恒隆集團
HANG LUNG GROUP

2017
Interim Report

Hang Lung Group Limited
Stock Code: 00010

WE DO IT RIGHT

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Philip N.L. Chen *(Chief Executive Officer)*
Gerald L. Chan #
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L.C. Tsui *OC, GBM, GBS, JP* *
Martin C.K. Liao *SBS, JP* *
P.W. Liu *SBS, JP* *
George K.K. Chang #
Roy Y.C. Chen #
H.C. Ho *(Chief Financial Officer)*
Adriel W. Chan

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

AUDIT COMMITTEE

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

NOMINATION AND REMUNERATION COMMITTEE

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Simon S.O. Ip *GBS, CBE, JP*
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AUDITOR

KPMG
Certified Public Accountants

RESULTS AND DIVIDEND

For the six months ended June 30, 2017, revenue edged up to HK$6,641 million. Net profit attributable to shareholders rose 34% to HK$2,396 million. Earnings per share increased similarly to HK$1.76.

Excluding property revaluation gain, related deferred taxation and non-controlling interests, the underlying net profit attributable to shareholders decreased 3% to HK$1,811 million. Underlying earnings per share fell correspondingly to HK$1.33.

The Board has declared an interim dividend of HK19 cents per share payable on September 28, 2017 to shareholders of record on September 14, 2017.

BUSINESS REVIEW

The world has always been a troubling place, but today it is particularly so. The less developed parts have been usually more troublesome than others, and this condition persists. The Middle East situation deteriorates from bad to worse; North Korea keeps everyone alert about nuclear threats; and Venezuela reminds us that Latin America is in general still an unstable place.

Developed economies once boasted stability. Now they themselves are not so sure. Brexit may take a long time to resolve, and no one yet knows the eventual outcome. The refugee problem may not be as hot as it was last year, but the issue has certainly not gone away. In fact, European countries' reactions to the issue today will affect the Continent for decades to come. Terrorist attacks, long associated with the less developed parts of the world, have now become a common occurrence in Europe.

The United States, which is the most self-righteous country in modern history, now has a president who regularly blurts out facts with alternative facts, and truths with untruths. The media, which has long been regarded as the bastion of the Western concept of liberty, is now daily inundated with fake news. The Internet certainly exacerbates the problem.

Relatively speaking, Asia today appears to be the more peaceful part of the world. China, which endured tremendous turbulence in much of the 20th century, has in the past 20 to 30 years enjoyed stability and peace. While the United States is in the long run stable, it is steeped with short-term uncertainties and noises. China on the other hand appears to be more tranquil, at least in the near term, a condition that can last for decades and even longer.

When economic growth rate is taken into consideration, the country looks even more attractive as a destination for investments. For the foreseeable future, it should be more or less double that of the West, if not more. It is far easier to make progress when swimming along with the current than against it.

That said, we are keenly aware of possible sudden troubles. Chinese history of the post World War II era tends to bear out this fact. But all things considered, we count ourselves fortunate to be investing in China. There is hardly another market, especially a sizable one, that is more alluring.

Even taking a longer-term view, China may remain one of the best places to do business. For example, the Belt and Road Initiative (BRI) enunciated by President Xi Jinping four years ago should help keep China's economy growing for many years to come. This is exactly the old Silk Road, if you will. It may even alter the geo-economic map of the world to some extent. Throughout the process, many countries between East Asia and Eastern Europe should reap great economic benefits. Yet I am surprised by how the West, especially the United States, has been too proud to recognize its potential. When I recently addressed a group of mostly Americans in California, almost none of them had even heard of it.

Let me first put the BRI in its historical context. About 2,000 years ago, globalization, as we understand it, began. Those were the days of the Roman Empire in the West, and the prosperous Han Dynasty of China in the East. Both empires were strong but were too far apart to enter into conflict with each other. Instead, trade routes by land and by sea prospered.

If we go further back, around one millennium or two before the Common Era, Mesopotamia was considered to be the cradle of human civilization. Up until the beginning of the Common Era, for many centuries, this region, and even extending east to Central Asia, was the center of world affairs. With the fall of the Roman Empire, Western Europe entered into a prolonged period of decline, while China continued to thrive. As Dr. Henry Kissinger often says, for about two millennia, China was at the peak of human civilization while Europeans were still living in caves!

Those were the days when trade and intellectual exchange, for example between China and India, prospered. In the past few years, my family's philanthropic activities have been supporting a joint project between New Delhi and Beijing to unearth Chinese relics in Kerala State in southwest India. These relics date back as much as 1,900 years. There is plenty of evidence that interactions between the two countries were frequent and extensive.

At the dawn of the Renaissance in the 14th century, Europe gradually woke up. During the first two decades of the 15th century, Admiral Zheng He of the Ming Dynasty in China completed seven expeditions by sea, reaching as far as East Africa and the Gulf States. Before that century ended, Columbus discovered the New World. A few decades thereafter, Magellan circumnavigated the globe by sea. Globalization's center of gravity gradually shifted to the Atlantic Ocean. During the 19th century, Africa was also brought into contact with the rest of the world, mainly through colonialism and the work of the missionaries. Around the same time, the land link, i.e. the "One Belt" of the BRI, gradually declined although countries along the sea route, i.e. the "One Road" of the BRI, have for the most part continued to interact with one another.

Fast forward to the present time, the least globalized part of the world today is probably where globalization began — the area west of East Asia and east of Eastern Europe. There are obvious historical reasons, for many countries in this area were part of the former USSR. Interactions across the Atlantic since the 18th century and even those across the Pacific after World War II have received most of the attention.

Yet the landmass including Central Asia, the Caucasus and countries to their southern and western borders are rich in natural resources — oil and gas, minerals, fertile agricultural land, and forestry. After centuries of being in the backwaters, infrastructure is lacking, thus impeding their economic development.

If the "One Belt" on land presents huge economic opportunities, so does the "One Road" by sea. (In Chinese, "sea road" is acceptable, hence "One Road". In English, it is better rendered as "sea route" or "One Route", for there cannot be "roads" at sea.) Being densely populated, these coastal countries are enormous markets for all. Besides China, consider just six of them: Japan, Indonesia, the Philippines, Bangladesh, India, and Pakistan, with a total population of almost 2.2 billion people. Each of them has a population of over 100 million, and in the case of India, over 1.3 billion.

Given these profiles, it is easy to surmise that sooner or later, even if President Xi of China had not brought up the subject, someone would exploit all opportunities for its natural resources and/or for its potentially humongous market. After all, the sheer territorial size is beyond the capacity of any single nation on earth, and will take decades to play out. It is an open system in the sense that all are welcome to participate, and is not and cannot be monopolized by any single country.

Detractors point to all sorts of challenges, which are frankly obvious to all, and must be carefully considered by any potential participant. The difficulties most often mentioned include diverse political systems, different currencies and languages, inhospitable terrain, corruption, potential social instability, and the lack of physical and institutional infrastructure. All these are real problems and were exactly the same ones faced by people 2,000 years ago who started to trade on the old Silk Road. Most of them were motivated by money, and the same is true today. Undoubtedly, technology such as the Internet has homogenized the world considerably. A few millennia ago, many brave souls had bridged various parts of the old Silk Road to attain great fame and fortune. Opportunities should exist today for the BRI participants.

As in all significant ventures, there are two possible attitudes toward the BRI — to be the players or the observers. Some players will fail, as seen in all human endeavors; but others will succeed. The latter will be economically rewarded while the observers will pay a huge opportunity cost.

The BRI presents a lot of upside and very little downside for China. This is good news for us. As China gets richer, people will consume more, and our malls and offices should both benefit.

The reasons for China's participation are however not merely economic. On the minds of Beijing, first and foremost must be energy security, followed by food security. These are existential issues for the country. The majority of the nations along the Silk Road are Muslim, and the Chinese government certainly does not mind building closer ties with them. It should help contain Islamic separatist elements in western China. Some of the extreme groups are based along the Silk Road all the way west to Turkey.

Beyond these factors, the economic benefits to China, both in the short run and in the long run, are consequential. In the immediate term, it can pare down excess inventories and consume its over-capacity production by selling to those countries. One place to begin the BRI must be the building of physical infrastructure, which could use up much of what China could offer. This is now being done and all parties will benefit. For countries along the way, the building of roads and rails, ports and airports will help contribute to the economic development, which should create a middle class or enlarge it. This will enable people to purchase many goods, including many made in China. Again, everyone is a winner.

Beyond economics, more interactions should improve people's understanding of each other, which in turn will hopefully bring lasting peace.

So what is the downside for China? Not much that I can think of. It is just a matter of how big she will win. This was the case with the old Silk Road and may repeat itself today. Even if the effort eventually fails, at least it has helped China resolve some of her short-term economic problems as described above.

As to the other countries along the Belt and Road, a similar situation exists — there is little to lose. Most likely they will find a reasonable way to have their basic infrastructures built. Pakistan is one such early winner, as one of her former Prime Ministers publicly stated not long ago.

While it is highly doubtful if Hang Lung will ever follow the Silk Road and build commercial properties along the way, the strengthening of China's economy alone will mean a lot to us. Corporations in the United States that went overseas in the 1960's and 1970's has enriched the American economy, thus enhancing commercial activities at home. The same will be true for China as it spreads its economic wings to the Belt and Road countries. To us, it means more business. This is yet another reason we are pleased to be investing in the mainland China market.

Let me now turn to China's domestic market in the more immediate term, where I also have positive news to report. It is unmistakable that the country is emerging out of its economic malaise of the past six years. In particular, the recovery of the luxury goods sector is especially strong.

The retail sales increase in all of our malls notwithstanding, rental growth has yet to come through. In fact downward rent reversion pressure persisted in the past six months. Nevertheless, as the market recovers, the situation should gradually change for the better.

In Hong Kong, the retail rental market is finally seeing some signs of life. Due mainly to asset enhancement initiatives in the past six years, our leasing profits up to now appeared to have defied gravity. When everyone was down in the last few years, we grew at high single-digit rates. Now we have a much higher base and so may expect a slowdown in growth rate.

Taking advantage of the strong residential market in Hong Kong, we continued to sell down our inventory. In the period under review, we were able to part with 102 units of The Long Beach, as well as the last condo at The HarbourSide. As of June 30, 39 apartments at The Long Beach and 16 semi-detached houses at 23-39 Blue Pool Road remained unsold.

Last November, the Hong Kong government introduced a 15% new ad valorem stamp duty on residential property transactions. There was a temporary lull in the market. Beginning in February, however, prices began to climb again until June. The government's additional policy tightening did little to curb the rise. Even the three interest rate hikes by the United States Federal Reserve, each of a quarter point, failed to create a psychological barrier to rising demand.

It is useful to put this in a historical context. For the past 25 years or so, housing was the most affordable in 2003 during SARS, and the least affordable in 1997, the year of Hong Kong's return to her Motherland. In fact, compared to the period of 1994-1998, today's situation is much better, even though it has been worsening since the Global Financial Crisis of 2008/2009.

If one simply look at the Centa-City Index for housing prices with 1997 as 100, the number for June 2017 was substantially higher at 160. (At the 2003 market bottom during SARS, it was around 32.) However, the median salary has risen a lot during that period. If we examine affordability, as defined by the ratio of a typical 20-year mortgage — 70% loan-to-value for a 45 square-meter apartment — to the city's median annual income, the average percentage for the years 1997, 2016 and 2003 are respectively 93, 56 and 20. The 2016 number stood exactly at the midpoint between the 1997 peak and the 2003 bottom. Even with the recent price hike, the number for the first quarter of 2017 was 66, which is still way below the 93 of 1997.

This is nevertheless no consolation to our young members of society, who are feeling discouraged. When market sentiments were upbeat in 1997, exorbitantly high housing prices seemed to have bothered no one. The same is no longer true today. It has become a source of serious social contention.

Look at it another way. If one used the height of the market in October 1997 as a base, then the compounded annual growth rate of residential prices until this June was 2.4%, a very reasonable number. But if one measured from the market bottom in August 2003 in the midst of SARS, then the figure was 8.4%, or over 3.5 times the pace of inflation. (Over this period of 14 years, the average inflation was a mere 2.34%.) No wonder our society is overwhelmed by the recent prices.

As I have stated time and again, the root cause of the problem is that the government has unreasonably refrained from selling land for some six years between 2005 and 2010. Nor did it prepare buildable land such as developing new towns or landfill. Consequently, when in 2012 the new administration decided to right this wrong, there were very few plots that could be sold. In the past five years, the government scrambled around to find land with great frustration.

The problem is not unresolvable, but it will take time. After serious efforts in the past few years, and anticipating the correct policy to be continued under the present new administration, residential prices can be brought down one day.

Nevertheless, it is unrealistic to expect much cheaper residential prices in the long run. Let me enunciate a few reasons here.

Historically, at least since World War II, real estate prices in Asian cities, which are generally highly densely populated, have always been relatively high by global standards. The situation in Hong Kong is particularly acute. Due to a long-held policy under the British, less than 25% of the landmass is developed, hence self-limiting the amount of buildable land. Country parks alone account for some 40% of the total area of Hong Kong.

Being predominantly ethnic Chinese, Hong Kong's citizenry has a propensity to own bricks and mortar. In fact, they prefer new units. As a result, purchasing apartments for the purposes of investment is commonly practised. History has proven that real estate is a great way to preserve value. No wonder that browsing new residential blocks for sale has become a popular weekend pastime, often for the entire family. Many have even become experts on design and construction! We the developers all know that the best way to improve our products is through walking around show flats with them and listening to their critiques.

I recall what our founder Mr. T.H. Chan said to me around 1980. He reminded me that many Hong Kong citizens did not need to work for a living, and yet could live rather comfortably. Owning an apartment or two for rental, and the high monthly income therefrom could feed a family. The appreciation in property value when they eventually sell might take care of their retirement needs. This was certainly not far from the truth.

Here is another illuminating anecdote. About 20 years ago, a long-time Hong Kong resident who is British told me his life story. He arrived here, then a colony, as a young man, and worked for 20 some years in a well-paid job. Whenever he was able to save some money, he used it to buy high-end apartments and later even houses which, given the limited land in Hong Kong, were rare. Well before the usual retirement age, these investments have made him very wealthy. In fact, the property appreciation far exceeded the total salary he has ever earned. He then sold some units in Hong Kong, and bought himself a residence in England and a resort house in Southern France. Although only around my age, he has long been happily retired with his family at those places. He probably still collects good rents from his remaining properties in Hong Kong that support his comfortable lifestyle.

This is certainly not an isolated case. As young people learn from such examples, they too flock to buy properties, thus help perpetuate high prices. I do not believe that this game will end anytime soon. Adding to the fuel is the fact that many Mainland people would like to own properties in Hong Kong. This is why I often advise friends who are moving to Hong Kong to buy property at every market softening. Those expatriates — at the beginning mostly from Britain, then from Continental Europe and America, but most recently also from Asia and especially Mainland China — whose companies pay for their housing often end up losers. After working here for years or, in some cases, for decades, many of them fell in love with the City — who would not! — and wanted to retire here. But if they did not follow my friend's example mentioned above, they might not be able to afford housing when they finally needed or wanted to buy.

Historically, Hong Kong has always been a destination of choice for those Chinese who did not want to live on the Mainland. Our population surged each time there was trouble north of the border. Before 1989, it happened on average once a decade — in 1949, when there was a change in government; in the late 1950's, after many political campaigns; during and following the Cultural Revolution, which lasted from 1967 to 1976; and after 1989. In the past 30 years or so, however, China has been relatively peaceful.

In fact, China's rapid economic growth created new — and better — reasons to come to Hong Kong. For the nouveau riche, Hong Kong offers lower tax rates and, to many, a better education system for the children. These people come with some wealth, so they help buoy our residential market. At the beginning, many of them bought luxury units. Nowadays, the newcomers also purchase properties built for the middle class.

A new phenomenon in the Hong Kong real estate scene should be addressed. It relates to Mainland entities buying in Hong Kong. First, it was the wealthy businessmen who came to acquire residences as noted above. Then, a decade or so ago, corporations, mainly SOE's (State Owned Enterprises), bought head office buildings in the fringe areas of Central, before gradually moving to prime locations. Now the third wave of purchasers is upon us — Mainland private developers who are buying land mostly for residential projects. They grab everyone's attention because of the enormously high prices that they are willing to pay.

At least in the past three to four decades that I have been observing the market, there have always been outsiders participating in our property development or investment markets. We have seen Australian, Japanese, Malaysian, Indonesian, Singaporean, Filipino, American, British, etc., and have always welcomed them. Hong Kong has for a very long time been one of the world's most open markets for all. Similarly, we now welcome Mainland Chinese players.

Almost all previous outside players sooner or later left. Many had made money but for whatever reason did not see Hong Kong as a long-term base. (Sino Land and Kerry Properties, originally from Singapore and Malaysia respectively, are two of the few that have successfully "domesticated" themselves.) Perhaps our market is not big enough for some of them and there are too many very strong local players. The home-grown developers are not only formidable in size, but are also extraordinarily financially well endowed.

In contrast, many outsiders relied heavily on debt. Given the cyclicality of the industry and periodic sharp falls in the Hong Kong market such as in 1974, 1985-1987, 1998-2003, and 2008-2009, only the brave souls with strong financial muscles can survive. To be sure, our market entrants of late from the North are not short of bravery, but may be short of sustaining financial power.

There is yet another group of Mainland developers who are of a totally different breed from those entering Hong Kong — the subsidiaries of major SOE's. They are armed with very strong balance sheets, or are backed by parent companies that have them. Frankly they are far more sensible players. If they decide to come, it may be a totally different story, but so far, they are not that active here. I can only surmise the reason: they are truly the privileged ones back home, and can get land from local governments easier than anyone else.

So will the non-SOE developers be able to stay in Hong Kong for long? My Mainland friends who belong to this group all believe that, within five to ten years, they will become a serious force in Hong Kong. In a sense, they already are, because they have been winning much if not most at our public land auctions and tenders. The question, however, is how long they will or can stay. To answer this question, we need to study their motivation for coming.

As I have previously written, there is no denying that the period of making easy and big money in residential development on the Mainland may well be behind us. Gone are the days when regulations were more relaxed than today. One could buy land and not pay for it until the apartments were sold. Bank financing was readily available. We the outsiders would never know how the land or loans were obtained. On the other hand, demand was deemed unlimited, and selling products was easy. As a result, everyone chased after volume, and we witnessed the fastest growth in the world in terms of the absolute market size of the industry.

After almost 30 years, many Mainland cities now have tremendous amounts of unsold inventory. Government regulations are tighter than before, and government interferences, which are often necessary, are frequent. Developers realize that the good old days are perhaps gone forever. They must look for new markets, and Hong Kong becomes a reasonable first stop. Our market is totally open, our taxes are low, and we speak the same language and have a similar culture.

To be sure, there are still plenty of opportunities on the Mainland. Family formation like everywhere else will provide a natural source of new demand. Most of the residential units constructed 20 to 30 years ago are of inferior, if not pathetic, quality. Whereas buildings in Europe in general can last for a few hundred years, in the United States a hundred years, and in Hong Kong 70 to 80 years, those on mainland China may only last say 40 to 50 years. They will have to be torn down and rebuilt. However, to those developers who are used to extraordinary growth rates, these factors will hardly satisfy them. This is, I believe, a primary reason for them to venture beyond the country.

In recent years, we have witnessed Mainland Chinese developers and investors, like their compatriots in manufacturing, spreading their wings to Malaysia, Australia, Canada, the United States and even some European countries. In the 1990's, we saw a plethora of Japanese businesses reaching other shores; now it is China's turn. The former underwent tremendous cultural shocks and management adjustments; the latter may experience the same. But unlike the Japanese, the Chinese system is less rigid, and so hopefully they will have an easier time. Nevertheless, the jury is still out on that.

Will Mainland private developers be successful in Hong Kong? I reserve my judgment. At times, I sense a slight disdain for Hong Kong players on the part of my Mainland friends. Perhaps their huge size back home has inflated not only their debt levels but also their minds. On the other hand, they may be underestimating the Hong Kong market and overestimating their own abilities. I speak as someone who has made the Mainland as the main focus of our activities and not as a Hong Kong developer. After all, for years we have not had any new local projects and are running down our local inventory. As such I hope I am at least somewhat objective.

One reason for my assessment is the high gearing of these new Mainland players. If they had a strong and reliable cash flow from other places, they would be fine. But as we all know, the real estate industry is known for its volatility, which may be market- or government-instigated. Unlike rental income which is relatively predictable, developmental profit or cash flow therefrom can suddenly cease. What will happen then to their Hong Kong projects?

Another reason is that many of these newcomers have never seen a bear market. Even if they had, the Mainland government usually did not allow seriously troubled companies to go bankrupt. There were always means to keep them afloat. Such is certainly not the case in Hong Kong. The local players who are still standing have seen many ups and downs and so know how to protect themselves.

My next apprehension is echoed by many longtime market observers. It is hard to believe that a reasonable profit can be made from land prices they have paid recently. Our residential prices will not rise forever. Once the market understands that sufficient land supply is forthcoming, the price for both land and buildings will drop. We are already heading in that direction. When land prices begin to fall, those who have previously bought at unreasonably high prices may be spooked, but there will be many local developers with strong balance sheets — ourselves included — who are ready to go in for the kill. Some may have the opportunity to bail out the novices at much reduced prices.

Moreover, some local developers have a sizable inventory of farm land that can be converted to residential use. Others have for decades assembled plots through the acquisition of individual units. There are also other means that only local experienced players can employ. Newcomers on the other hand can only buy land through public auctions.

Whatever the case, this new phenomenon is of less significance to Hang Lung, because we have for many years made Mainland commercial land our purchase target. As it is now less likely that we will make significant land purchases in Hong Kong, we will therefore redouble our efforts north of here.

Regarding our performance of the past six months, I consider it as acceptable. Although the market is recovering, and our management has done tremendous amounts of work to strengthen our team and our operations, the desirable effects, which are just beginning to surface, have yet to be reflected in numbers. It is possible that beginning from the second half of this year or at the latest early 2018, the results will be more pleasing.

PROSPECTS

Whether we look down the road for one year or ten, I am quite comfortable about our Company's prospects. Let me first take the short-term horizon. There are several reasons for my optimism.

The "perfect storm", as described in my letter to shareholders in the Hang Lung Properties Limited 2017 Interim Report, as well as its termination, had both exogenous and endogenous factors. Externally, the market was terrible for some six years. Now it is finally recovering and recovering quite well. The headwind is all but gone, and we are assessing if the tailwind will continue. But even without it, a normal and calm market condition should serve us well.

It was both fortunate and unfortunate that our management had to face the many challenges since 2010 when we opened our first mall outside of Shanghai. It was unfortunate because no one liked to confront tough internal issues like we had to. We replaced almost our entire senior team, and rebuilt a structure below them. Only our finance department remained basically untouched. Almost every executive in the project management and property leasing teams joined the Company within the past five years. Moreover, all these changes came at a time when we were completing a tremendous amount of new properties on the Mainland. In the past five to six years, we basically doubled our rental income there.

On the other hand, we can consider ourselves fortunate as we did not waste a bull market. The past six years were the worst that I have seen on the Mainland since we started there 26 years ago. We are pleased that at least for now the bear is gone.

Of longer-term significance to the Company are the endogenous factors, i.e. efforts that we have invested in. After all, while we prefer favorable market conditions, they do go up and down every few years. Improvements made within the Company however will have long-lasting positive impacts.

Chief among these is the building of a new management team and a new corporate culture to go with it. Years ago I reported to shareholders that we were engaged in a major exercise to overhaul our management. The need was brought upon us because of a change in company focus. Throughout the 2000's, we concentrated on hunting for the best plots of land in tier-two cities. Our operations lagged behind.

As more and more new projects were added, the strain on management multiplied, which eventually led to inevitable personnel changes. Some staff who were previously valuable could not adjust to the new environment and thus departed. Others had to be let go. Hiring bright new colleagues presented another huge challenge. The market place is frankly short of talents. In the longer run, we would have to build up our own cadre, a task which we have already begun.

We were fortunate to be able to build a good project construction team first. I believe that we are stronger today in this regard than at any time in our almost 60 years of history.

What needs to be done next is the hiring of senior property management staff. Our Hong Kong and Shanghai teams were simply incapable of handling many new facilities in multiple cities. Here we have made considerable progress, but more remains to be done. At least we now have a sufficiently strong base from which to build a robust team.

With many key staff in place, and supported by younger and hungry colleagues, we were able to turn around all but one property. Even our most challenging mall, Forum 66 in Shenyang, is making progress. I am confident that all our properties are now on an upward trajectory. Better numbers should flow through soon.

China's economy will increasingly be dependent on private consumption, and we are now well positioned to benefit therefrom. If we had a "perfect storm" in the past six years, could we expect a more or less "perfect world" ahead? Much is out of our hands such as macroeconomics, but we now have a firm grip on things that are within our control — we have built a productive management team, have fixed the teething problems of almost all of our new facilities outside of Shanghai, and have undertaken extensive upgrade works on our two Shanghai properties.

In June 2011, I summarized our history since 1991 as follows. After three periods of seven years each — respectively described as preparatory, catch-up, and take-off phases — I was hopeful that better days would follow. Unfortunately, that was also the year when I detected weaknesses in the economy and in our luxury mall sector. Instead of better days, we saw a very sluggish market, and endured a delay of six years. It is possible that from here onwards, we may pick up from where we left off in 2011. How well we will do in the coming few years will as always depend on two factors — where the market is heading, and how well we manage our business. The possibility remains that we are entering a phase where both counts will be favorable.

In the more immediate term, I see a gradual improvement in our performance in all of our properties. Hong Kong rental will grow somewhat but will not be spectacular. Plaza 66 in Shanghai should continue to do well, while Grand Gateway 66, now undertaking a major upgrade that will be completed in late 2019, will suffer a little. This is necessary to prepare ourselves for a better long-term future. All complexes outside of Shanghai should see varying degrees of advancement.

It is possible that we will sell down if not sell out The Long Beach. The 23-39 Blue Pool Road luxury housing development will take a little more time. Hopefully we will sell one or two units this year, if not more. The profit margin on both projects should remain high.

On the Mainland, the 19th Party Congress will soon take place. Decisions relating to top-level personnel will affect the business environment for at least the coming five years. In the past 20 years, people who were in the know were able to guess who the incoming top leaders might be. The system of meritocracy and structural arrangements usually gave it away. This time, it is a lot harder to guess. There may even be a surprise or two.

Whatever the outcome, it seems reasonable to expect that businesses should be able to continue in a relatively favorable environment. Although the present government had a hand in dampening the luxury goods market, it was deemed necessary to root out corruption to the farthest extent possible. This policy has led to a healthier commercial environment. It was imposed upon us and the process was painful to all, but as long-term investors in the country, we supported it. We are pleased that China's march towards economic sustainability is making strides. We hope for better days to come.

My last letter to shareholders six months ago was the longest ever written for the Company. This one, I fear, is also the longest interim report. I will continue to spread out my writing more evenly between the interim and the final reports. I trust that shareholders and potential shareholders alike will find this letter informative and useful.

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

FINANCIAL HIGHLIGHTS

In HK$ Million (unless otherwise stated)

RESULTS

	For the Six Months Ended June 30		
	2017	2016	Change
Revenue	**6,641**	6,610	–
Property Leasing	**4,118**	4,206	-2%
Property Sales	**2,523**	2,404	5%
Operating Profit	**4,743**	4,531	5%
Property Leasing	**3,101**	3,142	-1%
Property Sales	**1,642**	1,389	18%
Net Profit Attributable to Shareholders	**2,396**	1,790	34%
Earnings Per Share (HK$)	**$1.76**	$1.32	33%
Interim Dividend Per Share (HK$)	**$0.19**	$0.19	–

UNDERLYING RESULTS

	For the Six Months Ended June 30		
	2017	2016	Change
Underlying Net Profit Attributable to Shareholders	**1,811**	1,864	-3%
Underlying Earnings Per Share (HK$)	**$1.33**	$1.37	-3%

FINANCIAL POSITION

	At June 30	At December 31	
	2017	2016	Change
Shareholders' Equity	**78,497**	75,658	4%
Net Assets	**142,619**	138,013	3%
Net Debt	**4,554**	6,595	-31%
Financial Ratio			
Net Debt to Equity Ratio	**3.2%**	4.8%	-1.6 pts
Debt to Equity Ratio	**19.1%**	22.5%	-3.4 pts
Shareholders' Equity Per Share (HK$)	**$57.6**	$55.5	4%
Net Assets Per Share (HK$)	**$104.7**	$101.3	3%

CONSOLIDATED RESULTS

Total revenue of Hang Lung Group Limited and its subsidiaries (the Group) amounted to HK$6,641 million in the first half of 2017. Property sales revenue rose 5% to HK$2,523 million. Revenue of property leasing decreased 2% to HK$4,118 million, but was up 1% if excluding the 5% Renminbi (RMB) depreciation against the Hong Kong Dollar (HKD) over the corresponding period of last year. Total operating profit increased 5% to HK$4,743 million.

Due to lower interest income and a smaller amount of interest expense capitalization, underlying net profit retreated 3% to HK$1,811 million. Net profit attributable to shareholders increased 34% to HK$2,396 million, after taking account of effects of property revaluation gain. Earnings per share increased similarly to HK$1.76.

Revenue and Operating Profit for the Six Months Ended June 30

	Revenue			Operating Profit		
	2017 HK$ Million	2016 HK$ Million	Change	**2017 HK$ Million**	2016 HK$ Million	Change
Property Leasing	**4,118**	4,206	-2%	**3,101**	3,142	-1%
Mainland China	**2,153**	2,259	-5%	**1,413**	1,478	-4%
Hong Kong	**1,965**	1,947	1%	**1,688**	1,664	1%
Property Sales	**2,523**	2,404	5%	**1,642**	1,389	18%
Total	**6,641**	6,610	–	**4,743**	4,531	5%

DIVIDEND

The Board of Directors has declared an interim dividend of HK19 cents per share for 2017 (2016: HK19 cents) to be paid by cash on September 28, 2017, to shareholders whose names appeared on the register of members on September 14, 2017.

PROPERTY LEASING

For the six months ended June 30, 2017, total revenue of property leasing decreased 2% to HK$4,118 million largely because of renovation programs at Grand Gateway 66 in Shanghai and Causeway Bay and The Peak Galleria in Hong Kong. The consolidated results were also adversely affected by the 5% RMB depreciation. Income of the Hong Kong leasing portfolio was up 1%. Revenue of the mainland portfolio decreased 5%, but was stable in RMB terms. Total operating profit decreased 1% to HK$3,101 million. Overall rental margin was 75%.

Mainland China

Revenue of our entire mainland China portfolio was stable at RMB1,903 million. Operating profit increased 1% to RMB1,249 million. The resulting average rental margin increased one point to 66%.

Consumption of luxury goods in Mainland cities where we have operations was subdued except at our Shanghai Plaza 66 mall. During the first half of 2017, the renovation of the Shanghai Plaza 66 mall was almost completed and the mall recorded strong growth in both rental income and retail sales. On the other hand, major asset enhancement programs at the Shanghai Grand Gateway 66 mall commenced in early 2017; they had caused temporary income interruption, as expected.

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

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

Name and City of the Property	Revenue (RMB Million) 2017	2016	Change	Occupancy Rate at June 30, 2017 Mall	Office
Shanghai Plaza 66	**710**	654	9%	89%	86%
Shanghai Grand Gateway 66	**631**	670	-6%	81%	88%
Shenyang Palace 66	**77**	70	10%	88%	N/A
Shenyang Forum 66	**105**	119	-12%	77%	69%
Jinan Parc 66	**133**	135	-1%	92%	N/A
Wuxi Center 66	**105**	119	-12%	84%	77%
Tianjin Riverside 66	**90**	96	-6%	87%	N/A
Dalian Olympia 66 *	**52**	36	44%	64%	N/A
Total	**1,903**	1,899	–		
Total in HK$ Million equivalent	***2,153***	*2,259*	*-5%*		

* Grand opening on September 9, 2016.

- *Shopping Malls*

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

Benefitting from the re-opening of the renovated basement and higher sales rents, revenue of the Shanghai Plaza 66 mall increased 23%. The brand new basement, which had been closed for renovation since March 2016, was re-opened in phases from January 2017. It introduced more than 30 tenants to enrich the offerings of the mall. For the first half of 2017, retail sales at the Plaza 66 mall increased 29% compared to the same period last year.

The major upgrading program of the Shanghai Grand Gateway 66 mall will be carried out in phases, spread over 30 months to mid-2019. The work will include a new main entrance for the shopping mall, a new subway link to Metro Line 9, and a major layout re-configuration at Level 1 and the basement of the mall, etc. 19% of the leasable area has been closed for the enhancement and renovation program. As a result, occupancy of the mall dropped 15 points to 81%. Rental income retreated 7%, but was up 9% when excluding the affected areas. Due to renovation, retail sales at the Grand Gateway 66 mall decreased 5%. Some of the affected areas will be re-opened in phases from 2018 to minimize the adverse impact on income and profit. This carefully planned asset enhancement program will strengthen the mall's long-term competitiveness and profitability.

The performance of our six malls outside of Shanghai was mixed. Overall revenue decreased by 3%. Some malls had to make downward adjustments in rents to optimize tenant mix and occupancy in a challenging market environment. Rental income of Shenyang Palace 66 increased 10%, despite occupancy rate was down one point to 88% by the end of June 2017. Revenue of Jinan Parc 66 decreased by 1%, while occupancy increased eight points to 92%. Revenue of the Tianjin Riverside 66 mall decreased 6%, but occupancy improved five points to 87%. Retails sales at Palace 66, Parc 66 and Riverside 66 increased by 12%, 8% and 14%, respectively.

The Shenyang Forum 66 mall was undergoing a tenant optimization exercise to replace non-performing tenants. Its revenue fell 28% with occupancy rate decreased seven points to 77% by the end of June 2017. The performance of this mall is expected to improve gradually with the introduction of new tenants to the mall and increasing occupancy of its office tower. The upper 19 floors of the office tower are being converted into a five-star Conrad hotel that is expected to open in 2019. It will enrich the composition of this mixed-use development. Despite a lower occupancy, retail sales at the mall increased by 2% because of a better tenant mix.

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

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

- *Offices*

Offices in Shanghai Plaza 66 and Grand Gateway 66 recorded a 6% rental drop collectively due to transitional voids associated with major tenant relocation within the buildings and phased re-letting of units previously occupied by large space users.

The major upgrade work for Office Tower One at Plaza 66 was completed in 2016, a similar program for Office Tower Two also commenced in the fourth quarter of 2016. The whole upgrade program will be completed in phases by 2018. The renovation of the office tower at Shanghai Grand Gateway 66 has also commenced as part of the asset enhancement programs. The enhancement work will have minimal adverse impact on the revenue of Plaza 66 and Grand Gateway 66.

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

Overall, revenue of the office portfolio in mainland China decreased 5% to RMB496 million.

- *Residential and Serviced Apartments*

Revenue of residential and serviced apartments at Grand Gateway 66 in Shanghai increased 2%, although the occupancy rate was adversely affected by the renovation work at the mall. Overall occupancy decreased five points to 89% by the end of June 2017.

Hong Kong

Total revenue and operating profit of our Hong Kong leasing properties both advanced 1% to HK$1,965 million and HK$1,688 million, respectively. Overall rental margin was up one point to 86%.

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

	Revenue (HK$ Million)			Occupancy Rate at June 30, 2017
	2017	2016	Change	
Commercial	**1,130**	1,143	-1%	94%
Office and Industrial/Offices	**689**	663	4%	94%
Residential & Serviced Apartments	**146**	141	4%	74%
Total	**1,965**	1,947	1%	

- *Commercial*

Revenue of the Hong Kong commercial portfolio retreated 1% to HK$1,130 million, but was up 2% when excluding areas closed for upgrading in Causeway Bay and The Peak Galleria. Overall occupancy was 94% at the end of June 2017.

Rental revenue of the Causeway Bay portfolio was affected by renovation work and decreased 4%. A sizeable area at 9 Kingston Street, representing 23% of our Causeway Bay portfolio retail space, has been closed for renovation since January 2017. The brand new 9 Kingston Street, with enhanced ambience and more offerings, will be re-opened in the second half of 2017. When excluding the affected areas, rental income of the Causeway Bay retail space was up 2%. Retail sales of our tenants in Causeway Bay recorded an 8% growth on a like-for-like basis driven by enhanced tenant mix and offerings after renovation of Fashion Walk and Hang Lung Centre.

Benefitting from positive rental reversions and tenants upgrade, Kornhill Plaza in Hong Kong East collected 4% more in rents. Grand Kornhill Cinema added new excitement to this mall with the launch of Hong Kong's first MX4D technology-enabled movie offerings in April 2017. The re-opening of the refurbished AEON STYLE in July 2016 and the addition of better quality food and beverage tenants further enriched the overall offerings of Kornhill Plaza. The mall was fully leased by the end of June 2017.

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

Revenue of Amoy Plaza in Kowloon East increased 4%. A major tenant mix reshuffle was undertaken in 2016 to uplift its position as an attractive one-stop shopping, dining, entertainment and lifestyle hub. More food and beverage tenants and fashion brands have been introduced to enrich the offerings.

The Peak Galleria commenced a major renovation program in March 2017. About 60% of its leasable area has been closed for renovation. The entire asset enhancement program is targeted to complete in phases by 2019. Upon completion, The Peak Galleria, with a new façade and enhanced internal layout reconfigurations, would become an iconic destination on the Peak.

- *Offices*

Driven by positive rental reversions and higher occupancy, revenue of our Hong Kong office portfolio advanced 4% to HK$689 million. By the end of June 2017, overall occupancy rate increased one point to 94%. Our offices in Central and Causeway Bay both posted a 5% rental growth. The Mongkok offices collected 3% more in rents.

- *Residential and Serviced Apartments*

Revenue of residential and serviced apartments advanced 4% to HK$146 million. Occupancy of the Kornhill Apartments in Hong Kong East was higher than the corresponding period of last year.

PROPERTY SALES

For the first six months of 2017, property sales revenue increased 5% to HK$2,523 million, mainly because of higher selling prices. Profit from property sales advanced 18% to HK$1,642 million. The resulting profit margin was 65%. The sold units comprised 197 units of The Long Beach flats (2016: 226 units) and the last unit (duplex) of The HarbourSide (2016: Nil).

As at June 30, 2017, the inventory of properties available for sale included 16 semi-detached houses at 23-39 Blue Pool Road, 39 units of The Long Beach and a small number of car parking spaces. The total book cost of these properties was HK$1,866 million.

PROPERTY REVALUATION

As at June 30, 2017, the investment properties of the Group were revalued by Savills, an independent valuer. The total value of the investment properties was HK$136,853 million by the end of June 2017. The value of the Hong Kong portfolio was HK$62,086 million. The total value of the properties in mainland China was HK$74,767 million.

For the first half of 2017, an overall revaluation gain of HK$870 million was recorded (2016: loss of HK$314 million). The Hong Kong portfolio had a revaluation gain of HK$1,127 million. The mainland China portfolio recorded a revaluation loss of HK$257 million.

PROPERTY DEVELOPMENT AND CAPITAL COMMITMENT

The total value of investment properties under development was HK$18,418 million as at June 30, 2017. They represented mainland China projects in Kunming, Wuhan and the remaining phases of the developments in Shenyang and Wuxi. The portfolio consists of shopping malls, office towers, hotel and serviced apartments.

The construction work for Kunming Spring City 66 is progressing well. The entire complex is expected for completion in phases from the end of 2018. Total gross floor area of the entire mixed-use development is 434,000 square meters, comprising a world-class shopping center, a Grade A office tower, serviced apartments and car parking spaces. Leasing activities for the mall have commenced.

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

The conversion of the upper 19 floors of the 67-story Grade A office tower at Shenyang Forum 66 into a five-star Conrad hotel is making good progress. It is expected to open in 2019. The hotel will have 315 exquisitely appointed guest rooms and suites.

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

In May 2017, the Group took possession of the piece of land for Wuxi phase 2 development. This plot of land with 16,700 square meters is planned for serviced apartments.

These projects represented the majority of the Group’s capital commitments at the reporting date, amounting to HK$36 billion. They will be completed in phases over a number of years and the Group has ample financial resources to meet those commitments.

LIQUIDITY AND FINANCIAL RESOURCES

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

- *Liquidity Management*

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

As at June 30, 2017, the Group had total cash and bank balances of HK$22,693 million (December 31, 2016: HK$24,524 million). All deposits are placed with banks with strong credit ratings and counterparty risk is monitored on a regular basis.

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

	At June 30, 2017		At December 31, 2016	
	HK$ Million	*% of Total*	HK$ Million	*% of Total*
Denominated in:				
HKD	**14,031**	*61.9%*	2,950	*12.1%*
RMB	**8,651**	*38.1%*	21,563	*87.9%*
USD	**11**	–	11	–
Total cash and bank balances	**22,693**	*100%*	24,524	*100%*

As at June 30, 2017, the available amount of undrawn committed banking facilities amounted to HK$14,339 million. The undrawn balance of the USD3 billion MTN Program was equivalent to HK$10,623 million.

- *Debt Management*

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

As at June 30, 2017, total borrowings of the Group were HK$27,247 million. The lower debt balance compared to December 31, 2016 was mainly resulted from prepayments of some bank borrowings. The following table shows the mix of floating rate bank borrowings and fixed rate bonds:

	At June 30, 2017		At December 31, 2016	
	HK$ Million	*% of Total*	HK$ Million	*% of Total*
Floating rate HKD bank loans	**3,742**	*13.7%*	8,145	*26.2%*
Floating rate RMB bank loans	**10,816**	*39.7%*	10,345	*33.2%*
Fixed rate bonds	**12,689**	*46.6%*	12,629	*40.6%*
Denominated in USD	***7,806***	*28.7%*	*7,756*	*24.9%*
Denominated in HKD	***4,883***	*17.9%*	*4,873*	*15.7%*
Total borrowings	**27,247**	*100%*	31,119	*100%*

At the reporting date, the average tenor of the entire loan portfolio was 3.4 years (December 31, 2016: 3.7 years). The maturity profile was well staggered, with over 74% of loans repayable after 2 years.

	At June 30, 2017		At December 31, 2016	
	HK$ Million	*% of Total*	HK$ Million	*% of Total*
Repayable:				
Within 1 year	**2,153**	*7.9%*	568	*1.8%*
After 1 but within 2 years	**4,660**	*17.1%*	4,844	*15.6%*
After 2 but within 5 years	**17,063**	*62.6%*	17,154	*55.1%*
Over 5 years	**3,371**	*12.4%*	8,553	*27.5%*
Total borrowings	**27,247**	*100%*	31,119	*100%*

- *Gearing Ratios & Interest Cover*

As at June 30, 2017, the Group had a net debt balance of HK$4,554 million (December 31, 2016: HK$6,595 million). The net debt to equity ratio was 3.2% (December 31, 2016: 4.8%) while the debt to equity ratio was 19.1% (December 31, 2016: 22.5%).

For the six months ended June 30, 2017, the amount of total gross interest expense was HK$694 million (2016: HK$715 million). The decrease in gross interest expense was mainly due to lower average bank borrowings balance in Hong Kong as a result of loan prepayments. However, the amount of finance costs charged to the statement of profit or loss for the first half of 2017 increased by HK$83 million to HK$670 million year-on-year because of a smaller amount of interest capitalization.

For the six months ended June 30, 2017, interest income was HK$321 million (2016: HK$479 million). The decrease in interest income was mainly due to a lower average balance of RMB deposits which had higher yields.

With lower interest income and a higher amount of finance costs, the amount of net interest expense, i.e. the excess of finance costs over interest income, for the first half of 2017 increased by HK$241 million to HK$349 million over a year ago.

As part of the foreign exchange risk management strategy to match our funding policy, more RMB debts which have higher interest rates than HKD loans were used to finance development projects in mainland China. Consequently, the average effective cost of borrowings for the first half of 2017 was 4.9% (2016: 3.9%).

Interest cover, a key indicator for debt servicing capability, for the first six months of 2017 was 12 times (2016: 18 times).

- *Foreign Exchange Management*

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

(a) RMB Exposure

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

At June 30, 2017, net assets on the Mainland amounted to RMB64 billion. The re-translation of these net assets denominated in RMB into HKD using the exchange rate as at the reporting date resulted in a re-translation gain of HK$2,230 million, as the RMB appreciated by about 3% against the HKD compared to December 31, 2016. By the same token, the RMB4,002 million deposits held in Hong Kong had to be re-translated into HKD as well, and they accounted for HK$228 million of the re-translation gain for the first six months of 2017. The total re-translation gain of HK$2,458 million for the first half of 2017 (2016: total re-translation loss of HK$1,774 million) was recognized in other comprehensive income/exchange reserve.

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

(b) USD Exposure

The USD foreign exchange exposure of the Group is related to the two USD500 million fixed rate bonds issued, equivalent to HK$7,806 million at the reporting date. The related currency exchange risk was covered back-to-back by two USD/HKD cross currency swap contracts. The swap contracts were entered into in order to effectively fix the exchange rate between USD and HKD for future interest payments and principal repayments.

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

- *Charge of Assets*

Assets of the Group were not charged to any third parties as at June 30, 2017.

- *Contingent Liabilities*

The Group did not have any material contingent liabilities as at June 30, 2017.

OUTLOOK

The Group has been optimizing the tenant mix by introducing more quality food and beverage tenants and new trades, in response to changing consumer trends. More efforts on targeted and sales driven programs including special events and digital communications have been designed and implemented to drive both retail sales and footfall in our malls.

Facility management and service delivery enhancements across the portfolio will continue to enrich the shopping experience. The Group will continue to invest in and expand the Customer Relationship Management (CRM) programs, including the introduction of a high-end Very Important Customer (VIC) lounge at the Shanghai Plaza 66 mall in the third quarter of 2017. In Hong Kong, 9 Kingston Street in Causeway Bay is currently under renovation and is expected to be launched in the second half of 2017.

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

CORPORATE GOVERNANCE

We are committed to maintaining the highest standards of corporate governance. During the six months ended June 30, 2017, we adopted corporate governance principles that emphasize a qualified Board of Directors (the "Board"), sound internal controls and effective risk management to enhance transparency and accountability towards our stakeholders. The general framework of our corporate governance practices is set out in our corporate governance report in the 2016 annual report, which is available on our website under Financial Report of Financial Information of the Investor Relations section.

The Board

The Board currently consists of 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[1] to ensure a balance of power and authority. The Board continues to review its practices from time to time, constantly seeking to improve the Group's corporate governance procedures in accordance with international best practices. An updated list of Board members identifying their roles and functions and whether they are Independent Non-Executive Directors is maintained on our website and the website of Hong Kong Exchanges and Clearing Limited ("HKEx"). The biographical details of Board members are also maintained on our website under Board of Directors of Corporate Governance of the Investor Relations section.

Nomination and Remuneration Committee

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

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

Audit Committee

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

This interim financial report is unaudited but has been reviewed by KPMG, our auditor, in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants. KPMG's Review Report to the Board of the Company is set out on pages 39 and 40 of this interim report.

Compliance with Corporate Governance Code

During the six months ended June 30, 2017, we complied with the code provisions set out in the Corporate Governance Code as stated in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

We have adopted a code of conduct with regard to securities transactions by Directors (the "Code of Conduct") on terms that are no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the "Model Code"). The Company has made specific enquiries with all Directors and confirmed that they have complied with the required standard set out in the Model Code and the Code of Conduct regarding Directors' securities transactions throughout the six months ended June 30, 2017.

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

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

		The Company (Long Position)		*Hang Lung Properties Limited (Long Position)*		
Name of Directors	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	27,490,000
Philip N.L. Chen	Personal	–	–	–	–	21,500,000
Gerald L. Chan	–	–	–	–	–	–
Simon S.O. Ip	–	–	–	–	–	–
L.C. Tsui	–	–	–	–	–	–
Martin C.K. Liao	–	–	–	–	–	–
P.W. Liu	Personal & Family	–	–	100,000	–	–
George K.K. Chang	–	–	–	–	–	–
Roy Y.C. Chen	–	–	–	–	–	–
H.C. Ho	Personal	–	–	–	–	10,450,000
Adriel W. Chan	Personal & Other *(Note 1)*	498,428,580	36.61	2,507,987,340	55.76	350,000

Notes

1. Other interests included 498,428,580 shares of the Company and 2,507,987,340 shares of Hang Lung Properties Limited ("HLPL") 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, 2017	Exercised during the Period	As at Jun 30, 2017	Exercise Price per Share (HK$)	Vested Dates (mm/dd/yyyy)	Expiry Date (mm/dd/yyyy)
08/21/2007	Ronnie C. Chan	3,640,000	–	3,640,000	$25.00	08/21/2008: 10% 08/21/2009: 20% 08/21/2010: 30% 08/21/2011: 40%	08/20/2017
08/21/2007	Ronnie C. Chan	5,600,000	–	5,600,000	$25.00	08/21/2009: 10% 08/21/2010: 20% 08/21/2011: 30% 08/21/2012: 40%	08/20/2017
09/01/2008	H.C. Ho	300,000	–	300,000	$24.20	09/01/2010: 10% 09/01/2011: 20% 09/01/2012: 30% 09/01/2013: 40%	08/31/2018
12/31/2008	H.C. Ho	300,000	–	300,000	$17.36	12/31/2010: 10% 12/31/2011: 20% 12/31/2012: 30% 12/31/2013: 40%	12/30/2018
02/08/2010	Ronnie C. Chan	6,500,000	–	6,500,000	$26.46	02/08/2012: 10% 02/08/2013: 20% 02/08/2014: 30% 02/08/2015: 40%	02/07/2020
07/29/2010	Philip N.L. Chen	10,000,000	–	10,000,000	$33.05	07/29/2012: 10% 07/29/2013: 20% 07/29/2014: 30% 07/29/2015: 40%	07/28/2020

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

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

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

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

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

Save as disclosed above, none of the Directors had, as at June 30, 2017, any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations.

Other than as stated above, at no time during the six months ended June 30, 2017 was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

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

As at June 30, 2017, details of substantial shareholders' and other persons' (who are required to disclose their interests pursuant to Part XV of the SFO) interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO are as follows:

Name	*Note*	Number of Shares or Underlying Shares Held *(Long Position)*	% of Number of Issued Shares *(Long Position)*
Chan Tan Ching Fen	*1*	498,428,580	36.61
Cole Enterprises Holdings (PTC) Limited	*1*	498,428,580	36.61
Merssion Limited	*1*	498,428,580	36.61
Adriel W. Chan	*1*	498,428,580	36.61
Kingswick Investment Limited	*2*	97,965,000	7.19
Aberdeen Asset Management Plc and its associates	*3*	231,259,867	16.98
Dodge & Cox	*3*	135,909,600	10.03

Notes

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

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

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

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

CHANGES IN INFORMATION OF DIRECTORS PURSUANT TO LISTING RULES

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

Mr. Ronnie C. Chan
— elected a fellow of the American Academy of Arts and Sciences.

Mr. Simon S.O. Ip
— awarded the Gold Bauhinia Star.

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

EMPLOYEES

As at June 30, 2017, the number of employees was 4,584 (comprising 1,215 Hong Kong employees and 3,369 mainland China employees). The total employee costs for the six months ended June 30, 2017 amounted to HK$719 million. We provide competitive remuneration packages for all employees including discretionary bonuses payable based on individual performance. We regularly review the remuneration packages to ensure that they comply with relevant regulatory requirements and market conditions. The Group has share option schemes for the executives and provides professional and high-quality training for all employees.

KPMG

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

(Incorporated in Hong Kong with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 41 to 64 which comprises the consolidated statement of financial position of Hang Lung Group Limited ("the Company") as of June 30, 2017 and the related consolidated income statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

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

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at June 30, 2017 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

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

July 27, 2017

Consolidated Statement of Profit or Loss

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

	Note	2017 HK$ Million	2016 HK$ Million	*For information purpose only* 2017 RMB Million	2016 RMB Million
Revenue	3(a)	**6,641**	6,610	**5,868**	5,563
Direct costs and operating expenses		**(1,898)**	(2,079)	**(1,677)**	(1,749)
Gross profit		**4,743**	4,531	**4,191**	3,814
Other net income	4	**70**	159	**62**	135
Administrative expenses		**(326)**	(346)	**(288)**	(291)
Operating profit before changes in fair value of investment properties		**4,487**	4,344	**3,965**	3,658
Net increase/(decrease) in fair value of investment properties		**870**	(314)	**760**	(266)
Operating profit after changes in fair value of investment properties		**5,357**	4,030	**4,725**	3,392
Interest income		**321**	479	**284**	403
Finance costs		**(670)**	(587)	**(592)**	(494)
Net interest expense	5	**(349)**	(108)	**(308)**	(91)
Share of profits of joint ventures		**77**	107	**68**	90
Profit before taxation	3(a) & 6	**5,085**	4,029	**4,485**	3,391
Taxation	7(a)	**(783)**	(708)	**(693)**	(595)
Profit for the period		**4,302**	3,321	**3,792**	2,796
Attributable to:					
Shareholders		**2,396**	1,790	**2,111**	1,507
Non-controlling interests		**1,906**	1,531	**1,681**	1,289
		4,302	3,321	**3,792**	2,796
Earnings per share	9(a)				
Basic		**HK$1.76**	HK$1.32	**RMB1.56**	RMB1.11
Diluted		**HK$1.76**	HK$1.32	**RMB1.56**	RMB1.11

The accompanying notes form part of the interim financial report.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

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

	Note	2017 HK$ Million	2016 HK$ Million	*For information purpose only* 2017 RMB Million	2016 RMB Million
Profit for the period		**4,302**	3,321	**3,792**	2,796
Other comprehensive income	7(b)				
Items that are or may be reclassified subsequently to profit or loss:					
Exchange difference arising from translation of foreign subsidiaries/ to presentation currency		**2,458**	(1,774)	**(1,666)**	469
Movement in hedging reserve:					
Effective portion of changes in fair value		**(194)**	–	**(169)**	–
Net amount transferred to profit or loss		**(44)**	–	**(38)**	–
Item that will not be reclassified to profit or loss:					
Net change in fair value of equity investments		**2**	–	**2**	–
		2,222	(1,774)	**(1,871)**	469
Total comprehensive income for the period		**6,524**	1,547	**1,921**	3,265
Total comprehensive income attributable to:					
Shareholders		**3,585**	847	**1,058**	1,776
Non-controlling interests		**2,939**	700	**863**	1,489
		6,524	1,547	**1,921**	3,265

The accompanying notes form part of the interim financial report.

Consolidated Statement of Financial Position

At June 30, 2017

	Note	(Unaudited) June 30, 2017 HK$ Million	(Audited) December 31, 2016 HK$ Million	*For information purpose only* June 30, 2017 RMB Million	December 31, 2016 RMB Million
Non-current assets					
Property, plant and equipment					
Investment properties	10	**136,853**	133,005	**118,915**	119,212
Investment properties under development	10	**18,418**	16,160	**15,985**	14,455
Other property, plant and equipment		**1,484**	1,446	**1,288**	1,294
		156,755	150,611	**136,188**	134,961
Interest in joint ventures		**3,529**	3,539	**3,071**	3,180
Other assets		**1,446**	1,341	**1,258**	1,205
Deferred tax assets		**2**	22	**2**	20
		161,732	155,513	**140,519**	139,366
Current assets					
Cash and deposits with banks	11	**22,693**	24,524	**19,736**	22,010
Trade and other receivables	12	**1,530**	3,958	**1,329**	3,552
Properties for sale		**1,866**	2,374	**1,624**	2,133
		26,089	30,856	**22,689**	27,695
Current liabilities					
Bank loans and other borrowings	13	**2,152**	568	**1,869**	508
Trade and other payables	14	**7,090**	6,761	**6,159**	6,058
Taxation payable		**1,182**	982	**1,028**	881
		10,424	8,311	**9,056**	7,447
Net current assets		**15,665**	22,545	**13,633**	20,248
Total assets less current liabilities		**177,397**	178,058	**154,152**	159,614

	Note	(Unaudited) June 30, 2017 HK$ Million	(Audited) December 31, 2016 HK$ Million	*For information purpose only* June 30, 2017 RMB Million	*For information purpose only* December 31, 2016 RMB Million
Non-current liabilities					
Bank loans and other borrowings	13	**25,095**	30,551	**21,815**	27,416
Deferred tax liabilities		**9,683**	9,494	**8,405**	8,494
		34,778	40,045	**30,220**	35,910
NET ASSETS		**142,619**	138,013	**123,932**	123,704
Capital and reserves					
Share capital	15	**4,065**	4,065	**3,164**	3,164
Reserves		**74,432**	71,593	**65,051**	64,651
Shareholders' equity		**78,497**	75,658	**68,215**	67,815
Non-controlling interests		**64,122**	62,355	**55,717**	55,889
TOTAL EQUITY		**142,619**	138,013	**123,932**	123,704

The accompanying notes form part of the interim financial report.

Consolidated Statement of Changes in Equity

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

	Shareholders' equity					
	Share capital HK$ Million (Note 15)	Other reserves HK$ Million (Note 17)	Retained profits HK$ Million (Note 17)	Total HK$ Million	Non-controlling interests HK$ Million	Total equity HK$ Million
At December 31, 2016, as previously reported	4,065	1,935	69,658	75,658	62,355	138,013
Impact of adopting HKFRS 9 at January 1, 2017 (see Note 2)	–	67	–	67	38	105
At January 1, 2017, restated	4,065	2,002	69,658	75,725	62,393	138,118
Profit for the period	–	–	2,396	2,396	1,906	4,302
Exchange difference arising from translation of foreign subsidiaries	–	1,319	–	1,319	1,139	2,458
Cash flow hedges: net movement in hedging reserve	–	(131)	–	(131)	(107)	(238)
Net change in fair value of equity investments	–	1	–	1	1	2
Total comprehensive income for the period	–	1,189	2,396	3,585	2,939	6,524
Final dividend in respect of previous financial year	–	–	(831)	(831)	–	(831)
Employee share-based payments	–	10	8	18	15	33
Dividends paid to non-controlling interests	–	–	–	–	(1,225)	(1,225)
At June 30, 2017	4,065	3,201	71,231	78,497	64,122	142,619
At January 1, 2016	3,893	4,565	67,012	75,470	64,832	140,302
Profit for the period	–	–	1,790	1,790	1,531	3,321
Exchange difference arising from translation of foreign subsidiaries	–	(943)	–	(943)	(831)	(1,774)
Total comprehensive income for the period	–	(943)	1,790	847	700	1,547
Final dividend in respect of previous financial year	–	–	(827)	(827)	–	(827)
Issue of shares	96	(19)	–	77	–	77
Employee share-based payments	–	24	9	33	18	51
Change in non-controlling interests arising from increase of the Group's shareholding in a subsidiary	–	500	–	500	(993)	(493)
Dividends paid to non-controlling interests	–	–	–	–	(1,262)	(1,262)
At June 30, 2016	3,989	4,127	67,984	76,100	63,295	139,395

The accompanying notes form part of the interim financial report.

For information purpose only

	Shareholders' equity					
	Share capital RMB Million	Other reserves RMB Million	Retained profits RMB Million	Total RMB Million	Non–controlling interests RMB Million	Total equity RMB Million
At December 31, 2016, as previously reported	3,164	6,802	57,849	67,815	55,889	123,704
Impact of adopting HKFRS9 at January 1, 2017 (see Note 2)	–	60	–	60	34	94
At January 1, 2017, restated	3,164	6,862	57,849	67,875	55,923	123,798
Profit for the period	–	–	2,111	2,111	1,681	3,792
Exchange difference arising from translation to presentation currency	–	(940)	–	(940)	(726)	(1,666)
Cash flow hedges: net movement in hedging reserve	–	(114)	–	(114)	(93)	(207)
Net change in fair value of equity investments	–	1	–	1	1	2
Total comprehensive income for the period	–	(1,053)	2,111	1,058	863	1,921
Final dividend in respect of previous financial year	–	–	(734)	(734)	–	(734)
Employee share-based payments	–	9	7	16	13	29
Dividends paid to non-controlling interests	–	–	–	–	(1,082)	(1,082)
At June 30, 2017	3,164	5,818	59,233	68,215	55,717	123,932
At January 1, 2016	3,015	4,987	55,557	63,559	54,585	118,144
Profit for the period	–	–	1,507	1,507	1,289	2,796
Exchange difference arising from translation to presentation currency	–	269	–	269	200	469
Total comprehensive income for the period	–	269	1,507	1,776	1,489	3,265
Final dividend in respect of previous financial year	–	–	(697)	(697)	–	(697)
Issue of shares	81	(16)	–	65	–	65
Employee share-based payments	–	20	8	28	16	44
Change in non-controlling interests arising from increase of the Group's shareholding in a subsidiary	–	423	–	423	(841)	(418)
Dividends paid to non-controlling interests	–	–	–	–	(1,064)	(1,064)
At June 30, 2016	3,096	5,683	56,375	65,154	54,185	119,339

Condensed Consolidated Cash Flow Statement

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

	2017 HK$ Million	2016 HK$ Million	*For information purpose only* 2017 RMB Million	2016 RMB Million
Operating activities				
Cash generated from operations	**7,201**	3,678	**6,351**	3,102
Income tax paid	**(648)**	(592)	**(577)**	(497)
Net cash generated from operating activities	**6,553**	3,086	**5,774**	2,605
Investing activities				
Payment for property, plant and equipment	**(2,177)**	(1,358)	**(1,924)**	(1,136)
(Increase)/Decrease in bank deposits with maturity greater than three months	**(6,602)**	3,698	**(5,826)**	3,121
Other cash flows arising from investing activities	**427**	582	**378**	484
Net cash (used in)/generated from investing activities	**(8,352)**	2,922	**(7,372)**	2,469
Financing activities				
Proceeds from new bank loans and other borrowings	**359**	4,691	**317**	3,956
Repayment of bank loans	**(4,678)**	(5,844)	**(4,128)**	(4,928)
Interest and other borrowing costs paid	**(654)**	(749)	**(577)**	(632)
Dividend paid	**(831)**	(827)	**(734)**	(697)
Dividends paid to non-controlling interests	**(1,225)**	(1,262)	**(1,082)**	(1,064)
Other cash flows used in financing activities	**–**	(416)	**–**	(352)
Net cash used in financing activities	**(7,029)**	(4,407)	**(6,204)**	(3,717)
(Decrease)/Increase in cash and cash equivalents	**(8,828)**	1,601	**(7,802)**	1,357
Effect of foreign exchange rate changes	**356**	(387)	**(227)**	28
Cash and cash equivalents at January 1	**23,578**	27,019	**21,164**	22,816
Cash and cash equivalents at June 30	**15,106**	28,233	**13,135**	24,201
Analysis of the balance of cash and cash equivalents:				
Cash and deposits with banks	**22,693**	29,006	**19,736**	24,862
Less: Bank deposits with maturity greater than three months	**(7,587)**	(773)	**(6,601)**	(661)
Cash and cash equivalents	**15,106**	28,233	**13,135**	24,201

The accompanying notes form part of the interim financial report.

Notes to the Consolidated Financial Statements

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 39 to 40.

The HKICPA has issued certain amendments to Hong Kong Financial Reporting Standards (HKFRSs) that are first effective for the current accounting period of the Company and its subsidiaries (collectively the "Group"). The adoption of these amendments to HKFRSs does not have significant impact on the Group's interim financial report.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the changes in accounting policies that are described in note 2.

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

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

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

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

2. CHANGES IN ACCOUNTING POLICIES

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

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

Classification of financial assets and financial liabilities

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

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

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

Impairment of financial assets

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

2. CHANGES IN ACCOUNTING POLICIES (continued)

Transition

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

Impact of initial application

Certain of the Group's equity investments of HK$130,720 which were previously classified as available-for-sale investments (not held for trading) and measured at cost less impairment under HKAS 39 have been designated as at FVTOCI. The estimated fair value of these equity investments was HK$105 million as at January 1, 2017. Consequently, the opening balances of the Group's other reserves and non-controlling interests as at January 1, 2017 were impacted.

Hedge accounting

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

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

3. REVENUE AND SEGMENT INFORMATION

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

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

Management evaluates performance primarily based on profit before taxation.

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

3. REVENUE AND SEGMENT INFORMATION (continued)

(a) Revenue and results by segments

	Revenue		Profit before taxation	
	2017 HK$ Million	2016 HK$ Million	**2017 HK$ Million**	2016 HK$ Million
Segment				
Property leasing				
— Mainland China	**2,153**	2,259	**1,413**	1,478
— Hong Kong	**1,965**	1,947	**1,688**	1,664
	4,118	4,206	**3,101**	3,142
Property sales				
— Hong Kong	**2,523**	2,404	**1,642**	1,389
Segment total	**6,641**	6,610	**4,743**	4,531
Other net income			**70**	159
Administrative expenses			**(326)**	(346)
Operating profit before changes in fair value of investment properties			**4,487**	4,344
Net increase/(decrease) in fair value of investment properties			**870**	(314)
— Property leasing in Hong Kong			**1,127**	97
— Property leasing in mainland China			**(257)**	(411)
Net interest expense			**(349)**	(108)
— Interest income			**321**	479
— Finance costs			**(670)**	(587)
Share of profits of joint ventures			**77**	107
Profit before taxation			**5,085**	4,029

3. REVENUE AND SEGMENT INFORMATION (continued)

(b) Total assets by segments

	Total assets	
	June 30, 2017 HK$ Million	December 31, 2016 HK$ Million
Segment		
Property leasing		
— Mainland China	**94,262**	89,851
— Hong Kong	**62,612**	60,999
	156,874	150,850
Property sales		
— Hong Kong	**2,100**	4,971
Segment total	**158,974**	155,821
Other property, plant and equipment	**1,177**	1,122
Interest in joint ventures	**3,529**	3,539
Other assets	**1,446**	1,341
Deferred tax assets	**2**	22
Cash and deposits with banks	**22,693**	24,524
Total assets	**187,821**	186,369

4. OTHER NET INCOME

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

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

5. NET INTEREST EXPENSE

	2017 HK$ Million	2016 HK$ Million
Interest income on bank deposits	321	479
Interest expense on bank loans and other borrowings	607	670
Other borrowing costs	87	45
Total borrowing costs	694	715
Less: Borrowing costs capitalized	(24)	(128)
Finance costs	670	587
Net interest expense	(349)	(108)

6. PROFIT BEFORE TAXATION

	2017 HK$ Million	2016 HK$ Million
Profit before taxation is arrived at after charging:		
Cost of properties sold	707	820
Staff costs, including employee share-based payments of HK$33 million (2016: HK$51 million)	719	699
Depreciation	26	29

7. TAXATION

(a) Provision for Hong Kong Profits Tax is calculated at 16.5% (2016: 16.5%) of the estimated assessable profits for the period. Mainland China Income Tax represents mainland China Corporate Income Tax calculated at 25% (2016: 25%) and mainland China withholding income tax at the applicable rates. A withholding tax of 5% is levied on the Hong Kong companies in respect of dividend distributions arising from profits of foreign investment enterprises in mainland China earned after January 1, 2008.

	2017 HK$ Million	2016 HK$ Million
Current tax		
Hong Kong Profits Tax	**475**	418
Mainland China Income Tax	**371**	343
	846	761
Deferred tax		
Changes in fair value of investment properties	**(64)**	(104)
Other origination and reversal of temporary differences	**1**	51
	(63)	(53)
Total income tax expense	**783**	708

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

8. DIVIDENDS

(a) Interim dividend

	2017 HK$ Million	2016 HK$ Million
Proposed after the end of the reporting period: HK19 cents (2016: HK19 cents) per share	**258**	258

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

(b) Final dividend approved and paid during the period

	2017 HK$ Million	2016 HK$ Million
2016 Final dividend of HK61 cents (2015: HK61 cents) per share	**831**	827

9. EARNINGS PER SHARE

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

	2017 HK$ Million	2016 HK$ Million
Earnings used in calculating basic and diluted earnings per share (net profit attributable to shareholders)	**2,396**	1,790

	Number of shares	
	2017 **Million**	2016 Million
Weighted average number of shares used in calculating basic and diluted earnings per share (Note)	**1,362**	1,356

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

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

	2017 HK$ Million	2016 HK$ Million
Net profit attributable to shareholders	**2,396**	1,790
Effect of changes in fair value of investment properties	**(870)**	314
Effect of corresponding deferred tax	**(64)**	(104)
Effect of changes in fair value of investment properties of joint ventures	**(11)**	(34)
	(945)	176
Non-controlling interests	**360**	(102)
	(585)	74
Underlying net profit attributable to shareholders	**1,811**	1,864

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

	2017	2016
Basic	**HK$1.33**	HK$1.37
Diluted	**HK$1.33**	HK$1.37

10. INVESTMENT PROPERTIES AND INVESTMENT PROPERTIES UNDER DEVELOPMENT

(a) Additions

During the period, additions to investment properties and investment properties under development amounted to HK$2,520 million (2016: HK$891 million).

(b) Valuation

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

11. CASH AND DEPOSITS WITH BANKS

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

	June 30, 2017 HK$ Million	December 31, 2016 HK$ Million
Hong Kong Dollars equivalent of:		
Hong Kong Dollars	**14,031**	2,950
Renminbi	**8,651**	21,563
United States Dollars	**11**	11
	22,693	24,524

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

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

	June 30, 2017 HK$ Million	December 31, 2016 HK$ Million
Bank loans and other borrowings	**27,247**	31,119
Less: Cash and deposits	**(22,693)**	(24,524)
Net debt	**4,554**	6,595

12. TRADE AND OTHER RECEIVABLES

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

	June 30, 2017 HK$ Million	December 31, 2016 HK$ Million
Not past due or less than 1 month past due (Note)	**250**	2,621
1–3 months past due	**11**	22
More than 3 months past due	**3**	13
	264	2,656

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

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

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

13. BANK LOANS AND OTHER BORROWINGS

At the end of the reporting period, the Group had HK$14,339 million (December 31, 2016: HK$13,052 million) committed undrawn banking facilities.

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

14. TRADE AND OTHER PAYABLES

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

	June 30, 2017 HK$ Million	December 31, 2016 HK$ Million
Due within 3 months	**1,470**	1,690
Due after 3 months	**2,443**	1,855
	3,913	3,545

15. SHARE CAPITAL

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

	June 30, 2017		December 31, 2016	
	Number of shares Million	**Amount of share capital HK$ Million**	Number of shares Million	Amount of share capital HK$ Million
Ordinary shares, issued and fully paid:				
At January 1	**1,362**	**4,065**	1,355	3,893
Shares issued under share option scheme	**–**	**–**	7	172
At June 30/December 31	**1,362**	**4,065**	1,362	4,065

16. SHARE OPTION SCHEMES

Hang Lung Properties Limited

The share option scheme adopted by HLPL, 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 HLPL. 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 HLPL are at nominal consideration and each share option gives the holder the right to subscribe for one share of HLPL.

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

(a) 2002 Share Option Scheme

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

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

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

16. SHARE OPTION SCHEMES (continued)

(b) 2012 Share Option Scheme

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

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

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

17. RESERVES

	Other reserves								
	Exchange reserve HK$ Million	Hedging reserve HK$ Million	Investment revaluation reserve HK$ Million	Employee share-based compensation reserve HK$ Million	General reserve HK$ Million	Other capital reserve HK$ Million	Total HK$ Million	Retained profits HK$ Million	Total reserves HK$ Million
At December 31, 2016, as previously reported	(1,641)	–	–	442	275	2,859	1,935	69,658	71,593
Impact of adopting HKFRS 9 at January 1, 2017 (see Note 2)	–	–	67	–	–	–	67	–	67
At January 1, 2017, restated	(1,641)	–	67	442	275	2,859	2,002	69,658	71,660
Profit for the period	–	–	–	–	–	–	–	2,396	2,396
Exchange difference arising from translation of foreign subsidiaries	1,319	–	–	–	–	–	1,319	–	1,319
Cash flow hedges: net movement in hedging reserve	–	(131)	–	–	–	–	(131)	–	(131)
Net change in fair value of equity investments	–	–	1	–	–	–	1	–	1
Total comprehensive income for the period	1,319	(131)	1	–	–	–	1,189	2,396	3,585
Final dividend in respect of previous financial year	–	–	–	–	–	–	–	(831)	(831)
Employee share-based payments	–	–	–	10	–	–	10	8	18
At June 30, 2017	(322)	(131)	68	452	275	2,859	3,201	71,231	74,432
At January 1, 2016	1,529	–	–	433	275	2,328	4,565	67,012	71,577
Profit for the period	–	–	–	–	–	–	–	1,790	1,790
Exchange difference arising from translation of foreign subsidiaries	(943)	–	–	–	–	–	(943)	–	(943)
Total comprehensive income for the period	(943)	–	–	–	–	–	(943)	1,790	847
Final dividend in respect of previous financial year	–	–	–	–	–	–	–	(827)	(827)
Issue of shares	–	–	–	(19)	–	–	(19)	–	(19)
Employee share-based payments	–	–	–	24	–	–	24	9	33
Change in non-controlling interests arising from increase of the Group's shareholding in a subsidiary	–	–	–	–	–	500	500	–	500
At June 30, 2016	586	–	–	438	275	2,828	4,127	67,984	72,111

18. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

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

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

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

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

(a) Financial assets and liabilities carried at fair value

(i) Derivative financial instruments — cross currency swaps

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

(ii) Investment in equity instruments

The fair value of non-publicly traded equity investments as at June 30, 2017 of HK$107 million in Level 3 is determined by reference to the net asset value of these investments.

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

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

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

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

19. COMMITMENTS

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

	June 30, 2017 HK$ Million	December 31, 2016 HK$ Million
Contracted for	**11,296**	6,349
Authorized but not contracted for	**24,441**	30,781
	35,737	37,130

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

20. REVIEW AND APPROVAL OF INTERIM FINANCIAL REPORT

The interim financial report is unaudited, but has been reviewed by the Audit Committee. It was authorized for issue by the Board of Directors on July 27, 2017.

FINANCIAL TERMS

Finance costs:	Total of interest expense on total borrowings and other borrowing costs, net of amount capitalized
Total borrowings:	Total of bank loans and other borrowings, net of unamortized other borrowing costs
Net debt:	Total borrowings net of cash and deposits with banks
Net profit attributable to shareholders:	Profit for the period (after tax) less amounts attributable to non-controlling interests
Underlying net profit attributable to shareholders:	Net profit attributable to shareholders excluded changes in fair value of investment properties net of related deferred tax and non-controlling interests

FINANCIAL RATIOS

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

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

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

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

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

FINANCIAL CALENDAR

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

SHARE LISTING

As at June 30, 2017, 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: 10HK
CUSIP Number/Ticker Symbol for ADR Code: 41043E102/HNLGY

SHARE INFORMATION

Share price as at June 30, 2017: HK$32.30
Market capitalization as at June 30, 2017: HK$43.98 billion

SHARE REGISTRAR

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