2020
Interim Report

Hang Lung Group Limited

Stock Code: 00010

WE DO IT RIGHT

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DIRECTORS

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

\# *Non-Executive Director*
* *Independent Non-Executive Director*

AUDIT COMMITTEE

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

NOMINATION AND REMUNERATION COMMITTEE

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

AUTHORIZED REPRESENTATIVES

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

COMPANY SECRETARY

Margaret K.M. Yan

REGISTERED OFFICE

28th Floor
Standard Chartered Bank Building
4 Des Voeux Road Central, Hong Kong
Tel: 2879 0111
Fax: 2868 6086
Website: http://www.hanglunggroup.com
Email: HLGroup@hanglung.com

AUDITOR

KPMG
Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance

RESULTS AND DIVIDEND

For the six months ended June 30, 2020, revenue declined 1% to HK$4,457 million compared to the corresponding period last year. After taking into account the property revaluation loss, net loss attributable to shareholders was HK$1,595 million. Loss per share was HK$1.17.

Underlying net profit attributable to shareholders fell 43% to HK$1,336 million when excluding the property revaluation loss and all related effects. Underlying earnings per share decreased similarly to HK$0.98.

The Board has declared an interim dividend of HK19 cents per share payable on September 29, 2020 to shareholders of record on September 16, 2020. The amount is the same as last year.

BUSINESS REVIEW

When I last wrote six months ago, we were facing two serious threats – social unrest in Hong Kong and worsening China-U.S. relations. Now we have a third, the COVID-19 pandemic. The impact of all three on our business is serious, and I feel obliged to devote much of this letter to discussing them. My hope is to give our shareholders an on-the-ground understanding of the macro environment in which we now operate. To face any one of them is challenging, let alone all three at once.

Let me first present my thoughts in summary form. While the Hong Kong streets are peaceful now, partly due to the public health threat, there is the new National Security Law (NSL) legislated by the Standing Committee of China's National People's Congress for Hong Kong. While I believe that it is a necessary measure for the city, it does introduce new uncertainties. On the other hand, China-U.S. relations have gone from severe to malignant. As to COVID-19, it is a real problem but not a new problem. In 2003, we experienced SARS, but its economic impact was far less alarming than the strain now. All three problems mentioned above are impacting our business – Hong Kong is negatively affected by all of them, whereas the Mainland is benefiting from all of them.

It is easy to comprehend why our Hong Kong operation has been adversely affected, but why should all three monumental events benefit our Mainland activities? After all, two out of the three – not counting the Hong Kong riots which are local – are events that have been troubling the world and will continue to do so. Well, COVID-19 has forced the complete repatriation of luxury spending by Mainlanders, who used to purchase less than 30% of such goods onshore. The Hong Kong riots have removed Hong Kong from being the closest and easiest destination to buy such products offshore. Finally, terrible China-U.S. relations will propel China to grow her domestic market, including private consumption, more than ever.

Let me present in a little more detail my perspective on these three issues, and how they have affected our business. A fuller discussion can be found in the next section of this letter, Prospects.

Mankind has seen pandemics before. Even in the past few decades, every few years a pandemic or epidemic pops up somewhere in the world. Some of them were also partly asymptomatic, like the present strain, which enables the viruses to spread undetected. Before symptoms develop in an infected person, the virus may have already been transmitted to others. Fortunately, COVID-19 is not particularly deadly – about 4% of the infected have died from it, as compared to, according to published figures, the 10% fatality rate of SARS in 2003, and 35% for MERS in 2012. Ebola, which mankind has had to live with since 1976, killed half of those who unfortunately caught it.

Yet, more than any of the previous episodes, COVID-19 will change the world. The last widespread pandemic was the swine flu, or H1N1, in 2009 first found in the U.S., which spread to more than 214 countries and regions. Although many more people were then infected than COVID-19 as of today, the latter has already taken almost three times as many lives. More countries this time took severe measures, like total or partial lockdowns, so many more people around the world felt the pain. During H1N1, that was not the case, so the global economy was much less affected. This time, international traffic almost came to a complete standstill. The U.S. economy, by far the biggest in the world, fell more in the second quarter than any other time in 73 years. No economy on earth escaped unscathed.

Moreover, the present pandemic coincided with the recent trend of deglobalization, and has greatly exacerbated the process in two aspects – political and economic. The pandemic has been used by the U.S. as an excuse to intensify geopolitical tensions against China, thus hastening the return of the Cold War. Economic decoupling will result in the reorganization of the global supply chain. All of these are very much related to the worsening of China-U.S. relations, the second of the three monumental events mentioned above which affects our business.

In the short term, COVID-19 is detrimental to our retail rental business everywhere. Tenant sales for most products have fallen significantly except daily necessities like groceries. In Hong Kong, the impact is worse than the 2019 street riots. Fortunately, epidemics and pandemics will sooner or later disappear, although some may return years later like Ebola. Once the virus is gone, business will quickly recover. In some cases, "shopping with a vengeance" may even lead to partial catch-up. As such, the negative effects of such public health threats are expected to be short-lived.

Whereas Hong Kong street riots affected all retail operations, their impact hurt some more than others. Our properties suffered but were not the worst hit. The turmoil afflicted retailers in at least three ways. First, many Hong Kong people dared not leave their homes except for necessary activities. Second, the rioters destroyed some shops and facilities. Third, and this is the most serious and with long-lasting effects, is the cessation of Mainland tourist arrivals. There were simply too many hate acts against Putonghua speakers, like those from the Mainland.

In 2018, the total number of tourists visiting Hong Kong was over 65 million. Of that, approximately 80% were from mainland China. Primarily due to the social unrest, last year's figure was lowered by more than 14%. All of the drop occurred in the second half of the year which traditionally sees more tourists. During those six months of rioting, nearly 40% fewer visitors arrived in our city compared to the same period in 2018. From that low base, 90% evaporated due to the pandemic during the first six months of this year. In 2019, the year-on-year drop in city-wide retail sales for the six months of social unrest was 20%. This year, COVID-19 has caused a fall of about a third from the year before.

For the two months of February and March this year, the situation was equally bad on the Mainland. Two of our nine malls were ordered by the local governments to shut down along with everyone else in town, except grocery stores, if there were any. Riverside 66 in Tianjin was closed for 36 days and only reopened on March 11, while Center 66 in Wuxi was out of business for 13 days during the month of February. The effects were reflected in our results. The fact that retail sales at Center 66 still grew by 13% for the past six months showed how strong the recovery was starting from April, a point on which I will expand later.

Because of the strong measures taken by the Chinese government, the spread of the virus soon came under control. By April, retail sales at our Shanghai malls had exceeded those of the same month last year. Total sales outside Shanghai were on par with the year before, if we include the contribution from our new property in Kunming, and towards June, almost as much even if we exclude it.

During the second quarter, and even to this day, there was a divergence in performance. While our sub-luxury malls – Palace 66 in Shenyang, Riverside 66 in Tianjin, and Parc 66 in Jinan – are slowly recovering, their luxury cousins have roared ahead. That includes Plaza 66 and Grand Gateway 66 in Shanghai, Center 66 in Wuxi, Spring City 66 in Kunming, and even to some extent Forum 66 in Shenyang. During the first quarter, the first group saw retail sales sink by almost 50% when compared with the same quarter a year ago. In the second quarter, they were down by 20%, a sharp improvement but still not fully recovered. The second group, on the other hand, fell less than 25% in the first three months, but thereafter on average soared 50%, not counting Forum 66 in Shenyang, which grew 7%.

Two properties deserve special mention here because of their unique positions at this time. Olympia 66 in Dalian is in the process of being transformed from a four-star mall to a five-star one. This can be reflected in its recent performance, which is half-way between the sub-luxury and luxury properties we own. In the first quarter, sales went down 38% but was only 16% below in the second quarter last year. Two top brands have moved in this year, and nine more have signed up to open next year. By the second half of next year, it will clearly be the number one luxury mall of the city.

That was our game plan when we bought the land in 2009, but the property opened for business in 2015 in the depth of the bear market. No luxury brands were allowed by their headquarters to move locations, so we had to temporarily settle for being a sub-luxury property. But once market conditions turned around in early 2018, we began to woo the top brands. Primarily due to the superiority of our hardware, the mall is now being transformed. The same path was taken by Center 66 in Wuxi just a little earlier. I expect more from our portfolio.

Spring City 66 in Kunming opened in August 2019 and so there were no comparable numbers. Suffice to say that it is already the unique “Home to Luxury” in the city. Last year, we only had four top brands; now the number is 17, all of which have opened, with four more to join during the remaining months of this year. It is significant to observe that 13 luxury brands opened in the first half of this year under the threat of the pandemic.

Top global luxury brands, almost all from Europe, are keenly aware of China’s great attraction. This is why they are rapidly expanding again. For most first- and second-tier names, the China market already accounts for around 30% to 40% of their global sales. For the number to rise further is highly probable. They want to occupy excellent spaces in the best malls in economically vibrant cities. Given that, it is only natural that we should become a partner of theirs in terms of landlord-tenant relations. Our strategy and our products provide a perfect fit for them.

This is why this year, COVID-19 notwithstanding, is a bumper year for us. Including the previous year and the next, we will be signing, or have already signed, over 70 lease contracts with top global luxury brands. In fact, most of those who planned to open this year have already moved in, and the year is barely more than half gone. Not included in this number are quite a few still under negotiation, and I certainly expect that most of them will be signed within the next 12 months.

So far, the greatest beneficiaries among our properties have been Spring City 66 in Kunming, followed by Grand Gateway 66 in Shanghai, Olympia 66 in Dalian, Center 66 in Wuxi, and the yet-to-be-opened Heartland 66 in Wuhan. The lease contracts yet to be signed are heavily tilted towards Heartland 66, whose construction is expected to be completed in the fourth quarter this year, and will open for business in the first half of 2021.

Now let me turn to the second of the three monumental events that have affected our businesses, namely, the deteriorating China-U.S. relations. Whereas in the next section I will discuss this further, suffice to say here that relations have worsened much faster than that I had expected. Like COVID-19, this will fundamentally change the world for at least one to two generations to come. Moreover, I doubt if a Democratic White House after the November election will fundamentally turn the situation around.

One thing is for sure: what terrible China-U.S. relations cannot do is to seriously damage Hong Kong's economy, for the third of the three events – the social unrest of last year and its aftermath – has already done this, as we shall see. The outrageous actions of the U.S. can make things worse for Hong Kong, but they will likely hurt America's interests more. Washington, D.C. will have to tread carefully.

As I have previously reported, a stormy relationship between China and the U.S. may actually be quite positive to our Mainland retail rental business. With real and potential problems in external economic ties, including trade, the huge internal market in China must be enlarged and made more efficient. Its significance to GDP growth and job creation will become more critical than ever. Domestic consumption must grow, and the related systems must be further improved. On an individual level, no longer welcome in most major Western countries, Mainland Chinese shoppers will make their luxury purchases at home. All of this is good for our business.

The third and final monumental event of late that impacts our operation is the street violence in Hong Kong that started in June 2019 and lasted until COVID-19 broke out at the end of January this year. Six months ago, in the year-end letter to shareholders of our major subsidiary, Hang Lung Properties Limited (HLP), I analyzed this at length and will not repeat myself here. The significant subsequent development in this regard is Beijing's enactment of the NSL for Hong Kong.

For the past 23 years since Hong Kong's return to her Motherland, Beijing has been too soft in implementing the Basic Law that governs the Hong Kong Special Administrative Region or HKSAR. Together with the mistakes made locally and in Beijing, a radical minority supported by foreign elements found opportunities to create trouble here. Eventually, it got so bad that Hong Kong was hardly governable. The opposition has even publicly announced their plans to destroy Hong Kong and, in the process, damage Beijing, which is their ultimate goal. The Hong Kong independence movement has taken root, and the city has become what Beijing worries the most – a base seeking to overthrow the Chinese regime.

According to Article 23 of the Basic Law, Hong Kong is supposed to legislate her own national security law. Because of the opposition, it could not be done for 23 years, and there is no possibility of it being enacted anytime soon. In fact, local politics has become so toxic that the city has become ungovernable. This was exactly what the opposition had wanted. Their goal may not have been to damage the economy, but that eventuality became inevitable.

Then came the street riots of last year which had no doubt the support from outside forces. It came on the heels of the 2014 Occupy Central movement but has morphed into something even more violent. Something had to be done, but the situation was beyond what the Hong Kong government could handle locally. For example, our police force was on the brink of collapse last Fall at the height of the riots. Something had to give.

Let me pause for a while to answer an important question: how did the Hong Kong situation get out of hand so badly? In a word, there was little or no price to pay for opposing the Hong Kong government, and through it, Beijing. In fact, there was much to gain. For 23 years, Beijing was way too gentle in dealing with Hong Kong affairs. Whenever the opposers pushed hard enough, Beijing almost always backed down. There was also benign neglect. For example, when the Rules of Procedures of our legislature, the Legislative Council, were not followed – or were blatantly violated – Beijing said nothing. Our judiciary always erred on the side of leniency towards the rioters in their clashes with the police. It frankly became ridiculous. Emboldened by foreign forces, and encouraged by the Western dominated media, opposing the Hong Kong government was a sure way to gain notoriety, locally and internationally. Even financially, many could make a lot more money by playing the political game than in their previous jobs, so why not. And the more extreme they became, the greater benefits they could reap. Such was our history of the past 23 years.

Then came the NSL enacted by Beijing. In the past year or so, Washington, D.C. has openly called China as her number one enemy. Previously, Beijing was extra cautious in dealing with Hong Kong so as not to unnecessarily antagonize the U.S. Now this reservation is no longer the most critical, and the NSL was born. It shocked Hong Kong, in particular the opposition.

Even those not opposed to Beijing did not quite know how to react. As I have previously written, before 1997, the British colonial master had successfully raised a breed of Chinese in Hong Kong who did not have any national identity. Neither Beijing nor Hong Kong locally did anything in the past 23 years to rectify this. It follows that people without a sense of nationhood would be oblivious to the need for national security. The last time they might have thought about it was probably in 2003, when they opposed and protested against Article 23. No wonder the discussions in the recent months in our society on the NSL have been rather absurd. The ignorance was palpable.

Reactions from the West, especially the U.S., have been understandably strong. A few countries have suspended extradition arrangements with Hong Kong. There can be at least two key reasons. First, America is now in an all-out war against China. Hong Kong is a handy pawn, so any change here that is seen as disadvantageous to the U.S. is unwelcome. In other words, foreign forces are using Hong Kong to thwart Beijing. Second, the NSL will unavoidably pose limitations on foreign clandestine operations in Hong Kong. After all, this city has for at least a century been a bustling place for such activities. It is safe to assume that those countries which recently suspended extradition agreements with Hong Kong must have been very active here previously.

Some of these foreign powers might have counseled caution to their “friends” in Hong Kong who are against the government. Immediately after the announcement of the NSL, members of the opposition began to retreat. They were apparently taken by surprise by the new law. For 23 years, they had been having a ball in a part of China that was not covered by any national security legislation, a true rarity in the world. They were under the delusion that Beijing would not want a fight with the U.S., so by siding with the foreigners, they would always win. Now they stand deserted by their former backer. The U.S. pushed China too far, which removed the remaining restraint that Beijing had towards America. The opposition also pushed way too hard locally, which forced Beijing’s hands.

It ended up with a situation which is a loss for all. China is now left with an economically damaged Hong Kong. All Hong Kong people have suffered, and will continue to pay a heavy economic price. Many of the opposition will become entangled with the law. Some will have to run for their lives, with little hope of ever returning without serious personal consequences. As to the West, under the NSL, it has lost Hong Kong as a place to make mischief on China.

The leaders of the opposition are all adults, who presumably know what they are doing. It is, however, sad to witness the youngsters aged 13 to 15 who are now being charged for what they did during last year's riots. Many of them threw petrol bombs at the police, and some were caught with assault weapons. What turned them into such angry teenagers, and who incited them? Should these adults who heartlessly exploited the hearts and minds of the young not bear the responsibility for ruining their lives? What they have done is morally sick.

How the NSL will play out is yet to be seen. For now, at least, it appears to be having the desired effect of calming our streets. Yet, I fear that our economy is already considerably damaged. It will not be easy to revive it. Much of the luster of the Pearl of the Orient is now gone. The only one who is smiling is the hypocritical British. Before 1997, they ran Hong Kong with an iron fist and the city thrived. Now Beijing, being much gentler than the former colonial master, has given the world the impression that it cannot run Hong Kong well. Then the British has had the rest of the West as her friend, iron fist notwithstanding; China has had them for a foe. America did not complain about the iron fist then, but is now accusing Beijing for almost everything.

Like every other landlord in town, our retail rental business was hurt. It may take a decade for rents to recover to 2018 levels. After all, in the case of the 1997 Asian Financial Crisis, it took 11 years. It was not until 2007 did rents return to 1996 levels. At that time, our economy was quantitatively hurt. This time it is both quantitatively and qualitatively wounded.

For us, there is a silver lining to the present crisis. Luxury purchases in Hong Kong by Mainlanders will be largely gone, and unlike on the Mainland, our company does not have such shops here. Given COVID-19, the only place that such transactions could take place is on the Mainland. For that, our many malls there will no doubt benefit. Fortunate for us, for almost two decades, we have not added to our Hong Kong rental portfolio. Instead, since 2005 we have aggressively invested almost exclusively on the Mainland. In particular, we have concentrated our efforts on luxury malls, the very segment that is now the most desirable.

Let me turn to our business performance. While footfall in all kinds of Mainland malls still lags behind that of the same month a year ago, tenant sales of luxury goods have roared ahead. The recovery of other sales categories is still behind. Plausible reasons for the disparity are given in my letter to the HLP shareholders. In time, all retail properties will return to the norm in terms of visitors, although some sales of daily necessities may be permanently shifted to e-commerce. But for the expensive items sold in five-star facilities like ours, this will unlikely happen, as I have explained extensively in the past.

Performance of our retail properties for the past six months saw two divergences: Hong Kong versus the Mainland, and, within the Mainland, luxury versus sub-luxury malls. Offices everywhere showed some weakness but have been, so far, manageable.

In both our markets, we had to grant rent relief to our retail tenants. In Hong Kong, it was on a case-by-case basis depending on the situation. On the Mainland, for three weeks we collected only 50% of base rent. In both places, the forgone amount accounted for a few percentage points of total rental revenue. We were responding to market needs in order to maintain a higher occupancy. Vacancy actually shrank a little in Hong Kong and Shanghai, but expanded slightly in other cities. For our offices, both rental revenue and occupancy moderated just a little. However, outside Shanghai, we saw an improvement in tenant quality.

For our main business of property leasing, revenue in Hong Kong fell 6%. In RMB terms, revenue rose 8% on the Mainland. Taking out the new properties, rent grew 2%. Our Shanghai properties collected 6% more rents, and outside of Shanghai 6% less. During this period, the RMB devaluated by 4.5% against our home currency, the Hong Kong Dollar. As such, total Mainland revenue grew only 3% instead of the 8% mentioned above.

Apart from the last penthouse at one of our development projects in Hong Kong, The Long Beach, we did not sell any property. Profit margin was quite satisfactory, and the revenue and the gain was recognized this month, i.e. in the second half of the year.

Given the market environment under COVID-19, a sizable revaluation loss was recorded versus a gain for the same period a year ago. The amount represents about 2.5% of the entire investment properties portfolio. For Hong Kong, the number was 3.6% and for the Mainland, 1.9%. Because of this, the Company for the first time in its history has recorded a net loss attributable to shareholders. Excluding the effect of revaluation, the underlying net profit attributable to shareholders was 43% lower than that of the same period last year. The underlying leasing net profit attributable to shareholders was down only 8%.

PROSPECTS

No business can exist in a vacuum. All are subject to the external environment in which they operate: industry, market, economy, and politics. Having been in real estate for over 40 years, I have never seen a time that is as chaotic as now. I am of course referring to the three monumental events mentioned in the previous section: global pandemic, fast deteriorating China-U.S. relations, and a failing Hong Kong. Any one of them would have been a handful for any executive who was caught in it. Now we are simultaneously dealing with all three, as I have earlier described.

To be sure, these are not the only major problems of the world. I can think of a dozen or so more that will affect every one of us, and that may be a boon or more likely a bane to our business. As such, we cannot be oblivious to them. Unfortunately, each of them is completely beyond our control, so we can at best prepare ourselves relatively better, in case one or more of them becomes a real trouble. After all, given the interconnected world in which we live, something that happens thousands of miles away can, overnight, become our problem. Consider how the Arab Spring spread; it all started with one man's self-immolation in Tunis in December 2010.

Of the dozen or so issues, let me just single one out – deglobalization – which will affect our business, and is related to two of the three monumental events – COVID-19 and the America-led decoupling of the U.S. and China. To be sure, humankind has for millennia seen the ups and downs of globalization and deglobalization. The Silk Road between the Middle East and further west on the one end, and China, even Japan, on the other, was an early example of globalization. Yet today, much of that part of the globe is probably the least globalized. China's Belt and Road Initiative addresses precisely that problem. If successful, this would be an example of re-globalization.

As an entrepôt, Hong Kong thrived on globalization, but also managed to economically benefit herself amid partial deglobalization. Through the 1950s to the 1970s, when the Mainland was closed to most of the successful economies of the world, Hong Kong being a small city then played a critical intermediary role. In the upcoming segregated world, will this city be able to continue her economic success? It will entail a discovery of roles that Hong Kong can play that are beneficial to the bigger economies she serves, particularly mainland China.

The effects of deglobalization on the rest of China are far more significant to the world, given the size of her geography, population, and economy. In the past four decades, China has grown to become what is today the world's second largest economy mainly through export-led manufacturing. As such, globalization and international trade were critical to the country's success. So, what if the world goes into reverse gear, and deglobalization becomes the long-term trend? What will happen to China's economy? To be sure, many domestic adjustments will have to be made.

After World War II (WWII), with the U.S. being forced to step onto the global center stage, and given the real and perceived threats of the then U.S.S.R., much of the world embarked on a long process of globalization. Only the Communist bloc was left out, while tremendous wealth was created by and for the so-called free world. Hong Kong benefited immensely, while mainland China chose isolationism.

China should have known better, but ideology got in the way. When this ancient country began to close herself off from the rest of the world in the early 15th century during the Ming Dynasty, she began to wane. Attempts to open up all failed, such as the one in the early 20th century. Civil wars and the Japanese invasion spelled her doom. Chairman Mao's efforts to engage the U.S. in the late 1940s were rebuffed, and the Korean War in the early 1950s sealed the country's fate to isolationism.

Leaders in Beijing knew that they were missing out, and it was not until U.S. President Richard Nixon, with the help of his then National Security Advisor Dr. Henry Kissinger, that China was given an opportunity in the early 1970s to re-engage with the world. To be sure, the U.S. had her own need for rapprochement – to contain the then U.S.S.R. Whatever the case, Beijing gladly took up the offer. That laid the foundation for the country to open up in 1978, which led to her prosperity of the past 40 years.

Meanwhile, the world was caught by surprise in the early 1990s when the Soviet Union collapsed. It gave a boost to globalization, as technologies formerly used for military purposes could now be commercialized. Modernization went to newer heights never seen before. Just consider how the smartphone alone has changed the world.

Counting from 1945, at the end of WWII, until today, globalization has been ongoing for three quarters of a century. It has been almost 30 years since the fall of the Soviet Union. Is it not about time that the Kondratieff long wave cycle should kick in?

Now the entire world is re-entering another stage of deglobalization. One should not be surprised, for it invariably happens. It is driven by human nature. Globalization, like almost everything else, goes in cycles. The causes for each reversal may differ but reverse it will. Those of us whose entire life is spent under globalization may find the reversal incredulous. But just read history; it is not surprising at all. Moreover, such a systemic change does not happen easily. The reversal may last many years, if not decades. Nevertheless, the decoupling this time will be the most unusual, as we shall see.

First, two of the three monumental events affecting our business now – COVID-19 and deteriorating China-U.S. relations – are direct causes of the upcoming deglobalization. One is voluntary, while the other is involuntary. Correctly or incorrectly, America, the world's number one economy with a GDP of US$21.4 trillion, is choosing to decouple from China, the number two economy with a GDP of US$14.3 trillion. Together, they account for over 40% of the world's economy. For the past few decades, China alone was responsible for over 30% of the world's economic growth. It is truly a Great Reversal.

Then, without warning, COVID-19 awakened the world to the idea that perhaps we had taken globalization too far. Say if 80% of all surgical masks in the world are manufactured in one country, China, what would happen when there is a sudden pandemic, and the product is required everywhere in the world? Without the breakdown in global trade, especially between the world's two biggest economies, this would not be too bad. But now the U.S. is picking on China. It is understandable why Americans should be concerned.

It seems clear to me that the root of today's deglobalization is primarily political – that the U.S. wants to contain China on almost all fronts. While U.S. President Trump has for decades considered the global trading system unfair to the U.S., economics and trade were not the main cause. For if it were, just negotiate trade deals that would be more favorable to America. Trump's administration was picking trade fights with everyone, even with her staunch allies as well as small African countries. Since the U.S. has by far the biggest deficit with China, she has extracted tremendous concessions from Beijing. Just do likewise with America's other major trading partners, and the global trading system, and hence globalization, would be preserved. Yet Washington, D.C. is now moving on to other fields to contain China. Trade is a means, not an end.

As I have previously written, trade is in fact only a tertiary issue between the two countries. Technology superiority leading to military supremacy, and currency domination are far more critical to America. Feeling threatened in all these areas, the U.S. does not want to see the further rise of China. Why pick on Huawei? Because for the first time in history, America is losing her leadership to another country in a critical technology – 5G and so possibly A.I. The ramifications, both militarily and psychologically, are too much for the elites in America to bear.

There were talks among U.S. policy circles in the early 1990s on containing China. Now some of them are regretting that they did not act 20 years earlier, when it would have been a lot easier. They believe that now is their last chance. Put yourself in their shoes: the U.S. has been dominating the world at least since WWII. They thought that U.S.S.R. was a real threat, so they broke the back of Moscow. Since that time, there was no possibility for any nation to challenge America in any significant area, such as science and technology. Psychologically, she is not prepared to accept a close number two.

In came China. Her speed of development has surprised the West. Worse yet, the country does not do things the Western, i.e. American, way. She does not have the same cultural roots, so she does not share the same value system. This is unacceptable to many American elites. In their minds, there is no way the U.S. can co-exist with such a country. America does not know how to live peacefully with another country that is as big and strong. Even though Beijing had sought the cooperation of Washington, D.C. several times in recent decades, she was more often than not rebuffed. China was happy to play second fiddle to the U.S., but the latter would have nothing of that. It is either you or me.

This is, I believe, the root of today's deglobalization. When the number one economy called the number two economy an enemy, what can the latter do?! Given today's interconnected world due to trade and technology, the two for decades have been joined at the hip in economic terms. So how will the process of decoupling work, and what will be the final form? Indeed, can a complete decoupling take place?

For now, it seems that the U.S. administration wants a total separation. Actions against Chinese companies will only attract retaliation, and China is capable of retaliating. Since American companies' interests in China are at least at the same level if not higher than that of the Chinese in the U.S., who has more to lose?! What do American business leaders think about this? Are they willing to give up the huge Chinese market? Without it, how will Silicon Valley firms amortize their huge R&D expenses for high-tech product development?

What seems sure at this moment is that there will be some restructuring of the global supply chain. The aftermath of COVID-19 will also demand it. The U.S. wants to do it to hurt China as much as to protect herself. She has also asked some of her allies like Japan to do likewise.

Inasmuch as Beijing does not like to see it, this may, in the end, not be so bad for China. For example, over a decade ago, the country began to move her labor-intensive and polluting manufacturers out of the Pearl River Delta (PRD), the world's number one supply chain hub. Replacing such low value-added industries were the many high-tech businesses that now populate Shenzhen, just north of the border with Hong Kong. Moreover, the country in recent years has run short of labor at multiple levels. The external pressure will only help the country to move faster up the value chain.

It is however doubtful if the present global supply chain, which relies considerably on China and was built over the past 30 some years, can be completely replaced. Within China, the PRD is not the only hub. The Yangtze River Delta (YRD) led by Shanghai is almost as big. It is mind-boggling to think of rebuilding these elsewhere. If forced by the U.S., of course it can be done, but the efficiency of the global economy will diminish significantly. There is simply not another big country in the world that can do what China has done. Breaking up the supply chain into many pieces and rebuilding it over different countries will also take decades to accomplish. Consider the construction of physical infrastructures, the training of local workers, the reestablishment of trade relationships and networks, and the coordination of the geographically disparate parts, etc. The money involved would be humongous, and who will pay for it all?!

Prior to the formation of China's powerful supply chain hubs, the various pieces were spread all over East Asia like Hong Kong, Taiwan, Korea, Japan, and South East Asia. They have all been working with China for many years, and some of their economies are dominated by ethnic Chinese businessmen. Culturally, they are akin to each other, and geographically, they are close to China. When their home countries became too expensive for many manufacturing concerns, it was easy for them to make the move. Frankly, they had little choice. Consolidating the supply chain network was also advantageous to makers of all kinds of gadgets. Then China was not only cheaper but also better. Factory workers there were skillful with their hands and hardworking, so why not? 30 to 40 years later, will the moving out of China today be as smooth? I doubt.

Almost a decade ago, some people had suggested that the U.S. might well once again become a manufacturing center, given technologies such as 3D printing and robotics. That may be a part of the new supply chain to come, but in no way can it be a complete replacement of the existing system.

In the end, I suspect that in terms of supply chains, there will not be a complete decoupling. Some industries considered to be strategic, such as telecoms, certain medical devices and pharmaceuticals, and the truly high-tech, will have their manufacturing remain with the end-user countries that also own the intellectual property rights. One study indicates that for Europe, this may account for approximately 10% of her industries. The rest can still be produced elsewhere, such as in China.

What really concerns me, however, is not economics per se, which is rational. A solution can usually be found, although the process may be messy, and the results can be inefficient and unacceptable to some. It is the politics that worries me. To accomplish an objective – in this case, to contain China – the U.S. may not stop at anything. The risks are much more serious and unpredictable than matters in the economic realm. The chances of things getting out of hand, or spiraling to totally unexpected ends, are high. Just witness the recent actions of Washington, D.C. They are sheer madness. Military conflict between two major nuclear powers previously unthinkable is now at least plausible. This is not to mention possible miscalculations and accidents.

In addition, there is always the possibility of international incidents orchestrated for domestic political reasons. The personal interests of one man, or a few men, can put world peace and the lives of many at risk. With the U.S. presidential election in November, the months ahead may be the most unsettling. All of this means that today's world is far more dangerous than at almost any time I can remember. The potential consequences are grave indeed.

Since the end of WWII, the world has been basically a peaceful place. Military conflicts were inevitable, but they were mostly confined to particular regions of the globe, like the Korean Peninsula, Vietnam, Afghanistan, or the Middle East. Now, chances are high that mankind is entering an overall much more turbulent time.

Today, the world's number one is working hard to form a bloc, mostly with countries in the West, to contain China. The U.S. even publicly stated that China together with Russia are their enemies. This leaves China with no choice but to work with her historic nemesis and the only other major military power in the world, Russia. Together, they have the wherewithal to compete. How can this be beneficial to the West? The British are the best at divide and conquer. Just look at how they ruled a much bigger India with a then population of about 300 million for some 200 years. London must have told Washington, D.C. about this time-tested tactic, but sadly, the once powerful small island state is no longer significant enough to persuade the big brother.

Another folly of American actions today is that they will only make China stronger. The U.S. should ask herself the question: can she beat China into submission? Short of assured mutual destruction, most people including many in the U.S. would believe that the time to do this has passed. If so, it is much better to work with and not against China.

Consider some of the recent actions of America. They range from the incredulous to the serious. Let me begin with the former. The only reason President Trump wants to sue China for compensation for COVID-19 is to cover his own failure in handling the pandemic domestically. In fact, the latest report showed that lies were deliberately spread by the officials in the U.S. regarding the virus. What better way to divert attention than by accusing China for telling lies? True or not does not matter. With international media on your side, it puts your enemy on the defensive. The sad thing is that most of the world bought in because it came from the White House. But does that alone make their words the truth? Hardly.

However, have American leaders thought through the issue? What about the H1N1 pandemic, which was first discovered in the U.S. in 2009? Should the rest of the world ask Washington, D.C. for compensation? There were some 34 times more infected cases than COVID-19 so far. Frankly, if it had been anyone else proposing to sue China, the world would think that the person is mad and would ignore it. So what does this tell us? The U.S. is today altogether irresponsible.

Now let me turn to the more serious. Among them, the U.S. is putting limitations on Chinese students seeking to study or are studying in the U.S. Many top American scientists of Chinese origin no longer feel safe working in the U.S., given the witch-hunt just like McCarthyism of the 1950s. Many of them are frankly being forced to return to China. U.S. policy makers seem to have forgotten that it was precisely the ethnic Chinese scientists, being persecuted during the original McCarthy era, who later went back to China and helped them develop much of their advanced military apparatus. I fear that the U.S. is repeating history, which cannot be good for herself.

In the past, many in the American policy circles thought that as China becomes wealthy with an established middle class, the country would become more like the U.S. The Chinese people would subscribe to Western values and ask for a political system like that of the West. Now China has one of the world's biggest middle classes, but the anticipated social change did not happen.

So now, some of the same group of elites think that they can bludgeon China into submission. One of the many tactics is to foment trouble inside China. Hong Kong before the NSL was used precisely for that. They will unlikely succeed. Again, they should study history. The Chinese people are very nice to friends – recall how well Beijing treated President Nixon when he was the bane of the world – but will unite in the face of an enemy. In past decades, I know many Chinese who were ignorantly favorable towards the U.S. After the past 12 months, they are disheartened. America has helped them to become more patriotic to their Motherland.

It is said that President Trump is incapable of strategic thinking. Everything to him is tactical for a short-term goal. Moreover, he has surrounded himself with hot-headed people who have a visceral dislike for China, instead of informed and well-argued views regarding her. As such, decisions are made with apparently little consideration of the consequences, not least of which is what is in the best interests of America. How can an outcome be desirable, when a leader makes decisions from the gut, and those around him advise by their emotions? It makes one wonder: who is using their head?

Apparently, no one is considering the economic consequences of those decisions. Are American businesses ready to forsake the huge Chinese market? Is the U.S. as foolish, like some in Hong Kong, as to turn away tens of millions of Chinese tourists each year, who are usually the highest per capita spenders of all tourists from any country? What will happen to many private universities when Chinese students stop coming? It seems that all economic considerations are thrown out the window. Is this good for America?

Indeed, my worries these days for the U.S. are more than they are for China. This ancient country has gone through millennia of troubled waters and will survive this. But what will happen to the young but great country? Today she is still by far the strongest nation in the world, and no one can defeat her, except herself. I fear that she is working double time to do just that!

Take for example the global confidence in the U.S. Dollar. None of us should take it for granted. It looks mighty today but it is perhaps a lot more fragile than people think. For a few decades now, America ranks among the most fiscally irresponsible major countries in the world. Her citizens have been living beyond their means for too long. Her currency can no longer rest solely on the strength of her economy.

The confidence should also rest to some extent on her unparalleled moral leadership and credibility gained during and after WWII. After all, she had saved Europe from the Nazis and Asia from Imperial Japan. Thereafter, she was the economic engine of much of the world. Sadly, however, for the past few decades this wonderful legacy has been gradually eroded by her unwise actions in many parts of the world. Is she now committing the biggest mistake on China? As WWII fades more from our memory, America needs to constantly renew and refresh her hard-earned credibility around the world. It will be good for her and for the world, but she has instead chosen to damage that credibility.

So today, the once hero is perceived by even her close allies as a bully. They are forced to ask the question: is the U.S. still a reliable partner? I can only hope that enough Americans will be coolheaded in mind and humble at heart to listen to friends and foes alike and to change. If not, America is liable to seriously hurt herself. One way is to destroy the world's confidence in her currency, the greenback.

As I have written in past years, the financial system in the West is prone to periodic crises. Enabled by technology, the underlying philosophy of today's capital markets is that the faster, the bigger, and the freer, the better. This is dangerous, for moderation is needed. Yet the market today is like a truck without brakes. With successive financial crises, each one bigger and more damaging than the previous one, the stakes are piling higher and higher. The 2008 Global Financial Crisis was bad, almost detrimental, to the entire global economy (with noted exception of China and Malaysia, who had previously refused to listen to America's advice to further open up their respective domestic markets). I worry that the disaster of 12 years ago will not be the worst. The worst has yet to come. Finance is supposed to serve the real economy, but now it is the tail that wags the dog, and will, I fear, one day kill the dog. It is today a distinct possibility.

Given the ultra-low interest rate environment, debts of all sorts have been piling up. Many economies have been printing an amazing amount of money for a long time. COVID-19 is a legitimate reason to do more, but it also greatly exacerbates the problem. Unlike major Asian countries such as Japan and China, where public debt instruments are mainly held domestically, American Treasury Bills are held by everyone. Once confidence in the country and the greenback is shaken, perhaps sparked by a wrong move by Washington, D.C., the consequences will be most grave. Everyone will suffer, but the U.S. will suffer the most.

Interest rates today remain low partly because there is still faith and confidence in the system and in the U.S. government. But as we all know, confidence can be fickle, yet the entire global economy, especially its financial system, rests solely on it. The U.S. Dollar is perhaps not as strong as people think; it is only as strong as the confidence on which it rests.

My fear is that the political frenzy to suppress China can easily lead to missteps by the U.S. To keep a cool head while being mad at someone is not an easy task. The damage can be incalculable, especially to America herself. Needing to nurse herself back to health, the U.S. may retreat into isolationism. After all, the young country was founded on that principle. Many events in American history point to that fact – the Monroe Doctrine and Manifest Destiny of the 19th century, the Roosevelt Corollary, not joining the League of Nations, and the trade barriers of the 1920s in the early part of the last century. It was only after WWII that the U.S. finally and willingly took to the global center stage. But even then, she is often delinquent in her United Nations dues, and has of late withdrawn from many multi-lateral organizations, the latest being the World Health Organization in the midst of a global pandemic. The world needs leadership, not a tantrum.

Given this history, for the U.S. to retreat into isolationism should not surprise anyone. It is nothing new. Again, no one can force her into it except herself, and she is doing it. In my opinion, it would not be good for the world or for herself.

What then may happen to China? In the coming few years, she will focus, as before, on her own domestic development. After all, she can no longer rely on the international community for her further growth. For sure she will not close her doors, for she knows that she needs the world, just as the world needs her. However, even if there is an opportunity, Beijing will not take the initiative to play too big of a role in the global arena, except to protect her own core interests. America is afraid that China will rise to become another hegemon like the U.S. was, and still is – a bully. I do not believe she will, but I also know that it is impossible to convince my Western friends to think likewise. I have tried for three decades and have failed. It is time for me to give up.

If my analysis on China is anywhere close to the truth, then her society may remain a relatively peaceful place, and her domestic economy will be gently rising. Her markets will be among the more attractive ones in which to invest. Fortunately, your Company is well-positioned to take advantage of her continued march towards a consumption-led economy. With many of our world-class malls placed at the center of some of China's most dynamic cities, our future there should be bright.

Sadly, Hong Kong is a different story. Our business there will be affected very much! The city's economic future is truly tenuous due to her self-inflicted wounds. Frankly, if our citizens had been smarter after 1997, our economy could have boomed tremendously. If we had stayed out of politics, or at least had not challenged Beijing at every turn, some of the transnational financial and policy institutions initiated by Beijing in the past two decades or so, such as Asian Infrastructure Investment Bank (AIIB) or Silk Road Fund, might have been headquartered here. Imagine the economic and reputational benefits that would have been brought to our city. They would have further enhanced our already strong position as the undisputed international financial center of our and neighboring time zones. Instead, a minority of our citizens, i.e. the radical ones, have seriously hindered our economic development.

Nonetheless, thanks to Mainland corporates, we should be able to keep our status as a premier international financial center. Other than that, I cannot think of any sizable and significant industry that will bring considerable wealth to our city. Over-concentration in a single industry is obviously not as desirable as having a few strong ones. For example, historically Hong Kong had four pillars – trade, tourism, finance, and real estate – that together made for a rather healthy and diverse economy. But much has changed.

For now, our tourism business is almost dead. It is not just because of the pandemic, for it will be over one day. A bigger problem is that it is difficult to imagine Mainland tourists returning en masse any time soon. Only commercial people doing business here would still regularly visit. Given the NSL, tourists from other parts of the world will rightly or wrongly become cautious for some time. Our tourist industry will not disappear altogether, but it will not thrive as it did before last year's riots. It will take a long time to recover.

For different reasons, the other two pillars of Hong Kong's economy have both diminished. With global trade expected to slow, and with many Mainland ports now directly dealing with foreign countries, Hong Kong's traditional role as an entrepôt will be less significant than before.

Real estate is another story. Due to the opposition to the government, land supply could not be increased. As a result, the industry has not been operating as robust as it should. In turn, this ensures high housing prices because of limited supply. This is not a satisfactory state of affairs. It is a prime case of politics interfering with sensible economic policies. A political problem needs a political resolution. Without it, I cannot foresee a healthy residential market.

With tourism seriously impaired, trade reduced, and real estate also operating at a suboptimal level, our economy is in a dire state. The previous four pillars have now been substantially weakened. If there are emerging industries to replace the lost or weakened ones, then we may still be fine. But that prospect is, in my opinion, not good. I hope I am wrong.

For the eight years up to 2018, our annual GDP growth was just short of 3%. After COVID-19, what will be the normalized rate? I would be happy if we average 2% moving forward. Our citizens are nowadays more interested in politics than economics. Many of our young people have been misled and are not interested in studying or otherwise improving themselves. A generation is lost. Just as problematic is that an unhealthy sense of entitlement has crept in. Instead of relying on ourselves, many would demand things from the government. More often than not, those making such demands are also the ones who blame the government for everything. They think they are always right, and seem to have lost the faculties of rational thinking and self-examination. Such people have become a burden rather than a contributor to society.

What can make Hong Kong shine again? There is only one way that I can think of – with the assistance of Beijing. Since 1997, I have never liked asking Beijing for help, for I believe in self-reliance to the greatest extent possible. But given Hong Kong's present condition, and given the overall hostile international environment, this time there is no choice. Personally, I believe that the Motherland is still happy to help, but like any relationship between two parties, a basic respect for each other is necessary. There is no question that over the past 23 years, Beijing has amply demonstrated her goodwill.

In this city, most people, although usually silent, accept Beijing's sovereignty over Hong Kong, and are willing to work peacefully with her. However, there is a vocal minority who openly declares that they want to overthrow the Beijing government, or else want Hong Kong independence. This is absolutely unacceptable to Beijing, to the 1.4 billion Chinese on the Mainland, and to the majority of Hong Kong's citizens. Such unreasonable demands, coupled with the most violent actions so soon after China finally freed herself from shameful and painful colonialism, are particularly obnoxious. (The last former colonial territory to revert to China was Macau in 1999, two years after Hong Kong's return.)

Let me illustrate how ridiculous the local situation has become. Our education sector for the past two decades has been largely dominated by the so-called anti-government Pan-Democrats. They have subtly but purposely brainwashed the minds of a generation of young people against Beijing, and have propagated ideas against Hong Kong's unity with her Motherland. Their goal was de-sinicization.

In a recent case, a storm was created when there was a question in the local high school graduation exam on whether the Japanese did more good than harm to China in the first half of the last century. This would be tantamount to asking American high school students to discuss whether their white forefathers did more good than harm to the people they enslaved. Or it is like asking our students to discuss if rape did more good than harm to the victim. The sheer proposition is offensive.

Recently it was reported that due to COVID-19, kids were studying online at home, and a parent discovered that a teacher told her child that the British started the Opium War in 1840 to save the Chinese from opium addiction. This was exactly what the Japanese had said during WWII: that they invaded China to save her from backwardness.

Such deception is common and deliberate among many of our teachers today; this was not an isolated case. Where then is truthfulness, when white becomes black and black becomes white?! What kind of morality (or lack thereof) has been instilled in our youths? Their sense of right and wrong has been methodically annihilated at schools. This explains the atrocities during last year's riots.

Our children have been constantly de-sinicized by their teachers. No wonder so many of our 13- to 15-year-olds hate Beijing as well as the Hong Kong government. Many of those arrested were born well after 1997 when Beijing was extraordinarily kind to Hong Kong. Some adults, including riot leaders, must have systematically poisoned them. In the name of political reform – do you think that a 15-year-old would know what that is? – criminal acts are justifiable. In this regard, a certain newspaper has also played a critical role to infect those young minds. Such people are truly morally bankrupt, and yet are lauded today by Western leaders and their media. As we all know, in politics, there is hardly a place for morality.

In the face of such systematic de-sinicization in our schools by the Pan-Democrats, what would Beijing think? I fault the Chinese leaders for not having done anything all these years. Today, Mainland Chinese citizens are fed up with Hong Kong and Hong Kong people. No wonder they no longer want to visit. Who can blame them?!

As of a month ago, I saw no way of reversing the wrong. Now perhaps the NSL will sufficiently change the atmosphere in society such that a reasonable return to sanity and decency is possible.

Since the NSL was passed a month ago, I have detected some flicker of hope. Hong Kong always have a silent majority. They may or may not like Beijing, but will always accept that Hong Kong is part of China. They are aware of the many mistakes of the HKSAR government, but do not approve of extreme actions. To such citizens, the riots of last year and the many de-sinicization tactics of the opposition have saddened, even sickened, them. They are now glad that the NSL is bringing back some peace and sanity. They did not speak up because when the Pan-Democrats were in charge – and in charge they were for they had almost brought the government to its knees – it was frankly unsafe to speak up. Now they are breathing a sigh of relief and some of them are beginning to surface.

Whatever the case, Hong Kong people must step up and change themselves in at least three ways. Politically, do not fight against Beijing anymore. Whether they like it or not, Hong Kong is part of China. If they do not like it, they can leave, but why not stay and work together to make Hong Kong a better place! When our city became politicized after 1997, that was the beginning of our downfall. Now we must undergo a depoliticizing process. This must include our civil servants. With the exception of the very senior ones, the rest should be allowed to do their job with little political interference.

Second, our society must restore sufficient cohesion. The NSL lays the foundation, but our citizenry must build upon it by adhering strictly to the Basic Law. The Western way of practicing "one-man-one-vote" democracy engenders confrontation. I know of no small city state anywhere in the world that can be sustainably successful while engaging in it. I believe that what is enshrined in our Basic Law is much better. We should all rally around it.

Third, Hong Kong society as a whole must as much as possible right all the wrongs. It includes fixing our education system, improving our judiciary, and bringing the perpetrators of heinous acts during the riots to justice. There are many others.

On the part of Beijing, she must protect the Basic Law by strictly adhering to it, not in the former overly hands-off way. Hong Kong is part of China, and the Central Government has the responsibility to ensure that the appropriate laws are properly applied.

As I have said for some time, the root problem of Hong Kong for the past 23 years was political and not economic. For the first time recently, Beijing has acknowledged it. Once politics is fixed, economics could then work.

Here, let me say a word about Hong Kong's land supply. Some people, unaware of the deeper political issues, have stated that the lack of land supply, which led to high residential prices, is Hong Kong's root problem. This cannot be farther from the truth. As I wrote last year, since 1997, the Pan-Democrats have, for purely political reasons, repeatedly blocked the sale of land. (They were only correct once – encouraging the then Chief Executive Donald Tsang to sell land in the mid-2000s.) Besides overt actions, they have also stoked undue fear among government officials. Afraid of being accused of colluding with developers, civil servants dared not sell land when they should have. Being average men and women like you and I, they cannot be blamed for their inaction – to do nothing would mean there is nothing to be blamed for. If they had sold, the Pan-Democrats would for sure find fault, again mostly for political reasons. This was why the former Land Application List System failed.

Before 1997, politics was not allowed by the British in the Hong Kong society. Under that environment, our civil servants executed well the decisions of their colonial master. After 1997, everything turned political and government officials could no longer do their job. The goal post has been moved. I do not fault them, for if I were in their shoes, I would probably do likewise. With the NSL in place, hopefully a more non-political and stable environment will return so that public officials can once again perform their duties. If so, then some efficiency should return which will be good for the economy. Among the many dividends will be an adequate supply of land.

With reasonable hope for that, what shall we as a Hong Kong-based business enterprise do? I am a great believer that there are usually decent, if not outright attractive, opportunities in bear markets, and we will explore. There were reasons to believe that we submitted the second highest bid for a piece of land in Hong Kong late last year during the social unrest. We would have been happy if we had won at our price, but there will be other opportunities.

As our track record of the past three decades has shown, we may be considered a "bear market stock". We are usually countercyclical. When the market was booming, our stock price tended to underperform, but we often shone when the bear was here. Well, it is here again. Will we, as before, shine? Possibly. After all, so far this year our scrip has been the second-best performer among real estate counters on the local bourse, and the best has been our major subsidiary HLP. There is quite a gap between us and the third-best.

A word on our share performance may be appropriate at this point. Because of our strategy to create long-term wealth for shareholders, we tend to attract value-oriented shareholders. Many of them are like our major shareholder, the founding family of this Company, who do not mind holding our stock for a considerable period.

History seems to show that our share price (and that of HLP) somehow follows a long cycle. The potential of our Mainland strategy, which began in 1992, coupled with our prudent land acquisitions in Hong Kong in 1999 to 2000, was not recognized until around 2002. Our scrip languished throughout the 1990s until that point. Then, for about a decade until 2011 or 2012, we outperformed almost every other real estate counter. We had the lowest discount to net asset value or NAV, and at times even traded at a premium. We regularly ranked among the best performers over one, three, or five years in terms of total return to shareholders. The second phase of our Mainland strategy, which began in 2005, must have also caught the attention of institutional investors.

Then, around 2011 or 2012, the bear market descended upon Mainland retail and the companies engaged therein. Who among the Hong Kong property companies were the most exposed, especially those in the luxury sector that was the hardest hit? It was Hang Lung, so our stock took a beating. The retail market did not recover until early 2018, at which time we began to once again outperform. But in those six to seven tough years, our discount to NAV was the widest, and that condition persists even today.

In the past year or so, some smart long-term money must have discovered or rediscovered us. Even during the social unrest last year, HLP share price rose. It was the second-best performer for the year in the sector. The one counter that edged us out was undertaking certain corporate maneuvers, which must have affected its share price. Our stock's performance was in the middle of the pack.

Two observations should be made. Timewise, HLP shares always move before the Group. It is because our major subsidiary is the operating entity and has a much bigger market capitalization, two attributes liked by most institutional investors. But if history is any indication, our share price always catches up. That was the case in the 2000s, and I believe it will happen again in the coming few years. Moreover, upon closer examination, it is not difficult to discover that our scrip tends to move in step functions. The curve of our share performance tends to be less smooth. It lags behind HLP until the market notices the gap. Then in a relatively short period, our price is revised upward by quite a bit. Will this happen again? It is possible.

Just to avoid any doubt, and as I have more than once told our shareholders, management is not here to work on our share price; we are here to run our business. Frankly, the former does not concern us that much. Putting on my hat, for a second, as a representative of the major shareholder: the family is here for the long haul.

For the rest of this year, our Hong Kong business will remain a drag. It is possible that more rent relief will have to be granted, which will have a lingering effect on our top and bottom lines. There is not much that we can do. On the development front, in the next two to three years, we should have some profit from our two projects – the residential one very close to our rental property Amoy Plaza in Ngau Tau Kok District, and the office tower on Electric Road, on the east side of Hong Kong Island. The former is wholly owned by HLP and, for historical reasons, the latter is jointly owned with HLP.

Our Mainland operations, on the other hand, should continue to perform well. The harvesting phase began in 2018 and full fruition is expected ahead. It now seems quite certain that Heartland 66 in Wuhan will open by the first half of 2021 with a full slate of top global luxury brands. Construction is expected to complete by the end of this year. Like Spring City 66 in Kunming which opened last year, it will be the single most significant five-star mall in its city from day one. I expect the same of Westlake 66 in Hangzhou when it inaugurates in 2024 or thereabouts. Nevertheless, it does take two to three years after opening for such malls to achieve a steady state, but achieve it they will. Bottom line contribution should kick in at that time.

Ronnie C. Chan
Chairman
Hong Kong, July 30, 2020

Financial Highlights

in HK$ Million (unless otherwise stated)

RESULTS

	For the six months ended June 30					
	2020			2019		
	Property Leasing	**Property Sales**	**Total**	Property Leasing	Property Sales	Total
Revenue	**4,457**	**–**	**4,457**	4,505	–	4,505
Mainland China	**2,480**	**–**	**2,480**	2,409	–	2,409
Hong Kong	**1,977**	**–**	**1,977**	2,096	–	2,096
Operating profit	**3,243**	**(4)**	**3,239**	3,432	–	3,432
Mainland China	**1,620**	**(2)**	**1,618**	1,635	–	1,635
Hong Kong	**1,623**	**(2)**	**1,621**	1,797	–	1,797
Gain on disposal of investment properties	**–**	**–**	**–**	–	868	868
Underlying net profit attributable to shareholders	**1,338**	**(2)**	**1,336**	1,456	868	2,324
Net (decrease)/increase in fair value of properties attributable to shareholders	**(2,931)**	**–**	**(2,931)**	1,385	–	1,385
Net (loss)/profit attributable to shareholders	**(1,593)**	**(2)**	**(1,595)**	2,841	868	3,709

	At June 30, 2020	At December 31, 2019
Shareholders' equity	**87,564**	91,294
Net assets attributable to shareholders per share (HK$)	**$64.3**	$67.0

Earnings and Dividend (HK$)

	2020	2019
(Loss)/earnings per share		
– based on underlying net profit attributable to shareholders	**$0.98**	$1.71
– based on net (loss)/profit attributable to shareholders	**($1.17)**	$2.72
Interim dividend per share	**$0.19**	$0.19

Financial ratio

	At June 30, 2020	At December 31, 2019
Net debt to equity ratio	**20.0%**	17.3%
Debt to equity ratio	**22.4%**	19.7%

CONSOLIDATED RESULTS

For the six months ended June 30, 2020, total revenue of Hang Lung Group Limited (the Company) and its subsidiaries (collectively known as "the Group") declined 1% to HK$4,457 million, and operating profit decreased 6% to HK$3,239 million, owing to the outbreak of the novel coronavirus disease (COVID-19). The performance of the Mainland portfolio was adversely impacted by a 4.5% Renminbi (RMB) depreciation against the Hong Kong Dollar (HKD) over the corresponding period last year. No property sales revenue was recognized during the first half of 2020 and 2019.

Due to a one-off disposal gain recognized in the first half of 2019 in respect of a non-core property, underlying net profit attributable to shareholders period-on-period fell 43% to HK$1,336 million or 8% on a comparable basis. Underlying earnings per share decreased correspondingly to HK$0.98.

With the net revaluation loss of properties attributable to shareholders of HK$2,931 million, net loss attributable to shareholders was HK$1,595 million (2019: net profit of HK$3,709 million). The loss per share was HK$1.17 (2019: earnings per share of HK$2.72).

Revenue and Operating Profit for the Six Months Ended June 30

	Revenue			Operating Profit		
	2020	2019	Change	**2020**	2019	Change
	HK$ Million	HK$ Million		**HK$ Million**	HK$ Million	
Property Leasing	**4,457**	4,505	–1%	**3,243**	3,432	–6%
Mainland China	**2,480**	2,409	3%	**1,620**	1,635	–1%
Hong Kong	**1,977**	2,096	–6%	**1,623**	1,797	–10%
Property Sales	**–**	–	–	**(4)**	–	N/A
Total	**4,457**	4,505	–1%	**3,239**	3,432	–6%

DIVIDEND

The Board of Directors has declared an interim dividend of HK19 cents per share for 2020 (2019: HK19 cents) to be paid by cash on September 29, 2020, to shareholders whose names appeared on the register of members on September 16, 2020.

PROPERTY LEASING

For the six months ended June 30, 2020, the overall leasing revenue of the Group declined by 1% to HK$4,457 million. The rental performance of the Hong Kong portfolio was adversely affected by both the COVID-19 pandemic and social unrest, with leasing revenue shrinking by 6% period-on-period. Various measures including the granting of rent relief were carried out to ease the hardship of tenants. Despite similar challenges brought about by COVID-19 at the beginning of the year, our Mainland leasing properties achieved a revenue growth of 8% in RMB terms and 3% in HKD terms attributable to the rapid recovery of Mainland businesses starting from April onwards.

A relief fund of RMB10 million was established in support of measures to stem the spread of COVID-19 on the Mainland and in Hong Kong.

Mainland China

In the first six months of 2020, total leasing revenue of the Mainland portfolio grew by 8% to RMB2,246 million, partly attributable to the commencement of new leasing properties, namely Kunming Spring City 66, Office Tower 2 at Wuxi Center 66, and Conrad Shenyang at Shenyang Forum 66 during the third quarter of 2019. Excluding these new properties, rental revenue still advanced 2% period-on-period despite the impact of COVID-19. This set of performance was remarkable in the face of the pandemic.

Retail sales increased by 6%. Contributed by a strong rebound in luxury spending, retail sales at Shanghai Plaza 66, Shanghai Grand Gateway 66 and Wuxi Center 66 recorded growth in the range of 7% to 17%, with a corresponding increase of 6% to 15% in rental revenue.

As COVID-19 in mainland China subsided, luxury sales rebounded significantly starting from April, reflecting the pent-up demand that was also fueled by reshoring of spending in this sector. Through product innovation, redistribution of merchandise and targeted promotions on omni-channels, luxury brands seized opportunities to generate sales exceeding pre-pandemic levels. On the other hand, retail properties with fewer luxury tenants, recovered only moderately and recorded negative growth for the period, primarily due to the sales loss during the lock-down. This reflected both government and business have adopted a much more prudent approach towards resumption of normal life.

Our office portfolio in mainland China was less affected by COVID-19 attributable to the high quality of service standard for hygiene and sanitation by the property management of the Group. At Wuxi Center 66, new tenancies in the new Office Tower 2 offset the drop in occupancy at Office Tower 1. Office leasing at the new Kunming Spring City 66 office tower progressed well. As a result, the office sector recorded a 1% income growth in the first half of 2020.

Overall operating profit for the Mainland portfolio grew by 4% while the average rental margin was 65%.

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

	Revenue (RMB Million)			Occupancy Rate*	
City and Name of Property	**2020**	2019	Change	Mall	Office
Shanghai Plaza 66	**861**	827	4%	95%	91%
Shanghai Grand Gateway 66	**637**	583	9%	94%	96%
Shenyang Palace 66	**85**	95	–11%	83%	N/A
Shenyang Forum 66 #	**127**	113	12%	83%	88%
Jinan Parc 66	**148**	158	– 6%	92%	N/A
Wuxi Center 66 #	**154**	140	10%	92%	64%
Tianjin Riverside 66	**80**	93	–14%	84%	N/A
Dalian Olympia 66	**67**	74	– 9%	80%	N/A
Kunming Spring City 66 #	**87**	–	N/A	84%	22%
Total	**2,246**	2,083	8%		
Total in HK$ Million equivalent	***2,480***	*2,409*	*3%*		

* All occupancy rates stated herein were as of June 30, 2020.

\# New properties opened in the second half of 2019: Conrad Shenyang at Shenyang Forum 66, Office Tower 2 at Wuxi Center 66, and the mall and office tower at Kunming Spring City 66.

- *Malls*

The total revenue of our portfolio climbed 9% to RMB1,618 million after the opening of the new mall in Kunming in August 2019, adding to our eight existing malls in mainland China. The revenue of the eight existing malls generated 4% more in revenue compared to the first half of last year.

Income from the Shanghai **Plaza 66** mall increased by 9% during the reporting period. The growth was partly offset by rent relief offered during the height of the COVID-19 crisis and transitional voids to accommodate brand expansions and relocations. Firmly positioned as the Home to Luxury and leveraging on HOUSE 66, our nationwide customer relationship management (CRM) program, Plaza 66 recorded the strongest bounce back from the COVID-19 pandemic among Mainland malls. Its retail sales grew by 17% period-on-period, benefitting from pent-up demand and the repatriation of luxury spending. Taking advantage of the upward trend in local luxury spending, we will continue to cultivate customer loyalty and boost tenant sales.

Revenue from the Shanghai **Grand Gateway 66** mall advanced 15% to RMB453 million, as the benefits of Asset Enhancement Initiatives (AEI) started to flow through. The basement was reopened in June 2019, and the main atrium of the South Building with its strong collection of luxury brands was opened in December 2019. The North Building, comprising a trendy mix of lifestyle brands and a refurbished cinema, complemented the much-enhanced luxury offering in the South Building. Together, they have turned Grand Gateway 66 into a popular hub for young and affluent customers. The second phase of the renovation covering the upper floors of the South Building will be completed in the third quarter of 2020. Total retail sales have seen a strong recovery in the post-COVID-19 period, exceeding the first half of last year by 7%. The retail sales for the second quarter jumped 41% period-on-period.

Income at the Shenyang **Palace 66** mall retreated by 11% to RMB85 million due to the postponement of new store openings and the closure of some stores under local government directives in light of COVID-19. Retail sales declined 34% period-on-period and occupancy dropped by eight points to 83%. Shopping sentiment has recovered modestly but daily footfall has yet to return to pre-pandemic levels, although over 96% of stores have resumed business as of June 2020. The mall was also affected by extensive road works conducted by the government along the pedestrianized zone during the period. Nevertheless, Palace 66 launched various sales-driven promotional campaigns in conjunction with its 10th Anniversary celebration in June to boost retail sales and footfall.

The leasing performance of the Shenyang **Forum 66** mall was likewise negatively impacted by the pandemic and witnessed a drop in footfall, overall sales and revenue in the first half of 2020. Both retail sales and revenue retreated 14%. However, sales in the luxury segment rebounded strongly in May and June. The nationwide CRM program, HOUSE 66, will be launched in August to capture high-level spending and loyalty.

Income at the Jinan **Parc 66** mall fell by 6% to RMB148 million and retail sales dropped by 34% period-on-period. Retail sales at the mall are recovering due to strong marketing efforts and the deployment of the HOUSE 66 program.

The Wuxi **Center 66** mall achieved 6% revenue growth with its continuous improvement in trade mix and is expected to become the center of luxury in the city. The adverse impact from COVID-19 was offset by the higher base and turnover rent from luxury brands. The HOUSE 66 program, launched in 2019, played its part in promoting solid growth and sustainability in luxury sales. Retail sales advanced 13% period-on-period, with a particularly strong recovery from the outbreak seen in the second quarter when retail sales leaped 50% period-on-period.

As part of pandemic control measures, the Tianjin **Riverside 66** mall was ordered to close for five weeks between February and March by the local government. Revenue decreased by 14% period-on-period to RMB80 million, and retail sales plunged by 40%. The mall has been collaborating with tenants since its re-opening and is now on the road to recovery.

The Dalian **Olympia 66** mall was also not spared from the wrath of COVID-19. Revenue at the mall fell by 9% to RMB67 million. Nevertheless, the mall has secured a strong line-up of luxury brands and several of them started to take possession in the second quarter, paving the way for the arrival of an attractive cluster over the balance of the year and into 2021. For the reporting period, retail sales retreated 27% in the first half but have been demonstrating a healthy rebound since the second quarter. The HOUSE 66 program was successfully launched in June 2020.

In Kunming **Spring City 66**, top luxury brands are arriving throughout the summer as planned. The mall generated rental revenue of RMB74 million in the first half of 2020. The retail performance of key luxury brands has led a rebound to pre-pandemic levels, while sales in other trades also showed upward momentum.

- *Offices*

During the first six months of 2020, our seven office towers in four cities generated 1% more in revenue for a total of RMB542 million, mainly due to the new income stream from the second office tower at Wuxi Center 66 and the office tower at Kunming Spring City 66, both of which commenced operations in the third quarter of 2019. In the wake of the COVID-19 pandemic, leasing activities remained subdued and revenue at existing office towers decreased mildly by 2%.

Revenue from the two office towers at Shanghai **Plaza 66** dropped by 4% period-on-period. Despite some smaller tenants deciding to vacate during the pandemic, larger international groups in fashion and professional services took the opportunity to expand under one roof at Plaza 66, enhancing the overall quality of our tenant portfolio. As a result, rental income is expected to stabilize once pandemic-related transitional adjustments are settled.

Revenue from the office tower at Shanghai **Grand Gateway 66** was flat at RMB120 million. Occupancy rate was stable at 96%. The competitive position of the office tower was enhanced as the AEI of the mall is close to completion, attracting more quality tenants such as multinational corporations and large domestic enterprises.

Income at the Shenyang **Forum 66** office tower decreased by 1% period-on-period. The occupancy rate slipped one point to 88% as a few tenants downsized in response to the pandemic.

Total revenue from the two office towers at Wuxi **Center 66** rose by 18% in the first half of 2020. The new lettings and occupancy at Office Tower 2 more than offset a minor retreat in Office Tower 1 due, again, to the effects of the pandemic. Office Tower 2 successfully captured demand from the insurance and technology sectors as well as industries from the new economy, achieving a satisfactory absorption rate with its occupancy rate reaching 33% as of June 30, 2020.

The office tower at Kunming **Spring City 66** collected RMB13 million in rents during the period. The occupancy rate was 22% at period-end. Benefitting from its location and premium facilities, the office tower attracted renowned tenants from fast growing industries in the Southwest, including insurance, banking, finance, e-commerce and pharmaceutical.

- *Hotel*

Conrad Shenyang was opened in September 2019, and contributed RMB22 million in revenue for the first half of 2020. Both room sales and the food and beverage business were significantly impacted by the COVID-19 pandemic. As the restaurants reopened and business and leisure travels started to resume, revenue was gradually picking up in May. The pace of recovery will depend on the stability of disease control measures on a nationwide scale.

- *Residential and Serviced Apartments*

Income from residential and serviced apartments at Shanghai **Grand Gateway 66** declined by 7% period-on-period. The occupancy rate dropped by 12 points to 79% owing to softened demand from expatriates.

Hong Kong

The performance of Hong Kong portfolio was severely affected by the COVID-19 pandemic and the social unrest. Revenue dropped 6% to HK$1,977 million while operating profit declined by 10% to HK$1,623 million. Rental margin was at 82%.

The more tourist-oriented trades with street frontage in Fashion Walk Causeway Bay and Mongkok were the worst hit within the portfolio, both in terms of tenant sales and rental revenue, while community malls like Kornhill Plaza and Amoy Plaza were more resilient.

The office sector also faced challenges, as there was a decline in business for the semi-retail trades and food and beverage tenants, a decrease in patients at medical clinics, and extensive shut-down of education centers, gyms and beauty services, some by government order.

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

	Revenue (HK$ Million)			Occupancy Rate*
	2020	2019	Change	
Commercial	**1,143**	1,207	–5%	97%
Office and Industrial/Offices	**695**	728	–5%	89%
Residential & Serviced Apartments	**139**	161	–14%	58%
Total	**1,977**	2,096	–6%	

* All occupancy rates stated herein were as of June 30, 2020.

- *Commercial*

Revenue from our Hong Kong commercial portfolio decreased 5% period-on-period to HK$1,143 million. The overall occupancy rate increased one point to 97%.

The **Causeway Bay portfolio** was the hardest hit owing to the drastic drop in tourists and associated retail spending. Income of this portfolio dropped 13% to HK$281 million period-on-period and the occupancy rate declined seven points to 92%.

Our Mongkok portfolio was severely affected as well, given its exposure to tourism related businesses. Revenue at **Grand Plaza** and **Gala Place in Mongkok** decreased by 9% during the period. Both properties remained fully let at the reporting date.

Our community malls, namely **Kornhill Plaza in Hong Kong East** and **Amoy Plaza in Kowloon East**, were less affected. Revenue at Kornhill Plaza increased by 1% while revenue at Amoy Plaza retreated moderately by 5%. The mega department store, AEON STYLE, at Kornhill Plaza has demonstrated its strong positioning even under market conditions and continued to perform well in contrast to other trades.

Peak Galleria was reopened in the second half of 2019 after major asset enhancement. Despite reopening at a challenging time, the occupancy rate of the mall reached 89% by the end of the reporting period.

- *Offices*

Income of the Hong Kong office portfolio fell by 5% period-on-period to HK$695 million as the market stumbled under pressure from COVID-19. The overall occupancy rate fell by four points to 89%. Our offices in Central were more resilient and collected 4% more rent during the reporting period mainly due to positive rental reversions and stable occupancy. The Mongkok and Causeway Bay portfolios have a heavy mix of medical and semi-retail tenants and revenues there dropped by 5% and 10% respectively due to lower occupancy and rent relief granted. Hong Kong office rental accounted for 35% of total leasing income in Hong Kong.

- *Residential and Serviced Apartments*

Revenue from the apartments shrank by 14% period-on-period to HK$139 million, owing to lower occupancy at Kornhill Apartments and The Summit.

PROPERTY SALES

During the first six months of 2020, we sold the last unit (duplex) of The Long Beach. As the sale was recognized upon completion of legal assignment in July 2020, no revenue or profit in respect of the transaction was recorded in the first half of 2020.

PROPERTY REVALUATION

As of June 30, 2020, the total value of our investment properties and investment properties under development amounted to HK$189,257 million. The value of the Hong Kong portfolio and the mainland China portfolio was HK$64,719 million and HK$124,538 million, respectively. These properties were revalued by Savills, an independent valuer, as of June 30, 2020.

A revaluation loss of HK$4,805 million (2019: gain of HK$2,039 million) was recorded, representing a 2% decrease in valuation compared to the value recorded at December 31, 2019.

The mainland China portfolio recorded a loss of HK$2,419 million (2019: HK$359 million), mainly reflecting the drop in market rents during the period. Although the performance of our Mainland leasing portfolio has been demonstrating a healthy recovery since the second quarter, tenants remained cautious about capital expenditures on expansions and rental reversions on lease renewals, particularly for the office tenants.

The Hong Kong portfolio had a revaluation loss of HK$2,386 million (2019: gain of HK$2,398 million). The decrease in appraised value of our investment properties in Hong Kong reflected the drop in market rents and weakened consumer spending as a result of the pandemic and in the aftermath of social unrest.

Our investment properties are held as long-term investments for recurring income. The revaluation loss is non-cash in nature, there will be no material effect on the operating cash flow and dividend distribution capability.

PROPERTY DEVELOPMENT AND CAPITAL COMMITMENT

The total values of development projects in investment properties for leasing and properties for sale were HK$26,441 million and HK$5,389 million, respectively. These represented mainland China projects in Wuhan, Wuxi, Kunming, Hangzhou and Shenyang, and redevelopment projects in Hong Kong. At the reporting date, our capital commitments for investment properties amounted to HK$24 billion.

Mainland China

The next Mainland project to commence operations will be Wuhan **Heartland 66**, which will house a premier mall, a Grade A office tower and serviced apartments for sale, with a total gross floor area of 460,000 square meters. Construction works were suspended after the COVID-19 outbreak in January, but have resumed since April 2020. The completion of the mall and the office tower will be around the last quarter of 2020. Construction of the three residential towers has commenced and is scheduled for completion, in stages, beginning in the last quarter of 2022.

Phase two of Wuxi **Center 66** comprises luxury serviced apartments and a boutique hotel, with a total gross floor area of 108,982 square meters. The master layout plan of the project has been approved and excavation works commenced in 2019. The project is expected to reach completion from 2023 onwards.

The remaining development at Kunming **Spring City 66** comprises a five-star hotel and luxury apartments. The planning permit was obtained in May 2020 with project completion scheduled for 2023.

Hangzhou **Westlake 66** project, a high-end commercial complex with a total gross floor area of 194,100 square meters above-ground, comprises a retail podium with five Grade A office towers and a luxury hotel. Piling works have already started and the project is scheduled for completion, in phases, from 2024.

The master layout plan of the remaining phases of Shenyang **Forum 66**, consisting of offices, apartments and a retail podium with a total gross floor area of 502,660 square meters, was approved in April 2020. Construction works will commence, in phases, beginning the second half of 2020.

Hong Kong

In a joint venture project with our subsidiary, Hang Lung Properties Limited (Hang Lung Properties), the Group is re-developing 226-240 Electric Road in North Point into a Grade A office tower. Total gross floor area of the project is approximately 105,000 square feet inclusive of a retail area on lower floors. Construction works have been started and the project is expected to complete in 2022.

Ownership of the former Amoycan Industrial Centre in Ngau Tau Kok was consolidated by Hang Lung Properties through Compulsory Sale for Redevelopment Order in April 2019. The site is well located with proximity to MTR Kowloon Bay Station and the future East Kowloon Cultural Centre. It will be redeveloped into residential units for sale with a total gross floor area of 155,000 square feet, and some commercial areas on the podium floors. The project is targeted for completion in 2023.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained an appropriate capital structure with a high degree of agility. The objective is to have access to multiple channels of funding for meeting operational needs and business expansions and for risk mitigation purposes. All financial risk management, including debt re-financing, foreign exchange exposure, and interest rate volatility, etc., are centrally managed and controlled at the corporate level.

- *Liquidity and Financing Management*

Cash flow position and funding needs are closely monitored and regularly reviewed to ensure that we have a good degree of financial flexibility and liquidity while optimizing net financial costs.

As of June 30, 2020, total cash and bank balances amounted to HK$3,626 million (December 31, 2019: HK$3,660 million). All deposits are placed with banks with strong credit ratings and the counterparty risk is monitored on a regular basis.

We focus on mitigating foreign exchange, interest rate, and re-financing risks in managing our debt portfolio. An appropriate mix of RMB/HKD/USD borrowings, fixed/floating rate debts, a staggered debt repayment profile, and a diversified source of funding are maintained.

As of June 30, 2020, total borrowings amounted to HK$33,856 million (December 31, 2019: HK$31,113 million), of which about 35% was denominated in RMB. The higher debt balance against the previous year-end was due to construction payments for the various projects under development in mainland China and Hong Kong.

During the period, the Group entered into a number of interest rate swap contracts swapping a total of HK$4.5 billion floating rate borrowings to fixed rate with the objectives of mitigating interest rate volatility risks and optimizing interest costs. The Group has also printed additional Medium Term Notes of HK$4.0 billion in the first half of 2020, of which HK$1.2 billion were classified as green bonds under our Green Finance Framework established in 2019 as part of our ESG (environmental, social and governance) initiatives. As a result, fixed rate borrowings accounted for 63% of the total borrowings of the Group as of June 30, 2020.

The composition of our debt portfolio can be categorized as follows:

i) by currency (after currency swap):

	At June 30, 2020		At December 31, 2019	
	HK$ Million	*% of Total*	HK$ Million	*% of Total*
Denominated in:				
HKD	**22,121**	*65%*	19,556	*63%*
RMB	**11,735**	*35%*	11,557	*37%*
Total borrowings	**33,856**	*100%*	31,113	*100%*

ii) by fixed or floating interest (after interest rate swap):

	At June 30, 2020		At December 31, 2019	
	HK$ Million	*% of Total*	HK$ Million	*% of Total*
Fixed	**21,464**	*63%*	13,466	*43%*
Floating	**12,392**	*37%*	17,647	*57%*
Total borrowings	**33,856**	*100%*	31,113	*100%*

At the reporting date, the average tenure of the entire loan portfolio was 3.0 years (December 31, 2019: 2.9 years) with maturity staggered and spread over a period of over 10 years. Around 57% of the loans were repayable after 2 years.

	At June 30, 2020		At December 31, 2019	
	HK$ Million	*% of Total*	HK$ Million	*% of Total*
Repayable:				
Within 1 year	**6,493**	*19%*	3,241	*10%*
After 1 but within 2 years	**8,141**	*24%*	7,632	*25%*
After 2 but within 5 years	**16,004**	*47%*	18,668	*60%*
Over 5 years	**3,218**	*10%*	1,572	*5%*
Total borrowings	**33,856**	*100%*	31,113	*100%*

At the balance sheet date, total undrawn committed banking facilities amounted to HK$15,178 million (December 31, 2019: HK$14,627 million). The available balances of the USD4 billion (December 31, 2019: USD3 billion) Medium Term Note Program amounted to USD1,941 million, equivalent to HK$15,044 million in total (December 31, 2019: HK$10,965 million).

The undrawn committed banking facilities of the Company and its other subsidiaries, excluding the balances of Hang Lung Properties and its subsidiaries (HLP Group), amounted to HK$4,049 million (December 31, 2019: HK$5,228 million).

- *Gearing Ratios and Interest Cover*

As of June 30, 2020, the net debt balance amounted to HK$30,230 million (December 31, 2019: HK$27,453 million). Net debt to equity ratio was 20.0% (December 31, 2019: 17.3%) and debt to equity ratio was 22.4% (December 31, 2019: 19.7%).

Excluding the balances of HLP Group, the net debt balance of the Company and its other subsidiaries amounted to HK$838 million (December 31, 2019: HK$1,086 million). The corresponding net debt to shareholders' equity ratio (on an attributable net asset basis) was 1.0% (December 31, 2019: 1.2%).

Gross amount of finance costs decreased by 8% to HK$751 million for the reporting period. The net amount charged to the statement of profit or loss for the six months increased to HK$85 million due to a reduction in finance costs being capitalized to projects under development after the completion and opening of a few new properties during 2019.

Interest income for the period decreased 66% to HK$35 million. The decrease was mainly the result of the utilization of surplus cash to meet construction payments.

For the first half of 2020, the amount of finance costs in excess of interest income, i.e. net interest expense, was HK$50 million (2019: net interest income of HK$39 million). The average effective cost of borrowings for the period was lowered to 4.5% (2019: 4.7%).

Interest cover for the first six months of 2020 was 4 times (2019: 5 times).

- *Foreign Exchange Management*

The Group has limited exposure to foreign exchange risks, mainly arising from normal operations in mainland China and the two USD500 million bonds issued. Appropriate measures have been taken to mitigate the exposure to foreign exchange risk.

The cash and bank balances at the reporting date comprised of the following currencies:

	At June 30, 2020		At December 31, 2019	
	HK$ Million	*% of Total*	HK$ Million	*% of Total*
Denominated in:				
HKD	**2,136**	*59%*	2,102	*57%*
RMB	**1,381**	*38%*	1,449	*40%*
USD	**109**	*3%*	109	*3%*
Total cash and bank balances	**3,626**	*100%*	3,660	*100%*

(a) RMB Exposure

Our RMB exposure is mainly derived from the currency translation risk arising from the net assets of our subsidiaries in mainland China.

As of June 30, 2020, net assets denominated in RMB accounted for about 63% of our total net assets. As the RMB had depreciated by about 1.9% against the HKD compared to December 31, 2019, the re-translation of these net assets denominated in RMB into HKD using the exchange rate as of the reporting date resulted in a re-translation loss of HK$2,007 million (2019: HK$425 million). The re-translation loss was recognized in other comprehensive income/exchange reserve.

Our business operations and projects under development in mainland China are funded by cash inflows from mainland China operations and RMB borrowings in addition to capital injections from Hong Kong. We have adopted a systematic approach to mitigate the currency risks and practiced the strict discipline of not taking any speculative position on the movement of the RMB against the HKD. Regular business reviews were undertaken to assess the level of funding needs for our mainland China projects after taking into account various factors such as regulatory constraints, project development timelines, and the market environment. Appropriate modifications to our funding plan will be conducted in light of the change of circumstances.

(b) USD Exposure

The USD foreign exchange exposure is related to the two USD500 million fixed rate bonds issued, equivalent to HK$7,751 million at the reporting date. The related currency exchange risk was covered back-to-back by two USD/HKD cross currency swap contracts.

- *Charge of Assets*

Assets of the Group were not charged to any third parties as of June 30, 2020.

- *Contingent Liabilities*

The Group did not have any material contingent liabilities as of June 30, 2020.

OUTLOOK

Two factors that will have major bearings on our performance in the second half of 2020: the sustainability of the retail sales recovery on the Mainland, particularly in the lifestyle sector given the luxury sector proved to recover much faster than expected, and the socio-economic stability in Hong Kong.

Our Mainland properties are expected to fully recover by the end of third quarter and will continue to deliver solid organic growth. Properties commencing business in 2019 will show their full year effect in 2020. On the marketing side, the gradual maturity of the portfolio-wide CRM program HOUSE 66 and the deployment of a variety of digital social platforms will complement the rise in our malls' luxury offering very well. These programs will continue to bring in new business and enhance relationships through strengthening the Hang Lung branded experience and delivering tailor-made services to customers and tenants alike. The continued opening of new luxury shops according to plan in various malls, along with the completion of the AEI at Shanghai Grand Gateway 66 mall in the second half of this year contribute to revenue growth.

Depending on market conditions, we will continue to sell completed residential properties in Hong Kong and explore opportunities to dispose of non-core properties.

On the property development side, two redevelopment projects in Hong Kong are in progress and we will continue to look for development opportunities. On the Mainland, construction of luxury/high-end serviced apartments in our projects in Wuhan, Wuxi, Kunming and Shenyang will continue. Sales and marketing plans for the sales of those apartments are being developed.

CORPORATE GOVERNANCE

We are committed to maintaining the highest standards of corporate governance. During the six months ended June 30, 2020, we adopted corporate governance principles that emphasize a qualified Board of Directors (the "Board"), sound internal controls, and effective risk management to enhance transparency and accountability towards our stakeholders. The general framework of our corporate governance practices is set out in our corporate governance report in the 2019 annual report, which is available on our website under Financial Report of Financial Information of the Investor Relations section.

The Board

The Board currently consists of 11 members: comprising four Executive Directors; three Non-Executive Directors; and four Independent Non-Executive Directors. There is a clear division of responsibilities between the Chairman and the Chief Executive Officer to ensure a balance of power and authority. The Board continues to review its practices from time to time, constantly seeking to improve the Group's corporate governance procedures in accordance with international best practices. An updated list of Board members identifying their roles and functions and whether they are Independent Non-Executive Directors is maintained on both our website and the website of Hong Kong Exchanges and Clearing Limited ("HKEx"). The biographical details of Board members are also maintained on our website under Board of Directors of Corporate Governance of the Investor Relations section.

Nomination and Remuneration Committee

Our Nomination and Remuneration Committee, which is chaired by an Independent Non-Executive Director, currently consists of three Independent Non-Executive Directors. The Committee members meet at least once a year. Its duties include reviewing significant changes to the salary structure of the Group and the terms and conditions affecting Executive Directors of the Board and senior management. The Committee members also conduct regular reviews of the Board's structure, size and diversity, and make recommendations to the Board on the appointment, re-appointment and succession planning of Directors of the Board. The terms of reference of the Committee can be accessed on both our website and the website of HKEx.

Audit Committee

Our Audit Committee, which is chaired by an Independent Non-Executive Director, currently consists of three Independent Non-Executive Directors and one Non-Executive Director. The Committee members meet at least four times a year. Meetings are normally attended by external and internal auditors, the Chief Financial Officer and the Company Secretary for the purposes of, inter alia, discussing the nature and scope of internal audit work and assessing the Company's internal controls. The terms of reference of the Committee, which include duties pertaining to corporate governance functions and the oversight of risk management, are available on both our website and the website of HKEx. The Audit Committee has reviewed this interim report, including the unaudited interim financial report for the six months ended June 30, 2020, and has recommended their adoption by the Board.

This interim financial report is unaudited but has been reviewed by KPMG, our auditor, in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants. The Independent Auditor's Review Report is set out on pages 56 and 57 of this interim report.

Compliance with Corporate Governance Code

During the six months ended June 30, 2020, we complied with the code provisions set out in the Corporate Governance Code as stated in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

We have adopted a code of conduct with regard to securities transactions by Directors of the Board (the "Code of Conduct") on terms that are no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the "Model Code"). The Company has made specific enquiries with all Directors of the Board and confirmed that they have complied with the required standard set out in the Model Code and the Code of Conduct regarding securities transactions by Directors of the Board throughout the six months ended June 30, 2020.

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

As at June 30, 2020, the interests or short positions of each of the Directors of the Board in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code or which were recorded in the register required to be kept by the Company under section 352 of the SFO are as follows:

		The Company (Long Position)		*Hang Lung Properties Limited (Long Position)*		
Name	Capacity	Number of Shares	% of Number of Issued Shares	Number of Shares	% of Number of Issued Shares	Number of Shares under Option *(Note 3)*
Ronnie C. Chan	Personal & Other	14,470,500 *(Note 1)*	1.06	16,330,000	0.36	17,525,000
Weber W.P. Lo	Personal	–	–	–	–	12,750,000
Gerald L. Chan	–	–	–	–	–	–
Simon S.O. Ip	–	–	–	–	–	–
P.W. Liu	Personal & Family	–	–	100,000	–	–
L.C. Tsui	–	–	–	–	–	–
Martin C.K. Liao	–	–	–	–	–	–
George K.K. Chang	–	–	–	–	–	–
Roy Y.C. Chen	–	–	–	–	–	–
H.C. Ho	Personal	–	–	–	–	13,600,000
Adriel W. Chan	Personal & Other	525,102,080 *(Notes 1 & 2)*	38.56	2,644,956,340 *(Note 2)*	58.81	4,400,000

Notes

1. Other interests included 2,680,500 shares of the Company held by a trust of which Mr. Ronnie C. Chan and Mr. Adriel W. Chan were discretionary beneficiaries. Accordingly, Mr. Ronnie C. Chan and Mr. Adriel W. Chan were deemed to be interested in such shares under the SFO.

2. Other interests included another 522,421,580 shares of the Company and 2,644,956,340 shares of Hang Lung Properties Limited held/deemed to be held by another trust of which Mr. Adriel W. Chan was a discretionary beneficiary. Accordingly, Mr. Adriel W. Chan was deemed to be interested in such shares under the SFO.

3. Movements of Options under the Share Option Schemes of Hang Lung Properties Limited

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

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

3. Movements of Options under the Share Option Schemes of Hang Lung Properties Limited (continued)

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

Date Granted (mm/dd/yyyy)	Name	Number of Shares under Option: As at Jan 1, 2020	Exercised/ Lapsed during the Period	As at Jun 30, 2020	Exercise Price per Share (HK$)	Vested Dates (mm/dd/yyyy)	Expiry Date (mm/dd/yyyy)
06/04/2013	Ronnie C. Chan	4,500,000	–	4,500,000	$28.20	06/04/2015: 10%	06/03/2023
	H.C. Ho	3,000,000	–	3,000,000		06/04/2016: 20%	
	Adriel W. Chan	200,000	–	200,000		06/04/2017: 30%	
						06/04/2018: 40%	
12/05/2014	Ronnie C. Chan	2,750,000	–	2,750,000	$22.60	12/05/2016: 10%	12/04/2024
	H.C. Ho	1,850,000	–	1,850,000		12/05/2017: 20%	
	Adriel W. Chan	150,000	–	150,000		12/05/2018: 30%	
						12/05/2019: 40%	
08/10/2017	Ronnie C. Chan	2,750,000	–	2,750,000	$19.98	08/10/2019: 10%	08/09/2027
	H.C. Ho	1,850,000	–	1,850,000		08/10/2020: 20%	
	Adriel W. Chan	1,850,000	–	1,850,000		08/10/2021: 30%	
						08/10/2022: 40%	
05/16/2018	Weber W.P. Lo	10,000,000	–	10,000,000	$18.98	05/16/2020: 10%	05/15/2028
						05/16/2021: 20%	
						05/16/2022: 30%	
						05/16/2023: 40%	
06/28/2019	Ronnie C. Chan	3,025,000	–	3,025,000	$18.58	06/28/2021: 10%	06/27/2029
	Weber W.P. Lo	2,750,000	–	2,750,000		06/28/2022: 20%	
	H.C. Ho	1,900,000	–	1,900,000		06/28/2023: 30%	
	Adriel W. Chan	2,200,000	–	2,200,000		06/28/2024: 40%	

Save as disclosed above, none of the Directors of the Board had, as at June 30, 2020, any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations.

Other than as stated above, at no time during the six months ended June 30, 2020 was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Board to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

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

As at June 30, 2020, details of substantial shareholders' and other persons' (who are required to disclose their interests pursuant to Part XV of the SFO) interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO are as follows:

Name	*Note*	Number of Shares or Underlying Shares Held *(Long Position)*	% of Number of Issued Shares *(Long Position)*
Chan Tan Ching Fen	*1*	525,102,080	38.56
Adriel W. Chan	*1*	525,102,080	38.56
Cole Enterprises Holdings (PTC) Limited	*2*	522,421,580	38.37
Merssion Limited	*2*	522,421,580	38.37
Kingswick Investment Limited	*3*	103,609,000	7.61
Dodge & Cox	*4*	134,650,000	9.89
Silchester International Investors LLP	*4*	110,342,000	8.10

Notes

1. These shares were the same parcel of shares held by two trusts, 522,421,580 shares of which were held by Merssion Limited under a trust and 2,680,500 shares of which were held by another trust. As Ms. Chan Tan Ching Fen was the founder and Mr. Adriel W. Chan was a discretionary beneficiary of the two trusts, they were deemed to be interested in such shares under the SFO.

2. These shares were the same parcel of shares held by Merssion Limited which was held under the trust. As Cole Enterprises Holdings (PTC) Limited was the trustee, it was deemed to be interested in such shares under the SFO.

   These share were included in the 525,102,080 shares deemed to be interested by Ms. Chan Tan Ching Fen and Mr. Adriel W. Chan.

3. This company was a wholly-owned subsidiary of Merssion Limited. Its interests were included in 522,421,580 shares held by Merssion Limited.

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

Save as disclosed above, as at June 30, 2020, no other interests or short positions in the shares or underlying shares of the Company required to be recorded in the register kept under section 336 of the SFO has been notified to the Company.

CHANGES IN INFORMATION OF DIRECTORS PURSUANT TO LISTING RULES

There are no changes in the information of Directors of the Board which is required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules since the date of the 2019 annual report of the Company.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended June 30, 2020, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities.

EMPLOYEES

As of June 30, 2020, the number of employees was 4,618 (comprising 1,155 Hong Kong employees and 3,463 mainland China employees). The total employee costs for the six months ended June 30, 2020, amounted to HK$816 million. We provide competitive remuneration packages for all employees including discretionary bonuses payable based on individual performance. We regularly review remuneration packages to ensure that they comply with relevant regulatory requirements and market conditions. The Group has share option schemes for the employees and provides professional and high-quality training opportunities.

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

(Incorporated in the Hong Kong with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 58 to 82 which comprises the consolidated statement of financial position of Hang Lung Group Limited ("the Company") as at June 30, 2020 and the related consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

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

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at June 30, 2020 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

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

July 30, 2020

Consolidated Statement of Profit or Loss

For the six months ended June 30, 2020 (Unaudited)

	Note	2020 HK$ Million	2019 HK$ Million	2020 RMB Million (For information purpose only)	2019 RMB Million (For information purpose only)
Revenue	2(a)	**4,457**	4,505	**4,039**	3,899
Direct costs and operating expenses		**(1,218)**	(1,073)	**(1,104)**	(928)
		3,239	3,432	**2,935**	2,971
Other net income	3	**27**	874	**25**	771
Administrative expenses		**(307)**	(334)	**(279)**	(290)
Profit from operations before changes in fair value of properties		**2,959**	3,972	**2,681**	3,452
Net (decrease)/increase in fair value of properties		**(4,805)**	2,039	**(4,393)**	1,775
(Loss)/profit from operations after changes in fair value of properties		**(1,846)**	6,011	**(1,712)**	5,227
Interest income		**35**	104	**32**	90
Finance costs		**(85)**	(65)	**(77)**	(57)
Net interest (expense)/income	4	**(50)**	39	**(45)**	33
Share of (losses)/profits of joint ventures		**(167)**	124	**(154)**	108
(Loss)/profit before taxation	5	**(2,063)**	6,174	**(1,911)**	5,368
Taxation	6	**(433)**	(734)	**(391)**	(635)
(Loss)/profit for the period	2(b)	**(2,496)**	5,440	**(2,302)**	4,733
Attributable to:					
Shareholders		**(1,595)**	3,709	**(1,469)**	3,231
Non-controlling interests		**(901)**	1,731	**(833)**	1,502
		(2,496)	5,440	**(2,302)**	4,733
(Loss)/earnings per share	8(a)				
Basic		**(HK$1.17)**	HK$2.72	**(RMB1.08)**	RMB2.37
Diluted		**(HK$1.17)**	HK$2.72	**(RMB1.08)**	RMB2.37

The accompanying notes form part of the interim financial report.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended June 30, 2020 (Unaudited)

			For information purpose only	
	2020	2019	**2020**	2019
	HK$ Million	HK$ Million	**RMB Million**	RMB Million
(Loss)/profit for the period	**(2,496)**	5,440	**(2,302)**	4,733
Other comprehensive income				
Items that are or may be reclassified subsequently to profit or loss:				
Movement in exchange reserve:				
Exchange difference arising from translation to presentation currency	**(2,007)**	(425)	**907**	63
Net investment hedge – net gain	**20**	–	**18**	–
Movement in hedging reserve:				
Effective portion of changes in fair value	**(44)**	48	**(40)**	41
Net amount transferred to profit or loss	**46**	22	**42**	20
Deferred tax	**3**	–	**3**	–
Item that will not be reclassified to profit or loss:				
Net change in fair value of equity investments	**1**	1	**1**	1
Other comprehensive income for the period, net of tax	**(1,981)**	(354)	**931**	125
Total comprehensive income for the period	**(4,477)**	5,086	**(1,371)**	4,858
Total comprehensive income attributable to:				
Shareholders	**(2,696)**	3,514	**(905)**	3,309
Non-controlling interests	**(1,781)**	1,572	**(466)**	1,549
	(4,477)	5,086	**(1,371)**	4,858

The accompanying notes form part of the interim financial report.

Consolidated Statement of Financial Position

At June 30, 2020

	Note	(Unaudited) June 30, 2020 HK$ Million	(Audited) December 31, 2019 HK$ Million	*For information purpose only* June 30, 2020 RMB Million	December 31, 2019 RMB Million
Non-current assets					
Property, plant and equipment					
Investment properties	9	**162,816**	168,218	**148,683**	150,737
Investment properties under development	9	**26,441**	27,602	**24,152**	24,726
Other property, plant and equipment		**231**	231	**211**	207
		189,488	196,051	**173,046**	175,670
Interest in joint ventures		**3,931**	4,119	**3,588**	3,693
Other assets		**1,446**	1,445	**1,320**	1,295
Deferred tax assets		**5**	4	**5**	4
		194,870	201,619	**177,959**	180,662
Current assets					
Cash and deposits with banks	10	**3,626**	3,660	**3,311**	3,280
Trade and other receivables	11	**2,375**	2,298	**2,169**	2,059
Properties for sale		**6,364**	5,662	**5,811**	5,075
Assets held for sale	12	**3**	–	**3**	–
		12,368	11,620	**11,294**	10,414
Current liabilities					
Bank loans and other borrowings		**6,493**	3,241	**5,928**	2,903
Trade and other payables	13	**7,626**	8,752	**6,965**	7,842
Lease liabilities		**23**	23	**21**	21
Current tax payable		**505**	847	**461**	759
		14,647	12,863	**13,375**	11,525
Net current liabilities		**2,279**	1,243	**2,081**	1,111
Total assets less current liabilities		**192,591**	200,376	**175,878**	179,551

	Note	(Unaudited) June 30, 2020 HK$ Million	(Audited) December 31, 2019 HK$ Million	*For information purpose only* June 30, 2020 RMB Million	*For information purpose only* December 31, 2019 RMB Million
Non-current liabilities					
Bank loans and other borrowings		**27,363**	27,872	**24,983**	24,967
Lease liabilities		**284**	293	**259**	262
Deferred tax liabilities		**13,551**	13,884	**12,378**	12,437
		41,198	42,049	**37,620**	37,666
NET ASSETS		**151,393**	158,327	**138,258**	141,885
Capital and reserves					
Share capital	14	**4,065**	4,065	**3,164**	3,164
Reserves		**83,499**	87,229	**76,801**	78,659
Shareholders' equity		**87,564**	91,294	**79,965**	81,823
Non-controlling interests		**63,829**	67,033	**58,293**	60,062
TOTAL EQUITY		**151,393**	158,327	**138,258**	141,885

The accompanying notes form part of the interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended June 30, 2020 (Unaudited)

HK$ Million	Shareholders' equity					
	Share capital (Note 14)	**Other reserves** (Note 16)	**Retained profits** (Note 16)	**Total**	**Non-controlling interests**	**Total equity**
At January 1, 2020	**4,065**	**3,280**	**83,949**	**91,294**	**67,033**	**158,327**
Loss for the period	**–**	**–**	**(1,595)**	**(1,595)**	**(901)**	**(2,496)**
Exchange difference arising from translation to presentation currency	**–**	**(1,117)**	**–**	**(1,117)**	**(890)**	**(2,007)**
Net investment hedge – net gain	**–**	**12**	**–**	**12**	**8**	**20**
Cash flow hedges: net movement in hedging reserve	**–**	**3**	**–**	**3**	**2**	**5**
Net change in fair value of equity investments	**–**	**1**	**–**	**1**	**–**	**1**
Total comprehensive income for the period	**–**	**(1,101)**	**(1,595)**	**(2,696)**	**(1,781)**	**(4,477)**
Dividends in respect of previous year – Special	**–**	**–**	**(354)**	**(354)**	**–**	**(354)**
– Final	**–**	**–**	**(858)**	**(858)**	**–**	**(858)**
Employee share-based payments	**–**	**(45)**	**66**	**21**	**11**	**32**
Change in non-controlling interests arising from increase of the Group's shareholding in a subsidiary	**–**	**157**	**–**	**157**	**(323)**	**(166)**
Dividend paid to non-controlling interests	**–**	**–**	**–**	**–**	**(1,111)**	**(1,111)**
At June 30, 2020	**4,065**	**2,291**	**81,208**	**87,564**	**63,829**	**151,393**
At January 1, 2019	4,065	4,181	78,201	86,447	64,289	150,736
Profit for the period	–	–	3,709	3,709	1,731	5,440
Exchange difference arising from translation to presentation currency	–	(238)	–	(238)	(187)	(425)
Cash flow hedges: net movement in hedging reserve	–	42	–	42	28	70
Net change in fair value of equity investments	–	1	–	1	–	1
Total comprehensive income for the period	–	(195)	3,709	3,514	1,572	5,086
Final dividend in respect of previous year	–	–	(831)	(831)	–	(831)
Employee share-based payments	–	5	9	14	12	26
Dividends paid to non-controlling interests	–	–	–	–	(1,312)	(1,312)
At June 30, 2019	4,065	3,991	81,088	89,144	64,561	153,705

The accompanying notes form part of the interim financial report.

For information purpose only

RMB Million	Shareholders' equity					
	Share capital	Other reserves	Retained profits	Total	Non-controlling interests	Total equity
At January 1, 2020	**3,164**	**8,462**	**70,197**	**81,823**	**60,062**	**141,885**
Loss for the period	**–**	**–**	**(1,469)**	**(1,469)**	**(833)**	**(2,302)**
Exchange difference arising from translation to presentation currency	**–**	**549**	**–**	**549**	**358**	**907**
Net investment hedge – net gain	**–**	**11**	**–**	**11**	**7**	**18**
Cash flow hedges: net movement in hedging reserve	**–**	**3**	**–**	**3**	**2**	**5**
Net change in fair value of equity investments	**–**	**1**	**–**	**1**	**–**	**1**
Total comprehensive income for the period	**–**	**564**	**(1,469)**	**(905)**	**(466)**	**(1,371)**
Dividends in respect of previous year						
– Special	**–**	**–**	**(325)**	**(325)**	**–**	**(325)**
– Final	**–**	**–**	**(789)**	**(789)**	**–**	**(789)**
Employee share-based payments	**–**	**(41)**	**60**	**19**	**10**	**29**
Change in non-controlling interests arising from increase of the Group's shareholding in a subsidiary	**–**	**142**	**–**	**142**	**(292)**	**(150)**
Dividend paid to non-controlling interests	**–**	**–**	**–**	**–**	**(1,021)**	**(1,021)**
At June 30, 2020	**3,164**	**9,127**	**67,674**	**79,965**	**58,293**	**138,258**
At January 1, 2019	3,164	7,530	65,132	75,826	56,386	132,212
Profit for the period	–	–	3,231	3,231	1,502	4,733
Exchange difference arising from translation to presentation currency	–	39	–	39	24	63
Cash flow hedges: net movement in hedging reserve	–	38	–	38	23	61
Net change in fair value of equity investments	–	1	–	1	–	1
Total comprehensive income for the period	–	78	3,231	3,309	1,549	4,858
Final dividend in respect of previous year	–	–	(728)	(728)	–	(728)
Employee share-based payments	–	5	8	13	9	22
Dividends paid to non-controlling interests	–	–	–	–	(1,151)	(1,151)
At June 30, 2019	3,164	7,613	67,643	78,420	56,793	135,213

Condensed Consolidated Cash Flow Statement

For the six months ended June 30, 2020 (Unaudited)

	2020	2019	**2020**	2019
			For information purpose only	
	HK$ Million	HK$ Million	**RMB Million**	RMB Million
Operating activities				
Cash generated from operations	**2,545**	2,978	**2,313**	2,567
Income tax paid	**(846)**	(579)	**(766)**	(498)
Net cash generated from operating activities	**1,699**	2,399	**1,547**	2,069
Investing activities				
Payment for property, plant and equipment	**(1,530)**	(9,563)	**(1,361)**	(8,260)
Net proceeds from disposal of a subsidiary	**–**	1,188	**–**	1,043
Decrease in bank deposits with maturity greater than three months	**–**	659	**–**	570
Other cash flows arising from investing activities	**41**	196	**35**	169
Net cash used in investing activities	**(1,489)**	(7,520)	**(1,326)**	(6,478)
Financing activities				
Proceeds from new bank loans and other borrowings	**11,606**	10,221	**10,571**	8,859
Repayment of bank loans and other borrowings	**(8,603)**	(6,717)	**(7,852)**	(5,813)
Capital element of lease rentals paid	**(3)**	(4)	**(3)**	(3)
Interest and other borrowing costs paid	**(719)**	(764)	**(651)**	(661)
Interest element of lease rentals paid	**(8)**	(8)	**(7)**	(7)
Dividends paid	**(1,212)**	(831)	**(1,114)**	(728)
Dividend paid to non-controlling interests	**(1,111)**	(1,313)	**(1,021)**	(1,151)
Other cash flows used in financing activities	**(166)**	–	**(150)**	–
Net cash (used in)/generated from financing activities	**(216)**	584	**(227)**	496
Decrease in cash and cash equivalents	**(6)**	(4,537)	**(6)**	(3,913)
Effect of foreign exchange rate changes	**(28)**	57	**5**	(8)
Cash and cash equivalents at January 1	**1,727**	8,702	**1,547**	7,635
Cash and cash equivalents at June 30	**1,693**	4,222	**1,546**	3,714
Analysis of the balance of cash and cash equivalents:				
Cash and deposits with banks	**3,626**	7,370	**3,311**	6,483
Less: Bank deposits with maturity greater than three months	**(1,933)**	(3,148)	**(1,765)**	(2,769)
Cash and cash equivalents	**1,693**	4,222	**1,546**	3,714

The accompanying notes form part of the interim financial report.

1. BASIS OF PREPARATION

The unaudited interim financial report has been prepared in accordance with Hong Kong Accounting Standard (HKAS) 34, *Interim Financial Reporting*, issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity,* issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on pages 56 to 57.

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

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements.

1. BASIS OF PREPARATION (Continued)

The presentation currency of these consolidated financial statements is Hong Kong dollar. In view of the Group's significant business operations in mainland China, management has included additional financial information prepared in Renminbi in the consolidated financial statements. Such supplementary information is prepared on the same basis as 2019 as if the presentation currency is Renminbi.

The financial information relating to the financial year ended December 31, 2019 included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap.622) is as follows:

The Company has delivered the financial statements for the year ended December 31, 2019 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

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

2. REVENUE AND SEGMENT INFORMATION

The Group manages businesses according to the nature of services and products provided. Management has determined property leasing and property sales to be the reportable operating segments for the measurement of performance and the allocation of resources.

Segment assets principally comprise all non-current assets and current assets directly attributable to each segment with the exception of interest in joint ventures, other assets, deferred tax assets and cash and deposits with banks. No segment liabilities analysis is presented as the Group monitors and manages liabilities on a group basis.

(a) Disaggregation of revenue

Revenue for the six months ended June 30, 2020 is analyzed as follows:

HK$ Million	**2020**	2019
Under the scope of HKFRS 16, *Leases:*		
Rental income	**3,948**	4,033
Under the scope of HKFRS 15, *Revenue from contracts with customers:*		
Building management fees and other income from property leasing	**509**	472
	4,457	4,505

2. REVENUE AND SEGMENT INFORMATION (Continued)

(b) Revenue and results by segments

HK$ Million	2020			2019		
	Property Leasing	**Property Sales**	**Total**	Property Leasing	Property Sales	Total
Revenue						
– Mainland China	**2,480**	**–**	**2,480**	2,409	–	2,409
– Hong Kong	**1,977**	**–**	**1,977**	2,096	–	2,096
	4,457	**–**	**4,457**	4,505	–	4,505
Profit from operations before changes in fair value of properties						
– Mainland China	**1,488**	**(2)**	**1,486**	1,476	–	1,476
– Hong Kong	**1,475**	**(2)**	**1,473**	1,628	868	2,496
	2,963	**(4)**	**2,959**	3,104	868	3,972
Net (decrease)/increase in fair value of properties	**(4,805)**	**–**	**(4,805)**	2,039	–	2,039
Net interest (expense)/income	**(50)**	**–**	**(50)**	39	–	39
– Interest income	**35**	**–**	**35**	104	–	104
– Finance costs	**(85)**	**–**	**(85)**	(65)	–	(65)
Share of (losses)/profits of joint ventures	**(167)**	**–**	**(167)**	124	–	124
(Loss)/profit before taxation	**(2,059)**	**(4)**	**(2,063)**	5,306	868	6,174
Taxation	**(433)**	**–**	**(433)**	(734)	–	(734)
(Loss)/profit for the period	**(2,492)**	**(4)**	**(2,496)**	4,572	868	5,440
Net (loss)/profit attributable to shareholders	**(1,593)**	**(2)**	**(1,595)**	2,841	868	3,709

2. REVENUE AND SEGMENT INFORMATION (Continued)

(c) Total segment assets

HK$ Million	June 30, 2020			December 31, 2019		
	Property Leasing	Property Sales	Total	Property Leasing	Property Sales	Total
Mainland China	126,494	2,229	128,723	131,104	1,608	132,712
Hong Kong	65,368	4,139	69,507	67,243	4,056	71,299
	191,862	6,368	198,230	198,347	5,664	204,011
Interest in joint ventures			3,931			4,119
Other assets			1,446			1,445
Deferred tax assets			5			4
Cash and deposits with banks			3,626			3,660
			207,238			213,239

3. OTHER NET INCOME

HK$ Million	2020	2019
Government grants	21	–
Ineffectiveness on cash flow hedges	1	1
Gain on disposal of a subsidiary	–	868
Others	5	5
	27	874

4. NET INTEREST (EXPENSE)/INCOME

HK$ Million	**2020**	2019
Interest income on bank deposits	**35**	104
Interest expense on bank loans and other borrowings	**708**	766
Interest on lease liabilities	**8**	8
Other borrowing costs	**35**	38
Total borrowing costs	**751**	812
Less: Borrowing costs capitalized	**(666)**	(747)
Finance costs	**85**	65
Net interest (expense)/income	**(50)**	39

5. (LOSS)/PROFIT BEFORE TAXATION

HK$ Million	**2020**	2019
(Loss)/profit before taxation is arrived at after charging:		
Staff costs (Note)	**694**	679
Depreciation	**28**	22

Note: The staff costs included employee share-based payments of HK$32 million (2019: HK$26 million). If the amounts not recognized in the statement of profit or loss, including amounts capitalized, were accounted for, staff costs would have been HK$816 million (2019: HK$824 million).

6. TAXATION IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Provision for Hong Kong Profits Tax is calculated at 16.5% (2019: 16.5%) of the estimated assessable profits for the period. Mainland China Income Tax represents mainland China Corporate Income Tax calculated at 25% (2019: 25%) and mainland China withholding income tax calculated at the applicable rates. The withholding tax rate applicable to Hong Kong companies in respect of dividend distributions from foreign investment enterprises in mainland China was 5% (2019: 5%).

HK$ Million	**2020**	2019
Current tax		
Hong Kong Profits Tax	**172**	269
Mainland China Income Tax	**335**	353
Total current tax	**507**	622
Deferred tax		
Changes in fair value of properties	**(180)**	41
Other origination and reversal of temporary differences	**106**	71
Total deferred tax	**(74)**	112
Total income tax expense	**433**	734

7. DIVIDENDS

(a) Interim dividend

HK$ Million	**2020**	2019
Proposed after the end of the reporting period: HK19 cents (2019: HK19 cents) per share	**258**	258

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

(b) Special and final dividends approved and paid during the six months ended June 30, 2020

HK$ Million	**2020**	2019
2019 special dividend of HK26 cents (2018: Nil) per share	**354**	–
2019 final dividend of HK63 cents (2018: HK61 cents) per share	**858**	831
	1,212	831

8. (LOSS)/EARNINGS PER SHARE

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

HK$ Million	**2020**	2019
(Loss)/earnings for calculation of basic and diluted (loss)/earnings per share (net (loss)/profit attributable to shareholders)	**(1,595)**	3,709

8. (LOSS)/EARNINGS PER SHARE (Continued)

(a) (Continued)

	Number of shares	
	2020	2019
Weighted average number of shares used in calculating basic and diluted (loss)/earnings per share (Note)	**1,361,618,242**	1,361,618,242

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

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

HK$ Million	**2020**	2019
Net (loss)/profit attributable to shareholders	**(1,595)**	3,709
Effect of changes in fair value of properties	**4,805**	(2,039)
Effect of corresponding income tax	**(180)**	108
Effect of changes in fair value of investment properties of joint ventures	**237**	(56)
	4,862	(1,987)
Non-controlling interests	**(1,931)**	602
	2,931	(1,385)
Underlying net profit attributable to shareholders	**1,336**	2,324

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

	2020	2019
Basic	**HK$0.98**	HK$1.71
Diluted	**HK$0.98**	HK$1.71

9. INVESTMENT PROPERTIES AND INVESTMENT PROPERTIES UNDER DEVELOPMENT

(a) Additions

During the six months ended June 30, 2020, additions to investment properties and investment properties under development amounted to HK$1,328 million (2019: HK$9,934 million).

(b) Valuation

The investment properties and investment properties under development of the Group were revalued as of June 30, 2020 by Mr. Charles C.K. Chan, Registered Professional Surveyor (General Practice), of Savills Valuation and Professional Services Limited, on a market value basis.

10. CASH AND DEPOSITS WITH BANKS

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

HK$ Million	**June 30, 2020**	December 31, 2019
Hong Kong Dollars	**2,136**	2,102
Hong Kong Dollar equivalent of:		
Renminbi	**1,381**	1,449
United States Dollars	**109**	109
	3,626	3,660

10. CASH AND DEPOSITS WITH BANKS (Continued)

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

HK$ Million	**June 30, 2020**	December 31, 2019
Bank loans and other borrowings	**33,856**	31,113
Less: Cash and deposits	**(3,626)**	(3,660)
Net debt	**30,230**	27,453

11. TRADE AND OTHER RECEIVABLES

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

HK$ Million	**June 30, 2020**	December 31, 2019
Not past due or less than 1 month past due	**81**	24
1–3 months past due	**33**	27
More than 3 months past due	**8**	2
	122	53

(b) The Group maintains a defined credit policy including stringent credit evaluation on and payment of a rental deposit from tenants. In addition to the payment of rental deposits, tenants are required to pay monthly rents in respect of leased properties in advance. Receivables are regularly reviewed and closely monitored to minimize any associated credit risk.

Provision for expected credit losses was assessed and adequately made on a case-by-case basis, based on the historical default experience and forward-looking information that may impact the tenants' ability to repay the outstanding balances.

(c) Included in other receivables of the Group is a deposit of land acquisition in mainland China of HK$274 million (December 31, 2019: HK$279 million).

12. ASSETS HELD FOR SALE

On June 22, 2020, the Group entered into a sale and purchase agreement with an independent third party to dispose of investment properties of two car parking spaces at The Long Beach in Hong Kong. Accordingly, the assets are presented as assets held for sale. The completion of the transaction took place in July 2020.

13. TRADE AND OTHER PAYABLES

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

HK$ Million	**June 30, 2020**	December 31, 2019
Due within 3 months	**2,850**	4,125
Due after 3 months	**973**	838
	3,823	4,963

14. SHARE CAPITAL

	At January 1, 2020 and June 30, 2020		At January 1, 2019 and December 31, 2019	
	Number of shares Million	**Amount of share capital HK$ Million**	Number of shares Million	Amount of share capital HK$ Million
Ordinary shares, issued and fully paid:	**1,362**	**4,065**	1,362	4,065

There was no movement in the share capital of the Company during the year ended December 31, 2019 and the six months ended June 30, 2020.

15. SHARE OPTION SCHEMES

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

The movements of share options of HLP during the six months ended June 30, 2020 were as follows:

(a) 2002 Share Option Scheme

	Number of share options				
Date granted	Outstanding on January 1, 2020	Forfeited/ Lapsed	**Outstanding on June 30, 2020**	Period during which options are exercisable	Exercise price (HK$)
February 8, 2010 to June 1, 2010	13,380,000	(13,380,000)	**–**	February 8, 2012 to May 31, 2020	26.46 – 27.27
July 29, 2010 to June 13, 2011	30,340,000	–	**30,340,000**	July 29, 2012 to June 12, 2021	30.79 – 36.90
Total	43,720,000	(13,380,000)	**30,340,000**		

All the above options may vest after two to five years of the grant date and are exercisable up to the tenth anniversary of the date of grant, after which they will lapse. No options were exercised or cancelled during the six months ended June 30, 2020.

During the six months ended June 30, 2020, 13,380,000 options (2019: Nil) lapsed due to the expiry of the period for exercising the options and no options (2019: 300,000 options) were forfeited upon cessations of grantees' employments.

15. SHARE OPTION SCHEMES (Continued)

(b) 2012 Share Option Scheme

	Number of share options			Period during	Exercise
	Outstanding on	Forfeited/	**Outstanding on**	which options	price
Date granted	January 1, 2020	Lapsed	**June 30, 2020**	are exercisable	(HK$)
June 4, 2013	26,050,000	(240,000)	**25,810,000**	June 4, 2015 to June 3, 2023	28.20
December 5, 2014	22,460,000	(710,000)	**21,750,000**	December 5, 2016 to December 4, 2024	22.60
August 10, 2017	35,572,500	(1,214,000)	**34,358,500**	August 10, 2019 to August 9, 2027	19.98
May 16, 2018	10,000,000	–	**10,000,000**	May 16, 2020 to May 15, 2028	18.98
June 28, 2019	53,196,000	(2,038,000)	**51,158,000**	June 28, 2021 to June 27, 2029	18.58
Total	147,278,500	(4,202,000)	**143,076,500**		

All the above options may vest after two to five years of the grant date and are exercisable up to the tenth anniversary of the date of grant, after which they will lapse. No options were granted, exercised or cancelled during the six months ended June 30, 2020.

During the six months ended June 30, 2020, 4,202,000 options (2019: 3,147,000 options) were forfeited upon cessations of the grantees' employments.

16. RESERVES

HK$ Million	Other reserves								
	Exchange reserve	Hedging reserve	Investment revaluation reserve	Employee share-based compensation reserve	General reserve	Other capital reserve	Total	Retained profits	Total reserves
At January 1, 2020	(1,978)	(1)	68	443	275	4,473	3,280	83,949	87,229
Loss for the period	-	-	-	-	-	-	-	(1,595)	(1,595)
Exchange difference arising from translation to presentation currency	(1,117)	-	-	-	-	-	(1,117)	-	(1,117)
Net investment hedge – net gain	12	-	-	-	-	-	12	-	12
Cash flow hedges: net movement in hedging reserve	-	3	-	-	-	-	3	-	3
Net change in fair value of equity investments	-	-	1	-	-	-	1	-	1
Total comprehensive income for the period	(1,105)	3	1	-	-	-	(1,101)	(1,595)	(2,696)
Dividends in respect of previous year									
– Special	-	-	-	-	-	-	-	(354)	(354)
– Final	-	-	-	-	-	-	-	(858)	(858)
Employee share-based payments	-	-	-	(45)	-	-	(45)	66	21
Change in non-controlling interests arising from increase of the Group's shareholding in a subsidiary	-	-	-	-	-	157	157	-	157
At June 30, 2020	(3,083)	2	69	398	275	4,630	2,291	81,208	83,499
At January 1, 2019	(788)	(80)	69	423	275	4,282	4,181	78,201	82,382
Profit for the period	–	–	–	–	–	–	–	3,709	3,709
Exchange difference arising from translation to presentation currency	(238)	–	–	–	–	–	(238)	–	(238)
Cash flow hedges: net movement in hedging reserve	–	42	–	–	–	–	42	–	42
Net change in fair value of equity investments	–	–	1	–	–	–	1	–	1
Total comprehensive income for the period	(238)	42	1	–	–	–	(195)	3,709	3,514
Final dividend in respect of previous year	–	–	–	–	–	–	–	(831)	(831)
Employee share-based payments	–	–	–	5	–	–	5	9	14
At June 30, 2019	(1,026)	(38)	70	428	275	4,282	3,991	81,088	85,079

17. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

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

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

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

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

(a) Financial assets and liabilities measured at fair value

(i) The level of fair value hierarchy within which the fair value measurements are categorized and analyzed below:

HK$ Million	**Fair value**		Fair value measurements categorized into
	June 30, 2020	December 31, 2019	
Financial assets			
Trade and other receivables			
Cross currency swaps (cash flow hedges)	**41**	67	Level 2
Other assets			
Investment in equity instruments	**106**	105	Level 3
Financial liabilities			
Trade and other payables			
Interest rate swaps (cash flow hedges)	**19**	–	Level 2

17. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

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

The fair value of the cross currency swaps and interest rate swaps is determined based on the amount that the Group would receive or pay to terminate the swaps at the end of the reporting period taking into account current interest rates and current creditworthiness of the swap counter-parties.

The fair value of non-publicly traded equity investments is determined by reference to the net asset value of these investments.

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

During the six months ended June 30, 2020, there were no transfers of instruments between Level 1 and Level 2, or transfers into or out of Level 3 (2019: Nil). The Group's policy is to recognize transfers between levels of fair value hierarchy as of the end of the reporting period in which they occur.

(b) Fair value of financial instruments carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortized cost were not materially different from their fair values as of December 31, 2019 and June 30, 2020.

18. COMMITMENTS

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

HK$ Million	**June 30, 2020**	December 31, 2019
Contracted for	**4,236**	4,727
Authorized but not contracted for	**19,606**	21,166
	23,842	25,893

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

19. REVIEW AND APPROVAL OF INTERIM FINANCIAL REPORT

The interim financial report is unaudited, but has been reviewed by the Audit Committee. It was authorized for issue by the Board of Directors on July 30, 2020.

FINANCIAL TERMS

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

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

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

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

Underlying net profit attributable to shareholders: Net (loss)/profit attributable to shareholders excluding changes in fair value of properties net of related income tax and non-controlling interests

FINANCIAL RATIOS

Basic (loss)/earnings per share = $\frac{\text{Net (loss)/profit attributable to shareholders}}{\text{Weighted average number of shares in issue during the period}}$

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

Net assets attributable to shareholders per share = $\frac{\text{Shareholders' equity}}{\text{Weighted average number of shares in issue during the period}}$

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

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

FINANCIAL CALENDAR

Financial period	January 1, 2020 to June 30, 2020
Announcement of interim results	July 30, 2020
Latest time for lodging transfers	4:30 p.m. on September 14, 2020
Closure of share register	September 15 to 16, 2020 (both days inclusive)
Record date for interim dividend	September 16, 2020
Payment date for interim dividend	September 29, 2020

SHARE LISTING

As at June 30, 2020, 1,361,618,242 shares are listed on The Stock Exchange of Hong Kong Limited. It has a sponsored American Depositary Receipt (ADR) Program in the New York market.

STOCK CODE

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

SHARE INFORMATION

Share price as at June 30, 2020: HK$18.02
Market capitalization as at June 30, 2020: HK$24.54 billion

SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre
183 Queen's Road East, Wan Chai, Hong Kong
Tel: 2862 8555
Fax: 2865 0990

INVESTOR RELATIONS CONTACT

C.F. Kwan
Email: ir@hanglung.com