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

2017 INTERIM RESULTS ANNOUNCEMENT

INTERIM RESULTS AND DIVIDEND

The Board of Directors announces that for the six months ended 30 June 2017, the (unaudited) Group's reported profit attributable to equity shareholders amounted to HK$14,158 million, representing an increase of HK$5,547 million or 64% over HK$8,611 million for the same period last year. Reported earnings per share were HK$3.54 (2016: HK$2.15 as adjusted for the bonus issue in 2017).

Excluding the fair value change (net of non-controlling interests and tax) of investment properties and investment properties under development, the Group's Underlying Profit attributable to equity shareholders for the period under review was HK$10,731 million, representing an increase of HK$5,949 million or 124% over HK$4,782 million for the same period last year. Underlying Earnings Per Share were HK$2.68 (2016: HK$1.20 as adjusted for the bonus issue in 2017).

The Board has resolved to pay an interim dividend of HK$0.48 per share (2016: HK$0.42 per share) to shareholders whose names appear on the Register of Members of the Company on Thursday, 7 September 2017 and such interim dividend will not be subject to any withholding tax in Hong Kong.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed on Wednesday, 6 September 2017 and Thursday, 7 September 2017, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's Registrar, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 5 September 2017. Interim dividend will be distributed to shareholders on Monday, 18 September 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group's underlying profit attributable to equity shareholders for the six months ended 30 June 2017 was up by 124% to HK$10,731 million. Pre-tax profit contribution from property sales (including the attributable contribution from subsidiaries, associates and joint ventures) increased by 166% period-on-period to HK$3,167 million, whilst pre-tax net rental income (including the attributable contribution from subsidiaries, associates and joint ventures) increased by 1% period-on-period to HK$3,303 million. Besides, there was a total attributable pre-tax net gain of HK$3,944 million arising from the disposal of various investment properties and a development site.

Hong Kong

Property Sale

The U.S. Federal Reserve raised interest rates twice in the first half of 2017. However, Hong Kong's economy remained sound and funds kept flowing in. Mortgage interest rates remained relatively low as a result. Together with the solid housing demand from end-users, the local property market stayed strong.

During the period, the Group launched various development projects including "Eden Manor" adjacent to the Hong Kong Golf Club in Fanling, "NOVUM WEST" in Sai Ying Pun, "Mega Cube" in Kowloon Bay and "The Globe" in Cheung Sha Wan, all of which were well received by buyers. Unsold units of existing projects such as "39 Conduit Road" in Mid-Levels, "Double Cove" (Phases 1-5) in Ma On Shan as well as the urban redevelopment boutique residences under "The H Collection" also sold well. In addition, "Newton Place Hotel" in Kwun Tong and "Newton Inn" in North Point were sold at HK$2,248 million and HK$1,000 million respectively. Together with the disposal of certain shop units at "Fairview Height" in Mid-Levels, "The Zutten" in Ma Tau Kok and "PARKER33" in Shau Kei Wan, as well as some other commercial properties, the Group sold HK$13,268 million worth of Hong Kong properties in attributable terms for the six months ended 30 June 2017, an increase of 113% from the HK$6,233 million for the same period last year.

Property Development

In May 2017, a prestigious commercial site at Murray Road, Central was acquired through public tender at a consideration of HK$23,280 million. The site has easy access to MTR stations and sprawling open views of the adjacent Chater Garden, The Court of Final Appeal and Statue Square. It is planned to be developed into a 31-storey office-cum-commercial development, providing a total gross floor area of about 465,000 square feet. Upon its scheduled completion in 2022, it is poised to feature as another landmark in the Central Business District of Hong Kong after the International Financial Centre.

Meanwhile, the Group has 45 urban redevelopment projects with 80% to 100% of their ownerships acquired, representing about 4.0 million square feet in total attributable gross floor area.

The Group has made use of multiple channels to expand its development land bank in Hong Kong. With the exception of a few projects earmarked for rental purposes, there will be abundant supply of saleable areas for the Group's property sales in the coming years with details shown as follows:

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

			No. of projects	Attributable saleable/gross floor area (million sq. ft.) (Note 1)	Note
(A)	**Area available for sale in the second half of 2017:**				
1.	Unsold units from major development projects offered for sale	(Table 1)	22	1.2	
2.	Projects pending sale in the second half of 2017	(Table 2)	3	0.2	
			Sub-total:	**1.4**	Of which an attributable floor area of about 540,000 sq. ft. was sourced from urban redevelopment projects
(B)	**Projects in Urban Areas:**				
3.	Existing urban redevelopment projects	(Table 3)	5	1.4	Dates of sales launch are not yet fixed and one of them is pending finalisation of land premium with the Government
4.	Newly-acquired Urban Redevelopment Projects – with ownership fully consolidated	(Table 4)	24	2.3	Most of them are expected to be available for sale or leasing in 2018-2019
5.	Newly-acquired Urban Redevelopment Projects – with 80% or above ownership secured	(Table 5)	21	1.7	Most of them are expected to be available for sale in 2019-2021
6.	Newly-acquired Urban Redevelopment Projects – with over 20% but less than 80% ownership secured	(Table 6)	32	0.8	Redevelopments of these projects are subject to successful consolidation of their ownerships
7.	15 Middle Road Tsim Sha Tsui, Kowloon (acquired through public tender)		1	0.3	To be held for rental purposes upon completion of development
8.	Murray Road, Central (acquired through public tender)		1	0.5	To be held for rental purposes upon completion of development
			Sub-total:	**7.0**	
			Total for the above categories (A) and (B) development projects:	**8.4**	

(C) Major development projects in the New Territories:

– Fanling North/Kwu Tung North	4.4	(Note 2)
– Wo Shang Wai	0.9	(Note 2)
– Kwun Chui Road, Area 56, Tuen Mun Town Lot No. 500 (acquired through public tender)	0.8	
– Yuen Long Town Lot No. 524	0.1	
– Others	0.3	
Sub-total:	**6.5**	
Total for categories (A) to (C):	**14.9**	

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

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

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

There are 22 major development projects available for sale:

	Project name and location	Site area (sq. ft.)	Gross floor area (sq. ft.)	Type of development	Group's interest (%)	At 30 June 2017 No. of residential units remaining unsold	At 30 June 2017 Saleable area remaining unsold (sq. ft.)
1.	Eden Manor 88 Castle Peak Road Kwu Tung	154,280	555,399	Residential	100.00	465	433,609
2.	Double Cove – Phases 1-5 8 Wu Kai Sha Road Ma On Shan	1,042,397	2,950,640	Commercial/ Residential	59.00	159	279,519
3.	NOVUM WEST* 460 Queen's Road West Sai Ying Pun	28,027	272,301	Commercial/ Residential	100.00	380	123,090
4.	Wellesley* 23 Robinson Road Mid-Levels	31,380	156,900	Residential	50.00 (Note 1)	28	47,195
5.	Park One* 1,3 Nam Cheong Street and 180 Tung Chau Street Cheung Sha Wan	8,559	77,029	Commercial/ Residential	100.00	67	29,201
6.	High Park Grand* 68 Boundary Street Mong Kok	6,750	60,750	Commercial/ Residential	100.00	23	25,203
7.	Seven Victory Avenue* 7 Victory Avenue Ho Man Tin	9,865	83,245	Commercial/ Residential	100.00	61	20,411
8.	The Reach 11 Shap Pat Heung Road Yuen Long	371,358	1,299,744	Residential	79.03	13	14,275
9.	Hill Paramount 18 Hin Tai Street Shatin	95,175	358,048	Residential	100.00	4	11,742
10.	39 Conduit Road* Mid-Levels	56,748	229,255	Residential	60.00	4	14,030

11.	Green Lodge 23 Ma Fung Ling Road Tong Yan San Tsuen	78,781	78,781	Residential	100.00	2	6,617
12.	Jones Hive* 8 Jones Street Causeway Bay	6,529	65,267	Residential	79.762	10	4,977
13.	H • Bonaire* 68 Main Street Ap Lei Chau	7,953	65,761	Commercial/ Residential	100.00	5	3,062
14.	PARKER33* 33 Shing On Street Shau Kei Wan	7,513	80,090	Commercial/ Residential	100.00	4	2,269
15.	Eltanin • Square Mile* 11 Li Tak Street Mong Kok	19,600	176,353	Commercial/ Residential	100.00	4	2,166
16.	High One Grand* 188 Fuk Wing Street Cheung Sha Wan	7,350	62,858	Commercial/ Residential	100.00	2	1,615
17.	High One* 571 Fuk Wa Street Cheung Sha Wan	7,560	63,788	Commercial/ Residential	100.00	3	1,491
18.	High Point* 188 Tai Po Road Cheung Sha Wan	8,324	70,340	Commercial/ Residential	100.00	2	1,095
19.	Global Gateway Tower* 61A-61E and 63 Wing Hong Street Cheung Sha Wan	28,004	336,052	Industrial	100.00	Not applicable	103,503 (Note 2)
20.	The Globe 79 Wing Hong Street Cheung Sha Wan	14,343	172,113	Office	100.00	Not applicable	78,685 (Note 2)
21.	E-Trade Plaza 24 Lee Chung Street Chai Wan	11,590	173,850	Office	100.00	Not applicable	60,359 (Note 2)
22.	Mega Cube 8 Wang Kwong Road Kowloon Bay	21,528	171,194	Office	100.00	Not applicable	56,903 (Note 2)
					Sub-total:	**1,236**	**1,321,017**
					Area attributable to the Group:		**1,173,205**

Note 1: Representing the Group's interest after the allocation of the relevant residential units to each of the involved developers separately on a proportional basis under the "Deed of Mutual Grant and Covenant and Management Agreement".

Note 2: Representing the office or industrial area.

* Urban redevelopment projects totalling approximately 350,000 square feet of remaining area attributable to the Group.

(Table 2) Projects pending sale in the second half of 2017

In the absence of unforeseen delays, the following 3 projects will be available for sale in the second half of 2017:

	Project name and location	Site area (sq. ft.)	Gross floor area (sq. ft.)	Type of development	Group's interest (%)	No. of residential units	Residential gross floor area (sq. ft.)
1.	PARK REACH 33 Shap Pat Heung Road Yuen Long (Note 1)	6,131	21,453	Commercial/ Residential	79.03	63	19,273
2.	NOVUM EAST* 856 King's Road North Point	17,720	177,817	Commercial/ Residential	100.00	464	150,031
3.	12-18 Tin Wan Street Aberdeen*	4,060	37,546	Commercial/ Residential	100.00	142	35,030
					Total:	**669**	**204,334**
						Area attributable to the Group:	**200,292**

Note 1: Pending the issue of pre-sale consent.

***** Urban redevelopment projects totalling approximately 190,000 square feet of area attributable to the Group.

(Table 3) Existing urban redevelopment projects

The Group has a total of 5 existing projects under planning for redevelopment or land-use conversion and the dates of their sales launch are not yet fixed. As outlined below, they are expected to provide about 1.4 million square feet in attributable gross floor area in the urban areas based on the Buildings Department's approved plans or the Government's latest town planning:

Project name and location	Site area (sq. ft.)	Expected gross floor area upon redevelopment (sq. ft.)	Group's interest (%)	Expected attributable gross floor area upon redevelopment (sq. ft.)
1. 18 King Wah Road North Point, Hong Kong (Notes 1 and 2)	52,689	329,752	100.00	329,752
2. 45 Pottinger Street, Central, Hong Kong (Note 1)	9,067	135,995	19.10	25,975
3. 218 Electric Road North Point, Hong Kong (Note 1)	9,600	143,993	100.00	143,993
4. 29A Lugard Road The Peak, Hong Kong	23,649	11,824	100.00	11,824
5. Yau Tong Bay Kowloon (Note 3)	810,454	3,991,981	22.80	910,172
Total:	**905,459**	**4,613,545**		**1,421,716**

Note 1: Investment property.
Note 2: This office development was completed in August 2017.
Note 3: The modified master layout plan was approved in February 2015 and it is pending finalisation of land premium with the Government.

(Table 4) Newly-acquired Urban Redevelopment Projects – Ownership Fully Consolidated

There are 24 newly-acquired urban redevelopment projects with ownership fully consolidated. In the absence of unforeseen delays, most of these projects are expected to be available for sale or leasing in 2018-2019 and their expected attributable gross floor areas, based on the Buildings Department's approved plans or the Government's latest town planning, are as follows:

	Project name and location	Site area (sq. ft.)	Expected attributable gross floor area upon redevelopment (sq. ft.)	
Hong Kong				
1.	1-19 Chung Ching Street, Sheung Wan	7,858	66,793	
2.	1-4 Ladder Street Terrace, Sheung Wan	2,860	14,300	
3.	206-212 Johnston Road, Wanchai	4,339	65,065	(Note 1)
4.	17 Wood Road, Wanchai	2,015	17,128	(a)
5.	85-95 Shek Pai Wan Road, Aberdeen	4,950	47,025	(b)
6.	62C Robinson Road and 6 Seymour Terrace Mid-Levels	3,851	33,654	
7.	4A-4P Seymour Road, Mid-Levels (65% stake held by the Group)	52,466	306,921	
	Sub-total:	**78,339**	**550,886**	
Kowloon				
8.	38 Hillwood Road, Tsim Sha Tsui	4,586	55,031	(Note 1)
9.	2A-2F Tak Shing Street, Jordan	10,614	89,550	
10.	8-30A Ka Shin Street, Tai Kok Tsui	19,601	166,610	
11.	25-29 Kok Cheung Street, Tai Kok Tsui	22,885	205,965	
12.	35-47 Li Tak Street, 2-16 Kok Cheung Street and 32-44 Fuk Chak Street, Tai Kok Tsui	20,114	181,009	
13.	456-466 Sai Yeung Choi Street North and 50-56 Wong Chuk Street, Sham Shui Po	22,889	203,878	(Note 2)
14.	1-15 Berwick Street and 202-220 Nam Cheong Street, Shek Kip Mei	20,288	162,304	(c)
15.	3-8 Yiu Tung Street, Shek Kip Mei	7,313	58,504	(c)
16.	342-354 Un Chau Street, Cheung Sha Wan	8,013	67,847	
17.	11-19 Wing Lung Street, Cheung Sha Wan	6,510	58,590	(Note 2)
18.	69-83 Fuk Lo Tsun Road, Kowloon City	9,543	83,015	(Note 2)
19.	57-69 Ma Tau Wai Road, 2-20 Bailey Street and 18A-30 Sung Chi Street, To Kwa Wan	23,031	207,254	
20.	15-17A Whampoa Street, Hung Hom	4,000	36,000	(d)

21.	31-33 Whampoa Street, Hung Hom	3,000	27,000	(e)
22.	39-41 Whampoa Street and 12A-12B and 22-22A Bulkeley Street, Hung Hom	4,900	44,100	(f)
23.	14-16 and 26-28 Gillies Avenue South and 76-78 Baker Street, Hung Hom	6,375	57,375	(g)
24.	74-74C Waterloo Road and 15-25 Yau Moon Street, Ho Man Tin (49% stake held by the Group)	10,677	39,240	
	Sub-total:	**204,339**	**1,743,272**	
	Total:	**282,678**	**2,294,158**	

Note 1: To be held for rental purposes upon completion of development. The project at Hillwood Road is scheduled for completion in the second half of 2017.

Note 2: Developable area may be subject to payment of land premium.

* In this Table 4, any project marked alphabetically in the attributable gross floor area column will be jointly developed with the project marked with the corresponding alphabetic character in the attributable gross floor area column of the following Table 5 (when full ownership is acquired).

(Table 5) Newly-acquired Urban Redevelopment Projects – with 80% or above ownership secured

There are 21 newly-acquired urban redevelopment projects with over 80% ownership secured and their ownership will be consolidated by proceeding to court for compulsory sale under the "Land (Compulsory Sale for Redevelopment) Ordinance". In the event that no court order is granted, the Group may not be able to complete the consolidation of the ownership for development. If legal procedures go smoothly and in the absence of unforeseen delays, most of the projects set out below are expected to be available for sale in 2019-2021. On the basis of the Government's latest town planning, the expected attributable gross floor areas are shown as follows:

	Project name and location	Site area (sq. ft.)	Expected attributable gross floor area upon redevelopment (sq. ft.)	
Hong Kong				
1.	73-73E Caine Road, Mid-Levels	6,781	60,659	
2.	13-15 Wood Road, Wanchai	3,993	33,941	(a)
3.	2 Tai Cheong Street, Sai Wan Ho	13,713	123,417	
4.	83 Shek Pai Wan Road, Aberdeen	1,128	10,716	(b)
5.	4-6 Tin Wan Street, Aberdeen	1,740	14,790	
6.	65-71 Main Street, Ap Lei Chau	4,800	40,800	
7.	9-13 Sun Chun Street, Tai Hang	2,019	18,171	
8.	64-94 Pan Hoi Street, Quarry Bay (50% stake held by the Group)	15,378	73,046	
9.	983-987A King's Road and 16-46 Pan Hoi Street, Quarry Bay (50% stake held by the Group)	17,300	82,175	
	Sub-total:	**66,852**	**457,715**	
Kowloon				
10.	1 Ka Shin Street, 39-53 Tai Kok Tsui Road and 2 Pok Man Street, Tai Kok Tsui	9,642	86,778	
11.	17-27 Berwick Street, Shek Kip Mei	7,725	61,800	(c)
12.	1-2 and 9-12 Yiu Tung Street, Shek Kip Mei	7,350	58,800	(c)
13.	1-11C and 19-21C Whampoa Street and 80-86 Baker Street, Hung Hom	15,725	141,525	(d)
14.	2-16A Whampoa Street, Hung Hom	14,400	129,600	
15.	22-24 Whampoa Street and 88-90A Baker Street, Hung Hom	4,675	42,075	
16.	30-44 Gillies Avenue South and 75-77 Baker Street, Hung Hom	13,175	118,575	
17.	23-29 and 35-37 Whampoa Street and 79-81 Baker Street, Hung Hom	8,625	77,625	(e)
18.	26-40A Whampoa Street and 83-85 Baker Street, Hung Hom	13,175	118,575	
19.	14-20 Bulkeley Street and 46-50 Gillies Avenue South, Hung Hom	7,000	63,000	(f)
20.	2-12 and 18-24 Gillies Avenue South, Hung Hom	17,000	153,000	(g)
21.	68A-70C To Kwa Wan Road, 14-16 Ha Heung Road, 1-7 Lai Wa Street and 2-8 Mei Wa Street, To Kwa Wan	22,023	149,141	
	Sub-total:	**140,515**	**1,200,494**	
	Total:	**207,367**	**1,658,209**	

* In this Table 5, any project marked alphabetically in the attributable gross floor area column will be jointly developed (when full ownership is acquired) with the project marked with the corresponding alphabetic character in the attributable gross floor area column of the above Table 4.

(Table 6) Newly-acquired Urban Redevelopment Projects – with over 20% but less than 80% ownership secured

The Group has other acquisitions in progress, involving 32 projects located in prime urban areas in Hong Kong and Kowloon. Currently, ownership ranging from more than 20% to less than 80% of each project has been achieved. The attributable land areas of these projects total about 210,000 square feet. If and when their ownerships are successfully consolidated, based on the Government's latest town planning, the total estimated attributable gross floor area would be about 1,930,000 square feet upon completion of redevelopment. Based on the respective ownership currently secured by the Group for each project, the total pro-rata attributable gross floor area is about 790,000 square feet.

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

Land Bank

In May 2017, the following prestigious commercial site at Murray Road, Central with easy access to MTR stations and sprawling open views of the adjacent Chater Garden, The Court of Final Appeal and Statue Square was acquired through public tender at a consideration of HK$23,280 million. It is planned to be developed into an office-cum-commercial development:

Location	**Lease Expiry**	**Site area (sq. ft.)**	**Land-use purpose**	**Group's interest (%)**	**Estimated attributable gross floor area (sq. ft.)**
Murray Road, Central, Hong Kong, Inland Lot No. 9051	2067	31,000	Commercial	100.00	465,000 (Note)

Note: including a public car park which provides 102 car parking spaces and 69 motorcycle parking spaces

In addition, the Group continues to replenish its land bank by acquiring old tenement buildings for redevelopment and applying for land-use conversion for its portfolio of New Territories land. This dual approach to land banking has proven to be a reliable source of land supply with a lower acquisition cost, which is beneficial to the Group's development returns in the long term. Such land banking strategy is, in fact, a win-win move for all parties. By acquiring old tenement buildings for redevelopment, owners of the dilapidated properties can upgrade to homes with much better living conditions, while the old districts will be revitalised with a refreshing look. Meanwhile, land resources in the New Territories can be more efficiently used after land-use conversion, offering the tranquil ambience that many people aspire after.

The Group currently has a land bank in Hong Kong comprising a total attributable gross floor area of approximately 24.2 million square feet, made up as follows:

		Attributable gross floor area (million sq. ft.)
Properties under development (Note)		13.7
Unsold units from major launched projects		1.2
	Sub-total:	**14.9**
Completed properties (including hotels) for rental		9.3
	Total:	**24.2**

Note: Including the total developable area of about 5.3 million square feet from the projects in Fanling North/Kwu Tung North and Wo Shang Wai, which are subject to finalisation of land premium.

Land in Urban Areas

In addition to those already in the sales pipeline as mentioned, there are currently 45 urban redevelopment projects of old tenement buildings with entire or over 80% ownership acquired, representing a total attributable gross floor area of about 4.0 million square feet, which are expected to be available for sale or leasing in 2018 or beyond. The total land cost of such projects is estimated to be about HK$27,800 million (in spite of the inclusion of pricey street shops and the project at the prestigious Seymour Road in Mid-Levels), translating into a land cost of approximately HK$7,000 per square foot of gross floor area.

During the period under review, the Group completed the acquisition of the entire interests in the development project at 35-47 Li Tak Street, 2-16 Kok Cheung Street and 32-44 Fuk Chak Street, Tai Kok Tsui. The sites for various existing projects were also enlarged following the acquisition of the adjacent buildings. In addition, the residential-cum-commercial project at Yau Tong Bay is in the process of application for land exchange.

New Territories land

At 30 June 2017, the Group held New Territories land reserves amounting to approximately 44.9 million square feet in land area, which was the largest holding among all property developers in Hong Kong.

In July 2013, the Government announced the result of the "North East New Territories New Development Areas Planning and Engineering Study", of which Kwu Tung North and Fanling North would be treated as the extension of Fanling/Sheung Shui New Town. The Government has also decided to adopt an enhanced Conventional New Town Approach and, subject to specified criteria, private land owners are allowed to apply for in-situ land exchange for private developments. Outline Zoning Plans for both Kwu Tung North and Fanling North were already approved by the Chief Executive-in-Council. Of the Group's land holding of 2.4 million square feet in Fanling North New Development Area, a total land area of roughly over 800,000 square feet is assessed to be eligible for in-situ land exchange and the Government may resume the other parts of its lands for public use by payment of cash compensation. The Group has previously applied for in-situ land exchange for five separate land lots in Fanling North and Kwu Tung North, which have just been accepted by the Government for further review. The site at Kwu Tung North is expected to provide total developable gross floor areas of approximately 340,000 square feet against its site area of 45,000 square feet. Four other land lots are located in Fanling North and they have respective site areas of 172,000 square feet, 228,000 square feet, 241,000 square feet and 240,000 square feet. The above four land lots in Fanling North are expected to provide an aggregate commercial gross floor area of 440,000 square feet and residential gross floor area of 3.64 million square feet approximately. Developable areas for these sites are subject to finalisation of land premium. For the land lot at Kwu Tung North and one land lot at Fanling North, premium offers in respect of their land exchanges have been received from the Government and it is now in the process of an appeal on the amount of assessed land premium.

According to the aforementioned "North East New Territories New Development Areas Planning and Engineering Study", the region at Ping Che/Ta Kwu Ling will be re-planned in response to the "2013 Policy Address" which proposed an initiative to review the development potential of New Territories North, including new opportunities brought about by the new railway infrastructure. In January 2014, the Government commenced its "Preliminary Feasibility Study on Developing the New Territories North" on a study area of about 5,300 hectares. In September 2014, the Government announced the "Railway Development Strategy", including its long-term extension plan to further extend the railway line to Kwu Tung and Ping Che. The Group has a land holding of about 1.36 million square feet in Ping Che/Ta Kwu Ling which is embodied in the Master Layout Plan of the original "North East New Territories New Development Areas Planning and Engineering Study". In addition, the Group has about 1.09 million square feet of land in the adjacent areas, making a total of about 2.45 million square feet in the region. In order to increase land supply for housing, the Government formulated the Preliminary Outline Development Plan for "Planning and Engineering Study for Housing Sites in Yuen Long South – Investigation" and launched its Stage 2 Community Engagement. It also released the "Land Use Review for Kam Tin South and Pat Heung". The Group holds certain pieces of land in these Study Areas.

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

Besides, the project comprising the development of houses cum wetland restoration in Wo Shang Wai, Yuen Long has been approved by the Town Planning Board. With a site area of approximately 2.23 million square feet, this project will comprise about 400 houses, providing a total residential floor area of approximately 890,000 square feet. Negotiation of the land premium is now under way and project implementation is subject to the finalisation of the land premium amount with the Government.

The Pilot Scheme for Arbitration on Land Premium was introduced by the Government in October 2014 for a trial period of two years, with an aim to facilitate early conclusion of land premium negotiations and expedite land supply for housing and other uses. The Government has extended the Pilot Scheme for two more years to October 2018. The Group will thus consider requesting for arbitration on its land exchange or lease modification cases when necessary.

Investment Properties

For the six months ended 30 June 2017, the Group's attributable gross rental income in Hong Kong, including the attributable contribution from subsidiaries, associates and joint ventures, increased by 3% period-on-period to HK$3,315 million. The attributable pre-tax net rental income, including the attributable contribution from subsidiaries, associates and joint ventures, was HK$2,655 million, representing a growth of 4% over the corresponding period of the previous year. Included therein is attributable gross rental income of HK$973 million (2016: HK$953 million) contributed from the Group's attributable 40.77% interest in The International Finance Centre ("ifc") project. At the end of June 2017, the leasing rate for the Group's core rental properties was 96%. Besides, the Group held about 9,000 car parking bays, providing additional rental income.

As at 30 June 2017, the Group held a total attributable gross floor area of approximately 8.8 million square feet of completed investment properties in Hong Kong:

By type:	**Attributable gross floor area (million sq. ft.)**	**Percentage (%)**
Shopping arcade or retail	4.6	52
Office	3.4	38
Industrial	0.4	5
Residential and hotel apartment	0.4	5
Total:	**8.8**	**100**

By geographical area:	**Attributable gross floor area (million sq. ft.)**	**Percentage (%)**
Hong Kong Island	2.2	25
Kowloon	2.8	32
New Territories	3.8	43
Total:	**8.8**	**100**

According to the information released by The Census and Statistics Department, the value of total retail sales in Hong Kong for the first half in 2017 decreased by 0.6% when compared with the same period a year earlier. However, the Group's major shopping malls (except those under renovation or undergoing a realignment of tenant mix) continued to perform well, substantiated by steady rental growth with nearly full occupancy by the end of June 2017. Such satisfactory results were built on favourable attributes of the Group's shopping malls, including convenient locations, attentive customer services and appealing tenant mix. In addition to the regular facility upgrades of its shopping malls to maintain their competitiveness, the Group also launched innovative marketing activities to attract more shoppers. For instance, a marketing campaign was launched with the local television operator, which was allowed to film its first-ever drama with real location shooting and in 4K picture quality, at some of the Group's premises (namely, "Metro City Plaza" in Tseung Kwan O, "KOLOUR•Tsuen Wan" and "KOLOUR•Yuen Long") and the live program for showing the final episode was taken place at "Sunshine City Plaza" in Ma On Shan. This drama was well received and enhanced the popularity for the Group's shopping malls. At "KOLOUR•Tsuen Wan", a micro film was launched to showcase the newly renovated mall, whilst the virtual reality (VR) / augmented reality (AR) interactive entertainments have been used for festive promotions, successfully shaping the mall into a popular rendezvous for young generations in the district. With the upcoming Ginza-style commercial project at Hillwood Road and a retail mall beneath the residential project "Eltanin•Square Mile" scheduled for opening by the end of 2017, the Group's portfolio of shopping arcade or retail space will further expand by about 100,000 square feet. The preliminary leasing responses of these two forthcoming properties have been satisfactory.

Leasing demand for office space remained resilient in Hong Kong, underpinned by limited new supply and the influx of mainland companies. During the period under review, the Group's premium office buildings in the core areas, such as "ifc" in Central, "AIA Tower" in North Point and "FWD Financial Centre" in Sheung Wan, recorded high occupancy with positive rental reversions. Meanwhile, the Group's cluster of office and industrial/office premises in Kowloon East, including "Manulife Financial Centre", "AIA Financial Centre", "78 Hung To Road" and "52 Hung To Road", also performed well with steady rental growth. In addition, a 330,000-square-foot waterfront Grade-A office tower at 18 King Wah Road, North Point, was completed in August 2017. Pre-leasing has been progressing satisfactorily, with enquiries from many multinational corporations and mainland enterprises.

Hotel Operations

In order to improve the yield of the Group's assets, the Group's remaining two Newton hotels were sold in February 2017. The disposal of "Newton Inn" in North Point, at a consideration of about HK$1,000 million, was already completed in July 2017. Whereas, completion of the disposal of "Newton Place Hotel" in Kwun Tong, at a consideration of about HK$2,248 million, is expected to take place in October 2017.

Situated atop the Airport Express Terminal with a panoramic view over Victoria Harbour, "Four Seasons Hotel Hong Kong" maintained its leading position in Hong Kong's hospitality sector with occupancy and room rates sustained at high levels. Distinguished by its superior customer services, the hotel continued to receive numerous accolades, including a quadruple five-star rating in the latest Forbes Travel Guide.

Construction

In order to improve the cityscape and to provide better and safer living conditions for Hong Kong people, the Group has been active in acquiring old tenement buildings for urban redevelopment purposes. As most of these projects are located in populous districts, energy-saving and environmentally-friendly features recommended by the Leadership in Energy and Environmental Design (LEED) and Building Environmental Assessment Method (BEAM) Plus rating systems are adopted in the Group's projects. In addition to the use of self-developed pre-fabricated building components, the Group also self-contracted for the foundation piling works of its development projects and participated in the manufacturing of glass curtain walls, with the aim to expedite the construction process and minimise disruption to neighbourhoods. All these measures help improve quality and cost efficiency by reducing manpower and construction waste. Furthermore, with a large number of projects under development, the Group has implemented a series of measures, such as bulk purchases of building materials and electrical equipment, as well as outsourcing to more well-qualified sub-contractors, to further reduce construction costs by economies of scale. As the Group pays attention to every detail throughout the construction process, its developments are highly applauded for their top quality. "High One Grand" at Cheung Sha Wan and "Double Cove" (Phases 4 and 5) at Ma On Shan, for instance, were respectively named as "Quality Building" and "Five Stars Residency" by Hong Kong Professional Building Inspection Academy recently. Meanwhile, both commercial developments at 18 King Wah Road, North Point and 15 Middle Road, Tsim Sha Tsui achieved Gold pre-certification by International WELL Building Institute, making the Group as the leading developer of WELL certified spaces in Hong Kong.

The Group considers site safety a top priority. As a result of its focus on preparedness and training for the workforce, the Group's construction accident rate over the years has been well below the industry average in Hong Kong. With such a committed approach to construction safety, the Group during the period earned numerous accolades including "The Considerate Contractors Site Award" from the Development Bureau of the Hong Kong SAR Government, as well as "Proactive Safety Award" and "Safety Merit Award" from The Hong Kong Construction Association.

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

	Project name and location	**Site area (sq. ft.)**	**Gross floor area (sq. ft.)**	**Type of development**	**Group's interest (%)**	**Attributable gross floor area (sq. ft.)**
1.	AXIS 200 Ma Tau Wai Road Hung Hom	4,905	41,314	Commercial/ Residential	100.00	41,314
2.	PARKER33 33 Shing On Street Shau Kei Wan	7,513	80,090	Commercial/ Residential	100.00	80,090
3.	The Zutten 50 Ma Tau Kok Road Ma Tau Kok	11,400	102,570	Commercial/ Residential	100.00	102,570
4.	Eltanin • Square Mile 11 Li Tak Street Mong Kok	19,600	176,353	Commercial/ Residential	100.00	176,353
					Total:	**400,327**

In mainland China, the Group's Construction Department monitors all the key areas throughout the construction process, such as tender evaluation, contract execution, development progress and product quality, and gauges them closely against a set of pre-determined standards. It also provides timely feedback, aiming at achieving building quality excellence and consistency for all of the Group's products.

Property Management

The Group's property management companies, namely, Hang Yick Properties Management Limited, Well Born Real Estate Management Limited and Goodwill Management Limited, manage in total over 80,000 apartments and industrial/commercial units, 10 million square feet of shopping and office space, as well as 20,000 car parking spaces in Hong Kong and mainland China.

The property management subsidiaries follow the Group's quality and eco-conscious approach to services. Their professional accreditations such as ISO 9001 Quality Management System Certification, ISO 10002 Complaints Handling Management System Certification, ISO 14001 Environmental Management System Certification, OHSAS 18001 Occupational Health & Safety Management System Certification and Hong Kong Q-Mark Service Scheme Certification are testimony to the Group's commitment to service excellence and customer satisfaction. In particular, "H-PRIVILEGE LIMITED", a subsidiary of Hang Yick Properties Management Limited, also received a multitude of the above-mentioned certifications soon after its establishment as a mark of its quality one-stop services for the Group's urban boutique residences under "The H Collection".

In respect of community services, the property management team also stayed at the forefront of the industry. Their initiative to launch "The Year of Care", "The Year of Senior" and "The Year of Youth" consecutively helped promote mutual support and a caring spirit. In recognition of their care for the public at large, a multitude of commendations was received and these included being named as a "Caring Company" for consecutive years, in addition to "Outstanding Volunteer Team – Silver Award" from the Hong Kong Volunteer Federation.

Mainland China

In the first half of 2017, the Central Government maintained its regulatory stance by continuing with the restrictive measures towards the mainland property sector. In the major cities and certain popular second-tier cities, the four strictest tightening measures, namely restrictions on pricing, purchasing, lending and re-selling, were fully implemented to curb housing demand from investors and speculators. Meanwhile, additional residential sites were released to the market so as to halt a further surge in home prices. As for the other cities, "destocking" policies continued. In the implementation of differentiated policies, each city was obligated to initiate appropriate modifications to its housing policies according to local property market conditions in order to redress the balance of supply and demand.

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

	Project name	Type of development	Group's interest (%)	Attributable gross floor area (million sq. ft.)
1.	Towers 1 and 2, Phase G3, Riverside Park, Suzhou	Residential/ Commercial	70	0.69
2.	Phase 4, Henderson•CIFI Centre, Shanghai	Office	50	0.18
3.	Phase 2, Emerald Valley, Nanjing	Residential	100	0.04
			Total:	**0.91**

In response to the recent fundamental changes in market conditions, the Group has refined its strategies as follows:

Property Investment: In the central locations of major cities, the Group will actively seek to acquire prime sites for commercial/office developments for long-term investment holding. While there is abundant market demand for quality office spaces on the mainland, retail malls specifically are facing severe competition from online shopping. In future years, the Group will concentrate on the development of Grade-A office buildings, while retail malls will comprise a smaller percentage of the overall rental portfolio.

Property Development: In the first-tier cities as well as the second-tier cities with high growth potential, the Group will strengthen its co-operation with mainland property developers in the joint development of residential projects. The Group's reputable quality, management expertise and financial strength, coupled with the local developers' market intelligence, construction efficiency and cost advantages will enable its development projects to generate higher returns.

In line with these strategies, equity interests of the companies holding the following non-core investment properties and development sites were transferred during the period under review:

(1) In December 2016, the Group entered into an agreement for the transfer of the equity interests in the investment companies holding the "Henderson Centre" shopping mall and its car parking spaces in Beijing at approximately HK$3,261 million. The transaction was completed in February 2017.

(2) In March 2017, the Group transferred the equity interests in the investment companies holding land in the process of resettlement and clearance in Fangcun, Guangzhou, which has an initially planned area of over 12,000,000 square feet to Country Garden Holdings Company Limited ("Country Garden", a property developer listed in Hong Kong) at the consideration of approximately HK$1,946 million. The transaction was completed in March 2017.

(3) In May 2017, the Group entered into an agreement with Guangzhou R&F Properties Co., Ltd. ("R&F", a property developer listed in Hong Kong), pursuant to which equity interests in certain companies were transferred to R&F at the total consideration of approximately HK$8,600 million. These companies held the Group's nine projects located in Shenyang, Anshan, Tieling, Dalian and Guangzhou with an initially planned area of about 39,000,000 square feet in aggregate. The transaction was completed in July 2017.

During the period, the Group's commercial developments in the prime locations of major cities and residential development projects in leading second-tier cities were expanded:

(1) In January 2017, an office/commercial site with a total developable area of about 960,000 square feet in the southern extension of Huangpu River, Xuhui District, Shanghai was acquired at about RMB2,330 million. Together with an adjacent land lot acquired in July 2015, this will be a large-scale integrated development with a total gross floor area of nearly 3,000,000 square feet.

(2) In June 2017, the Group entered into co-operation agreements with CIFI Holdings (Group) Co. Ltd. ("CIFI", a property developer listed in Hong Kong) to jointly develop two residential sites in Luzhi and Xukou, which are both located in the Wuzhong District of Suzhou. The 310,000-square-foot site in Luzhi, which was acquired at a consideration of RMB546 million, will provide a total gross floor area of over 460,000 square feet and the Group will have 49% equity interest in this project. The 520,000-square-foot land lot in Xukou, which was acquired at a consideration of RMB1,442 million, will provide a total gross floor area of over 1,300,000 square feet and the Group will have 51% equity interest in this project.

In addition to the holding of approximately 2.9 million square feet in attributable gross floor area of completed property stock, the Group held a development land bank in 11 cities at 30 June 2017 with a total attributable gross floor area of about 38.9 million square feet. Around 76% of this total were planned for residential development:

Land bank under development or held for future development

		Group's share of developable gross floor area* (million sq. ft.)
Prime cities		
Shanghai		3.0
Guangzhou		1.8
	Sub-total:	**4.8**
Second-tier cities		
Changsha		6.2
Chengdu		3.6
Dalian		0.3
Nanjing		0.1
Shenyang		4.5
Suzhou		5.5
Xian		10.7
Xuzhou		0.6
Yixing		2.6
	Sub-total:	**34.1**
	Total:	**38.9**

** Excluding basement areas and car parks*

Usage of development land bank

		Estimated developable gross floor area (million sq. ft.)	Percentage (%)
Residential		29.5	76
Office		4.9	13
Commercial		3.9	10
Others (including clubhouses, schools and community facilities)		0.6	1
	Total:	**38.9**	**100**

Property Sales

During the period under review, the Group achieved attributable contracted sales of development properties of approximately HK$5,107 million in value and 4.21 million square feet in attributable gross floor area. “Riverside Park” and “Henderson•CIFI City” in Suzhou, “La Botanica” and “Palatial Crest” in Xian, “Henderson•CIFI Centre” in Shanghai, “The Arch of Triumph” in Changsha as well as “Grand Lakeview” in Yixing were the major revenue contributors of contracted sales.

Investment Properties

At 30 June 2017, the Group had about 6.4 million square feet of completed investment properties in mainland China. During the period under review, the Group’s attributable gross rental income decreased by 3% to HK$828 million, whilst its attributable pre-tax net rental income decreased by 8% to HK$648 million due to (i) the 5% period-on-period depreciation of the Renminbi against the Hong Kong Dollar, (ii) the increase in property tax expenses as a result of tax reform in Beijing, and (iii) the absence of rental contribution from “Henderson Centre” in Beijing since February 2017 when the disposal of its shopping mall and car parking spaces was completed.

In Beijing, “World Financial Centre’’, an International Grade-A office complex in the Chaoyang Commercial Business District, was almost fully let at the end of June 2017. Many renowned corporations such as Airbnb, Spencer Stuart and Morrison Foerster LLP were recently brought in as its tenants. The renovation works for its basement carpark had been completed recently. It is expected that the overall rental income of this prestigious building will grow further.

In Shanghai, “Henderson Metropolitan” atop Nanjing Road East subway station was virtually fully leased by the end of June 2017. More sporting brands and specialty restaurants will be added to this mall so as to enrich the shopping experience for its customers and boost business turnover for its tenants. The office tower of “Henderson 688” at Nanjing Road West, which houses many leading multinational corporations and local enterprises, was 96% let at the end of June 2017. “Grand Gateway II’’ atop the Xujiahui subway station, as well as “Greentech Tower” and “Centro” near Shanghai Railway Station, also performed well with all leasing rates exceeding 90%.

In Guangzhou, “Hengbao Plaza” atop the Changshou Road subway station boasted a wide collection of renowned retailers and eateries. New tenants such as a fast fashion label, a Korean skincare brand and a Japanese exquisite supermarket were introduced recently to cater to the demand from discerning customers. Renovation works will be carried out in this mall in the second half of 2017 so as to offer a fresh look and strengthen its market position.

The Group’s significant mainland rental portfolio will be further bolstered by two sizeable wholly-owned projects in the pipeline. In Xu Hui Riverside Development Area of Shanghai, two office/commercial sites, which were acquired in July 2015 and January 2017 respectively, are now planned to be jointly developed as a landmark development. The entire project, which consists of about 2,600,000 square feet of Grade-A offices and about 300,000 square feet of retail spaces, will be completed in two phases from 2019 to 2020. In the Yuexiu District of Guangzhou, “Haizhu Square Station Project” will be another iconic integrated development, sitting on the bank of the Pearl River with direct connection to two subway lines. Upon its scheduled completion in late 2019, it will boast an upscale shopping mall with a gross floor area of about 800,000 square feet, as well as two office towers with an aggregate gross floor areas of 900,000 square feet.

Henderson Investment Limited ("HIL")

For the six months ended 30 June 2017, HIL's (unaudited) profit attributable to equity shareholders amounted to HK$36 million, representing a decrease of HK$22 million or 38% from HK$58 million for the corresponding period in 2016.

HIL operates a department store business in six densely-populated residential districts (namely, Tsuen Wan, Yuen Long, Ma On Shan, Tseung Kwan O, Tai Kok Tsui and Tuen Mun) under the name of "Citistore" and they aim at providing customers with "one-stop" shopping convenience by offering a vast selection of merchandise at reasonable and competitive prices.

During the period under review, HIL rolled out the following initiatives to increase the competitive edge of Citistore:

- In early 2017, the Ma On Shan store was relocated to operate at another location in the same shopping mall. With a more spacious floor area of over 100,000 square feet, the store has been well-received by customers as it offers a brand new shopping experience with the addition of further proprietary brands. For instance, "CITIZEN'S EDIT", a private label fashion concept store, was first introduced in this store. By sourcing branded trendy apparel and accessories from around the world, "CITIZEN'S EDIT" satisfies the needs of young, style-savvy urbanites by offering them limited editions of signature items. In addition, the Tseung Kwan O store is also undergoing renovation works which will give customers a refreshing look upon scheduled completion in September 2017.

- Citistore continued to harness technology to foster closer interaction with its customers. "Citi-Fun", a new mobile app launched in the second quarter of 2017, keeps customers fully informed of the latest promotional privileges. Whereas repeated patronage and more spending are encouraged by a newly-designed rewards programme and special price offers to "Citi-Fun" members.

As the sales of winter season merchandise were affected by the exceptionally warm weather in early 2017, Citistore recorded a period-on-period decrease of 7% in total sales proceeds (which were derived from the sales of own goods, as well as from concessionaire and consignment sales) for the six months ended 30 June 2017.

During the period under review, Citistore's sales of own goods declined by 10% to HK$202 million but its gross margin remained stable at 35%. The Household & Toys category made up approximately 53% of the total revenue from sales of goods, the Apparels category contributed approximately 31% and the balance of approximately 16% came from the categories of Food and Cosmetics.

Citistore's concessionaire sales are conducted by licensing portions of shop spaces to its concessionaires for setting up their own concession counters to sell their products, whilst consignment sales comprise the sales of consignors' own products on or in designated shelves, areas or spaces. Citistore charges these concessionaire and consignment counters on the basis of revenue sharing or basic rent (if any), whichever is higher, as its rental income. During the period under review, the total rental income derived from these concessionaire and consignment counters decreased by 5% period-on-period to HK$205 million, virtually in line with the period-on-period decrease of 6% to HK$685 million in the total sales proceeds generated from these counters.

Due to (i) the decrease in total sales, (ii) the increase in advertising and promotion expenses as a result of the launch of a mobile app in the second quarter of the year, and (iii) the increase in depreciation charge on leasehold improvements in relation to the newly relocated store at Ma On Shan, Citistore's profit after taxation for the period under review amounted to HK$32 million, representing a decrease of 42% or HK$23 million as compared with the corresponding period last year.

Overall, after taking into account the interest income and the overheads of its head office, HIL's profit attributable to equity shareholders for the six months ended 30 June 2017 amounted to HK$36 million, representing a decrease of HK$22 million or 38% from that of HK$58 million for the corresponding period in 2016.

It is a general view that the local retail market has bottomed out and a slow recovery is on the way. Citistore will use social media and its mobile app more extensively to communicate promotional activities with its customers, and will continue to explore effective measures for achieving better cost controls so as to improve its overall results.

Associated Companies

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

The unaudited profit after taxation attributable to shareholders of Hong Kong and China Gas for the six months ended 30 June 2017 amounted to HK$4,472 million, an increase of HK$141 million compared to the same period last year.

TOWN GAS BUSINESS IN HONG KONG

Total volume of gas sales in Hong Kong for the first half of 2017 increased by 0.8% to approximately 15,896 million MJ, in contrast to a slight decrease in the quantity of appliances sold impacted by different occupation periods of new residential buildings, both compared to the same period last year. As at 30 June 2017, the number of customers was 1,872,728, an increase of 13,314 since the end of 2016.

Since the last adjustment of the standard gas tariff on 1 August 2015, its operating costs have continued to rise. Therefore this company raised its standard gas tariff by HK1.1 cents per MJ on 1 August 2017. The actual increase in the gas tariff (including standard tariff and fuel cost adjustment) is equivalent to 4.3%. This company promises to keep this standard gas tariff frozen for the next two years.

UTILITY BUSINESSES IN MAINLAND CHINA

At the end of June 2017, this group held approximately 65.56% of the total issued shares of Towngas China Company Limited ("Towngas China"; stock code: 1083). Towngas China recorded good business growth during the first half of 2017, with profit after taxation attributable to its shareholders amounting to HK$602 million, an increase of approximately 7% compared to the same period last year. Project development also progressed well during the first half of 2017 with Towngas China adding a city-gas project in Huji town, Zhongxiang city, Hubei province and a midstream natural gas pipeline network project in Guyang county, Baotou city, Inner Mongolia Autonomous Region to its portfolio.

Inclusive of Towngas China, this group has a total of 131 city-gas projects in mainland cities spread across 23 provinces, autonomous regions and municipalities. The total volume of gas sales for these projects for the first half of 2017 was approximately 9,720 million cubic metres, an increase of 13% over the same period last year. At the end of June 2017, this group's mainland gas customers stood at approximately 24.15 million, an increase of 10% over the same period last year.

Anhui Province Natural Gas Development Co. Ltd., an associated company of this group, was listed on the Shanghai Stock Exchange on 10 January 2017. As a large-scale integrated operator, its core business is the construction and operation of long-haul natural gas pipelines in Anhui province, alongside a downstream distribution business. Listing is helping to speed up the company's construction of natural gas pipelines and its development of markets in the province.

Construction of its natural gas storage facility in underground salt caverns in Jintan district, Changzhou city, Jiangsu province, is progressing in phases. Upon completion, this facility, with a total storage capacity of approximately 440 million standard cubic metres, will be the first of its kind built by a city-gas enterprise on the mainland. Two gas storage wells, as part of phase one of this project, were completed in July 2017 with a capacity of approximately 83.6 million standard cubic metres; the total storage capacity of phase one will be approximately 140 million standard cubic metres.

This group's development of natural gas vehicular refilling stations in mainland China, under the brand name "Towngas", is progressing well with 115 stations now spread across different provinces to date. It is also proactively developing refilling projects for marine vessels and is currently investing in a joint venture project, with six refilling sites, for barges along the Yangtze River in Jiangsu province.

This group has been in the mainland water market under the brand name "Hua Yan Water" for over 11 years and currently invests in, and operates, six water projects. These include water supply joint venture projects in Wujiang district, Suzhou city, Jiangsu province and in Wuhu city, Anhui province; wholly-owned water supply projects in Zhengpugang Xin Qu, Maanshan city and in Jiangbei Xin Qu, Wuhu city, both in Anhui province; and an integrated water supply and wastewater treatment joint venture project, together with an integrated wastewater treatment joint venture project for a special industry, both in Suzhou Industrial Park, Suzhou city, Jiangsu province. In addition, this group is constructing a plant in Suzhou Industrial Park to handle 500 tonnes daily of food waste, green waste and landfill leachate for conversion into natural gas, oil products, solid fuel and fertilizers under the "Hua Yan Water" brand. Commissioning is expected in the third quarter of 2018; this will be this group's first project converting waste into high-value products.

Overall, inclusive of projects of Towngas China, this group currently has 242 projects on the mainland, one more than at the end of 2016, spread across 26 provinces, autonomous regions and municipalities. These projects encompass upstream, midstream and downstream natural gas sectors, water sectors, efficient energy applications and exploration and utilisation of emerging environmentally-friendly energy, as well as telecommunications.

EMERGING ENVIRONMENTALLY-FRIENDLY ENERGY BUSINESSES

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

ECO's major businesses in Hong Kong – an aviation fuel facility, dedicated liquefied petroleum gas ("LPG") vehicular refilling stations and landfill gas utilisation projects – all are operating well. With a total turnover of approximately 3.17 million tonnes for the first half of 2017, ECO's aviation fuel facility provides a safe and reliable fuel supply to Hong Kong International Airport. ECO's five LPG vehicular refilling stations also operated smoothly during the first half of 2017. ECO's landfill gas project is generating noticeable environmental benefits. In addition to the facility in the North East New Territories, which has been operating for several years, a second landfill gas utilisation project in the South East New Territories is expected to be commissioned in November 2017. This will then further increase the proportion of landfill gas used by this group.

The operating environment faced by ECO's coalbed methane liquefaction facility, located in Jincheng city, Shanxi province, improved substantially during the first half of 2017 due to a rebound of LNG market prices, and output increased by 18% compared to the same period last year. ECO's networks of natural gas refilling stations are gradually taking shape in a number of provinces and autonomous regions including Shaanxi, Inner Mongolia, Ningxia, Shandong, Shanxi, Jiangsu, Henan and Liaoning. All in all, ECO currently has 62 refilling stations in operation, under construction or at the planning stage.

Construction of a plant located in Zhangjiagang city, Jiangsu province, to process inedible grease feedstock using ECO's self-developed technology, is progressing smoothly and is expected to be ready for trial production in the third quarter of 2017. This project has already obtained "International Sustainability and Carbon Certification" (ISCC), and, on this basis, ECO is developing marketing channels to export this green and renewable hydro-treated vegetable oil (HVO) to European markets.

ECO's research and development team has successfully developed a world leading approach on pyrolysis and hydrolysis technologies, which can convert agricultural and forestry waste into high-value syngas and green block chemicals, such as furfural and levulinic acid. To this end, ECO is going to launch a pilot project in Hubei province applying hydrolysis technology to convert hemicellulose and cellulose in straw into furfural and paper pulp respectively. This project is expected to be commissioned during the second half of 2018.

ECO's clean coal chemical project in Ordos city, Inner Mongolia Autonomous Region saw significant growth both in methanol output and selling prices in the first half of 2017 compared to the same period last year, producing over 170,000 tonnes of methanol in this period. Additionally, construction of a facility to convert part of the syngas into 120,000 tonnes of ethylene glycol annually is progressing smoothly, with trial production targeted to start by the end of 2017.

FINANCING PROGRAMMES

This group established a medium term note programme in 2009. During the year to date in 2017, medium term notes totalling HK$700 million, with maturity of 10 years, were issued. The amount of medium term notes issued so far has reached HK$12,600 million with tenors ranging from 10 to 40 years, with an average fixed interest rate of 3.6% and an average tenor of 15.2 years.

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

During the six months ended 30 June 2017, Hong Kong Ferry’s revenue amounted to HK$240 million, representing a decrease of 6% as compared with that recorded in the same period last year. This was mainly attributable to the decrease in the sales of Shining Heights.

The unaudited consolidated net profit after taxation of this group for the six months ended 30 June 2017 amounted to HK$167 million, representing an increase of 35% as compared with the figure for the first half year of 2016. During the period under review, its profit was mainly derived from the sale of residential units of Green Code and car parking spaces of Shining Heights.

During the period, the profit of this group from the sale of residential units of Green Code and car parking spaces of Shining Heights amounted to HK$75 million. Since the pre-sale of the Harbour Park project, currently in construction, in early 2016, this group had sold over 97% of the residential units. The project is expected to be completed in early 2018.

During the period, the gross rental income from the commercial arcades amounted to HK$48 million. At the end of the reporting period, the commercial arcades of The Spectacle and Metro6 were fully let whereas the occupancy rates of the commercial arcades of Metro Harbour Plaza and Shining Heights were 99% and 96% respectively. The commercial podium of Green Code consists of two floors with a total gross floor area of approximately 136,000 square feet and the occupancy rate was around 90%.

The joint venture company (the “Joint Venture Company”) owned by this group and Empire Group Holdings Limited, each holding 50% of the shareholdings, has secured a loan facility (the “Loan Facility”) of HK$3,000 million from the banks for the purpose of financing the development project in Tuen Mun Town Lot No. 547 located at Castle Peak Road, Castle Peak Bay, Area 48, Tuen Mun in May this year. The project is for residential use with a site area of 165,766 square feet and a gross floor area of approximately 663,000 square feet, and is expected to be completed in 2021.

During the period, the Ferry, Shipyard and Related Operations recorded a profit of HK$7.9 million as a result of the improvement in shipyard business. An increase of 79% in profit was recorded as compared with the same period last year.

A profit of HK$34 million was recorded in this group’s securities investment during the period.

Hong Kong Ferry will aggressively sell the remaining residential flats together with car parking spaces in the second half year and will continue to explore suitable investment opportunities.

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

Miramar's revenue for the six months ended 30 June 2017 amounted to approximately HK$1,559 million, representing an increase of 5% compared to last corresponding period.

Profit for the period, at HK$792 million, increased by 24% compared to the last corresponding period. Excluding the net increase in fair value of investment properties of approximately HK$416 million and the one-off net gain on disposal of a subsidiary with a property in Central of approximately HK$32 million, the underlying profit attributable to shareholders surged by 27% to approximately HK$333 million.

During the period, revenue from hotels and serviced apartments of this group increased by 2% to HK$307 million, compared to corresponding period of last year. EBITDA (earnings before interest, taxes, depreciation and amortisation) amounted to HK$109 million, representing an increase of approximately 18%. Benefiting from the rise in overnight visitor arrivals to Hong Kong, the occupancy rate of both The Mira Hong Kong and Mira Moon rose in the first half of 2017, which was similar to that among high-end hotels.

During the period, its property rental business recorded revenue of approximately HK$421 million with modest growth in average occupancy rate; EBITDA was approximately HK$374 million, at similar level as the last corresponding period. Through years of planned enhancement, this group has finally completed the hardware and software optimization and strategic integration for its four core properties, namely Miramar Shopping Centre, Mira Mall, Miramar Tower and The Mira Hong Kong. Since 2 June 2017, these properties have been rebranded as Mira Place, culminating to the establishment of a golden shopping and recreational landmark of 1.2 million square feet at the core of Tsim Sha Tsui. Its investment property portfolio recorded a net increase in fair value of approximately HK$416 million to a total value of HK$13,700 million as at 30 June 2017, an increase of 3%.

The food and beverage business recorded a middling revenue of HK$195 million and EBITDA of approximately HK$7 million respectively. Keen competition and high rental expenses led to drop in both revenue and EBITDA of its Korean food chain restaurants. Its Chinese restaurants such as Cuisine Cuisine and Tsui Hang Village have achieved satisfactory performance and contributed a stable income to this group during the period.

Revenue from travel segment increased by 18% to approximately HK$636 million and EBITDA has doubled to approximately HK$12 million, as compared to the corresponding period of last year.

Miramar's financial position remained sound and the overall performance of the core business remained satisfactory. The outlook of this group's performance for the second half of 2017 will grow steadily.

CORPORATE FINANCE

The Group has always adhered to prudent financial management principles. At 30 June 2017, net debt (including the shareholder's loan totalling HK$339 million (31 December 2016: HK$316 million)) amounted to HK$53,177 million (31 December 2016: HK$33,434 million) giving rise to a financial gearing ratio of 19.3% (31 December 2016: 12.7%).

The Group's internal funding remained ample. Since 2017, the Group has respectively fully prepaid and cancelled a four-year syndicated term loan / revolving credit facility in the aggregate amount of HK$6,900 million before their due dates in January 2018. In addition, the five-year unrated public bonds for a total amount of US$700 million, the ten-year senior notes for a total amount of US$43 million, as well as a JPY10,000 million five-year term loan facility were fully repaid by the Group's internal resources during the period under review.

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

PROSPECTS

Recently, market sentiment in many economies around the world has shown signs of improvement. The U.S. has taken a mild and cautious approach towards raising interest rates and regulating market liquidity. Global inflation is contained. The prevailing low interest rate environment is thus expected to linger. All these factors should render solid support to the property market in Hong Kong.

During the period under review, the Group made use of multiple channels to replenish its development land bank in Hong Kong and encouraging progress was achieved: (1) In May 2017, the Group won the tender for a prestigious commercial site at Murray Road, Central at HK$23,280 million; (2) The number of urban redevelopment projects with 80% to 100% of their ownerships acquired increased to 45, representing about 4.0 million square feet in total attributable gross floor area; and (3) The Group had land reserves in the New Territories of 44.9 million square feet, the largest holding among all property developers in Hong Kong. Negotiation of the land premium regarding the land lot at Kwu Tung North and one land lot at Fanling North is now under way with the Government. Upon finalisation, the relevant developments will commence shortly.

As regards "**property sales**", the Group plans to embark on the sale of three development projects in the second half of this year. Together with unsold stocks, a total of about 1,900 residential units and 300,000 square feet of quality commercial/office space in Hong Kong will be available for sale in the second half of this year. Besides, the disposal of "Newton Inn" in North Point was already completed in July 2017, whilst completion of the disposal of "Newton Place Hotel" is expected to take place in October 2017. Total proceeds of about HK$3,248 million arising from disposals of these two hotels may be recognised in the accounts in the second half of this year.

Turning to mainland China, it is anticipated that the two fundamental directives of "destocking" and "facilitating the sustainable and healthy development of the property market" will remain unchanged in the second half of 2017. Through stringent credit control over the property sector and strategic planning of land supply by the local governments, the property market is expected to show a steady development trend. The Group will continue to look for development projects in the first-tier cities, as well as those second-tier cities with high growth potential, so as to expand its land bank. Co-operation with local property developers will also be intensified so as to propel the property development business.

As regards "**rental business**", the Group's portfolio of completed investment properties comprised an attributable gross floor area of 8.8 million square feet in Hong Kong and 6.4 million square feet in mainland China, providing an aggregate gross rental income (including the attributable contribution from subsidiaries, associates and joint ventures) of HK$4,143 million in the first half of this year.

In Hong Kong, the Grade-A office development at 18 King Wah Road, the Ginza-style commercial project at Hillwood Road as well as the retail mall at "Eltanin•Square Mile" are scheduled for opening by the end of 2017, when the Group's rental portfolio will be expanded to about 9.2 million square feet in attributable gross floor area. In mainland China, the Group will continue to develop commercial/office projects in the core areas of major cities and hold them for long-term investment purpose. During the period under review, an office/commercial site with a total developable area of about 960,000 square feet in the southern extension of Huangpu River, Xuhui District, Shanghai was acquired. Together with the adjacent site acquired earlier, these will become a large-scale integrated development with a total gross floor area of about 3,000,000 square feet. Meanwhile, other rental properties under development have been progressing well (including the commercial project at Middle Road and the redevelopment project at Electric Road, both in Hong Kong, as well as Haizhu Square Station Project in Guangzhou), paving the way for the Group's further growth in recurrent rental income.

The “**associates**”, namely, Hong Kong and China Gas, Miramar and Hong Kong Ferry, serve as another steady recurrent income stream to the Group. In particular, Hong Kong and China Gas has 242 projects on the mainland, spread across 26 provinces, autonomous regions and municipalities. With a total of 26.0 million piped-gas customers in Hong Kong and mainland China, as well as its expanding scope of businesses, it is poised to provide promising returns to the Group.

Over the years, the Group has been “sowing” by way of acquisition of a massive land bank in the New Territories and various old tenement buildings for redevelopment. Thus, the Group has built up an extensive land bank in Hong Kong for steady property development over the long term. Together with the continually expanding rental portfolio and the investments in associated companies, these three major income pillars (namely, “**property sales**”, “**rental business**” and “**associates**”) are the long-established steady income streams to the Group. The Group is now "bearing fruit”, with its sizeable and valuable asset portfolio serving as a solid foundation for sustainable growth.

Meanwhile, land costs in Hong Kong have soared recently amid intensifying competition. However, the Group has accumulated a sufficient land bank to support its property development for the years to come. With its sizeable assets, ample financial resources, as well as a shrewd and seasoned management team, the Group is well placed to follow its long-term development strategies to pursue further growth. Following the successful disposals of various non-core properties in early 2017, the Group will continue to capture appropriate business opportunities to realise the genuine value of the other assets, thereby creating ever improving value for the shareholders. Barring unforeseen circumstances, the Group’s results in the current financial year are expected to be satisfactory.

BUSINESS RESULTS

Consolidated Statement of Profit or Loss
for the six months ended 30 June 2017 - unaudited

	Note	For the six months ended 30 June **2017** **HK$ million**	 2016 HK$ million
Revenue	4	**12,753**	9,725
Direct costs		**(6,289)**	(5,186)
		6,464	4,539
Other revenue	5	**284**	234
Other net income/(loss)	6	**2,449**	(218)
Selling and marketing expenses		**(721)**	(489)
Administrative expenses		**(886)**	(848)
Profit from operations before changes in fair value of investment properties and investment properties under development		**7,590**	3,218
Increase in fair value of investment properties and investment properties under development	7	**3,148**	2,683
Profit from operations after changes in fair value of investment properties and investment properties under development		**10,738**	5,901
Finance costs	8(a)	**(327)**	(398)
Share of profits less losses of associates		**2,600**	2,227
Share of profits less losses of joint ventures		**2,031**	1,751
Profit before taxation	8	**15,042**	9,481
Income tax	9	**(715)**	(745)
Profit for the period		**14,327**	8,736

Consolidated Statement of Profit or Loss
for the six months ended 30 June 2017 – unaudited (continued)

	Note	For the six months ended 30 June **2017** **HK$ million**	2016 HK$ million
Attributable to:			
Equity shareholders of the Company		**14,158**	8,611
Non-controlling interests		**169**	125
Profit for the period		**14,327**	8,736
Earnings per share based on profit attributable to equity shareholders of the Company (reported earnings per share)			
Basic and diluted	*10(a)*	***HK$3.54***	*HK$2.15**
Earnings per share excluding the effects of changes in fair value of investment properties and investment properties under development (net of deferred tax) (underlying earnings per share)			
Basic and diluted	*10(b)*	***HK$2.68***	*HK$1.20**

** Adjusted for the bonus issue effected in 2017.*

Details of dividends payable to equity shareholders of the Company are set out in note 11.

Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the six months ended 30 June 2017 - unaudited

	For the six months ended 30 June	
	2017	2016
	HK$ million	HK$ million
Profit for the period	**14,327**	8,736
Other comprehensive income for the period (after tax and reclassification adjustments):		
Items that may be reclassified subsequently to profit or loss:		
- Exchange differences: net movement in the exchange reserve	**1,373**	(1,058)
- Cash flow hedges: net movement in the hedging reserve	**(193)**	(133)
- Available-for-sale securities: net movement in the fair value reserve	**196**	86
- Share of other comprehensive income of associates and joint ventures	**576**	(595)
Other comprehensive income for the period	**1,952**	(1,700)
Total comprehensive income for the period	**16,279**	7,036
Attributable to:		
Equity shareholders of the Company	**16,102**	6,918
Non-controlling interests	**177**	118
Total comprehensive income for the period	**16,279**	7,036

Consolidated Statement of Financial Position
at 30 June 2017

	Note	**At 30 June 2017 (unaudited) HK$ million**	At 31 December 2016 (audited) HK$ million
Non-current assets			
Investment properties		**161,081**	131,850
Other property, plant and equipment		**342**	1,419
Interest in associates		**56,199**	53,936
Interest in joint ventures		**41,331**	38,728
Derivative financial instruments		**130**	358
Other financial assets		**11,155**	10,854
Deferred tax assets		**360**	377
		270,598	237,522
Current assets			
Deposits for acquisition of properties	13	**4,711**	4,608
Inventories	14	**74,385**	75,242
Trade and other receivables	15	**11,232**	10,651
Cash held by stakeholders		**1,084**	1,289
Cash and bank balances		**25,366**	22,966
		116,778	114,756
Assets of the disposal group classified as held for sale		**1,553**	3,220
		118,331	117,976
Current liabilities			
Trade and other payables	16	**20,368**	21,223
Bank loans		**24,728**	14,392
Guaranteed notes		**336**	5,760
Tax payable		**1,504**	1,054
		46,936	42,429
Liabilities associated with assets of the disposal group classified as held for sale		**13**	32
		46,949	42,461
Net current assets		**71,382**	75,515
Total assets less current liabilities		**341,980**	313,037

Consolidated Statement of Financial Position
at 30 June 2017 (continued)

	At 30 June 2017 (unaudited) HK$ million	At 31 December 2016 (audited) HK$ million
Non-current liabilities		
Bank loans	**45,167**	28,086
Guaranteed notes	**7,973**	7,846
Amount due to a fellow subsidiary	**339**	316
Derivative financial instruments	**1,124**	906
Deferred tax liabilities	**6,263**	6,582
	60,866	43,736
NET ASSETS	**281,114**	269,301
CAPITAL AND RESERVES		
Share capital	**52,345**	52,345
Other reserves	**223,171**	211,189
Total equity attributable to equity shareholders of the Company	**275,516**	263,534
Non-controlling interests	**5,598**	5,767
TOTAL EQUITY	**281,114**	269,301

Notes:

1 Review of results

The interim results set out in this preliminary announcement do not constitute the Group's condensed interim financial statements for the six months ended 30 June 2017 but are extracted from those financial statements.

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

The condensed interim financial statements are unaudited, but have been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). KPMG's independent review report to the Board of Directors is included in the interim report to be sent to shareholders. In addition, the condensed interim financial statements have been reviewed by the Company's Audit Committee with no disagreement.

2 Basis of preparation

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

The condensed interim financial statements have been prepared in accordance with the same accounting policies adopted in the Company's consolidated financial statements for the year ended 31 December 2016, except for the accounting policy changes that are expected to be reflected in the Company's consolidated financial statements for the year ending 31 December 2017. Details of these changes in accounting policies are set out in note 3.

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

The financial information relating to the financial year ended 31 December 2016 included in this preliminary announcement of interim results for the six months ended 30 June 2017 as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to such statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2016 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622).

The Company's auditor has reported on the financial statements for the year ended 31 December 2016. The auditor's report was unqualified; did not include a reference to any matters (including those matters described in the Key Audit Matters section) to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622).

3 Changes in accounting policies

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company, which are relevant to the Group's condensed interim financial statements for the current accounting period:

- Amendments to HKAS 7, *Statement of cash flows: Disclosure initiative*
- Amendments to HKAS 12, *Income taxes: Recognition of deferred tax assets for unrealised losses*

None of these developments has had a material effect on the preparation or presentation of the Group's results and financial position for the current or prior periods. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4 Revenue

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

The major items are analysed as follows:

	For the six months ended 30 June	
	2017	2016
	HK$ million	HK$ million
Sale of properties	**8,893**	5,886
Rental income	**2,779**	2,739
Department store operation	**411**	443
Other businesses	**670**	657
Total (note 12(b))	**12,753**	9,725

5 Other revenue

	For the six months ended 30 June	
	2017	2016
	HK$ million	HK$ million
Bank interest income	**202**	143
Other interest income	**6**	4
Others	**76**	87
	284	234

6 Other net income/(loss)

	For the six months ended 30 June	
	2017	2016
	HK$ million	HK$ million
Net gain on transfer of subsidiaries (note (i))		
- Holding investment properties (note (i)(1))	**156**	-
- Holding property held for development(note (i)(2))	**1,148**	-
Net gain/(loss) on disposal of:		
- Investment properties	**931**	9
- Other property, plant and equipment	**(7)**	-
Reversal of provision/(provision) on inventories, net	**22**	(149)
Net fair value (loss)/gain on derivative financial instruments		
- Interest rate swap contracts (note (ii))	**(176)**	-
- Other derivatives	**55**	(21)
Net realised gain on redemption of held-to-maturity debt securities	**14**	10
Impairment loss on available-for-sale securities	**-**	(21)
Reversal of impairment loss on held-to-maturity debt securities	**-**	3
Reversal of impairment loss/(impairment loss) on trade debtors (note 12(c))	**5**	(15)
Net foreign exchange gain	**63**	47
Cash flow hedges: reclassified from hedging reserve to profit or loss (note (iii))	**-**	(12)
Net gain on disposal of available-for-sale securities	**310**	-
Others	**(72)**	(69)
	2,449	(218)

Notes:

(i) The net gain on transfer of subsidiaries includes:

(1) an amount of HK$156 million in relation to the transfer of subsidiaries which own Beijing Henderson Centre (being an investment property in Beijing, mainland China), for an aggregate cash consideration of HK$3,261 million (based on an agreed property value of RMB2,889 million) pursuant to an agreement dated 8 December 2016 and which was completed on 8 February 2017; and

(2) an amount of HK$1,148 million in relation to the transfer of subsidiaries which own a land site in Fangchun, Guangzhou, mainland China, for an aggregate cash consideration of HK$1,946 million (based on an agreed property value of RMB1,600 million) pursuant to an agreement dated 20 March 2017 and which was completed on 20 March 2017.

(ii) This represents the change in fair value of certain cash flow hedges during the period.

(iii) The net cumulative loss (before tax) of HK$12 million was reclassified from equity to profit or loss upon the revocation of the hedge relationship between certain bank loans and guaranteed notes of the Company's wholly-owned subsidiaries (as hedged items) and their underlying interest rate swap contracts and cross-currency interest rate swap contracts (as hedging instruments) during the six months ended 30 June 2016.

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

The Group's investment properties and investment properties under development were revalued at 30 June 2017 by DTZ Cushman & Wakefield Limited, an independent firm of professional surveyors who have among their staff Members of The Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued, on a market value basis.

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

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

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

As a result, a net fair value gain of HK$3,148 million (2016: HK$2,683 million) and deferred tax charge in respect of the fair value change on investment properties in mainland China of HK$41 million (2016: HK$206 million) have been recognised in the consolidated statement of profit or loss for the period.

8 Profit before taxation

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

	For the six months ended 30 June	
	2017	2016
	HK$ million	HK$ million
(a) Finance costs:		
Bank loans interest	**353**	378
Interest on loans wholly repayable within five years	**269**	367
Interest on loans repayable after five years	**14**	37
Other borrowing costs	**88**	91
	724	873
Less: Amount capitalised *(note)*	**(397)**	(475)
	327	398

Note: The borrowing costs have been capitalised at weighted average interest rates (based on the principal amounts of the Group's bank loans, guaranteed notes and amount due to a fellow subsidiary during the period under which interest capitalisation is applicable) ranging from 2.42% to 4.52% (2016: 3.20% to 5.97%) per annum.

8 Profit before taxation (continued)

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

	For the six months ended 30 June	
	2017	2016
	HK$ million	HK$ million
(b) Staff costs:		
Salaries, wages and other benefits	**960**	937
Contributions to defined contribution retirement plans	**49**	49
	1,009	986

	For the six months ended 30 June	
	2017	2016
	HK$ million	HK$ million
(c) Other items:		
Depreciation (note 12(c))	**54**	53
Cost of sales		
– completed properties for sale	**5,111**	4,032
– trading stocks	**133**	148
Dividend income from investments in available-for-sale securities		
– listed	**(62)**	(52)
– unlisted	**-**	(66)

9 Income tax

	For the six months ended 30 June	
	2017	2016
	HK$ million	HK$ million
Current tax		
Provision for Hong Kong Profits Tax	**596**	355
Provision for taxation outside Hong Kong	**455**	167
Provision for Land Appreciation Tax	**43**	2
	1,094	524
Deferred tax		
Origination and reversal of temporary differences	**(379)**	221
	715	745

Provision for Hong Kong Profits Tax has been made at 16.5% (2016: 16.5%) on the estimated assessable profits for the period.

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

Land Appreciation Tax is levied on properties in mainland China developed by the Group for sale, at progressive rates ranging from 30% to 60% (2016: 30% to 60%) on the appreciation of land value, which under the applicable regulations is calculated based on the revenue from sale of properties less deductible expenditure including lease charges of land use rights, borrowing costs and all property development expenditure.

10 Earnings per share

(a) Reported earnings per share

The calculation of basic earnings per share is based on the consolidated profit attributable to equity shareholders of the Company of HK$14,158 million (2016: HK$8,611 million) and the weighted average number of 4,001 million ordinary shares in issue during the period (2016: 4,001 million ordinary shares*), calculated as follows:

	For the six months ended 30 June	
	2017	2016
	million	million
Number of issued ordinary shares at 1 January	**3,637**	3,306
Weighted average number of ordinary shares issued in respect of the bonus issue in 2016	**-**	331
Weighted average number of ordinary shares issued in respect of the bonus issue in 2017	**364**	364
Weighted average number of ordinary shares for the period (2016: as adjusted)	**4,001**	4,001

Diluted earnings per share were the same as the basic earnings per share for the period and the corresponding six months ended 30 June 2016 as there were no dilutive potential ordinary shares in existence during both periods.

** Adjusted for the bonus issue effected in 2017.*

10 Earnings per share (continued)

(b) Underlying earnings per share

For the purpose of assessing the underlying performance of the Group, basic and diluted earnings per share are additionally calculated based on the underlying profit attributable to equity shareholders of the Company ("Underlying Profit") of HK$10,731 million (2016: HK$4,782 million), which excludes the effects of changes in fair value of investment properties and investment properties under development. A reconciliation of profit is as follows:

	For the six months ended 30 June	
	2017	2016
	HK$ million	HK$ million
Profit attributable to equity shareholders of the Company	**14,158**	8,611
Changes in fair value of investment properties and investment properties under development during the period (note 7)	**(3,148)**	(2,683)
Effect of deferred tax on changes in fair value of investment properties and investment properties under development during the period (note 7)	**41**	206
Share of changes in fair value of investment properties (net of deferred tax) during the period:		
– associates	**(490)**	(429)
– joint ventures	**(1,359)**	(1,121)
Cumulative fair value change of investment properties disposed of during the period, net of tax *(note)*:		
– subsidiaries	**1,598**	311
– associates and joint ventures	**28**	-
Effect of share of non-controlling interests	**(97)**	(113)
Underlying Profit	**10,731**	4,782
Underlying earnings per share	**HK$2.68**	HK$1.20*

** Adjusted for the bonus issue effected in 2017.*

Note: *In order to fully exclude the aforesaid effects of changes in fair value from the Underlying Profit, the Group's attributable share of the cumulative fair value change (net of tax) of investment properties disposed of during the period (which has been included in calculating the net gain on disposal of investment properties and hence the profit attributable to equity shareholders of the Company during the period) of HK$1,487 million (2016: HK$194 million) was added back in arriving at the Underlying Profit.*

11 Dividends

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

	For the six months ended 30 June	
	2017	2016
	HK$ million	HK$ million
Interim dividend declared after the interim period of HK$0.48 (2016: HK$0.42) per share	**1,921**	1,528

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

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

	For the six months ended 30 June	
	2017	2016
	HK$ million	HK$ million
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of HK$1.13 (2016: HK$1.07) per share	**4,110**	3,538

12 Segment reporting

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

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

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

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

(a) Results of reportable segments

Information regarding the Group's and its share of associates and joint ventures on reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended 30 June 2017 and 2016 is set out below:

12 Segment reporting (continued)

(a) Results of reportable segments (continued)

	Company and its subsidiaries (before deducting non-controlling interests)		Associates and joint ventures				Attributable to non-controlling interests		Attributable to equity shareholders of the Company	
	Revenue	Segment results	Share of revenue	Share of segment results	Combined revenue	Consolidated segment results	Revenue	Segment results	Combined revenue	Consolidated segment results
	HK$ million (note (i))	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million
For the six months ended 30 June 2017										
Property development										
Hong Kong	7,504	2,781	375	125	7,879	2,906	(167)	(107)	7,712	2,799
Mainland China	1,389	126	918	244	2,307	370	-	(2)	2,307	368
	8,893	2,907	1,293	369	10,186	3,276	(167)	(109)	10,019	3,167
Property leasing										
Hong Kong	1,957	1,496	1,363	1,163	3,320	2,659	(5)	(4)	3,315	2,655
Mainland China	822	643	6	5	828	648	-	-	828	648
(note (ii))	2,779	2,139	1,369	1,168	4,148	3,307	(5)	(4)	4,143	3,303
Department store operation	411	127		-		127		(12)		115
Other businesses	670	603		203		806		-		806
	12,753	5,776		1,740		7,516		(125)		7,391
Utility and energy	-	-		2,034		2,034		-		2,034
	12,753	5,776		3,774		9,550		(125)		9,425
Bank interest income		202		57		259		(3)		256
Reversal of provision on inventories, net		22		-		22		-		22
Sales of property interests (note (iv))		2,235		16		2,251		(37)		2,214
Unallocated head office and corporate expenses, net	(note (iii))	(645)		(122)		(767)		12		(755)
Profit from operations		7,590		3,725		11,315		(153)		11,162
Increase in fair value of investment properties and investment properties under development		3,148		1,851		4,999		(41)		4,958
Finance costs		(327)		(323)		(650)		6		(644)
Profit before taxation		10,411		5,253		15,664		(188)		15,476
Income tax		(715)		(622)		(1,337)		19		(1,318)
Profit for the period		9,696		4,631		14,327		(169)		14,158

12 Segment reporting (continued)

(a) Results of reportable segments (continued)

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

	Property development HK$ million	Property leasing HK$ million	Other businesses HK$ million	Subtotal HK$ million	Utility and energy HK$ million	Total HK$ million
For the six months ended 30 June 2017						
Share of profits less losses of associates (note (v))						
- Listed associates						
The Hong Kong and China Gas Company Limited	**-**	**355**	**(84)**	**271**	**1,587**	**1,858**
Miramar Hotel and Investment Company, Limited	**-**	**343**	**25**	**368**	**-**	**368**
Hong Kong Ferry (Holdings) Company Limited	**20**	**20**	**11**	**51**	**-**	**51**
- Unlisted associates	**199**	**76**	**48**	**323**	**-**	**323**
	219	**794**	**-**	**1,013**	**1,587**	**2,600**
Share of profits less losses of joint ventures (note (vi))	**17**	**1,946**	**68**	**2,031**	**-**	**2,031**
	236	**2,740**	**68**	**3,044**	**1,587**	**4,631**

12 Segment reporting (continued)

(a) Results of reportable segments (continued)

	Company and its subsidiaries (before deducting non-controlling interests)		Associates and joint ventures				Attributable to non-controlling interests		Attributable to equity shareholders of the Company	
	Revenue HK$ million (note (i))	Segment results HK$ million	Share of revenue HK$ million	Share of segment results HK$ million	Combined revenue HK$ million	Consolidated segment results HK$ million	Revenue HK$ million	Segment results HK$ million	Combined revenue HK$ million	Consolidated segment results HK$ million
For the six months ended 30 June 2016										
Property development										
Hong Kong	4,071	1,192	41	32	4,112	1,224	(458)	(129)	3,654	1,095
Mainland China	1,815	(5)	671	103	2,486	98	(4)	(2)	2,482	96
	5,886	1,187	712	135	6,598	1,322	(462)	(131)	6,136	1,191
Property leasing										
Hong Kong	1,889	1,441	1,332	1,119	3,221	2,560	(7)	(2)	3,214	2,558
Mainland China	850	699	6	5	856	704	-	-	856	704
(note (ii))	2,739	2,140	1,338	1,124	4,077	3,264	(7)	(2)	4,070	3,262
Department store operation	443	155		-		155		(20)		135
Other businesses	657	260		66		326		(10)		316
	9,725	3,742		1,325		5,067		(163)		4,904
Utility and energy	-	-		2,025		2,025		-		2,025
	9,725	3,742		3,350		7,092		(163)		6,929
Bank interest income		143		39		182		(2)		180
Provision on inventories, net		(149)		(1)		(150)		-		(150)
Sales of property interests (note (iv))		9		1		10		(2)		8
Unallocated head office and corporate expenses, net	(note (iii))	(527)		(137)		(664)		14		(650)
Profit from operations		3,218		3,252		6,470		(153)		6,317
Increase in fair value of investment properties and investment properties under development		2,683		1,555		4,238		(4)		4,234
Finance costs		(398)		(296)		(694)		7		(687)
Profit before taxation		5,503		4,511		10,014		(150)		9,864
Income tax		(745)		(533)		(1,278)		25		(1,253)
Profit for the period		4,758		3,978		8,736		(125)		8,611

12 Segment reporting (continued)

(a) Results of reportable segments (continued)

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

	Property development HK$ million	Property leasing HK$ million	Other businesses HK$ million	Subtotal HK$ million	Utility and energy HK$ million	Total HK$ million
For the six months ended 30 June 2016						
Share of profits less losses of associates (note (v))						
- Listed associates						
The Hong Kong and China Gas Company Limited	-	351	(123)	228	1,570	1,798
Miramar Hotel and Investment Company, Limited	-	316	(6)	310	-	310
Hong Kong Ferry (Holdings) Company Limited	28	23	(12)	39	-	39
- Unlisted associates	42	37	1	80	-	80
	70	727	(140)	657	1,570	2,227
Share of profits less losses of joint ventures (note (vi))	(3)	1,692	62	1,751	-	1,751
	67	2,419	(78)	2,408	1,570	3,978

12 Segment reporting (continued)

(a) Results of reportable segments (continued)

Notes:

(i) The revenue figures above are arrived at after the elimination of inter-segment revenues, in the amounts of HK$157 million (2016: HK$160 million) and HK$794 million (2016: HK$759 million) in relation to the reportable segments under property leasing and others, respectively.

(ii) Revenue for the property leasing segment comprises rental income of HK$2,508 million (2016: HK$2,471 million) and rental-related income of HK$271 million (2016: HK$268 million), which in aggregate amounted to HK$2,779 million for the six months ended 30 June 2017 (2016: HK$2,739 million).

(iii) Unallocated head office and corporate expenses, net for the period is stated after taking into account the net fair value loss on interest rate swap contracts of HK$176 million (2016: Nil) (see note 6). Excluding the aforementioned loss, the Group’s unallocated head office and corporate expenses, net for the period amounted to HK$469 million (2016: HK$527 million).

(iv) The aggregate gain from the sales of property interests primarily comprises (a) the net gain on transfer of subsidiaries holding investment properties of HK$156 million (2016: Nil) (note 6); (b) the net gain on transfer of subsidiaries holding property held for development of HK$1,148 million (2016: Nil) (note 6); (c) the net gain on disposal of investment properties of HK$931 million (2016: HK$9 million) (note 6); and (d) the Group’s attributable share of gain on disposal of investment properties by an associate of HK$16 million (2016: HK$1 million).

Aggregating the gains under items (a), (c) and (d) in the abovementioned paragraph and after deducting the amount of such gains attributable to non-controlling interests of HK$37 million (2016: HK$2 million), and adding back the Group’s attributable share of cumulative fair value gains on the disposal of investment properties up to 31 December 2016 of HK$1,730 million (2016: HK$83 million), an aggregate gain of HK$2,796 million (2016: HK$91 million) attributable to the Group’s underlying profit from the disposal of investment properties for the six months ended 30 June 2017 was recognised.

(v) The Group’s share of profits less losses of associates contributed from the property leasing segment during the period of HK$794 million (2016: HK$727 million) includes the increase in fair value of investment properties (net of deferred tax) during the period of HK$490 million (2016: HK$429 million).

The Group’s share of profits less losses of associates contributed from the other businesses segment during the period of HK$Nil (2016: the Group’s share of losses less profits of HK$140 million) includes the Group’s share of profit after tax contributed from hotel operation and management during the period of HK$38 million (2016: HK$25 million).

(vi) The Group’s share of profits less losses of joint ventures contributed from the property leasing segment during the period of HK$1,946 million (2016: HK$1,692 million) includes the increase in fair value of investment properties (net of deferred tax) during the period of HK$1,359 million (2016: HK$1,121 million).

The Group’s share of profits less losses of joint ventures contributed from the other businesses segment during the period of HK$68 million (2016: HK$62 million) includes the Group’s share of profit after tax contributed from hotel operation and management during the period of HK$62 million (2016: HK$59 million).

12 Segment reporting (continued)

(b) Geographical information

The following table sets out information about the geographical segment location of (i) the Group’s revenue from external customers; and (ii) the Group’s investment properties, other property, plant and equipment, interests in associates and joint ventures (together, the “Specified non-current assets”). The geographical location of customers is based on the location at which the services were provided or the goods were delivered. The geographical location of the Specified non-current assets is based on the physical location of the asset in the case of investment properties and other property, plant and equipment, and the location of operations in the case of interests in associates and joint ventures.

	Revenue from external customers		**Specified non-current assets**	
	For the six months ended 30 June		**At 30 June**	At 31 December
	2017	2016	**2017**	2016
	(unaudited)	(unaudited)	**(unaudited)**	(audited)
	HK$ million	HK$ million	**HK$ million**	HK$ million
Hong Kong	**10,536**	7,048	**215,302**	187,715
Mainland China	**2,217**	2,677	**43,651**	38,218
	12,753	9,725	**258,953**	225,933
	(note 4)	(note 4)		

(c) Other segment information

	Depreciation (note 8(c))		**(Reversal of impairment loss)/ impairment loss on trade debtors (note 6)**	
	For the six months ended 30 June		**For the six months ended 30 June**	
	2017	2016	**2017**	2016
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	HK$ million	HK$ million	**HK$ million**	HK$ million
Property development	**4**	6	**-**	-
Property leasing	**2**	4	**2**	-
Department store operation	**17**	12	**-**	-
Other businesses	**31**	31	**(7)**	15
	54	53	**(5)**	15

13 Deposits for acquisition of properties

The Group's deposits for acquisition of properties mainly include HK$3,636 million (31 December 2016: HK$3,591 million) and HK$561 million (31 December 2016: HK$561 million) paid relating to the acquisition of certain pieces of land/properties located in mainland China and Macau, respectively.

In respect of the deposit paid relating to the land in Macau, the conditions precedent for the acquisition have not yet been fulfilled. The parties to the agreement have agreed to extend the date for the fulfillment of the conditions precedent. If the acquisition shall not proceed, then the Group is entitled to recover the deposit paid.

14 Inventories

	At 30 June 2017 (unaudited) HK$ million	At 31 December 2016 (audited) HK$ million
Property development		
Leasehold land held for development for sale	**10,542**	10,334
Properties held for/under development for sale	**54,811**	54,440
Completed properties for sale	**8,951**	10,388
	74,304	75,162
Other operations		
Trading stocks	**81**	80
	74,385	75,242

15 Trade and other receivables

	At 30 June 2017 (unaudited) HK$ million	At 31 December 2016 (audited) HK$ million
Instalments receivable	**3,700**	1,561
Loans receivable	**145**	293
Debtors, prepayments and deposits (other than those transferred to the disposal group)	**7,111**	8,686
Gross amount due from customers for contract work	**24**	22
Derivative financial instruments	**161**	7
Amounts due from associates	**14**	6
Amounts due from joint ventures	**77**	76
	11,232	10,651

15 Trade and other receivables (continued)

Loans receivable comprised an amount of HK$13 million which is unsecured and interest-free, and an amount of HK$132 million which is secured and interest-bearing at 12% per annum (31 December 2016: loans receivable comprised amounts of HK$114 million and HK$179 million which were secured, interest-bearing at Hong Kong Interbank Offered Rate plus 4% per annum and 12% per annum, respectively). These balances are expected to be recovered within one year from the end of the reporting period, and are neither past due nor impaired.

The amounts due from associates and joint ventures at 30 June 2017 and 31 December 2016 were unsecured, interest-free and have no fixed terms of repayment and were neither past due nor impaired.

At the end of the reporting period, the ageing analysis of trade debtors (which are included in trade and other receivables) net of allowance for doubtful debts is as follows:

	At 30 June 2017 (unaudited) HK$ million	At 31 December 2016 (audited) HK$ million
Current or up to 1 month overdue	**4,123**	2,426
More than 1 month overdue and up to 3 months overdue	**57**	44
More than 3 months overdue and up to 6 months overdue	**25**	13
More than 6 months overdue	**61**	55
	4,266	2,538

Regular review and follow-up actions are carried out on overdue amounts of instalments receivable from sale of properties and loans receivable which enable management to assess their recoverability and to minimise exposure to credit risk. In respect of rental income from leasing properties, monthly rents are received in advance and sufficient rental deposits are held to cover potential exposure to credit risk.

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

16 Trade and other payables

	At 30 June 2017 (unaudited) HK$ million	At 31 December 2016 (audited) HK$ million
Creditors and accrued expenses (other than those transferred to the disposal group)	**9,284**	7,748
Gross amount due to customers for contract work	**17**	2
Rental and other deposits (other than those transferred to the disposal group)	**1,487**	1,748
Forward sales deposits received	**6,114**	8,353
Derivative financial instruments	**-**	318
Amounts due to associates	**560**	401
Amounts due to joint ventures	**2,906**	2,653
	20,368	21,223

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

	At 30 June 2017 (unaudited) HK$ million	At 31 December 2016 (audited) HK$ million
Due within 1 month or on demand	**1,654**	1,874
Due after 1 month but within 3 months	**347**	508
Due after 3 months but within 6 months	**249**	512
Due after 6 months	**3,393**	3,055
	5,643	5,949

The amounts due to associates and joint ventures at 30 June 2017 and 31 December 2016 were unsecured, interest-free and have no fixed terms of repayment.

17 Non-adjusting events after the reporting period

(a) After the end of the reporting period, the directors declared an interim dividend. Further details are disclosed in note 11(a).

(b) On 10 July 2017, the transaction contemplated under the transfer by the Group of its interest in the entire issued share capital of, and the shareholder's loan to, Uhray Investment Limited and its wholly-owned subsidiary was completed. A gain attributable to the Group's reported profit and underlying profit, in the amounts of HK$Nil and HK$473 million respectively, was recognised by the Group on 10 July 2017.

(c) On 12 July 2017, the transaction contemplated under the transfer by the Group of its interest in the entire issued share capital of Enhance Invest Inc. and the loan owing by its wholly-owned subsidiary, Conradion Limited, together with the entire interest in Conradion Limited was completed. A gain attributable to the Group's reported profit and underlying profit in the amount of HK$699 million (subject to adjustment) was recognised by the Group on 12 July 2017.

(d) On 29 May 2017, the Group entered into a legally-binding memorandum with an independent third party in relation to the transfer by the Group of its entire interest in certain wholly-owned subsidiaries which through their subsidiaries in mainland China altogether own nine property development projects located in Anshan, Dalian, Guangzhou, Tieling and Shenyang, mainland China. The aggregate cash consideration (together with the repayment of related party loans) amounted to approximately HK$8,600 million (subject to adjustments) and was determined at a marginally higher value as compared to cost mainly for the reason that such sites are yet to reach the stage of development. The transaction was completed upon execution of the relevant agreements on 5 July 2017 with balance of the consideration to be settled by instalments.

FINANCIAL REVIEW

Results of operations

The following discussions should be read in conjunction with the Company's unaudited condensed consolidated interim accounts for the six months ended 30 June 2017.

Revenue and profit

	Revenue			***Contribution from operations***		
	Six months ended 30 June		*Increase/*	***Six months ended 30 June***		*Increase/*
	2017	2016	*(Decrease)*	**2017**	2016	*(Decrease)*
	HK$ million	HK$ million	*%*	**HK$ million**	HK$ million	*%*
Reportable segments						
- Property development	**8,893**	5,886	*+51%*	**2,907**	1,187	*+145%*
- Property leasing	**2,779**	2,739	*+1%*	**2,139**	2,140	-
- Department store operation	**411**	443	*-7%*	**127**	155	*-18%*
- Other businesses	**670**	657	*+2%*	**603**	260	*+132%*
	12,753	9,725	*+31%*	**5,776**	3,742	*+54%*

	Six months ended 30 June		
	2017	2016	*Increase*
	HK$ million	HK$ million	*%*
Profit attributable to equity shareholders of the Company			
- including the Group's attributable share of changes in fair value of investment properties and investment properties under development (net of deferred taxation) held by the Group's subsidiaries, associates and joint ventures	**14,158**	8,611	*+64%*
- excluding the Group's attributable share of changes in fair value of investment properties and investment properties under development (net of deferred taxation) held by the Group's subsidiaries, associates and joint ventures ("Underlying Profit") *(Note)*	**10,731**	4,782	*+124%*

Note :

Underlying profit attributable to equity shareholders of the Company ("Underlying Profit") excludes the Group's attributable share of fair value change (net of deferred tax) of the investment properties and investment properties under development held by subsidiaries, associates and joint ventures. In order to fully exclude the aforesaid effects of changes in fair value from the Underlying Profit, the Group's attributable share of the cumulative fair value change (net of tax) of investment properties disposed of during the period (which has been included in calculating the net gain on disposal of investment properties and hence the profit attributable to equity shareholders of the Company during the period) of HK$1,487 million (2016: HK$194 million),was added back in arriving at the Underlying Profit.

Excluding the effects of certain one-off income/expense items from the Underlying Profit for the six months ended 30 June 2017 and 2016, the adjusted Underlying Profit for the two financial periods is as follows :-

	Six months ended 30 June			
	2017	2016	*Increase /(Decrease)*	
	HK$ million	HK$ million	*HK$ million*	*%*
Underlying Profit	**10,731**	4,782	*5,949*	*+124%*
(Less)/Add :				
One-off (income)/expense items –				
Gain on disposal (net of tax) of entire investments in certain available-for-sale equity securities	**(289)**	-	*(289)*	
Impairment loss in the carrying amount of a development land site in mainland China which was surrendered during the period	**-**	75	*(75)*	
Adjusted Underlying profit attributable to shareholders	**10,442**	4,857	*5,585*	*+115%*

Discussions on the major reportable segments are set out below.

Property development

Gross revenue - subsidiaries

The gross revenue from property sales during the six months ended 30 June 2017 and 2016 generated by the Group’s subsidiaries, and by geographical contribution, is as follows :-

	Six months ended 30 June			
	2017	2016	*Increase / (Decrease)*	
	HK$ million	HK$ million	*HK$ million*	*%*
By geographical contribution :				
Hong Kong	**7,504**	4,071	*3,433*	*+84%*
Mainland China	**1,389**	1,815	*(426)*	*-23%*
	8,893	5,886	*3,007*	*+51%*

The gross revenue from property sales in Hong Kong during the six months ended 30 June 2017 was contributed from “AXIS”, “PARKER 33”. “The Zutten” and “Eltanin • Square Mile” (all being property development projects completed during the period) in the aggregate amount of HK$5,145 million, as well as from the other major completed projects such as “Double Cove Starview Prime”, “Double Cove Grandview”, “Double Cove Summit”, “Jones Hive” and “Global Gateway Tower” in the aggregate amount of HK$2,359 million. By comparison, the gross revenue from property sales in Hong Kong during the corresponding six months ended 30 June 2016 was contributed as to HK$2,289 million from property development projects which were completed during the corresponding period, and as to HK$1,782 million from the other major completed projects.

The gross revenue from property sales in mainland China during the six months ended 30 June 2017 was contributed as to HK$295 million from the sold and delivered units in relation to Towers 1 and 2 of "Riverside Park" Phase G3 in Suzhou and the remaining portion of "Emerald Valley" Phase 2 in Nanjing which were completed during the period, and as to HK$1,094 million from the sold and delivered units in relation to the other projects (comprising, in particular, "Palatial Crest" in Xian, "Grand Lakeview" in Yixing and "Grand Waterfront" in Chongqing) which were completed prior to 1 January 2017. By comparison, the gross revenue from property sales in mainland China during the corresponding six months ended 30 June 2016 was contributed as to HK$922 million from the sold and delivered units in relation to the property development projects which were completed during the corresponding period, and as to HK$893 million from the sold and delivered units in relation to the other projects which were completed prior to 1 January 2016.

Pre-tax profits – subsidiaries, associates and joint ventures

The Group's attributable share of pre-tax profits from property sales, by geographical contribution and from subsidiaries (after deducting non-controlling interests), associates and joint ventures during the six months ended 30 June 2017 and 2016, is as follows :-

	Six months ended 30 June			
	2017	2016	*Increase*	
	HK$ million	HK$ million	*HK$ million*	*%*
By geographical contribution :				
Hong Kong	**2,799**	1,095	*1,704*	*+156%*
Mainland China	**368**	96	*272*	*+283%*
	3,167	1,191	*1,976*	*+166%*

The increase in the Group's share of pre-tax profits from property sales in Hong Kong during the six months ended 30 June 2017 of HK$1,704 million, or 156%, is mainly attributable to the increase in gross revenue from property sales in Hong Kong (relating to projects held by the Group's subsidiaries) as explained above.

The increase in the Group's share of pre-tax profits from property sales in mainland China during the six months ended 30 June 2017 of HK$272 million, or 283%, is mainly attributable to the profit contribution from certain profitable projects whose revenue was recognised during the period as their sold units were delivered to the buyers during the six months ended 30 June 2017, as well as the increase of HK$157 million in the Group's attributable share of profit contribution from "Henderson • CIFI Centre" in Shanghai.

	Six months ended 30 June			
	2017	2016	*Increase*	
	HK$ million	HK$ million	*HK$ million*	*%*
By contribution from subsidiaries (after deducting non-controlling interests), associates and joint ventures :				
Subsidiaries	**2,798**	1,056	*1,742*	*+165%*
Associates	**336**	111	*225*	*+203%*
Joint ventures	**33**	24	*9*	*+38%*
	3,167	1,191	*1,976*	*+166%*

The increase in the Group's share of pre-tax profit contribution from the property sales of subsidiaries during the six months ended 30 June 2017 is mainly attributable to that of the projects held by the Group's subsidiaries in Hong Kong and mainland China as explained above.

The increase in the Group's share of pre-tax profit contribution from the property sales of associates during the six months ended 30 June 2017 is mainly attributable to that of "Bohemian House" in Hong Kong and "Henderson • CIFI Centre" in Shanghai, mainland China in the aggregate amount of HK$236 million.

The increase in the Group's share of pre-tax profit contribution from the property sales of joint ventures during the six months ended 30 June 2017 is mainly attributable to the increased attributable share of profit contributions from "Global Trade Square" in Hong Kong as well as the projects in mainland China of "Chengdu ICC" in Chengdu and "Amber Garden" in Shanghai in the aggregate amount of HK$62 million, which are partially offset by the decreased attributable share of profit contributions from the projects in mainland China of "La Botanica" in Xian and "Henderson • Country Eagle Jin Shi Tan" in Dalian in the aggregate amount of HK$54 million.

Property leasing

Gross revenue - subsidiaries

The gross revenue from property leasing during the six months ended 30 June 2017 and 2016 generated by the Group's subsidiaries, and by geographical contribution, is as follows :-

	Six months ended 30 June			
	2017	2016	*Increase / (Decrease)*	
	HK$ million	HK$ million	*HK$ million*	*%*
By geographical contribution :				
Hong Kong	**1,957**	1,889	*68*	*+4%*
Mainland China	**822**	850	*(28)*	*-3%*
	2,779	2,739	*40*	*+1%*

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

The Group's attributable share of pre-tax net rental income, by geographical contribution and from subsidiaries (after deducting non-controlling interests), associates and joint ventures during the six months ended 30 June 2017 and 2016, is as follows :-

	Six months ended 30 June			
	2017	2016	*Increase / (Decrease)*	
	HK$ million	HK$ million	*HK$ million*	*%*
By geographical contribution :				
Hong Kong	**2,655**	2,558	*97*	*+4%*
Mainland China	**648**	704	*(56)*	*-8%*
	3,303	3,262	*41*	*+1%*
By contribution from subsidiaries (after deducting non-controlling interests), associates and joint ventures :				
Subsidiaries	**2,135**	2,138	*(3)*	-
Associates	**391**	382	*9*	*+2%*
Joint ventures	**777**	742	*35*	*+5%*
	3,303	3,262	*41*	*+1%*

For Hong Kong, the period-on-period increase of 4% in gross revenue, which excludes the recharge of rates to the tenants in both periods, represents a natural growth in the average rentals of the portfolio of investment properties in Hong Kong during the six months ended 30 June 2017 and accordingly resulted in a period-on-period increase of 4% in pre-tax net rental income.

For mainland China, on an overall portfolio basis, there was a period-on-period decrease of 3% in rental revenue contribution and a period-on-period decrease of 8% in pre-tax net rental income contribution for the six months ended 30 June 2017. The decrease in rental revenue is due to the effect of the depreciation of Renminbi against Hong Kong dollar by approximately 5% during the six months ended 30 June 2017 when compared with the corresponding six months ended 30 June 2016 as well as the absence of revenue contribution from Beijing Henderson Centre, the disposal of which was completed on 8 February 2017. The larger decrease in pre-tax net rental income is also due to the above factors, as well as the significant increase in property tax expenditure for "World Financial Centre" in Beijing due to the change in tax policy on the real estate tax when compared with the same period last year. As a result, the ratio of pre-tax net rental income to rental revenue for the six months ended 30 June 2017 was 79% which compares with that of 83% for the corresponding six months ended 30 June 2016.

Department store operation

Department store operation is carried out by Citistore (Hong Kong) Limited ("Citistore HK"), which is a wholly-owned subsidiary of Henderson Investment Limited, a subsidiary of the Company.

For the six months ended 30 June 2017, revenue contribution from the department store operation amounted to HK$411 million (2016: HK$443 million) which represents a period-on-period decrease of HK$32 million or 7% from that for the corresponding six months ended 30 June 2016. The decrease is mainly attributable to (i) a weakened retail market sentiment in Hong Kong during the six months ended 30 June 2017 compared with the corresponding six months ended 30 June 2016 ; and (ii) a significantly warmer weather during the Chinese New Year sales promotion period which therefore resulted in a decrease in the sales of winter merchandises in January and February 2017 when compared with that for the corresponding period.

Profit contribution for the six months ended 30 June 2017 amounted to HK$127 million (2016: HK$155 million), representing a period-on-period decrease of HK$28 million or 18% from that for the corresponding six months ended 30 June 2016. Such decrease is mainly attributable to the decrease in revenue (as referred to above), the increase in advertising and promotion expenses due to the launch of customers' incentive programs and the increase in depreciation charge on leasehold improvements due to the completion of the renovation works relating to the relocation of the Ma On Shan store at the end of 2016.

Other businesses

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

Revenue of other businesses for the six months ended 30 June 2017 amounted to HK$670 million, representing an increase of HK$13 million, or 2%, over that of HK$657 million for the corresponding six months ended 30 June 2016. This is mainly attributable to (i) the increase in interest income received from first mortgage loans and second mortgage loans offered to property buyers of HK$35 million; and (ii) the increase in revenue from construction activities of HK$73 million mainly due to the commencement of a new construction contract for "Harbour Park", being a property development project of Hong Kong Ferry (Holdings) Company Limited ("HK Ferry", a listed associate of the Group), and which are partially offset by (iii) the decrease in revenue contribution from the trading of building materials in the amount of HK$31 million; and (iv) the decrease in the investment income of HK$67 million mainly due to the non-recurrence of a one-off dividend income of HK$60 million which was received from the Group's investment in a property development project in Hong Kong during the corresponding six months ended 30 June 2016.

The profit contribution of other businesses for the six months ended 30 June 2017 amounted to HK$603 million, representing an increase of HK$343 million, or 132%, over that of HK$260 million for the corresponding six months ended 30 June 2016. This is mainly attributable to (i) the aggregate net gain (before tax) of HK$310 million resulting from the Group's disposal of its entire investments in certain available-for-sale equity securities during the six months ended 30 June 2017; and (ii) the non-recurrence during the six months ended 30 June 2017 of the impairment loss on certain available-for-sale securities in the amount of HK$21 million which was recognised by the Group during the corresponding six months ended 30 June 2016.

Associates

The Group's attributable share of post-tax profits less losses of associates during the six months ended 30 June 2017 amounted to HK$2,600 million (2016 : HK$2,227 million), representing an increase of HK$373 million, or 17%, over that for the corresponding six months ended 30 June 2016. Excluding the Group's attributable share of changes in fair value of investment properties held by the associates (net of deferred taxation) of HK$490 million during the six months ended 30 June 2017 (2016 : HK$429 million) and as adjusted for by adding back the Group's attributable share of the cumulative fair value change of investment properties disposed of during the period of HK$28 million (2016 : Nil) which is consistent with the basis as referred to in "Note" to the paragraph headed "Revenue and profit" above, the Group's attributable share of the underlying post-tax profits less losses of associates for the six months ended 30 June 2017 amounted to HK$2,138 million (2016: HK$1,798 million), representing an increase of HK$340 million, or 19%, over that for the corresponding six months ended 30 June 2016. Such period-on-period increase in the underlying post-tax profits was mainly due to the following :-

(i) the Group's attributable share of increase in the underlying post-tax profit contribution from The Hong Kong and China Gas Company Limited of HK$60 million, mainly due to the Group's attributable share of increase in profit contribution from the new energy business ;

(ii) the Group's attributable share of increase in the underlying post-tax profit contribution from HK Ferry of HK$17 million, mainly due to the Group's attributable share of increase in profit contribution from the sale of securities investments of HK$5 million and the non-recurrence of the Group's attributable share of impairment loss on securities investments of HK$15 million which was recognised during the corresponding six months ended 30 June 2016 ;

(iii) the Group's attributable share of increase in the underlying post-tax profit contribution from Miramar Hotel and Investment Company, Limited ("Miramar") of HK$58 million, mainly due to the Group's attributable share of increase in profit contribution of HK$12 million from the hotel operation and the Group's attributable share of Miramar's gain on disposal of an investment property during the period in the amount of HK$44 million ; and

(iv) the increase in the Group's attributable share of post-tax profit contribution from the property sales of "Bohemian House" in Hong Kong and "Henderson • CIFI Centre" in Shanghai, mainland China, both being projects held by the Group's associates, in the aggregate amount of HK$157 million.

Joint ventures

The Group's attributable share of post-tax profits less losses of joint ventures during the six months ended 30 June 2017 amounted to HK$2,031 million (2016: HK$1,751 million), representing an increase of HK$280 million, or 16%, over that for the corresponding six months ended 30 June 2016. Excluding the Group's attributable share of changes in fair value of investment properties held by the joint ventures of HK$1,359 million during the six months ended 30 June 2017 (2016: HK$1,121 million), the Group's attributable share of the underlying post-tax profits less losses of joint ventures for the six months ended 30 June 2017 amounted to HK$672 million (2016: HK$630 million), representing an increase of HK$42 million, or 7%, over that for the corresponding six months ended 30 June 2016. Such period-on-period increase was mainly attributable to (i) the increase in the Group's attributable share of post-tax profit contribution from the ifc project in the amount of HK$22 million during the period; and (ii) the increase in the Group's attributable share of post-tax profit contribution from the property sales of "Global Trade Square" in Hong Kong in the amount of HK$20 million during the period.

Finance costs

Finance costs (comprising interest expense and other borrowing costs) recognised as expenses for the six months ended 30 June 2017 amounted to HK$327 million (2016: HK$398 million). Finance costs before interest capitalisation for the six months ended 30 June 2017 amounted to HK$724 million (2016: HK$873 million).

During the six months ended 30 June 2017, the Group's effective borrowing rate in relation to (i) the Group's bank and other borrowings in Hong Kong was approximately 2.42% per annum (2016: approximately 3.14% per annum) ; and (ii) the Group's bank and other borrowings in mainland China was approximately 4.50% per annum (2016: approximately 4.74% per annum). Overall, based on the Group's total debt of HK$78,543 million at 30 June 2017 (30 June 2016: HK$54,635 million) and which is entirely (30 June 2016: 99.2%) represented by the Group's bank and other borrowings in Hong Kong, the Group's effective borrowing rate for the six months ended 30 June 2017 was approximately 2.44% per annum (2016: approximately 3.23% per annum).

Revaluation of investment properties and investment properties under development

The Group recognised an increase in fair value on its investment properties and investment properties under development (before deferred taxation and non-controlling interests) of HK$3,148 million in the consolidated statement of profit or loss for the six months ended 30 June 2017 (2016 : HK$2,683 million).

Financial resources and liquidity

Medium Term Note Programme

At 30 June 2017, the aggregate carrying amount of notes guaranteed by the Company and issued under the Group's Medium Term Note Programme established on 30 August 2011 and which remained outstanding was HK$2,641 million (31 December 2016: HK$8,004 million), with tenures of between seven years and twenty years (31 December 2016: between five years and twenty years). These notes are included in the Group's bank and other borrowings at 30 June 2017 as referred to in the paragraph headed "Maturity profile and interest cover" below.

Maturity profile and interest cover

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

	At 30 June 2017 HK$ million	At 31 December 2016 HK$ million
Bank and other borrowings repayable:		
- Within 1 year	**25,064**	20,152
- After 1 year but within 2 years	**20,764**	6,712
- After 2 years but within 5 years	**31,835**	28,681
- After 5 years	**541**	539
Amount due to a fellow subsidiary	**339**	316
Total debt	**78,543**	56,400
Less:		
Cash and bank balances	**(25,366)**	(22,966)
Net debt	**53,177**	33,434
Shareholders' funds	**275,516**	263,534
Gearing ratio (%)	**19.3%**	12.7%

At 30 June 2017, after taking into account the effect of swap contracts designated as cash flow hedging instruments, 25% (31 December 2016 : 45%) of the Group's total debt carried fixed interest rates.

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

The interest cover of the Group is calculated as follows :

	Six months ended 30 June	
	2017	2016
	HK$ million	HK$ million
Profit from operations (before changes in fair value of investment properties and investment properties under development) plus the Group's share of the underlying profits less losses of associates and joint ventures	**10,372**	5,646
Interest expense (before interest capitalisation)	**636**	782
Interest cover (times)	**16**	7

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

Treasury and financial management

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

The Group conducts its business primarily in Hong Kong with the related cash flows, assets and liabilities being denominated mainly in Hong Kong dollars. The Group's primary foreign exchange exposure arises from its property developments and investments in mainland China which are denominated in Renminbi ("RMB"), the guaranteed notes ("Notes") which are denominated in United States dollars ("US$"), Sterling ("£") and Singapore dollars ("S$"), as well as the fixed coupon rate bond ("Bond") which is denominated in United States dollars.

In respect of the Group's operations in mainland China, apart from its capital contributions and, in some cases, loan contributions to projects which are denominated in RMB and are not hedged, the Group endeavours to establish a natural hedge by maintaining an appropriate level of external borrowings in RMB. In respect of the Notes and the Bond in the aggregate principal amounts of US$672,000,000, £50,000,000 and S$200,000,000 at 30 June 2017 (31 December 2016: the Notes and the Bond in the aggregate principal amounts of US$672,000,000, £50,000,000 and S$200,000,000 and the bank borrowings denominated in Japanese Yen ("¥") in the principal amount of ¥10,000,000,000 but which were fully repaid by the Group in February 2017), interest rate swap contracts and cross currency interest rate swap contracts were entered into between the Group and certain counterparty banks for the purpose of hedging against interest rate risk and foreign currency risk during their tenure. Furthermore, in respect of certain of the Group's bank loans denominated in Hong Kong dollars which bear floating interest rates in the aggregate principal amount of HK$11,450,000,000 at 30 June 2017 (31 December 2016: HK$11,450,000,000), interest rate swap contracts were entered into between the Group and certain counterparty banks for the purpose of hedging against interest rate risk during their tenure.

Material acquisitions and disposals

Material acquisition

On 16 May 2017, a wholly-owned subsidiary of the Company received a letter from the Lands Department of the Government of the Hong Kong Special Administrative Region of the People’s Republic of China, confirming its acceptance of the Company’s tender for a piece of land situated at Murray Road, Central, Hong Kong (registered in the Land Registry as Inland Lot No. 9051) at the land premium of HK$23,280 million. The land premium was fully settled by the Company on 13 June 2017 and was funded by the Group’s internal resources and bank financing. The site will be developed into a landmark office building with retail facilities and is expected to be completed in around 2022.

Material disposals

On 10 January 2017, the Company entered into an agreement with an independent third party pursuant to which the Company transferred its interest in the entire issued share capital of, and the shareholder’s loan to, Uhray Investment Limited and its wholly-owned subsidiary which together own certain commercial shops at Fairview Height, Mid-levels, Hong Kong and which were held as investment properties. The transaction was completed on 10 July 2017. The Group received an adjusted consideration of HK$506 million and, after adding back the cumulative fair value gain on the abovementioned properties up to 30 June 2017 (being the latest valuation date on the abovementioned properties prior to the completion of the transaction), the Group recognised a gain attributable to the Group’s underlying profit for the year ending 31 December 2017 in the amount of HK$473 million.

The Group entered into a provisional agreement dated 1 February 2017 with an independent third party pursuant to which the Group transferred its interest in the entire issued share capital of, and the shareholder’s loan to, Landrise Development Limited (a wholly-owned subsidiary) which owns the property occupied by Newton Place Hotel, Kwun Tong. The aggregate consideration for the transaction amounted to HK$2,248 million (subject to adjustment) and the transaction had yet to be completed at 30 June 2017.

On 17 February 2017, the Group entered into a conditional agreement with a deemed connected person pursuant to which the Group transferred its interest in the entire issued share capital of Enhance Invest Inc. and the loan owing by Conradion Limited (both wholly-owned subsidiaries) together with its entire interest in Conradion Limited which owns the property occupied by Newton Inn, North Point. The transaction was completed on 12 July 2017. The Group received an adjusted consideration of HK$1,000 million and recognised a gain attributable to the Group’s reported profit and underlying profit for the year ending 31 December 2017 in the amount of HK$699 million (subject to adjustment).

On 20 March 2017, the Group entered into an agreement with an independent third party pursuant to which the Group transferred its entire issued share capital of, and the shareholder’s loan to, Hennon International Limited (a wholly-owned subsidiary) together with its entire interest in 廣州芳村恒基房地產發展有限公司 (a Sino-foreign cooperative joint venture enterprise established in mainland China) which owns a land site in Fangchun, Guangzhou, mainland China. The consideration for the transaction amounted to RMB1,727 million (equivalent to HK$1,946 million). Completion of the transaction took place on 20 March 2017 and the Group recognised a gain after tax attributable to the Group’s reported profit and underlying profit for the six months ended 30 June 2017 in the amount of HK$1,047 million.

On 29 May 2017, the Group entered into a legally-binding memorandum with an independent third party in relation to the transfer by the Group of its entire interest in certain wholly-owned subsidiaries which through their subsidiaries in mainland China altogether own nine property development projects located in Anshan, Dalian, Guangzhou, Tieling and Shenyang, mainland China. The aggregate cash consideration (together with the repayment of related party loans) amounted to approximately HK$8,600 million (subject to adjustments). The transaction was completed upon execution of the relevant agreements on 5 July 2017 with balance of the consideration to be settled by instalments.

During the six months ended 30 June 2017, the Group disposed of its entire investments in certain available-for-sale equity securities for an aggregate consideration of HK$984 million, as a result of which the Group recognised an aggregate gain on disposal (net of tax) of HK$289 million.

Save for the aforementioned, the Group did not undertake any significant acquisitions or any other significant disposals of subsidiaries during the six months ended 30 June 2017.

Charge on assets

Assets of the Group's subsidiaries were not charged to any third parties at 30 June 2017 (31 December 2016 : assets of the Group's subsidiaries were not charged to any third parties, except for certain available-for-sale securities and held-to-maturity debt securities in the aggregate carrying amount of HK$411 million which were pledged in favour of a financial institution for credit facilities granted to a wholly-owned subsidiary of the Group).

Capital commitments

At 30 June 2017, capital commitments of the Group amounted to HK$24,424 million (31 December 2016: HK$27,493 million). In addition, the Group's attributable share of capital commitments undertaken by joint ventures and certain associates at 30 June 2017 amounted to HK$5,646 million (31 December 2016: HK$2,122 million).

Contingent liabilities

At 30 June 2017, the Group's contingent liabilities amounted to HK$2,769 million (31 December 2016: HK$2,130 million), of which :-

(i) an amount of HK$2,283 million (31 December 2016: HK$40 million) relates to performance bonds, guarantees and undertakings for the due and proper performance of the obligations of the Group's subsidiaries and projects, the substantial increase of which is attributable to the project development of "Eden Manor" during the six months ended 30 June 2017 ; and

(ii) an amount of HK$475 million (31 December 2016: HK$2,077 million) relates to guarantees given by the Group to financial institutions on behalf of purchasers of property units in mainland China in relation to which the related Building Ownership Certificate (房產證) had not yet been issued at 30 June 2017 (and such guarantees will be released upon the issuance of the Building Ownership Certificate).

Employees and remuneration policy

At 30 June 2017, the Group had 7,727 full-time employees (31 December 2016: 8,032 full-time employees). The decrease in the Group's headcount during the six months ended 30 June 2017 is mainly due to (i) longer transitional vacancy period for property service attendants in Hong Kong during the period; (ii) the disposal of Beijing Henderson Centre which was completed in February 2017, as well as the streamlining of manpower requirements as certain projects in mainland China have reached the final phase of their development and following the entrustment of the operations and management of certain project companies in mainland China to local operators; and (iii) the cessation of the property management operation at two locations in mainland China and the scaling down of the hotel operation following the disposal of the Group's two hotel properties during the period.

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

Total staff costs for the six months ended 30 June 2017 amounted to HK$1,009 million (2016: HK$986 million), the increase of which is mainly attributable to the compensation payments to certain full-time employees in mainland China who had left the Group during the six months ended 30 June 2017 for the reasons as referred to above.

OTHER INFORMATION

Review of Interim Results

The unaudited interim results for the six months ended 30 June 2017 have been reviewed by the auditor of the Company, KPMG in accordance with Hong Kong Standard on Review Engagements 2410 “Review of interim financial information performed by the independent auditor of the entity” issued by the Hong Kong Institute of Certified Public Accountants.

Issue of Shares

On 21 June 2017, the Company issued 363,740,571 bonus shares on the basis of one share for every ten shares held.

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

Except for the issue of bonus shares on 21 June 2017, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities during the period under review.

Audit Committee

The Audit Committee met in August 2017 and reviewed the systems of internal control, risk management and compliance and the interim report for the six months ended 30 June 2017.

Corporate Governance

During the six months ended 30 June 2017, the Company complied with the applicable code provisions as set out in the Corporate Governance Code (the “CG Code”) as stated in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), with the exception that the roles of the chairman and the chief executive officer of the Company have not been segregated as required by code provision A.2.1 of the CG Code. The Company is of the view that it is in the best interest of the Company that Dr Lee Shau Kee, with his profound expertise in the property business, shall continue in his dual capacity as the Chairman and Managing Director.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code of the Listing Rules as the code for dealing in securities of the Company by the Directors (the “Model Code”). Having made specific enquiry, the Company confirmed that all Directors have complied with the required standard as set out in the Model Code.

Forward-Looking Statements

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

By Order of the Board
Timon LIU Cheung Yuen
Company Secretary

Hong Kong, 22 August 2017

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