in the Annual Report for the financial year ended June 2011, I stated that beginning in 2012, the Company might well enter a golden era. This was based on the assumption that there would be no major disruptions in the market, which unfortunately did not turn out to be the case in the past six years. However, as management has of late critically reviewed our strategy which we always do periodically, we remained convinced as ever that our future especially on the Mainland should be bright for decades to come. As I have periodically written, private consumption will be a major driver of the economy and we are well positioned to take advantage of the opportunities arisen therefrom.

This means that whereas inevitable periodic economic downturns may hold off our schedule, as they have in the past six years, they cannot and will not fundamentally alter our course. Frankly, the recent bear market was not what concerned our management the most. After all we have been basically debt-free throughout this period. Our main task was not to counter the effects of market weakness. Rather, it was to build a world-class management team on the Mainland worthy of our strategy and our commercial properties, which stand among the best in the country. We need to get our software right, just as we had in the past decades got our hard assets right. In other words, our main focus of the past few years was not so much to be defensive, to survive the market lull at the time. Instead, it was offensive, to prepare ourselves for the tremendous opportunities that lie ahead.

There is no denying that the combination of a very weak market and the need to strengthen our management team presented a serious challenge. As our CEO Philip Chen, a former airline executive, said, to change airplane engines in mid-air was an uncomfortable exercise! Nevertheless, I am happy to report that the external environment has finally turned around, and is expected to continue in that direction in the foreseeable future. More significantly, the team that we have today is very different from the one we had before the downturn that hit in 2011. To be sure, the task of team building is not yet complete but we have already made much progress.

When we last placed shares in November 2010, the market was at its peak. Within a year, the Chinese economy began to falter. The overall stock market fell and so did our scripts. The latter has been weak ever since. I suspect that the feebleness of recent years was partly due to the market not being convinced that we could repeat the success of Shanghai in other Mainland cities. Frankly I can see why.

The situation is now substantially different. The market has recovered and our efforts have borne fruit. Not counting the brand new Olympia 66 in Dalian, all but one, Forum 66 in Shenyang, have successfully passed the initial stage of teething problems common to all new commercial complexes. The industry norm tells us that four to five years after opening are usually required to stabilize a new facility, and we are basically on schedule. For example, Center 66 in Wuxi opened in 2013 and Riverside 66 in Tianjin in 2014. Both are now doing well and are expected to do even better in the coming years.

To put things in context, although the past few years saw a lethargic market for our Mainland business, we nevertheless have approximately doubled our rental revenue therefrom since 2010. Looking into the coming five to seven years, it is likely that barring unforeseen circumstances, these numbers should double once again. The following three factors point to this outcome: continued market recovery and advancement, further improvement and organic growth of our existing portfolio, and addition of new properties.

Unlike the period between 2010 and 2016 when new developments arrived gradually — we inaugurated six malls, one per year except in 2015, and one office tower in each of 2014 and 2015 — a good portion of our coming new space will be completed in 2019, followed by gradual additions thereafter. Between the fourth quarter of 2018 and late 2019, we expect to open the malls Spring City 66 in Kunming and Heartland 66 in Wuhan. Their respective office skyscrapers should follow approximately one year later which may in turn be followed by their residential towers.

Also anticipated in 2019 is the completion of the 315-key Conrad Hotel in Forum 66 in Shenyang. Although this hotel is not expected to be a key profit driver, its presence should complement the office tower and retail space. The second office tower of Center 66 in Wuxi will follow soon thereafter. Later in the same year, the refurbishment of Grand Gateway 66 in Shanghai should be concluded. (Around the same time, the remodeling of The Peak Galleria shopping center in Hong Kong will be completed.)

If the decision to construct the second office tower of Forum 66 soon becomes positive, the space may be ready for the market by as early as 2020. The same is true for the high-rise residential units in Forum 66, Center 66, Spring City 66, and Heartland 66. All the apartments will be for sale.

With these developments in the pipeline, a meaningful increase in rental revenue from the Mainland in the coming, say, five years should be forthcoming. Thereafter, considerable organic growth in rent can reasonably be expected. This is why our management believes that whereas periodic market lulls may somewhat delay the arrival of the golden era as I have previously written, they cannot forestall its dawning. Our future is bright indeed.

For now, we will continue to watch the ice thaw. Barring black swan events, China's private consumption market should grow further in the coming years. This is especially true in the luxury goods sector. Balmy winds will be expected in tier-two cities as they have been experienced in places like Shanghai.

Bucking the market trend in the past few years, a much higher base has been established in our Hong Kong retail rentals. Consequently, our rate of growth may moderate, as we have begun to witness in the past six months. Nevertheless, some increase in rent can still be anticipated.

There is a possibility that we will soon completely sell out The Long Beach. A certain number of houses at 23-39 Blue Pool Road may also find buyers. Profits therefrom should be rather satisfactory. As to the replenishment of the land bank, I remain hopeful that we can score success in the coming year or two but only with commercial plots on the Mainland.

Hang Lung began as a pure real estate developer in 1960. It quickly amassed wealth in a few short years and became perhaps the largest Chinese-run concern of its kind. Around 1970, it began to acquire rental properties in the Mongkok District of Kowloon and soon expanded into the Causeway Bay District on Hong Kong Island, two regions where we still maintain a strong presence today.

We may have been the first Chinese company to conscientiously engage in the rental business in the post-World War II era. While such capital deployment made us miss the huge surge in residential prices in the 1970's and 1980's, it also protected us from sharp periodic market falls. In hindsight, we entered the rental property business too early, a point I have made in recent years.

Whatever the merits and demerits, we survived. As a decision totally independent of this history, we focused on the rental and not the development business soon after we entered the Mainland market in late 1992. We however continued to do development projects in Hong Kong in the 1990's and especially in the early 2000's. The Asian Financial Crisis of 1997–2002 afforded us a great opportunity to buy developable land on the cheap. We have taken full advantage of the market and have finally almost sold out all units for a great profit.

Given the high Hong Kong land prices in recent years, we believe that the risk-adjusted return on Mainland commercial projects for lease is more favorable than that on Hong Kong residential developments. Consequently, in the past decade and more, we concentrated on building our rental portfolio north of the border. Ancillary to some of these projects are luxury apartments for sale, but their profit contributions relative to our total business are not expected to be too big. That said, there is always a possibility that we will one day do more of these.

The likelihood of our purchasing significant quantities of Hong Kong residential land for development does not appear to be great at this time. All too many bidders, especially new entrants from the Mainland, have pushed up unit prices. But if there ever is another opportunity akin to that of 2000, we will be happy to seize it. After all, we are not pessimistic about Hong Kong's property industry.

As reported before, we would like to expand our Mainland rental portfolio by buying more land. Given our long-held strategy, these acquisitions are critical to the subsequent performance of the projects. As such, we have always been very careful. In the 12 to 13 years from 2005 till today, we have made nine acquisitions. (Phase I and II of Center 66 in Wuxi were separately purchased.) Going forward, we will become even more selective in our choice of land. If on average one piece of land is bought every two years, I will be pleased.

Given this landscape, and as we sell down our Hong Kong residential inventory, we will increasingly become a rental business-led company. For the many reasons given in the past, we believe that this is a good strategy today. This is especially true since the risks in Hong Kong residential development projects are too high, given exorbitant land prices. On the other hand, neither are similar activities on the Mainland attractive, due to the relatively low unit price in tier-two cities, and the competition and market saturation in some tier-one cities. This is not to mention the frequent periodic changes in government policies, and high taxes.

This is why some Mainland developers are entering the Hong Kong market, for they have increasingly found it difficult to grow revenue, let alone profit back home. Some are going even further afield, to places such as Southeast Asia, Australia and the United States. For those of us who have done real estate business in such places in past decades, we know how treacherous they can be. Yet I sympathize with our Mainland friends. If their home markets still had plenty of opportunities, they would not venture out. If so, then why should we as a Hong Kong-based company do residential projects on the Mainland, except in niche markets like we have been doing?

This strategic direction of ours will have a bearing on our dividend policy. In the past year or two, some institutional investors have been speaking of the merits of higher dividends. To be sure, small local investors have always demanded that. We listened to them carefully but only to a certain extent. We are keenly aware of the fact that at times they do not share the same objectives as ours. Representing primarily the long-term interests of our shareholders, we manage our business and not our short-term share price. This is why we like long-term investors with whom we have total parallel interests.

Our long-held and publicly stated dividend policy is to strive for a steady stream of payments. As we earn more, we will pay out more. Our strategy to maximize profit from each Hong Kong residential development means that we will only sell when prices are high. As a result, profit therefrom may fluctuate greatly from year to year. In some years, it may be substantial, but in others very little or even none. If the dividend payout is directly linked with such profit, then the absolute level of dividend may fluctuate wildly. This is why we do not adopt a fixed payout ratio. Instead, we should primarily look at rental income to determine the level of dividend. Nevertheless, the probability of considerable sales profit for a particular year can influence the Board's decision on how much to pay out.

My readers may be surprised to learn that in 13 of the last 16 years between 2001 and 2016, we basically paid out more than our leasing profits. In the other three years, on average 90% of such profits were passed onto shareholders. The Board was able to make such decisions based on two considerations: we knew that rents would rise quickly in the coming years, and there was considerable impending development profit.

As reported earlier, our Mainland rental portfolio will greatly enlarge from 2019 onwards. Topline growth will sooner or later lead to a profit increase, thus enabling us to pay more dividends. However, we will likely have a hiatus in property sales profit once the remaining completed Hong Kong residential units are sold out in the coming few years. With this in mind, we cannot for now be too aggressive in dividend payout.

I do not expect too many surprises in the 2017 full year results, especially on the rental front. The final number will obviously be affected by how many Hong Kong residential units will be sold.

Ronnie C. Chan
Chairman
Hong Kong, July 27, 2017

Financial Highlights

In HK$ Million (unless otherwise stated)

RESULTS

	For the Six Months Ended June 30		
	2017	2016	Change
Revenue	**6,358**	6,311	1%
Property Leasing	**3,835**	3,907	-2%
Property Sales	**2,523**	2,404	5%
Operating Profit	**4,541**	4,320	5%
Property Leasing	**2,899**	2,931	-1%
Property Sales	**1,642**	1,389	18%
Net Profit Attributable to Shareholders	**3,830**	2,935	30%
Earnings Per Share (HK$)	**$0.85**	$0.65	31%
Interim Dividend Per Share (HK$)	**$0.17**	$0.17	–

UNDERLYING RESULTS

	For the Six Months Ended June 30		
	2017	2016	Change
Underlying Net Profit Attributable to Shareholders	**3,040**	3,167	-4%
Underlying Earnings Per Share (HK$)	**$0.68**	$0.70	-3%

FINANCIAL POSITION

	At June 30 2017	At December 31 2016	Change
Shareholders' Equity	**129,814**	126,565	3%
Net Assets	**135,730**	132,145	3%
Net Debt	**1,350**	2,757	-51%
Financial Ratio			
Net Debt to Equity Ratio	**1.0%**	2.1%	-1.1 pts
Debt to Equity Ratio	**17.5%**	20.5%	-3.0 pts
Shareholders' Equity Per Share (HK$)	**$28.9**	$28.1	3%
Net Assets Per Share (HK$)	**$30.2**	$29.4	3%

CONSOLIDATED RESULTS

For the six months ended June 30, 2017, total revenue of Hang Lung Properties Limited and its subsidiaries (collectively known as "Hang Lung Properties") increased 1% to HK$6,358 million mainly driven by higher property sales. Property sales revenue increased 5% to HK$2,523 million. Revenue from property leasing fell 2% to HK$3,835 million, but was up 1% if excluding the 5% Renminbi (RMB) depreciation against the Hong Kong Dollar (HKD) over the same period of last year. Total operating profit increased 5% to HK$4,541 million.

Underlying net profit attributable to shareholders decreased 4% to HK$3,040 million mainly due to lower interest income and a smaller amount of interest expense capitalization. After including a revaluation gain on investment properties, net profit attributable to shareholders advanced 30% to HK$3,830 million. Earnings per share increased similarly to HK$0.85.

Revenue and Operating Profit for the Six Months Ended June 30

	Revenue			Operating Profit		
	2017 HK$ Million	2016 HK$ Million	Change	2017 HK$ Million	2016 HK$ Million	Change
Property Leasing	**3,835**	3,907	-2%	**2,899**	2,931	-1%
Mainland China	**1,949**	2,038	-4%	**1,274**	1,327	-4%
Hong Kong	**1,886**	1,869	1%	**1,625**	1,604	1%
Property Sales	**2,523**	2,404	5%	**1,642**	1,389	18%
Total	**6,358**	6,311	1%	**4,541**	4,320	5%

DIVIDEND

The Board of Directors has declared an interim dividend of HK17 cents per share for 2017 (2016: HK17 cents) to be paid by cash on September 28, 2017, to shareholders whose names appeared on the register of members on September 14, 2017.

PROPERTY LEASING

For the first half of 2017, total revenue of our leasing properties dropped 2% to HK$3,835 million. Property renovations at Grand Gateway 66 in Shanghai and Causeway Bay and The Peak Galleria in Hong Kong caused a short-term disruption of rental income. The 5% RMB depreciation had also put a damper to the consolidated results. Income of the Hong Kong leasing portfolio increased 1%. Revenue of the mainland portfolio decreased 4%, but was up 1% in RMB terms. Total operating profit fell 1% to HK$2,899 million. Overall rental margin was up one point to 76%.

Mainland China

Revenue and operating profit of the entire mainland China portfolio both increased 1% to RMB1,723 million and RMB1,126 million, respectively. Average margin was 65%.

Consumption of luxury goods in Mainland cities where we have operations was subdued except at our Shanghai Plaza 66 mall. In line with our expectations, the substantially completed renovation programs at Shanghai Plaza 66 started to produce very favorable results in both revenue and retail sales during the first half of 2017. On the other hand, commencement of major asset enhancement programs at Shanghai Grand Gateway 66 in early 2017 caused a certain degree of income interruption, as expected.

The performance of our non-Shanghai portfolio was mixed. Overall business environment remained challenging in cities such as Shenyang and Wuxi. Vigilant tenant remix and marketing measures were implemented in the first six months of 2017. Undoubtedly, these efforts would have a short-term adverse impact on occupancy and financial performance. Such relentless pursuit of continuous improvements is expected to yield better future returns.

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

Name and City of the Property	Revenue (RMB Million) 2017	2016	Change	Occupancy Rate at June 30, 2017 Mall	Office
Shanghai Plaza 66	**710**	654	9%	89%	86%
Shanghai Grand Gateway 66	**451**	485	-7%	81%	N/A
Shenyang Palace 66	**77**	70	10%	88%	N/A
Shenyang Forum 66	**105**	119	-12%	77%	69%
Jinan Parc 66	**133**	135	-1%	92%	N/A
Wuxi Center 66	**105**	119	-12%	84%	77%
Tianjin Riverside 66	**90**	96	-6%	87%	N/A
Dalian Olympia 66 *	**52**	36	44%	64%	N/A
Total	**1,723**	1,714	1%		
Total in HK$ Million equivalent	***1,949***	*2,038*	*-4%*		

* Grand opening on September 9, 2016.

- *Shopping Malls*

The entire shopping mall portfolio in mainland China collected 2% more in rents to RMB1,338 million. Higher contributions from the Shanghai Plaza 66 mall and the new Dalian Olympia 66 mall were largely offset by the rental interruption due to renovation work at the Shanghai Grand Gateway 66 mall and negative rental reversions at some malls outside of Shanghai.

Revenue of the Shanghai Plaza 66 mall increased 23% mainly driven by the re-opening of the renovated basement and higher sales rents. The entire basement was closed for renovation since March 2016. It was re-opened in phases from January 2017, and now houses more than 30 tenants. For the first six months of 2017, the entire Plaza 66 mall recorded sales growth of 29% compared to the same period last year.

Our Shanghai Grand Gateway 66 mall commenced its major upgrading program in early 2017. The whole program will be carried out in phases till mid-2019. The work will include a new main entrance for the shopping mall, a new subway link to Metro Line 9, and a major layout re-configuration at Level 1 and the basement of the mall, etc. 19% of the leasable area has been closed for the enhancement and renovation program. As a result, occupancy of the mall dropped 15 points to 81%. Rental income of the mall retreated 7% against the same period of last year. When excluding the affected areas, rental income advanced 9% on a like-for-like basis. Retail sales decreased 5% as a result of the renovation work. Some of the affected areas will be re-opened in phases starting in 2018 to minimize the adverse impact on income and profit. This carefully planned asset enhancement program will strengthen the mall's long-term competitiveness and profitability.

The performance of our six shopping malls outside of Shanghai was mixed. Their total revenue dropped 3%. Some malls had to make downward adjustments in rents to optimize tenant mix and occupancy in the face of challenging market conditions. The Shenyang Palace 66 mall collected 10% more in rents, despite occupancy rate slipped one point to 88% by the end of June 2017. Revenue of Jinan Parc 66 mall fell 1%, while occupancy increased eight points to 92%. Income of the Tianjin Riverside 66 mall dropped 6%, but occupancy rate was up five points to 87%. Retails sales at Palace 66, Parc 66 and Riverside 66 increased by 12%, 8% and 14%, respectively.

Performance of the Shenyang Forum 66 mall was adversely affected by a tenant optimization exercise to replace non-performing tenants. As a result, rental income of the mall decreased 28%. Occupancy was down seven points to 77% by the end of June 2017. Despite a lower occupancy, retail sales at the mall increased by 2% due to a better tenant mix. The performance of Forum 66 is expected to improve gradually with the introduction of new tenants to the mall and increasing occupancy of its office tower. The conversion of the upper 19 floors of the office tower into a hotel, under the esteemed Conrad brand, is expected to open for business in 2019.

Following the success of the first office tower, construction of the second office tower above the Wuxi Center 66 mall is in progress. About 9% of the mall's leasable area was void temporarily as a result. Revenue of the mall decreased 13%. Despite the interruption, more new brands were introduced to the mall to enrich its offerings. Retail sales increased by 19% period-on-period. With occupancy stood at 84% at the end of June 2017, the remaining space available for leasing was only 7%. The leasing of the remaining space is progressing well.

The grand opening of the new mall, Olympia 66 in Dalian, took place on September 9, 2016. Occupancy was 64% at the end of June 2017.

- *Offices*

Offices at Shanghai Plaza 66 recorded a 7% drop due to transitional voids associated with major tenant relocation within the buildings and phased re-letting of units previously occupied by large space users.

The enhancement work for Office Tower One at Plaza 66 was completed in 2016 and was well received by tenants. A similar program for Office Tower Two also commenced in the fourth quarter of 2016 and is targeted to complete in phases by 2018. The remaining enhancement work will have minimal adverse impact on the revenue of Plaza 66.

Revenue from offices in Shenyang Forum 66 and Wuxi Center 66 grew by 4% in total. The office towers at both Forum 66 and Center 66 have established a strong foothold in the respective cities, attracting multi-national companies and renowned nationals. The tenant mix continued to improve via expansion and replacements.

Overall, revenue of the office portfolio in mainland China decreased 4% to RMB385 million.

Hong Kong

Total revenue and operating profit of our Hong Kong leasing portfolio both increased 1% to HK$1,886 million and HK$1,625 million, respectively. Overall rental margin was 86%.

Overall retail sales in Hong Kong declined by 1% for the first five months of 2017 against the same period of last year. However, our portfolio recorded sales growth of 7% when excluding the void areas attributable to the asset enhancement programs: the final stage of Fashion Walk in Causeway Bay and Phase 1 of The Peak Galleria.

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

	Revenue (HK$ Million)			Occupancy Rate at June 30, 2017
	2017	2016	Change	
Commercial	**1,118**	1,133	-1%	93%
Office and Industrial/Offices	**622**	595	5%	95%
Residential & Serviced Apartments	**146**	141	4%	74%
Total	**1,886**	1,869	1%	

- *Commercial*

Revenue of the Hong Kong commercial portfolio fell 1% to HK$1,118 million, but was up 2% when excluding areas closed for upgrading in Causeway Bay and The Peak Galleria. Overall occupancy at the end of June 2017 was 93%.

Rental revenue of the Causeway Bay portfolio decreased 4%, but was up 2% when excluding areas closed for renovation. The final phase of the asset enhancement program of the Causeway Bay retail portfolio at 9 Kingston Street, involved the closure of 23% of our Causeway Bay retail space since January 2017. The renovation work is targeted for completion in the second half of 2017, with enhanced ambience and more offerings, including more lifestyle brands and al fresco dining options. Benefitting from the enhanced tenant mix and offerings after renovation of Fashion Walk and Hang Lung Centre, retail sales of our tenants in Causeway Bay recorded an 8% growth on a comparable basis.

Income at Kornhill Plaza in Hong Kong East advanced 4%, mainly driven by positive rental reversions and tenants upgrade. Following the re-opening of the refurbished AEON STYLE in July 2016, Grand Kornhill Cinema added new excitement to this mall with the launch of Hong Kong's first MX4D technology-enabled movie offerings in April 2017. More quality food and beverage tenants were also introduced to the mall to enrich the offerings.

Revenue of our leasing properties in Mongkok, mainly comprising Grand Plaza and Gala Place, was stable period-on-period. The "Where Trends Meet" program was launched to enhance the profile of our malls in Mongkok. The jewelry and watch tenants at Grand Plaza, which were adversely affected in 2016, recorded a double digit sales growth in the first six months of 2017. Decathlon, a world-famous sports brand from France, will open its first flagship in Hong Kong this summer at Grand Plaza. Goji Studios, a unique fitness and wellness center, has also selected Grand Plaza as the home of its new flagship store of 35,000 square feet which will provide one-stop experience for personal training, food and nutrition guidance.

Amoy Plaza in Kowloon East collected 4% more in rents. A major tenant mix reshuffle was undertaken in 2016 to enhance its position in the region as an attractive one-stop shopping, dining, entertainment and lifestyle hub. The offerings were enriched with the introduction of more food and beverage tenants, like Tai Hing Group's three-in-one concept store, and fashion brands such as Ray-Ban and Skechers.

The Peak Galleria commenced a 3-year renovation program in March 2017. The entire asset enhancement program will be carried out in two phases with full completion in 2019. About 60% of its leasable area has been closed for renovation. Upon completion, The Peak Galleria, with a new façade and enhanced internal layout reconfigurations, will offer a unique iconic destination on the Peak.

- *Offices*

The Hong Kong office portfolio recorded a 5% rental growth to HK$622 million, mainly contributed by positive rental reversions and higher occupancy rate. Overall occupancy rate increased two points to 95%. Our offices in Central and Causeway Bay both posted a 5% rental growth. Revenue of the Mongkok offices rose 3% period-on-period.

- *Residential and Serviced Apartments*

Revenue of residential and serviced apartments increased 4% to HK$146 million mainly driven by higher occupancy. A new marketing campaign was adopted for the Kornhill Apartments in Hong Kong East to boost occupancy.

PROPERTY SALES

Revenue from property sales increased 5% to HK$2,523 million mainly because of higher selling prices during the first half of 2017. The sales comprised 197 units of The Long Beach flats (2016: 226 units) and the last unit (duplex) of The HarbourSide (2016: Nil). Profit from property sales increased 18% to HK$1,642 million due to increased market prices and a different product mix. Overall profit margin realized was 65%.

As at June 30, 2017, the book cost of the residential properties available for sale was HK$1,844 million. The inventory included 16 semi-detached houses at 23-39 Blue Pool Road and 39 units at The Long Beach.

PROPERTY REVALUATION

The total value of our investment properties was HK$128,954 million as of June 30, 2017, which comprised the value of the Hong Kong portfolio and the mainland China portfolio of HK$59,779 million and HK$69,175 million, respectively. Our investment properties were revalued by Savills, an independent valuer, as at June 30, 2017.

A revaluation gain of HK$737 million was recorded in the first half of 2017 (2016: loss of HK$335 million). The Hong Kong portfolio recorded a revaluation gain of HK$990 million which was partly offset by a revaluation loss of HK$253 million of the mainland China portfolio.

PROPERTY DEVELOPMENT AND CAPITAL COMMITMENT

The aggregated value of investment properties under development was HK$18,418 million. They comprised mainland China projects in Kunming, Wuhan, and the remaining phases of the developments in Shenyang and Wuxi. The portfolio consists of shopping malls, office towers, hotel 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 434,000 square meters, comprising a world-class shopping center, a Grade A office tower, serviced apartments and car parking spaces. The entire complex is anticipated to be completed in phases from the end of 2018. Leasing activities for the mall have commenced.

Wuhan Heartland 66 covers a total gross floor area of 460,000 square meters. This prestigious commercial project will house a 177,000-square-meter shopping mall, a Grade A office tower, serviced apartments and car parking spaces. The project is planned for completion in stages from 2019 onwards.

The conversion of the upper 19 floors of the 67-story Grade A office tower at Shenyang Forum 66 into a hotel is making good progress. Under the esteemed Conrad brand, this five-star hotel will have 315 exquisitely appointed guest rooms and suites and is expected to open in 2019. The addition of this five-star hotel will complement our vision of the Forum 66 as the destination of choice for high-end shopping, entertainment, business and hospitality experiences in Shenyang.

The construction work for the second office tower at Wuxi Center 66 is in progress and is scheduled for completion in 2019. The main contract has been awarded. This new tower will have a gross floor area of 56,000 square meters. It is being built above the southeastern part of the Center 66 mall. About 9% of the leasable area of the Center 66 mall has been vacated while the new tower is under construction.

In May 2017, we took possession of the piece of land of 16,700 square meters for Wuxi phase 2 development. It is planned to build serviced apartments at the site.

These projects represented the majority of Hang Lung Properties' capital commitments at the reporting date, amounting to HK$36 billion. They will be completed in phases over a number of years. Hang Lung Properties has ample financial resources to meet the capital expenditure.

LIQUIDITY AND FINANCIAL RESOURCES

Hang Lung Properties centrally manages its liquidity and financial resources. The aims are to maintain an appropriate degree of liquidity and ample financial resources to meet foreseeable funding needs. Multiple channels of debt finance have also been established to seize new investment opportunities and to provide a buffer against unforeseeable events. All related risks management, including debt re-financing, foreign exchange exposure and interest rates volatility, etc., are centrally managed and controlled at the corporate level.

- *Liquidity Management*

The cash flow position and funding needs are closely monitored to ensure that Hang Lung Properties has a good degree of flexibility and liquidity to meet operational requirements and seize investment opportunities. This is achieved by keeping sufficient cash resources, having adequate undrawn committed banking facilities available, and maintaining the Medium Term Note (MTN) Program for bond issuance if and when needed.

As at June 30, 2017, Hang Lung Properties had total cash and bank balances of HK$22,449 million (December 31, 2016: HK$24,325 million). 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, 2017		At December 31, 2016	
	HK$ Million	*% of Total*	HK$ Million	*% of Total*
Denominated in:				
HKD	**13,853**	*61.7%*	2,821	*11.6%*
RMB	**8,591**	*38.3%*	21,499	*88.4%*
USD	**5**	–	5	–
Total cash and bank balances	**22,449**	*100%*	24,325	*100%*

As at June 30, 2017, the available amount of undrawn committed banking facilities amounted to HK$9,539 million. The undrawn balance of the USD3 billion MTN Program was equivalent to HK$10,623 million.

- *Debt 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 at June 30, 2017, total borrowings of Hang Lung Properties were HK$23,799 million. The lower debt balance compared to December 31, 2016 was mainly resulted from prepayments of some bank borrowings. The following table shows the mix of floating rate bank borrowings and fixed rate bonds:

	At June 30, 2017		At December 31, 2016	
	HK$ Million	*% of Total*	HK$ Million	*% of Total*
Floating rate HKD bank loans	**294**	*1.2%*	4,108	*15.2%*
Floating rate RMB bank loans	**10,816**	*45.5%*	10,345	*38.2%*
Fixed rate bonds	**12,689**	*53.3%*	12,629	*46.6%*
Denominated in USD	***7,806***	*32.8%*	*7,756*	*28.6%*
Denominated in HKD	***4,883***	*20.5%*	*4,873*	*18.0%*
Total borrowings	**23,799**	*100%*	27,082	*100%*

At the reporting date, the average tenor of the entire loan portfolio was 3.5 years (December 31, 2016: 3.9 years). The maturity profile was well staggered, with over 79% of loans repayable after 2 years.

	At June 30, 2017		At December 31, 2016	
	HK$ Million	*% of Total*	HK$ Million	*% of Total*
Repayable:				
Within 1 year	**1,904**	*8.0%*	568	*2.1%*
After 1 but within 2 years	**2,924**	*12.3%*	3,106	*11.4%*
After 2 but within 5 years	**15,743**	*66.1%*	14,997	*55.4%*
Over 5 years	**3,228**	*13.6%*	8,411	*31.1%*
Total borrowings	**23,799**	*100%*	27,082	*100%*

- *Gearing Ratios & Interest Cover*

As at June 30, 2017, Hang Lung Properties had a net debt balance of HK$1,350 million (December 31, 2016: HK$2,757 million). The net debt to equity ratio was 1.0% (December 31, 2016: 2.1%) while the debt to equity ratio was 17.5% (December 31, 2016: 20.5%).

For the six months ended June 30, 2017, the amount of total gross interest expense incurred was HK$646 million (2016: HK$668 million). The decrease in gross interest expense was mainly due to a lower average bank borrowings balance in Hong Kong as a result of loan prepayments. However, the amount of finance costs charged to the statement of profit or loss for the first half of 2017 increased by HK$82 million to HK$622 million year-on-year because of a smaller amount of interest capitalization.

For the first half of 2017, interest income was HK$312 million (2016: HK$470 million). The decrease in interest income was mainly due to a lower average balance of RMB deposits which had higher yields.

With lower interest income and a higher amount of finance costs, the amount of net interest expense, i.e. the excess of finance costs over interest income, for the first half of 2017 increased by HK$240 million to HK$310 million over a year ago.

As part of the foreign exchange risk management strategy to match our funding policy, more RMB debts which have higher interest rates than HKD loans were used to finance development projects in mainland China. Consequently, the average effective cost of borrowings for the first half of 2017 was 5.2% (2016: 4.1%).

Interest cover, a key indicator for debt servicing capability, for the first six months of 2017 was 13 times (2016: 21 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 net assets of our Mainland subsidiaries which mostly comprise of investment properties. 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.

At June 30, 2017, the amount of net assets on the Mainland amounted to RMB60 billion. The re-translation of these net assets denominated in RMB into HKD using the exchange rate as at the reporting date resulted in a re-translation gain of HK$2,090 million, as the RMB had appreciated by about 3% against the HKD compared to December 31, 2016. By the same token, the RMB4,002 million deposits had to be re-translated into HKD as well and they accounted for HK$228 million of the re-translation gain for the first six months of 2017. The total re-translation gain of HK$2,318 million for the first half of 2017 (2016: total re-translation loss of HK$1,661 million) was recognized in other comprehensive income/exchange reserve.

RMB bank deposits were held as a natural hedge for meeting funding needs for projects under development in mainland China. We have adopted an enterprise risk management approach to mitigate the currency risks rather than forming a view on which side the currency will move. Regular business reviews are conducted to assess the level of funding needs for Mainland projects under development, after taking account of various factors such as regulatory constraints, project development timelines and the business environment. Appropriate modifications to the currency hedging program will be conducted in light of the outcome of the periodic reviews.

(b) USD Exposure

The USD foreign exchange exposure of Hang Lung Properties is related to the two USD500 million fixed rate bonds issued, equivalent to HK$7,806 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 at June 30, 2017.

- *Contingent Liabilities*

Hang Lung Properties did not have any material contingent liabilities as at June 30, 2017.

OUTLOOK

In response to consumer trends, Hang Lung Properties has been introducing new food and beverage tenants and searching out new trades especially for the upper floors of our malls. Targeted and sales-driven marketing efforts including special events and digital communications were designed and executed to drive retail sales and footfall which have both returned to an upward trend.

Facility and service enhancements are continuing across the portfolio in order to enrich the shopping experience. We are continuing to invest in and expand our Customer Relationship Management (CRM) programs, including the introduction of a high-end Very Important Customer (VIC) lounge at the Shanghai Plaza 66 mall in the third quarter of 2017. In Hong Kong, we are working on the launch of 9 Kingston Street in Causeway Bay, which is currently under renovation and will be completed in the second half of 2017.

We will continue to closely monitor the residential property market in Hong Kong, and will sell some of the residential units on hand at appropriate terms. Backed by our financial strength, we may further build our land bank when opportunities arise.

CORPORATE GOVERNANCE

We are committed to maintaining the highest standards of corporate governance. During the six months ended June 30, 2017, 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 2016 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 ten members: comprising four Executive Directors and six Independent Non-Executive Directors. There is a clear division of responsibilities between the Chairman and the Chief Executive Officer[1] to ensure a balance of power and authority. The Board continues to review its practices from time to time, constantly seeking to improve the Group's corporate governance procedures in accordance with international best practices. An updated list of Board members identifying their roles and functions and whether they are Independent Non-Executive Directors is maintained on our website and the website of Hong Kong Exchanges and Clearing Limited ("HKEx"). The biographical details of Board members are also maintained on our website under Board of Directors of Corporate Governance of the Investor Relations section.

Nomination and Remuneration Committee

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

[1] The title of "Managing Director" has been changed to "Chief Executive Officer" with effect from July 1, 2017.

Audit Committee

Our Audit Committee, which is chaired by an Independent Non-Executive Director, currently consists of four Independent Non-Executive Directors. The Committee members meet not less than four times a year. Meetings are normally attended by external and internal auditors, the Chief Financial Officer and the company secretary for the purposes of, inter alia, discussing the nature and scope of internal audit work and assessing the Company's internal controls. The terms of reference of the Committee, which include duties pertaining to corporate governance functions and the oversight of risk management, are available on both our website and the website of HKEx. The Audit Committee has reviewed this interim report, including the unaudited interim financial report for the six months ended June 30, 2017, and has recommended their adoption by the Board.

This interim financial report is unaudited but has been reviewed by KPMG, our auditor, in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants. KPMG's Review Report to the Board of the Company is set out on pages 35 and 36 of this interim report.

Compliance with Corporate Governance Code

During the six months ended June 30, 2017, 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 (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 and confirmed that they have complied with the required standard set out in the Model Code and the Code of Conduct regarding Directors' securities transactions throughout the six months ended June 30, 2017.

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

As at June 30, 2017, the interests or short positions of each of the Directors in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code or which were recorded in the register required to be kept by the Company under section 352 of the SFO are as follows:

		The Company (Long Position)			*Hang Lung Group Limited (Long Position)*	
Name of Directors	Capacity	Number of Shares	% of Number of Issued Shares	Number of Shares under Option *(Note 2)*	Number of Shares	% of Number of Issued Shares
Ronnie C. Chan	Personal	16,330,000	0.36	27,490,000	11,790,000	0.87
Philip N.L. Chen	Personal	–	–	21,500,000	–	–
Ronald J. Arculli	Personal & Corporate	724,346	0.02	–	1,089,975	0.08
Dominic C.F. Ho	–	–	–	–	–	–
Nelson W.L. Yuen	Personal	–	–	24,320,000	–	–
Andrew K.C. Chan	–	–	–	–	–	–
H.K. Chang	–	–	–	–	–	–
Anita Y.M. Fung	–	–	–	–	–	–
H.C. Ho	Personal	–	–	10,450,000	–	–
Adriel W. Chan	Personal & Other *(Note 1)*	2,507,987,340	55.76	350,000	498,428,580	36.61

Notes

1. Other interests included 2,507,987,340 shares of the Company and 498,428,580 shares of Hang Lung Group Limited ("HLGL") held/deemed to be held by a trust of which Mr. Adriel W. Chan was a discretionary beneficiary. Accordingly, Mr. Adriel W. Chan was deemed to be interested in such shares under the SFO.

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

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

Date Granted (mm/dd/yyyy)	Name	Number of Shares under Option: As at Jan 1, 2017	Exercised during the Period	As at Jun 30, 2017	Exercise Price per Share (HK$)	Vested Dates (mm/dd/yyyy)	Expiry Date (mm/dd/yyyy)
08/21/2007	Ronnie C. Chan	3,640,000	–	3,640,000	$25.00	08/21/2008: 10%	08/20/2017
	Nelson W.L. Yuen	3,510,000	–	3,510,000		08/21/2009: 20%	
						08/21/2010: 30%	
						08/21/2011: 40%	
08/21/2007	Ronnie C. Chan	5,600,000	–	5,600,000	$25.00	08/21/2009: 10%	08/20/2017
	Nelson W.L. Yuen	5,400,000	–	5,400,000		08/21/2010: 20%	
						08/21/2011: 30%	
						08/21/2012: 40%	
09/01/2008	H.C. Ho	300,000	–	300,000	$24.20	09/01/2010: 10%	08/31/2018
						09/01/2011: 20%	
						09/01/2012: 30%	
						09/01/2013: 40%	
12/31/2008	Nelson W.L. Yuen	8,910,000	–	8,910,000	$17.36	12/31/2010: 10%	12/30/2018
	H.C. Ho	300,000	–	300,000		12/31/2011: 20%	
						12/31/2012: 30%	
						12/31/2013: 40%	
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%	

2. Movement of Options under the Share Option Schemes of the Company *(continued)*

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

Date Granted (mm/dd/yyyy)	Name	Number of Shares under Option: As at Jan 1, 2017	Exercised during the Period	As at Jun 30, 2017	Exercise Price per Share (HK$)	Vested Dates (mm/dd/yyyy)	Expiry Date (mm/dd/yyyy)
09/29/2010	H.C. Ho	2,000,000	–	2,000,000	$36.90	09/29/2012: 10% 09/29/2013: 20% 09/29/2014: 30% 09/29/2015: 40%	09/28/2020
06/13/2011	Ronnie C. Chan	4,500,000	–	4,500,000	$30.79	06/13/2013: 10%	06/12/2021
	Philip N.L. Chen	4,500,000	–	4,500,000		06/13/2014: 20%	
	H.C. Ho	3,000,000	–	3,000,000		06/13/2015: 30%	
						06/13/2016: 40%	

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

Date Granted (mm/dd/yyyy)	Name	Number of Shares under Option: As at Jan 1, 2017	Exercised during the Period	As at Jun 30, 2017	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%	

Save as disclosed above, none of the Directors had, as at June 30, 2017, 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, 2017 was the Company, its holding company or any of their respective subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

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

As at June 30, 2017, 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*	2,507,987,340	55.76
Cole Enterprises Holdings (PTC) Limited	*1*	2,507,987,340	55.76
Merssion Limited	*1*	2,507,987,340	55.76
Adriel W. Chan	*1*	2,507,987,340	55.76
Hang Lung Group Limited	*2*	2,479,654,240	55.13
Prosperland Housing Limited	*3*	1,267,608,690	30.60
Purotat Limited	*3*	354,227,500	8.55
First Eagle Investment Management, LLC	*4*	269,877,183	6.00

Notes

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

   The controlled corporations included HLGL in which Merssion Limited had 36.61% interests. Accordingly, the 2,479,654,240 shares held by HLGL through its subsidiaries were included in the 2,507,987,340 shares.

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

3. These companies were wholly-owned subsidiaries of HLGL. Their interests were included in the 2,479,654,240 shares held by HLGL.

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

Save as disclosed above, as at June 30, 2017, no other interests or short positions in the shares or underlying shares of the Company which are required to be recorded in the register kept under section 336 of the SFO has been notified to the Company.

CHANGES IN INFORMATION OF DIRECTORS PURSUANT TO LISTING RULES

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

Mr. Ronnie C. Chan

— elected a fellow of the American Academy of Arts and Sciences.

Mr. Dominic C.F. Ho

— appointed as an independent non-executive director of Singapore Airlines Limited; and
— being an independent non-executive director of DBS Bank (Hong Kong) Limited and the non-executive chairman of DBS Bank (China) Limited.

Ms. Anita Y.M. Fung

— ceased to be a council member of The Hong Kong University of Science and Technology; and
— ceased to be a member of the Financial Infrastructure Sub-Committee of the Exchange Fund Advisory Committee of Hong Kong Monetary Authority.

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended June 30, 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities.

EMPLOYEES

As at June 30, 2017, the number of employees was 4,584 (comprising 1,215 Hong Kong employees and 3,369 mainland China employees). The total employee costs for the six months ended June 30, 2017 amounted to HK$679 million. We provide competitive remuneration packages for all employees including discretionary bonuses payable based on individual performance. We regularly review the remuneration packages to ensure that they comply with relevant regulatory requirements and market conditions. The Company has share option schemes for the executives and provides professional and high-quality training for all employees.

KPMG

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

(Incorporated in Hong Kong with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 37 to 60 which comprises the consolidated statement of financial position of Hang Lung Properties Limited ("the Company") as of June 30, 2017 and the related consolidated income 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, 2017 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 27, 2017

Consolidated Statement of Profit or Loss

For the six months ended June 30, 2017 (Unaudited)

	Note	2017 HK$ Million	2016 HK$ Million	*For information purpose only* 2017 RMB Million	2016 RMB Million
Revenue	3(a)	**6,358**	6,311	**5,618**	5,311
Direct costs and operating expenses		**(1,817)**	(1,991)	**(1,606)**	(1,674)
Gross profit		**4,541**	4,320	**4,012**	3,637
Other net income	4	**70**	159	**61**	135
Administrative expenses		**(293)**	(307)	**(258)**	(259)
Operating profit before changes in fair value of investment properties		**4,318**	4,172	**3,815**	3,513
Net increase/(decrease) in fair value of investment properties		**737**	(335)	**642**	(284)
Operating profit after changes in fair value of investment properties		**5,055**	3,837	**4,457**	3,229
Interest income		**312**	470	**276**	396
Finance costs		**(622)**	(540)	**(550)**	(455)
Net interest expense	5	**(310)**	(70)	**(274)**	(59)
Share of profits of joint ventures		**28**	30	**25**	25
Profit before taxation	3(a) & 6	**4,773**	3,797	**4,208**	3,195
Taxation	7(a)	**(734)**	(656)	**(649)**	(551)
Profit for the period		**4,039**	3,141	**3,559**	2,644
Attributable to:					
Shareholders		**3,830**	2,935	**3,375**	2,471
Non-controlling interests		**209**	206	**184**	173
		4,039	3,141	**3,559**	2,644
Earnings per share	9(a)				
Basic		**HK$0.85**	HK$0.65	**RMB0.75**	RMB0.55
Diluted		**HK$0.85**	HK$0.65	**RMB0.75**	RMB0.55

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, 2017 (Unaudited)

	Note	2017 HK$ Million	2016 HK$ Million	2017 RMB Million	2016 RMB Million
				For information purpose only	
Profit for the period		**4,039**	3,141	**3,559**	2,644
Other comprehensive income	7(b)				
Items that are or may be reclassified subsequently to profit or loss:					
Exchange difference arising from translation of foreign subsidiaries/ to presentation currency		**2,318**	(1,661)	**(1,619)**	476
Movement in hedging reserve:					
Effective portion of changes in fair value		**(194)**	–	**(169)**	–
Net amount transferred to profit or loss		**(44)**	–	**(38)**	–
Item that will not be reclassified to profit or loss:					
Net change in fair value of equity investments		**1**	–	**1**	–
		2,081	(1,661)	**(1,825)**	476
Total comprehensive income for the period		**6,120**	1,480	**1,734**	3,120
Total comprehensive income attributable to:					
Shareholders		**5,739**	1,385	**1,550**	2,940
Non-controlling interests		**381**	95	**184**	180
		6,120	1,480	**1,734**	3,120

The accompanying notes form part of the interim financial report.

Consolidated Statement of Financial Position

At June 30, 2017

	Note	(Unaudited) June 30, 2017 HK$ Million	(Audited) December 31, 2016 HK$ Million	*For information purpose only* June 30, 2017 RMB Million	December 31, 2016 RMB Million
Non-current assets					
Property, plant and equipment					
Investment properties	10	**128,954**	125,421	**112,054**	112,419
Investment properties under development	10	**18,418**	16,160	**15,985**	14,455
Other property, plant and equipment		**1,487**	1,449	**1,291**	1,297
		148,859	143,030	**129,330**	128,171
Interest in joint ventures		**1,250**	1,249	**1,088**	1,122
Other assets		**86**	2	**75**	2
Deferred tax assets		**1**	10	**1**	9
		150,196	144,291	**130,494**	129,304
Current assets					
Cash and deposits with banks	11	**22,449**	24,325	**19,524**	21,832
Trade and other receivables	12	**1,501**	3,939	**1,304**	3,535
Properties for sale		**1,844**	2,352	**1,605**	2,113
		25,794	30,616	**22,433**	27,480
Current liabilities					
Bank loans and other borrowings	13	**1,904**	568	**1,653**	508
Trade and other payables	14	**6,727**	6,327	**5,844**	5,669
Taxation payable		**1,153**	932	**1,003**	836
		9,784	7,827	**8,500**	7,013
Net current assets		**16,010**	22,789	**13,933**	20,467
Total assets less current liabilities		**166,206**	167,080	**144,427**	149,771

	Note	(Unaudited) June 30, 2017 HK$ Million	(Audited) December 31, 2016 HK$ Million	*For information purpose only* June 30, 2017 RMB Million	*For information purpose only* December 31, 2016 RMB Million
Non-current liabilities					
Bank loans and other borrowings	13	**21,895**	26,514	**19,031**	23,783
Deferred tax liabilities		**8,581**	8,421	**7,448**	7,534
		30,476	34,935	**26,479**	31,317
NET ASSETS		**135,730**	132,145	**117,948**	118,454
Capital and reserves					
Share capital	15	**39,912**	39,912	**37,431**	37,431
Reserves		**89,902**	86,653	**75,382**	76,032
Shareholders' equity		**129,814**	126,565	**112,813**	113,463
Non-controlling interests		**5,916**	5,580	**5,135**	4,991
TOTAL EQUITY		**135,730**	132,145	**117,948**	118,454

The accompanying notes form part of the interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended June 30, 2017 (Unaudited)

	Shareholders' equity					
	Share capital HK$ Million (Note 15)	Other reserves HK$ Million (Note 17)	Retained profits HK$ Million (Note 17)	Total HK$ Million	Non-controlling interests HK$ Million	Total equity HK$ Million
At December 31, 2016, as previously reported	39,912	(2,439)	89,092	126,565	5,580	132,145
Impact of adopting HKFRS 9 at January 1, 2017 (see Note 2)	–	85	–	85	–	85
At January 1, 2017, restated	39,912	(2,354)	89,092	126,650	5,580	132,230
Profit for the period	–	–	3,830	3,830	209	4,039
Exchange difference arising from translation of foreign subsidiaries	–	2,146	–	2,146	172	2,318
Cash flow hedges: net movement in hedging reserve	–	(238)	–	(238)	–	(238)
Net change in fair value of equity investments	–	1	–	1	–	1
Total comprehensive income for the period	–	1,909	3,830	5,739	381	6,120
Final dividend in respect of previous financial year	–	–	(2,608)	(2,608)	–	(2,608)
Employee share-based payments	–	20	13	33	–	33
Dividends paid to non-controlling interests	–	–	–	–	(45)	(45)
At June 30, 2017	39,912	(425)	90,327	129,814	5,916	135,730
At January 1, 2016	39,903	2,849	86,237	128,989	5,903	134,892
Profit for the period	–	–	2,935	2,935	206	3,141
Exchange difference arising from translation of foreign subsidiaries	–	(1,550)	–	(1,550)	(111)	(1,661)
Total comprehensive income for the period	–	(1,550)	2,935	1,385	95	1,480
Final dividend in respect of previous financial year	–	–	(2,608)	(2,608)	–	(2,608)
Employee share-based payments	–	34	17	51	–	51
Dividends paid to non-controlling interests	–	–	–	–	(138)	(138)
At June 30, 2016	39,903	1,333	86,581	127,817	5,860	133,677

The accompanying notes form part of the interim financial report.

For information purpose only

	Shareholders' equity					
	Share capital RMB Million	Other reserves RMB Million	Retained profits RMB Million	Total RMB Million	Non-controlling interests RMB Million	Total equity RMB Million
At December 31, 2016, as previously reported	37,431	1,513	74,519	113,463	4,991	118,454
Impact of adopting HKFRS 9 at January 1, 2017 (see Note 2)	–	76	–	76	–	76
At January 1, 2017, restated	37,431	1,589	74,519	113,539	4,991	118,530
Profit for the period	–	–	3,375	3,375	184	3,559
Exchange difference arising from translation to presentation currency	–	(1,619)	–	(1,619)	–	(1,619)
Cash flow hedges: net movement in hedging reserve	–	(207)	–	(207)	–	(207)
Net change in fair value of equity investments	–	1	–	1	–	1
Total comprehensive income for the period	–	(1,825)	3,375	1,550	184	1,734
Final dividend in respect of previous financial year	–	–	(2,305)	(2,305)	–	(2,305)
Employee share-based payments	–	18	11	29	–	29
Dividends paid to non-controlling interests	–	–	–	–	(40)	(40)
At June 30, 2017	37,431	(218)	75,600	112,813	5,135	117,948
At January 1, 2016	37,423	(786)	72,017	108,654	4,945	113,599
Profit for the period	–	–	2,471	2,471	173	2,644
Exchange difference arising from translation to presentation currency	–	469	–	469	7	476
Total comprehensive income for the period	–	469	2,471	2,940	180	3,120
Final dividend in respect of previous financial year	–	–	(2,199)	(2,199)	–	(2,199)
Employee share-based payments	–	30	14	44	–	44
Dividends paid to non-controlling interests	–	–	–	–	(117)	(117)
At June 30, 2016	37,423	(287)	72,303	109,439	5,008	114,447

Condensed Consolidated Cash Flow Statement

For the six months ended June 30, 2017 (Unaudited)

	2017 HK$ Million	2016 HK$ Million	*For information purpose only* 2017 RMB Million	2016 RMB Million
Operating activities				
Cash generated from operations	**7,120**	3,577	**6,276**	3,008
Income tax paid	**(588)**	(535)	**(523)**	(451)
Net cash generated from operating activities	**6,532**	3,042	**5,753**	2,557
Investing activities				
Payment for property, plant and equipment	**(2,164)**	(1,345)	**(1,921)**	(1,131)
(Increase)/Decrease in bank deposits with maturity greater than three months	**(6,602)**	3,654	**(5,826)**	3,084
Other cash flows arising from investing activities	**360**	569	**319**	480
Net cash (used in)/generated from investing activities	**(8,406)**	2,878	**(7,428)**	2,433
Financing activities				
Proceeds from new bank loans and other borrowings	**359**	2,481	**317**	2,092
Repayment of bank loans	**(4,078)**	(3,495)	**(3,599)**	(2,946)
Interest and other borrowing costs paid	**(618)**	(684)	**(547)**	(576)
Dividend paid	**(2,608)**	(2,608)	**(2,305)**	(2,199)
Dividends paid to non-controlling interests	**(45)**	(138)	**(40)**	(117)
Net cash used in financing activities	**(6,990)**	(4,444)	**(6,174)**	(3,746)
(Decrease)/Increase in cash and cash equivalents	**(8,864)**	1,476	**(7,849)**	1,244
Effect of foreign exchange rate changes	**347**	(386)	**(214)**	33
Cash and cash equivalents at January 1	**23,379**	26,870	**20,986**	22,690
Cash and cash equivalents at June 30	**14,862**	27,960	**12,923**	23,967
Analysis of the balance of cash and cash equivalents:				
Cash and deposits with banks	**22,449**	28,733	**19,524**	24,628
Less: Bank deposits with maturity greater than three months	**(7,587)**	(773)	**(6,601)**	(661)
Cash and cash equivalents	**14,862**	27,960	**12,923**	23,967

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 35 to 36.

The HKICPA has issued certain amendments to 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 amendments to 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 2016 annual financial statements, except for the changes in accounting policies that are described in note 2.

The presentation currency of these consolidated financial statements is Hong Kong dollar. In view of the Group's significant business operations in mainland China, management has included additional financial information prepared in Renminbi in the consolidated financial statements. Such supplementary information is prepared on the same basis as 2016.

The financial information relating to the financial year ended December 31, 2016 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended December 31, 2016 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

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

2. CHANGES IN ACCOUNTING POLICIES

The Group has not early applied the amendments and new standards which have been issued by the HKICPA that are not yet effective for the current period except for the early adoption of the complete version of HKFRS 9, *Financial Instruments*.

The key changes to the Group's accounting policies resulting from the adoption of HKFRS 9 are summarized below.

Classification of financial assets and financial liabilities

HKFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVTOCI) and fair value through profit or loss (FVTPL). HKFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing HKAS 39, *Financial Instruments: Recognition and Measurement*, categories of held-to-maturity, loans and receivables and available-for-sale.

HKFRS 9 largely retains the existing requirements in HKAS 39 for the classification of financial liabilities.

Investment in equity instruments are classified and measured at FVTPL except when the equity investment is not held for trading and an election is made to present the fair value changes in other comprehensive income (i.e. FVTOCI). This election is made on an investment-by-investment basis on initial recognition and is irrevocable. The gains or losses (both on subsequent measurement and derecognition) of investments that are measured at FVTPL are recognized in profit or loss. If the equity investment is designated as at FVTOCI, all gains and losses are recognized in other comprehensive income and are not subsequently reclassified to profit or loss, except for dividend income that is generally recognized in profit or loss in accordance with HKAS 18, *Revenue*.

Impairment of financial assets

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. The new impairment model also applies to certain financial guarantee contracts but not to equity investments.

2. CHANGES IN ACCOUNTING POLICIES (continued)

Transition

The date of initial application of HKFRS 9 was January 1, 2017 (i.e. the date on which the Group has reassessed the classification of its financial assets in accordance with the requirement of HKFRS 9). The classification is based on the facts and circumstances as at January 1, 2017. Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from adoption of HKFRS 9 are recognized in the opening balances of equity as at January 1, 2017. HKFRS 9 does not apply to items that have already been derecognized at date of initial application. Other than the changes in classification and measurement of certain financial assets as described below, the changes in accounting policies had no material financial impact on the amounts recognized on the consolidated statement of financial position of the Group as at January 1, 2017.

Impact of initial application

Certain of the Group's equity investments of HK$100 which were previously classified as available-for-sale investments (not held for trading) and measured at cost less impairment under HKAS 39 have been designated as at FVTOCI. The estimated fair value of these equity investments was HK$85 million as at January 1, 2017. Consequently, the opening balance of the Group's other reserves as at January 1, 2017 was impacted.

Hedge accounting

The Group has elected to adopt the hedge accounting requirements in HKFRS 9, which requires the Group to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

The Group uses USD/HKD cross currency swaps (entered into in 2015) to hedge the variability in cash flows arising from changes in foreign exchange rates relating to the USD-denominated Medium Term Notes. Starting from January 1, 2017, the Group has designated the cross currency swaps in their entirety as the hedging instrument in the above cash flow hedging relationship. The effective portion of changes in fair value of the hedging instruments is recognized in other comprehensive income and accumulated in a hedging reserve as a separate component of equity. Any ineffective portion of changes in fair value is recognized immediately in profit or loss. The associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

3. REVENUE AND SEGMENT INFORMATION

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

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

Management evaluates performance primarily based on profit before taxation.

Segment assets principally comprise all non-current assets and current assets directly attributable to each segment with the exception of interest in joint ventures, other assets, deferred tax assets and cash and deposits with banks. The investment properties of the Group are included in segment assets at their fair values whilst the changes in fair value of investment 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.

3. REVENUE AND SEGMENT INFORMATION (continued)

(a) Revenue and results by segments

	Revenue		Profit before taxation	
	2017 HK$ Million	2016 HK$ Million	**2017 HK$ Million**	2016 HK$ Million
Segment				
Property leasing				
— Mainland China	**1,949**	2,038	**1,274**	1,327
— Hong Kong	**1,886**	1,869	**1,625**	1,604
	3,835	3,907	**2,899**	2,931
Property sales				
— Hong Kong	**2,523**	2,404	**1,642**	1,389
Segment total	**6,358**	6,311	**4,541**	4,320
Other net income			**70**	159
Administrative expenses			**(293)**	(307)
Operating profit before changes in fair value of investment properties			**4,318**	4,172
Net increase/(decrease) in fair value of investment properties			**737**	(335)
— Property leasing in Hong Kong			**990**	78
— Property leasing in mainland China			**(253)**	(413)
Net interest expense			**(310)**	(70)
— Interest income			**312**	470
— Finance costs			**(622)**	(540)
Share of profits of joint ventures			**28**	30
Profit before taxation			**4,773**	3,797

3. REVENUE AND SEGMENT INFORMATION (continued)

(b) Total assets by segments

	Total assets	
	June 30, 2017 HK$ Million	December 31, 2016 HK$ Million
Segment		
Property leasing		
— Mainland China	**88,644**	84,420
— Hong Kong	**60,305**	58,830
	148,949	143,250
Property sales		
— Hong Kong	**2,078**	4,949
Segment total	**151,027**	148,199
Other property, plant and equipment	**1,177**	1,122
Interest in joint ventures	**1,250**	1,249
Other assets	**86**	2
Deferred tax assets	**1**	10
Cash and deposits with banks	**22,449**	24,325
Total assets	**175,990**	174,907

4. OTHER NET INCOME

	2017 HK$ Million	2016 HK$ Million
Gain on disposal of investment properties	**2**	2
Fair value gain on derivative financial instruments (Note)	**–**	164
Ineffectiveness on cash flow hedges (Note)	**(5)**	–
Net exchange gain/(loss)	**73**	(7)
	70	159

Note: The Group entered into USD/HKD cross currency swaps for the purpose of fixing the exchange rate for the USD-denominated Medium Term Notes. Starting from January 1, 2017, the Group has designated the cross currency swaps as the hedging instrument in cash flow hedges.

5. NET INTEREST EXPENSE

	2017 HK$ Million	2016 HK$ Million
Interest income on bank deposits	312	470
Interest expense on bank loans and other borrowings	574	640
Other borrowing costs	72	28
Total borrowing costs	646	668
Less: Borrowing costs capitalized	(24)	(128)
Finance costs	622	540
Net interest expense	(310)	(70)

6. PROFIT BEFORE TAXATION

	2017 HK$ Million	2016 HK$ Million
Profit before taxation is arrived at after charging:		
Cost of properties sold	707	820
Staff costs, including employee share-based payments of HK$33 million (2016: HK$51 million)	679	671
Depreciation	26	27

7. TAXATION

(a) Provision for Hong Kong Profits Tax is calculated at 16.5% (2016: 16.5%) of the estimated assessable profits for the period. Mainland China Income Tax represents mainland China Corporate Income Tax calculated at 25% (2016: 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.

	2017 HK$ Million	2016 HK$ Million
Current tax		
Hong Kong Profits Tax	**470**	414
Mainland China Income Tax	**342**	316
	812	730
Deferred tax		
Changes in fair value of investment properties	**(63)**	(104)
Other origination and reversal of temporary differences	**(15)**	30
	(78)	(74)
Total income tax expense	**734**	656

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

8. DIVIDENDS

(a) Interim dividend

	2017 HK$ Million	2016 HK$ Million
Proposed after the end of the reporting period: HK17 cents (2016: 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

	2017 HK$ Million	2016 HK$ Million
2016 Final dividend of HK58 cents (2015: HK58 cents) per share	**2,608**	2,608

9. EARNINGS PER SHARE

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

	2017 HK$ Million	2016 HK$ Million
Earnings used in calculating basic and diluted earnings per share (net profit attributable to shareholders)	**3,830**	2,935

	Number of shares	
	2017 Million	2016 Million
Weighted average number of shares used in calculating basic earnings per share	**4,498**	4,497
Effect of dilutive potential shares — share options	**1**	–
Weighted average number of shares used in calculating diluted earnings per share	**4,499**	4,497

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

	2017 HK$ Million	2016 HK$ Million
Net profit attributable to shareholders	**3,830**	2,935
Effect of changes in fair value of investment properties	**(737)**	335
Effect of corresponding deferred tax	**(63)**	(104)
	(800)	231
Non-controlling interests	**10**	1
	(790)	232
Underlying net profit attributable to shareholders	**3,040**	3,167

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

	2017	2016
Basic	**HK$0.68**	HK$0.70
Diluted	**HK$0.68**	HK$0.70

10. INVESTMENT PROPERTIES AND INVESTMENT PROPERTIES UNDER DEVELOPMENT

(a) Additions

During the period, additions to investment properties and investment properties under development amounted to HK$2,504 million (2016: HK$889 million).

(b) Valuation

The investment properties and investment properties under development of the Group were revalued as at June 30, 2017 by Mr. Charles C.K. Chan, Registered Professional Surveyor (General Practice), of Savills Valuation and Professional Services Limited, on a market value basis.

11. CASH AND DEPOSITS WITH BANKS

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

	June 30, 2017 HK$ Million	December 31, 2016 HK$ Million
Hong Kong Dollars equivalent of:		
Hong Kong Dollars	**13,853**	2,821
Renminbi	**8,591**	21,499
United States Dollars	**5**	5
	22,449	24,325

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

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

	June 30, 2017 HK$ Million	December 31, 2016 HK$ Million
Bank loans and other borrowings	**23,799**	27,082
Less: Cash and deposits	**(22,449)**	(24,325)
Net debt	**1,350**	2,757

12. TRADE AND OTHER RECEIVABLES

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

	June 30, 2017 HK$ Million	December 31, 2016 HK$ Million
Not past due or less than 1 month past due (Note)	**250**	2,621
1–3 months past due	**10**	21
More than 3 months past due	**3**	12
	263	2,654

Note: Not past due or less than one month past due receivables mainly represented property sales receivables for residential units sold in the first half of the year. Most of the sales receivables would be settled over the next few months upon sales completion.

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

(b) Included in other receivables of the Group is deposit of land acquisition in mainland China of HK$288 million (December 31, 2016: HK$279 million).

13. BANK LOANS AND OTHER BORROWINGS

At the end of the reporting period, the Group had HK$9,539 million (December 31, 2016: HK$8,852 million) committed undrawn banking facilities.

In addition, a wholly-owned subsidiary of the Company has a USD3 billion (December 31, 2016: USD3 billion) Medium Term Note Program (the "Program"). At the end of the reporting period, the Group issued in total an equivalent of HK$12,689 million (December 31, 2016: HK$12,629 million) of bonds with coupon rates which ranged from 2.95% to 4.75% (December 31, 2016: 2.95% to 4.75%) per annum under the Program.

14. TRADE AND OTHER PAYABLES

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

	June 30, 2017 HK$ Million	December 31, 2016 HK$ Million
Due within 3 months	**1,313**	1,492
Due after 3 months	**2,435**	1,813
	3,748	3,305

15. SHARE CAPITAL

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

	June 30, 2017		December 31, 2016	
	Number of shares Million	**Amount of share capital HK$ Million**	Number of shares Million	Amount of share capital HK$ Million
Ordinary shares, issued and fully paid:				
At January 1	**4,498**	**39,912**	4,497	39,903
Shares issued under share option scheme	**–**	**–**	1	9
At June 30/December 31	**4,498**	**39,912**	4,498	39,912

16. SHARE OPTION SCHEMES

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

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

(a) 2002 Share Option Scheme

	Number of share options					
Date granted	Outstanding on January 1, 2017	Exercised	Forfeited/ Lapsed	**Outstanding on June 30, 2017**	Period during which options are exercisable	Exercise price (HK$)
January 11, 2007 to March 19, 2007	890,000	–	(890,000)	**-**	January 11, 2008 to March 18, 2017	18.88 – 22.55
August 21, 2007 to December 31, 2008	30,522,000	–	–	**30,522,000**	August 21, 2008 to December 30, 2018	17.36 – 27.90
February 8, 2010 to June 1, 2010	13,380,000	–	–	**13,380,000**	February 8, 2012 to May 31, 2020	26.46 – 27.27
July 29, 2010 to June 13, 2011	31,350,000	–	(140,000)	**31,210,000**	July 29, 2012 to June 12, 2021	30.79 – 36.90
Total	76,142,000	–	(1,030,000)	**75,112,000**		

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

During the period, 140,000 (2016: 400,000) options were forfeited upon cessations of the grantees' employments and 890,000 (2016: Nil) options lapsed due to the expiry of the period for exercising the options.

16. SHARE OPTION SCHEMES (continued)

(b) 2012 Share Option Scheme

	Number of share options					
Date granted	Outstanding on January 1, 2017	Exercised	Forfeited/ Lapsed	**Outstanding on June 30, 2017**	Period during which options are exercisable	Exercise price (HK$)
June 4, 2013	29,770,000	–	(488,000)	**29,282,000**	June 4, 2015 to June 3, 2023	28.20
December 5, 2014	27,934,000	–	(746,000)	**27,188,000**	December 5, 2016 to December 4, 2024	22.60
Total	57,704,000	–	(1,234,000)	**56,470,000**		

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 granted or cancelled during the period.

During the period, 1,234,000 (2016: 2,386,000) options were forfeited upon cessations of the grantees' employments.

17. RESERVES

	Other reserves						
	Exchange reserve HK$ Million	Hedging reserve HK$ Million	Investment revaluation reserve HK$ Million	Employee share-based compensation reserve HK$ Million	Total HK$ Million	Retained profits HK$ Million	Total reserves HK$ Million
At December 31, 2016, as previously reported	(3,240)	–	–	801	(2,439)	89,092	86,653
Impact of adopting HKFRS 9 at January 1, 2017 (see Note 2)	–	–	85	–	85	–	85
At January 1, 2017, restated	(3,240)	–	85	801	(2,354)	89,092	86,738
Profit for the period	–	–	–	–	–	3,830	3,830
Exchange difference arising from translation of foreign subsidiaries	2,146	–	–	–	2,146	–	2,146
Cash flow hedges: net movement in hedging reserve	–	(238)	–	–	(238)	–	(238)
Net change in fair value of equity investments	–	–	1	–	1	–	1
Total comprehensive income for the period	2,146	(238)	1	–	1,909	3,830	5,739
Final dividend in respect of previous financial year	–	–	–	–	–	(2,608)	(2,608)
Employee share-based payments	–	–	–	20	20	13	33
At June 30, 2017	(1,094)	(238)	86	821	(425)	90,327	89,902
At January 1, 2016	2,116	–	–	733	2,849	86,237	89,086
Profit for the period	–	–	–	–	–	2,935	2,935
Exchange difference arising from translation of foreign subsidiaries	(1,550)	–	–	–	(1,550)	–	(1,550)
Total comprehensive income for the period	(1,550)	–	–	–	(1,550)	2,935	1,385
Final dividend in respect of previous financial year	–	–	–	–	–	(2,608)	(2,608)
Employee share-based payments	–	–	–	34	34	17	51
At June 30, 2016	566	–	–	767	1,333	86,581	87,914

18. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

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

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

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

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

(a) Financial assets and liabilities carried at fair value

(i) Derivative financial instruments — cross currency swaps

The fair value of cross currency swaps as at June 30, 2017 of HK$99 million recorded under "Trade and other payables" (December 31, 2016: HK$102 million recorded under "Trade and other receivables") in Level 2 is determined based on the amount that the Group would receive or pay to terminate the swaps at the end of the reporting period taking into account current interest rates and current creditworthiness of the swap counter-parties.

(ii) Investment in equity instruments

The fair value of non-publicly traded equity investments as at June 30, 2017 of HK$86 million in Level 3 is determined by reference to the net asset value of these investments.

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

During the six months ended June 30, 2017, there were no transfers of instruments between Level 1 and Level 2, or transfers into or out of Level 3 (2016: Nil). The Group's policy is to recognize transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

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

The carrying amounts of the Group's financial instruments carried at cost or amortized cost were not materially different from their fair values as at December 31, 2016 and June 30, 2017.

19. COMMITMENTS

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

	June 30, 2017 HK$ Million	December 31, 2016 HK$ Million
Contracted for	**11,168**	6,348
Authorized but not contracted for	**24,487**	30,709
	35,655	37,057

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

20. 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 27, 2017.

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 investment properties net of related deferred tax and non-controlling interests

FINANCIAL RATIOS

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

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

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

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

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

FINANCIAL CALENDAR

Financial period	January 1, 2017 to June 30, 2017
Announcement of interim results	July 27, 2017
Latest time for lodging transfers	4:30 p.m. on September 12, 2017
Closure of share register	September 13 to 14, 2017 (both days inclusive)
Record date for interim dividend	September 14, 2017
Payment date for interim dividend	September 28, 2017

SHARE LISTING

As at June 30, 2017, 4,497,575,670 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: 101HK
CUSIP Number/Ticker Symbol for ADR Code: 41043M104/HLPPY

SHARE INFORMATION

Share price as at June 30, 2017: HK$19.50
Market capitalization as at June 30, 2017: HK$87.70 billion

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