恒基兆業地產有限公司
HENDERSON LAND DEVELOPMENT COMPANY LIMITED
Incorporated in Hong Kong with limited liability
(Stock Code : 12)

2019 INTERIM RESULTS ANNOUNCEMENT

INTERIM RESULTS AND DIVIDEND

The Board of Directors announces that for the six months ended 30 June 2019, the (unaudited) Group's reported profit attributable to equity shareholders amounted to HK$7,515 million, representing a decrease of HK$7,515 million or 50% from the HK$15,030 million for the same period last year. Reported earnings per share were HK$1.55 (2018: HK$3.10 as adjusted for the bonus issue in 2019).

Excluding the fair value change (net of non-controlling interests and tax) of investment properties and investment properties under development, the Group's Underlying Profit attributable to equity shareholders for the period under review was HK$6,702 million, representing a decrease of HK$7,157 million or 52% from the HK$13,859 million for the same period last year. Underlying Earnings Per Share were HK$1.38 (2018: HK$2.86 as adjusted for the bonus issue in 2019).

The decrease in profit in the first half of 2019 was mainly due to the fact that an aggregate underlying profit contribution of about HK$8,389 million was recognized in the same period of last year from the disposal of the equity interests in the entire development project at Kwun Chui Road, Tuen Mun, as well as the office tower at King Wah Road, North Point. As regards the property sales to be accounted for in this financial year, the relevant properties are mostly scheduled for completion and delivery to buyers in the second half of 2019 and the corresponding profit contributions will be reflected in the final results of this financial year.

The Board has resolved to pay an interim dividend of HK$0.5 per share (2018: HK$0.5 per share) to shareholders whose names appear on the Register of Members of the Company on Friday, 6 September 2019 and such interim dividend will not be subject to any withholding tax in Hong Kong.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed on Thursday, 5 September 2019 and Friday, 6 September 2019, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Wednesday, 4 September 2019. The interim dividend will be distributed to shareholders on Monday, 16 September 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group's underlying profit attributable to equity shareholders for the six months ended 30 June 2019 was down by 52% period-on-period to HK$6,702 million. The major profit contributors are as follows:

(1) The attributable share of pre-tax profit contribution from property sales (comprising the attributable share of contributions from subsidiaries, associates and joint ventures) amounted to HK$1,107 million, representing a decrease of 72% period-on-period mainly due to the absence of profit contribution of HK$2,780 million from the disposal of the entire residential development project at Kwun Chui Road, Tuen Mun, as recorded in the same period of last year.

(2) The attributable share of pre-tax net rental income (comprising the attributable share of contributions from subsidiaries, associates and joint ventures) amounted to HK$3,585 million, representing an increase of 1% period-on-period.

(3) The total attributable share of pre-tax underlying profit contribution arising from the disposal of investment properties amounted to of HK$1,366 million, representing a decrease of 78% period-on-period. Included therein was the gain of HK$1,305 million attributable to the Group's underlying profit from the disposal of its 50% equity interest in the company holding the commercial property at 8 Observatory Road, Tsim Sha Tsui, which was less sizeable when compared with the gain of HK$5,609 million from the disposal of equity interest in the office tower at King Wah Road, North Point, as recorded in the same period of last year.

Hong Kong

Property Sale

During the reporting period, the Sino-US trade disputes remained unresolved. In February 2019, the Hong Kong SAR Government proposed to amend the Fugitive Offenders Ordinance and there ensued a series of intensifying public protests from 9 June onwards. A tense social atmosphere over the past two months has added uncertainties to the property market. Against this backdrop, Hong Kong's property market remained resilient during the period, with solid housing demand from local end-users as well as a prevailing low mortgage interest rate.

The Group launched various residential projects in the earlier part of the reporting period, namely "The Vantage" in Hung Hom, "The Addition" in Cheung Sha Wan and "Timber House" in Ho Man Tin, all of which sold well and were not affected by the social unrest. Existing projects such as "Reach Summit – Sereno Verde Phase 5" in Yuen Long, "Eden Manor" adjacent to the Hong Kong Golf Club in Fanling, as well as a number of urban redevelopment boutique residences, "The H Collection", were also released at opportune moments achieving encouraging responses. Together with the disposal of some other commercial properties and car parks, the Group sold HK$7,881 million worth of Hong Kong properties in attributable terms for the six months ended 30 June 2019.

After the end of the reporting period, the Group entered into an agreement in July 2019 to sell its equity interest in the company holding interests in certain land lots in Wo Shang Wai, New Territories, which cover a total site area of about 2,420,000 square feet, for an aggregate consideration of HK$4,705 million (subject to adjustments) to an independent third party. The transaction is scheduled for completion in January 2020 (except where the purchaser can before completion substantiate that the relevant project cannot be developed as provided in the agreement). The purchaser has the right to bring forward the completion date.

Property Development

In March 2019, a joint venture formed by the Group and various developers won the tender for a residential site at New Kowloon Inland Lot No. 6576 in Kai Tak Development Area at a consideration of HK$9,893 million, of which 30% or about 217,000 square feet in gross floor area is attributable to the Group. In May 2019, another joint venture of the Group also won the bid for a harbour-front residential land lot at New Kowloon Inland Lot No. 6552 in Kai Tak Development Area at a consideration of HK$12,590 million, of which 18% or about 115,000 square feet in gross floor area is attributable to the Group.

The Group has made use of diversified channels to replenish its development land bank in Hong Kong. Except for a few projects earmarked for rental purposes, there will be ample supply of saleable areas for the Group's property sales in the coming years as follows:

Below is a summary of properties under development and major completed stock:

			Attributable saleable/gross floor area (million sq. ft.) (Note 1)	Remarks
(A)	**Area available for sale in the second half of 2019:**			
1.	Unsold units from major development projects offered for sale	(Table 1)	0.8	Of which 530 residential units were completed with occupation permits
2.	Projects pending sale in the second half of 2019	(Table 2)	0.2	
		Sub-total:	**1.0**	
(B)	**Projects in Urban Areas:**			
3.	Existing urban redevelopment projects	(Table 3)	1.1	Dates of sales launch are not yet fixed and one of them is pending finalisation of land premium with the Government
4.	Newly-acquired Urban Redevelopment Projects			
	4.1 with ownership fully consolidated	(Table 4)	2.4	Most of them are expected to be available for sale or lease in 2020-2021
	4.2 with 80% or above ownership secured	(Table 4)	1.9	Most of them are expected to be available for sale in 2021-2023
	4.3 with over 20% but less than 80% ownership secured	(Table 5)	0.8	Redevelopments of these projects are subject to acquisition of full ownerships

5.	H Zentre 15 Middle Road Tsim Sha Tsui	0.3	To be held for rental purposes upon completion of development
6.	Murray Road Central	0.5	To be held for rental purposes upon completion of development
7.	Kai Tak Development Area	1.6	Expected to be available for sale in 2020-2022
8.	Castle Peak Road/Un Chau Street project, Sham Shui Po	0.1	Expected to be available for sale in 2021
	Sub-total:	**8.7**	
	Total for the above categories (A) and (B) development projects:	**9.7**	

(C) Major development projects in the New Territories:

– Fanling North	3.5	(Note 2)
– Wo Shang Wai	0.9	(Notes 2 and 3)
– Fanling Sheung Shui Town Lot No. 262 Fanling North	0.6	
– Fanling Sheung Shui Town Lot No. 263 Kwu Tung	0.3	
– Others	0.3	
Sub-total:	**5.6**	
Total for categories (A) to (C):	**15.3**	

Note 1: Gross floor area is calculated on the basis of the Buildings Department's approved plans or the Government's latest town planning parameters, as well as the Company's development plans. For certain projects, these details may be subject to change depending on the actual needs in future.

Note 2: Developable area is subject to finalisation of land premium.

Note 3: After the end of the reporting period, an agreement was entered into in relation to the disposal of Wo Shang Wai project. This transaction is pending for completion.

(Table 1) Unsold units from the major development projects offered for sale

There are 20 major development projects available for sale:

	Project name and location	Gross floor area (sq. ft.)	Type of development	At 30 June 2019 No. of residential units remaining unsold	Saleable area remaining unsold (sq. ft.)	Group's interest (%)	Attributable saleable area remained unsold (sq. ft.)
1.	Eden Manor 88 Castle Peak Road Kwu Tung	555,399	Residential	283	332,432	100.00	332,432
2.	Double Cove – Phases 1-5 8 Wu Kai Sha Road Ma On Shan	2,950,640	Commercial/ Residential	80	150,312	59.00	88,684
3.	Cetus・Square Mile 18 Ka Shin Street Mong Kok	176,251	Commercial/ Residential	97	27,338	100.00	27,338
4.	Wellesley 23 Robinson Road Mid-Levels	156,900 (Note 1)	Residential	28	47,203	50.00 (Note 1)	23,602
5.	NOVUM EAST 856 King's Road Quarry Bay	177,814	Commercial/ Residential	81	22,494	100.00	22,494
6.	The Vantage 63 Ma Tau Wai Road Hung Hom	207,257	Commercial/ Residential	83	22,898	100.00	22,898
7.	The Addition 342-356 Un Chau Street Cheung Sha Wan	79,895	Commercial/ Residential	73	22,133	100.00	22,133
8.	Hill Paramount 18 Hin Tai Street Shatin	358,048	Residential	4	11,742	100.00	11,742
9.	Reach Summit – Sereno Verde Phase 5 99A Tai Tong Road Yuen Long	171,266	Residential	30	10,038	79.03	7,933
10.	Green Lodge 23 Ma Fung Ling Road Yuen Long	78,781	Residential	2	6,617	100.00	6,617

11.	South Walk・Aura 12 Tin Wan Street Aberdeen	37,550	Commercial/ Residential	29	6,870	100.00	6,870
12.	NOVUM WEST 460 Queen’s Road West Sai Ying Pun	272,526	Commercial/ Residential	15	6,574	100.00	6,574
13.	Seven Victory Avenue 7 Victory Avenue Ho Man Tin	83,245	Commercial/ Residential	14	5,447	100.00	5,447
14.	The Reach 11 Shap Pat Heung Road Yuen Long	1,299,744	Residential	3	4,125	79.03	3,260
15.	H・Bonaire 68 Main Street Ap Lei Chau	65,761	Commercial/ Residential	4	2,553	100.00	2,553
16.	PARKER33 33 Shing On Street Shau Kei Wan	80,090	Commercial/ Residential	2	1,134	100.00	1,134
17.	Global Gateway Tower 61A-61E and 63 Wing Hong Street Cheung Sha Wan	336,052	Industrial	Not applicable	77,777 (Note 2)	100.00	77,777 (Note 2)
18.	The Globe 79 Wing Hong Street Cheung Sha Wan	172,113	Office	Not applicable	62,134 (Note 2)	100.00	62,134 (Note 2)
19.	E-Trade Plaza 24 Lee Chung Street Chai Wan	173,850	Office	Not applicable	60,359 (Note 2)	100.00	60,359 (Note 2)
20.	Mega Cube 8 Wang Kwong Road Kowloon Bay	171,194	Office	Not applicable	48,622 (Note 2)	100.00	48,622 (Note 2)
			Total:	**828** (Note 3)	**928,802**		**840,603**

Note 1: The Group’s interest represents 25.07% of the development. After the allocation of the residential units, the Group holds jointly with one developer a 50/50 interest in the residential units so allocated.

Note 2: Representing the office, industrial or shop area.

Note 3: Out of the above 828 unsold residential units, 530 residential units were completed with occupation permits.

(Table 2) Projects pending sale in the second half of 2019

In the absence of unforeseen delays, the following 3 projects will be available for sale in the second half of 2019:

	Project name and location	Gross floor area (sq. ft.)	Type of development	No. of residential units	Residential gross floor area (sq. ft.)	Group's interest (%)	Attributable residential gross floor area (sq. ft.)
1.	38 Fuk Chak Street Tai Kok Tsui	180,968	Commercial/ Residential	489	150,802	100.00	150,802
2.	62C Robinson Road Mid-Levels	33,680	Commercial/ Residential	90	32,501	100.00	32,501
3.	Lot No. 1752 in DD No. 122 Tong Yan San Tsuen Yuen Long	27,868	Residential	16	27,868	100.00	27,868
			Total:	**595**	**211,171**		**211,171**

(Table 3) Existing urban redevelopment projects

The Group has a total of 3 existing projects under redevelopment or land-use conversion and the dates of their sales launch are not yet fixed. As outlined below, they are expected to provide about 1.1 million square feet in attributable gross floor area in the urban areas based on the Buildings Department's approved plans or the Government's latest town planning:

	Project name and location	Site area (sq. ft.)	Expected gross floor area upon redevelopment (sq. ft.)	Group's interest (%)	Expected attributable gross floor area upon redevelopment (sq. ft.)
1.	Yau Tong Bay Kowloon (Note 1)	810,454	3,992,604	22.80	910,314
2.	218 Electric Road North Point, Hong Kong (Note 2)	9,600	144,000	100.00	144,000
3.	29A Lugard Road The Peak, Hong Kong	23,653	11,709	100.00	11,709
	Total:	**843,707**	**4,148,313**		**1,066,023**

Note 1: The modified master layout plan was approved in February 2015 and is pending finalisation of land premium with the Government.

Note 2: Investment property.

(Table 4) Newly-acquired Urban Redevelopment Projects – with 80% to 100% ownership secured

There are 27 newly-acquired urban redevelopment projects with 80% to 100% ownerships secured. Their expected attributable gross floor areas, based on the Buildings Department's approved plans or the Government's latest town planning, are as follows:

		With 100% ownership secured		with over 80% but less than 100% ownership secured*		
	Project name and location	Site area (sq. ft.)	Expected attributable gross floor area upon redevelopment (sq. ft.)	Site area (sq. ft.)	Expected attributable gross floor area upon redevelopment (sq. ft.)	Total attributable gross floor area (sq. ft.)
Hong Kong						
1.	4A-4P Seymour Road, Mid-Levels (65% stake held by the Group)	52,466	306,921			306,921
2.	73-73E Caine Road, Mid-Levels	6,781	64,130			64,130
3.	1-4 Ladder Street Terrace, Mid-Levels	2,859	13,907			13,907
4.	94-100 Robinson Road, Mid-Levels	5,798	28,990	6,362	31,810	60,800
5.	88 Robinson Road, Mid-Levels			10,361	51,805	51,805
6.	105 Robinson Road, Mid-Levels			27,530	126,638	126,638
7.	33-47 Elgin Street, Mid-Levels			11,775	93,594	93,594
8.	1-19 Chung Ching Street and 21 Ki Ling Lane, Sheung Wan	7,858	90,092			90,092
9.	206-212 Johnston Road, Wanchai (Note 1)	4,328	64,920			64,920
10.	13-21 Wood Road and 22-30 Wing Cheung Street, Wanchai	6,392	51,068	2,208	19,722	70,790
11.	2 Tai Cheong Street, Sai Wan Ho	13,713	134,421			134,421
12.	9-13 Sun Chun Street Tai Hang			2,019	18,171	18,171
13.	17-25 Sun Chun Street Tai Hang			4,497	40,473	40,473
14.	983-987A King's Road and 16-22 and 24-94 Pan Hoi Street, Quarry Bay (50% stake held by the Group)			43,882	176,760	176,760
15.	83-95 Shek Pai Wan Road and 2 Tin Wan Street, Aberdeen	4,950	42,075	1,128	10,716	52,791
16.	4-6 Tin Wan Street, Aberdeen			1,740	14,790	14,790
17.	65-71 Main Street, Ap Lei Chau	4,800	40,380			40,380
	Sub-total:	**109,945**	**836,904**	**111,502**	**584,479**	**1,421,383**

Project name and location		With 100% ownership secured		with over 80% but less than 100% ownership secured*		
		Site area (sq. ft.)	Expected attributable gross floor area upon redevelopment (sq. ft.)	Site area (sq. ft.)	Expected attributable gross floor area upon redevelopment (sq. ft.)	Total attributable gross floor area (sq. ft.)
Kowloon and New Territories						
18.	2 Tak Shing Street, Tsim Sha Tsui	10,614	89,381			89,381
19.	Various projects spanning Ka Shin Street, Kok Cheung Street, Pok Man Street, Man On Street and Tai Kok Tsui Road, Tai Kok Tsui	26,953	242,512	31,805	286,239	528,751 (Note 2)
20.	456-466 Sai Yeung Choi Street North and 50-56A Wong Chuk Street, Sham Shui Po (Note 3)	22,889	203,962			203,962
21.	1-27 Berwick Street, 202-220 Nam Cheong Street and 1-14 Yiu Tung Street, Shek Kip Mei	35,326	310,621	10,200	81,600	392,221
22.	11-19 Wing Lung Street, Cheung Sha Wan (Note 3)	6,510	58,300			58,300
23.	Various projects spanning Gillies Avenue South, Baker Street, Whampoa Street and Bulkeley Street, Hung Hom	54,475	490,196	57,575	518,179	1,008,375
24.	68A-76B To Kwa Wan Road, 58-76 Lok Shan Road, 14-20 Ha Heung Road, 1-7 Lai Wa Street and 1-9 and 2-8 Mei Wa Street, To Kwa Wan			42,506	374,355	374,355
25.	67-83 Fuk Lo Tsun Road, Kowloon City (Note 3)	10,954	96,696			96,696
26.	4-22 Nam Kok Road, Kowloon City	2,817	23,945	7,360	62,560	86,505
27.	3 Mei Sun Lane, Tai Po			6,487	37,041	37,041
	Sub-total:	**170,538**	**1,515,613**	**155,933**	**1,359,974**	**2,875,587**
	Total:	**280,483**	**2,352,517**	**267,435**	**1,944,453**	**4,296,970**

* their ownership will be consolidated by proceeding to court for compulsory sale under the "Land (Compulsory Sale for Redevelopment) Ordinance". In the event that no court order is granted, the Group may not be able to complete the consolidation of the ownership for development.

Note 1: To be held for rental purposes upon completion of development.

Note 2: Excluding those projects already offered for sales (namely, "Eltanin•Square Mile" and "Cetus•Square Mile") in this cluster, as well as the one in the sales pipeline in the second half of 2019, which boast a total gross floor area of about 530,000 square feet.

Note 3: Developable area may be subject to payment of land premium.

(Table 5) Newly-acquired Urban Redevelopment Projects – with over 20% but less than 80% ownership secured

The Group has other acquisitions in progress, involving 30 projects located in various urban districts. Currently, ownership ranging from over 20% to below 80% of each project has been achieved. The attributable land areas of these projects total about 210,000 square feet. If and when their ownerships are successfully consolidated, based on the Government's latest town planning, the total estimated attributable gross floor area would be about 1,910,000 square feet upon completion of redevelopment. Based on the respective ownership currently secured by the Group for each project, the total pro-rata attributable gross floor area is about 770,000 square feet.

Successful acquisitions of the above projects bear uncertainty. The Group may not be able to consolidate ownerships of all projects. Redevelopment can only be implemented upon acquisition of the full ownership of the relevant projects.

Land Bank

In March 2019, a joint venture formed by the Group and various developers won the tender for a residential site at New Kowloon Inland Lot No. 6576 in Kai Tak Development Area at a consideration of HK$9,893 million, of which 30% is attributable to the Group. In May 2019, another joint venture of the Group also won the bid for a harbour-front residential land lot at New Kowloon Inland Lot No. 6552 in Kai Tak Development Area at a consideration of HK$12,590 million, of which 18% is attributable to the Group. Details of the additions of summarised as follows:

	Location	Lease Expiry	Site area (sq. ft.)	Group's interest (%)	Estimated attributable gross floor area (sq. ft.)
1.	New Kowloon Inland Lot No. 6576, Kai Tak	2066	103,151	30.00	216,618
2.	New Kowloon Inland Lot No. 6552, Kai Tak	2066	105,110	18.00	115,410
				Total:	**332,028**

The Group currently has a land bank in Hong Kong comprising a total attributable gross floor area of approximately 24.7 million square feet, made up as follows:

		Attributable gross floor area (million sq. ft.)
Properties under development (Note)		14.5
Unsold units from major launched projects		0.8
	Sub-total:	**15.3**
Completed properties (including hotels) for rental		9.4
	Total:	**24.7**

Note: Including the total attributable developable area of about 4.4 million square feet from the projects in Fanling North and Wo Shang Wai, which are subject to finalisation of land premium. After the end of the reporting period, an agreement was entered into in relation to the disposal of Wo Shang Wai project. This transaction is pending for completion.

Land in Urban Areas

In addition to those already in the sales pipeline as mentioned above, the Group has urban redevelopment projects of old tenement buildings with entire or over 80% ownership acquired, representing a total attributable gross floor area of about 4.3 million square feet, which are expected to be available for sale or lease in 2020 or beyond. The total land cost of such projects is estimated to be about HK$36,993 million (including the pricey street shops and the project at the prestigious Seymour Road in Mid-Levels), translating into a land cost of approximately HK$8,600 per square foot of gross floor area.

By acquiring old tenement buildings for urban redevelopment, owners of the dilapidated properties can upgrade to homes with much better living conditions, whilst the old districts will be revitalized. During the period under review, the sites for various existing projects were enlarged following the Group's acquisition of the adjacent buildings. The redevelopment in West Kowloon adjacent to the Olympic MTR station is a manifest example. The Group's various projects spanning Ka Shin Street, Li Tak Street, Kok Cheung Street, Fuk Chak Street, Pok Man Street, Man On Street and Tai Kok Tsui Road are now jointly being developed under the "Square Mile" brand, providing an aggregate gross floor area of over 1.0 million square feet. With a diverse flat mix of housing units and a chic shopping mall, "Square Mile" is complemented by an open-air piazza for cultural and leisure activities, resulting in the previously rundown district being revitalized into a vibrant neighbourhood. The first two phases of its development (namely, "Eltanin・Square Mile" and "Cetus・Square Mile"), which boast a total gross floor area of about 350,000 square feet, have been launched and about 90% of their total residential units were sold.

By making reference to the approach of "Square Mile", the Group is now conducting comprehensive planning in Hung Hom. Various projects spanning Gillies Avenue South, Baker Street, Whampoa Street and Bulkeley Street will be jointly developed into another 1,000,000-square-foot revitalized community, improving the vibrancy and living convenience for its residents. In addition, the Group's 22.80%-owned residential-cum-commercial project at Yau Tong Bay is in the process of application for land exchange. This large-scale development, with residences that enjoy stunning views of Victoria Harbour, is poised to feature as another iconic landmark upon its completion.

New Territories land

During the period under review, the Group acquired further New Territories land lots of about 0.3 million square feet, increasing its New Territories land reserves to approximately 45.9 million square feet at the end of June 2019. This represents the largest holding among all property developers in Hong Kong.

Of the Group's land holding of 2.4 million square feet in Fanling North New Development Area, a total land area of roughly over 800,000 square feet is assessed to be eligible for in-situ land exchange and the Government may resume the other parts of its lands for public use by payment of cash compensation. The Group applied for in-situ land exchange for three separate land lots in Fanling North and Kwu Tung North. All have been accepted by the Government for further review. These three land lots in Fanling North are expected to provide an aggregate commercial gross floor area of approximately 440,000 square feet and residential gross floor area of approximately 3.0 million square feet, against their respective site areas of 228,000 square feet, 240,000 square feet and 241,000 square feet. Developable areas for these sites are subject to finalisation of land premium.

According to the aforementioned "North East New Territories New Development Areas Planning and Engineering Study", the region at Ping Che/Ta Kwu Ling will be re-planned in response to the "2013 Policy Address" which proposed an initiative to review the development potential of New Territories North, including new opportunities brought about by the new railway infrastructure. In January 2014, the Government commenced its "Preliminary Feasibility Study on Developing the New Territories North" on an area of about 5,300 hectares. In September 2014, the Government announced the "Railway Development Strategy", including its long-term plan to further extend the railway line to Kwu Tung and Ping Che. In order to increase land supply for housing, the Government formulated the Preliminary Outline Development Plan for "Planning and Engineering Study for Housing Sites in Yuen Long South – Investigation" and launched its Stage 2 Community Engagement. It also released the "Land Use Review for Kam Tin South and Pat Heung". The Group holds certain pieces of land in these areas.

As for the "Hung Shui Kiu New Development Area Planning and Engineering Study", the area concerned covers an area of about 714 hectares. The Group holds a total land area of approximately 6.47 million square feet in this location. Under the draft Hung Shui Kiu and Ha Tsuen Outline Zoning Plan, it is proposed to accommodate a new town with a population of about 215,000 people and 60,000 additional flats, of which about 50% are private developments. Impacts to the Group arising from these proposals are to be assessed. The Group will continue to work in line with the Government's development policies and will follow up closely on its development plans.

The Pilot Scheme for Arbitration on Land Premium was introduced by the Government in October 2014 for a trial period of two years, aimed at facilitating the early conclusion of land premium negotiations and expediting land supply for housing and other uses. The Pilot Scheme has been extended to October 2020. The Group will thus consider requesting for arbitration on its land exchange or lease modification cases when necessary.

In order to increase and expedite land supply, the Government announced that the Lands Department would establish a centralised Land Supply Section for speeding up "big ticket" lease modification and land exchange cases and further centralisation of premium assessments, so as to streamline and expedite the development process. The Group will actively work in line with these Government initiatives.

The Government announced that it had fully accepted the recommendations tendered by the Task Force on Land Supply regarding land supply strategy and eight land supply options worthy of priority studies and implementation, which included "Tapping into Private Agricultural Land Reserve in the New Territories". The Government is in the process of drawing up more specific criteria and other details of the implementation framework for its Land Sharing Pilot Scheme. The Group will look into the matter thoroughly when more details are disclosed.

Investment Properties

During the period, the Hong Kong SAR Government proposed to amend the Fugitive Offenders Ordinance in February 2019 and there ensued a series of intensifying protests from 9 June onwards. Daily operations and retail sales of certain shopping malls in Hong Kong were adversely affected.

For the six months ended 30 June 2019, the Group's attributable share of gross rental income in Hong Kong (including the attributable share of contributions from subsidiaries, associates and joint ventures) increased by 4% period-on-period to HK$3,666 million. The attributable share of pre-tax net rental income (including the attributable contributions from subsidiaries, associates and joint ventures) was HK$2,853 million, representing a growth of 2% over the corresponding period of previous year. Included therein is attributable gross rental income of HK$1,064 million (2018: HK$1,035 million) contributed from the Group's attributable 40.77% interest in The International Finance Centre ("ifc") project. At the end of June 2019, the average leasing rate for the Group's major rental properties was 98%. Besides, there were about 7,500 car parking bays attributable to the Group, providing additional rental income.

Following the completion of the 470,000-square feet "Citygate Outlets" extension in Tung Chung, of which 20% is attributable to the Group, the Group's completed investment property portfolio in Hong Kong as at 30 June 2019 was enlarged to 8.9 million square feet in attributable terms with its breakdown as follows:

By type:		**Attributable gross floor area (million sq. ft.)**	**Percentage (%)**
Shopping arcade or retail		4.8	53
Office		3.3	37
Industrial		0.4	5
Residential and hotel apartment		0.4	5
	Total:	**8.9**	**100**

By geographical area:		**Attributable gross floor area (million sq. ft.)**	**Percentage (%)**
Hong Kong Island		2.2	24
Kowloon		2.8	32
New Territories		3.9	44
	Total:	**8.9**	**100**

Retail portfolio

According to the Census and Statistics Department, the value of total retail sales in Hong Kong for the first half in 2019 decreased by 2.6% compared with the same period a year earlier. However, all the Group's major shopping malls (except those under renovation or undergoing a realignment of tenant mix) were able to record nearly full occupancy at the end of June 2019 with steady rental growth. Such satisfactory results were built on positive attributes of the Group's shopping malls, including convenient locations, caring customer services and appealing tenant mix. In addition to the regular facility upgrades of its shopping malls, the Group also closely watched the market trends and rolled out innovative promotional activities to attract more shoppers. For instance, by applying "Superflat", a postmodern art movement founded in Japan, the first-ever crossover decorations of "Hello Kitty x Old Master Q" were presented at "MOSTown" in Ma On Shan during the period under review. "MCP Central" in Tseung Kwan O also hosted the scientific station in Hong Kong, offering a fun and inspiring learning experience for both children and their parents. These creative promotional activities were so well received by shoppers that the respective malls became popular rendezvous. Notwithstanding the stable growth in rental income, total retail sales value dropped at a faster pace in the second quarter of 2019, which gave rise to a decrease in the overall business for shopping malls. The Group will continue to roll out innovative measures and to adjust its tenant mix in a timely manner.

Newly completed in July 2019, "H Zentre" at 15 Middle Road, Tsim Sha Tsui, will soon commence operations. Situated above Tsim Sha Tsui East MTR station, which is just one stop from the Express Rail Link West Kowloon Station, "H Zentre" is a 340,000-square-foot commercial development comprising medical, dining, retail and car parking facilities. Its pre-leasing responses have been satisfactory, with renowned medical service providers, fitness centres and restaurants being secured as its tenants.

Another upcoming addition will be the extension to the Group's 20%-owned "Citygate Outlets" in Tung Chung, which was completed in March 2019. The entire extension, which comprises a retail area of about 340,000 square feet in seven storeys and a 130,000-square-foot hotel seamlessly connected to the existing "Citygate Outlets", is planned to open in August 2019. The combined 800,000-square-foot shopping mall will cement its position as Hong Kong's leading outlet mall given its close proximity to both the airport and Hong Kong-Zhuhai-Macao Bridge.

Office portfolio

The Group's office leasing business continued to advance despite recent slowdown in the economic growth in Hong Kong. During the period under review, the Group's premium office buildings in Hong Kong Island, such as "ifc" in Central - the core business area, "AIA Tower" in North Point and "FWD Financial Centre" in Sheung Wan, recorded consistently high occupancy with positive rental reversions. Whereas, the office and industrial/office premises in Kowloon East, including "Manulife Financial Centre", "AIA Financial Centre", "78 Hung To Road" and "52 Hung To Road", also performed well with steady rental growth.

The 144,000-square-foot redevelopment project at Electric Road, North Point, was scheduled for completion in the third quarter of 2019. With the commissioning of the Central-Wanchai Bypass in early 2019, it only takes about five minutes to travel from Central to Island Eastern Corridor at North Point. Hence, the pre-leasing responses for this Grade-A office building have been encouraging with keen interest from many co-working space operators and renowned corporations. There are other office developments in the pipeline, including the landmark project at Murray Road, Central, as well as the redevelopment project at Johnston Road, Wanchai, which will in aggregate provide an additional gross floor area of about 530,000 square feet. The Group's office portfolio is poised to grow further.

Construction

The Group has always been committed to building excellence in all its property developments. As part of this pledge, the latest technology and devices are constantly applied in the Group's construction projects. For instance, apart from the adoption of precast façades and semi-precast slabs, the Construction Department has recently extended the use of prefabricated building components to the bathroom areas of some housing units. With the waterproofing layers and the associated pipe ducts manufactured in a precast factory together with the entire slab of the bathroom area, the water tightness of the bathroom areas has been much improved.

In order to meet the challenges of the local construction industry (such as the ageing workforce and escalating costs) and raise the building quality even further, the Group has been exploring the application of Modular Integrated Construction (MIC) in its future developments of small to medium-sized housing units. This construction method would shorten in-situ construction periods, whilst minimizing the nuisance to neighborhoods. It would also help reduce on-site manpower and construction waste, thereby improving cost efficiency.

The following development projects in Hong Kong were completed during the period under review:

	Project name and location	Site area (sq. ft.)	Gross floor area (sq. ft.)	Type of development	Group's interest (%)	Attributable gross floor area (sq. ft.)
1.	Eden Manor 88 Castle Peak Road Kwu Tung	154,280	555,399	Residential	100.00	555,399
2.	NOVUM EAST 856 King's Road Quarry Bay	17,720	177,814	Commercial/ Residential	100.00	177,814
3.	Extension to Citygate Outlets Tung Chung Town Lot No.11	107,919	473,119	Commercial/ Hotel	20.00	94,624
4.	Park One 1,3 Nam Cheong Street and 180 Tung Chau Street Cheung Sha Wan	8,559	77,029	Commercial/ Residential	100.00	77,029
5.	South Walk・Aura 12 Tin Wan Street Aberdeen	4,060	37,550	Commercial/ Residential	100.00	37,550
6	Lot No. 1752 in DD No.122 Tong Yan San Tsuen Yuen Long	27,868	27,868	Residential	100.00	27,868
7.	Park Reach 33 Shap Pat Heung Road Yuen Long	6,131	21,453	Commercial/ Residential	79.03	16,954
					Total:	**987,238**

Property Management

The Group's property management companies, namely, Hang Yick Properties Management Limited, H-Privilege Limited (which provides services for the Group's urban boutique residences under "The H Collection" brand), Well Born Real Estate Management Limited and Goodwill Management Limited, collectively manage about 80,000 apartments and industrial/commercial units, 10 million square feet of shopping and office space, as well as 20,000 car parking spaces in Hong Kong.

These property management subsidiaries follow the Group's customer-oriented approach to services. Their professional accreditations, such as ISO 9001 Quality Management System Certification, ISO 10002 Complaints Handling Management System Certification, ISO 14001 Environmental Management System Certification, OHSAS 18001 Occupational Health and Safety Management System Certification and Hong Kong Q-Mark Service Scheme Certification, bear testimony to their dedication to service excellence and customer satisfaction.

During the period under review, their initiative to launch "The Year of Reforms", and to promote transformation and innovation, helped create an ever-better environment for our customers to live in. By virtue of their meticulous services, these property management companies have established brands well-recognised in the market, gaining wide support and trust from the public. Hence, they received the "Best Corporate Brand of the Year (Property Management)" and "Best Use of Knowledge Management of the Year (Property Management)" from Asia Pacific Customer Service Consortium.

Mainland China

In the first half of 2019, the mainland property market remained steady. The Central Government continued to uphold its directive that "housing should be for living in, not for speculation". In addition, each city was obliged to adopt differentiated policies and modify its controlling measures in accordance with its own conditions. With various measures to redress both supply and demand, excessive fluctuation in the property market was thus prevented. Although supervision of the financial credit toward real estate sector was strengthened prudently in the first half of this year, an easing of monetary policy still prevailed and mortgage interest rates were lowered in consecutive months during the period under review. The sales of residential properties increased by 8.4% over the same period of last year.

The following development projects were completed during the period under review:

	Project name	**Usage**	**Group's interest (%)**	**Attributable gross floor area (million sq. ft.)**
1.	Phases 3R2-C1, 3K1, 3R2-C2 and 3P1 La Botanica, Xian	Residential, commercial and school	50	0.47
2.	Phase F2A, Grand Lakeview, Yixing	Residential and commercial	50	0.38
3.	Phase 3B, Palatial Crest, Xian	Residential and commercial	100	0.26
4.	Phase 3, Henderson • Country Garden Jin Shi Tan Project, Dalian	Residential	50	0.06
			Total:	**1.17**

In response to the market conditions, the Group has refined its Mainland China strategy as follows:

Property Investment: The Group focused on the development of Grade-A office buildings. It has been pressing ahead with the development of the 3,000,000-square-foot "Lumina Shanghai" at Xuhui Riverside Development in Shanghai, and the 2,200,000-square-foot "Lumina Guangzhou" at Yuexiu District in Guangzhou. The Group also actively looked for land sites with good prospects at reasonable costs in other prime locations of major cities.

Property Development: The Group kept monitoring residential development opportunities in prime cities, as well as the major second-tier cities and the Greater Bay Area. The Group also continued to strengthen its co-operation with mainland property developers in the joint development of residential projects. The Group's reputation, management expertise and financial strength, coupled with local developers' market intelligence, construction efficiency and cost advantages, have enhanced the returns of its development projects.

In line with the above strategies, the Group added the following residential development projects to its land bank during the period under review:

(1) The Group independently won a bid for a residential site in Chaoyang District, Beijing at a consideration of about RMB3,020 million. The land lot with a site area of approximately 420,000 square feet will provide a total gross floor area of about 470,000 square feet.

(2) The Group co-operated with the subsidiaries of CIFI Holdings (Group) Co. Limited ("CIFI", a property developer listed in Hong Kong) to jointly develop a residential site in Binhu District, Hefei. The Group has a 50% equity interest in this project. The land lot with a site area of approximately 540,000 square feet, and was acquired at a consideration of about RMB1,731 million, will provide a total gross floor area of over 1,280,000 square feet.

In addition to the holding of approximately 0.8 million square feet in attributable gross floor area of completed property stock, the Group held a development land bank in 13 cities at 30 June 2019 with a total attributable gross floor area of about 32.58 million square feet. Around 72% of this total is planned for residential development:

Land bank under development or held for future development

		Group's share of developable gross floor area* (million sq. ft.)
Prime cities		
Beijing		0.79
Shanghai		3.57
Guangzhou		2.31
Shenzhen		0.21
	Sub-total:	**6.88**
Second-tier cities		
Changsha		5.07
Chengdu		3.28
Hefei		0.64
Nanjing		0.19
Shenyang		4.45
Suzhou		2.30
Xian		6.91
Xuzhou		0.62
Yixing		2.24
	Sub-total:	**25.70**
	Total:	**32.58**

* *Excluding basement areas and car parks.*

Usage of development land bank

		Estimated developable gross floor area (million sq. ft.)	Percentage (%)
Residential		23.32	72
Office		5.05	15
Commercial		3.59	11
Others (including clubhouses, schools and community facilities)		0.62	2
	Total:	**32.58**	**100**

Property Sales

During the period under review, the Group achieved attributable contracted sales of approximately HK$4,338 million in value with a corresponding attributable gross floor area of 2.7 million square feet from various development projects. Main sales projects included "La Botanica" in Xian, "Grand Lakeview" in Yixing, "The Landscape" in Changsha, "Lakeside Mansion" in Beijing, as well as "Xuguan Project" and "Luzhi Project" in Suzhou.

Investment Properties

At 30 June 2019, the Group had about 6.4 million square feet of completed investment properties in mainland China. During the period under review, the Group's attributable gross rental income decreased by 2% period-on-period to HK$923 million, whilst its attributable pre-tax net rental income also decreased by 2% to HK$732 million, mainly attributable to the 6% period-on-period depreciation of Renminbi against the Hong Kong Dollar during the period under review.

In Beijing, "World Financial Centre'', an International Grade-A office complex in the Chaoyang Central Business District, was about 98% let at the end of June 2019 and recorded steady rental performance.

In Shanghai, "Henderson Metropolitan" near the Bund continued to perform well during the period under review. Many popular eateries were added to this mall so as to enrich the shopping experience of its customers and boost business for its tenants. Due to the early termination of the lease by a major tenant, the office tower of "Henderson 688" at Nanjing Road West recorded a slightly lower leasing rate, which should recover with the take-up of spaces in the short term. The Group is actively looking for new tenants, and beefing up the amenities of the mall to improve its overall attractiveness. In close proximity to Shanghai railway station, "Greentech Tower" was 94% let at the end of June 2019, whilst the leasing rates for its neighbouring "Centro" and "Skycity" were maintained at 90% and 94% respectively despite the construction works at the nearby northern extension of Tianmu Road West. Meanwhile, "Grand Gateway II'' atop the Xujiahui subway station recorded steady rental performance.

In Guangzhou, the renovation works at "Hengbao Plaza" atop the Changshou Road subway station were partially completed during the period under review. Many new tenants such as educational services providers and a fitness centre were added to cater for the aspirations of younger generations and style-seekers. Meanwhile, more culinary choices will be introduced to satisfy customers' tastes for novel and diverse cuisine.

In addition, the Group has two sizeable wholly-owned developments, named Lumina, in the pipeline and pre-leasing is currently under way for their first phases.

"Lumina Shanghai" is located at Xu Hui Riverside Development, Shanghai. The 1,800,000-square-foot Grade A office premises at its Phase 1 Development drew keen leasing interest from many multinational corporations and leading domestic enterprises, which were mainly engaged in professional services, information technology and media industries. The leasing response for its 220,000-square-foot shopping mall was also encouraging, with many eateries and lifestyle brands enquiring. "Lumina Shanghai" Phase 1 is scheduled for completion and opening in mid-2020. Construction of the remaining phase 2 is progressing smoothly. Upon its scheduled completion in 2021, additional office and retail space with a total gross floor area of over 1,000,000 square feet will be provided.

"Lumina Guangzhou" is located in the Yuexiu District of Guangzhou, sitting on the banks of Pearl River with direct connection to two subway lines. The twin Grade-A office towers at its Phase 1 development have been topped out, with internal mechanical and electrical systems being installed. They will provide a total gross floor area nearly 1,000,000 square feet. Many multinational corporations and financial groups have already committed their tenancies, whilst numerous professional firms and renowned trading companies also expressed their interest to become tenants. Meanwhile, a cinema, many renowned eateries and retail brands have been secured as the tenants of its 800,000-square-foot shopping and entertainment mall. More international retail brands, specialty restaurants and a children's amusement park will be introduced so as to provide customers a multifarious experience of shopping, leisure and entertainment. The office towers and the retail complex of "Lumina Guangzhou" Phase I are scheduled for completion in September and November 2019 respectively. Construction of the remaining phases 2 and 3 is progressing well as planned. Upon their scheduled completion in 2021, they will in aggregate provide an additional retail gross floor area of about 400,000 square feet.

Henderson Investment Limited ("HIL")

For the six months ended 30 June 2019, HIL's (unaudited) profit attributable to equity shareholders amounted to HK$21 million, representing a decrease of HK$27 million or 56% from HK$48 million for the corresponding period in 2018.

HIL focuses on department store operations. Currently, it operates six department stores under the name "Citistore", as well as two department stores-cum-supermarkets through its recently-acquired "Unicorn Stores (HK) Limited" (formerly known as "UNY (HK) Co., Limited", hereinafter referred to as "UNY HK") in Hong Kong.

(I) Citistore

There are six department stores under the name "Citistore" in Hong Kong, of which five are located in the New Territories (in Tsuen Wan, Yuen Long, Ma On Shan, Tuen Mun and Tseung Kwan O) and the remaining one is located in Tai Kok Tsui, Kowloon.

During the period under review, Citistore continued to roll out various initiatives to attract more shoppers and raise the market awareness of its brand. In April 2019, Citistore opened a pop-up store for nearly one month in Mira Place, Tsim Sha Tsui, selling exclusively pet products and organizing workshops for the making of pet accessories. This store also collaborated with an animal welfare organization to launch a dog adoption programme, with the aim to promote adoption of abandoned animals. This event was well received by pet lovers, and aroused extensive publicity from media. The brand awareness of Citistore was thus enhanced.

Sales during the high season before Chinese New Year were affected by the exceptionally warm weather in early 2019, whilst consumer sentiment was subsequently dampened by Sino-US trade disputes and social unrest in Hong Kong. As such, Citistore recorded a period-on-period decrease of 6% in total sales proceeds derived from the sales of own goods, as well as concessionaire and consignment goods, for the six months ended 30 June 2019.

During the period under review, Citistore's sales of own goods decreased by 4% to HK$209 million with a lower gross margin of 33% (2018: 35%). The Household and Toys category made up approximately 57% of the sales, the Apparels category contributed approximately 28% and the balance of approximately 15% came from the categories of Foods and Cosmetics.

Citistore's concessionaire sales are conducted by licensing portions of shop spaces to its concessionaires for setting up their own concession counters to sell their products, whilst consignment sales comprise the sales of consignors' own products on or in designated shelves, areas or spaces. Citistore charges these concessionaire and consignment counters on the basis of revenue sharing or basic commission (if any), whichever is higher, as its commission income. During the period under review, the total commission income derived from these concessionaire and consignment counters decreased by 6% period-on-period to HK$206 million, reflecting the decrease in the sales proceeds generated from both counters.

With the decrease in gross profit of HK$6 million from the sale of own goods, as well as the decrease in commission income from concessionaire and consignment counters in the aggregate amount of HK$13 million, Citistore's profit after taxation for the period under review decreased by HK$14 million or 30% period-on-period to HK$33 million, despite its relentless efforts in controlling operating costs.

(II) UNY HK

The acquisition of UNY HK was completed on 31 May 2018. PIAGO at Telford Plaza, a loss-making store included in the acquisition, was closed at the end of March 2019, as originally planned in the course of the acquisition and the post-acquisition integration assessment. Currently, UNY HK operates two department stores-cum-supermarkets in the densely-populated residential districts.

During the period under review, UNY HK generated gross profit (after netting the cost of inventories sold) of HK$133 million against a total sales of own goods of HK$464 million, resulting in a gross margin of 29%. Meanwhile, UNY HK’s sales proceeds from consignment counters, and the commission income arose, amounted to HK$181 million and HK$40 million respectively. After deducting the operating expenses, a loss after taxation of HK$17 million was recorded, mainly due to the rental expenditure in the aggregate amount of HK$22 million incurred on the PIAGO premises after its closure on 31 March 2019.

Aggregating the above-mentioned operating results of Citistore and UNY HK, the total after-tax profit contribution from HIL’s department store operations amounted to HK$16 million for the six months ended 30 June 2019. After taking into account the interest income, dividend income and the overhead expenditures of its head office, HIL’s profit attributable to equity shareholders during the period under review amounted to HK$21 million, representing a decrease of HK$27 million or 56% from that of HK$48 million in the corresponding period of previous year.

Given the ongoing Sino-US trade disputes and social unrest in Hong Kong, consumer sentiment is expected to be weakened. HIL will closely monitor the situation and stay prudent.

HIL will roll out more initiatives to improve the overall shopping environments of its stores. UNY at Lok Fu Place is now undergoing a phased renovation, with the aim to offer a refreshing and comfortable shopping experience for customers. In addition, HIL is integrating the businesses of “Citistore” and “UNY HK”. By sharing of market intelligence and integrating their computer information systems, operational synergies will be achieved. Together with continuous promotional efforts and cost savings measures, HIL’s competitiveness is set to be further improved.

Associated Companies

The Hong Kong and China Gas Company Limited ("Hong Kong and China Gas")

The unaudited profit after taxation attributable to shareholders of Hong Kong and China Gas for the six months ended 30 June 2019 amounted to HK$3,889 million, a decrease of HK$900 million, down by 18.8%, compared to the same period last year. Exclusive of its share of a revaluation surplus from an investment property, the International Finance Centre complex, Hong Kong and China Gas's profit after taxation amounted to HK$3,752 million, a decrease of HK$211 million, down by 5.3%, compared to the same period last year.

TOWN GAS BUSINESS IN HONG KONG

Total volume of gas sales in Hong Kong for the first half of 2019 was approximately 15,776 million MJ, a decrease of 2.4%, in contrast to a 7.1% increase in the number of appliances sold, both compared to the same period last year. As at 30 June 2019, the number of customers was 1,920,595, an increase of 12,084 since the end of 2018. This company raised its standard gas tariff by HK1.1 cents per MJ on 1 August 2019. The actual increase in the gas tariff (comprising standard tariff and fuel cost adjustment) is equivalent to 4.4%. This company commits to keeping this new standard gas tariff frozen for the next two years.

UTILITY BUSINESSES IN MAINLAND CHINA

As at the end of June 2019, Hong Kong and China Gas held approximately 67.45% of the total issued shares of Towngas China Company Limited ("Towngas China"; stock code: 1083). Towngas China recorded good business growth during the first half of 2019, with profit after taxation attributable to its shareholders amounting to HK$756 million, an increase of approximately 14% compared to the same period last year. Project development has progressed well so far this year with Towngas China adding five new projects to its portfolio, comprising U-Tech (Guang Dong) Engineering Construction Co., Ltd. and four distributed energy projects located in Maanshan Economic and Technological Development Zone South District, Anhui province; in the Chemical Industrial Park, Luanzhou Economic Development Zone, Tangshan city, Hebei province; in the Xinmi Yinji International Tourism Resort, Zhengzhou city, Henan province; and in Shenzhen city, Guangdong province.

Inclusive of Towngas China, Hong Kong and China Gas has a total of 131 city-gas projects in mainland cities spread across 23 provinces, autonomous regions and municipalities. The total volume of gas sales for these projects for the first half of 2019 was approximately 12,940 million cubic metres, an increase of 13% over the same period last year. As at the end of June 2019, its mainland gas customers stood at approximately 28.52 million, an increase of 8% over the same period last year.

Construction of its natural gas storage facility in underground salt caverns in Jintan district, Changzhou city, Jiangsu province, is progressing in phases. This project is the first of its kind built by a city-gas enterprise on the mainland. Phase one involves the construction of 10 wells, with a storage capacity of approximately 460 million standard cubic metres; the first three wells were commissioned at the end of October 2018. During the second quarter of 2019, as initiated by Hong Kong and China Gas, Shanghai Gas (Group) Co., Ltd., a company possessing LNG receiving stations, joined phase one of the project to help facilitate the import of LNG resources from overseas. Phase two, wholly-owned by Hong Kong and China Gas, involves the construction of 12 wells with a storage capacity of 560 million standard cubic metres. Upon completion, total storage capacity of the whole facility will be over 1 billion standard cubic metres.

Hong Kong and China Gas has been in the mainland water market, under the brand name "Hua Yan Water", for over 13 years and currently invests in, and operates, seven water projects. These include water supply joint venture projects in Wujiang district, Suzhou city, Jiangsu province and in Wuhu city, Anhui province; wholly-owned water supply projects in Zhengpugang Xin Qu, Maanshan city and in Jiangbei Xin Qu, Wuhu city, both in Anhui province; an integrated water supply and wastewater treatment joint venture project, together with an integrated wastewater treatment joint venture project for a special industry, both in Suzhou Industrial Park, Suzhou city, Jiangsu province; and a new water services joint venture project in Foshan city, Guangdong province added in the fourth quarter of 2018 through investment in Foshan Water Environmental Protection Co., Ltd. The major businesses of this latter company encompass tap water supply, wastewater treatment and municipal environmental and sanitary engineering. This is Hong Kong and China Gas's first water services project located in the Guangdong-Hong Kong-Macao Greater Bay Area. In addition, Hong Kong and China Gas has constructed a plant in Suzhou Industrial Park to handle 500 tonnes daily of food waste, green waste and landfill leachate for conversion into natural gas, oil products, solid fuel and fertilizers under the "Hua Yan Water" brand; trial production formally commenced in mid-February 2019 and is Hong Kong and China Gas's first project converting municipal environmental and sanitary waste into value-added products.

Overall, inclusive of projects of Towngas China, Hong Kong and China Gas currently has 260 projects on the mainland, six more than at the end of 2018, spread across 26 provinces, autonomous regions and municipalities. These projects encompass upstream, midstream and downstream natural gas sectors, water sectors, efficient energy applications and exploration and utilisation of emerging environmentally-friendly energy, as well as telecommunications.

EMERGING ENVIRONMENTALLY-FRIENDLY ENERGY BUSINESSES

Hong Kong and China Gas's development of emerging environmentally-friendly energy businesses in mainland China through its wholly-owned subsidiary ECO Environmental Investments Limited and the latter's subsidiaries (collectively known as "ECO"), is progressing steadily.

ECO's major businesses in Hong Kong – an aviation fuel facility, dedicated liquefied petroleum gas ("LPG") vehicular refilling stations and landfill gas utilisation projects – are all operating well. ECO's aviation fuel facility recorded a total turnover of approximately 3.3 million tonnes of aviation fuel during the first half of 2019, a similar level to the same period last year. ECO's landfill gas utilisation projects in the North East New Territories and the South East New Territories generate noticeable environmental benefits by avoiding in-situ burning and emission of landfill gas and enabling partial replacement of fossil fuels.

ECO's coalbed methane liquefaction facility, located in Jincheng city, Shanxi province, is operating smoothly, seeing an increase in the upstream supply of coalbed methane for this facility.

The overall operating environment of ECO's clean coal chemical project in Ordos city, Inner Mongolia Autonomous Region, worsened noticeably during the first half of 2019 compared to the same period last year due to a significant fall in the selling prices of methanol and ethylene glycol caused by a reversal of the external economic environment.

ECO's integrated processing project, located in Zhangjiagang city, Jiangsu province, using its self-developed technology to process inedible bio-grease feedstock into hydro-treated vegetable oil (HVO), has produced a total of nearly 20,000 tonnes of HVO, which has gained "International Sustainability and Carbon Certification" (ISCC). On this basis, ECO has commenced phase two of the project to enhance production capacity to 180,000 tonnes per annum.

ECO has commenced construction work relating to a pilot project in Tangshan city, Hebei province, to apply self-developed hydrolysis technology to break down agricultural straw into hemicellulose, cellulose and lignin and to yield furfural and paper pulp. This pilot project is expected to be commissioned by the end of 2019.

ECO's in-house scientific research, focusing on the extraction of high-quality carbon materials from the pitch portion of high-temperature coal tar oil, has achieved promising results, successfully producing high-quality activated carbon and mesophase pitch. High-quality activated carbon can be used for making super capacitors, whereas mesophase pitch can be used as a raw material for carbon fibre or as an anode material for batteries. ECO's first pilot project of this kind is now at the preparatory stage; construction work is expected to commence in the second half of 2019.

Hong Kong and China Gas has established research and development centres in Shanghai city and Suzhou city to develop new technologies for agricultural and industrial waste application, including utilisation of inedible grease, straw and coal tar oil. ECO is now establishing production bases in eastern and northern China; gradual commissioning of related projects is expected to start from the end of 2019.

TELECOMMUNICATIONS BUSINESSES

Hong Kong and China Gas's development of telecommunications businesses in Hong Kong and mainland China through its wholly-owned subsidiary Towngas Telecommunications Company Limited and the latter's subsidiaries (collectively known as "TGT"), is progressing steadily. In order to facilitate business development on the mainland, TGT and Beijing Ying Tong Technology Co., Ltd. have formed a joint venture, named Ying Tong TGT Network Services (Shenzhen) Co., Ltd., to develop connectivity, data centre and fog computing (small-scale data centre) businesses on the mainland. The synergy effect of this cooperation will help TGT to further expand its business scope on the mainland. In addition, Shenzhen Internet Exchange Co., Ltd., an associated company of TGT, having been granted several value-added telecommunications service licences, has built, and is now operating, a fibre cable network of more than 400 km to provide quality broadband and leased-line services in Shenzhen city.

FINANCING PROGRAMMES

Hong Kong and China Gas established a medium term note programme in 2009 and the nominal amount of medium term notes issued so far has reached HK$13,900 million with tenors ranging from 3 to 40 years, mainly at fixed interest rates with an average of 3.4% per annum and an average tenor of 15 years. Hong Kong and China Gas updated the programme during the year and increased the issue size by US$1,000 million to US$3,000 million. In January 2014, Hong Kong and China Gas issued its first perpetual subordinated guaranteed capital securities (the "Perpetual Securities"), amounting to US$300 million. These Perpetual Securities were redeemed in January 2019. Hong Kong and China Gas issued new Perpetual Securities again in February 2019 and the proceeds are mainly used to refinance the redeemed US$300 million Perpetual Securities. The newly issued US$300 million Perpetual Securities keep the coupon interest rate at 4.75% per annum for the first five years. The Perpetual Securities are redeemable, at the option of Hong Kong and China Gas, in February 2024 or thereafter every six months on the coupon payment date. This issuance of the Perpetual Securities was rated A3 and BBB+ by international rating agencies Moody's Investors Service and Standard and Poor's Rating Services respectively.

***Hong Kong Ferry (Holdings) Company Limited* (“*Hong Kong Ferry*”)**

During the six months ended 30 June 2019, Hong Kong Ferry’s revenue amounted to HK$170 million, representing a decrease of 82% as compared with the same period last year. Its unaudited consolidated net profit after taxation amounted to HK$86 million, representing a decrease of 68% as compared with a profit of HK$273 million for the same period last year. All its residential units have been sold in 2018. During the period under review, no residential units were sold and its profit was mainly derived from the rental income of the commercial arcades and the profit from the sale of car parking spaces.

Property Development and Investment Operations

During the period, the gross rental income arising from the commercial arcades of Hong Kong Ferry amounted to approximately HK$52 million. At the end of the reporting period, the commercial arcades of Shining Heights, The Spectacle and Metro6 were fully let, whereas the occupancy rate of the commercial arcade of Green Code was 92%. As the commercial arcade of the Metro Harbour Plaza has been partly under renovation, the occupancy rate was 80%. The profit arising from the sale of the car parking spaces amounted to approximately HK$19 million.

In June 2018, Hong Kong Ferry was awarded the contract of Tung Chau Street/Kweilin Street redevelopment project in Sham Shui Po by the Urban Renewal Authority at a consideration of HK$1,029.2 million. Hong Kong Ferry is responsible for the construction of the project with a total gross floor area of about 144,345 square feet. Upon redevelopment, Hong Kong Ferry will be entitled to the residential gross floor area of about 97,845 square feet and the project is expected to be completed in late 2022.

Tuen Mun Town Lot No. 547

The construction of Hong Kong Ferry’s 50%/50% joint venture project with Empire Development Hong Kong (BVI) Limited located at Castle Peak Road, Castle Peak Bay, Area 48, Tuen Mun, New Territories (Tuen Mun Town Lot No. 547) is in good progress and is expected to be completed in 2022. The project under construction consists of six residential towers providing about 1,636 units with sea view or landscape view. The total gross floor area of the project is about 663,000 square feet.

Ferry, Shipyard and Related Operations

During the period, the Ferry, Shipyard and Related Operations recorded a profit of HK$3.7 million, a decrease of 49% as compared to the same period last year. The decrease was mainly due to lower vessel repair businesses after the opening of the Hong Kong-Zhuhai-Macao Bridge.

Securities Investment

A profit of HK$12 million was recorded in its securities investment during the period.

Barring unforeseen circumstances, the rental income from the commercial arcades will be the main source of income of Hong Kong Ferry for the second half year. In addition, the Tung Chau Street/Kweilin Street project and the Tuen Mun project will be sold by phases commencing next year.

Miramar Hotel and Investment Company, Limited ("Miramar")

Miramar's revenue for the six months ended 30 June 2019 amounted to approximately HK$1,586 million, similar to the last corresponding period (2018: HK$1,600 million). Profit attributable to shareholders for the reporting period decreased by 10.1% to HK$770 million (2018: HK$856 million). Excluding the net increase of HK$350 million in the fair value of the investment properties and other net gain from non-core businesses, the underlying profit attributable to shareholders increased by 3.4% to approximately HK$420 million (2018: HK$406 million).

Hotels and Serviced Apartments Business

During the reporting period, revenue from hotels and serviced apartments business decreased by 3.5% to HK$330 million while EBITDA (earnings before interest and taxes, depreciation and amortisation) declined 8.6% to HK$119 million, compared to the last corresponding period. Occupancy rates of The Mira Hong Kong and Mira Moon Hotel remained stable at over 90% in the first six months, whilst the average room rate for available rooms maintained at similar levels as in the last corresponding period.

Property Rental Business

Revenue from property rental business was HK$462 million, with EBITDA amounting to HK$409 million, representing steady rises of 1.0% and 0.6% respectively compared with the last corresponding period. Further to the launch of the Mira Place mobile application in 2017, Miramar launched Hong Kong's first new smart parking solution for shopping mall "e-PARKING", which has simplified the parking process and take customer experience to the next level, and won the Silver Award of the Hong Kong ICT Awards 2019 — Smart Mobility Award (Smart Transportation). Total book value of the investment properties amounted to over HK$15,200 million.

Food and Beverage Business

Revenue from food and beverage business recorded approximately HK$137 million, while EBITDA was approximately HK$15 million, representing a drop of 16.3% and an increase of 452.2% respectively over the last corresponding period.

Travel Business

Revenue from travel business was HK$657 million, 3.2% up from the last corresponding period. EBITDA recorded approximately HK$44 million, an increase of 48.1% compared to the same period of last year.

Operating and Other expenses

The overall operating costs of Miramar during the reporting period was HK$108 million, similar to the same period last year (2018: HK$107 million).

CORPORATE FINANCE

The Group has always adhered to prudent financial management principles. At 30 June 2019, net debt (including shareholder's loans totalling HK$1,205 million (31 December 2018: HK$1,100 million)) amounted to HK$76,236 million (31 December 2018: HK$70,123 million) giving rise to a financial gearing ratio of 24.2% (31 December 2018: 22.4%).

Since 2018, the Group has issued medium term notes carrying tenor from 2 to 12 years for a total amount of HK$8,275 million so as to diversify the sources of funding and to extend the debt maturity profile. In addition, the Group obtained seven-year Japanese Yen term loans for a total amount of JPY30,000 million, demonstrating that the Group's prime credit standing is well received by the international investment community. At the same time, the Group has also secured substantial amount of banking facilities. After full prepayment and cancellation of a HK$18,000 million 5-year syndicated loan facility before its original due date in March 2020, the Group's internal funding remains ample.

In light of the low interest rate levels resulting from quantitative easing measures adopted by major economies around the world over the past years, the Group entered into interest rate swap contracts for certain medium and long-term periods, for the purpose of converting part of the Group's borrowings from floating interest rates into fixed interest rates. It is considered that such a treasury management strategy will be of benefit to the Group in the long run.

PROSPECTS

The softening global economic growth, as well as Sino-US trade and technology disputes, have affected the Hong Kong economy. GDP in the first half of 2019 expanded by only 0.5% in real terms over a year earlier. In February 2019, the Hong Kong SAR Government proposed to amend the Fugitive Offenders Ordinance and a series of intensifying protests ensued from 9 June onwards. Although the Government announced that it would not proceed with the proposed amendments, conflict in the community has continued to escalate, taking a further toll on the economy. Various industries from tourism, retail to food and beverage were hard hit. Rental returns and market values of Hong Kong's properties were affected. However, limited near-term housing supply and a low mortgage interest rate, should continue to lend support to the local property market. The Group hopes that Hong Kong will soon return to normal and refocus itself on driving social and economic progress, so that citizens can continue to live and work in peace. The Group will closely monitor the situation, assess the risks, and take appropriate measures.

During the period under review, the Group continued to replenish its development land bank in Hong Kong through diversified means and encouraging progress was achieved: (1) Two residential sites in Kai Tak Development Area were secured jointly with other developers, adding an aggregate gross floor area of over 0.3 million square feet in attributable terms to its land bank; and (2) The Group acquired further New Territories land lots of about 0.3 million square feet, increasing its land reserves in the New Territories to approximately 45.9 million square feet, which represents the largest holding among all property developers in Hong Kong. Turning to mainland China, a development project was secured in Beijing and Hefei respectively, adding an aggregate gross floor area of about 1.1 million square feet in attributable terms to the Group's land bank. With multiple channels of land bank replenishment, the Group has managed to secure a stable supply of land resources for property development over the long term, enabling the sustainable growth of its property sales business.

As regards "**property sales**", three development projects are in the pipeline for sale launch in the second half of this year. Together with unsold stocks, a total of about 1,400 residential units and 250,000 square feet of industrial/office space in Hong Kong will be available for sale in the second half of 2019. As at the end of June 2019, cumulative proceeds from the sales of Hong Kong properties, but not yet accounted for, amounted to approximately HK$21,521 million in attributable terms. In addition, the Group entered into an agreement in July 2019 to sell its equity interest in the company holding Wo Shang Wai project for a consideration of HK$4,705 million (subject to adjustments). The profit arising from the sale may be accounted for in or before January 2020 upon completion of the transaction.

Turning to mainland China, the Central Government's directive that "housing should be for living in, not for speculation" is expected to remain unchanged so as to ensure steady development of the property market. In the implementation of differentiated policies, local governments are held primarily responsible for stabilising their land and property prices. The Group will continue to look for investment opportunities in the first-tier cities, as well as the major second-tier cities and the Greater Bay Area. In addition, the Group will strengthen co-operation with local property developers. As regards property sales, cumulative proceeds from sales, but not yet accounted for, amounted to approximately HK$8,264 million in attributable terms as at the end of June 2019.

As regards “**rental business**”, the successive completion or opening of various developments in the second half of 2019 (including “H Zentre” at Middle Road, the office redevelopment project at Electric Road and the “Citygate Outlets” extension in Tung Chung, all in Hong Kong, as well as “Lumina Guangzhou” Phase I in Haizhu Square of mainland China) will expand the Group’s rental portfolio to 9.4 million and 8.2 million square feet in attributable gross floor area, respectively, in Hong Kong and on the mainland at the end of 2019. Together with other landmark projects in the pipeline, including the office development at Murray Road in Hong Kong as well as “Lumina Shanghai” in Xu Hui Riverside Area of mainland China, the Group’s rental portfolio will grow further with a more optimal composition.

The “**associates**”, namely, Hong Kong and China Gas, Miramar and Hong Kong Ferry, serve as another steady recurrent income stream to the Group. Hong Kong and China Gas, in particular, has 260 projects on the mainland, spread across 26 provinces, autonomous regions and municipalities. With a total of over 30 million piped-gas customers in Hong Kong and mainland China, as well as its expanding scope of businesses, its contributions to the Group are promising.

With the above three major business pillars (namely, “**property sales**”, “**rental business**” and “**associates**”), strong balance sheet and seasoned management team, the Group is well-placed to tackle challenges ahead. Barring unforeseen circumstances, operational performance of the Group is expected to be stable for the current financial year.

APPRECIATION

Dr Lee Shau Kee, the founder of the Company, stepped down from the position of Chairman and Managing Director on 28 May 2019 due to his advanced age. He remains as an Executive Director of the Company. The Board would like to express its sincere gratitude to Dr Lee Shau Kee for his invaluable contribution to the Company over the past 40 years and his outstanding leadership in building a solid foundation for the Company’s continuous growth in the future.

BUSINESS RESULTS

Consolidated Statement of Profit or Loss
for the six months ended 30 June 2019 - unaudited

	Note	**For the six months ended 30 June** **2019** **HK$ million**	2018 HK$ million
Revenue	4	**8,129**	13,142
Direct costs		**(3,979)**	(6,364)
		4,150	6,778
Other net income	5	**909**	924
Selling and marketing expenses		**(408)**	(375)
Administrative expenses		**(876)**	(853)
Profit from operations before changes in fair value of investment properties and investment properties under development		**3,775**	6,474
Increase in fair value of investment properties and investment properties under development	6	**1,097**	3,937
Profit from operations after changes in fair value of investment properties and investment properties under development		**4,872**	10,411
Finance costs	7(a)	**(262)**	(479)
Bank interest income		**378**	252
Net interest income/(net finance costs)		**116**	(227)
Share of profits less losses of associates		**2,030**	2,777
Share of profits less losses of joint ventures		**1,479**	2,863
Profit before taxation	7	**8,497**	15,824
Income tax	8	**(971)**	(632)
Profit for the period		**7,526**	15,192

Consolidated Statement of Profit or Loss
for the six months ended 30 June 2019 - unaudited (continued)

		For the six months ended 30 June	
		2019	2018
	Note	**HK$ million**	HK$ million
Attributable to:			
Equity shareholders of the Company		**7,515**	15,030
Non-controlling interests		**11**	162
Profit for the period		**7,526**	15,192
Earnings per share based on profit attributable to equity shareholders of the Company (reported earnings per share)			
Basic and diluted	*9(a)*	***HK$1.55***	*HK$3.10**
Earnings per share excluding the effects of changes in fair value of investment properties and investment properties under development (net of deferred tax) (underlying earnings per share)			
Basic and diluted	*9(b)*	***HK$1.38***	*HK$2.86**

** Adjusted for the bonus issue effected in 2019.*

Details of dividends payable to equity shareholders of the Company are set out in note 10.

Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the six months ended 30 June 2019 - unaudited

	For the six months ended 30 June	
	2019	2018
	HK$ million	HK$ million
Profit for the period	**7,526**	15,192
Other comprehensive income for the period (after tax and reclassification adjustments):		
Items that will not be reclassified to profit or loss:		
- Investments in equity securities designated as financial assets at fair value through other comprehensive income: net movement in the fair value reserve (non-recycling)	**(16)**	(29)
- Share of other comprehensive income of associates and joint ventures	**23**	-
Items that may be reclassified subsequently to profit or loss:		
- Exchange differences: net movement in the exchange reserve	**(167)**	(577)
- Cash flow hedges: net movement in the hedging reserve	**12**	435
- Share of other comprehensive income of associates and joint ventures	**(102)**	(403)
Other comprehensive income for the period	**(250)**	(574)
Total comprehensive income for the period	**7,276**	14,618
Attributable to:		
Equity shareholders of the Company	**7,265**	14,458
Non-controlling interests	**11**	160
Total comprehensive income for the period	**7,276**	14,618

Consolidated Statement of Financial Position - unaudited
at 30 June 2019

	Note	**At 30 June 2019 HK$ million**	At 31 December 2018 HK$ million
Non-current assets			
Investment properties		**179,909**	176,717
Other property, plant and equipment		**348**	370
Right-of-use assets		**411**	-
Goodwill		**262**	262
Interest in associates		**62,364**	62,059
Interest in joint ventures		**58,519**	53,011
Derivative financial instruments		**365**	42
Other financial assets		**13,544**	13,825
Deferred tax assets		**548**	641
		316,270	306,927
Current assets			
Deposits for acquisition of properties	12	**1,763**	1,310
Inventories	13	**99,583**	97,177
Trade and other receivables	14	**14,827**	15,239
Cash held by stakeholders		**2,267**	2,158
Cash and bank balances		**14,428**	16,507
		132,868	132,391
Assets of the disposal group classified as held for sale		**-**	1,788
		132,868	134,179
Current liabilities			
Trade and other payables	15	**29,250**	27,113
Lease liabilities		**291**	-
Bank loans		**27,039**	27,834
Guaranteed notes		**5,855**	5,187
Tax payable		**1,960**	2,180
		64,395	62,314
Net current assets		**68,473**	71,865
Total assets less current liabilities		**384,743**	378,792

Consolidated Statement of Financial Position - unaudited
at 30 June 2019 (continued)

	At 30 June 2019 HK$ million	At 31 December 2018 HK$ million
Non-current liabilities		
Bank loans	**46,012**	44,621
Guaranteed notes	**10,553**	7,888
Amount due to a fellow subsidiary	**1,205**	1,100
Derivative financial instruments	**482**	376
Lease liabilities	**143**	-
Provisions for reinstatement costs	**12**	13
Deferred tax liabilities	**6,915**	6,802
	65,322	60,800
NET ASSETS	**319,421**	317,992
CAPITAL AND RESERVES		
Share capital	**52,345**	52,345
Other reserves	**262,341**	260,808
Total equity attributable to equity shareholders of the Company	**314,686**	313,153
Non-controlling interests	**4,735**	4,839
TOTAL EQUITY	**319,421**	317,992

Notes:

1 Review of results

The interim results set out in this preliminary announcement do not constitute the Group's condensed interim financial statements for the six months ended 30 June 2019 but are extracted from those financial statements.

The condensed interim financial statements comprise those of Henderson Land Development Company Limited ("the Company") and its subsidiaries (collectively referred to as "the Group") and have equity accounted for the Group's interests in associates and joint ventures.

The condensed interim financial statements are unaudited, but have 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 Hong Kong Institute of Certified Public Accountants ("HKICPA"). KPMG's independent review report to the Board of Directors is included in the interim report to be sent to shareholders. In addition, the condensed interim financial statements have been reviewed by the Company's Audit Committee with no disagreement.

2 Basis of preparation

These condensed interim financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting,* issued by the HKICPA.

The condensed interim financial statements have been prepared in accordance with the same accounting policies adopted in the Company's consolidated financial statements for the year ended 31 December 2018, except for the accounting policy changes that are expected to be reflected in the Company's consolidated financial statements for the year ending 31 December 2019. Details of these changes in accounting policies are set out in note 3.

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

The financial information relating to the financial year ended 31 December 2018 included in this preliminary announcement of interim results for the six months ended 30 June 2019 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 such statutory financial statements required to be 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 31 December 2018 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622).

The Company's auditor has reported on the financial statements for the year ended 31 December 2018. The auditor's report was unqualified; did not include a reference to any matters (including those matters described in the Key Audit Matters section) 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 (3) of the Hong Kong Companies Ordinance (Cap. 622).

3 Changes in accounting policies

The HKICPA has issued the following new standard, interpretation and amendments to Hong Kong Financial Reporting Standards ("HKFRSs") that are first effective for the current accounting period of the Group and the Company, which are relevant to the Group's condensed interim financial statements for the current accounting period:

- HKFRS 16, *Leases*
- HK(IFRIC) Interpretation 23, *Uncertainty over income tax treatments*
- Annual improvements to HKFRSs 2015-2017 cycle

Under HKFRS 16, a lessee is required to recognise at its inception a right-of-use asset and a lease liability in the statement of financial position, and the related depreciation charge on the right-of-use asset and the related interest expenses on the lease liability in the statement of profit or loss as the distinction between operating and finance leases is removed. The only exceptions are short-term and low value leases in relation to which the "practical expedient" under HKFRS 16 is applicable. The accounting for lessors has not significantly changed. The adoption of HKFRS 16 affects the leases of properties as a lessee previously classified as operating leases prior to the adoption of HKFRS 16, which results in an increase in both assets and liabilities in the lessee's statement of financial position and impacts on the timing of recognition of the financial effects in the lessee's statement of profit or loss over the period of the leases.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability as adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method during the period from the commencement date of the lease to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term, unless it is reasonably certain that the Group will obtain ownership of the leased asset upon the expiry of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. Lease payments included in the measurement of the lease liability comprise fixed payments, including in-substance fixed payments. The lease liability is measured at amortised cost using the effective interest method, and is re-measured when there is a change in future lease payments arising from a change in an index or rate. When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such renewal options impacts the lease term, which may significantly affect the amounts of lease liabilities and right-of-use assets recognised.

3 Changes in accounting policies (continued)

The Group applies the modified retrospective approach under HKFRS 16, and therefore no restatement is made to the comparative amounts for the corresponding six months ended 30 June 2018 prior to the first adoption of HKFRS 16. A retrospective adjustment to the Group's retained profits (after tax) at 1 January 2019, for a cumulative decrease in the amount of HK$10 million, was recognised only as referred to in the Group's consolidated statement of changes in equity for the six months ended 30 June 2019.

At transition, except for short-term leases of the Group in respect of which the Company or any of its subsidiaries is a lessee and in relation to which the "practical expedient" under HKFRS 16 is applicable, the Group recognises for each of the remaining leases (the "Remaining Leases") a right-of-use asset, which is measured at its carrying amount as if HKFRS 16 had been applied since the commencement dates of the Remaining Leases, discounted at the Group's incremental borrowing rate at 1 January 2019.

At transition, lease liabilities were measured at the present value of the Remaining Leases payments, discounted at the Group's incremental borrowing rate at 1 January 2019. When measuring lease liabilities, the Group discounted lease payments using its weighted average incremental borrowing rate at 1 January 2019 of 3.49% per annum.

	HK$ million
Operating lease commitments at 31 December 2018 as disclosed in the Group's consolidated financial statements	**659**
Discounted using the Group's incremental borrowing rate at 1 January 2019	**626**
- Recognition exemption for short-term leases	**(61)**
Lease liabilities recognised at 1 January 2019	**565**

Except for HKFRS 16 whose financial impact on the Group is referred to above, none of the interpretation or amendment which are first effective for the current accounting period of the Group, as referred to above, would have a material effect on the preparation or presentation of the Group's results and financial position for the current or prior periods.

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

4 Revenue

Revenue of the Group represents those generated from the sale of properties, rental income, department store operation and management, and other businesses mainly including income from construction, provision of finance, investment holding, project management, property management, agency services, cleaning and security guard services, as well as the trading of building materials and disposal of leasehold land.

The major items are analysed as follows:

	For the six months ended 30 June	
	2019	2018
	HK$ million	HK$ million
Sale of properties	**3,551**	9,049
Rental income	**3,103**	2,995
Department store operation (note)	**926**	524
Other businesses	**549**	574
Total (note 11(b))	**8,129**	13,142

Note: Including commission income earned from consignment and concessionary counters of the department store operation in the aggregate amount of HK$246 million for the period (2018: HK$226 million).

At 30 June 2019, the cumulative aggregate amount of revenue expected to be recognised in the consolidated statement of profit or loss in the future from pre-completion sales contracts entered into in relation to the Group's properties under development and completed properties for sale pending assignment in Hong Kong and mainland China amounted to HK$22,716 million (31 December 2018: HK$18,984 million), which will be recognised when the pre-sold properties are assigned to the customers.

5 Other net income

	For the six months ended 30 June	
	2019	2018
	HK$ million	HK$ million
Net gain on transfer of subsidiaries regarding (note (i))		
- Investment properties	**-**	848
Net gain on transfer of interest in joint ventures regarding (note (ii))		
- Investment properties	**345**	-
Net gain on disposal of investment properties	**17**	206
	362	1,054
(Provision)/reversal of provision on inventories, net	**(2)**	5
Net fair value gain on investments measured as financial assets at fair value through profit or loss	**271**	16
Net fair value gain on derivative financial instruments		
- Interest rate swap contracts and cross currency swap contracts (for which no hedge accounting was applied during the period)	**218**	187
- Other derivatives	**-**	13
(Impairment loss)/reversal of impairment loss on trade debtors (note 11(c))	**(2)**	4
Net foreign exchange (loss)/gain	**(44)**	83
Cash flow hedges: reclassified from hedging reserve to profit or loss (note (iii))	**-**	(519)
Others	**106**	81
	909	924

Notes:

(i) The net gain on transfer of subsidiaries for the corresponding six months ended 30 June 2018 in the amount of HK$848 million related to the transfer of the Group's interest in subsidiaries which own an investment property at No. 18 King Wah Road, North Point, Hong Kong.

(ii) The net gain on transfer of interest in joint ventures for the six months ended 30 June 2019 in the amount of HK$345 million related to the transfer of the Group's interest in a joint venture which owns an investment property at No. 8 Observatory Road, Kowloon, Hong Kong (2018: Nil).

(iii) The amount comprised the net cumulative loss (before tax) reclassified from equity to profit or loss upon the revocation of the hedge relationship between certain bank loans of the Company's wholly-owned subsidiaries (as hedged items) and their underlying interest rate swap contracts (as hedging instruments) during the six months ended 30 June 2018.

6 Increase in fair value of investment properties and investment properties under development

The Group's investment properties and investment properties under development were revalued at 30 June 2019 by Cushman & Wakefield Limited, an independent firm of professional surveyors who have among their staff Members of The Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued, on a market value basis.

The Group's management has reviewed the valuation results performed by the independent surveyors for financial reporting purposes by verifying all major inputs and assumptions, and assessing the reasonableness of property valuation. Such valuation is performed at each interim and annual reporting date and is reviewed and approved by senior management.

The valuations of completed investment properties in Hong Kong and mainland China were based on income capitalisation approach which capitalised the net income of the properties and taking into account the reversionary potential of the properties after expiry of the current lease.

For certain investment properties in Hong Kong and mainland China which are still under development, the valuations were determined on redevelopment basis and by taking into account the fair value of the completed investment property and then deducting from that amount the estimated costs to complete the construction, financing costs and a reasonable profit margin.

As a result, a net fair value gain on the investment properties and investment properties under development in Hong Kong and mainland China in the aggregate amount of HK$1,097 million (2018: HK$3,937 million) and deferred tax charge in respect of the fair value change on investment properties in mainland China of HK$42 million (2018: HK$38 million) have been recognised in the consolidated statement of profit or loss for the period (see note 9(b)).

In aggregate, the Group's attributable share of the net fair value gains on investment properties and investment properties under development held by subsidiaries, associates and joint ventures for the six months ended 30 June 2019 amounted to HK$1,819 million (2018: HK$6,540 million) (net of deferred tax).

6 Increase in fair value of investment properties and investment properties under development (continued)

A reconciliation of the abovementioned figures is as follows:-

For the six months ended 30 June 2019

	Hong Kong	**Mainland China**	**Total**
	HK$ million	**HK$ million**	**HK$ million**
Fair value gain on investment properties and investment properties under development held by			
- subsidiaries (before deducting non-controlling interests' attributable share and deferred tax) (note 9(b))	**982**	**115**	**1,097**
Less :			
Deferred tax (note 9(b))	**-**	**(42)**	**(42)**
Non-controlling interests'attributable share of the fair value gain (net of deferred tax)	**(3)**	**-**	**(3)**
(after deducting non-controlling interests' attributable share and deferred tax)	**979**	**73**	**1,052**
- associates (Group's attributable share) (note 9(b))	**233**	**-**	**233**
- joint ventures (Group's attributable share) (note 9(b))	**393**	**141**	**534**
	1,605	**214**	**1,819**

6 Increase in fair value of investment properties and investment properties under development (continued)

For the six months ended 30 June 2018

	Hong Kong	Mainland China	Total
	HK$ million	HK$ million	HK$ million
Fair value gain on investment properties and investment properties under development held by			
- subsidiaries (before deducting non-controlling interests' attributable share and deferred tax) (note 9(b))	3,824	113	3,937
Less :			
Deferred tax (note 9(b))	-	(38)	(38)
Non-controlling interests'attributable share of the fair value gain (net of deferred tax)	(7)	-	(7)
(after deducting non-controlling interests' attributable share and deferred tax)	3,817	75	3,892
- associates (Group's attributable share) (note 9(b))	571	-	571
- joint ventures (Group's attributable share) (note 9(b))	2,004	73	2,077
	6,392	148	6,540

7 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2019	2018
	HK$ million	HK$ million
(a) Finance costs:		
Bank loans interest	**794**	539
Interest on loans wholly repayable within five years	**309**	287
Interest on loans repayable after five years	**77**	38
Finance cost on lease liabilities	**15**	-
Other borrowing costs	**80**	80
	1,275	944
Less: Amount capitalised *(note)*	**(1,013)**	(465)
	262	479

Note: The borrowing costs have been capitalised at weighted average interest rates (based on the principal amounts of the Group's bank loans, guaranteed notes and amount due to a fellow subsidiary during the period under which interest capitalisation is applicable) ranging from 2.26% to 3.88% (2018: 2.08% to 4.03%) per annum.

7 Profit before taxation (continued)

Profit before taxation is arrived at after charging/(crediting): (continued)

	For the six months ended 30 June	
	2019	2018
	HK$ million	HK$ million
(b) Staff costs:		
Salaries, wages and other benefits	**1,124**	1,010
Contributions to defined contribution retirement plans	**49**	45
	1,173	1,055

	For the six months ended 30 June	
	2019	2018
	HK$ million	HK$ million
(c) Other items:		
Depreciation	**179**	32
Less: Amount capitalised *(note)*	**(12)**	-
	167	32
	(Note 11(c))	(Note 11(c))
Cost of sales		
– properties for sale	**2,254**	5,114
– trading stocks	**480**	207
Dividend income from investments designated as financial assets at fair value through other comprehensive income (non-recycling) and investments measured as financial assets at fair value through profit or loss (“FVPL”)		
– listed	**(40)**	(57)
– unlisted	**-**	(2)

Note: The capitalised amount of depreciation for the six months ended 30 June 2019 represents the depreciation on the right-of-use assets relating to those tenancy agreements entered into by the Group for its use of the rented premises as sales offices of the Group’s property projects.

8 Income tax

	For the six months ended 30 June	
	2019	2018
	HK$ million	HK$ million
Current tax		
Provision for Hong Kong Profits Tax	**252**	397
Provision for taxation outside Hong Kong	**400**	203
Provision for Land Appreciation Tax	**94**	22
	746	622
Deferred tax		
Origination and reversal of temporary differences	**225**	10
	971	632

Provision for Hong Kong Profits Tax has been made at 16.5% (2018: 16.5%) on the estimated assessable profits for the period.

Provision for taxation outside Hong Kong is provided for at the applicable rates of taxation for the period on the estimated assessable profits arising in the relevant foreign tax jurisdictions during the period.

Land Appreciation Tax is levied on properties in mainland China developed by the Group for sale, at progressive rates ranging from 30% to 60% (2018: 30% to 60%) on the appreciation of land value, which under the applicable regulations is calculated based on the revenue from sale of properties less deductible expenditure including lease charges of land use rights, borrowing costs and property development expenditure.

9 Earnings per share

(a) Reported earnings per share

The calculation of basic earnings per share is based on the consolidated profit attributable to equity shareholders of the Company of HK$7,515 million (2018: HK$15,030 million) and the weighted average number of 4,841 million ordinary shares in issue during the period (2018: 4,841 million ordinary shares*), calculated as follows:

	For the six months ended 30 June	
	2019	2018
	million	million
Number of issued ordinary shares at 1 January	**4,401**	4,001
Weighted average number of ordinary shares issued in respect of the bonus issue in 2018	**-**	400
Weighted average number of ordinary shares issued in respect of the bonus issue in 2019	**440**	440
Weighted average number of ordinary shares for the period (2018: as adjusted)	**4,841**	4,841

Diluted earnings per share were the same as the basic earnings per share for the period and the corresponding six months ended 30 June 2018 as there were no dilutive potential ordinary shares in existence during both periods.

** Adjusted for the bonus issue effected in 2019.*

9 Earnings per share (continued)

(b) Underlying earnings per share

For the purpose of assessing the underlying performance of the Group, basic and diluted earnings per share are additionally calculated based on the profit attributable to equity shareholders of the Company after excluding the effects of changes in fair value of investment properties and investment properties under development ("Underlying Profit") of HK$6,702 million (2018: HK$13,859 million). A reconciliation of profit is as follows:

	For the six months ended 30 June	
	2019	2018
	HK$ million	HK$ million
Profit attributable to equity shareholders of the Company	**7,515**	15,030
Changes in fair value of investment properties and investment properties under development during the period (note 6)	**(1,097)**	(3,937)
Effect of deferred tax on changes in fair value of investment properties and investment properties under development during the period (note 6)	**42**	38
Share of changes in fair value of investment properties (net of deferred tax) during the period:		
– associates (note 6)	**(233)**	(571)
– joint ventures (note 6)	**(534)**	(2,077)
Cumulative fair value change of investment properties and investment properties under development disposed of during the period, net of tax *(note)*:		
– subsidiaries	**49**	5,646
– associates and joint ventures	**960**	-
Effect of share of non-controlling interests	**-**	(270)
Underlying Profit	**6,702**	13,859
Underlying earnings per share, based on the weighted average number of ordinary shares for the period (note 9(a))	**HK$1.38**	HK$2.86*

** Adjusted for the bonus issue effected in 2019.*

Note: *In order to fully exclude the aforesaid effects of changes in fair value from the Underlying Profit, the Group's attributable share of the cumulative fair value change (net of tax) of investment properties and investment properties under development disposed of during the period (which has been included in calculating the net gain on disposal of investment properties and investment properties under development and hence the profit attributable to equity shareholders of the Company during the period) of HK$1,006 million (2018: HK$5,369 million) was added back in arriving at the Underlying Profit.*

10 Dividends

(a) Dividends payable to equity shareholders of the Company attributable to the interim period

	For the six months ended 30 June	
	2019	2018
	HK$ million	HK$ million
Interim dividend declared after the interim period of HK$0.50 (2018: HK$0.50) per share	**2,421**	2,201

The interim dividend declared after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the interim period

	For the six months ended 30 June	
	2019	2018
	HK$ million	HK$ million
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of HK$1.30 (2018: HK$1.23) per share	**5,722**	4,921

11 Segment reporting

The Group manages its businesses by a mixture of business lines and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following reportable segments. No operating segments have been aggregated to form the following reportable segments.

Property development	:	Development and sale of properties
Property leasing	:	Leasing of properties
Department store operation	:	Department store operation and management
Other businesses	:	Hotel operation and management, construction, provision of finance, investment holding, project management, property management, agency services, cleaning and security guard services, as well as the trading of building materials and disposal of leasehold land
Utility and energy	:	Production, distribution and marketing of gas, water supply and emerging environmentally-friendly energy businesses

For the purposes of assessing segment performance and allocating resources between segments, the Group's most senior executive management monitors the results attributable to each reportable segment on the following bases.

Revenue and expenses are allocated to the reportable segments with reference to revenues generated by those segments and the expenses incurred by those segments. Segment results form the basis of measurement used for assessing segment performance and represent profit or loss before (provision)/reversal of provision on inventories, net, sales of property interests, fair value adjustment of investment properties and investment properties under development, net interest income/(net finance costs), income tax and items not specifically attributed to individual reportable segments, such as unallocated head office and corporate expenses, net.

(a) Results of reportable segments

Information regarding the Group's and its share of associates and joint ventures on reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended 30 June 2019 and 2018 is set out below:

11 Segment reporting (continued)

(a) Results of reportable segments (continued)

For the six months ended 30 June 2019	Company and its subsidiaries (before deducting non-controlling interests) Revenue (note (i)) HK$ million	Company and its subsidiaries (before deducting non-controlling interests) Segment results HK$ million	Associates and joint ventures Share of revenue HK$ million	Associates and joint ventures Share of segment results HK$ million	Combined revenue HK$ million	Consolidated segment results HK$ million	Attributable to non-controlling interests Revenue HK$ million	Attributable to non-controlling interests Segment results HK$ million	Attributable to equity shareholders of the Company Combined revenue HK$ million	Attributable to equity shareholders of the Company Consolidated segment results HK$ million
Property development										
Hong Kong	2,737	478	245	70	2,982	548	(14)	(4)	2,968	544
Mainland China	814	168	1,103	396	1,917	564	-	(1)	1,917	563
	3,551	646	1,348	466	4,899	1,112	(14)	(5)	4,885	1,107
Property leasing										
Hong Kong	2,186	1,594	1,483	1,260	3,669	2,854	(3)	(1)	3,666	2,853
Mainland China	917	726	6	6	923	732	-	-	923	732
(note (ii))	3,103	2,320	1,489	1,266	4,592	3,586	(3)	(1)	4,589	3,585
Department store operation	926	116		-		116		(13)		103
Other businesses	549	657		80		737		(6)		731
	8,129	3,739		1,812		5,551		(25)		5,526
Utility and energy	-	-		2,377		2,377		-		2,377
	8,129	3,739		4,189		7,928		(25)		7,903
(Provision)/reversal of provision on inventories, net		(2)		1		(1)		-		(1)
Sales of property interests	(note 5)	362		-		362		(2)		360
Unallocated head office and corporate expenses, net		(324)		(189)		(513)		-		(513)
Profit from operations		3,775		4,001		7,776		(27)		7,749
Increase in fair value of investment properties and investment properties under development		1,097		814		1,911		(3)		1,908
Finance costs		(262)		(412)		(674)		19		(655)
Bank interest income		378		91		469		(3)		466
Net interest income/(net finance costs)		116		(321)		(205)		16		(189)
Profit before taxation		4,988		4,494		9,482		(14)		9,468
Income tax		(971)		(985)		(1,956)		3		(1,953)
Profit for the period		4,017		3,509		7,526		(11)		7,515

11 Segment reporting (continued)

(a) Results of reportable segments (continued)

In relation to the share of profits less losses of associates and joint ventures:

	Property development HK$ million	Property leasing HK$ million	Other businesses HK$ million	Subtotal HK$ million	Utility and energy HK$ million	Total HK$ million
For the six months ended 30 June 2019						
Share of profits less losses of associates (note (iii))						
- Listed associates						
The Hong Kong and China Gas Company Limited	**-**	**174**	**(65)**	**109**	**1,507**	**1,616**
Miramar Hotel and Investment Company, Limited	**-**	**336**	**51**	**387**	**-**	**387**
Hong Kong Ferry (Holdings) Company Limited	**5**	**15**	**9**	**29**	**-**	**29**
- Unlisted associates	**(39)**	**37**	**-**	**(2)**	**-**	**(2)**
	(34)	**562**	**(5)**	**523**	**1,507**	**2,030**
Share of profits less losses of joint ventures (note (iv))	**248**	**1,147**	**84**	**1,479**	**-**	**1,479**
	214	**1,709**	**79**	**2,002**	**1,507**	**3,509**

11 Segment reporting (continued)

(a) Results of reportable segments (continued)

	Company and its subsidiaries (before deducting non-controlling interests)		Associates and joint ventures				Attributable to non-controlling interests		Attributable to equity shareholders of the Company	
For the six months ended 30 June 2018	Revenue (note (i)) HK$ million	Segment results HK$ million	Share of revenue HK$ million	Share of segment results HK$ million	Combined revenue HK$ million	Consolidated segment results HK$ million	Revenue HK$ million	Segment results HK$ million	Combined revenue HK$ million	Consolidated segment results HK$ million
Property development										
Hong Kong	8,508	3,289	259	80	8,767	3,369	(281)	(110)	8,486	3,259
Mainland China	541	57	1,296	680	1,837	737	-	(2)	1,837	735
	9,049	3,346	1,555	760	10,604	4,106	(281)	(112)	10,323	3,994
Property leasing										
Hong Kong	2,059	1,550	1,455	1,236	3,514	2,786	(3)	(1)	3,511	2,785
Mainland China	936	743	7	6	943	749	-	-	943	749
(note (ii))	2,995	2,293	1,462	1,242	4,457	3,535	(3)	(1)	4,454	3,534
Department store operation	524	148		-		148		(17)		131
Other businesses	574	358		28		386		(5)		381
	13,142	6,145		2,030		8,175		(135)		8,040
Utility and energy	-	-		2,499		2,499		-		2,499
	13,142	6,145		4,529		10,674		(135)		10,539
Reversal of provision/(provision) on inventories, net		5		(1)		4		-		4
Sales of property interests	(note 5)	1,054		-		1,054		(44)		1,010
Unallocated head office and corporate expenses, net		(730)		(176)		(906)		2		(904)
Profit from operations		6,474		4,352		10,826		(177)		10,649
Increase in fair value of investment properties and investment properties under development		3,937		2,673		6,610		(7)		6,603
Finance costs		(479)		(414)		(893)		3		(890)
Bank interest income		252		88		340		(3)		337
Net finance costs		(227)		(326)		(553)		-		(553)
Profit before taxation		10,184		6,699		16,883		(184)		16,699
Income tax		(632)		(1,059)		(1,691)		22		(1,669)
Profit for the period		9,552		5,640		15,192		(162)		15,030

11 Segment reporting (continued)

(a) Results of reportable segments (continued)

In relation to the share of profits less losses of associates and joint ventures:

	Property development HK$ million	Property leasing HK$ million	Other businesses HK$ million	Subtotal HK$ million	Utility and energy HK$ million	Total HK$ million
For the six months ended 30 June 2018						
Share of profits less losses of associates (note (iii))						
- Listed associates						
The Hong Kong and China Gas Company Limited	-	458	(90)	368	1,622	1,990
Miramar Hotel and Investment Company, Limited	-	379	8	387	-	387
Hong Kong Ferry (Holdings) Company Limited	66	16	8	90	-	90
- Unlisted associates	263	44	3	310	-	310
	329	897	(71)	1,155	1,622	2,777
Share of profits less losses of joint ventures (note (iv))	101	2,690	72	2,863	-	2,863
	430	3,587	1	4,018	1,622	5,640

11 Segment reporting (continued)

(a) Results of reportable segments (continued)

Notes:

(i) The revenue figures above are arrived at after the elimination of inter-segment revenues, in the amounts of HK$160 million (2018: HK$161 million) and HK$1,905 million (2018: HK$1,639 million) in relation to the reportable segments under property leasing and others, respectively.

(ii) Revenue for the property leasing segment comprises rental income of HK$2,797 million (2018: HK$2,704 million) and rental-related income of HK$306 million (2018: HK$291 million), which in aggregate amounted to HK$3,103 million for the six months ended 30 June 2019 (2018: HK$2,995 million).

(iii) The Group's share of profits less losses of associates contributed from the property leasing segment during the period of HK$562 million (2018: HK$897 million) includes the increase in fair value of investment properties (net of deferred tax) during the period of HK$233 million (2018: HK$571 million).

The Group's share of losses less profits of associates contributed from the other businesses segment during the period of HK$5 million (2018: HK$71 million) includes the Group's share of profit after tax contributed from hotel operation and management during the period of HK$44 million (2018: HK$52 million).

(iv) The Group's share of profits less losses of joint ventures contributed from the property leasing segment during the period of HK$1,147 million (2018: HK$2,690 million) includes the increase in fair value of investment properties (net of deferred tax) during the period of HK$534 million (2018: HK$2,077 million).

The Group's share of profits less losses of joint ventures contributed from the other businesses segment during the period of HK$84 million (2018: HK$72 million) includes the Group's share of profit after tax contributed from hotel operation and management during the period of HK$59 million (2018: HK$72 million).

11 Segment reporting (continued)

(b) Geographical information

The following table sets out information about the geographical segment location of (i) the Group's revenue from external customers; and (ii) the Group's investment properties, other property, plant and equipment, right-of-use assets, goodwill, interests in associates and joint ventures (together, the "Specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods were delivered. The geographical location of the Specified non-current assets is based on the physical location of the asset in the case of investment properties, other property, plant and equipment and right-of-use assets, the location of the operation to which the cash-generating unit(s) is (are) allocated in the case of goodwill, and the location of operations in the case of interests in associates and joint ventures.

	Revenue from external customers		**Specified non-current assets**	
	For the six months ended 30 June		**At 30 June**	At 31 December
	2019	2018	**2019**	2018
	HK$ million	HK$ million	**HK$ million**	HK$ million
Hong Kong	**6,395**	11,651	**247,088**	239,009
Mainland China	**1,734**	1,491	**54,725**	53,410
	8,129	13,142	**301,813**	292,419
	(note 4)	(note 4)		

(c) Other segment information

	Depreciation		**Impairment loss/(reversal of impairment loss) on trade debtors**	
	For the six months ended 30 June		**For the six months ended 30 June**	
	2019	2018	**2019**	2018
	HK$ million	HK$ million	**HK$ million**	HK$ million
Property development *(note)*	**32**	4	**-**	-
Property leasing *(note)*	**15**	2	**2**	1
Department store operation *(note)*	**53**	16	**-**	-
Other businesses *(note)*	**67**	10	**-**	(5)
	167	32	**2**	(4)
	(note 7(c))	(note 7(c))	**(note 5)**	(note 5)

Note: After capitalisation of depreciation of HK$12 million (2018: Nil) (see note 7(c)).

12 Deposits for acquisition of properties

The Group's deposits for acquisition of properties mainly include HK$872 million (31 December 2018: HK$317 million) and HK$561 million (31 December 2018: HK$561 million) paid relating to the acquisition of certain pieces of land/properties located in mainland China and Macau, respectively.

In respect of the deposit paid relating to the land in Macau, the date for fulfillment of the conditions precedent has been extended by the Group, but the conditions precedent for the acquisition have not yet been fulfilled at the end of the reporting period. If the acquisition shall not proceed, then the Group is entitled to recover the deposit paid.

13 Inventories

	At 30 June 2019 HK$ million	At 31 December 2018 HK$ million
Property development		
Leasehold land held for development for sale	**11,473**	11,193
Properties held for/under development for sale	**75,655**	80,781
Completed properties for sale	**12,336**	5,065
	99,464	97,039
Other operations		
Trading stocks	**119**	138
	99,583	97,177

14 Trade and other receivables

	At 30 June 2019 HK$ million	At 31 December 2018 HK$ million
Instalments receivable	**283**	358
Loans receivable	**596**	501
Debtors, prepayments and deposits	**13,444**	14,045
Gross amount due from customers for contract work[^]	**86**	52
Financial assets measured at FVPL	**194**	190
Derivative financial instruments	**35**	47
Amounts due from associates	**167**	32
Amounts due from joint ventures	**22**	14
	14,827	15,239

[^] *This balance represents the excess of cumulative revenue recognised in profit or loss over the cumulative payments made by customers at the end of the reporting period, and is recognised as a contract asset.*

14 Trade and other receivables (continued)

Loans receivable are expected to be recovered within one year from the end of the reporting period, and are neither past due nor impaired.

The amounts due from associates and joint ventures at 30 June 2019 and 31 December 2018 are unsecured, interest-free and have no fixed terms of repayment and are neither past due nor impaired.

At the end of the reporting period, the ageing analysis of trade debtors (which are included in trade and other receivables), based on the dates of invoices or demand notes and net of loss allowance is as follows:

	At 30 June 2019 HK$ million	At 31 December 2018 HK$ million
Current or up to 1 month overdue	**902**	483
More than 1 month overdue and up to 3 months overdue	**38**	21
More than 3 months overdue and up to 6 months overdue	**10**	14
More than 6 months overdue	**18**	35
	968	553

Regular review and follow-up actions are carried out on overdue amounts of instalments receivable from sale of properties and loans receivable which enable management to assess their recoverability and to minimise exposure to credit risk. In relation to property sales for which the buyers have entered into mortgage loans advanced from the Group, management mitigates the credit risk by holding collateral in the form of properties. In respect of rental income from leasing properties, monthly rents are received in advance and sufficient rental deposits are held to cover potential exposure to credit risk.

For other trade receivables, credit terms given to customers are generally based on the financial strength and repayment history of each customer. As such, the Group does not obtain collateral from its customers. An ageing analysis of the receivables is prepared on a regular basis and is closely monitored to minimise any credit risk associated with the receivables. Adequate allowances for impairment losses have been made for estimated irrecoverable amounts.

15 Trade and other payables

	At 30 June 2019 HK$ million	At 31 December 2018 HK$ million
Creditors and accrued expenses	**6,874**	6,217
Gross amount due to customers for contract work[#]	**2**	5
Rental and other deposits	**1,639**	1,630
Forward sales deposits received [#]	**17,220**	16,290
Derivative financial instruments	**287**	295
Amounts due to associates	**221**	154
Amounts due to joint ventures	**3,007**	2,522
	29,250	27,113

[#] *These balances represent the excess of cumulative payments made by customers over the cumulative revenue recognised in profit or loss at the end of the reporting period, and are recognised as contract liabilities.*

At the end of the reporting period, the ageing analysis of trade creditors (which are included in trade and other payables), based on the due dates for settlement is as follows:

	At 30 June 2019 HK$ million	At 31 December 2018 HK$ million
Due within 1 month or on demand	**1,700**	2,187
Due after 1 month but within 3 months	**420**	288
Due after 3 months but within 6 months	**380**	152
Due after 6 months	**1,842**	1,281
	4,342	3,908

The amounts due to associates and joint ventures at 30 June 2019 and 31 December 2018 are unsecured, interest-free and have no fixed terms of repayment, except for amounts due to joint ventures of HK$1,230 million (31 December 2018: HK$521 million) which are unsecured, interest-bearing at interest rates ranging from 3.48% to 4% (31 December 2018: 3.48% to 4%) per annum and wholly repayable between 6 September 2019 to 12 May 2020 (31 December 2018: between 6 September 2019 to 31 October 2019).

16 Non-adjusting events after the reporting period

(a) After the end of the reporting period, the directors declared an interim dividend. Further details are disclosed in note 10(a).

(b) After the end of the reporting period, the Group entered into an agreement in July 2019 to sell its equity interest in the company holding interests in certain land lots in Wo Shang Wai, New Territories, which cover a total site area of about 2,420,000 square feet, for an aggregate consideration of HK$4,705 million (subject to adjustments) to an independent third party. The transaction is scheduled for completion in January 2020 (except where the purchaser can before completion substantiate that the relevant project cannot be developed as stated in the agreement). The purchaser has the right to bring forward the completion date.

FINANCIAL REVIEW

Results of operations

The following discussions should be read in conjunction with the Company's unaudited condensed consolidated interim accounts for the six months ended 30 June 2019.

Adoption of new accounting standard

Hong Kong Financial Reporting Standard 16, *Leases* ("HKFRS 16") became effective for the Group commencing on 1 January 2019, under which a lessee is required to recognise, at the earlier of the inception of a lease or the adoption of HKFRS 16, a right-of-use asset and a lease liability in the statement of financial position, and the related depreciation charge on the right-of-use asset and the related interest expenses on the lease liability in the statement of profit or loss.

The Group has adopted the modified retrospective approach under HKFRS 16 and does not restate comparative amounts for the corresponding six months ended 30 June 2018 prior to the first adoption of HKFRS 16. As a result, in relation to the relevant leases of which the Company or any of its subsidiaries is a lessee, the Group recognised a retrospective adjustment to the consolidated retained profits (after tax) at 1 January 2019 for a cumulative decrease of HK$10 million. Furthermore, the Group recognised (i) right-of-use assets and lease liabilities of HK$545 million and HK$565 million respectively in the Group's consolidated statement of financial position at 1 January 2019; (ii) depreciation charge (before capitalisation) on the right-of-use assets and finance costs on the lease liabilities in the amounts of HK$146 million and HK$15 million respectively in the Group's consolidated statement of profit or loss for the six months ended 30 June 2019.

Revenue and profit

	Revenue			***Contribution from operations***		
	Six months ended 30 June			***Six months ended 30 June***		
	2019	2018	Increase/ *(Decrease)*	**2019**	2018	*Increase/ (Decrease)*
	HK$ million	HK$ million	*%*	**HK$ million**	HK$ million	*%*
Reportable segments						
- Property development	**3,551**	9,049	*-61%*	**646**	3,346	*-81%*
- Property leasing	**3,103**	2,995	*+4%*	**2,320**	2,293	*+1%*
- Department store operation	**926**	524	*+77%*	**116**	148	*-22%*
- Other businesses	**549**	574	*-4%*	**657**	358	*+84%*
	8,129	13,142	*-38%*	**3,739**	6,145	*-39%*

	Six months ended 30 June		
	2019	2018	*Decrease*
	HK$ million	HK$ million	*%*
Profit attributable to equity shareholders of the Company			
- including the Group’s attributable share of changes in fair value of investment properties and investment properties under development (net of deferred taxation) held by the Group’s subsidiaries, associates and joint ventures	**7,515**	15,030	*-50%*
- excluding the Group’s attributable share of changes in fair value of investment properties and investment properties under development (net of deferred taxation) held by the Group’s subsidiaries, associates and joint ventures (“Underlying Profit”) *(Note 1)*	**6,702**	13,859	*-52%*

Note 1:

Underlying profit attributable to equity shareholders of the Company (“Underlying Profit”) excludes the Group’s attributable share of fair value change (net of deferred tax) of the investment properties and investment properties under development held by subsidiaries, associates and joint ventures. In order to fully exclude the aforesaid effects of changes in fair value from the Underlying Profit, the Group’s attributable share of the cumulative fair value change (net of tax) of investment properties disposed of during the period (which has been included in calculating the net gain on disposal of investment properties and hence the profit attributable to equity shareholders of the Company during the period) of HK$1,006 million (2018: HK$5,369 million) was added back in arriving at the Underlying Profit.

Excluding from the Underlying Profits for the six months ended 30 June 2019 and 2018 the effects of (i) certain one-off income/expense items; and (ii) the gains attributable to the Underlying Profits upon the Group’s disposal of its interests in joint ventures and subsidiaries holding entire property projects, the adjusted Underlying Profits for the two financial periods is as follows:-

	Six months ended 30 June			
	2019	2018	*Increase /(Decrease)*	
	HK$ million	HK$ million	*HK$ million*	*%*
Underlying Profit	**6,702**	13,859	*(7,157)*	*-52%*
(Less)/Add:				
(i) One-off (income)/expense items -				
Net fair value (gain) on derivative financial instruments relating to certain interest rate swap contracts and cross currency swap contracts (net of tax) for which there was no hedge accounting applied during the period	**(182)**	(156)	*(26)*	
Reclassification (net of tax) from hedging reserve to profit or loss upon the revocation of the hedge relationship between certain of the Group's bank loans and their underlying interest rate swap contracts during the period	**-**	433	*(433)*	
One-off loss on dilution in the Group's shareholding interest in Miramar Hotel and Investment Company, Limited ("Miramar", a listed associate of the Group) arising from the exercise of the subscription rights attached to the warrants of Miramar (which expired on 19 January 2018) by the holders thereof (other than the Group)	**-**	36	*(36)*	
The Group's attributable share of provision for assets of The Hong Kong and China Gas Company Limited ("HKCG", a listed associate of the Group)	**106**	83	*23*	
(ii) Gains attributable to the Underlying Profits upon the Group's disposal of its interests in joint ventures and subsidiaries holding the following entire property interests –				
Property development project at Kwun Chui Road, Area 56, Tuen Mun Town Lot No. 500, the New Territories	**-**	(2,780)	*2,780*	
Investment property at No. 18 King Wah Road, North Point, Hong Kong	**-**	(5,609)	*5,609*	
Investment property at No. 8 Observatory Road, Kowloon, Hong Kong	**(1,305)**	-	*(1,305)*	
Adjusted Underlying Profit attributable to shareholders	**5,321**	5,866	*(545)*	*-9%*

Discussions on the major reportable segments are set out below.

Property development

Gross revenue - subsidiaries

The gross revenue from property sales during the six months ended 30 June 2019 and 2018 generated by the Group's subsidiaries, and by geographical contribution, is as follows:-

	Six months ended 30 June			
	2019	2018	*Increase / (Decrease)*	
	HK$ million	HK$ million	*HK$ million*	*%*
By geographical contribution:				
Hong Kong	**2,737**	8,508	*(5,771)*	*-68%*
Mainland China	**814**	541	*273*	*+50%*
	3,551	9,049	*(5,498)*	*-61%*

The gross revenue from property sales in Hong Kong during the six months ended 30 June 2019 was contributed as to (i) HK$1,233 million from the sale revenue of the projects which were completed during the six months ended 30 June 2019, being "Park Reach", "Park One" and "Novum East", and of which the majority of the sold units of "Park Reach" and "Park One" were delivered to the buyers in the second quarter of 2019 whilst only certain sold units of "Novum East" were delivered to the buyers in the second quarter of 2019; and (ii) HK$1,504 million from the other major completed projects. By comparison, the gross revenue from property sales in Hong Kong during the corresponding six months ended 30 June 2018 was contributed as to (i) HK$6,600 million from the transfer of the Group's interest in a wholly-owned subsidiary which owns the project at Kwun Chui Road, Area 56, Tuen Mun Town Lot No. 500, the New Territories (the "Tuen Mun Transfer"); and (ii) HK$1,908 million from the other major completed projects.

The gross revenue from property sales in mainland China during the six months ended 30 June 2019 was contributed as to HK$606 million in relation to Phase 3B of "Palatial Crest" in Xian and Phase F2A of "Grand Lakeview" in Yixing which were completed during the six months ended 30 June 2019, and as to HK$208 million in relation to the other projects (comprising, in particular, "The Arch of Triumph" in Changsha, "Grand Paradise" in Xuzhou, "Grand Waterfront" in Chongqing and "Riverside Park" in Suzhou) which were completed prior to 1 January 2019. By comparison, the gross revenue from property sales in mainland China of HK$541 million during the corresponding six months ended 30 June 2018 was contributed entirely from the sold and delivered units in relation to the projects which were completed prior to 1 January 2018.

Pre-tax profits – subsidiaries, associates and joint ventures

The Group's attributable share of pre-tax profits from property sales, by geographical contribution and from subsidiaries (after deducting non-controlling interests), associates and joint ventures during the six months ended 30 June 2019 and 2018, is as follows:-

	Six months ended 30 June			
	2019	2018	*Decrease*	
	HK$ million	HK$ million	*HK$ million*	*%*
By geographical contribution:				
Hong Kong	**544**	3,259	*(2,715)*	*-83%*
Mainland China	**563**	735	*(172)*	*-23%*
	1,107	3,994	*(2,887)*	*-72%*

The decrease in the Group's share of pre-tax profits from property sales in Hong Kong during the six months ended 30 June 2019 of HK$2,715 million (or 83%) is mainly attributable to the non-recurrence during the six months ended 30 June 2019 of the profit contribution of HK$2,780 million which arose from the Tuen Mun Transfer during the corresponding six months ended 30 June 2018.

The decrease in the Group's share of pre-tax profits from property sales in mainland China during the six months ended 30 June 2019 of HK$172 million (or 23%) is mainly attributable to the decrease of HK$562 million in the Group's attributable share of pre-tax profit contribution from the property sales of "Henderson • CIFI City" in Suzhou during the period, which is partially offset by the increase of HK$412 million in the Group's attributable share of pre-tax profit contribution from the property sales of "La Botanica" in Xian during the period.

	Six months ended 30 June			
	2019	2018	*Increase /(Decrease)*	
	HK$ million	HK$ million	*HK$ million*	*%*
By contribution from subsidiaries (after deducting non-controlling interests), associates and joint ventures:				
Subsidiaries	**641**	3,234	*(2,593)*	*-80%*
Associates	**(3)**	626	*(629)*	*-100%*
Joint ventures	**469**	134	*335*	*+250%*
	1,107	3,994	*(2,887)*	*-72%*

The decrease in the Group's share of pre-tax profits from property sales of the Group's subsidiaries during the six months ended 30 June 2019 of HK$2,593 million (or 80%) is mainly attributable to the non-recurrence during the six months ended 30 June 2019 of the profit contribution of HK$2,780 million which arose from the Tuen Mun Transfer during the corresponding six months ended 30 June 2018.

The decrease in the Group's share of pre-tax profits from property sales of the Group's associates during the six months ended 30 June 2019 of HK$629 million (or 100%) is mainly attributable to (i) the decrease of HK$562 million in the Group's attributable share of pre-tax profit contribution from the property sales of "Henderson • CIFI City" in Suzhou, mainland China during the period; and (ii) the decrease of HK$73 million in the Group's attributable share of pre-tax profit contribution from the property sales of Hong Kong Ferry (Holdings) Company Limited ("HK Ferry", a listed associate of the Group) in Hong Kong during the period.

The increase in the Group's share of pre-tax profits from property sales of the Group's joint ventures during the six months ended 30 June 2019 of HK$335 million (or 250%) is mainly attributable to the increase of HK$412 million in the Group's attributable share of pre-tax profit contribution from the property sales of "La Botanica" in Xian, mainland China during the period, which is partially offset by the decrease of HK$64 million in the Group's attributable share of pre-tax profit contribution from the property sales of "Chengdu ICC" in mainland China during the period.

Property leasing

Gross revenue - subsidiaries

The gross revenue from property leasing during the six months ended 30 June 2019 and 2018 generated by the Group's subsidiaries, and by geographical contribution, is as follows:-

	Six months ended 30 June			
	2019	2018	*Increase / (Decrease)*	
	HK$ million	HK$ million	*HK$ million*	*%*
By geographical contribution:				
Hong Kong	**2,186**	2,059	*127*	*+6%*
Mainland China	**917**	936	*(19)*	*-2%*
	3,103	2,995	*108*	*+4%*

Pre-tax net rental income – subsidiaries, associates and joint ventures

The Group's attributable share of pre-tax net rental income, by geographical contribution and from subsidiaries (after deducting non-controlling interests), associates and joint ventures during the six months ended 30 June 2019 and 2018, is as follows:-

	Six months ended 30 June			
	2019	2018	*Increase / (Decrease)*	
	HK$ million	HK$ million	*HK$ million*	*%*
By geographical contribution:				
Hong Kong	**2,853**	2,785	*68*	*+2%*
Mainland China	**732**	749	*(17)*	*-2%*
	3,585	3,534	*51*	*+1%*

By contribution from subsidiaries (after deducting non-controlling interests), associates and joint ventures:				
Subsidiaries	**2,319**	2,292	*27*	*+1%*
Associates	**428**	422	*6*	*+1%*
Joint ventures	**838**	820	*18*	*+2%*
	3,585	3,534	*51*	*+1%*

For Hong Kong, on an overall portfolio basis, there was a period-on-period increase of 6% in rental revenue contribution and a period-on-period increase of 2% in pre-tax net rental income contribution for the six months ended 30 June 2019. Such increase in gross revenue and pre-tax net rental income is mainly attributable to (i) the increase in rental revenue after the completion of renovation of MOSTown (formerly known as Sunshine City Plaza) in Ma On Shan and MCP Central in Tseung Kwan O in 2018; (ii) the additional rental revenue contribution from Nathan Hill in Tsim Sha Tsui which commenced commercial leasing in the second half of 2018; and (iii) the positive rental reversion from the Group's office investment properties which mainly include AIA Tower in North Point and Manulife Financial Centre in Kwun Tong as well as from the Group's commercial investment properties which mainly include Skyline Plaza in Tsuen Wan and Double Cove Place in Ma On Shan.

For mainland China, on an overall portfolio basis, there was a period-on-period decrease of 2% in rental revenue contribution and a period-on-period decrease of 2% in pre-tax net rental income contribution for the six months ended 30 June 2019. Such decrease is mainly attributable to the effect of the depreciation of Renminbi ("RMB") against Hong Kong dollars by approximately 6% during the six months ended 30 June 2019 when compared with the corresponding six months ended 30 June 2018, as well as the decrease in rental revenue contribution and pre-tax net rental income contribution from certain of the Group's investment properties in Shanghai due to the early termination of tenancy leases by certain tenants amid the intensive competition in the office and commercial property leasing market in Shanghai. On an overall portfolio basis, the ratio of pre-tax net rental income to rental revenue for the six months ended 30 June 2019 was 79% (2018: 80%).

Department store operation

Department store operation is carried out by Citistore (Hong Kong) Limited ("Citistore") and Unicorn Stores (HK) Limited (("UNY HK"), formerly known as UNY (HK) Co., Limited until 27 July 2018 on which date the current name was adopted), both being wholly-owned subsidiaries of Henderson Investment Limited ("HIL"), a listed subsidiary of the Company. As UNY HK was acquired by HIL on 31 May 2018, UNY HK became a wholly-owned subsidiary of HIL since 1 June 2018 and therefore the comparative figures for the corresponding six months ended 30 June 2018 only related to the financial performance of UNY HK for the month of June 2018.

For the six months ended 30 June 2019, revenue contribution from the department store operation amounted to HK$926 million (2018: HK$524 million) which represents a period-on-period increase of HK$402 million, or 77%, over that for the corresponding six months ended 30 June 2018. The increase in revenue is mainly attributable to an increase in revenue contribution of HK$424 million from UNY HK for the full six months ended 30 June 2019, compared with the revenue contribution from UNY HK only for the month of June 2018 for the corresponding six months ended 30 June 2018.

Profit contribution (after the elimination of rental expenditure in respect of the stores which was payable by Citistore to the Group) for the six months ended 30 June 2019 decreased by HK$32 million, or 22%, to HK$116 million (2018: HK$148 million), which is mainly due to a remarkably warmer weather during the months of January and February 2019 and which resulted in a decrease in the sales of winter merchandises in January and February 2019 when compared with that for the corresponding period of January and February 2018, and the cautious consumption and retail market sentiment in Hong Kong starting from May 2019 amid external uncertainties.

Other businesses

Other businesses mainly comprise hotel operation, construction, provision of finance, investment holding, project management, property management, agency services, cleaning and security guard services, as well as the trading of building materials and disposal of leasehold land.

Revenue and profit contribution of other businesses for the six months ended 30 June 2019 amounted to HK$549 million and HK$657 million respectively, representing:

(i) a decrease of HK$25 million (or 4%) from the revenue of HK$574 million for the corresponding six months ended 30 June 2018, which is mainly attributable to the decrease in investment income of HK$32 million during the six months ended 30 June 2019 for the reason that the Group had disposed of its financial investments in certain listed and unlisted equity securities and corporate bonds during the year ended 31 December 2018; and

(ii) an increase of HK$299 million (or 84%) over the profit contribution of HK$358 million for the corresponding six months ended 30 June 2018, which is mainly attributable to the fair value gain of HK$271 million during the six months ended 30 June 2019 arising from the Group's investment in units of Sunlight Real Estate Investment Trust (which is recognised as an investment measured as financial asset at fair value through profit or loss).

Associates

The Group's attributable share of post-tax profits less losses of associates during the six months ended 30 June 2019 amounted to HK$2,030 million (2018: HK$2,777 million), representing a decrease of HK$747 million, or 27%, from that for the corresponding six months ended 30 June 2018. Excluding the Group's attributable share of changes in fair value of investment properties held by the associates (net of deferred taxation) during the period, the Group's attributable share of the underlying post-tax profits less losses of associates for the six months ended 30 June 2019 amounted to HK$1,797 million (2018: HK$2,206 million), representing a decrease of HK$409 million, or 19%, from that for the corresponding six months ended 30 June 2018. Such period-on-period decrease in the underlying post-tax profits during the six months ended 30 June 2019 was mainly due to (i) the decrease of HK$294 million in the Group's attributable share of post-tax profit contribution from the property sales of "Henderson • CIFI City" in Suzhou, mainland China during the period; (ii) the decrease of HK$89 million in the Group's attributable share of post-tax profit contribution from HKCG as a result of the decrease in revenue from Hong Kong gas operation and the provision for assets deployed in the new energy business during the period; and (iii) the decrease of HK$60 million in the Group's attributable share of post-tax profit contribution from HK Ferry as a result of the decrease in profit contribution from property sales in Hong Kong during the period.

Joint ventures

The Group's attributable share of post-tax profits less losses of joint ventures during the six months ended 30 June 2019 amounted to HK$1,479 million (2018: HK$2,863 million), representing a decrease of HK$1,384 million, or 48%, from that for the corresponding six months ended 30 June 2018. Excluding the Group's attributable share of changes in fair value of investment properties held by the joint ventures (net of deferred taxation) during the period, the Group's attributable share of the underlying post-tax profits less losses of joint ventures for the six months ended 30 June 2019 amounted to HK$945 million (2018: HK$786 million), representing an increase of HK$159 million, or 20%, over that for the corresponding six months ended 30 June 2018. Such period-on-period increase in the underlying post-tax profits during the six months ended 30 June 2019 was mainly due to the increase in the Group's attributable share of post-tax profit contributions from the property sales of "Wellesley" in Hong Kong and "La Botanica" in Xian, mainland China in the aggregate amount of HK$223 million during the six months ended 30 June 2019, which is partially offset by the decrease in the Group's attributable share of post-tax profit contributions from the property sales of "Chengdu ICC" in mainland China in the amount of HK$41 million during the six months ended 30 June 2019.

Finance costs

Finance costs (comprising interest expense and other borrowing costs) before interest capitalisation for the six months ended 30 June 2019 amounted to HK$1,275 million (2018: HK$944 million). Finance costs after interest capitalisation for the six months ended 30 June 2019 amounted to HK$262 million (2018: HK$479 million), and after set-off against the Group's bank interest income of HK$378 million for the six months ended 30 June 2019 (2018: HK$252 million), the Group recognised net interest income in the Group's consolidated statement of profit or loss for the six months ended 30 June 2019 in the amount of HK$116 million (2018: the Group recognised net finance costs as expenses in the Group's consolidated statement of profit or loss in the amount of HK$227 million).

Overall, as referred to in the paragraph headed "Maturity profile and interest cover" below, the entire amount of the Group's total debt of HK$90,664 million at 30 June 2019 (31 December 2018: HK$86,630 million) was represented by the Group's bank and other borrowings in Hong Kong both at 30 June 2019 and 31 December 2018. During the six months ended 30 June 2019, the Group's effective borrowing rate in relation to the Group's bank and other borrowings in Hong Kong was approximately 2.62% per annum (2018: approximately 2.12% per annum).

Revaluation of investment properties and investment properties under development

The Group recognised an increase in fair value on its investment properties and investment properties under development (before deferred taxation and non-controlling interests) of HK$1,097 million in the consolidated statement of profit or loss for the six months ended 30 June 2019 (2018: HK$3,937 million).

Financial resources and liquidity

Medium Term Note Programme

At 30 June 2019, the aggregate carrying amount of notes guaranteed by the Company and issued under the Group's Medium Term Note Programme established on 30 August 2011 ("MTN Programme") and under which the Company had on 15 October 2018 increased the maximum aggregate principal amount of notes outstanding at any one time from US$3,000 million to US$5,000 million, was HK$11,080 million (31 December 2018: HK$7,732 million) with tenures of between two years and twenty years (31 December 2018: between two years and twenty years). During the six months ended 30 June 2019, the Group issued guaranteed notes under the MTN Programme denominated in United States dollars ("US$"), RMB and Hong Kong dollars in the aggregate equivalent amount of HK$3,386 million with tenures of between two years and ten years. Such increase in the amount of guaranteed notes issued by the Group serves to finance the Group's capital expenditure requirements as referred to in the paragraph headed "Capital commitments" below. These notes are included in the Group's bank and other borrowings at 30 June 2019 and 31 December 2018 as referred to in the paragraph headed "Maturity profile and interest cover" below.

Maturity profile and interest cover

The maturity profile of the total debt, the cash and bank balances and the gearing ratio of the Group were as follows:

	At 30 June 2019 HK$ million	At 31 December 2018 HK$ million
Bank and other borrowings repayable:		
- Within 1 year	**32,894**	33,021
- After 1 year but within 2 years	**10,913**	15,924
- After 2 years but within 5 years	**22,793**	20,064
- After 5 years	**22,859**	16,521
Amount due to a fellow subsidiary	**1,205**	1,100
Total debt	**90,664**	86,630
Less:		
Cash and bank balances	**(14,428)**	(16,507)
Net debt	**76,236**	70,123
Shareholders’ funds	**314,686**	313,153
Gearing ratio (%)	**24.2%**	22.4%

The total debt of HK$90,664 million at 30 June 2019 (31 December 2018: HK$86,630 million) was unsecured and comprised the Group’s bank and other borrowings in Hong Kong. At 30 June 2019, after taking into account the effect of swap contracts, 25% (31 December 2018: 22%) of the Group’s total debt carried fixed interest rates.

Gearing ratio is calculated based on the net debt and shareholders’ funds of the Group at the end of the reporting period.

The interest cover of the Group is calculated as follows:

	Six months ended 30 June	
	2019 HK$ million	2018 HK$ million
Profit from operations (including bank interest income and the cumulative fair value change (net of tax) of investment properties disposed of during the period, but before changes in fair value of investment properties and investment properties under development for the period) plus the Group’s share of the underlying profits less losses of associates and joint ventures	**7,901**	15,087
Interest expense (before interest capitalisation)	**1,180**	864
Interest cover (times)	**7**	17

With abundant banking facilities in place and the recurrent income generated from its operations, the Group has adequate financial resources in meeting the funding requirements for its ongoing operations as well as its future expansion.

Treasury and financial management

The Group is exposed to interest rate and foreign exchange risks. To efficiently and effectively manage these risks, the Group's financing and treasury activities are centrally co-ordinated at the corporate level. As a matter of policy, all transactions in derivative financial instruments are undertaken solely for risk management purposes and no derivative financial instruments were held by the Group at the end of the reporting period for speculative purposes.

The Group conducts its business primarily in Hong Kong with the related cash flows, assets and liabilities being denominated mainly in Hong Kong dollars. The Group's primary foreign exchange exposure arises from its property developments and investments in mainland China which are denominated in RMB, the guaranteed notes ("Notes") which are denominated in US$, RMB, Sterling ("£") and Japanese Yen ("¥"), the fixed coupon rate bond ("Bond") which is denominated in US$ and the bank borrowings which are denominated in ¥ and Australian dollars ("AUD").

In respect of the Group's operations in mainland China, apart from its capital contributions and, in some cases, loan contributions to projects which are denominated in RMB and are not hedged, the Group endeavours to establish a natural hedge by maintaining an appropriate level of external borrowings in RMB. In respect of the Notes and the Bond in the aggregate principal amounts of US$629 million and £50 million at 30 June 2019 (31 December 2018: US$629 million and £50 million), cross currency interest rate swap contracts were entered into between the Group and certain counterparty banks for the purpose of hedging against interest rate risk and foreign currency risk during their tenure. Furthermore, (i) in respect of certain of the Group's bank loans and the Notes denominated in Hong Kong dollars in the aggregate principal amounts of HK$14,300 million (31 December 2018: HK$11,450 million) and HK$5,599 million (31 December 2018: HK$5,599 million) respectively at 30 June 2019, interest rate swap contracts were entered into between the Group and certain counterparty banks for the purpose of hedging against interest rate risk during their tenure; and (ii) in respect of the Note and bank loans denominated in ¥ in the aggregate principal amount of ¥32,000 million, certain bank loans denominated in AUD in the aggregate principal amount of AUD173 million, a Note denominated in US$ in the principal amount of US$300 million and a Note denominated in RMB in the principal amount of RMB200 million at 30 June 2019 (31 December 2018: the Note and bank loans denominated in ¥ in the aggregate principal amount of ¥32,000 million and certain bank loans denominated in AUD in the aggregate principal amount of AUD173 million), cross currency swap contracts were entered into between the Group and certain counterparty banks for the purpose of hedging against foreign currency risk during their tenure.

Material acquisitions and disposals

Material acquisitions

On 28 March 2019, a joint venture in which the Group has 30% interest, was awarded a land site registered in the Land Registry as New Kowloon Inland Lot No. 6576, Kai Tak Area 4B Site 1, Kai Tak, Kowloon, by way of public tender for a tender premium of HK$9,893 million. The Group's attributable share of the tender premium amounted to HK$2,968 million and was fully settled on 18 April 2019.

On 7 May 2019, a joint venture in which the Group has 18% interest, was awarded a land site registered in the Land Registry as New Kowloon Inland Lot No. 6552, Kai Tak Area 4C Site 2, Kai Tak, Kowloon, by way of public tender for a tender premium of HK$12,590 million. The Group's attributable share of the tender premium amounted to HK$2,266 million and was fully settled on 3 June 2019.

On 28 May 2019, a wholly-owned subsidiary of the Group acquired a land site at Chaoyang District, Beijing, mainland China, by way of public tender for a consideration of RMB3,020 million (equivalent to HK$3,433 million). Part of the consideration for the acquisition, in the amount of RMB490 million (equivalent to HK$557 million), had been settled as at 30 June 2019 whilst the remaining amount of RMB2,530 million (equivalent to HK$2,876 million) was settled in July 2019.

On 25 June 2019, a wholly-owned subsidiary of the Group entered into a joint venture with a wholly-owned subsidiary of CIFI Holdings (Group) Co. Ltd. ("CIFI") in relation to residential property development of a land site in Hefei, Anhui province, mainland China, in which each of the Group and CIFI has a 50% equity interest. The land cost for the project amounted to RMB1,731 million (equivalent to HK$1,968 million) and of which the Group's attributable share amounted to RMB866 million (equivalent to HK$984 million) accordingly, and which amount was fully settled by the Group on 5 August 2019.

Save as aforementioned, the Group did not undertake any other significant acquisitions of subsidiaries or assets during the six months ended 30 June 2019.

Material disposals

The Group did not undertake any significant disposals of assets or subsidiaries during the six months ended 30 June 2019.

Completion during the six months ended 30 June 2019 of a significant transaction entered into during the previous year ended 31 December 2018

Reference is made to the conditional agreement dated 27 July 2018 entered into between the Group and a subsidiary of Lai Sun Development Company Limited (collectively as the "Vendors") and an independent third party pursuant to which, inter alia, the Vendors transferred to such independent third party their entire shareholdings in Best Value International Limited ("Best Value", being a joint venture of the Group) which together with its wholly-owned subsidiaries collectively own an investment property at No. 8 Observatory Road, Kowloon, Hong Kong, for a cash consideration of HK$4,100 million (subject to adjustment). The transfer was completed on 11 March 2019. Proceeds of HK$1,414 million, representing the Group's attributable share of the sale consideration after settlement of the outstanding debt of Best Value, plus an amount of HK$619 million representing the recovery of the outstanding balance of a loan advanced from the Group to Best Value, were received by the Group in the aggregate amount of HK$2,033 million. The Group's underlying profit arising from such transfer of interest in joint ventures amounted to HK$1,305 million and was recognised in the Group's consolidated financial statements for the six months ended 30 June 2019.

Charge on assets

Except for pledged bank deposits of HK$101,158 at 30 June 2019 (31 December 2018: HK$101,158), assets of the Group's subsidiaries were not charged to any third parties at 30 June 2019 and 31 December 2018.

Capital commitments

At 30 June 2019, capital commitments of the Group amounted to HK$36,533 million (31 December 2018: HK$33,040 million). In addition, the Group's attributable share of capital commitments undertaken by joint ventures and certain associates at 30 June 2019 amounted to HK$7,750 million (31 December 2018: HK$7,128 million).

Included in the Group's capital commitment contracted but not provided for at 30 June 2019 is an amount of HK$3,368 million which comprises (i) the remaining balance in the amount of HK$2,876 million of the land cost of a land site at Chaoyang District, Beijing, mainland China which was acquired by the Group by way of public tender on 28 May 2019 (as referred to in the paragraph headed "Material acquisitions" above), and which amount was settled by the Group in July 2019; and (ii) the Group's attributable share of the remaining balance in the amount of HK$492 million of the land cost of a joint venture development project in Hefei, Anhui province, mainland China which was entered into by the Group on 25 June 2019 (as referred to in the paragraph headed "Material acquisitions" above) , and which amount was settled by the Group on 5 August 2019.

Contingent liabilities

At 30 June 2019, the Group's contingent liabilities amounted to HK$2,469 million (31 December 2018: HK$2,232 million), which include:-

(i) an amount of HK$33 million (31 December 2018: HK$443 million) relating to performance bonds, guarantees and undertakings for the due and proper performance of the obligations of the Group's subsidiaries and projects, and the decrease of which is mainly attributable to the release during the six months ended 30 June 2019 of a guarantee previously given by the Group to a bank in the amount of HK$425 million against a finance undertaking issued by such bank in favour of the Government of the Hong Kong Special Administrative Region of the People's Republic of China for the completion of the Group's residential development project "Reach Summit – Sereno Verde Phase 5" in Hong Kong under the terms and conditions of the relevant land grant;

(ii) an amount of HK$1,129 million (31 December 2018: HK$1,458 million) relating to guarantees given by the Group to financial institutions on behalf of purchasers of property units in mainland China in relation to which the related Building Ownership Certificate (房產證) had not yet been issued at 30 June 2019 (and such guarantees will be released upon the issuance of the Building Ownership Certificate);

(iii) an amount of HK$390 million (31 December 2018: HK$320 million) relating to the Group's attributable and proportional share of contingent liabilities in respect of an irrevocable, unconditional and several guarantee to the lending bank in relation to the amount drawdown on a loan facility which was entered into between a joint venture, in which the Group has a 20% interest, and such lending bank on 2 May 2017;

(iv) an irrevocable and unconditional guarantee issued by the Company in favour of the Urban Renewal Authority ("URA") in relation to the obligations of the Developer (as defined below) under the Development Agreement (as defined below) which includes the construction and delivery by the Developer, on or before certain prescribed dates, of certain properties whose ownership shall be retained by URA absolutely for such purposes and usages to be decided by URA at its sole discretion, in accordance with a development agreement dated 21 November 2018 ("Development Agreement") between the URA and a wholly-owned subsidiary of the Company (the "Developer") in relation to a land parcel registered in the Land Registry as New Kowloon Inland Lot No. 6585; and

(v) an amount of HK$906 million (31 December 2018: Nil) relating to the Group's attributable and proportional share of contingent liabilities in respect of an irrevocable, unconditional and several guarantee to the lending bank in relation to the maximum amount which may be drawdown on a loan facility which was entered into between a joint venture, in which the Group has a 18% interest, and such lending bank on 18 June 2019.

Employees and remuneration policy

At 30 June 2019, the Group had 8,614 (31 December 2018: 8,954) full-time employees. The decrease in the Group's full-time employees headcount of 340 during the six months ended 30 June 2019 is mainly due to (i) the transitional and seasonal factor in the human resources market relating to the property management sector in Hong Kong during the six months ended 30 June 2019; (ii) the change in client portfolio of the Group's security operation during the six months ended 30 June 2019; (iii) the expiry of cleaning services contracts for certain office and commercial properties in Hong Kong during the six months ended 30 June 2019; and (iv) the cessation of HIL's "PIAGO" department store operation at Kowloon Bay on 31 March 2019.

The remuneration of the employees is in line with the market and commensurate with the level of pay in the industry. Discretionary year-end bonuses are payable to the employees based on individual performance. Other benefits to the employees include medical insurance, retirement scheme, training programmes and education subsidies.

Total staff costs for the six months ended 30 June 2019 amounted to HK$1,173 million (2018: HK$1,055 million), representing a period-on-period increase of HK$118 million, or 11%, which is mainly due to (i) the increase in the staff costs of HIL due its acquisition of UNY HK on 31 May 2018; (ii) the increase in the management staff costs of the Group's mainland China operation due to the increase in managerial headcounts during the six months ended 30 June 2019; and (iii) the increase in the Group's general staff costs due to general salary increment and certain bonus payments during the six months ended 30 June 2019.

Non-adjusting event after the reporting period

After the end of the reporting period, the Group entered into an agreement in July 2019 to sell its equity interest in the company holding interests in certain land lots in Wo Shang Wai, New Territories, which cover a total site area of about 2,420,000 square feet, for an aggregate consideration of HK$4,705 million (subject to adjustments) to an independent third party. The transaction is scheduled for completion in January 2020 (except where the purchaser can before completion substantiate that the relevant project cannot be developed as stated in the agreement). The purchaser has the right to bring forward the completion date.

OTHER INFORMATION

Review of Interim Results

The unaudited interim results for the six months ended 30 June 2019 have been reviewed by the auditor of the Company, 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 Hong Kong Institute of Certified Public Accountants.

Issue of Shares

On 17 June 2019, the Company issued 440,126,091 bonus shares on the basis of one share for every ten shares held.

Purchase, Sale or Redemption of the Company’s Listed Securities

Except for the issue of bonus shares on 17 June 2019, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities during the period.

Audit Committee

The Audit Committee met in August 2019 and reviewed the systems of internal control, risk management and compliance, and the interim report for the six months ended 30 June 2019.

Corporate Governance

During the six months ended 30 June 2019, the Company complied with the applicable code provisions as set out in the Corporate Governance Code (the “CG Code”) as stated in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), with the exception that the roles of the chairman and the chief executive officer of the Company have not been segregated as required by code provision A.2.1 of the CG Code. Dr Lee Shau Kee was the Chairman and Managing Director of the Company until his retirement on 28 May 2019 whilst remaining as an Executive Director of the Company. Each of Dr Lee Ka Kit and Mr Lee Ka Shing was appointed as Chairman and Managing Director of the Company on 28 May 2019. The Company is of the view that Dr Lee Shau Kee, with his profound expertise in the property business, had provided outstanding leadership in his dual capacity as the Chairman and Managing Director during his tenure, and it is in the best interest of the Company that each of Dr Lee Ka Kit and Mr Lee Ka Shing, with the relevant in-depth expertise and knowledge in the Group’s business, acts in the dual capacity as Chairman and Managing Director of the Company.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as the code for dealing in securities of the Company by the Directors (the “Model Code”). Having made specific enquiries, the Company confirmed that all Directors have complied with the required standards as set out in the Model Code.

Forward-Looking Statements

This announcement contains certain statements that are forward-looking or which use certain forward-looking terminologies. These forward-looking statements are based on the current beliefs, assumptions and expectations of the Board of Directors of the Company regarding the industry and markets in which it operates. These forward-looking statements are subject to risks, uncertainties and other factors beyond the Company's control which may cause actual results or performance to differ materially from those expressed or implied in such forward-looking statements.

By Order of the Board
Timon LIU Cheung Yuen
Company Secretary

Hong Kong, 21 August 2019

As at the date of this announcement, the Board comprises: (1) executive directors: Lee Ka Kit (Chairman and Managing Director), Lee Ka Shing (Chairman and Managing Director), Lam Ko Yin, Colin, Lee Shau Kee, Yip Ying Chee, John, Suen Kwok Lam, Fung Lee Woon King, Lau Yum Chuen, Eddie, Kwok Ping Ho and Wong Ho Ming, Augustine; (2) non-executive directors: Lee Pui Ling, Angelina and Lee Tat Man; and (3) independent non-executive directors: Kwong Che Keung, Gordon, Ko Ping Keung, Wu King Cheong, Woo Ka Biu, Jackson, Poon Chung Kwong and Au Siu Kee, Alexander.