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新鴻基地產發展有限公司
Sun Hung Kai Properties Limited

(Incorporated in Hong Kong with limited liability)
(Stock Code: 16)

2016 / 17 Interim Results

CHAIRMAN'S STATEMENT

I am pleased to present my report to the shareholders.

RESULTS

The Group's underlying profit attributable to the Company's shareholders for the six months ended 31 December 2016, excluding the effect of fair-value changes on investment properties, amounted to HK$14,608 million, compared to HK$9,298 million for the corresponding period last year. Underlying earnings per share were HK$5.05, compared to HK$3.23 for the same period last year.

Reported profit and reported earnings per share attributable to the Company's shareholders were HK$20,659 million and HK$7.14 respectively, compared to HK$14,724 million and HK$5.11 for the corresponding period last year. The reported profit for the period included an increase in fair value of investment properties net of deferred taxation and non-controlling interests of HK$6,456 million, compared to HK$5,531 million for the same period last year.

DIVIDEND

The directors have declared an interim dividend payment of HK$1.10 per share for the six months ended 31 December 2016, an increase of 4.8% from the corresponding period last year. The dividend will be payable on 23 March 2017.

BUSINESS REVIEW

Property Sales and Rental Income

Property Sales

Revenue from property sales for the period under review as recorded in the financial statements, including revenue from joint-venture projects, was HK$26,147 million. Profit generated from property sales was HK$8,345 million, as compared to HK$2,474 million for the same period last year. Contracted sales during the period amounted to HK$28,600 million in attributable terms.

Rental Income

Gross rental income, including contributions from joint-venture projects, rose 4% year-on-year to HK$10,803 million and net rental income increased by 4% year-on-year to HK$8,273 million during the period. This healthy performance was attributable to positive rental reversions and higher rents from new leases. Contributions from new investment properties, particularly those on the mainland, also helped drive rental income growth.

Property Business – Hong Kong

Land Bank

As at the end of December 2016, the Group's total land bank in Hong Kong amounted to 49.3 million square feet in terms of attributable gross floor area, including 29.4 million square feet of completed investment properties and 19.9 million square feet of properties under development. The Group also held more than 30 million square feet of agricultural land in terms of site area, primarily located along existing or planned railway lines in the New Territories and under various stages of land use conversion.

The Group continued to participate in land bidding and acquired a residential site in Sha Tin through government tender during the period under review. Covering a gross floor area of about 434,000 square feet, the project is nestled amid lush greenery and will be developed into trendy, luxury accommodation offering a relaxing lifestyle. The development return is expected to be satisfactory despite intense competition in the land market. The Group will maintain a sufficient land bank to support its sustainable development in respect of growth and providing staff with opportunities to engage in a greater number of projects to realize their potential.

Property Development

Hong Kong's primary residential market has become active again since the beginning of 2017 with new launches well received by end users. This is in contrast to a quiet market in the last two months of 2016 with low transaction volumes as a result of new stamp duty measures and interest rate hikes. Homebuyer confidence is still underpinned by a healthy labour market, sustained income growth and relatively low interest rate environment.

The Group continues to focus on lifting its brand and strengthening its leading position in the market. It constantly optimizes its products through keeping tabs on customer needs and preferences as well as market changes. Not only is the Group well acclaimed for its diverse flat mix that features efficient layouts, complemented by distinctive architecture, quality materials and finishes as well as comprehensive facilities, but it is also highly praised for its thoughtful design and attentive service. The Group's commitment to customer focus adds an extra touch of flair for residents to enjoy their premier lifestyle. Recent handovers of properties including first phases of Ultima in Ho Man Tin and Century Link in Tung Chung won high acclaim from customers and further boosted the Group's premium brand and reputation.

The Group registered impressive contracted sales of over HK$22,800 million during the period under review, contributed mainly by the first phases of Grand YOHO and Park YOHO in Yuen Long, Lime Gala in Shau Kei Wan and Ocean Wings in Tseung Kwan O South. The second phase of Grand YOHO was launched in January 2017 and the units on offer to date were virtually sold out. The remaining units represent the only available apartments directly connected to MTR Yuen Long Station for the next two to three years; the Group is selling the remainder at a proper pace to capture the potential.

During the period, the Group completed two projects in Hong Kong totalling about 1.5 million square feet of gross floor area, of which nearly one million square feet were residential. The remainder is retail premises being kept for long-term investment. Details are listed in the following table. In the second half of this financial year, nearly 3.1 million square feet in attributable gross floor area are due for completion, including about 2.6 million square feet of residential premises.

Project	**Location**	**Usage**	**Group's Interest** (%)	**Attributable Gross Floor Area** (square feet)
Grand YOHO Phase 1	9 Long Yat Road, Yuen Long	Residential/ Shopping Centre	100	1,199,000
The Wings IIIB	19 Chi Shin Street, Tseung Kwan O	Residential/ Shops	100	257,000
Total				**1,456,000**

Property Investment

The Group has successfully established its leading position in the leasing market of Hong Kong, underpinned by its quality and diversified portfolio in terms of location and usage. With a total gross floor area of over 29 million square feet, the investment property portfolio consists mainly of premium shopping malls and quality office towers, providing the Group with sizable and stable recurrent rental income.

Gross rental income from Hong Kong, including contributions from joint-venture projects, increased by 4% year-on-year to HK$8,643 million during the period under review. This rental growth was mainly attributable to higher rents from new leases and renewals. The overall occupancy of the Group's investment properties stood high at about 95%.

Retail portfolio

The Group's retail portfolio continued to register high overall occupancy and positive rental reversions in the midst of a soft retail market, which saw its decline tapering off in recent months. Totalling about 11 million square feet, the portfolio will continue to expand as new investment properties gradually come on stream, serving as a driver for the Group's rental income growth.

With a combined gross floor area of about 1.1 million square feet, YOHO Mall, which comprises the retail space of the Group's YOHO developments in Yuen Long, is believed to emulate the achievement of New Town Plaza in eastern New Territories. YOHO Mall I & II recorded satisfactory performance with high occupancy during the period. With its unique market positioning, an array of fashion brands and specialty restaurants, YOHO Mall I & II have already become a shopping hotspot in western New Territories. Its scale will be expanded substantially by the upcoming 450,000-square-foot extension – the retail area beneath Grand YOHO that will also connect directly to MTR Yuen Long Station and boost the mall's accessibility and circulation. The extension is scheduled to open in the second half of 2017 and response to pre-leasing has been encouraging. Tenants will include kids' clothing outlets and a cinema to offer an audiovisual feast, culminating in a comprehensive trade mix to underscore the allure of YOHO Mall. The 107,000-square-foot retail area of Yuen Long Station Development will be another component of YOHO Mall and its development plan is being finalized.

PopWalk includes the retail portions of the Group's developments in Tseung Kwan O South, totalling a gross floor area of 240,000 square feet. It is well positioned to tap into the expanding customer base in the area as new residential projects nearby gradually come to completion. The first phase covering a shopping area of 66,000 square feet is fully let with increasing traffic. Scheduled to open in the second half of 2017, another two phases totalling 95,000 square feet are mostly pre-leased to provide shoppers with a wider selection of products. The retail area of Ocean Wings will be the last phase of PopWalk and is scheduled for completion in financial year 2017/18.

Going forward, the Group will continue to strengthen its foothold in the retail leasing market and increase its presence in different areas of the city, including North Point and Nam Cheong station. Harbour North, the retail part of an integrated complex in North Point, is set to benefit from Victoria Harbour, a residential development above it as well as Hotel Vic under the Group due to open in 2018. Adjacent to a waterfront promenade, the 140,000-square-foot mall will be filled with quality retailers including outlets of beauty products and lifestyle goods. Its extensive facade along Java Road will feature duplex stores, a distinctive element in the area which is expected to enliven the neighbourhood. Given its proximity to MTR North Point Station and the scarcity of a one-stop shopping destination in Island East, Harbour North is poised to draw heavy visitor traffic and capture the market potential.

The premium mall atop MTR Nam Cheong Station will be served by convenient transportation network, attributable to its prime location at the interchange for two rail lines and of being one station along West Rail away from the future cross-border high-speed rail link terminus. Covering a retail area of about 300,000 square feet, the mall will house a diversity of tenants including sportswear and trendy fashion brands. Customers will be able to unwind at its al fresco restaurants, some of which will have landscaped open space resembling an oasis for urbanites. Such modern, relaxing lifestyle will be one-of-a-kind in the neighbourhood, and is expected to attract shoppers from all over the city.

The Group's existing retail network spans across the territory, with major shopping malls located primarily along railway lines. During the period, the overall performance of major malls such as IFC Mall, MOKO, East Point City, Tai Po Mega Mall, Landmark North and V City was satisfactory. The Group takes a proactive approach to offer a better shopping environment, diverse lifestyles and more attentive service to shoppers as a way to elevate its brand. To further boost the malls' competitiveness, the Group leverages the latest information technologies and media channels to gauge the changing living and consumption patterns of customers, and provides them with more value-added service.

The Group is also committed to enhancing the appeal of its shopping malls through asset enhancement initiatives. Metroplaza next to MTR Kwai Fong Station is undergoing a large-scale renovation, which is scheduled for completion in the second half of 2017. To better utilize its retail area, the mall's layout has been redesigned to enhance visitors' circulation and provide more shopfronts in conspicuous areas to raise its rental value. Considering the changing customer segments in the area, Metroplaza will be repositioned to capture the spending power of young people and professionals. The mall will also feature an enlivened facade to call attention to its new image.

APM in Kwun Tong is also implementing asset enhancement initiatives. Its outdoor greening project will be finished by the end of 2017 while the conversion of some office space above the mall into retail area is progressing well. Phase III of New Town Plaza in Sha Tin will shortly carry out a large-scale renovation programme involving major layout change, tenant-mix refinement and a revamp of the facade. Together with a new cinema currently under construction in Phase I, the entire shopping landmark is expected to elevate customer experience and reinforce its competitive edge in the market.

Office portfolio

The Group has established a premium office portfolio primarily along railway lines, and its premises are noted for superior building quality and professional management service. During the period, the diversified portfolio of 10 million square feet continued to perform well with occupancy sustaining at over 95%. The Group was able to attract and retain quality tenants with renewals concluded at higher rents despite a relatively slow growth pace in the local and mainland economies.

The Group's landmark development International Finance Centre (IFC) benefitted from favourable supply-demand dynamics in core Central. With its convenient location, prestigious address, exceptional quality and fabulous view of Victoria Harbour, the virtually fully-let office complex continued to draw keen interest from renowned financial institutions, including those from the mainland, and saw its rents staying at a high level.

International Commerce Centre (ICC) continued to perform well with high occupancy and positive rental reversions. Complemented by five-star hotels, comprehensive retail and entertainment facilities as well as direct access to the city's mass transit system, ICC has a strategic location that will be further enhanced by the scheduled completion of the cross-border high-speed rail link in the second half of 2018. Capitalizing on its world-class building specifications, sweeping sea view and proximity to the West Kowloon Cultural District, ICC's position as a preferred choice for reputable multinationals and mainland companies, including financial institutions, will be further bolstered.

The Millennium City office cluster in Kowloon East recorded high overall occupancy and reversions with increased rental levels during the period. With its single ownership, attentive service, large floor plates and easy access to a comprehensive transport network, the Millennium City has established a premium brand and become a major office hub. On the back of its leading position in the area, the office cluster is expected to outperform the market in Kowloon East despite abundant supply. After paying a premium for land use conversion in October 2016, the Group is finalizing the development plan for the 98 How Ming Street site. The project will be redeveloped into a 1.2-million-square-foot commercial property and is expected to synergize with the Millennium City cluster and generate additional traffic for APM upon completion.

Other premium offices such as Sun Hung Kai Centre in Wan Chai, Grand Century Place in Mong Kok, Grand Central Plaza in Sha Tin and Metroplaza in Kwai Fong also performed well. Solid demand from a diverse tenant base led to high occupancies and respectable rental reversions.

The Group continues to make a considerable effort to upgrade its office premises. The first phase of renovation at Central Plaza in Wan Chai was recently finished and the second phase is planned to commence later this year. Leasing performance of this premium office tower was satisfactory. Refurbishment at Grand Central Plaza is scheduled to begin within the year.

Property Business – Mainland

Land Bank

The Group's total land bank on the mainland stood at an attributable 65.6 million square feet as at the end of December 2016. About 12.4 million square feet were completed investment properties for rental, comprising mainly landmark integrated projects at prime locations in Shanghai, Beijing and Guangzhou. The remaining 53.2 million square feet were properties under development, of which about 60% will be for high-end residences or serviced apartments. The Group will continue to adopt a selective and focused approach to explore investment opportunities in first-tier cities.

Property Development

The residential market on the mainland performed well for most of 2016 while the demand of late cooled off due to the government's restrictive measures introduced in the fourth quarter. Last year saw a general increase in home prices, which still stayed firm in the past few months on the back of solid end-user demand. Meanwhile, land market sentiment remained strong.

The Group recorded an attributable contracted sales of over RMB5,000 million on the mainland during the period. Such impressive results stemmed from the Group's premium building quality and after-sales service along with a positive sales momentum in the market. Luxury residential projects including Shanghai Arch, Shanghai Cullinan and Guangzhou's Forest Hills, in which the Group owns a 70% stake, continued to deliver good sales results. Other quality residential developments, including a project in Dongguan and joint-venture projects in Chengdu and Foshan, were also well received. Office projects GCC (Guangzhou Commerce Centre) and Top Plaza East Tower in Guangzhou, in which the Group has a 70% and 33.3% interest respectively, also made meaningful contributions to its property sales.

During the period, the Group completed approximately 4.6 million square feet of attributable gross floor area on the mainland, including four residential projects covering about 3.7 million square feet. The four projects were virtually sold out and highly acclaimed for their superior building quality and design. Other completions included two office developments and a hotel. Strategically located in Guangzhou's core business area, GCC and Top Plaza East Tower set a new standard for premium office space in the area. Park Hyatt Hangzhou in Qianjiang New

City CBD has soft-opened since September last year. Project details are shown in the following table:

Project	Location	Usage	Group's Interest (%)	Attributable Gross Floor Area (square feet)
The Woodland Phase 4D	Zhongshan 5 Road, Zhongshan	Residential	JV	1,062,000
Grand Waterfront Phase 1	Shilong, Dongguan	Residential	100	1,011,000
Jovo Town Phase 2C	Tianfu New Area, Chengdu	Residential	91	990,000
Oriental Bund Phase 1C	Chancheng, Foshan	Residential	50	608,000
Top Plaza East Tower, Tianhui Plaza Phase 2C	Zhujiang New Town, Guangzhou	Office	33.3	455,000
GCC	Tianhe, Guangzhou	Office	70	254,000
Park Hyatt Hangzhou, Hangzhou MIXC Phase 2D	Qianjiang New City, Hangzhou	Hotel	40	176,000
Total				**4,556,000**

Around 657,000 square feet in attributable gross floor area are due for completion in the second half of this financial year. The completions will include the first phase of ITC (International Trade City) in Xujiahui, the Group's signature project in Shanghai. Over 500,000 square feet of premium office and retail space will be provided in the first phase.

<u>Property Investment</u>

The Group's mainland investment portfolio has become a meaningful contributor to its total rental income. During the period under review, gross rental income from the Group's mainland investment property portfolio, including contributions from joint-venture projects, rose 12% year-on-year to RMB1,606 million. The robust growth was primarily driven by higher rents on new leases and renewals as well as rentals from new investment properties.

The Group continues to expand its investment property portfolio in major cities, particularly Shanghai. The wholly-owned mega project ITC is situated in Xujiahui, which sees its economic importance rising after being upgraded to become one of the core business districts in Shanghai. With a total gross floor area of 7.6 million square feet, ITC will include grade-A offices, premium shopping malls and a luxury hotel to be completed in phases. This integrated project has direct access to Xujiahui metro station, which serves as the interchange of three existing lines, of which Line 11 is linked to a renowned theme park opened in 2016. The station will also be the interchange of two additional lines currently planned by the government.

ITC will be connected to neighbouring historical landmarks and commercial buildings by a network of footbridges, offering total convenience to office workforce and visitors.

ITC One, Phase 1 of ITC, contains about 170,000 square feet of offices in two eight-storey towers on Huashan Road and is expected to be handed over to tenants in the first half of 2017. Pre-leasing is progressing well with potential tenants ranging from local enterprises to well-known multinationals. With a focus on grand luxury, the upscale mall covering approximately 340,000 square feet of gross floor area in ITC One is scheduled to open in 2018. Response to pre-leasing has been encouraging and lease negotiations with noted international and local brands are under way. Phase 2 on Gongcheng Road is comprised of about 320,000 square feet of offices and some 43,000 square feet of retail space that will house a variety of shops and restaurants. Construction has been progressing smoothly and this phase is due for completion in financial year 2017/18.

Foundation work for another site of ITC has commenced. A landmark complex on this site, housing two office towers, one of which a 370-metre skyscraper, along with a 2.5-million-square-foot mall and a hotel, will shape the silhouette of the entire mega project and become its centrepiece. The skyscraper will feature sophisticated configurations and infrastructure that will draw multinational corporations. Visitors will be able to enjoy the pleasurable experience offered by an upscale mall with all-weather shopping and entertainment facilities. Upon completion, ITC will further strengthen Xujiahui's position as a central business district.

Nanjing IFC, another project in the pipeline, is poised to be a new commercial icon in Nanjing's core business area. Sitting atop the interchange of two metro lines, the integrated development will offer more than three million square feet of gross floor area with quality offices in two towers, a large premium shopping mall and a hotel. The entire project is due for completion in late 2019 and superstructure work of the office complex is under way. Major multinationals have shown a growing interest in taking up the two-million-square-foot office space. The 1.1-million-square-foot mall will be positioned as an upscale shopping centre and is expected to mirror the success of Shanghai IFC Mall. This, together with the gradual completion of ITC in Xujiahui, will further boost the Group's market position and future rental income.

Earning solid acclaim for their superior quality, the two landmark integrated projects in Shanghai continue to outperform the city's leasing market. Shanghai IFC, one of the Group's iconic projects, is situated at the core of Lujiazui Finance and Trade Zone. The Shanghai IFC Mall within the complex, a top-performing mall in the city, recorded robust rental reversions and respectable growth in tenant sales. The shopping hub has become more accessible with public pedestrian tunnels linking it to the nearby buildings gradually completed. As part of the Group's tenant-mix refinement initiatives, the mall has introduced a greater variety of brands, including more luxury kids' clothing to appeal to well-off family shoppers. The two quality office towers with high specifications attract a spectrum of tenants such as global financial institutions and law firms. The Group's attributable office space in the premises was virtually fully leased with spot rents sustaining at a high level.

The highly popular Shanghai IAPM, part of the Shanghai ICC integrated complex, recorded robust growth in retail sales and traffic. The mall has further enhanced its interaction with customers by offering mobile applications and entertainment that incorporates simulation technology. With the recent opening of the mall's landscaped podium garden on Nanchang Road that provides direct access to metro station exits, customers are offered added convenience along with a refreshing shopping and leisure environment. Occupancy of One ICC office tower stayed high with positive rental reversions. With continued demand from multinationals from diverse sectors such as entertainment, consumer goods and consultancy, Two ICC office tower is expected to be nearly fully let by the end of this year.

The Group's position as a premium landlord has been extended to Guangzhou after Parc Central and IGC were open in 2016. With their tenants gradually moving in, both malls witnessed sales and traffic ramping up. The 50%-owned Parc Central in Tianhe commercial district covers 900,000 square feet, which provides customers with a unique experience of shopping in an urban park replete with verdant walls and other landscaping features. The million-square-foot IGC is the retail portion of the 33.3%-owned Tianhui Plaza in Zhujiang New Town. Last October saw the soft opening of IGC, which houses an array of affordable luxury retailers and trendy brands, some of which are newcomers to Guangzhou. The presence of chic anchor tenants and successful food and beverage outlets is boosting its popularity with shoppers. Cladded in multi-faceted curtain walls, the diamond-shaped mall resembles a sparkling jewel on Pearl River. The two malls are expected to become hotspots for premium shopping, entertainment and leisure in the city upon full operation.

Beijing APM, at the heart of Wangfujing commercial district, targets spending from local young shoppers and tourists. The mall recorded high occupancy and higher rents for new leases and renewals. New zones for affordable luxury retailers and casual restaurants respectively were introduced to offer a wider choice to customers. The mall's main entrance will be refurbished to enhance its image and allure.

Other Businesses

Hotel

Hong Kong's tourism sector has remained challenging though there were some signs of improvement. During the period under review, the Group's hotel portfolio in Hong Kong continued to maintain its competitiveness and deliver satisfactory performance, mainly attributed to its sophisticated management, superior service, flexible sales strategies and well-planned facility enhancement initiatives.

Supported by reputable brands and prestigious locations, the Group's deluxe hotels including Four Seasons Hotel Hong Kong, The Ritz-Carlton, Hong Kong and W Hong Kong upheld their leading positions in the luxury hotel market amid softened demand from business travellers. The Group's four Royal brand hotels achieved a high average occupancy of over 95%. As for the Group's two high-quality hotels in Tseung Kwan O South, the Crowne Plaza Hong Kong Kowloon East achieved steady revenue growth while the Holiday Inn Express Hong Kong Kowloon East maintained a high occupancy of about 90%.

The Group is confident of the long-term prospects of Hong Kong's hotel sector given that the territory's attractions and transport accessibility for business travellers and tourists from around the world will continue to be enhanced in the future. Hotel Vic, part of the Group's integrated development on North Point waterfront, is targeted to open in the first half of 2018. Located just steps away from MTR North Point Station, Hotel Vic will offer affordable luxury accommodation with trendy and stylish vibes. A new premium hotel in Sha Tin, a sister project of Royal Park Hotel, is scheduled to open in late 2018.

The Ritz-Carlton Shanghai, Pudong continued to perform well during the period, partly benefitting from the opening of a leading international theme park and increasing visitor arrivals in Shanghai. The hotel remained one of the most sought-after accommodations in the city for both leisure and corporate travellers, who are attracted by its world-class lodging and dining service and strategic location. With renowned eateries including a Michelin-starred restaurant, the hotel's food and beverage business continued to fare well.

Telecommunications and Information Technology

SmarTone

During the period under review, SmarTone's performance was under pressure amid increasingly intense competition, weaker handset business and rising spectrum costs. The increasing adoption of over-the-top (OTT) applications led to lower revenue from roaming business, though it drove a substantial growth in data usage. Against such challenges, SmarTone focused on delivering an excellent customer experience backed by its strong network performance to retain loyal customers and acquire new subscribers. The Group remains confident of SmarTone's prospects and will continue to hold the company as a long-term investment.

SUNeVision

SUNeVision recorded respectable growth in revenue and underlying profit during the period. In late 2016, demand from both existing customers and new customers such as cloud service providers has contributed to business growth. Its vision is to further enhance its premier data centre business in terms of infrastructure, service and connectivity. In addition to the MEGA-i centre in Chai Wan, the transformation of the entire MEGA Two in Sha Tin into a top-tier data centre, in terms of security, power provision and facility management, is in the final stage. MEGA Plus, the new state-of-the-art data centre in Tseung Kwan O, was topped out during the period and construction is on track. Scheduled for completion in 2017, it will be the city's first purpose-built facility on a site that was specially set aside for data centre development, distinguishing itself from nearby data centres in the area. These facilities will ensure that SUNeVision can achieve scale and offer customers a range of choices in locating their IT infrastructure.

Infrastructure and Other Businesses

During the period under review, the Group's infrastructure and transport businesses continued to perform satisfactorily in the face of relatively slow economic growth. Route 3 (Country Park Section) saw lower traffic from goods vehicles, but this was offset by increases in other traffic. Meanwhile, the Wilson Group achieved satisfactory results. The Hong Kong Business Aviation Centre saw sustained strong demand from customers, but increased competition for landing slots has created challenges for the operation. The Airport Freight Forwarding Centre was able to achieve positive business growth despite the softening air-freight market. The River Trade Terminal weathered the decline in traditional cargo through diversification of its customer base. YATA, a modern Japanese lifestyle department store and supermarket, delivered positive growth in sales through offering more quality products with greater diversity.

Corporate Finance

The Group believes that a strong financial position is crucial to sustaining business growth in the future and adheres to its prudent financial management discipline, with high liquidity and low gearing. As at 31 December 2016, the Group's net debt to shareholders' funds ratio stayed at a low level while interest coverage remained high.

Given the Group's robust financial fundamentals, both Moody's and Standard & Poor's have affirmed the Group's ratings of A1 and A+ respectively with stable outlooks. In November 2016, the Group redeemed its five-year 3.5% US$775 million bond in full upon maturity.

The Group has established a good rapport with banks, which strongly support the Group to meet its financing needs. In January 2017, the Group successfully refinanced a loan for its Shanghai IFC project on the mainland by a RMB3,700 million five-year syndicated loan at a quite competitive pricing. Such refinancing activity served to extend the Group's debt maturity profile.

A majority of the Group's borrowings are denominated in Hong Kong dollars and the Group has not entered into any derivative or structured-product transactions for speculative purposes. Regarding the funding of construction costs of mainland projects, the Group continues to make use of internal cash generated from mainland operations and onshore financing so as to manage Renminbi currency exposure.

Corporate Governance

High standards of corporate governance play an important role in sustainable development of the Group. The Board directs and approves the Group's overall strategies. The Board now comprises 18 Directors who are respected experts from various industries with extensive professional and management expertise. Seven of them are Independent Non-Executive Directors (INEDs), representing more than one-third of the Board.

The Board has the Executive, the Remuneration, the Nomination as well as the Audit and Risk Management Committees to assist it in performing its duties. The Executive Committee, consisting of all Executive Directors and four senior executives, meets regularly to formulate business policies and make decisions on key business issues. The Remuneration, the Nomination, and the Audit and Risk Management Committees are all chaired by INEDs to ensure proper implementation of the Group's strategies. The Board also maintains and assesses the effectiveness of the risk management and internal control systems through regular reviews performed by the Audit and Risk Management Committee, management and both internal and external auditors. These well-established Board Committees along with risk management and internal control systems safeguard the Group's assets and the interests of stakeholders.

The Group is committed to maintaining a high standard of transparency to ensure stakeholders are being provided with true and fair, comprehensive and timely information. Management takes a proactive approach to communicating with investors, analysts and credit rating agencies through analyst briefings, regular meetings and conference calls to keep them informed of the Group's strategy, business updates and outlook. The Group also participates frequently in large-scale investor conferences to strengthen long-term relationships with stakeholders worldwide.

The Group earned many accolades from leading international financial magazines for its high standards of corporate governance and achievements in corporate social responsibility and investor relations. The Group was awarded the Best Mixed Developer in the Global, Asia, China and Hong Kong categories and Best Developer Overall in Hong Kong by *Euromoney* magazine. Other recognitions included the Platinum Awards from *FinanceAsia* magazine that honoured the Group as Asia's Best Property Company and Best Company in Hong Kong, and the Platinum Award from *The Asset* magazine.

Sustainable Development

A diverse strategy of sustainability is the basis for the Group's commitment to ensuring business continuity and creating long-term value for different stakeholders, including customers, employees, shareholders, investors and the wider community. The Group makes strategic use of its resources to pursue its commitment to quality and contribute to the betterment of the community in keeping with its belief in Building Homes with Heart. Such efforts earn the Group solid acclaim, which strengthens its brand recognition and accentuates its caring spirit.

Customer focus is a core fundamental that steers the Group's strategies for all its operations. The SHKP Club, which has been established for over two decades, is an effective vehicle to reinforce the bonding between the Group and its customers. With a membership of over 360,000, the Club offers a variety of privileges to members and organizes customer-engagement activities for both members and the public, allowing the Group to understand customer needs and keep tabs on the latest market trends.

To reinforce its quality pledge, the Group continues to offer its industry-leading three-year guarantee on newly sold residential units, and careful pre-handover quality checks. This quality commitment has won market recognition as illustrated by consistent high grading of new units being inspected by independent third parties and reported by the media. The Group also strives to create a refreshing environment for people to live, work and relax by integrating eco-friendly elements into its developments. Its landscaping division and subsidiaries Hong Yip and Kai Shing won 25 honours, representing half of the total, in the latest Best Landscape Award organized by the government. The honours lauded the gardens they plan or manage in residential developments, offices and shopping malls.

The Group believes that its staff is part and parcel of its quality pledge and sustainable development. During the period, the Group was named a Distinguished Family-friendly Employer in an award scheme organized by the Home Affairs Bureau and the Family Council. The Group also encourages its employees to pursue life-long learning through, among other channels, the SHKP Quality Academy.

At community level, the Group recognizes that a sustainable city needs a healthy populace and a harmonious environment imbued with positive energy. The Group raises substantial donations to support child and youth services through its signature annual sporting events, amplifying the positive message of sports for charity. The fifth SHKP Vertical Run for Charity – Race to Hong Kong ICC was once again the grand finale of an international stairs climbing circuit and drew a record of over 1,700 runners. Separately, the Group continued to be the title and charity sponsor of the second Sun Hung Kai Properties Hong Kong Cyclothon organized by the Hong Kong Tourism Board. The event attracted a greater number of cycling enthusiasts than the previous year, reaching over 4,600.

The Group is convinced of the importance of a balanced physical and intellectual development. During the period, the SHKP Reading Club reinforced its efforts to promote happy reading through appealing initiatives, such as to develop a new free reading platform targeting at young people. It also worked with 80 local schools to stage engaging programmes to inspire students' creativity and enthusiasm for reading. The Group's other attempts to support youth development included its sponsorship of office and co-working space for the Hong Kong X-Tech Startup Platform, which is an initiative to help local university graduates start an innovative business based on new technologies. The first phase of the co-working space opened in mid December.

The Group's caring deeds cover different age groups and diverse sectors of society. To promote intergenerational harmony and address housing needs of young people, the Group has made a commitment to donating a site in Yuen Long to Hong Kong Sheng Kung Hui Welfare Council for the development of the city's first purpose-built integrated service facility. Scheduled to be completed in five to six years, the facility will include a youth hostel, elderly home, and special-need childcare centre. Given its deep roots in Hong Kong, the Group will continue with its efforts to engage with the community and build a sustainable future for the next generation.

PROSPECTS

In the year ahead, growth for most of the developed economies will continue to gain traction from the highly accommodative monetary policies or expansionary fiscal policies. This, together with improving commodity prices, will help reflate the global economy. However, worries over trade protectionism, geopolitical risk and the pace of US interest rate hikes may create uncertainties in the global markets.

On the mainland, the economy is expected to achieve steady and reasonable growth on the back of continuous economic reforms and positive fiscal measures such as increased spending on transport and public infrastructure. The government's recent city-specific land and housing policies should also provide a positive and stable home purchase environment over the long term.

Underpinned by resilient domestic consumption, a healthy labour market and the continual major infrastructure works including the third-runway project, the Hong Kong economy is likely to continue with its modest growth amid the relatively strong US dollar and risks of trade protectionism. Notwithstanding more stringent restrictive measures in the residential market and the anticipated increase in mortgage rates, the underlying demand for local residential properties is expected to be supported by steady income growth, relatively positive demographics and low home ownership rates. Given that Hong Kong has a unique advantage of capitalizing on the growth initiatives on the mainland, the Group remains confident of the Hong Kong economy and the property sector in the medium-to-long term.

The Group's business of property development for sale will continue to perform satisfactorily, despite a tougher operating environment since late last year. With its well-recognized brand and seasoned sales team, the Group will put a number of development projects for sale on the market and is expected to record impressive contracted sales in the current year.

Over the next 10 months, major residential developments offered for sale in Hong Kong will include Cullinan West at MTR Nam Cheong Station, Victoria Harbour in North Point, Eight Regency in Tuen Mun, Phase 2A of the Park YOHO series in Yuen Long, Babington Hill in Mid-levels, a premium residential project in Ma On Shan, St. Moritz in Kau To and Phase 1 of LOHAS Park Package 4 in Tseung Kwan O. On the mainland, major developments to be put on the market will include Phase 2 of Shanghai Arch in Lujiazui that comprises premium apartments and prestigious townhouses as well as new phases of Grand Waterfront in Dongguan and apartments of Chengdu ICC.

Given its sufficient land bank under development, the Group is going to complete over three million square feet of residential floor area for sale per annum in Hong Kong over the next few years. Meanwhile, the Group is seeking opportunities for land acquisitions, particularly in Hong Kong, through various channels including the conversion of agricultural land. This will help the Group sustain a high volume of residential production in the medium-to-long term and achieve continuous growth in its core business of property development for sale.

Several major investment projects in Hong Kong and on the mainland are expected to be completed over the next five to six years. With an aggregate gross floor area of about 15 million square feet in attributable terms, these new developments represent approximately 35% of the Group's existing portfolio in terms of floor area. The YOHO Mall extension in Yuen Long is due to open later this year while Harbour North on North Point waterfront and a premium shopping mall at MTR Nam Cheong Station are scheduled to open beginning 2018. On the mainland, ITC in Xujiahui, a mega integrated complex in Shanghai, is earmarked for completion in stages by 2023. Together with the phased completion of Nanjing IFC, these projects coming on stream over the medium term are expected to significantly boost the Group's leading position in the market and overall rental income.

In the face of a more competitive operating environment and the ever-rising expectations of homebuyers, the Group continues with its customer-focus approach and strives to deliver quality products that meet or even surpass customer anticipations. The Group's premium brand is an essential element that helps it stay ahead of the market. In addition to quality enhancement measures, the Group will take a proactive approach to further boost its brand awareness and recognition through both traditional and online social media platforms. It will continue with its strategy of maintaining a balanced earnings mix from property development for sale and investment properties for rental, although the relative importance of rental income is likely to rise somewhat going forward. On the back of its premium brand, visionary business strategy and strong financial position along with a professional and experienced management team, the Group will be able to sustain its business development and continue to move forward in the years ahead.

Barring unforeseen circumstances, the Group's results for the current financial year are expected to be satisfactory.

APPRECIATION

I would like to take this opportunity to express my gratitude to my fellow directors for their guidance, to all staff for their dedication and hard work, and to all our shareholders and customers for their continued support.

Kwok Ping-luen, Raymond
Chairman & Managing Director

Hong Kong, 28 February 2017

ANNOUNCEMENT

The Board of Directors of Sun Hung Kai Properties Limited announces the following unaudited consolidated figures of the Group for the six months ended 31 December 2016 with comparative figures for 2015:-

Consolidated Income Statement
For the six months ended 31 December 2016
(Expressed in millions of Hong Kong dollars)

	Notes	(Unaudited) Six months ended 31 December 2016	2015
Revenue	**2**	**46,343**	34,902
Cost of sales		**(26,246)**	(21,333)
Gross profit		**20,097**	13,569
Other net income		**679**	351
Selling and marketing expenses		**(2,418)**	(1,599)
Administrative expenses		**(1,149)**	(1,129)
Operating profit before changes in fair value of investment properties	**2**	**17,209**	11,192
Increase in fair value of investment properties		**5,079**	5,388
Operating profit after changes in fair value of investment properties		**22,288**	16,580
Finance costs		**(1,055)**	(1,181)
Finance income		**131**	147
Net finance costs	**3**	**(924)**	(1,034)
Share of results (including increase in fair value of investment properties net of deferred tax of HK$2,028 million (2015: HK$593 million)) of:			
Associates		**234**	174
Joint ventures		**3,514**	1,849
	2	**3,748**	2,023
Profit before taxation	**4**	**25,112**	17,569
Taxation	**5**	**(4,038)**	(2,478)
Profit for the period		**21,074**	15,091
Attributable to:			
Company's shareholders		**20,659**	14,724
Non-controlling interests		**415**	367
		21,074	15,091
(Expressed in Hong Kong dollars)			
Earnings per share based on profit attributable to the Company's shareholders (reported earnings per share)	**6(a)**		
Basic		**$7.14**	$5.11
Diluted		**$7.14**	$5.10
Earnings per share excluding the effects of changes in fair value of investment properties net of deferred tax (underlying earnings per share)	**6(b)**		
Basic		**$5.05**	$3.23
Diluted		**$5.05**	$3.22

Consolidated Statement of Comprehensive Income
For the six months ended 31 December 2016

(Expressed in millions of Hong Kong dollars)

	(Unaudited) Six months ended 31 December	
	2016	2015
Profit for the period	**21,074**	15,091
Items that may be reclassified subsequently to profit or loss:		
Exchange difference on translating financial statements of foreign operations		
- exchange difference arising during the period	**(3,597)**	(3,866)
- exchange gains released on disposal of foreign operations	**-**	(112)
	(3,597)	(3,978)
Cash flow hedge		
- fair value losses recognized during the period	**(1)**	(1)
- fair value losses transferred to consolidated income statement	**2**	1
	1	-
Available-for-sale investments		
- fair value gains/(losses) recognized during the period	**60**	(213)
- fair value gains transferred to consolidated income statement on disposal	**(3)**	(84)
- deferred tax on fair value change	**1**	-
	58	(297)
Share of other comprehensive loss of associates and joint ventures	**(973)**	(668)
Other comprehensive loss for the period	**(4,511)**	(4,943)
Total comprehensive income for the period	**16,563**	10,148
Total comprehensive income for the period attributable to:		
Company's shareholders	**16,269**	9,908
Non-controlling interests	**294**	240
	16,563	10,148

Consolidated Statement of Financial Position
As at 31 December 2016

(Expressed in millions of Hong Kong dollars)

	Notes	**(Unaudited) 31 December 2016**	(Audited) 30 June 2016
Non-current assets			
Investment properties		**323,931**	318,517
Fixed assets		**26,040**	25,446
Associates		**4,511**	4,576
Joint ventures		**56,744**	56,231
Loan receivables		**3,465**	1,035
Other financial assets		**3,099**	3,326
Intangible assets		**5,799**	3,754
		423,589	412,885
Current assets			
Properties for sale		**137,449**	144,844
Inventories		**576**	596
Debtors, prepayments and others	**7**	**24,344**	25,024
Other financial assets		**1,092**	1,118
Bank deposits and cash		**33,951**	30,048
		197,412	201,630
Current liabilities			
Bank and other borrowings		**(11,012)**	(17,486)
Trade and other payables	**8**	**(27,288)**	(27,493)
Deposits received on sales of properties		**(11,126)**	(6,976)
Taxation		**(6,976)**	(7,116)
		(56,402)	(59,071)
Net current assets		**141,010**	142,559
Total assets less current liabilities		**564,599**	555,444
Non-current liabilities			
Bank and other borrowings		**(64,699)**	(63,275)
Deferred taxation		**(17,664)**	(17,410)
Other long-term liabilities		**(227)**	(251)
		(82,590)	(80,936)
NET ASSETS		**482,009**	474,508
CAPITAL AND RESERVES			
Share capital		**70,432**	70,384
Reserves		**406,402**	398,323
Shareholders' funds		**476,834**	468,707
Non-controlling interests		**5,175**	5,801
TOTAL EQUITY		**482,009**	474,508

(Expressed in millions of Hong Kong dollars)

1. Basis of Preparation and Principal Accounting Policies

(a) Basis of preparation

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The financial information relating to the year ended 30 June 2016 included in this interim results announcement as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those consolidated financial statements. The Company has delivered the consolidated financial statements for the year ended 30 June 2016 to the Registrar of Companies and the Company's auditor has reported on the consolidated financial statements. The auditor's report was unqualified.

(b) Accounting policies

The accounting policies adopted in the condensed consolidated financial statements are consistent with those set out in the annual consolidated financial statements for the year ended 30 June 2016, except for the changes set out below.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards (collectively, "new HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning 1 July 2016.

Amendments to HKFRSs	Annual improvements to HKFRSs 2012-2014 Cycle
Amendments to HKAS 1	Disclosure initiative
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortization
Amendments to HKAS 27	Equity method in separate financial statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: applying the consolidation exception
Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations

The adoption of the above new HKFRSs has had no significant impact on the Group's result and financial position.

2. Segment Information

Segment revenue and results are measured without allocation of central administration costs, other net income, net finance costs and changes in fair value of investment properties, which are reported to the Group's management for the purposes of resource allocation and assessment of segment performance.

An analysis of the revenue and results for the period of the Group and its share of associates and joint ventures by reportable and operating segments is as follows:

For the six months ended 31 December 2016

	The Company and its subsidiaries		Associates and joint ventures			
	Revenue	**Results**	**Share of revenue**	**Share of results**	**Combined revenue**	**Consolidated results**
Property sales						
Hong Kong	**19,206**	**6,663**	**37**	**28**	**19,243**	**6,691**
Mainland China	**4,926**	**1,103**	**1,957**	**541**	**6,883**	**1,644**
Singapore	**-**	**-**	**21**	**10**	**21**	**10**
	24,132	**7,766**	**2,015**	**579**	**26,147**	**8,345**
Property rental						
Hong Kong	**7,201**	**5,477**	**1,442**	**1,192**	**8,643**	**6,669**
Mainland China	**1,664**	**1,309**	**173**	**60**	**1,837**	**1,369**
Singapore	**-**	**-**	**323**	**235**	**323**	**235**
	8,865	**6,786**	**1,938**	**1,487**	**10,803**	**8,273**
Hotel operation	**2,171**	**617**	**358**	**118**	**2,529**	**735**
Telecommunications	**5,372**	**527**	**-**	**-**	**5,372**	**527**
Transport infrastructure and logistics	**1,930**	**610**	**1,613**	**213**	**3,543**	**823**
Other businesses	**3,873**	**842**	**215**	**52**	**4,088**	**894**
	46,343	**17,148**	**6,139**	**2,449**	**52,482**	**19,597**
Other net income		**679**		**-**		**679**
Unallocated administrative expenses		**(618)**		**-**		**(618)**
Operating profit before changes in fair value of investment properties		**17,209**		**2,449**		**19,658**
Increase in fair value of investment properties		**5,079**		**2,058**		**7,137**
Operating profit after changes in fair value of investment properties		**22,288**		**4,507**		**26,795**
Net finance costs		**(924)**		**(187)**		**(1,111)**
Profit before taxation		**21,364**		**4,320**		**25,684**
Taxation						
- Group		**(4,038)**		**-**		**(4,038)**
- Associates		**-**		**(28)**		**(28)**
- Joint ventures		**-**		**(544)**		**(544)**
Profit for the period		**17,326**		**3,748**		**21,074**

For the six months ended 31 December 2015

	The Company and its subsidiaries		Associates and joint ventures			
	Revenue	Results	Share of revenue	Share of results	Combined revenue	Consolidated Results
Property sales						
Hong Kong	6,229	1,687	15	13	6,244	1,700
Mainland China	2,390	724	836	38	3,226	762
Singapore	-	-	24	12	24	12
	8,619	2,411	875	63	9,494	2,474
Property rental						
Hong Kong	6,853	5,209	1,423	1,190	8,276	6,399
Mainland China	1,642	1,255	116	58	1,758	1,313
Singapore	-	-	317	231	317	231
	8,495	6,464	1,856	1,479	10,351	7,943
Hotel operation	2,086	566	359	131	2,445	697
Telecommunications	10,228	587	-	-	10,228	587
Transport infrastructure and logistics	1,861	615	1,573	165	3,434	780
Other businesses	3,613	808	211	30	3,824	838
	34,902	11,451	4,874	1,868	39,776	13,319
Other net income		351		-		351
Unallocated administrative expenses		(610)		-		(610)
Operating profit before changes in fair value of investment properties		11,192		1,868		13,060
Increase in fair value of investment properties		5,388		609		5,997
Operating profit after changes in fair value of investment properties		16,580		2,477		19,057
Net finance costs		(1,034)		(168)		(1,202)
Profit before taxation		15,546		2,309		17,855
Taxation						
- Group		(2,478)		-		(2,478)
- Associates		-		(25)		(25)
- Joint ventures		-		(261)		(261)
Profit for the period		13,068		2,023		15,091

Results from property sales include selling and marketing expenses of HK$264 million (2015: HK$220 million) and HK$11 million (2015: HK$42 million) that relate to pre-sale of property projects in Hong Kong and Mainland China, respectively. The corresponding property sales revenue is recognized in subsequent financial years upon completion.

There is no material change in the Group’s total assets and liabilities since the last annual reporting date.

Other net income includes mainly profit on disposal of subsidiaries, net gain on disposal of investment properties and net investment income from other financial assets.

3. Net Finance Costs

	Six months ended 31 December	
	2016	2015
Interest expenses	**1,241**	1,294
Notional non-cash interest accretion	**19**	29
Less: Amount capitalized	**(205)**	(142)
	1,055	1,181
Interest income on bank deposits	**(131)**	(147)
	924	1,034

4. Profit before Taxation

	Six months ended 31 December	
	2016	2015
Profit before taxation is arrived at		
after charging:		
Cost of properties sold	**14,761**	5,411
Cost of inventories sold	**3,182**	7,926
Depreciation and amortization	**720**	779
Amortization of intangible assets (included in cost of sales)	**242**	224
Operating lease rentals for land and buildings, transmission sites and leased lines	**810**	820
Staff costs (including directors' emoluments and retirement schemes contributions)	**3,647**	3,410
Share-based payments	**3**	2
Fair value losses on financial assets at fair value through profit or loss	**-**	156
and crediting:		
Profit on disposal of available-for-sale investments	**28**	41
Dividend income from listed and unlisted investments	**69**	80
Interest income from listed and unlisted debt securities	**55**	39
Fair value gains on financial assets at fair value through profit or loss	**19**	-

5. Taxation

	Six months ended 31 December	
	2016	2015
Current taxation		
Hong Kong profits tax	**2,224**	1,175
Under provision in prior years	**20**	13
	2,244	1,188
Tax outside Hong Kong	**905**	592
Under/(over) provision in prior years	**16**	(2)
	921	590
	3,165	1,778
Deferred taxation charge		
Change in fair value of investment properties	**628**	433
Other origination and reversal of temporary differences	**245**	267
	873	700
	4,038	2,478

Hong Kong profits tax is provided at the rate of 16.5 per cent (2015: 16.5 per cent) based on the estimated assessable profits for the period. Tax outside Hong Kong is calculated at the rates applicable in the relevant jurisdictions.

6. Earnings per Share

(a) Reported earnings per share

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to the Company's shareholders of HK$20,659 million (2015: HK$14,724 million).

The basic earnings per share is based on the weighted average number of shares in issue during the period of 2,895,308,529 (2015: 2,880,746,555) shares. The diluted earnings per share is based on 2,895,467,095 (2015: 2,885,717,075) shares which is the weighted average number of shares in issue during the period plus the weighted average number of 158,566 (2015: 4,970,520) shares deemed to be issued at no consideration if all outstanding options and warrants had been exercised.

(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 the Company's shareholders of HK$14,608 million (2015: HK$9,298 million), excluding the net effect of changes in the valuation of investment properties. A reconciliation of profit is as follows:

	Six months ended 31 December	
	2016	2015
Profit attributable to the Company's shareholders as shown in the consolidated income statement	**20,659**	14,724
Increase in fair value of investment properties	**(5,079)**	(5,388)
Effect of corresponding deferred tax charges	**628**	433
Fair value gains realized on disposal of investment properties net of deferred tax	**405**	105
Share of results of associates and joint ventures		
- fair value gains of investment properties	**(2,058)**	(609)
- effect of corresponding deferred tax charges	**30**	16
	(6,074)	(5,443)
Non-controlling interests	**23**	17
Net effect of changes in the valuation of investment properties	**(6,051)**	(5,426)
Underlying profit attributable to the Company's shareholders	**14,608**	9,298

7. Debtors, Prepayments and Others

Consideration in respect of sold properties are payable by the purchasers pursuant to the terms of the sale and purchase agreements. Monthly rent in respect of leased properties are payable in advance by the tenants. Other trade debtors settle their accounts according to the payment terms as stated in the respective contracts.

Included in debtors, prepayments and others of the Group are trade debtors of HK$15,174 million (30 June 2016: HK$14,969 million), of which 93% are aged less than 60 days, 1% between 61 to 90 days and 6% more than 90 days (30 June 2016: 94%, 1% and 5% respectively).

8. Trade and Other Payables

Included in trade and other payables of the Group are trade creditors of HK$2,933 million (30 June 2016: HK$2,303 million), of which 78% are aged less than 60 days, 3% between 61 to 90 days and 19% more than 90 days (30 June 2016: 75%, 2% and 23% respectively).

FINANCIAL REVIEW

Review of Operating Results

Underlying profit attributable to the Company's shareholders for the six months ended 31 December 2016, after excluding the net effect of fair value changes in investment properties, was HK$14,608 million, representing an increase of HK$5,310 million or 57.1% compared to HK$9,298 million for the corresponding period last year. The increase was largely due to higher contribution from development profit and rental income.

With the inclusion of the revaluation gains on investment properties, profit attributable to the Company's shareholders for the half year ended 31 December 2016 increased by HK$5,935 million or 40.3% year-on-year to HK$20,659 million. The Group has recognized in the consolidated income statement an increase in fair value of its investment properties (before related deferred taxation and non-controlling interests) of HK$5,079 million (2015: HK$5,388 million) and a share of an increase of HK$2,058 million (2015: HK$609 million) in fair value of investment properties held by its joint ventures and associates.

Profit from property sales for the first half of the financial year, including share of joint ventures and associates, amounted to HK$8,345 million, increased by HK$5,871 million or 237.3% when compared to HK$2,474 million for the same period a year ago. Profit from property sales in Hong Kong amounted to HK$6,691 million, with major contributions from residential units sold in Grand YOHO Phase 1, Park YOHO Venezia and Sicilia, Park Vista, The Wings IIIB and The Cullinan. Property sales in the Mainland delivered a profit of HK$1,644 million, which mainly comprised residential units sold in Shanghai Arch, The Woodland Phase 4D, Jovo Town Phase 2C, and office units sold in Top Plaza East Tower and Guangzhou Commerce Centre. At the end of the reporting period, the Group had contracted property sales of HK$20.2 billion not yet recognized, of which HK$14.2 billion was derived from the presale of residential and office units for Hong Kong development projects including Ocean Wings, Lime Gala, Twin Regency, King's Hill and W668.

The diverse rental portfolio of the Group continued to perform satisfactorily and report healthy growth. Net rental income for the period, including contributions of joint ventures and associates, increased by 4.2% or HK$330 million to HK$8,273 million, primarily driven by positive rental reversions. Net rental income from the Group's rental portfolios in Hong Kong and the Mainland grew by 4.2% and 4.3% to HK$6,669 million and HK$1,369 million respectively over the same period last year.

The Group's hotel operations (including share of joint ventures) recorded an operating profit of HK$735 million for the period, increased by HK$38 million or 5.5% over the same period last year. The improvements reflect benefits materialized from the opening of the new rooftop floors in The Royal Garden and better contributions from The Ritz-Carlton Shanghai, Pudong.

SmarTone reported an operating profit of HK$527 million for the period, a decrease of HK$60 million or 10.2% when compared to the same period last year, reflecting the impacts of intense competition and rising costs. SmarTone will continue its focus on delivering quality services to excel itself among competition.

The Group's transport infrastructure and logistics businesses (including share of joint ventures and associates) continued to improve and contributed an operating profit of HK$823 million for the period, translating into year-on-year increase of HK$43 million or 5.5%.

The Group's other businesses (including share of joint ventures and associates), mainly comprising property management, data centre business of SUNeVision, and department store operation, have been growing steadily with operating profit increased by 6.7% to HK$894 million.

Financial Resources and Liquidity

(a) Capital management, net debt and gearing

The Group has continually maintained a strong capital base with adequate financial resources to support business development and growth. The Group regularly reviews and manages its capital structure to ensure that its financial position remains sound, so that the Group can continue to provide returns to shareholders while maintaining a prudent level of financial leverage.

The Group's financial position remains strong, with total shareholders' equity increased by HK$8.1 billion to HK$476.8 billion or HK$164.7 per share as at 31 December 2016. The increase was mainly attributable to the increase in the Group's underlying retained earnings and revaluation gains from investment properties. The effects of these increases were partially offset by a HK$4.4 billion decrease in exchange reserve mostly arising from translation of the financial statements of subsidiaries and joint ventures in Mainland China with functional currency of Renminbi into the Group's presentation currency at the period-end exchange rate, due to the weakening of Renminbi. As at 31 December 2016, about 19% of the Group's net assets were denominated in Renminbi. All exchange differences resulting from the translation of foreign operations were recorded in the exchange reserve under shareholders' equity, and there was no impact on the Group's earnings.

The Group's strong balance sheet allows it to continue raising long-term financing at competitive rates, thus reducing the overall cost of capital. The Group's financial position remains sound with a low debt leverage and high interest cover. Gearing ratio as at 31 December 2016, calculated on the basis of net debt to shareholders' funds of the Company, was 8.8% compared to 10.8% at 30 June 2016. Interest cover, measured by the ratio of operating profit to total net interest expenses including those capitalized, was 15.5 times compared to 9.7 times for the previous period.

As at 31 December 2016, the Group's gross borrowings totalled HK$75,711 million. Net debt, after deducting bank deposits and cash of HK$33,951 million, amounted to HK$41,760 million, representing a decrease of HK$8,953 million since 30 June 2016. The maturity profile of the Group's gross borrowings is set out as follows:

	31 December 2016	30 June 2016
	HK$ Million	*HK$ Million*
Repayable:		
Within one year	**11,012**	17,486
After one year but within two years	**15,191**	3,642
After two years but within five years	**30,898**	39,452
After five years	**18,610**	20,181
Total bank and other borrowings	**75,711**	80,761
Bank deposits and cash	**33,951**	30,048
Net debt	**41,760**	50,713

The Group has also procured substantial undrawn committed banking facilities, most of which are arranged on a medium to long term basis, to help minimize refinancing risk and strengthen the Group's financing flexibility. The Group regularly reviews its liquidity and financing requirements to ensure that sufficient financial resources are maintained to cover the funding needs.

With ample committed banking facilities in place, continuous cash inflow from property sales and a solid base of recurrent income, the Group has adequate financial resources for its funding requirements and is well positioned to take advantage of investment opportunities when they arise.

(b) Treasury policies

The Group adopts a prudent policy in cash and debt management. The entire Group's financing and treasury activities are centrally managed and controlled at the corporate level. As at 31 December 2016, about 79% of the Group's bank and other borrowings were raised through its wholly-owned finance subsidiaries and the remaining 21% through its operating subsidiaries.

The Group's foreign exchange exposure was small given both its large asset base and operational cash flow are primarily denominated in Hong Kong dollars. As at 31 December 2016, approximately 68% of the Group's total borrowings were denominated in Hong Kong dollars and 18% in US dollars, these were raised for financing the Group's business operations in Hong Kong while the remaining 14% were in Renminbi and for financing the construction cost of property projects on the Mainland. All land acquisition costs for the Mainland projects are financed by capital injection funded by the Group's equity and internally generated funds. The Group is financing the Mainland China's business operations through borrowings denominated in Renminbi to minimize currency risk exposure.

The Group maintained an appropriate combination of fixed and floating rate borrowings to mitigate interest rate risk. As at 31 December 2016, about 63% of the Group's total borrowings were on floating rate basis including those borrowings that were converted from fixed rate basis to floating rate basis through interest rate swaps, and 37% were on fixed rate basis. The use of derivative instruments is strictly controlled and solely for managing the Group's underlying financial exposures for its core business operations. It is the Group's policy not to enter into derivative and structured product transactions for speculative purposes.

As at 31 December 2016, the Group had outstanding fair value hedges in respect of fixed-to-floating interest rate swaps in the aggregate notional principal amount of HK$2,223 million, cash flow hedge in respect of a floating-to-fixed interest rate swap in notional principal amount of HK$146 million, and currency swaps (to hedge principal repayment of foreign currency borrowings) in the aggregate notional principal amount of HK$9,451 million.

As at 31 December 2016, about 66% of the Group's bank deposits and cash were denominated in Hong Kong dollars, 32% in Renminbi, and 2% in US dollars. The Renminbi deposits were held by the Mainland subsidiaries for meeting the funding needs of their Mainland projects.

Charges of Assets

As at 31 December 2016, certain bank deposits of the Group's subsidiaries in the aggregate amount of HK$7 million were pledged for securing guarantees issued by the banks. Additionally, certain assets of the Group's subsidiaries with an aggregate carrying value of HK$2,275 million have been charged as security for bank borrowings. Except for the aforementioned charges, all the Group's assets are free from any encumbrances.

Contingent Liabilities

The Group had contingent liabilities in respect of guarantees for bank borrowings of joint ventures and other guarantees in the aggregate amount of HK$1,291 million (30 June 2016: HK$1,112 million) as at 31 December 2016.

EMOLUMENT POLICY AND LONG-TERM INCENTIVE SCHEMES OF THE GROUP

As at 31 December 2016, the Group employed more than 37,000 employees. The related employees' costs before reimbursements for the six months ended 31 December 2016 amounted to approximately HK$5,087 million. Compensation for the Group is made with reference to the market as well as individual performance and contributions. Extensive use of bonuses to link performance with reward is adopted. The Group also provides a comprehensive benefit package and career development opportunities, including retirement schemes, medical benefits, and both internal and external training appropriate to individual needs. A share option scheme is in place to provide appropriate long-term incentive to the key staff of the Group.

BASIS OF DETERMINING EMOLUMENT TO DIRECTORS

The same remuneration philosophy also applies to the Directors of the Company. Apart from benchmarking against the market, the Company looks at individual competence and contributions and the affordability of the Company in determining the exact level of remuneration for each Director. Appropriate benefits schemes are in place for the Executive Directors, including the share option scheme, which is the same as that offered to other employees of the Group.

INTERIM DIVIDEND

The Board of Directors of the Company (the "Board") has declared an interim dividend of HK$1.10 per share (2015: HK$1.05 per share) for the six months ended 31 December 2016 to the shareholders of the Company (the "Shareholders") whose names appear on the register of members of the Company on Wednesday, 15 March 2017. The interim dividend will be payable in cash on Thursday, 23 March 2017. Shares of the Company will be traded ex-dividend as from Monday, 13 March 2017.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed on Wednesday, 15 March 2017, during which no transfer of shares will be registered. In order to establish entitlements to the interim dividend, Shareholders must lodge all transfer documents accompanied by the relevant share certificates for registration with Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 14 March 2017.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 31 December 2016.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the six months ended 31 December 2016, the Company has complied with the code provisions (the "Code Provisions") of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, except that there is no separation of the roles of chairman and chief executive as required under Code Provision A.2.1. However, the powers and authorities have not been concentrated as all major decisions have been made in consultation with members of the Board and appropriate Board committees, as well as top management. In addition, there are three Non-Executive Directors and seven Independent Non-Executive Directors on the Board offering their experience, expertise, independent advice and views from different perspectives. The Board is therefore of the view that there are adequate balance of power and safeguards in place.

REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim results for the six months ended 31 December 2016 are unaudited, but have been reviewed 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, by Messrs. Deloitte Touche Tohmatsu, whose report on review of condensed consolidated financial statements will be set out in the 2016/17 interim report. The interim results have also been reviewed by the Audit and Risk Management Committee of the Company.

INTERIM REPORT

The 2016/17 interim report containing all the financial and other related information of the Company required by the Listing Rules will be published on the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the website of the Company at www.shkp.com, and printed copies will be sent to the Shareholders before the end of March 2017.

By order of the Board
YUNG Sheung-tat, Sandy
Company Secretary

Hong Kong, 28 February 2017

As at the date hereof, the Board comprises eight Executive Directors, being KWOK Ping-luen, Raymond (Chairman and Managing Director)(KWOK Ho-lai, Edward being his Alternate Director), WONG Chik-wing, Mike (Deputy Managing Director), LUI Ting, Victor (Deputy Managing Director), KWOK Kai-fai, Adam, KWOK Kai-wang, Christopher, KWONG Chun, TUNG Chi-ho, Eric and FUNG Yuk-lun, Allen; three Non-Executive Directors, being LEE Shau-kee (Vice Chairman), WOO Po-shing (WOO Ka-biu, Jackson being his Alternate Director) and KWAN Cheuk-yin, William; and seven Independent Non-Executive Directors, being YIP Dicky Peter, WONG Yue-chim, Richard, LI Ka-cheung, Eric, FUNG Kwok-lun, William, LEUNG Nai-pang, Norman, LEUNG Kui-king, Donald and LEUNG KO May-yee, Margaret.