恒隆集團
HANG LUNG GROUP

2019
Interim Report

Hang Lung Group Limited
Stock Code: 00010

WE DO IT RIGHT

CONTENTS

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RESULTS AND DIVIDEND

For the six months ended June 30, 2019, revenue declined 17% to HK$4,505 million as no property sales income was recognized. Net profit attributable to shareholders increased 22% to HK$3,709 million including the gain from the disposal of a non-core investment property. Earnings per share rose similarly to HK$2.72.

When excluding property revaluation gain and all related effects, the underlying net profit attributable to shareholders advanced 59% to HK$2,324 million. The underlying earnings per share grew correspondingly to HK$1.71.

The Board has declared an interim dividend of HK19 cents per share payable on September 26, 2019 to shareholders of record on September 13, 2019.

BUSINESS REVIEW

Six months ago, I wrote, "Whereas we are cautiously optimistic about the Mainland, we maintain a positive outlook on the future of Hong Kong, both its economy and its property market." Today, while remaining optimistic about the Mainland, I could not have been more wrong on the word "positive" regarding Hong Kong. Nevertheless, I added later the caveat, "As long as Hong Kong people do not behave foolishly as they have done occasionally since 1997…". Unfortunately, some of my fellow citizens have decided to act unwisely of late.

First, the local government made a serious political blunder and further mishandled it afterwards; then, some citizens, under the influence of radical political activists, took full advantage of the negative sentiments and turned violent. Finally, certain Western governments, aided by their media, wittingly or unwittingly misrepresented the situation on the ground. For example, the Hong Kong police are by far the most restrained police force of major cities around the world – recall the recent street scenes in Paris, Barcelona, London, or New York City. Protesters harassing the families of police were also unheard of elsewhere, yet this was hardly reported outside of Hong Kong.

Local businesses will doubtlessly be hurt. To start with, tourist arrivals will immediately slow down. Hotels, food outlets, and retail sales will all feel the pain soon enough. If the turmoil continues, financial services will also be affected. For example, will major IPOs (Initial Public Offerings) and other fundraising activities so critical to our economy be in doubt? Will business switch to somewhere else?

Residential real estate will also be impacted. Sales volume will fall, and eventually sales prices may go down as well. Transactions of commercial and industrial buildings have always been limited in Hong Kong, but any potential buyer will now think twice before acting.

Will there be long-term damage to our economy? It will depend on how this debacle ends. The worst will be to see the erosion of confidence in our city among the international business community. But if Beijing and Hong Kong's local government can wisely handle the situation, they should be able to avert this.

The present disturbances cannot be good for our business. During the 2013–2016 bear market, we bucked the Hong Kong retail rental trend and grew at close to 7% per annum. With such a high base, rental revenue in the past few years has settled at nearly 3% annual increase. Before the social unrest, we expected a similar performance this year, and were in fact running ahead of that. But given the recent disturbances, we no longer believe that it is possible to keep to the same level for the second half of the year as in the first six months. Perhaps the full year will even be a point below the trend. The long-term effects will again depend on when and how the turmoil ends.

That said, it is hard to imagine a scenario where Hong Kong's overall economy will not be hurt. The only question is how deep the trough and how slow the recovery will be. Once again, economics is sacrificed for politics.

Our other major market, mainland China, is also under attack, this time from the U.S. in the form of the U.S.–China trade war. Its effect on our business, however, is not negative. In fact, it is mildly advantageous as I wrote six months ago. To keep her GDP up, Beijing is resorting to increasing public investment and stimulating domestic consumption. The latter is very good for us. Let me illustrate.

Almost a decade ago, I began to question why China allowed so many purchases of luxury fashion items overseas. The country loses tax revenue. Beijing certainly has the means to domesticate many such activities. Yet for a long time, she has chosen to keep the import duties high, and did not tax her citizens when they returned home after their overseas shopping sprees. Years ago, a senior official at the Ministry of Commerce told me that it was a matter of time before government actions would be taken. Yet nothing apparently was done – that is, until now. There has been a wholesale reversal of policies of late.

According to a reputable study, only slightly over a quarter of all high-end fashion purchases by the Chinese citizens were transacted within the country. This number in the coming six years is expected to grow to about 50%. In addition, total sales are anticipated to double in the same period. This is almost a four-fold increase! Yet a senior management of a top European fashion house has told us that these numbers are conservative. This is excellent news for us. Our own revenue growth of late, as well as recent experiences of top brands, substantiate this finding.

Consider our own mall performance in the past six months compared to the same period a year ago. In Shanghai, Plaza 66 continued its double-digit growth in both retail sales and rental revenue. The portion of Grand Gateway 66 (North Building) where its Asset Enhancement Initiative (AEI) has been completed had a similar experience. Once the main building (South Building) opens next year, we expect the same to happen.

Our other five-star mall, Center 66 in Wuxi, saw retail sales and rental revenue rise by 25% and 26%, respectively. These two measures jumped 27% and 30% in Dalian Olympia 66 as several high-end brands have moved in. More will take place in the coming months. Parc 66 in Jinan, which I expect will enjoy a similar upgrade to five-star status soon, had advancements of 11% and 12%, respectively. Our sub-luxury property Palace 66 in Shenyang also traded superbly. The two numbers were, respectively, 29% and 23%. Even our two weaker developments have seen low single-digit growth.

This set of results confirms that Chinese domestic consumption, especially of luxury items, is faring well. It is in line with the reports as well as the performance of major fashion brands operating in China. So far, it seems that the momentum is quite strong, and this winning streak may continue for some time.

While enjoying a rising market in our business, one cannot ignore the geo-economic environment, which is rather troubled. In fact, the world may be entering a new phase that may be considerably different from what we have been accustomed to for decades. Almost 30 years after the fall of the Soviet Union, the U.S. has finally found another enemy – China. The problem is that China today is not like the U.S.S.R. of the 1980's. In terms of economy, the former is rather vibrant; the latter was sickly all round. Today, the U.S. and China are intricately connected in their economies; back then, the U.S. and the U.S.S.R. almost had nothing to do with each other in trade or investment.

Elsewhere in the world, the European Union has signs of splintering, at least partially if not as a whole. Could Brexit be only the first? Many of its member states are in terrible economic conditions, like Greece, Italy, and Spain. Meanwhile, the situation in the Middle East has gone from bad to worse.

For now, the U.S.–China trade disputes have taken center stage. I do not believe that U.S. President Trump wants a deal now. Until his own re-election needs it – at which time there will be a deal – he will continue to just play around. The idea is to put China in the worst possible light so as to turn the world away from China and isolate Beijing. The ultimate aim is to contain China's rise. I doubt if America will succeed in the longer term.

A more likely outcome is a bifurcated world where everyone has to choose sides – the U.S. or China. This is a return to the Cold War. There may be two operating systems for many things, a retreat from globalization which has been the norm since the breakup of the U.S.S.R. Take cell phones as an example. We used to have GSM versus CDMA, then the whole world basically adopted one system that worked everywhere. Will this reverse one day? Recently the U.S. introduced a gradual withdrawal of the Android Operating System from the Chinese market. This forced China to come up with Harmony OS. This may be a harbinger of how things will evolve.

It should be clear to everyone that the trade war is but a front act. It is in fact an all-out competition, at the heart of which is technology, the key determinant for security and military supremacy. China is mainly concerned with the former, while the U.S. wants both for herself. To be sure, the U.S. is decades ahead of the Chinese in military hardware, but Washington, D.C. cannot allow anyone to have a chance of challenging her, in actuality or in potentiality. Looking around the world, China is the only possible challenger, so she must be defeated, or at least contained. Peaceful coexistence is not acceptable to the U.S. The world's number one country has fallen into the Thucydides Trap, as Professor Graham Allison of Harvard University calls it.

The Huawei and 5G case is particularly poignant. As a former Foreign Minister of an Asian country recently said in so many words, China's success in 5G takes away America's monopoly in spying on her enemies (and everyone else). Soon, someone can do to the U.S. what she has been doing to others for decades.

Equally significant is the reason the U.S. is losing out on 5G. It stands to reason that there are at least the following factors, all of which are the strengths as well as weaknesses of the American or Western system, a point to which I will return. Besides military supremacy, there are also hugely significant economic ramifications.

2G was dominated by Nokia and Ericsson, both from Scandinavia over which the U.S. can exert considerable influence, if necessary. 3G and 4G were dominated by American companies who have spawned many gigantic high-tech companies critical to the American economy – Google, Apple, Facebook, and Amazon, just to name a few. Just as Nokia and Ericsson were to some extent replaced by American newcomers, will 5G create its own set of big tech corporates which may render the present leaders less competitive, or even obsolete?

Why then did 5G not happen first in the U.S.? Recognizing that breaking up monopolies was good, large companies, like Bell Labs with awesome research capabilities, were systematically dismantled a few decades ago. This was done in order to encourage competition. Then, believing that globalization was good, some of the parts were sold to foreign entities. The disappearance of "national champions" has greatly reduced the ability of those once powerful American corporates to conduct research and to innovate.

Then there is the free market in action. Companies that dominate 4G have incentives to delay the appearance of 5G in order to milk the market, so to speak. They will earn as much as they can with 4G by prolonging its dominance. Anyone in a privileged position of controlling 4G and operating a free market environment may do just that.

Finally, almost no American a few years back expected that high-tech endeavors such as 5G could come from China. They had underestimated the Chinese and their system. They might have thought that if America was not the first to the market, it must be a European or another friendly ally whom the U.S. can strongly influence.

If there is any truth in this analysis, then one can understand why the U.S. is now upset and worried. Worse yet, China has done this not through the Western way. She has a hybrid system that comprises elements of the West and the East. Many consider Huawei as Beijing-controlled, or at least Beijing-guided; they think that it is a State Owned Enterprise (SOE) disguised as a private company. The reality is that many American private firms strategic to national security have no choice but to work closely with Washington, D.C. The U.S. merely dresses up the relationship between those companies and government better.

Whatever the case, the Chinese have built 5G by focusing attention and concentrating resources, like what the country has done for thousands of years. At times, she can do wonders. The U.S., on the other hand, has never embraced the concentration of power. From her inception in the 18th century, she has sought the dispersion of power, and the U.S. Constitution guarantees that. Democracy, or one-person-one-vote, is the ultimate spreading of power. The Americans rightly worry that power corrupts, and that absolute power corrupts absolutely. It is a truth, but not the only truth. Nor is it absolute, for certain amounts of power concentration can at times be more effective.

Since the U.S. advocates diversity, it is odd that she should demand that everyone does things Uncle Sam's way. Can we not respect one another and co-exist in peace? To try to mold everyone in one's own image is conceited, if not ignorant and unwise. After the fall of the Soviet Union, in 1992 American scholar Francis Fukuyama wrote the book *The End of History and the Last Man*. Its tenet was at least misguided if not outright wrong. The author has long moderated his views, yet the "End of History Syndrome" has been deeply ingrained in the Western psyche.

In my few dealings with Dr. Fukuyama over many years, I find him fair-minded and honorable. I have seen him reverse his position when confronted with irrefutable evidence. This is a sign of an intellectually honest person. But to expect the same of a community such as a nation or people is unrealistic. Most people are not even thoughtful, let alone fair-mindedly thoughtful. More often than not, human beings let their emotions get the better of them, and most of the time the average person suffers from laziness of the mind. It is a lot easier to just repeat what we read or hear than to analyze things ourselves. Such are the frailties of mankind to which we are all susceptible.

Now that the Chinese have scored some economic successes, my sincere hope is that they will not fall into their version of the "End of History Syndrome", namely the superiority of the East. This too will be foolish.

Frankly speaking, I personally believe that the Western model is safer, especially in today's highly sophisticated, intricately connected, and fast-changing world. Besides the worry of absolute power corrupting absolutely, there is a much more pragmatic concern of mine, which I have mentioned here before. Namely, given the complexity of today's global economic system, no one can master all the facts. Perhaps AI (Artificial Intelligence) will one day help leaders to cope better, but for now, a highly concentrated decision-making model comes with tremendous risks of policy missteps. Unintended consequences can come from many directions. Even with all good intentions, it can easily happen to the most competent decision makers. Theoretically, the decision maker also has the power to reverse the mistake. This indeed happened in Beijing a few years ago in relation to the stock market. But what if the correction is itself erroneous, thus exacerbating the problem? Today, the world economy with its capital market, for example, has become so complicated that no single person or small group of people can fully master it. With computing speed ever increasing, the complexities entailed become exponential. The diffused decision-making model of the West should be able to better handle such a brave new world.

However, my opinion means little. How can one force a country of 1.4 billion people steeped in history to change? It will unlikely work, and even if it will, it may create other serious problems. Similarly, it is impossible to tell the Americans to accept the Eastern way of concentrating power. Given that, the only way forward is for each to respect others. Better still, we should be a little humble and learn from others.

Falling behind on 5G can give the U.S. another Sputnik moment. After the shock in 1957 when the U.S.S.R. was the first to put a satellite in space, the U.S. landed a man on the moon within 12 years. It ushered in an era of extraordinary advancements in science and technology that left the rest of the world further behind. I believe that Huawei/5G is another Sputnik moment for the U.S. Let no one underestimate the depth and breadth of American universities. They are better off if they can keep their many ethnic Chinese scientists, but even without them, still no one comes close to matching top American universities.

On the other hand, the world is shocked by the corruption among Chinese government officials and its military ranks in the past few decades. Of equal seriousness is the corruption among China's academic communities. It erodes academic rigor, which is critical to a country's development, and no country can be truly great without it.

As my longtime readers know, I have always advocated for a good relationship between the U.S. and China. It is imperative for world peace, and is achievable. China at heart wants to be America's friend, and is more than happy to play second fiddle. The U.S. rose to become a great nation in the late 18th century, but unlike the British, who accommodated the rise of its former colonies, the U.S. lacks this wisdom to accommodate the rise of China today. Whether it is the case of the U.S. of old or China of today, the nation's rise is inevitable and cannot be stopped. The difference is that, given their land size, population, and natural resources, Britain at that time should have known that she would one day be replaced by the U.S. as the number one country in the world. It took place around 1890, over 110 years after the U.S. was formed.

Today, China and the U.S. are about the same size in terms of land. North America is far richer than China in natural resources in both absolute and per capita terms. Because there are over four times as many Chinese as Americans, the former will overtake the latter in absolute GDP size. But the U.S. has had a head start of over a century, and given the differences in social systems, I doubt if the Asian giant will be able to overtake the U.S. in per capita GDP terms in a few centuries, if at all. After all, the Chinese model is much more vulnerable to periodic shocks that can send the country backward for five to 10 years, or possibly longer. The last time this happened was in June 1989. The American system is far more resilient and can self-adjust much more easily.

Whatever the case, sadly the U.S. has for now decided to do the wrong thing. Considering all factors that I am aware of, I believe that, at the end, both the U.S. and China will be standing. Those who will be seriously hurt are smaller countries that will be forced to choose sides. Now they enjoy two big markets, but soon they may have only one.

At the end, I am hopeful that the U.S.–China relationship will not get out of hand. Several things can happen, and these are not mutually exclusive. First, there will be issues around the world that require the active collaboration of the two biggest economies. These include geopolitical troubles or even armed conflicts, like those in the Middle East, as well as transnational problems ranging from money laundering to human trafficking, from tackling climate change to arresting environmental degradation, and from combating pandemics to coordinating financial markets. When the U.S. and China agree on something, it will be a lot easier for the rest of the world to fall in line.

A containment policy can produce two very different results. If successful, the smaller player will be stifled, but otherwise, the weaker one may well get stronger. I believe that the latter will occur in the present case. For example, by not selling technology to China, the country will have to develop it herself. Today China already has sufficient wherewithal like research capabilities and financial resources to accomplish most things by herself. Years ago, NASA declined China's offer for collaboration, so now the U.S. has no influence whatsoever on what the Chinese space agency does. The Americans should have worked with the Chinese when there was a chance to do so. If they had done so, they would today play a part in the Chinese GPS system BeiDou.

Sooner or later, Washington, D.C. will wake up to the fact that it is in her best interests to work with Beijing. While an all-out competition like what the U.S. is heading toward today will hurt China, neither is the U.S. free from pain. In fact, it may eventually hurt America just as much. Today China is well prepared for the worst, but the U.S. is not. Having a democratic system may actually cause more social turmoil in America.

When this happens, Washington, D.C. may have to reverse her policy. It will not be the first time, and neither will it be the last, for the country is pragmatic. Sadly, however, in that process, the U.S. will have unnecessarily caused trouble for herself and for others. As Winston Churchill purportedly said, America will always do the right thing but only after exhausting all other alternatives. He was correct and we are today all victims of America's unwise adventure.

While the U.S. is experimenting, the world will not stop turning. People will still need to buy food and clothing; some will still aspire to purchase quality goods. Being continental economies, both the U.S. and China will survive, and some of their industries will thrive. As such, our retail space will continue to be in demand. We prefer not to see trade disputes or other disputes, but even then, our mall business will for a long time do well.

Our Mainland offices will also perform satisfactorily. There will be plenty of economic activities to keep our space full. In each of the cities where we have office buildings, including Shanghai, ours are the first truly Grade A spaces that have not been seen in these cities before. The Chinese are fast learners. Just ask the top management of our luxury brand tenants. Today the Chinese are among the most discerning shoppers anywhere in the world. The same goes with our office tenants. Previously they had no choice but to be housed in substandard buildings. But with our arrival, we in a real sense have heightened their appreciation of quality offices. Those who can afford it will not want to return to inferior space.

Back in Hong Kong, we tried a few months ago to sell some mature non-core investment properties. We successfully parted with an industrial/office building and received a good price. Once there is another opportunity, we will do more, although the present social unrest may mean that we will have to wait a bit.

We sold one luxury unit on Blue Pool Road. It is expected to be completed next month. As long as the price is right, we will try to do more sales, although we are not in a hurry.

PROSPECTS

In my letter to shareholders of our major subsidiary, Hang Lung Properties (HLP), I spent some time to expound on our strategy from two perspectives: the market in which we play (with five points), and the business model that we have devised (with 10 points). To repeat here in one sentence the strategy, it is TO DEVELOP IN ECONOMICALLY VIBRANT CHINESE CITIES, AND TO OWN AND MANAGE FOR LONG-TERM RENTAL WORLD-CLASS COMMERCIAL COMPLEXES, ANCHORED AROUND A LUXURY OR SUB-LUXURY MALL THAT IS THE NUMBER ONE IN ITS MARKET SEGMENT. Here I will summarize each point in only one or two sentences. I encourage readers of this writing to also read the other letter from the HLP company website.

The market factors are simple: China's retail market is humongous, and its future is relatively certain. Her domestic consumption is advancing faster than her GDP. The luxury and sub-luxury segments are rising particularly fast. Competition is light, and our market niche is expected to continue to grow for at least another 30 to 40 years.

On the business model side, our malls are unlikely replaceable by technology or other business models. Our hard assets are long-dated with little obsolescence and flexible usage. We are capital intensive but not labor, technology, or regulation intensive; we are not dependent on any single commodity whose price can fluctuate greatly.

On the financial side of things, we enjoy quality recurrent income which is dependable and growing steadily. Since expenses are not difficult to estimate, profitability becomes somewhat predictable. Our business can also yield relatively high investment returns. Less noticeable to some is the possibility of considerable capital appreciation.

Once our market leadership position is secured, such a position is rather defendable. Management of such a business is not overly complicated, and is not dependent on any individual but on a team within an ecosystem that is buttressed by corporate culture. Ultimately, our business model is conceptually simple but extremely difficult to execute.

The last point, being hard to execute, protects us from possible loss of the strategy's financial attractions. Whereas upfront capital intensity and slowness to achieve a full stream of financial inflow are the main barriers to entry, difficulty in execution is an excellent barrier to success for those who have entered the business.

To succeed, management must be disciplined in insisting on the five genes of high-end commercial (especially retail) real estate – best location, adequate land size, reasonable development brief set by the government for the project, wise design, and quality construction. The time horizon must be long, and patience is required. One must be prepared to wait and apparently do nothing for an extended period of time until market opportunities appear. Insistence on quality is necessary, and one must, over time, gain experience and knowledge. While mistakes are almost inevitable, one must try his or her best to avoid major ones. All of these together form a mindset that is critical to success. It is very difficult to execute indeed.

To me, our business model is particularly suited for family-controlled companies, especially publicly listed ones, since much capital is required. Usually only wealthy families have such a long time horizon. In turn, this model presents very attractive features for the controlling family.

Reading through the descriptions enunciated above, it is not difficult to come to the conclusion that this business model is particularly suited to long-term wealth creation. Quality real estate is, in general, a decent asset class often chosen for capital preservation and appreciation. Residential and office ownership is common for medium- to long-term hold. However, our experience and that of others have shown that retail properties can generate higher, or very high, returns.

The downside is that they are much more management intensive. But in the case of Hang Lung, a team has been built over the decades with a sound track record. From our Company's beginning in 1960, our senior management team has been very stable. And as mentioned earlier, our business is not dependent on any star performer at the top. Since the operation is not difficult to learn, anyone with good general management experience can run this company. The only caveat is that he or she must have the innate mindset mentioned above. For example, the person must be able to exercise patience to wait.

All in all, I consider our strategy an exploitation of an opportunity that is rather unique. If China had not reformed and opened up in 1979, or had not done it so well (although of course not perfectly), then we would not have had the opportunity.

Our timing was also fortuitous. We entered the Shanghai high-end commercial real estate at the right time (in 1992), and decided to focus on the best segment of luxury retail properties. That initial success spurred us to start investing in tier-two cities (in 2005). When local developers were still in the rudimentary stage of building primarily residential projects for sale, we pioneered in developing large luxury malls and top quality offices for long-term rental. The first wave of Chinese players in commercial development also built these, only to be sold off shop by shop or office unit by office unit. Of necessity, the quality of these projects deteriorated rapidly, not to mention that they were poorly built to begin with. This gave us time to build up our own expertise and to occupy some excellent locations, first in Shanghai followed by other prosperous metropolises. By the time other worthy competitors appeared, we were already well established in several cities. We were also successful in building up a brand that is now well-known everywhere. This way we avoided direct competition.

Is that luck or is it skill? Probably a little of both. Frankly, if we had been smarter, we could have done even better. Whatever the case, we are still in an enviable position compared to most.

Our shareholding structure also ensures firm family control of this Company, which in turn holds 50%–60% of the operating entity HLP, which is also publicly listed. This arrangement provides leverage to the controlling family. So far, their shareholding has been stable for the past 30 some years.

Moreover, when market sentiments are low like in the past few years, the family can acquire more stock of this Company while we can buy back shares of HLP. Beyond financial considerations, such activities can have a stabilizing effect on share prices. History has shown that we always buy HLP on the cheap. In the spirit of good governance and transparency, all shareholders are informed of such activities in a timely fashion. Anyone can follow suit if they like. In this game, those who have a truly long-term view will always win, as long as our Company's performance is reasonably good. We have done well since we entered the Mainland market in 1992, and I expect even brighter days ahead.

For all these reasons, I believe that Hang Lung is an excellent investment for long-term value investors including family offices. By buying our publicly traded stocks, they can enjoy all the attractive features of the business. I consider my family fortunate to have been involved as its founding major shareholder. Our investors can have the confidence that their interests are totally parallel with ours, because our corporate governance standards are high. In fact, in the past decade and more, this Company has probably won all the major awards in this area in the property sector.

Our near-term future is also quite encouraging, geo-economic uncertainties relating to the U.S.–China trade dispute notwithstanding. Although our Hong Kong rental will likely slow down due to the local social turmoil, our Mainland rental should perform rather well.

Rents at Plaza 66 in Shanghai should continue to increase steadily, while Grand Gateway 66 will soon enter a phase of fast growth once its AEI is complete.

There are reasons that our properties outside Shanghai will maintain their present upward momentum. First, there is a strong tailwind in the luxury retail sector. Second, the tenant mix in a number of our malls is moving further upmarket, adding many of the world's top fashion brands. We have recently signed, or soon will sign, close to 60 lease contracts with these brands, some 70% of which are for malls outside Shanghai. Third, after several years since opening, operating expenses should stabilize such that more top line revenue will turn into increased profit. Finally, we are adding a great deal of space to our portfolio in the next 12 months.

Next month, the mall Spring City 66 in Kunming will open its doors to customers, followed by the opening of the project's office skyscrapers a few weeks later. The official opening ceremony will not take place until Q2 of next year when all the luxury names are in place.

Also in September this year, we will see the inauguration of our first hotel on the Mainland, the 5-star Conrad Shenyang at Forum 66. It should help our office and mall business.

Our offices everywhere should do acceptably. Occupancies in Forum 66 in Shenyang and the first tower in Center 66 in Wuxi should rise further. The second office building in the latter city will open next month, and it will take some time to lease it out, but it will happen. Before then, rents are not expected to rise much.

Beginning in the first half of 2022, our first residential block outside Shanghai, namely Heartland 66 in Wuhan, is expected to open. It will be followed within a year by the first two towers in Center 66 in Wuxi. Further down the road will be those in Forum 66 in Shenyang and Spring City 66 in Kunming.

In Hangzhou, we have been working hard to initiate construction, but the government regulations have always been complicated. We were ready to break ground in April, and are now hoping for a September date. We will do our best to open the mall and perhaps an office block or two by 2024. The plan is to complete the entire complex by 2025. The project comprises one mall, five office towers and one hotel.

All in all, I anticipate favorable years ahead. The only disappointment is Hong Kong, which will not grow as fast as we had hoped due to her social problems. We will do our best to make up for the difference from the expected increase in rental on the Mainland.

Ronnie C. Chan
Chairman
Hong Kong, July 30, 2019

Financial Highlights

in HK$ Million (unless otherwise stated)

RESULTS

	For the Six Months Ended June 30		
	2019	2018	Change
Revenue	**4,505**	5,457	-17%
Property Leasing	**4,505**	4,425	2%
Property Sales	**–**	1,032	-100%
Operating Profit	**3,432**	3,902	-12%
Property Leasing	**3,432**	3,337	3%
Property Sales	**–**	565	-100%
Net Profit Attributable to Shareholders	**3,709**	3,037	22%
Earnings Per Share (HK$)	**$2.72**	$2.23	22%
Interim Dividend Per Share (HK$)	**$0.19**	$0.19	–

UNDERLYING RESULTS

	For the Six Months Ended June 30		
	2019	2018	Change
Underlying Net Profit Attributable to Shareholders	**2,324**	1,459	59%
Property Leasing	**1,456**	1,153	26%
Property Sales	**868**	306	184%
Underlying Earnings Per Share (HK$)	**$1.71**	$1.07	60%

FINANCIAL POSITION

	At June 30 2019	At December 31 2018	Change
Shareholders' Equity	**89,144**	86,447	3%
Net Assets	**153,705**	150,736	2%
Net Debt	**26,754**	18,142	47%
Financial Ratio			
Net Debt to Equity Ratio	**17.4%**	12.0%	5.4 pts
Debt to Equity Ratio	**22.2%**	20.3%	1.9 pts
Shareholders' Equity Per Share (HK$)	**$65.5**	$63.5	3%
Net Assets Per Share (HK$)	**$112.9**	$110.7	2%

CONSOLIDATED RESULTS

The core property leasing business continued its growth momentum with a 2% period-on-period increase in leasing revenue even after taking account of a 6% Renminbi depreciation against the Hong Kong Dollar. With no property sales recognized during the period, total revenue of Hang Lung Group Limited (the Company) and its subsidiaries (the Group) for the six months ended June 30, 2019 decreased 17% to HK$4,505 million, and operating profit declined 12% to HK$3,432 million. Net profit attributable to shareholders rose 22% to HK$3,709 million mainly attributable to the gain on disposal of non-core assets. Earnings per share increased likewise to HK$2.72.

The underlying net profit attributable to shareholders increased 59% to HK$2,324 million when excluding the effects of property revaluation gain.

Revenue and Operating Profit for the Six Months Ended June 30

	Revenue			Operating Profit		
	2019 HK$ Million	2018 HK$ Million	Change	**2019 HK$ Million**	2018 HK$ Million	Change
Property Leasing	**4,505**	4,425	2%	**3,432**	3,337	3%
Mainland China	**2,409**	2,397	1%	**1,635**	1,602	2%
Hong Kong	**2,096**	2,028	3%	**1,797**	1,735	4%
Property Sales	**–**	1,032	–100%	**–**	565	–100%
Total	**4,505**	5,457	–17%	**3,432**	3,902	–12%

DIVIDEND

The Board of Directors has declared an interim dividend of HK19 cents per share for 2019 (2018: HK19 cents) to be paid by cash on September 26, 2019, to shareholders whose names appeared on the register of members on September 13, 2019.

PROPERTY LEASING

The leasing performance of our properties during the first six months of 2019 sustained the solid growth momentum built up since the second half of last year. Total revenue of our leasing properties grew to HK$4,505 million period-on-period. Revenue from our Mainland portfolio increased 7% in RMB terms and that of our Hong Kong portfolio rose 3% comparing to the same period last year. Both the tenant retail sales and our rental turnover were resilient and on a sustainable trend. The performance was promising amid the US-China trade dispute and other global uncertainties.

Mainland China

Revenue of our mainland China leasing portfolio continued to grow. Except for Shanghai Grand Gateway 66 mall which is under a major upgrade program and Wuxi Center 66 office tower, all our mainland properties recorded revenue growth during the first half of 2019. Revenue of the entire portfolio advanced 7% to RMB2,083 million. Operating profit increased 9% to RMB1,414 million. Average margin improved to 68%.

Amidst the short-term rental interruption caused by the large scale renovation at Grand Gateway 66, revenue of our Shanghai properties advanced 4% period-on-period. Properties outside Shanghai achieved a remarkable 14% revenue growth period-on-period and continued the growth momentum with a 7% increment comparing to the second half of last year.

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

City and Name of the Property	Revenue (RMB Million) 2019	2018	Change	Occupancy Rate* Mall	Office
Shanghai Plaza 66	**827**	763	8%	98%	93%
Shanghai Grand Gateway 66	**583**	594	–2%	86%	96%
Shenyang Palace 66	**95**	77	23%	91%	N/A
Shenyang Forum 66	**113**	105	8%	94%	89%
Jinan Parc 66	**158**	141	12%	95%	N/A
Wuxi Center 66	**140**	121	16%	93%	90%
Tianjin Riverside 66	**93**	90	3%	83%	N/A
Dalian Olympia 66	**74**	57	30%	79%	N/A
Total	**2,083**	1,948	7%		
Total in HK$ Million equivalent	***2,409***	*2,397*	*1%*		

* All occupancy rates stated therein were as of June 30, 2019.

- *Malls*

Our eight malls in mainland China collected 8% more revenue to RMB1,479 million in total amount. In Shanghai, our investments in asset enhancement are paying off. Plaza 66 continued to record strong growth in both sales and rental revenue after its renovation completed two years ago. Grand Gateway 66 is expected to repeat the successful experience of Plaza 66 to achieve strong revenue growth with enhanced tenant mix after completion of the upgrading program. Outside Shanghai, all malls achieved growth in both revenue and sales, most in double-digit.

The Shanghai **Plaza 66** mall has firmly established its positioning as the Home to Luxury, and continues to add new and renowned luxury labels and high-end restaurants to its tenant portfolio. As a result, the mall reported double-digit growth in revenue and retail sales at 11% and 15%, respectively. In addition, we have seen more quality tenant collaborations and direct engagements with our customers after the debut launch of HOUSE 66, our nationwide Customer Relationship Management (CRM) program, in September 2018. With our investment and focus on deploying the CRM program, customer loyalty will be further cultivated and both tenant sales and leasing performance will be boosted over time.

Owing to the short-term interruption caused by the major upgrading program commenced in 2017, revenue of the Shanghai **Grand Gateway 66** mall retreated 4% to RMB394 million. The first phase of the upgrade works was completed with the North Building re-opened in September 2018. The renovated area was fully let, with higher rental income, comprising a good mix of young and trend-setting brands, food & beverage tenants, and the renovated cinema. The second phase, covering the bulk of the South Building and its basement, is in full swing and the progress made is on track. The basement has partially re-opened and a variety of new cosmetics brands will be introduced. The works of the second phase are expected to be completed in stages from late 2019.

Benefitting from the increases in both turnover rent and occupancy, the Shenyang **Palace 66** mall recorded 23% rental growth to RMB95 million. Retail sales jumped 29%. Occupancy also rose four points to 91%. Our efforts to introduce more sporting and popular lifestyle fashion brands further reinforce our leading trendy lifestyle mall positioning in Zhongjie and North China. In addition, the kids' zone on the third floor was revamped to inject more family and children's content into the mall.

With our efforts to reshuffle tenants and diversify trade mix continuing, income of the Shenyang **Forum 66** mall rose 3%. More quality food & beverage tenants were introduced, drawing a good reception from shoppers. Retail sales advanced 3%. Some luxury brands making their first landing in Shenyang were also enrolled to set up kiosks on the first floor. Occupancy rate further jumped seven points to 94%.

Revenue of the Jinan **Parc 66** mall increased 12% to RMB158 million mainly attributable to the increase in occupancy rate and positive rental reversions. Retail sales rose 11%. Occupancy rate was up one point to 95%. Through upgrading its tenant portfolio, some international brands were introduced to Jinan for the first time. These brands delivered a good sales performance by successfully satisfying the younger generation's spending appetite. HOUSE 66, following its successful debut in Shanghai Plaza 66, was launched in Parc 66 in December 2018, and the responses from both customers and tenants have been enthusiastic.

The Wuxi **Center 66** mall achieved a remarkable 26% growth in revenue mainly driven by high turnover rent and favorable rental reversions. Retail sales surged 25%. Occupancy rate improved six points to 93%. A brand new premium cinema complex opened in May 2019 in the area that was temporarily closed for the construction of the second office tower. Hang Lung's CRM program HOUSE 66 was also launched at Center 66 in May 2019. We are experiencing a promising trend of luxury brands migration from other venues in Wuxi to Center 66 and expect to see their openings in our mall in the near future.

Income of the Tianjin **Riverside 66** mall increased 3%. Occupancy rate dropped three points to 83% amid tenant reshuffling. Part of the fourth floor is being converted into a theme zone to attract the younger generation and will open this year. Retail sales increased by 2%.

Performance of the Dalian **Olympia 66** mall continued to strengthen. Riding on the business growth of trendy lifestyle and food & beverage tenants, revenue and retail sales jumped 30% and 27%, respectively. Occupancy rate increased four points to 79%. The Phase 2 area of the mall is planned to open by phases from the second quarter of 2020.

- *Offices*

During the first half of 2019, our five office towers at Shanghai Plaza 66, Grand Gateway 66, Shenyang Forum 66 and Wuxi Center 66 generated 4% more in revenue to RMB535 million. Income from all the office towers accounted for 26% of our total mainland China leasing revenue, generating quality foot traffic to the malls as well as robust income for the Group.

Driven by higher occupancy, revenue of **Plaza 66** offices grew 4% to RMB312 million. Average occupancy rate advanced three points to 94% as a result of the effort made on new lettings and the expansion by long-term quality tenants.

The office tower at **Grand Gateway 66** achieved 3% growth in revenue to RMB120 million with high occupancy rate at 96%. The completion of renovation at the North Building of the mall in 2018 has further enhanced the office tower's competitiveness and attracted quality tenants from both multinational corporations and domestic enterprises.

Revenue of the office tower at **Forum 66** increased 11% to RMB63 million. Occupancy rate advanced four points to 89% as the six floors in the high zone of the tower were completed in July 2018. Conrad Shenyang, residing on the top 19 floors of the office tower, is expected to open later this year.

Income of the office tower at **Center 66** decreased 3% to RMB40 million. Occupancy rate slipped one point to 90%. The second tower will be ready for handing over to tenants in the second half of 2019. Pre-leasing activities are underway.

- *Residential and Serviced Apartments*

Revenue of residential and serviced apartments at **Grand Gateway 66** climbed 2%. Occupancy rate was satisfactory at 90%.

Hong Kong

The performance of our Hong Kong leasing properties was stable. Total revenue and operating profit recorded growth of 3% and 4% to HK$2,096 million and HK$1,797 million, respectively. Overall rental margin was 86%.

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

	Revenue (HK$ Million)			Occupancy Rate*
	2019	2018	Change	
Commercial	**1,207**	1,166	4%	96%
Office and Industrial/Offices	**728**	708	3%	94%
Residential & Serviced Apartments	**161**	154	5%	78%
Total	**2,096**	2,028	3%	

* All occupancy rates stated therein were as of June 30, 2019.

- *Commercial*

With positive rental reversions of our major tenants, revenue of our Hong Kong commercial portfolio increased 4% to HK$1,207 million. Total retail sales advanced 7% period-on-period. Occupancy fell one point to 96%.

Income of the **Causeway Bay portfolio** increased 3%. We are further refining the tenant mix to strengthen Fashion Walk's positioning as a vibrant integrated hub for fashion and lifestyle shopping and experiences. The pop-up store of a luxury beauty brand introduced during the period was well received. We will introduce more beauty and make-up shops, building an appealing beauty cluster at Fashion Walk. Retail sales of the portfolio grew 4% period-on-period.

Kornhill Plaza in Hong Kong East recorded 4% growth in revenue mainly contributed by the anchor tenants. The property was fully let. Retail sales decreased 2%.

With good sales performance of the tenants, revenues of **Grand Plaza and Gala Place in Mongkok** rose 6%. Both properties were fully let. Total retail sales increased 36%. The Mongkok portfolio continues its efforts to add new healthcare, beauty and lifestyle tenants and enrich its gourmet options to attract style-seekers and the younger generation among locals and tourists.

Benefitting from favorable rental reversions and the opening of the UA Amoy cinema in August 2018, **Amoy Plaza in Kowloon East** achieved revenue growth of 5%. Retail sales rose 2%.

The major renovation at **Peak Galleria** continued. The mall has been closed since October 2018 except two restaurants commenced business in the first half of 2019. This iconic property at The Peak has long been a destination for tourists and local people. It will be re-open by phases from the summer of 2019.

- *Offices*

Revenue from our Hong Kong office portfolio was up 3% to HK$728 million mainly driven by positive rental reversions. Our offices in Central and Mongkok recorded income growth of 5% and 6%, respectively, while revenue from those in Causeway Bay dropped 5%. Overall occupancy rate stayed flat at 94%. The Hong Kong office rental amount accounted for 35% of our total leasing income in Hong Kong.

- *Residential and Serviced Apartments*

Income from our residential and serviced apartments grew 5% to HK$161 million due to higher occupancy at The Summit and Burnside Villa.

PROPERTY SALES

During the first six months of 2019, we sold one semi-detached house at 23-39 Blue Pool Road (2018: three houses). As the sale will be recognized upon completion of legal assignment later this year, no revenue or profit in respect of property sales was recorded in the first half of 2019.

We also disposed of certain non-core investment properties in Hong Kong. During the first six months ended June 30, 2019, a gain on disposal of HK$868 million was included in other income.

In addition, 111 car parking spaces held as investment properties at Laichikok Bay Garden were disposed of during the period. The transaction will be completed in the second half of 2019. These properties were reclassified as assets held for sale as of June 30, 2019, at valuation with reference to the selling price. A gain of HK$69 million was included as part of the fair value gain of properties. Meanwhile, the sale made in 2018 regarding the remaining apartment and car parking spaces at Garden Terrace was completed in April 2019.

PROPERTY REVALUATION

The total value of our investment properties amounted to HK$144,528 million as of June 30, 2019. The value of the Hong Kong portfolio and the mainland China portfolio was HK$68,341 million and HK$76,187 million, respectively. Our investment properties were revalued by Savills, an independent valuer, as of June 30, 2019.

Total revaluation gain of HK$2,039 million (2018: HK$2,532 million), representing a 1% growth in valuation as compared to the value as of December 31, 2018, was recorded in the first half of 2019, mostly attributable to the gains of our Hong Kong portfolio.

PROPERTY DEVELOPMENT AND CAPITAL COMMITMENT

The total value of investment properties under development was HK$40,335 million. They comprised mainland China projects in Kunming, Wuhan, Hangzhou and the remaining phases of the developments in Shenyang and Wuxi. The portfolio consists of malls, office towers, hotels and serviced apartments.

The construction work at Kunming **Spring City 66** is progressing as planned. Testing and commissioning works are in progress. Covering a total gross floor area of 432,000 square meters, this mixed-use development comprises a world-class mall, a Grade A office tower, serviced apartments, a hotel and car parking spaces. Both the mall and the office tower are expected to open in the second half of this year. About 85% of the mall's area has been leased, and the pre-leasing of the office tower has also made good progress.

The construction of Wuhan **Heartland 66**, a mixed-use commercial project with a total gross floor area of 460,000 square meters, is progressing as planned. This project is expected to be completed in stages starting from 2020. It will house a premier mall, a Grade A office tower, serviced apartments and car parking spaces. Leasing activities for both the mall and office tower have commenced.

The conversion of the top 19 floors of the office tower at Shenyang Forum 66 into **Conrad Shenyang** is close to completion. The hotel is planned to commence operation in the second half of this year. This five-star hotel will have 315 guest rooms and a grand ballroom which can accommodate more than 500 guests. The addition of this hotel will complement the positioning of Forum 66 as the destination of choice for those seeking high-end shopping, entertainment, business and hospitality experiences.

The construction work for the second office tower at Wuxi **Center 66** is almost completed. This Grade A office tower, built above the southeastern section of the Center 66 mall, will add 52,000 square meters in gross floor area available for leasing. Leasing activity has commenced and the tower will be ready for handing over to tenants in the second half of 2019.

For the Wuxi Phase Two development, the master layout plan was approved by the government in March 2019. The project includes luxury serviced apartments and a boutique hotel.

The development of Hangzhou **Westlake 66**, a high-end commercial mixed-use complex with a total above-ground gross floor area of 194,100 square meters, has started. It will comprise a world-class mall, office towers and a hotel. During the period, the land was fully paid for and handed over to us. The project is planned for completion in phases from 2024.

The projects mentioned above represented the majority of our capital commitments at the reporting date, amounting to HK$32 billion. They will be completed in phases over a number of years.

In Hong Kong, the entire interests in the Amoycan Industrial Centre in Ngau Tau Kok were consolidated by the Group through the Compulsory Sale for Redevelopment Order. The site is well located near the future East Kowloon Cultural Centre and the Mass Transit Railway. It is planned to be re-developed into residential properties for sale. Also, the Group is embarking on a jointly re-development project with its subsidiary, Hang Lung Properties Limited, at Electric Road in North Point. The project is to develop a commercial and office tower with a gross floor area of 105,000 square feet.

LIQUIDITY AND FINANCIAL RESOURCES

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

- *Liquidity and Financing Management*

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 while optimizing net financial costs.

As of June 30, 2019, the Group had total cash and bank balances of HK$7,370 million (December 31, 2018: HK$12,509 million). All the deposits are placed with banks with strong credit ratings and the counterparty risk is monitored on a regular basis.

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

As of June 30, 2019, total borrowings of the Group amounted to HK$34,124 million (December 31, 2018: HK$30,651 million), of which about 40% was denominated in RMB. The higher debt balance against last year-end was due to payments for the various projects under development in mainland China and Hong Kong, including the final payment for the remaining 50% land cost of Hangzhou Westlake 66. The following table shows the composition of our debt portfolio:

	At June 30, 2019		At December 31, 2018	
	HK$ Million	*% of Total*	HK$ Million	*% of Total*
Floating rate HKD bank loans	**8,244**	*24.2%*	3,653	*11.9%*
Floating rate RMB bank loans	**12,379**	*36.3%*	13,490	*44.0%*
Fixed rate bonds	**13,501**	*39.5%*	13,508	*44.1%*
Denominated in USD	**7,815**	*22.9%*	7,832	*25.6%*
Denominated in HKD	**4,552**	*13.3%*	4,540	*14.8%*
Denominated in RMB	**1,134**	*3.3%*	1,136	*3.7%*
Total borrowings	**34,124**	*100%*	30,651	*100%*

At the reporting date, the average tenor of the entire loan portfolio was 3.2 years (December 31, 2018: 3.3 years). The maturity profile was well staggered and spread over a period of 7 years. Around 68% of the loans was repayable after 2 years.

	At June 30, 2019		At December 31, 2018	
	HK$ Million	*% of Total*	HK$ Million	*% of Total*
Repayable:				
Within 1 year	**3,875**	*11.3%*	3,360	*11.0%*
After 1 but within 2 years	**6,954**	*20.4%*	4,057	*13.2%*
After 2 but within 5 years	**21,355**	*62.6%*	19,809	*64.6%*
Over 5 years	**1,940**	*5.7%*	3,425	*11.2%*
Total borrowings	**34,124**	*100%*	30,651	*100%*

As of June 30, 2019, the Group's undrawn committed banking facilities amounted to HK$16,433 million (December 31, 2018: HK$20,984 million). The available balances of the USD3 billion Medium Term Note Program and the RMB10 billion Green Panda Bond Program amounted to USD1,410 million and RMB9,000 million, respectively, equivalent to HK$21,247 million in total (December 31, 2018: HK$21,297 million).

- *Gearing Ratios and Interest Cover*

As of June 30, 2019, the net debt balance of the Group amounted to HK$26,754 million (December 31, 2018: HK$18,142 million). Net debt to equity ratio was 17.4% (December 31, 2018: 12.0%) and debt to equity ratio was 22.2% (December 31, 2018: 20.3%).

For the six months ended June 30, 2019, the total amount of borrowing costs incurred increased by HK$120 million to HK$812 million (2018: HK$692 million). The net amount charged to the statement of profit or loss for the first half of 2019 decreased by HK$527 million to HK$65 million because more borrowing costs were capitalized to the projects under development with additions of construction costs for projects under development, full payment of land premium of Hangzhou Westlake 66 and the adoption of an amendment to the accounting standard on the capitalization of borrowing costs effective on January 1, 2019.

Interest income for the period dropped to HK$104 million (2018: HK$267 million). The decrease was mainly due to the reduction of average deposit balance after settling payments on capital expenditures and the Hangzhou land premium.

The amount of net interest income for the first half of 2019, i.e. the excess of interest income over finance costs, was HK$39 million (2018: net interest expense of HK$325 million). The average effective cost of borrowings during the period was 4.7% (2018: 4.7%) given a portfolio of debts comprising 36% in RMB bank loan, 24% in HKD bank loan, 36% in HKD and USD bonds and 4% in RMB bond.

Interest cover for the first half of 2019 was 6 times (2018: 9 times).

- *Foreign Exchange Management*

The activities of the Group are exposed to foreign currency risks mainly arising from its operations in mainland China and certain bank deposits denominated in RMB held in and relating to mainland China entities. There is also exposure in USD arising from the two USD500 million bonds issued. Appropriate measures have been taken to mitigate the foreign exchange risk exposure.

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

	At June 30, 2019		At December 31, 2018	
	HK$ Million	*% of Total*	HK$ Million	*% of Total*
Denominated in:				
HKD	**4,566**	*62.0%*	4,737	*37.9%*
RMB	**2,789**	*37.8%*	7,757	*62.0%*
USD	**15**	*0.2%*	15	*0.1%*
Total cash and bank balances	**7,370**	*100%*	12,509	*100%*

(a) RMB Exposure

The RMB exposure of the Group is mainly derived from two aspects of the operations: firstly, currency translation risk arising from the net assets of our Mainland subsidiaries; secondly, the RMB deposits held in and relating to mainland China entities which are primarily for the purpose of settling future construction payments in RMB.

As of June 30, 2019, net assets denominated in RMB accounted for about 59% of the Group's total net assets. The re-translation of these net assets denominated in RMB into HKD using the exchange rate as of the reporting date resulted in a re-translation loss of HK$425 million (2018: HK$784 million), as RMB depreciated by about 0.4% against HKD compared to December 31, 2018. The re-translation loss was recognized in other comprehensive income/exchange reserve.

The Group's business operations and projects under development in mainland China are funded by cash inflows from Mainland operations and RMB borrowings, in addition to capital injections from Hong Kong. We have adopted an enterprise risk management approach to mitigate the currency risks and practiced good discipline of not taking any speculative position on the movement of RMB against HKD. Regular business reviews were made to assess the level of funding needs for our Mainland projects after taking account of various factors such as regulatory constraints, project development timelines and the business environment. Appropriate modifications to our funding plan will be conducted in light of the outcome of the periodic reviews.

(b) USD Exposure

The USD foreign exchange exposure is related to the two USD500 million fixed rate bonds issued, equivalent to HK$7,815 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 on 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, 2019.

- *Contingent Liabilities*

The Group did not have any material contingent liabilities as of June 30, 2019.

OUTLOOK

In the absence of any sign of the US-China trade dispute abating, we maintain a cautiously optimistic view that our business would continue to achieve sustainable growth in both Hong Kong and the Mainland. The growth will be fueled by a number of key drivers.

Our established properties are expected to continue delivering solid organic growth and will sustain the momentum. With the implementation of various customer-centric initiatives, including the roll-out of the HOUSE 66 CRM program and adoption of new technologies, we will establish stronger engagement with both our tenants and customers and offer a unique Hang Lung Brand experience, boosting sales and leasing revenue.

Likewise, our investment in asset enhancement programs will also pay off. A rental uplift similar to that at Shanghai Plaza 66 is expected at the Grand Gateway 66 mall upon the progressive completion of its major renovation in the second half of this year.

A number of new properties will commence business in the second half of 2019, including the mall and office tower of Kunming Spring City 66, the second office tower of Wuxi Center 66, and Conrad Shenyang at Forum 66. They are important driving forces for future business growth.

Subject to market conditions, we will continue to sell down residential inventory in Hong Kong and recycle capital through disposal of non-core properties.

On the property development side, we have started two re-development projects and will continue to look for opportunities in Hong Kong. On the Mainland, four mixed-use projects have serviced apartment element and are intended for sale. Construction work of luxurious serviced apartments at Wuhan Heartland 66 has been started, while the development at projects in Wuxi, Kunming and Shenyang will commence by phases.

CORPORATE GOVERNANCE

We are committed to maintaining the highest standards of corporate governance. During the six months ended June 30, 2019, 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 2018 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 at least once a year. Its duties include reviewing significant changes to the salary structure of the Group and the terms and conditions affecting Executive Directors of the Board and senior management. The Committee members also conduct regular reviews of the Board's structure, size and diversity, and make recommendations to the Board on the appointment, re-appointment and succession planning of Directors of the Board. The terms of reference of the Committee can be accessed on both our website and the website of HKEx.

Audit Committee

Our Audit Committee, which is chaired by an Independent Non-Executive Director, currently consists of three Independent Non-Executive Directors and one Non-Executive Director. The Committee members meet at least four times a year. Meetings are normally attended by external and internal auditors, the Chief Financial Officer and the Company Secretary for the purposes of, inter alia, discussing the nature and scope of internal audit work and assessing the Company's internal controls. The terms of reference of the Committee, which include duties pertaining to corporate governance functions and the oversight of risk management, are available on both our website and the website of HKEx. The Audit Committee has reviewed this interim report, including the unaudited interim financial report for the six months ended June 30, 2019, and has recommended their adoption by the Board.

This interim financial report is unaudited but has been reviewed by KPMG, our auditor, in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants. The Independent Auditor's Review Report is set out on pages 40 and 41 of this interim report.

Compliance with Corporate Governance Code

During the six months ended June 30, 2019, 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, 2019.

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

As at June 30, 2019, 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	24,025,000
Weber W.P. Lo	Personal	–	–	–	–	12,750,000
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	–	–	–	–	13,600,000
Adriel W. Chan	Personal & Other *(Note 1)*	501,340,580	36.82	2,619,719,340	58.25	4,400,000

Notes

1. Other interests included 501,340,580 shares of the Company and 2,619,719,340 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, 2019	Exercised during the Period	As at Jun 30, 2019	Exercise Price per Share (HK$)	Vested Dates (mm/dd/yyyy)	Expiry Date (mm/dd/yyyy)
02/08/2010	Ronnie C. Chan	6,500,000	–	6,500,000	$26.46	02/08/2012: 10% 02/08/2013: 20% 02/08/2014: 30% 02/08/2015: 40%	02/07/2020
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 H.C. Ho	4,500,000 3,000,000	– –	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

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

Date Granted (mm/dd/yyyy)	Name	Number of Shares under Option: As at Jan 1, 2019	Granted during the Period	As at Jun 30, 2019	Exercise Price per Share (HK$)	Vested Dates (mm/dd/yyyy)	Expiry Date (mm/dd/yyyy)
06/04/2013	Ronnie C. Chan H.C. Ho Adriel W. Chan	4,500,000 3,000,000 200,000	– – –	4,500,000 3,000,000 200,000	$28.20	06/04/2015: 10% 06/04/2016: 20% 06/04/2017: 30% 06/04/2018: 40%	06/03/2023
12/05/2014	Ronnie C. Chan H.C. Ho Adriel W. Chan	2,750,000 1,850,000 150,000	– – –	2,750,000 1,850,000 150,000	$22.60	12/05/2016: 10% 12/05/2017: 20% 12/05/2018: 30% 12/05/2019: 40%	12/04/2024

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

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

Date Granted (mm/dd/yyyy)	Name	Number of Shares under Option: As at Jan 1, 2019	Granted during the Period	As at Jun 30, 2019	Exercise Price per Share (HK$)	Vested Dates (mm/dd/yyyy)	Expiry Date (mm/dd/yyyy)
08/10/2017	Ronnie C. Chan	2,750,000	–	2,750,000	$19.98	08/10/2019: 10%	08/09/2027
	H.C. Ho	1,850,000	–	1,850,000		08/10/2020: 20%	
	Adriel W. Chan	1,850,000	–	1,850,000		08/10/2021: 30%	
						08/10/2022: 40%	
05/16/2018	Weber W.P. Lo	10,000,000	–	10,000,000	$18.98	05/16/2020: 10%	05/15/2028
						05/16/2021: 20%	
						05/16/2022: 30%	
						05/16/2023: 40%	
06/28/2019	Ronnie C. Chan	–	3,025,000	3,025,000	$18.58	06/28/2021: 10%	06/27/2029
	Weber W.P. Lo	–	2,750,000	2,750,000		06/28/2022: 20%	
	H.C. Ho	–	1,900,000	1,900,000		06/28/2023: 30%	
	Adriel W. Chan	–	2,200,000	2,200,000		06/28/2024: 40%	

Save as disclosed above, none of the Directors of the Board had, as at June 30, 2019, 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, 2019 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 the acquisition of shares in or debentures of the Company or any other body corporate.

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

As at June 30, 2019, 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*	501,340,580	36.82
Cole Enterprises Holdings (PTC) Limited	*1*	501,340,580	36.82
Merssion Limited	*1*	501,340,580	36.82
Adriel W. Chan	*1*	501,340,580	36.82
Kingswick Investment Limited	*2*	99,931,000	7.34
Dodge & Cox	*3*	134,650,000	9.89
Silchester International Investors LLP	*3*	95,477,000	7.01
Aggregate of Standard Life Aberdeen plc affiliated investment management	*3*	93,968,867	6.90

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 501,340,580 shares held by Merssion Limited.

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

Save as disclosed above, as at June 30, 2019, 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. Gerald L. Chan

- chairman of Stealth BioTherapeutics Corp (shares of which were listed on The Nasdaq Global Market in February 2019)

Mr. Martin C.K. Liao

- awarded Gold Bauhinia Star

Mr. Roy Y.C. Chen

- ceased to be a member of the Public Shareholders Group of the Securities and Futures Commission of Hong Kong

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, 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities.

EMPLOYEES

As at June 30, 2019, the number of employees was 4,636 (comprising 1,128 Hong Kong employees and 3,508 mainland China employees). The total employee costs for the six months ended June 30, 2019 amounted to HK$824 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 employees 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 42 to 70 which comprises the consolidated statement of financial position of Hang Lung Group Limited ("the Company") as at June 30, 2019 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, 2019 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, 2019

Consolidated Statement of Profit or Loss

For the six months ended June 30, 2019 (Unaudited)

	Note	2019 HK$ Million	2018 HK$ Million	2019 RMB Million (For information purpose only)	2018 RMB Million (For information purpose only)
Revenue	3(a)	**4,505**	5,457	**3,899**	4,436
Direct costs and operating expenses		**(1,073)**	(1,555)	**(928)**	(1,263)
Gross profit		**3,432**	3,902	**2,971**	3,173
Other net income	4	**874**	72	**771**	60
Administrative expenses		**(334)**	(329)	**(290)**	(268)
Operating profit before changes in fair value of properties		**3,972**	3,645	**3,452**	2,965
Net increase in fair value of properties		**2,039**	2,532	**1,775**	2,084
Operating profit after changes in fair value of properties		**6,011**	6,177	**5,227**	5,049
Interest income		**104**	267	**90**	218
Finance costs		**(65)**	(592)	**(57)**	(482)
Net interest income/(expense)	5	**39**	(325)	**33**	(264)
Share of profits of joint ventures		**124**	273	**108**	223
Profit before taxation	3(b) & 6	**6,174**	6,125	**5,368**	5,008
Taxation	7(a)	**(734)**	(789)	**(635)**	(642)
Profit for the period		**5,440**	5,336	**4,733**	4,366
Attributable to:					
Shareholders		**3,709**	3,037	**3,231**	2,487
Non-controlling interests		**1,731**	2,299	**1,502**	1,879
		5,440	5,336	**4,733**	4,366
Earnings per share	9(a)				
Basic		**HK$2.72**	HK$2.23	**RMB2.37**	RMB1.83
Diluted		**HK$2.72**	HK$2.23	**RMB2.37**	RMB1.83

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, 2019 (Unaudited)

	Note	2019 HK$ Million	2018 HK$ Million	*For information purpose only* 2019 RMB Million	2018 RMB Million
Profit for the period		**5,440**	5,336	**4,733**	4,366
Other comprehensive income	7(b)				
Items that are or may be reclassified subsequently to profit or loss:					
Exchange difference arising from translation to presentation currency		**(425)**	(784)	**63**	602
Movement in hedging reserve:					
Effective portion of changes in fair value		**48**	38	**41**	30
Net amount transferred to profit or loss		**22**	(27)	**20**	(22)
Item that will not be reclassified to profit or loss:					
Net change in fair value of equity investments		**1**	2	**1**	1
		(354)	(771)	**125**	611
Total comprehensive income for the period		**5,086**	4,565	**4,858**	4,977
Total comprehensive income attributable to:					
Shareholders		**3,514**	2,637	**3,309**	2,900
Non-controlling interests		**1,572**	1,928	**1,549**	2,077
		5,086	4,565	**4,858**	4,977

The accompanying notes form part of the interim financial report.

Consolidated Statement of Financial Position

At June 30, 2019

	Note	(Unaudited) June 30, 2019 HK$ Million	(Audited) December 31, 2018 HK$ Million	*For information purpose only* June 30, 2019 RMB Million	December 31, 2018 RMB Million
Non-current assets					
Property, plant and equipment					
Investment properties	10	144,528	144,572	127,141	126,818
Investment properties under development	10	40,335	31,186	35,481	27,325
Other property, plant and equipment		206	213	181	187
		185,069	175,971	162,803	154,330
Interest in joint ventures		4,080	4,040	3,589	3,548
Other assets		1,450	1,449	1,277	1,273
Deposits with banks	11	1,853	1,853	1,630	1,628
Deferred tax assets		2	3	2	3
		192,454	183,316	169,301	160,782
Current assets					
Cash and deposits with banks	11	5,517	10,656	4,853	9,350
Trade and other receivables	12	2,328	2,061	2,047	1,807
Properties for sale		4,357	2,463	3,833	2,163
Assets held for sale	15	110	101	97	89
		12,312	15,281	10,830	13,409
Current liabilities					
Bank loans and other borrowings	13	3,875	3,360	3,409	2,947
Trade and other payables	14	6,021	6,411	5,297	5,623
Lease liabilities	21	24	22	21	19
Current tax payable		628	581	552	509
Liabilities directly associated with assets held for sale	15	–	3	–	3
		10,548	10,377	9,279	9,101
Net current assets		1,764	4,904	1,551	4,308
Total assets less current liabilities		194,218	188,220	170,852	165,090

	Note	(Unaudited) June 30, 2019 HK$ Million	(Audited) December 31, 2018 HK$ Million	*For information purpose only* June 30, 2019 RMB Million	*For information purpose only* December 31, 2018 RMB Million
Non-current liabilities					
Bank loans and other borrowings	13	30,249	27,291	26,610	23,946
Lease liabilities	21	302	298	266	261
Deferred tax liabilities		9,962	9,895	8,763	8,671
		40,513	37,484	35,639	32,878
NET ASSETS		153,705	150,736	135,213	132,212
Capital and reserves					
Share capital	16	4,065	4,065	3,164	3,164
Reserves		85,079	82,382	75,256	72,662
Shareholders' equity		89,144	86,447	78,420	75,826
Non-controlling interests		64,561	64,289	56,793	56,386
TOTAL EQUITY		153,705	150,736	135,213	132,212

The accompanying notes form part of the interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended June 30, 2019 (Unaudited)

HK$ Million	Shareholders' equity					
	Share capital (Note 16)	Other reserves (Note 18)	Retained profits (Note 18)	Total	Non-controlling interests	Total equity
At January 1, 2019	**4,065**	**4,181**	**78,201**	**86,447**	**64,289**	**150,736**
Profit for the period	**–**	**–**	**3,709**	**3,709**	**1,731**	**5,440**
Exchange difference arising from translation to presentation currency	**–**	**(238)**	**–**	**(238)**	**(187)**	**(425)**
Cash flow hedges: net movement in hedging reserve	**–**	**42**	**–**	**42**	**28**	**70**
Net change in fair value of equity investments	**–**	**1**	**–**	**1**	**–**	**1**
Total comprehensive income for the period	**–**	**(195)**	**3,709**	**3,514**	**1,572**	**5,086**
Final dividend in respect of previous financial year	**–**	**–**	**(831)**	**(831)**	**–**	**(831)**
Employee share-based payments	**–**	**5**	**9**	**14**	**12**	**26**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**(1,312)**	**(1,312)**
At June 30, 2019	**4,065**	**3,991**	**81,088**	**89,144**	**64,561**	**153,705**
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 to presentation currency	–	(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

The accompanying notes form part of the interim financial report.

For information purpose only

RMB Million	Shareholders' equity					
	Share capital	Other reserves	Retained profits	Total	Non-controlling interests	Total equity
At January 1, 2019	3,164	7,530	65,132	75,826	56,386	132,212
Profit for the period	–	–	3,231	3,231	1,502	4,733
Exchange difference arising from translation to presentation currency	–	39	–	39	24	63
Cash flow hedges: net movement in hedging reserve	–	38	–	38	23	61
Net change in fair value of equity investments	–	1	–	1	–	1
Total comprehensive income for the period	–	78	3,231	3,309	1,549	4,858
Final dividend in respect of previous financial year	–	–	(728)	(728)	–	(728)
Employee share-based payments	–	5	8	13	9	22
Dividends paid to non-controlling interests	–	–	–	–	(1,151)	(1,151)
At June 30, 2019	3,164	7,613	67,643	78,420	56,793	135,213
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

Condensed Consolidated Cash Flow Statement

For the six months ended June 30, 2019 (Unaudited)

	Note	2019 HK$ Million	2018 HK$ Million	*For information purpose only* 2019 RMB Million	2018 RMB Million
Operating activities					
Cash generated from operations		**2,978**	4,164	**2,567**	3,397
Income tax paid		**(579)**	(668)	**(498)**	(545)
Net cash generated from operating activities		**2,399**	3,496	**2,069**	2,852
Investing activities					
Payment for property, plant and equipment		**(9,563)**	(5,368)	**(8,260)**	(4,395)
Net proceeds from disposal of subsidiaries		**1,188**	–	**1,043**	–
Decrease in bank deposits with maturity greater than three months		**659**	3,934	**570**	3,199
Other cash flows arising from investing activities		**196**	897	**169**	733
Net cash used in investing activities		**(7,520)**	(537)	**(6,478)**	(463)
Financing activities					
Proceeds from new bank loans and other borrowings		**10,221**	3,553	**8,859**	2,887
Repayment of bank loans and other borrowings		**(6,717)**	(2,823)	**(5,813)**	(2,295)
Capital element of lease rentals paid		**(4)**	–	**(3)**	–
Interest and other borrowing costs paid		**(764)**	(720)	**(661)**	(587)
Interest element of lease rentals paid	21	**(8)**	(8)	**(7)**	(7)
Dividend paid		**(831)**	(831)	**(728)**	(673)
Dividends paid to non-controlling interests		**(1,313)**	(1,458)	**(1,151)**	(1,186)
Other cash flows used in financing activities		**–**	(848)	**–**	(689)
Net cash generated from/(used in) financing activities		**584**	(3,135)	**496**	(2,550)
Decrease in cash and cash equivalents		**(4,537)**	(176)	**(3,913)**	(161)
Effect of foreign exchange rate changes		**57**	(83)	**(8)**	33
Cash and cash equivalents at January 1		**8,702**	10,490	**7,635**	8,768
Cash and cash equivalents at June 30		**4,222**	10,231	**3,714**	8,640
Analysis of the balance of cash and cash equivalents:					
Cash and deposits with banks		**7,370**	18,062	**6,483**	15,258
Less: Bank deposits with maturity greater than three months		**(3,148)**	(7,831)	**(2,769)**	(6,618)
Cash and cash equivalents		**4,222**	10,231	**3,714**	8,640

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 40 to 41.

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 16, *Leases*, and Amendments to HKAS 23, *Borrowing costs*, the adoption of these new or amended HKFRSs does not have significant impact on the Group's interim financial report.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2018 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 2018 as if the presentation currency is Renminbi.

The financial information relating to the financial year ended December 31, 2018 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, 2018 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

1. BASIS OF PREPARATION (Continued)

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.

HKFRS 16

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*.

The key changes to the Group's accounting policies resulting from the adoption of HKFRS 16 are summarized below.

As a lessee

As a lessee, the Group previously classified leases as operating or finance leases under HKAS 17 based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under HKFRS 16, the Group is required to capitalize all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17.

The Group decided to apply recognition exemptions to short-term leases that have a lease term of 12 months or less and leases of low-value assets. For leases of other assets, the Group recognized right-of-use assets and lease liabilities.

As a lessor

HKFRS 16 does not substantially change how a lessor accounts for leases under HKAS 17.

2. CHANGES IN ACCOUNTING POLICIES (Continued)

Transition

The Group applied HKFRS 16 with a date of initial application of January 1, 2019 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in the opening balances at January 1, 2019.

(a) Leases previously classified as operating leases under HKAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as of January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group used the following practical expedients when applying HKFRS 16 to leases previously classified as operating leases under HKAS 17:

- applied the exemption not to recognize right-of-use assets and liabilities for leases with a remaining lease term of less than 12 months as of January 1, 2019; and

- excluded initial direct costs from measuring the right-of-use asset at the date of initial application.

(b) Leases previously classified as finance leases under HKAS 17

For leases that were previously classified as finance leases under HKAS 17, the carrying amount of the right-of-use asset and the lease liability at January 1, 2019 are determined at the carrying amount of the lease asset and lease liability under HKAS 17 immediately before that date. The accounting caption of "finance lease obligations" is changed to "lease liabilities".

2. CHANGES IN ACCOUNTING POLICIES (Continued)

Impacts on the consolidated financial statements

On transition to HKFRS 16, HK$320 million were reclassified from finance lease obligations to lease liabilities, and the Group recognized an additional HK$11 million of right-of-use assets and HK$11 million of lease liabilities. Such right-of-use assets are presented within investment properties. There was no impact on the opening balance of equity.

Annual Improvement to HKFRSs 2015–2017 cycles: Amendments to HKAS 23

The Amendments to HKAS 23 clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale, or any non-qualifying assets, are included in that general pool.

Impacts on the consolidated financial statements

In accordance with the transitional provisions, the Group has applied those amendments to borrowing costs incurred on or after January 1, 2019, the date of initial application. Consequently, additional borrowing costs of HK$323 million were capitalized to properties under development for the six months ended June 30, 2019.

However, the additional capitalization neither impacted the overall profit for the period nor carrying value of properties under development which are stated at fair value.

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 mainland China, property leasing in Hong Kong and property sales in Hong Kong.

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

Management evaluates performance primarily based on profit before taxation.

Segment assets principally comprise all non-current assets and current assets directly attributable to each segment with the exception of interest in joint ventures, other assets, 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) Disaggregation of revenue

Revenue for the six months ended June 30, 2019 is analyzed as follows:

HK$ Million	2019	2018
Under the scope of HKFRS 16 (2018: HKAS 17), *Leases*:		
Rental income	4,033	3,934
Under the scope of HKFRS 15, *Revenue from contracts with customers*:		
Sales of completed properties	–	1,032
Building management fees and other rental related income	472	491
	472	1,523
	4,505	5,457

3. REVENUE AND SEGMENT INFORMATION (Continued)

(b) Revenue and results by segments

HK$ Million	Revenue		Profit before taxation	
	2019	2018	**2019**	2018
Segment				
Property leasing				
– Mainland China	**2,409**	2,397	**1,635**	1,602
– Hong Kong	**2,096**	2,028	**1,797**	1,735
	4,505	4,425	**3,432**	3,337
Property sales				
– Hong Kong	**–**	1,032	**–**	565
Segment total	**4,505**	5,457	**3,432**	3,902
Other net income			**874**	72
Administrative expenses			**(334)**	(329)
Operating profit before changes in fair value of properties			**3,972**	3,645
Net increase in fair value of properties			**2,039**	2,532
– property leasing in Hong Kong			**1,932**	2,292
– property leasing in mainland China			**(359)**	240
– upon transfer from completed properties for sale in Hong Kong to investment properties			**466**	–
Net interest income/(expense)			**39**	(325)
– interest income			**104**	267
– finance costs			**(65)**	(592)
Share of profits of joint ventures			**124**	273
Profit before taxation			**6,174**	6,125

3. REVENUE AND SEGMENT INFORMATION (Continued)

(c) Total assets by segments

HK$ Million	Total assets	
	June 30, 2019	December 31, 2018
Segment		
Property leasing		
– Mainland China	**118,386**	109,121
– Hong Kong	**69,010**	68,910
	187,396	178,031
Property sales		
– Hong Kong	**4,358**	2,464
Segment total	**191,754**	180,495
Interest in joint ventures	**4,080**	4,040
Other assets	**1,450**	1,449
Deferred tax assets	**2**	3
Cash and deposits with banks	**7,370**	12,509
Assets held for sale	**110**	101
Total assets	**204,766**	198,597

4. OTHER NET INCOME

HK$ Million	2019	2018
Gain on disposal of subsidiaries	**868**	–
Ineffectiveness on cash flow hedges	**1**	–
Gain on disposal of investment properties	**–**	45
Gain on disposal of assets held for sale	**–**	27
Others	**5**	–
	874	72

5. NET INTEREST INCOME/(EXPENSE)

HK$ Million	2019	2018
Interest income on bank deposits	104	267
Interest expense on bank loans and other borrowings	766	654
Interest expense on lease liabilities (Note 21)	8	8
Other borrowing costs	38	30
Total borrowing costs	812	692
Less: Borrowing costs capitalized	(747)	(100)
Finance costs	65	592
Net interest income/(expense)	39	(325)

6. PROFIT BEFORE TAXATION

HK$ Million	2019	2018
Profit before taxation is arrived at after charging:		
Cost of properties sold	–	350
Staff costs (Note)	679	676
Depreciation	22	22

Note: The staff costs included employee share-based payments of HK$26 million (2018: HK$34 million). If the amounts not recognized in the statement of profit or loss, such as amounts capitalized to investment properties under development, were accounted for, staff costs would have been HK$824 million (2018: HK$799 million).

7. TAXATION

(a) Provision for Hong Kong Profits Tax is calculated at 16.5% (2018: 16.5%) of the estimated assessable profits for the period. Mainland China Income Tax mainly represents mainland China Corporate Income Tax calculated at 25% (2018: 25%) and mainland China withholding income tax calculated 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.

HK$ Million	**2019**	2018
Current tax		
Hong Kong Profits Tax	**269**	291
Mainland China Income Tax	**353**	415
Total current tax	**622**	706
Deferred tax		
Changes in fair value of properties	**41**	66
Other origination and reversal of temporary differences	**71**	17
Total deferred tax	**112**	83
Total income tax expense	**734**	789

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

8. DIVIDENDS

(a) Interim dividend

HK$ Million	**2019**	2018
Proposed after the end of the reporting period:		
HK19 cents (2018: 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 six months ended June 30, 2019

HK$ Million	**2019**	2018
2018 Final dividend of HK61 cents		
(2017: 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:

HK$ Million	**2019**	2018
Earnings used in calculating basic and diluted earnings per share (net profit attributable to shareholders)	**3,709**	3,037

	Number of shares	
	2019	2018
Weighted average number of shares used in calculating basic and diluted earnings per share (Note)	**1,361,618,242**	1,361,618,242

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.

9. EARNINGS PER SHARE (Continued)

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

HK$ Million	2019	2018
Net profit attributable to shareholders	3,709	3,037
Effect of changes in fair value of properties	(2,039)	(2,532)
Effect of corresponding income tax	108	66
Effect of changes in fair value of investment properties of joint ventures	(56)	(198)
	(1,987)	(2,664)
Non-controlling interests	602	1,086
	(1,385)	(1,578)
Underlying net profit attributable to shareholders	2,324	1,459

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

	2019	2018
Basic	HK$1.71	HK$1.07
Diluted	HK$1.71	HK$1.07

10. INVESTMENT PROPERTIES AND INVESTMENT PROPERTIES UNDER DEVELOPMENT

(a) Additions

During the six months ended June 30, 2019, additions to investment properties and investment properties under development amounted to HK$9,934 million (2018: HK$4,954 million). The additions included the final 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, 2019 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:

HK$ Million	**June 30, 2019**	December 31, 2018
Hong Kong Dollars	**4,566**	4,737
Hong Kong Dollars equivalent of:		
Renminbi	**2,789**	7,757
United States Dollars	**15**	15
	7,370	12,509

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

HK$ Million	**June 30, 2019**	December 31, 2018
Bank loans and other borrowings	**34,124**	30,651
Less: Cash and deposits	**(7,370)**	(12,509)
Net debt	**26,754**	18,142

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:

HK$ Million	**June 30, 2019**	December 31, 2018
Not past due or less than 1 month past due	**16**	14
1–3 months past due	**4**	5
More than 3 months past due	**2**	2
	22	21

The Group maintains a defined credit policy including stringent credit evaluation on and payment of a rental deposit from tenants. In addition to the payment of rental deposits, tenants are required to pay monthly rents in respect of leased properties in advance. Receivables are regularly reviewed and closely monitored to minimize any associated credit risk. Given the Group has not experienced any significant credit losses in the past and holds sufficient rental deposits from tenants to cover the potential exposure to credit risk, the allowance for expected credit losses is therefore insignificant.

(b) Included in other receivables of the Group is a deposit of land acquisition in mainland China of HK$284 million (December 31, 2018: HK$285 million).

13. BANK LOANS AND OTHER BORROWINGS

At the end of the reporting period, the Group had HK$16,433 million (December 31, 2018: HK$20,984 million) of committed undrawn banking facilities.

In addition, the Group has a USD3 billion (December 31, 2018: USD3 billion) Medium Term Note Program and a RMB10 billion (December 31, 2018: RMB10 billion) green bond program. At the end of the reporting period, the Group issued in total an equivalent of HK$13,501 million (December 31, 2018: HK$13,508 million) of bonds with coupon rates ranging from 2.95% to 5.00% (December 31, 2018: 2.95% to 5.00%) per annum.

14. TRADE AND OTHER PAYABLES

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

HK$ Million	**June 30, 2019**	December 31, 2018
Due within 3 months	**1,870**	1,992
Due after 3 months	**681**	866
	2,551	2,858

15. ASSETS HELD FOR SALE

On June 26, 2019, the Group entered into a sale and purchase agreement with an independent third party to dispose of all the car parking spaces held at Laichikok Bay Garden in Hong Kong. Accordingly, the relevant assets are presented as assets held for sale. The completion of the transaction is scheduled to take place in September 2019.

HK$ Million	**June 30, 2019**	December 31, 2018
Investment properties	**110**	101
Deferred tax liabilities	**–**	3

The balance at December 31, 2018 represented:

- a disposal group relating to the residential unit and several car parking spaces at Garden Terrace in Hong Kong which were disposed of in April 2019; and
- an investment property of a car parking space at The Long Beach in Hong Kong which was disposed of in February 2019.

16. SHARE CAPITAL

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

	June 30, 2019		December 31, 2018	
	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 six months ended June 30, 2019 were as follows:

(a) 2002 Share Option Scheme

	Number of share options					
Date granted	Outstanding on January 1, 2019	Exercised	Forfeited/ Lapsed	**Outstanding on June 30, 2019**	Period during which options are exercisable	Exercise price (HK$)
February 8, 2010 to June 1, 2010	13,380,000	–	–	**13,380,000**	February 8, 2012 to May 31, 2020	26.46 – 27.27
July 29, 2010 to June 13, 2011	30,990,000	–	(300,000)	**30,690,000**	July 29, 2012 to June 12, 2021	30.79 – 36.90
Total	44,370,000	–	(300,000)	**44,070,000**		

All the above options may vest after two to five years of the grant date and are exercisable up to the tenth anniversary of the date of grant, after which they will lapse. No options were exercised or cancelled during the six months ended June 30, 2019.

During the six months ended June 30, 2019, 300,000 options (2018: Nil) were forfeited upon cessations of the grantees' employments and no option (2018: 200,000 options) lapsed due to the expiry of the period for exercising the options.

17. SHARE OPTION SCHEMES (Continued)

(b) 2012 Share Option Scheme

	Number of share options					
Date granted	Outstanding on January 1, 2019	Granted	Forfeited/ Lapsed	**Outstanding on June 30, 2019**	Period during which options are exercisable	Exercise price (HK$)
June 4, 2013	27,350,000	–	(760,000)	**26,590,000**	June 4, 2015 to June 3, 2023	28.20
December 5, 2014	23,622,000	–	(692,000)	**22,930,000**	December 5, 2016 to December 4, 2024	22.60
August 10, 2017	39,495,000	–	(1,695,000)	**37,800,000**	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
June 28, 2019	–	55,492,000	–	**55,492,000**	June 28, 2021 to June 27, 2029	18.58
Total	100,467,000	55,492,000	(3,147,000)	**152,812,000**		

All the above options may vest after two to five years of the grant date and are exercisable up to the tenth anniversary of the date of grant, after which they will lapse. No options were exercised or cancelled during the six months ended June 30, 2019.

In respect of options granted during the six months ended June 30, 2019, the closing price of the shares immediately before the date of grant was HK$18.52.

17. SHARE OPTION SCHEMES (Continued)

(b) 2012 Share Option Scheme (Continued)

During the six months ended June 30, 2019, 3,147,000 (2018: 2,708,000) 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 six months ended June 30, 2019, the fair value, terms and conditions, and assumptions were as follows:

Fair value at grant date	HK$2.45
Share price at grant date	HK$18.58
Exercise price	HK$18.58
Risk-free interest rate	1.39%
Expected life (in years)	6
Expected volatility	23.38%
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

HK$ Million	Other reserves								
	Exchange reserve	Hedging reserve	Investment revaluation reserve	Employee share-based compensation reserve	General reserve	Other capital reserve	Total	Retained profits	Total reserves
At January 1, 2019	(788)	(80)	69	423	275	4,282	4,181	78,201	82,382
Profit for the period	-	-	-	-	-	-	-	3,709	3,709
Exchange difference arising from translation to presentation currency	(238)	-	-	-	-	-	(238)	-	(238)
Cash flow hedges: net movement in hedging reserve	-	42	-	-	-	-	42	-	42
Net change in fair value of equity investments	-	-	1	-	-	-	1	-	1
Total comprehensive income for the period	(238)	42	1	-	-	-	(195)	3,709	3,514
Final dividend in respect of previous financial year	-	-	-	-	-	-	-	(831)	(831)
Employee share-based payments	-	-	-	5	-	-	5	9	14
At June 30, 2019	**(1,026)**	**(38)**	**70**	**428**	**275**	**4,282**	**3,991**	**81,088**	**85,079**
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 to presentation currency	(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

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, 2019 of HK$36 million recorded under "Trade and other receivables" (December 31, 2018: HK$1 million recorded under "Trade and other receivables" and HK$10 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.

19. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

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

ii) Investment in equity instruments

The fair value of non-publicly traded equity investments as of June 30, 2019 of HK$110 million (December 31, 2018: HK$109 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, 2019, there was no transfer of instruments between Level 1 and Level 2, or transfer into or out of Level 3 (2018: 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, 2018 and June 30, 2019.

20. COMMITMENTS

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

HK$ Million	**June 30, 2019**	December 31, 2018
Contracted for	**6,934**	14,267
Authorized but not contracted for	**25,558**	20,568
	32,492	34,835

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 applied HKFRS 16 at January 1, 2019 using the modified retrospective method. Under this method, comparative information is not restated. As a result, the balance of lease liabilities as of December 31, 2018 in the consolidated statement of financial position and the amount of interest element of lease rentals paid for the six months ended June 30, 2018 in the condensed consolidated cash flow statement represent the amounts in respect of finance leases under HKAS 17 only.

The Group applied Amendments to HKAS 23 at January 1, 2019 using a prospective approach according to the transitional provisions. 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, 2019.

GLOSSARY

FINANCIAL TERMS

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

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

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

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

Underlying net profit attributable to shareholders: Net profit attributable to shareholders excluding changes in fair value of properties net of related income 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, 2019 to June 30, 2019
Announcement of interim results	July 30, 2019
Latest time for lodging transfers	4:30 p.m. on September 11, 2019
Closure of share register	September 12 to 13, 2019 (both days inclusive)
Record date for interim dividend	September 13, 2019
Payment date for interim dividend	September 26, 2019

SHARE LISTING

As at June 30, 2019, 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, 2019: HK$21.65
Market capitalization as at June 30, 2019: HK$29.48 billion

SHARE REGISTRAR

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