恒隆集團
HANG LUNG GROUP

2018
Interim Report

Hang Lung Group Limited
Stock Code: 00010

WE DO IT RIGHT

Corporate Information

DIRECTORS

Ronnie C. Chan *GBM (Chairman)*
Weber W.P. Lo *(Chief Executive Officer)*
Gerald L. Chan #
Simon S.O. Ip *GBS, CBE, JP* *
P.W. Liu *SBS, JP* *
L.C. Tsui *OC, GBM, GBS, JP* *
Martin C.K. Liao *SBS, JP* *
George K.K. Chang #
Roy Y.C. Chen #
H.C. Ho *(Chief Financial Officer)*
Adriel W. Chan

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

AUDIT COMMITTEE

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

NOMINATION AND REMUNERATION COMMITTEE

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

AUTHORIZED REPRESENTATIVES

Weber W.P. Lo
Margaret K.M. Yan

COMPANY SECRETARY

Margaret K.M. Yan

REGISTERED OFFICE

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AUDITOR

KPMG
Certified Public Accountants

RESULTS AND DIVIDEND

Compared to the previous corresponding period, revenue declined 18% to HK$5,457 million. With a larger revaluation gain, net profit attributable to shareholders advanced 27% to HK$3,037 million. Earnings per share increased likewise to HK$2.23.

The underlying net profit attributable to shareholders fell 19% to HK$1,459 million when excluding property revaluation gain and all related effects. The corresponding earnings per share decreased similarly to HK$1.07.

The Board has declared an interim dividend of HK19 cents per share payable on September 27, 2018 to shareholders of record on September 13, 2018.

BUSINESS REVIEW

The Company has performed acceptably in the first half of 2018. The two most significant events of the period must be our new leadership and the purchase of a piece of land in Hangzhou.

It must have been two years ago when Mr. Philip Chen informed me of his decision, due to personal reasons, to retire from the Company's Chief Executive Officer (CEO) position. I was most reluctant to accept but was left with no choice. Only he knows his own situation including his health. So working with the two respective Boards of the Company and our major operational subsidiary Hang Lung Properties (HLP), and in particular with the two Nomination and Remuneration Committees (NRCs), we embarked on a rigorous process, with the help of external professionals, to identify a successor. Initial work was carried out by Philip, Executive Director Mr. Adriel Chan, chairmen of the two NRCs, and me. The finalists were interviewed by members of the two NRCs, and the recommended candidate was then presented to the full Board.

I am happy to now inform shareholders that your Board has unanimously appointed Mr. Weber Lo to be our next CEO. He joined as CEO Designate on May 16 and two months later, upon the retirement of Philip, became his successor.

Aged 47, Weber is locally born and bred. After graduating from The University of Hong Kong, he made his initial career in consumer products companies Procter & Gamble and Coca-Cola Company. Eighteen years ago, he joined Citi and eventually in 2013 led the bank in Hong Kong and Macau at the tender age of 42. He must have been one of the youngest to assume that position.

Ideally our CEO should be someone with sufficient experience in business and in society, and yet be able to stay with us and run our operation for a long time, say 15 years or even longer. Weber fits this profile, besides possessing the many qualities that we are looking for. He together with other younger executives present, or soon to join the Company, should be able to lead Hang Lung for the next two to three decades to come. So far our long-serving staff has warmly welcomed our new CEO.

The other significant event of this period is the acquisition of an excellent piece of land in the city of Hangzhou. It is our first success in five years; the last time we bought land was the plot in Wuhan in 2013. Like Wuhan, Hangzhou is a top retail city in China, and is less than 50 minutes away by high-speed train from Shanghai. I refer my readers to a further discussion on this metropolis of some 10 million inhabitants in my letter to shareholders of our main subsidiary HLP.

A mixed-use development will be erected, with phase one completion likely in 2024. Besides a 100,000-plus-square-meter mall, there will also be five or six office towers. One of them will be 150 meters tall which will make it the tallest in the neighborhood. It will have a beautiful view of the West Lake which is widely considered China's most scenic lake. Not only does Hangzhou boast as being one of the most affluent cities in China, akin to Beijing, Shanghai, Guangzhou, and Shenzhen, its office leasing market is also vibrant. We can hardly find a better plot in a better city.

The results of the past half year have been acceptable if nothing unexpected. They are basically in line with what I wrote six months ago. Because we almost sold out our residential units in Hong Kong as of the end of last year, profit therefrom could only fall. As of today, only 12 semi-detached houses on Blue Pool Road and one unit at The Long Beach remain in our hands. This was the sole reason for the overall drop in profit. Leasing revenue and profit both rose in Hong Kong and on the Mainland.

The residential prices in Hong Kong continued to climb as the government struggled to find more land. Now, many analysts are expecting a correction. The last time this happened was in the first quarter of 2016, when average prices fell about 5%. What is unclear at this stage is whether the same, say a retreat of 5%-10%, will happen, or will there be merely a breather with prices going sideways for a while.

The Hong Kong retail performance further recovered as I had predicted. A good part of it was due to the return of Mainland tourists.

The Mainland retail market has also performed acceptably. High-end products did particularly well which was advantageous to us. Being tied down by current leases, our rental figures have yet to reflect market realities. But as long as consumer sentiments remain healthy, which will likely be the case for the rest of this year and I believe beyond, our revenue should rise in response. I do anticipate better days to come.

We who operate in China know that for each product category in a particular market, a dynamic equilibrium between online and offline sales will sooner or later arrive. Since e-commerce is probably more advanced in China than almost anywhere else in the world including the U.S., such equilibrium has been attained much sooner. So while Western pundits are lamenting the downfall of bricks-and-mortars, we in China have long observed the need to co-exist between the two forms of sales channels. In the past years, I have written about this to shareholders.

Apparently many in the West are now waking up to the same fact. Unlike the past few years, today not many think that physical stores are a thing of the past. This previous misunderstanding, together with an oversupply of shopping centers in the U.S., has influenced stock market sentiments regarding our business. Since China was out of favor and luxury goods sales were down, our stock price was seriously affected. That process was long – it began in mid-2011 and lasted until the latter part of 2017. We took advantage of the bear market and addressed many internal management and operational issues.

In general, our stock price underperformed the overall local stock market before 2001. (For HLP, it was 2000.) Then we began to outperform until 2012. (For HLP, it was 2011.) The reverse was basically true thereafter until today. (The same is the case with HLP.) What will the future hold? Whereas I have no idea where the stock market will go in the coming years, what seems sure is that it should soon recognize the new realities in the market as well as of our Company.

PROSPECTS

Surveying real estate companies in the Hong Kong Stock Exchange, it is not difficult to arrive at the conclusion that our strategy is quite different from all the others. It is not a matter of good or bad; every company must find its own path.

By most measures, Hong Kong is a rather sophisticated market for real estate. In other mature economies such as those in the West, few property firms do both residential and commercial properties. They do one or the other. In fact, those in one category are considered in an industry almost different from the other. The only commonality seems to be raw materials – primarily land, steel, and concrete.

The same is not true in Hong Kong. Like us, major real estate companies almost invariably do both residential and commercial. It seems that only the British firms specialize in commercial properties. The local Chinese entities usually started as developers of residences for sale, and later entered the commercial market. (A few began by constructing industrial buildings.) We are no exception although we probably embraced commercial real estate earlier than most. For this we bought land around 1970. Unlike many others, we usually keep our developments for long-term investments. We have always maintained a somewhat balanced portfolio of residential developments for sale and commercial developments for lease. A few other large companies have since moved in the same direction.

However, we had one disadvantage from the very early days. The Company lacked confidence in the future of Hong Kong in the 1970's and 1980's, and so did not build up a residential land bank. All major residential players in the city today began that process in the 1970's. There was hardly any exception. Having said that, let us not forget that some who did not commit our mistake are no longer serious players, or in some cases went bankrupt. Most of them overextended financially before a major market downturn, and there were quite a few of those in the past several decades.

We never gave up on residential development opportunities and are constantly monitoring the market. The several years toward the end of the Asian Financial Crisis was a great time to buy land and we capitalized on it. As we do not have a cheap land bank to average out land prices if necessary, we could not afford to be careless.

At the same time, in the early 1990's we identified a great opportunity on the Mainland for commercial real estate, especially for retail use. Following our initial success in Shanghai, we realized that although not as lucrative, the same model could be replicated in certain parts of the country, namely in the downtowns of economically dynamic cities.

Coupled with a lack of perceivably good residential development opportunities in Hong Kong on a risk-adjusted basis, we have increasingly turned ourselves into a commercial property investment concern with growth coming mainly from the Mainland. As a result, we have gradually run down our inventory of for-sale housing projects in Hong Kong. Nevertheless, we do have two new Hong Kong projects, one which is known to the public and the other being consummated.

So for now, we look more like a pure investment property company. Besides 650,000 square meters in Hong Kong whose portfolio has remained quite stable over the years, we have now completed about 2.27 million square meters on the Mainland in eight malls, five office skyscrapers, and three for-rent residential towers. (Years ago we sold one of the two office buildings in Shanghai Grand Gateway 66.) In the coming seven or eight years, adding to our Mainland rental portfolio will be at least three malls, eight or nine high-rise office buildings, and over half a dozen residential blocks. There may also be one or two hotels. If we buy more land, which is quite likely, then the growth will be even greater. Even without it, we will have well over 2.5 million square meters of new space to add.

Because of the inevitable fluctuation of development profits that follow volatile market conditions, it is almost impossible to predict long-term performance of Hong Kong-based real estate firms. Given how high the price of land is as a percentage of total cost, profit a few years down the road will depend on how expensive land is purchased today, or soon to be purchased, as well as housing prices at the time of sale. Both land and residential prices tend to fluctuate a lot in our city and on the Mainland.

The same is not true of our strategy. The annual revenue and profit for the next 10 years or so can be approximated, given reasonable assumptions and in the absence of unforeseen circumstances. This of course does not include any project yet to be announced.

For example, is it possible for our business model of a stream of primarily rental income capable of producing a compounded annual growth of 10% for the next 10 years? Management believes that it is. Obviously 10 years is a long time and the world today is far too complicated for anyone to make predictions. Nevertheless, our business model allows us to have much more certainty than most other real estate concerns.

Here a few important points should be mentioned. The above estimation does not take into consideration the sales of Hong Kong residential units which may be worth HK$4 billion to HK$5 billion or more at today's market conditions. Nor does it factor in the possibility of selling some mature – indeed any – investment properties anywhere. We have demonstrated in the past few years that we may do that from time to time. There may also be developments for sale periodically as I have alluded to earlier, as well as new rental projects like the one in Hangzhou and probably more to come.

Several more critical issues must be raised here. First, all asset appreciation (or depreciation) is not counted. Since we started on the Mainland in 1992, land price, rental levels, and building value have all greatly multiplied. Some even argue that value appreciation is as much a reason for our strategy, which is long-term in nature. The selling of Mainland assets, although unlikely in the short run, is not inconceivable.

Present accounting rules require periodic revaluations of land assets, and we do this semiannually. When we sold some Hong Kong mature investment properties a few years ago, the sales price being double the book value was more the norm than the exception. The same is, I believe, applicable to our Mainland portfolio.

A second point relates to currency translation. Slightly more than half of our rental revenue comes from the Mainland where RMB is used. This percentage will grow considerably in the coming few years. Although our Board of Directors has more than once considered the possibility of denominating our accounting in that currency rather than in Hong Kong dollar, so far no decision has been made. How much the RMB will be worth in 10 years is anybody's guess. However, it is likely that the Chinese economy will for many years to come outperform more advanced economies, including that of Hong Kong. If so, then we may on average have a translation gain.

Third, from a business model perspective, it must be stated that the quality of our income is very high. Rent is a steady form of revenue and will not disappear overnight. We do not have to worry about the need to buy more land to generate new development profit, although we will do that as well. This is doubly safe since all our properties on the Mainland are in the four- or five-star categories, which means that our tenants are usually financially strong. When the economy is bad, growth rate will moderate but rents will not disappear. We have amply demonstrated this in the latest bear market of 2011 to 2017. Overall we did not have one downward year in terms of total rents received.

While our downside is quite protected, our upside can also be very satisfying. The Chinese economy is deliberately being directed to emphasize private consumption. A 6%-7% annual GDP growth and a focus on higher value-added industries from manufacturing to services of all sorts can only hasten the rise of the middle class. By most measures, it is already the biggest of all countries in the world.

Another force which underpins this phenomenon is continual urbanization. It has been ongoing for over three decades, and will last for a few more. It is likely the biggest migration that mankind has ever seen. It can only be good for lifting the population out of poverty and strengthening the bourgeoisie that will invariably lead to the rise in private consumption. This is all good news for us.

Given the above, one can easily see why it is wrong to lump us with other Hong Kong real estate companies. Almost all of them are more dependent on development profits, which are far more volatile. The growth of our bottom line can be much steadier as it depends mainly on rental revenue.

With many complexes coming on stream, some analysts consider us a growth stock. I do not disagree, except that we are a growth company with very little internal volatility. This is not a feature that is usually associated with such companies. This is why I like our business model.

Whatever the case, investors have to be convinced that we can deliver the above results. With the bear market now behind us, and after a few years of management upgrade, I am now more certain than ever that what we have set out to do in the mid-2000's, when we ventured out of Shanghai on the Mainland, was a good decision. Fruits have just begun to appear which means that harvest is not far away.

It is true that the international scene has become complicated today. Many of my readers may wonder if the trade war between China and the U.S., as initiated by President Donald Trump, may derail the Chinese economy and so our business. In my letter of today to shareholders of HLP, I have devoted considerable time to explaining my views. I encourage readers of this piece to read that one as well. It can be downloaded at http://www.hanglung.com/en-US/media-center/publications/chairmans-letter-to-shareholders. Suffice to summarize here that the dispute is not expected to hurt our business much. Its effect may well be neutral. In fact a case can be made that the possibility exists for it to be even slightly beneficial to our operations.

For the rest of the year, I do not expect much change from the six months under review. For us, Hong Kong rentals will likely grow at low single digits. Most of our malls on the Mainland will continue their rise in both top and bottom lines.

The Long Beach in Hong Kong with only one unit left should be sold out. The remaining 12 semi-detached houses on Blue Pool Road will, as always, be actively marketed. At some HK$300 million or so for a unit, it will take some time to sell them down, but we will do our best.

Overall rental revenue and profit may improve somewhat. Developmental profit will depend solely on the number of units sold on Blue Pool Road. It is frankly quite impossible to improve on the first half year when we sold three units. New accounting rules dictate that even if we sign new buyers today, profit therefrom will unlikely be recognized until 2019.

It will be remiss of me if I do not take this opportunity to thank our retiring CEO Mr. Philip Chen. He was only the fifth person to fill that role at Hang Lung over our 58-year history. The transformation of the Company under his leadership is profound. For that he can be rightfully proud. I wish him the best of health and happiness as he enters retirement. Nevertheless, he will doubtless continue to contribute to our future success first as my adviser for the coming year and also as a non-executive director for HLP. He should be able to witness the fruits of his labors for many years to come.

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

Financial Highlights

in HK$ Million (unless otherwise stated)

RESULTS

	For the Six Months Ended June 30		
	2018	2017	Change
Revenue	**5,457**	6,641	-18%
Property Leasing	**4,425**	4,118	7%
Property Sales	**1,032**	2,523	-59%
Operating Profit	**3,902**	4,743	-18%
Property Leasing	**3,337**	3,101	8%
Property Sales	**565**	1,642	-66%
Net Profit Attributable to Shareholders	**3,037**	2,396	27%
Earnings Per Share (HK$)	**$2.23**	$1.76	27%
Interim Dividend Per Share (HK$)	**$0.19**	$0.19	–

UNDERLYING RESULTS

	For the Six Months Ended June 30		
	2018	2017	Change
Underlying Net Profit Attributable to Shareholders	**1,459**	1,811	-19%
Underlying Earnings Per Share (HK$)	**$1.07**	$1.33	-20%

FINANCIAL POSITION

	At June 30 2018	At December 31 2017	Change
Shareholders' Equity	**85,605**	83,137	3%
Net Assets	**150,963**	149,556	1%
Net Debt	**10,591**	5,816	82%
Financial Ratio			
Net Debt to Equity Ratio	**7.0%**	3.9%	3.1 pts
Debt to Equity Ratio	**19.0%**	18.7%	0.3 pt
Shareholders' Equity Per Share (HK$)	**$62.9**	$61.0	3%
Net Assets Per Share (HK$)	**$110.8**	$109.8	1%

CONSOLIDATED RESULTS

Total revenue of Hang Lung Group Limited (the Company) and its subsidiaries (the Group) decreased 18% to HK$5,457 million for the first half of 2018 because fewer residential units were sold during the period. Revenue from property leasing increased 7% to HK$4,425 million. Property sales revenue dropped 59% to HK$1,032 million. Total operating profit decreased 18% to HK$3,902 million.

Underlying net profit attributable to shareholders decreased 19% to HK$1,459 million. Net profit attributable to shareholders rose 27% to HK$3,037 million, after including a revaluation gain on properties. Earnings per share increased to HK$2.23.

Revenue and Operating Profit for the Six Months Ended June 30

	Revenue			Operating Profit		
	2018 HK$ Million	2017 HK$ Million	Change	**2018 HK$ Million**	2017 HK$ Million	Change
Property Leasing	**4,425**	4,118	7%	**3,337**	3,101	8%
Mainland China	**2,397**	2,153	11%	**1,602**	1,413	13%
Hong Kong	**2,028**	1,965	3%	**1,735**	1,688	3%
Property Sales	**1,032**	2,523	-59%	**565**	1,642	-66%
Total	**5,457**	6,641	-18%	**3,902**	4,743	-18%

DIVIDEND

The Board of Directors has declared an interim dividend of HK19 cents per share for 2018 (2017: HK19 cents) to be paid by cash on September 27, 2018, to shareholders whose names appeared on the register of members on September 13, 2018.

PROPERTY LEASING

In the first half of 2018, total property leasing revenue grew 7% to HK$4,425 million. The Hong Kong leasing portfolio collected 3% more in rents and income of the Mainland properties increased 11%. Total operating profit rose 8% with an overall rental margin of 75%.

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

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

Mainland China

Our mainland China leasing portfolio collected 2% more in rents to RMB1,948 million, up 5% when excluding the short-term rental disruption at Shanghai Grand Gateway 66 mall. Operating profit grew 4% to RMB1,301 million. Average margin was up one point to 67%.

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

	Revenue (RMB Million)			Occupancy Rate*	
Name and City of the Property	2018	2017	Change	Mall	Office
Shanghai Plaza 66	763	710	7%	97%	94%
Shanghai Grand Gateway 66	594	631	-6%#	68%#	97%
Shenyang Palace 66	77	77	–	87%	N/A
Shenyang Forum 66	105	105	–	87%	85%
Jinan Parc 66	141	133	6%	94%	N/A
Wuxi Center 66	121	105	15%	87%	91%
Tianjin Riverside 66	90	90	–	86%	N/A
Dalian Olympia 66	57	52	10%	75%	N/A
Total	1,948	1,903	2%		
Total in HK$ Million equivalent	*2,397*	*2,153*	*11%*		

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

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

- *Malls*

Income of our eight malls in mainland China increased 2% to RMB1,367 million. Benefitting from the successful completion of the major upgrade program last year, Plaza 66 in Shanghai continued its strong growth in both revenue and retail sales. Rental of Grand Gateway 66 in Shanghai decreased 9% due to short-term disruption caused by major on-going upgrading work. The six malls outside of Shanghai achieved higher income during the period, and most of their occupancy rates and retail sales were also on a rising trend.

Income of **Plaza 66**, our flagship high-end mall in Shanghai, increased 13%. Having benefitted from the recovery of the luxury sector consumption and the re-opening of the basement following renovation, retail sales of Plaza 66 rose 15% period-on-period. Occupancy of the mall increased eight points to 97%.

Revenue of **Grand Gateway 66** mall in Shanghai decreased 9% to RMB410 million, but was up 1% if excluding 32% of the leasable area being closed for renovation. The first phase of the upgrading program started last year and will be handed over to tenants for fitting out in the third quarter of 2018. The brand-new area will house many young and trend-setting brands, with most having their first presence at the mall. The next phase of renovation will commence shortly and it will transform the main entrance of the mall and the basement into a more vibrant and welcoming ambience. These works are expected to be completed in 2019. Meanwhile, retail sales retreated 5% period-on-period on a comparable basis.

Rental income of Shenyang **Palace 66** mall was flat, with occupancy rate slipping one point to 87% because of on-going tenant reshuffling. Retails sales decreased 1% as a result. Palace 66 mall now houses many major international and local lifestyle fashion brands.

Jinan **Parc 66** mall collected 6% more in rents to RMB141 million. Occupancy rose two points to 94%. Retail sales increased 20% benefitting from ongoing tenant upgrading.

Income of **Forum 66** mall in Shenyang decreased 16% as a major tenant reshuffling exercise continued. Retail sales at the mall slipped 2%. Maintaining its high-end positioning, more lifestyle and entertainment tenants were introduced to the mall. Occupancy rate increased 10 points to 87%.

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

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

Olympia 66 mall in Dalian collected 10% more in rents because of higher occupancy. More trendy lifestyle and food & beverage tenants were introduced to the mall to enrich its offerings. Occupancy increased 11 points to 75%. Retail sales increased 45% period-on-period.

- *Offices*

Revenue of our office portfolio in mainland China increased 3% to RMB513 million because of higher occupancy. The total office rental accounted for 26% of total Mainland leasing revenue.

Rental of the two office towers at **Plaza 66** in Shanghai slipped 1%. Following the completed relocation of a major tenant between the two office towers, overall occupancy rate gradually increased to 94%, up eight points compared to a year ago. The enhancement works for Office Tower Two were completed.

Income of the office tower at **Grand Gateway 66** in Shanghai increased 4% because of higher occupancy, which rose nine points to 97%. The upgrading works of the tower have commenced, but are not expected to have a major adverse impact on the revenue.

Revenue of the office tower at **Forum 66** in Shenyang grew 20% to RMB57 million largely because of the 16 points increase in occupancy to 85%. The six floors in the high zone of the tower, representing 14% of leasable area, are ready for hand-over to tenants in phases from mid-2018. The leasing results have been encouraging. Fitting out works of the Conrad hotel are progressing well. The hotel is housed on the top 19 floors of the office tower and is scheduled for opening in the first half of 2019.

Income of **Center 66** office tower in Wuxi increased 13% to RMB41 million because of higher occupancy. New lettings and expansions by reputable corporations raised occupancy by 14 points to 91%. The good reputation earned by the existing office tower had a positive impact on the pre-leasing activities for the second tower, which is expected to open in mid-2019.

- *Residential and Serviced Apartments*

Revenue of residential and serviced apartments at Shanghai **Grand Gateway 66** slipped 1% due to renovation works at Grand Gateway 66 mall. Occupancy rate rose one point to 90%.

Hong Kong

Total revenue and operating profit of our Hong Kong leasing portfolio both increased 3% to HK$2,028 million and HK$1,735 million, respectively. Retail sales rose 9% period-on-period. Overall rental margin was 86%.

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

	Revenue (HK$ Million)			Occupancy Rate*
	2018	2017	Change	
Commercial	**1,166**	1,130	3%	97%
Office and Industrial/Offices	**708**	689	3%	94%
Residential & Serviced Apartments	**154**	146	5%	75%
Total	**2,028**	1,965	3%	

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

- *Commercial*

Revenue of the Hong Kong commercial portfolio increased 3% to HK$1,166 million. Overall occupancy advanced three points to 97%.

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

Income of the **Causeway Bay portfolio** advanced 5% to HK$313 million. Retail sales increased 8% period-on-period. Kingston, representing 25% of the retail space of the Causeway Bay portfolio, was fully re-open. This marked the successful completion of the major asset enhancement initiative of Fashion Walk that began in 2015. Fashion Walk is now a uniquely stylish destination for shopping, entertainment, dining, experiencing and socializing.

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

Revenues of **Grand Plaza and Gala Place in Mongkok** advanced 2% period-on-period mainly because of additional leasing close to capacity at Grand Plaza. Both properties were fully leased. The trade mix of Grand Plaza has been reinforced with more beauty and health stores, stylish fashion labels, and an exciting array of new restaurants arriving during the period. Total retail sales increased 17% during the period.

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

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

- *Offices*

Income of our office properties in Hong Kong was up 3% to HK$708 million because of positive rental reversions. The Hong Kong office rental accounted for 35% of total Hong Kong rental turnover. Overall occupancy rate was flat at 94%. Our office properties in Central and Mongkok recorded rental growth of 5% and 8% respectively, but rentals of those in Causeway Bay dropped 1%.

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

- *Residential and Serviced Apartments*

Residential and serviced apartments collected 5% more in rents to HK$154 million mainly because of higher occupancy at Kornhill Apartments and The Summit.

PROPERTY SALES

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

Revenue from property sales retreated 59% to HK$1,032 million due to fewer sales completions during the period. For the first half of 2018, three semi-detached houses at 23-39 Blue Pool Road (2017: Nil) and five units of The Long Beach apartments (2017: 197 units) were recognized as sales. Correspondingly, profit from property sales retreated 66% to HK$565 million. Overall profit margin was 55%.

PROPERTY REVALUATION

As of June 30, 2018, the total value of our investment properties amounted to HK$144,439 million. Our investment properties were revalued by Savills, an independent valuer, as of June 30, 2018. The value of the Hong Kong portfolio and the mainland China portfolio was HK$66,369 million and HK$78,070 million, respectively.

In the first half of 2018, total revaluation gain was HK$2,532 million (2017: HK$870 million), representing a 2% growth when compared to the value at year-end of 2017. The Hong Kong portfolio recorded a revaluation gain of HK$2,292 million and the corresponding amount of our properties in mainland China was HK$240 million.

PROPERTY DEVELOPMENT AND CAPITAL COMMITMENT

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

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

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

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

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

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

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

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

The projects mentioned above represented the majority of the Group's capital commitments at the reporting date, amounting to HK$43 billion. They will be completed in phases over a number of years. The Group has ample financial resources to meet the funding requirements of those projects and is well placed to seize further growth opportunities.

LIQUIDITY AND FINANCIAL RESOURCES

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

- *Liquidity Management*

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

The Group had total cash and bank balances of HK$18,062 million (December 31, 2017: HK$22,223 million) as of June 30, 2018. While optimizing the yield on own cash resources, all the deposits are placed with banks with strong credit ratings and the counterparty risk is monitored on a regular basis.

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

	At June 30, 2018		At December 31, 2017	
	HK$ Million	*% of Total*	HK$ Million	*% of Total*
Denominated in:				
HKD	**9,454**	*52.3%*	12,805	*57.6%*
RMB	**8,594**	*47.6%*	9,408	*42.3%*
USD	**14**	*0.1%*	10	*0.1%*
Total cash and bank balances	**18,062**	*100%*	22,223	*100%*

- *Financing Management*

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

As of June 30, 2018, the Group had undrawn committed banking facilities of HK$17,707 million. The available balance of the USD3 billion Medium Term Note Program was equivalent to HK$11,084 million.

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

Total borrowings of the Group amounted to HK$28,653 million as of June 30, 2018. The higher debt balance against last year-end was due to the construction payments of various projects under development in mainland China. The following table shows the composition of our debt portfolio:

	At June 30, 2018		At December 31, 2017	
	HK$ Million	*% of Total*	HK$ Million	*% of Total*
Floating rate HKD bank loans	**3,390**	*11.8%*	3,515	*12.5%*
Floating rate RMB bank loans	**12,884**	*45.0%*	11,814	*42.1%*
Fixed rate bonds	**12,379**	*43.2%*	12,710	*45.4%*
Denominated in USD	***7,849***	*27.4%*	*7,816*	*27.9%*
Denominated in HKD	***4,530***	*15.8%*	*4,894*	*17.5%*
Total borrowings	**28,653**	*100%*	28,039	*100%*

On the reporting date, the average tenor of the entire loan portfolio was 2.9 years (December 31, 2017: 3.2 years). The maturity profile was well staggered and spread over a period of 7 years. Around 68% of the loans were repayable after 2 years.

	At June 30, 2018		At December 31, 2017	
	HK$ Million	*% of Total*	HK$ Million	*% of Total*
Repayable:				
Within 1 year	**4,796**	*16.8%*	3,017	*10.8%*
After 1 but within 2 years	**4,307**	*15.0%*	4,845	*17.3%*
After 2 but within 5 years	**17,119**	*59.7%*	17,055	*60.8%*
Over 5 years	**2,431**	*8.5%*	3,122	*11.1%*
Total borrowings	**28,653**	*100%*	28,039	*100%*

- *Gearing Ratios & Interest Cover*

As of June 30, 2018, the Group had a net debt balance of HK$10,591 million (December 31, 2017: HK$5,816 million). Net debt to equity ratio was 7.0% (December 31, 2017: 3.9%) and debt to equity ratio was 19.0% (December 31, 2017: 18.7%).

For the six months ended June 30, 2018, the amount of total gross interest expense incurred was HK$692 million (2017: HK$694 million). The amount of finance costs charged to the statement of profit or loss for the first half of 2018 decreased HK$78 million to HK$592 million because of a larger amount of interest capitalized for construction of Mainland projects.

Interest income for the period was HK$267 million (2017: HK$321 million). The decrease in interest income was mainly due to a lower average balance of deposits.

The amount of net interest expense for the first half of 2018, i.e. the excess of finance costs over interest income, decreased to HK$325 million. With about 45% of total borrowings denominated in RMB, the average effective cost of borrowings during the period was 4.7% (2017: 4.9%).

Interest cover, a key indicator for debt servicing capability, for the first six months of 2018 was 9 times (2017: 12 times).

- *Foreign Exchange Management*

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

As of June 30, 2018, net assets denominated in RMB accounted for about 54% of the Group's net assets. The re-translation of those net assets denominated in RMB into HKD using the exchange rate as of the reporting date resulted in a re-translation loss of HK$784 million (2017: gain of HK$2,458 million), as RMB depreciated by about 1% against HKD compared to December 31, 2017. The re-translation loss was recognized in other comprehensive income/exchange reserve.

(b) USD Exposure

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

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

- *Charge of Assets*

Assets of the Group were not charged to any third parties as of June 30, 2018.

- *Contingent Liabilities*

The Group did not have any material contingent liabilities as of June 30, 2018.

OUTLOOK

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

In the meantime, we will further improve customer experience by stepping up new initiatives in digital marketing and loyalty programs. There will be more investments in the Customer Relationship Management (CRM) programs and new technologies, including smart parking, mobile applications and mobile payments. As a constant pursuit for excellence and innovation, we will continue to upgrade our hardware, improve service quality and enhance the tenant mix.

The continuing growth of Plaza 66 in Shanghai will be complemented by the rising tempo of leasing activities in other Mainland properties outside Shanghai in the second half of 2018. Asset enhancement programs will continue in both Hong Kong and Shanghai. Depending on market conditions, there is a possibility we will sell more Hong Kong residential units. Projects under development in mainland China will forge ahead as planned.

CORPORATE GOVERNANCE

We are committed to maintaining the highest standards of corporate governance. During the six months ended June 30, 2018, we adopted corporate governance principles that emphasize a qualified Board of Directors (the "Board"), sound internal controls and effective risk management to enhance transparency and accountability towards our stakeholders. The general framework of our corporate governance practices is set out in our corporate governance report in the 2017 annual report, which is available on our website under Financial Report of Financial Information of the Investor Relations section.

The Board

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

Nomination and Remuneration Committee

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

Audit Committee

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

This interim financial report is unaudited but has been reviewed by KPMG, our auditor, in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants. KPMG's Review Report to the Board of the Company is set out on pages 33 and 34 of this interim report.

Compliance with Corporate Governance Code

During the six months ended June 30, 2018, we complied with the code provisions set out in the Corporate Governance Code as stated in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Compliance with Model Code contained in Appendix 10 to the Listing Rules

We have adopted a code of conduct with regard to securities transactions by Directors of the Board (the "Code of Conduct") on terms that are no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the "Model Code"). The Company has made specific enquiries with all Directors of the Board and confirmed that they have complied with the required standard set out in the Model Code and the Code of Conduct regarding securities transactions by Directors of the Board throughout the six months ended June 30, 2018.

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

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

		The Company (Long Position)		*Hang Lung Properties Limited (Long Position)*		
Name	Capacity	Number of Shares	% of Number of Issued Shares	Number of Shares	% of Number of Issued Shares	Number of Shares under Option *(Note 2)*
Ronnie C. Chan	Personal	11,790,000	0.87	16,330,000	0.36	21,000,000
Philip N.L. Chen	Personal	–	–	–	–	24,000,000
Weber W.P. Lo	Personal	–	–	–	–	10,000,000
Gerald L. Chan	–	–	–	–	–	–
Simon S.O. Ip	–	–	–	–	–	–
P.W. Liu	Personal & Family	–	–	100,000	–	–
L.C. Tsui	–	–	–	–	–	–
Martin C.K. Liao	–	–	–	–	–	–
George K.K. Chang	–	–	–	–	–	–
Roy Y.C. Chen	–	–	–	–	–	–
H.C. Ho	Personal	–	–	–	–	12,300,000
Adriel W. Chan	Personal & Other *(Note 1)*	498,428,580	36.61	2,583,896,340	57.45	2,200,000

Notes

1. Other interests included 498,428,580 shares of the Company and 2,583,896,340 shares of Hang Lung Properties Limited 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 Hang Lung Properties Limited

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

Date Granted (mm/dd/yyyy)	Name	Number of Shares under Option: As at Jan 1, 2018	Exercised during the Period	As at Jun 30, 2018	Exercise Price per Share (HK$)	Vested Dates (mm/dd/yyyy)	Expiry Date (mm/dd/yyyy)
09/01/2008	H.C. Ho	300,000	–	300,000	$24.20	09/01/2010: 10% 09/01/2011: 20% 09/01/2012: 30% 09/01/2013: 40%	08/31/2018
12/31/2008	H.C. Ho	300,000	–	300,000	$17.36	12/31/2010: 10% 12/31/2011: 20% 12/31/2012: 30% 12/31/2013: 40%	12/30/2018
02/08/2010	Ronnie C. Chan	6,500,000	–	6,500,000	$26.46	02/08/2012: 10% 02/08/2013: 20% 02/08/2014: 30% 02/08/2015: 40%	02/07/2020
07/29/2010	Philip N.L. Chen	10,000,000	–	10,000,000	$33.05	07/29/2012: 10% 07/29/2013: 20% 07/29/2014: 30% 07/29/2015: 40%	07/28/2020
09/29/2010	H.C. Ho	2,000,000	–	2,000,000	$36.90	09/29/2012: 10% 09/29/2013: 20% 09/29/2014: 30% 09/29/2015: 40%	09/28/2020
06/13/2011	Ronnie C. Chan Philip N.L. Chen H.C. Ho	4,500,000 4,500,000 3,000,000	– – –	4,500,000 4,500,000 3,000,000	$30.79	06/13/2013: 10% 06/13/2014: 20% 06/13/2015: 30% 06/13/2016: 40%	06/12/2021

2. Movement of Options under the Share Option Schemes of Hang Lung Properties Limited *(continued)*

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

		Number of Shares under Option					
Date Granted (mm/dd/yyyy)	**Name**	**As at Jan 1, 2018**	**Granted during the Period**	**As at Jun 30, 2018**	**Exercise Price per Share** (HK$)	**Vested Dates** (mm/dd/yyyy)	**Expiry Date** (mm/dd/yyyy)
06/04/2013	Ronnie C. Chan	4,500,000	–	4,500,000	$28.20	06/04/2015: 10%	06/03/2023
	Philip N.L. Chen	4,500,000	–	4,500,000		06/04/2016: 20%	
	H.C. Ho	3,000,000	–	3,000,000		06/04/2017: 30%	
	Adriel W. Chan	200,000	–	200,000		06/04/2018: 40%	
12/05/2014	Ronnie C. Chan	2,750,000	–	2,750,000	$22.60	12/05/2016: 10%	12/04/2024
	Philip N.L. Chen	2,500,000	–	2,500,000		12/05/2017: 20%	
	H.C. Ho	1,850,000	–	1,850,000		12/05/2018: 30%	
	Adriel W. Chan	150,000	–	150,000		12/05/2019: 40%	
08/10/2017	Ronnie C. Chan	2,750,000	–	2,750,000	$19.98	08/10/2019: 10%	08/09/2027
	Philip N.L. Chen	2,500,000	–	2,500,000		08/10/2020: 20%	
	H.C. Ho	1,850,000	–	1,850,000		08/10/2021: 30%	
	Adriel W. Chan	1,850,000	–	1,850,000		08/10/2022: 40%	
05/16/2018	Weber W.P. Lo	–	10,000,000	10,000,000	$18.98	05/16/2020: 10%	05/15/2028
						05/16/2021: 20%	
						05/16/2022: 30%	
						05/16/2023: 40%	

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

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

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

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

Name	*Note*	**Number of Shares or Underlying Shares Held *(Long Position)***	**% of Number of Issued Shares *(Long Position)***
Chan Tan Ching Fen	*1*	498,428,580	36.61
Cole Enterprises Holdings (PTC) Limited	*1*	498,428,580	36.61
Merssion Limited	*1*	498,428,580	36.61
Adriel W. Chan	*1*	498,428,580	36.61
Kingswick Investment Limited	*2*	97,965,000	7.19
Aggregate of Standard Life Aberdeen plc affiliated investment management	*3*	175,343,067	12.87
Dodge & Cox	*3*	134,650,000	9.89

Notes

1. These shares were the same parcel of shares held by 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.

2. This company was a wholly-owned subsidiary of Merssion Limited. Its interests were included in 498,428,580 shares held by Merssion Limited.

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

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

CHANGES IN INFORMATION OF DIRECTORS PURSUANT TO LISTING RULES

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

Mr. Weber W.P. Lo

– appointed as Executive Director and Chief Executive Officer Designate on May 16, 2018, and became Chief Executive Officer on July 16, 2018, of both the Company and Hang Lung Properties Limited (a listed subsidiary of the Company)

Mr. Philip N.L. Chen

– retired as Chief Executive Officer of the Company on July 16, 2018

Prof. L.C. Tsui

– resigned as independent non-executive director of China NT Pharma Group Company Limited

Mr. Martin C.K. Liao

– ceased to be chairman of the Anti-Money Laundering and Counter-Terrorist Financing Review Tribunal

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

EMPLOYEES

As at June 30, 2018, the number of employees was 4,535 (comprising 1,192 Hong Kong employees and 3,343 mainland China employees). The total employee costs for the six months ended June 30, 2018 amounted to HK$799 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 Group 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 Group Limited

(Incorporated in the Hong Kong with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 35 to 58 which comprises the consolidated statement of financial position of Hang Lung Group Limited ("the Company") as at June 30, 2018 and the related consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

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

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at June 30, 2018 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

July 30, 2018

Consolidated Statement of Profit or Loss

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

	Note	2018 HK$ Million	2017 HK$ Million	*For information purpose only* 2018 RMB Million	2017 RMB Million
Revenue	3(a)	**5,457**	6,641	**4,436**	5,868
Direct costs and operating expenses		**(1,555)**	(1,898)	**(1,263)**	(1,677)
Gross profit		**3,902**	4,743	**3,173**	4,191
Other net income	4	**72**	70	**60**	62
Administrative expenses		**(329)**	(326)	**(268)**	(288)
Operating profit before changes in fair value of properties		**3,645**	4,487	**2,965**	3,965
Net increase in fair value of properties		**2,532**	870	**2,084**	760
Operating profit after changes in fair value of properties		**6,177**	5,357	**5,049**	4,725
Interest income		**267**	321	**218**	284
Finance costs		**(592)**	(670)	**(482)**	(592)
Net interest expense	5	**(325)**	(349)	**(264)**	(308)
Share of profits of joint ventures		**273**	77	**223**	68
Profit before taxation	3(a) & 6	**6,125**	5,085	**5,008**	4,485
Taxation	7(a)	**(789)**	(783)	**(642)**	(693)
Profit for the period		**5,336**	4,302	**4,366**	3,792
Attributable to:					
Shareholders		**3,037**	2,396	**2,487**	2,111
Non-controlling interests		**2,299**	1,906	**1,879**	1,681
		5,336	4,302	**4,366**	3,792
Earnings per share	9(a)				
Basic		**HK$2.23**	HK$1.76	**RMB1.83**	RMB1.56
Diluted		**HK$2.23**	HK$1.76	**RMB1.83**	RMB1.56

The accompanying notes form part of the interim financial report.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

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

				For information purpose only	
	Note	**2018 HK$ Million**	2017 HK$ Million	**2018 RMB Million**	2017 RMB Million
Profit for the period		**5,336**	4,302	**4,366**	3,792
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		**(784)**	2,458	**602**	(1,666)
Movement in hedging reserve:					
Effective portion of changes in fair value		**38**	(194)	**30**	(169)
Net amount transferred to profit or loss		**(27)**	(44)	**(22)**	(38)
Item that will not be reclassified to profit or loss:					
Net change in fair value of equity investments		**2**	2	**1**	2
		(771)	2,222	**611**	(1,871)
Total comprehensive income for the period		**4,565**	6,524	**4,977**	1,921
Total comprehensive income attributable to:					
Shareholders		**2,637**	3,585	**2,900**	1,058
Non-controlling interests		**1,928**	2,939	**2,077**	863
		4,565	6,524	**4,977**	1,921

The accompanying notes form part of the interim financial report.

Consolidated Statement of Financial Position

At June 30, 2018

	Note	(Unaudited) June 30, 2018 HK$ Million	(Audited) December 31, 2017 HK$ Million	*For information purpose only* June 30, 2018 RMB Million	*For information purpose only* December 31, 2017 RMB Million
Non-current assets					
Property, plant and equipment					
Investment properties	10	144,439	142,406	121,914	119,030
Investment properties under development	10	26,098	21,592	22,003	18,049
Other property, plant and equipment		216	218	182	182
		170,753	164,216	144,099	137,261
Interest in joint ventures		3,899	3,650	3,295	3,051
Other assets		1,446	1,445	1,222	1,208
Deposits with banks	11	3,051	3,705	2,579	3,097
Deferred tax assets		1	2	1	2
		179,150	173,018	151,196	144,619
Current assets					
Cash and deposits with banks	11	15,011	18,518	12,679	15,477
Trade and other receivables	12	1,718	2,078	1,449	1,737
Properties for sale		1,284	1,634	1,085	1,366
Assets held for sale	15	77	540	65	451
		18,090	22,770	15,278	19,031
Current liabilities					
Bank loans and other borrowings	13	4,796	3,017	4,047	2,522
Trade and other payables	14	6,567	7,169	5,542	5,992
Finance lease obligations		22	19	19	16
Current tax payable		548	511	463	427
Liabilities directly associated with the assets held for sale	15	–	2	–	2
		11,933	10,718	10,071	8,959
Net current assets		6,157	12,052	5,207	10,072
Total assets less current liabilities		185,307	185,070	156,403	154,691

	Note	(Unaudited) June 30, 2018 HK$ Million	(Audited) December 31, 2017 HK$ Million	*For information purpose only* June 30, 2018 RMB Million	December 31, 2017 RMB Million
Non-current liabilities					
Bank loans and other borrowings	13	**23,857**	25,022	**20,143**	20,914
Finance lease obligations		**314**	319	**265**	267
Deferred tax liabilities		**10,173**	10,173	**8,578**	8,504
		34,344	35,514	**28,986**	29,685
NET ASSETS		**150,963**	149,556	**127,417**	125,006
Capital and reserves					
Share capital	16	**4,065**	4,065	**3,164**	3,164
Reserves		**81,540**	79,072	**69,092**	66,326
Shareholders' equity		**85,605**	83,137	**72,256**	69,490
Non-controlling interests		**65,358**	66,419	**55,161**	55,516
TOTAL EQUITY		**150,963**	149,556	**127,417**	125,006

The accompanying notes form part of the interim financial report.

Consolidated Statement of Changes in Equity

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

	Shareholders' equity					
	Share capital HK$ Million (Note 16)	Other reserves HK$ Million (Note 18)	Retained profits HK$ Million (Note 18)	Total HK$ Million	Non-controlling interests HK$ Million	Total equity HK$ Million
At January 1, 2018	4,065	5,104	73,968	83,137	66,419	149,556
Profit for the period	–	–	3,037	3,037	2,299	5,336
Exchange difference arising from translation of foreign subsidiaries	–	(407)	–	(407)	(377)	(784)
Cash flow hedges: net movement in hedging reserve	–	6	–	6	5	11
Net change in fair value of equity investments	–	1	–	1	1	2
Total comprehensive income for the period	–	(400)	3,037	2,637	1,928	4,565
Final dividend in respect of previous financial year	–	–	(831)	(831)	–	(831)
Employee share-based payments	–	21	7	28	6	34
Change in non-controlling interests arising from increase of the Group's shareholding in a subsidiary	–	634	–	634	(1,537)	(903)
Dividends paid to non-controlling interests	–	–	–	–	(1,458)	(1,458)
At June 30, 2018	4,065	5,359	76,181	85,605	65,358	150,963
At January 1, 2017	4,065	2,002	69,658	75,725	62,393	138,118
Profit for the period	–	–	2,396	2,396	1,906	4,302
Exchange difference arising from translation of foreign subsidiaries	–	1,319	–	1,319	1,139	2,458
Cash flow hedges: net movement in hedging reserve	–	(131)	–	(131)	(107)	(238)
Net change in fair value of equity investments	–	1	–	1	1	2
Total comprehensive income for the period	–	1,189	2,396	3,585	2,939	6,524
Final dividend in respect of previous financial year	–	–	(831)	(831)	–	(831)
Employee share-based payments	–	10	8	18	15	33
Dividends paid to non-controlling interests	–	–	–	–	(1,225)	(1,225)
At June 30, 2017	4,065	3,201	71,231	78,497	64,122	142,619

The accompanying notes form part of the interim financial report.

For information purpose only

	Shareholders' equity					
	Share capital RMB Million	Other reserves RMB Million	Retained profits RMB Million	Total RMB Million	Non-controlling interests RMB Million	Total equity RMB Million
At January 1, 2018	3,164	4,786	61,540	69,490	55,516	125,006
Profit for the period	–	–	2,487	2,487	1,879	4,366
Exchange difference arising from translation to presentation currency	–	408	–	408	194	602
Cash flow hedges: net movement in hedging reserve	–	5	–	5	3	8
Net change in fair value of equity investments	–	–	–	–	1	1
Total comprehensive income for the period	–	413	2,487	2,900	2,077	4,977
Final dividend in respect of previous financial year	–	–	(673)	(673)	–	(673)
Employee share-based payments	–	17	6	23	5	28
Change in non-controlling interests arising from increase of the Group's shareholding in a subsidiary	–	516	–	516	(1,251)	(735)
Dividends paid to non-controlling interests	–	–	–	–	(1,186)	(1,186)
At June 30, 2018	3,164	5,732	63,360	72,256	55,161	127,417
At January 1, 2017	3,164	6,862	57,849	67,875	55,923	123,798
Profit for the period	–	–	2,111	2,111	1,681	3,792
Exchange difference arising from translation to presentation currency	–	(940)	–	(940)	(726)	(1,666)
Cash flow hedges: net movement in hedging reserve	–	(114)	–	(114)	(93)	(207)
Net change in fair value of equity investments	–	1	–	1	1	2
Total comprehensive income for the period	–	(1,053)	2,111	1,058	863	1,921
Final dividend in respect of previous financial year	–	–	(734)	(734)	–	(734)
Employee share-based payments	–	9	7	16	13	29
Dividends paid to non-controlling interests	–	–	–	–	(1,082)	(1,082)
At June 30, 2017	3,164	5,818	59,233	68,215	55,717	123,932

Condensed Consolidated Cash Flow Statement

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

	2018 HK$ Million	2017 HK$ Million	*For information purpose only* 2018 RMB Million	2017 RMB Million
Operating activities				
Cash generated from operations	**4,164**	7,201	**3,397**	6,351
Income tax paid	**(668)**	(648)	**(545)**	(577)
Net cash generated from operating activities	**3,496**	6,553	**2,852**	5,774
Investing activities				
Payment for property, plant and equipment	**(5,368)**	(2,177)	**(4,395)**	(1,924)
Decrease/(increase) in bank deposits with maturity greater than three months	**3,934**	(6,602)	**3,199**	(5,826)
Other cash flows arising from investing activities	**897**	427	**733**	378
Net cash used in investing activities	**(537)**	(8,352)	**(463)**	(7,372)
Financing activities				
Proceeds from new bank loans and other borrowings	**3,553**	359	**2,887**	317
Repayment of bank loans and other borrowings	**(2,823)**	(4,678)	**(2,295)**	(4,128)
Interest and other borrowing costs paid	**(720)**	(654)	**(587)**	(577)
Interest element of finance lease rentals paid	**(8)**	–	**(7)**	–
Dividend paid	**(831)**	(831)	**(673)**	(734)
Dividends paid to non-controlling interests	**(1,458)**	(1,225)	**(1,186)**	(1,082)
Other cash flows used in financing activities	**(848)**	–	**(689)**	–
Net cash used in financing activities	**(3,135)**	(7,029)	**(2,550)**	(6,204)
Decrease in cash and cash equivalents	**(176)**	(8,828)	**(161)**	(7,802)
Effect of foreign exchange rate changes	**(83)**	356	**33**	(227)
Cash and cash equivalents at January 1	**10,490**	23,578	**8,768**	21,164
Cash and cash equivalents at June 30	**10,231**	15,106	**8,640**	13,135
Analysis of the balance of cash and cash equivalents:				
Cash and deposits with banks	**18,062**	22,693	**15,258**	19,736
Less: Bank deposits with maturity greater than three months	**(7,831)**	(7,587)	**(6,618)**	(6,601)
Cash and cash equivalents	**10,231**	15,106	**8,640**	13,135

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 33 to 34.

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

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

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

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

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

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

2. CHANGES IN ACCOUNTING POLICIES

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

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

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

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

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

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

Changes in accounting policy on sale of properties

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

Policy applicable on or before December 31, 2017

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

Policy applicable from January 1, 2018

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

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

2. CHANGES IN ACCOUNTING POLICIES (continued)

Transition

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

Impacts on the consolidated financial statements

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

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

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

	Impact of changes in accounting policies		
For the six months ended June 30, 2018	**Amounts reported in accordance with HKFRS 15 HK$ Million**	**Estimated impact of the adoption of HKFRS 15 HK$ Million**	**Hypothetical amounts under HKAS 18 HK$ Million**
Revenue	5,457	195	5,652
Direct costs and operating expenses	(1,555)	(45)	(1,600)
Other net income	72	42	114
Net increase in fair value of properties	2,532	(35)	2,497
Taxation	(789)	(26)	(815)
Profit for the period	5,336	131	5,467
Profit attributable to:			
Shareholders	3,037	74	3,111
Non-controlling interests	2,299	57	2,356

2. CHANGES IN ACCOUNTING POLICIES (continued)

Impacts on the consolidated financial statements (continued)

(ii) Consolidated statement of financial position (extract)

	Impact of changes in accounting policies		
At June 30, 2018	Amounts reported in accordance with HKFRS 15 HK$ Million	Estimated impact of the adoption of HKFRS 15 HK$ Million	Hypothetical amounts under HKAS 18 HK$ Million
Assets			
Investment properties	144,439	(2)	144,437
Trade and other receivables	1,718	250	1,968
Properties for sale	1,284	(30)	1,254
Assets held for sale	77	(77)	–
Liabilities			
Trade and other payables	6,567	(16)	6,551
Current tax payable	548	26	574
Equity			
Retained profits	76,181	74	76,255
Non-controlling interests	65,358	57	65,415

(iii) Condensed consolidated cash flow statement

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

3. REVENUE AND SEGMENT INFORMATION

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

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

3. REVENUE AND SEGMENT INFORMATION (continued)

Management evaluates performance primarily based on profit before taxation.

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

(a) Revenue and results by segments

	Revenue		Profit before taxation	
	2018 HK$ Million	2017 HK$ Million	**2018 HK$ Million**	2017 HK$ Million
Segment				
Property leasing				
– Mainland China	**2,397**	2,153	**1,602**	1,413
– Hong Kong	**2,028**	1,965	**1,735**	1,688
	4,425	4,118	**3,337**	3,101
Property sales				
– Hong Kong	**1,032**	2,523	**565**	1,642
Segment total	**5,457**	6,641	**3,902**	4,743
Other net income			**72**	70
Administrative expenses			**(329)**	(326)
Operating profit before changes in fair value of properties			**3,645**	4,487
Net increase in fair value of properties			**2,532**	870
– property leasing in Hong Kong			**2,292**	1,127
– property leasing in mainland China			**240**	(257)
Net interest expense			**(325)**	(349)
– interest income			**267**	321
– finance costs			**(592)**	(670)
Share of profits of joint ventures			**273**	77
Profit before taxation			**6,125**	5,085

3. REVENUE AND SEGMENT INFORMATION (continued)

(b) Total assets by segments

	Total assets	
	June 30, 2018 HK$ Million	December 31, 2017 HK$ Million
Segment		
Property leasing		
– Mainland China	**105,574**	101,283
– Hong Kong	**66,896**	64,479
	172,470	165,762
Property sales		
– Hong Kong	**1,285**	2,166
Segment total	**173,755**	167,928
Interest in joint ventures	**3,899**	3,650
Other assets	**1,446**	1,445
Deferred tax assets	**1**	2
Cash and deposits with banks	**18,062**	22,223
Assets held for sale	**77**	540
Total assets	**197,240**	195,788

4. OTHER NET INCOME

	2018 HK$ Million	2017 HK$ Million
Gain on disposal of investment properties	**45**	2
Gain on disposal of assets held for sale	**27**	–
Ineffectiveness on cash flow hedges	**–**	(5)
Net exchange gain	**–**	73
	72	70

5. NET INTEREST EXPENSE

	2018 HK$ Million	2017 HK$ Million
Interest income on bank deposits	267	321
Interest expense on bank loans and other borrowings	654	607
Finance charges on finance lease obligations	8	–
Other borrowing costs	30	87
Total borrowing costs	692	694
Less: Borrowing costs capitalized	(100)	(24)
Finance costs	592	670
Net interest expense	(325)	(349)

6. PROFIT BEFORE TAXATION

	2018 HK$ Million	2017 HK$ Million
Profit before taxation is arrived at after charging:		
Cost of properties sold	350	707
Staff costs, including employee share-based payments of HK$34 million (2017: HK$33 million)	799	719
Depreciation	22	26

7. TAXATION

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

	2018 HK$ Million	2017 HK$ Million
Current tax		
Hong Kong Profits Tax	**291**	475
Mainland China Income Tax	**415**	371
	706	846
Deferred tax		
Changes in fair value of properties	**66**	(64)
Other origination and reversal of temporary differences	**17**	1
	83	(63)
Total income tax expense	**789**	783

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

8. DIVIDENDS

(a) Interim dividend

	2018 HK$ Million	2017 HK$ Million
Proposed after the end of the reporting period: HK19 cents (2017: HK19 cents) per share	**258**	258

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

(b) Final dividend approved and paid during the period

	2018 HK$ Million	2017 HK$ Million
2017 Final dividend of HK61 cents (2016: HK61 cents) per share	**831**	831

9. EARNINGS PER SHARE

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

	2018 HK$ Million	2017 HK$ Million
Earnings used in calculating basic and diluted earnings per share (net profit attributable to shareholders)	3,037	2,396

	Number of shares	
	2018 Million	2017 Million
Weighted average number of shares used in calculating basic and diluted earnings per share (Note)	1,362	1,362

Note: Diluted earnings per share were the same as the basic earnings per share for the periods as there were no dilutive potential ordinary shares in existence during both periods.

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

	2018 HK$ Million	2017 HK$ Million
Net profit attributable to shareholders	3,037	2,396
Effect of changes in fair value of properties	(2,532)	(870)
Effect of corresponding deferred tax	66	(64)
Effect of changes in fair value of investment properties of joint ventures	(198)	(11)
	(2,664)	(945)
Non-controlling interests	1,086	360
	(1,578)	(585)
Underlying net profit attributable to shareholders	1,459	1,811

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

	2018	2017
Basic	HK$1.07	HK$1.33
Diluted	HK$1.07	HK$1.33

10. INVESTMENT PROPERTIES AND INVESTMENT PROPERTIES UNDER DEVELOPMENT

(a) Additions

During the period, additions to investment properties and investment properties under development amounted to HK$4,954 million (2017: HK$2,520 million). The additions included partial payment to Hangzhou Land Resources Bureau for acquiring the land in Xiacheng District, Hangzhou, Zhejiang Province, PRC.

(b) Valuation

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

11. CASH AND DEPOSITS WITH BANKS

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

	June 30, 2018 HK$ Million	December 31, 2017 HK$ Million
Hong Kong Dollars	**9,454**	12,805
Hong Kong Dollars equivalent of:		
Renminbi	**8,594**	9,408
United States Dollars	**14**	10
	18,062	22,223

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

	June 30, 2018 HK$ Million	December 31, 2017 HK$ Million
Bank loans and other borrowings	**28,653**	28,039
Less: Cash and deposits	**(18,062)**	(22,223)
Net debt	**10,591**	5,816

12. TRADE AND OTHER RECEIVABLES

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

	June 30, 2018 HK$ Million	December 31, 2017 HK$ Million
Not past due or less than 1 month past due	**14**	511
1–3 months past due	**4**	6
More than 3 months past due	**4**	3
	22	520

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

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

13. BANK LOANS AND OTHER BORROWINGS

At the end of the reporting period, the Group had HK$17,707 million (December 31, 2017: HK$15,009 million) committed undrawn banking facilities.

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

14. TRADE AND OTHER PAYABLES

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

	June 30, 2018 HK$ Million	December 31, 2017 HK$ Million
Due within 3 months	**1,779**	2,063
Due after 3 months	**1,497**	1,977
	3,276	4,040

15. ASSETS HELD FOR SALE

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

The balance at December 31, 2017 represented items as below:

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

(b) the investment properties held for sale, representing commercial units, kindergarten premise and car parking spaces at Bayview Garden in Hong Kong. The completion of the transaction took place on April 16, 2018.

	June 30, 2018 HK$ Million	December 31, 2017 HK$ Million
Investment properties	**77**	539
Properties for sale	**–**	1
Assets held for sale	**77**	540
Deposits received	**–**	2
Liabilities directly associated with the assets held for sale	**–**	2

16. SHARE CAPITAL

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

	June 30, 2018		December 31, 2017	
	Number of shares Million	Amount of share capital HK$ Million	Number of shares Million	Amount of share capital HK$ Million
Ordinary shares, issued and fully paid	**1,362**	**4,065**	1,362	4,065

17. SHARE OPTION SCHEMES

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

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

(a) 2002 Share Option Scheme

	Number of share options					
Date granted	Outstanding on January 1, 2018	Exercised	Forfeited/ Lapsed	**Outstanding on June 30, 2018**	Period during which options are exercisable	Exercise price (HK$)
April 1, 2008 to December 31, 2008	12,372,000	(143,000)	(200,000)	**12,029,000**	April 1, 2009 to December 30, 2018	17.36 – 27.90
February 8, 2010 to June 1, 2010	13,380,000	–	–	**13,380,000**	February 8, 2012 to May 31, 2020	26.46 – 27.27
July 29, 2010 to June 13, 2011	31,210,000	–	–	**31,210,000**	July 29, 2012 to June 12, 2021	30.79 – 36.90
Total	56,962,000	(143,000)	(200,000)	**56,619,000**		

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

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

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

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

17. SHARE OPTION SCHEMES (continued)

(b) 2012 Share Option Scheme

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

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

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

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

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

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

18. RESERVES

	Other reserves								
	Exchange reserve HK$ Million	Hedging reserve HK$ Million	Investment revaluation reserve HK$ Million	Employee share-based compensation reserve HK$ Million	General reserve HK$ Million	Other capital reserve HK$ Million	Total HK$ Million	Retained profits HK$ Million	Total reserves HK$ Million
At January 1, 2018	1,317	(75)	68	405	275	3,114	5,104	73,968	79,072
Profit for the period	-	-	-	-	-	-	-	3,037	3,037
Exchange difference arising from translation of foreign subsidiaries	(407)	-	-	-	-	-	(407)	-	(407)
Cash flow hedges: net movement in hedging reserve	-	6	-	-	-	-	6	-	6
Net change in fair value of equity investments	-	-	1	-	-	-	1	-	1
Total comprehensive income for the period	(407)	6	1	-	-	-	(400)	3,037	2,637
Final dividend in respect of previous financial year	-	-	-	-	-	-	-	(831)	(831)
Employee share-based payments	-	-	-	21	-	-	21	7	28
Change in non-controlling interests arising from increase of the Group's shareholding in a subsidiary	-	-	-	-	-	634	634	-	634
At June 30, 2018	**910**	**(69)**	**69**	**426**	**275**	**3,748**	**5,359**	**76,181**	**81,540**
At January 1, 2017	(1,641)	-	67	442	275	2,859	2,002	69,658	71,660
Profit for the period	-	-	-	-	-	-	-	2,396	2,396
Exchange difference arising from translation of foreign subsidiaries	1,319	-	-	-	-	-	1,319	-	1,319
Cash flow hedges: net movement in hedging reserve	-	(131)	-	-	-	-	(131)	-	(131)
Net change in fair value of equity investments	-	-	1	-	-	-	1	-	1
Total comprehensive income for the period	1,319	(131)	1	-	-	-	1,189	2,396	3,585
Final dividend in respect of previous financial year	-	-	-	-	-	-	-	(831)	(831)
Employee share-based payments	-	-	-	10	-	-	10	8	18
At June 30, 2017	(322)	(131)	68	452	275	2,859	3,201	71,231	74,432

19. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

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

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

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

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

(a) Financial assets and liabilities carried at fair value

i) Derivative financial instruments – cross currency swaps

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

ii) Investment in equity instruments

The fair value of non-publicly traded equity investments as of June 30, 2018 of HK$108 million (December 31, 2017: HK$106 million) in Level 3 is determined by reference to the net asset value of these investments.

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

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

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

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

20. COMMITMENTS

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

	June 30, 2018 HK$ Million	December 31, 2017 HK$ Million
Contracted for	**21,049**	12,686
Authorized but not contracted for	**22,373**	22,952
	43,422	35,638

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

21. COMPARATIVE FIGURES

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

22. REVIEW AND APPROVAL OF INTERIM FINANCIAL REPORT

The interim financial report is unaudited, but has been reviewed by the Audit Committee. It was authorized for issue by the Board of Directors on July 30, 2018.

FINANCIAL TERMS

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

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

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

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

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

FINANCIAL RATIOS

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

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

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

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

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

FINANCIAL CALENDAR

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

SHARE LISTING

As at June 30, 2018, 1,361,618,242 shares are listed on The Stock Exchange of Hong Kong Limited. It has a sponsored American Depositary Receipt (ADR) Program in the New York market.

STOCK CODE

Hong Kong Stock Exchange: 00010
Reuters: 0010.HK
Bloomberg: 10 HK
CUSIP Number/Ticker Symbol for ADR Code: 41043E102/HNLGY

SHARE INFORMATION

Share price as at June 30, 2018: HK$22.00
Market capitalization as at June 30, 2018: HK$29.96 billion

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