恒隆集團有限公司
HANG LUNG GROUP LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00010)

2018 INTERIM RESULTS

CONTENTS

恒隆集團
HANG LUNG GROUP

FINANCIAL HIGHLIGHTS

in HK$ Million (unless otherwise stated)

RESULTS

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

UNDERLYING RESULTS

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

FINANCIAL POSITION

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

REVIEW OF OPERATIONS

CONSOLIDATED RESULTS

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

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

Revenue and Operating Profit for the Six Months Ended June 30

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

DIVIDEND

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

PROPERTY LEASING

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

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

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

Mainland China

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

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

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

About 32% of leasable area was temporarily void for major asset upgrading.
* All occupancy rates stated therein were as of June 30, 2018.

- *Malls*

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

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

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

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

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

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

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

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

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

- *Offices*

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

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

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

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

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

- *Residential and Serviced Apartments*

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

Hong Kong

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

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

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

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

- *Commercial*

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

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

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

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

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

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

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

- *Offices*

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

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

- *Residential and Serviced Apartments*

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

PROPERTY SALES

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

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

PROPERTY REVALUATION

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

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

PROPERTY DEVELOPMENT AND CAPITAL COMMITMENT

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

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

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

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

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

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

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

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

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

LIQUIDITY AND FINANCIAL RESOURCES

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

- *Liquidity Management*

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

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

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

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

- *Financing Management*

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

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

In February 2018, the National Association of Financial Market Institutional Investors (NAFMII) in mainland China gave approval for the Group to establish an on-shore RMB10 billion bond issuance platform. This subsequently qualified as a green bond program, making Hang Lung Properties the first Hong Kong property developer to gain such an approval in mainland China. The approval recognizes our long-standing and strong commitment to sustainability. The RMB green bond issuance platform also enables us to further diversify the source of debt financing in mainland China. On July 16, 2018, green panda bonds of RMB 1 billion with a tenor of three years were issued to finance the construction of some of our investment properties under development in mainland China.

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

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

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

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

- *Gearing Ratios & Interest Cover*

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

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

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

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

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

- *Foreign Exchange Management*

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

(a) RMB Exposure

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

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

(b) USD Exposure

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

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

- *Charge of Assets*

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

- *Contingent Liabilities*

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

OUTLOOK

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

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

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE SIX MONTHS ENDED JUNE 30, 2018 (UNAUDITED)

	Note	2018 HK$ Million	2017 HK$ Million	*For information purpose only* 2018 RMB Million	2017 RMB Million
Revenue	*2(a)*	**5,457**	6,641	**4,436**	5,868
Direct costs and operating expenses		**(1,555)**	(1,898)	**(1,263)**	(1,677)
Gross profit		**3,902**	4,743	**3,173**	4,191
Other net income	*3*	**72**	70	**60**	62
Administrative expenses		**(329)**	(326)	**(268)**	(288)
Operating profit before changes in fair value of properties		**3,645**	4,487	**2,965**	3,965
Net increase in fair value of properties		**2,532**	870	**2,084**	760
Operating profit after changes in fair value of properties		**6,177**	5,357	**5,049**	4,725
Interest income		**267**	321	**218**	284
Finance costs		**(592)**	(670)	**(482)**	(592)
Net interest expense	*4*	**(325)**	(349)	**(264)**	(308)
Share of profits of joint ventures		**273**	77	**223**	68
Profit before taxation	*2(a) & 5*	**6,125**	5,085	**5,008**	4,485
Taxation	*6(a)*	**(789)**	(783)	**(642)**	(693)
Profit for the period		**5,336**	4,302	**4,366**	3,792
Attributable to:					
Shareholders		**3,037**	2,396	**2,487**	2,111
Non-controlling interests		**2,299**	1,906	**1,879**	1,681
		5,336	4,302	**4,366**	3,792
Earnings per share	*8(a)*				
Basic		**HK$2.23**	HK$1.76	**RMB1.83**	RMB1.56
Diluted		**HK$2.23**	HK$1.76	**RMB1.83**	RMB1.56

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED JUNE 30, 2018 (UNAUDITED)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT JUNE 30, 2018

	Note	(Unaudited) June 30, 2018 HK$ Million	(Audited) December 31, 2017 HK$ Million	*For information purpose only* June 30, 2018 RMB Million	*For information purpose only* December 31, 2017 RMB Million
Non-current assets					
Property, plant and equipment					
Investment properties	*9*	**144,439**	142,406	**121,914**	119,030
Investment properties under development	*9*	**26,098**	21,592	**22,003**	18,049
Other property, plant and equipment		**216**	218	**182**	182
		170,753	164,216	**144,099**	137,261
Interest in joint ventures		**3,899**	3,650	**3,295**	3,051
Other assets		**1,446**	1,445	**1,222**	1,208
Deposits with banks		**3,051**	3,705	**2,579**	3,097
Deferred tax assets		**1**	2	**1**	2
		179,150	173,018	**151,196**	144,619
Current assets					
Cash and deposits with banks		**15,011**	18,518	**12,679**	15,477
Trade and other receivables	*10*	**1,718**	2,078	**1,449**	1,737
Properties for sale		**1,284**	1,634	**1,085**	1,366
Assets held for sale	*12*	**77**	540	**65**	451
		18,090	22,770	**15,278**	19,031
Current liabilities					
Bank loans and other borrowings		**4,796**	3,017	**4,047**	2,522
Trade and other payables	*11*	**6,567**	7,169	**5,542**	5,992
Finance lease obligations		**22**	19	**19**	16
Current tax payable		**548**	511	**463**	427
Liabilities directly associated with the assets held for sale	*12*	**-**	2	**-**	2
		11,933	10,718	**10,071**	8,959
Net current assets		**6,157**	12,052	**5,207**	10,072
Total assets less current liabilities		**185,307**	185,070	**156,403**	154,691
Non-current liabilities					
Bank loans and other borrowings		**23,857**	25,022	**20,143**	20,914
Finance lease obligations		**314**	319	**265**	267
Deferred tax liabilities		**10,173**	10,173	**8,578**	8,504
		34,344	35,514	**28,986**	29,685
NET ASSETS		**150,963**	149,556	**127,417**	125,006
Capital and reserves					
Share capital		**4,065**	4,065	**3,164**	3,164
Reserves		**81,540**	79,072	**69,092**	66,326
Shareholders' equity		**85,605**	83,137	**72,256**	69,490
Non-controlling interests		**65,358**	66,419	**55,161**	55,516
TOTAL EQUITY		**150,963**	149,556	**127,417**	125,006

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The interim results set out in the announcement do not constitute the interim report for the six months ended June 30, 2018 of Hung Lung Group Limited (the "Company") and its subsidiaries (collectively the "Group") but are extracted from the report.

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 this 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 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 Group. Except for HKFRS 15, *Revenue from contracts with customers*, the adoption of these new or amended HKFRSs does not have significant impact on the Group's interim financial report. The Group has early adopted the complete version of HKFRS 9, *Financial Instruments*, since January 1, 2017.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements, except for the changes summarized below.

Impact of adoption of HKFRS 15, Revenue from contracts with customers

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

1. Basis of preparation (Continued)

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

Policy applicable on or before December 31, 2017

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

Policy applicable from January 1, 2018

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

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

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

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

1. Basis of preparation (Continued)

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

(a) Consolidated statement of profit or loss (Extract)

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

1. Basis of preparation (Continued)

(b) Consolidated statement of financial position (Extract)

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

(c) Condensed consolidated cash flow statement

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

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

1. Basis of preparation (Continued)

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

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

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

2. Revenue and segment information

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

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

Management evaluates performance primarily based on profit before taxation.

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

2. Revenue and segment information (Continued)

(a) Revenue and results by segments

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

2. Revenue and segment information (Continued)

(b) Total assets by segments

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

3. Other net income

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

4. Net interest expense

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

5. Profit before taxation

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

6. Taxation

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

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

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

7. Dividends

(a) Interim dividend

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

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

(b) Final dividend approved and paid during the period

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

8. Earnings per share

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

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

8. Earnings per share (Continued)

(a) (Continued)

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

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

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

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

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

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

9. Investment properties and investment properties under development

(a) Additions

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

(b) Valuation

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

10. Trade and other receivables

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

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

10. Trade and other receivables (Continued)

(a) (Continued)

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

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

11. Trade and other payables

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

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

12. Assets held for sale

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

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

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

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

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

OTHER INFORMATION

Employees

As of June 30, 2018, the number of employees was 4,535 (comprising 1,192 Hong Kong employees and 3,343 mainland China employees). The total employee costs for the six months ended June 30, 2018, amounted to HK$799 million. We provide competitive remuneration packages for all employees including discretionary bonuses payable based on individual performance. We regularly review the remuneration packages to ensure that they comply with relevant regulatory requirements and market conditions. The Group has share option schemes for the executives and provides professional and high-quality training for all employees.

Purchase, Sale or Redemption of Listed Securities

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

Compliance with Corporate Governance Code

During the six months ended June 30, 2018, the Company 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 on The Stock Exchange of Hong Kong Limited.

Review of Interim Results

The interim results for the six months ended June 30, 2018, have been reviewed by the Company's Audit Committee and auditor, KPMG.

Book Close Dates

Book close dates (both days inclusive)	September 12 to 13, 2018
Latest time to lodge transfers	4:30 pm on September 11, 2018
Record date for interim dividend	September 13, 2018
Payment date for interim dividend	September 27, 2018

On Behalf of the Board
Ronnie C. Chan
Chairman

Hong Kong, July 30, 2018

As of the date of this announcement, the board of directors of the Company comprises the following directors:
Executive Directors: Mr. Ronnie C. CHAN, Mr. Weber W.P. LO, Mr. H.C. HO and Mr. Adriel W. CHAN
Non-Executive Directors: Mr. Gerald L. CHAN, Mr. George K.K. CHANG and Mr. Roy Y.C. CHEN
Independent Non-Executive Directors: Mr. Simon S.O. IP, Prof. P.W. LIU, Prof. L.C. TSUI and Mr. Martin C.K. LIAO

GLOSSARY

Financial Terms

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

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

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

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

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

Financial Ratios

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

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

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

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

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