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)

2017 / 18 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 2017, excluding the effect of fair-value changes on investment properties, amounted to HK$19,973 million, compared to HK$14,608 million for the corresponding period last year. The increase was mainly due to the fact that most of the current financial year's development projects in Hong Kong were completed in the first half of the year. Underlying earnings per share were HK$6.90, compared to HK$5.05 for the same period last year.

Reported profit and reported earnings per share attributable to the Company's shareholders were HK$33,031 million and HK$11.40 respectively, compared to HK$20,659 million and HK$7.14 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$13,181 million, compared to HK$6,456 million for the same period last year.

DIVIDEND

The directors have declared an interim dividend payment of HK$1.20 per share for the six months ended 31 December 2017, an increase of 9% from the corresponding period last year. The dividend will be payable on 22 March 2018.

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$34,583 million. Profit generated from property sales was HK$13,895 million, as compared to HK$8,345 million for the corresponding period last year. This substantial increase was mainly due to the fact that most of the current financial year's development projects in Hong Kong were completed in the first half of the year. The Group recorded contracted sales of HK$28,800 million in attributable terms during the period, as compared to HK$28,600 million for the corresponding period last year. Contracted sales for this financial year so far have already reached about HK$35,000 million.

Rental Income

Gross rental income, including contributions from joint-venture projects, rose 7% year-on-year to HK$11,506 million and net rental income increased by 7% year-on-year to HK$8,891 million during the period. The healthy growth was driven by continuing positive rental reversions, both in Hong Kong and on the mainland, and contributions from new investment properties.

Property Business – Hong Kong

Land Bank

During the period under review, three new projects in Hong Kong with an aggregate gross floor area of about 5.3 million square feet were added to the Group's land bank, including the one in Shap Sz Heung spanning nearly 4.8 million square feet of gross floor area. The Shap Sz Heung project, which involves advance works including road widening and associated infrastructural works carried out by the Group, will be developed into a large residential cluster amid refreshing greenery in phases over a relatively long development cycle. The Group's new acquisitions also include a waterfront hotel site in West Kowloon and a redevelopment project in Wan Chai. Details of the sites are shown in the table below.

Location	**Usage**	**Group's Interest** (%)	**Attributable Gross Floor Area** (square feet)
Tai Po Town Lot No. 157, Shap Sz Heung	Residential/ Shopping Centre	100	4,788,000
New Kowloon Inland Lot No. 6550	Hotel	100	374,000
222-228 Wan Chai Road	Office	92	121,000
Total			**5,283,000**

The above additions brought the Group's development land bank in Hong Kong to 21.4 million square feet. Together with 30.9 million square feet of completed properties for rental and 2.8 million square feet of completed properties pending for sale, the Group's land bank in Hong Kong increased to 55.1 million square feet of attributable gross floor area as at the end of December 2017. In January this year, the Group's subsidiary SUNeVision also acquired an industrial site in Tsuen Wan with a gross floor area of about 202,000 square feet for business expansion.

With its strength in replenishing land bank from a variety of channels, particularly through the conversion of agricultural land, the Group has accomplished a sizeable land bank that is sufficient to meet its development needs of five to six years. It will continue to actively seek opportunities for land acquisition to enable a persistently high level of annual project completion in the long run. Considerable efforts will be made to convert its agricultural land, which amounts to about 29 million square feet in terms of site area, into buildable land. Some parcels are in the advanced stage of land use conversion.

Property Development

In the year 2017, Hong Kong's residential market performed well with first-hand sales setting a new record. Notwithstanding mild increases in HIBOR-based mortgage rates, homebuyers' confidence stayed strong and end-user demand remained solid amid a favourable economic environment.

As a commitment to its long-standing belief in Building Homes with Heart, the Group has aimed to deliver products and services that exceed customer expectations. The Group strives to add value in every part of the product chain, from site acquisition, project design, construction, sales to property management. These efforts have paid off and further strengthened the Group's competitiveness and premium brand name.

The Group's contracted sales in Hong Kong reached about HK$26,500 million in attributable terms during the period. It was mainly contributed by Wings at Sea and Wings at Sea II in Tseung Kwan O, Cullinan West II in West Kowloon and PARK YOHO Genova in Yuen Long. In January 2018, the Group launched St. Barths in Ma On Shan, Babington Hill in Mid-levels West and W212, a boutique industrial development in Tsuen Wan, all with satisfactory sales performance.

During the period, the Group completed five projects in Hong Kong comprising about 3.5 million square feet of attributable gross floor area, nearly 2.5 million square feet of which are residential. The remainder are non-residential premises being kept for long-term investment. The particulars are listed in the following table. In the second half of this financial year, around 300,000 square feet in attributable gross floor area are scheduled for completion, including about 200,000 square feet of residential premises.

Project	Location	Usage	Group's Interest (%)	Attributable Gross Floor Area (square feet)
Cullinan West / Cullinan West II / V Walk	28 Sham Mong Road, West Kowloon	Residential/ Shopping Centre	JV	1,939,000
Ocean Wings / Ocean PopWalk	28 Tong Chun Street, Tseung Kwan O	Residential/ Shopping Centre	100	563,000
Hotel VIC	1 North Point Estate Lane, North Point	Hotel	100	388,000
PARK YOHO Phase 2C	18 Castle Peak Road Tam Mi, Yuen Long	Residential	100	345,000
Two Harbour Square	180 Wai Yip Street, Kwun Tong	Office	64.3	308,000
Total				**3,543,000**

Property Investment

The Group's property investment portfolio in Hong Kong, which totals about 30.9 million square feet of gross floor area and comprises mainly quality office and retail space, continues to grow. During the period, inclusive of contributions from joint-venture projects, gross rental income rose 4% to HK$9,011 million. The increase was driven by new investment properties, positive rental reversions and a high overall occupancy of around 95%.

Retail portfolio

Supported by the improving retail market and complemented by its well-thought-out leasing strategies, the Group has achieved satisfactory performance for its retail portfolio. Covering about 12 million square feet of retail space, the Group's extensive shopping mall network in Hong Kong continued to deliver high occupancies and positive rental reversions.

The recovery of the high-end retail segment has benefitted the Group's shopping malls in traditional tourist precincts. The Sun Arcade deployed effective marketing strategies and recorded robust growth in tenant sales. Capitalizing on increases in domestic consumption, other premium malls such as the IFC Mall, APM and V City performed well with better sales and higher rentals.

The Group continues to expand its premium assets to reinforce the strong foundation of its property investment portfolio. YOHO Mall in Yuen Long, a retail hub with high occupancy, saw its footfall further increase after YOHO Mall I Extension opened in July 2017. The retail extension not only broadens product offerings but also strengthens the YOHO brand in the region. PopWalk 3, the retail space beneath The Wings IIIB residences in Tseung Kwan O South, opened last September and recorded full occupancy. The PopWalk series will better serve the growing population in the neigbhourhood after its final phase, Ocean PopWalk, commences operation at the end of 2018.

V Walk, a large-scale shopping mall beneath the Cullinan West residential development at MTR Nam Cheong Station, is expected to open in mid 2019. Strategically located in a transportation hub, V Walk will be conveniently connected to railway networks both in Hong Kong and on the mainland. The 300,000-square-foot mall is set to become a new landmark in the area, providing customers with a unique retail environment with diverse shopping and dining options. Covering a retail space of 145,000 square feet, Harbour North within the Victoria Harbour residential development will see its first phase open in late 2018. This portion is comprised of 7,000 square feet of street-level shops with a wide range of offerings.

The Group also makes every effort to upgrade its existing retail mall portfolio. At New Town Plaza in Sha Tin, a new cinema in Phase I is planned to open in the summer of 2018 while the renovation of Phase III is progressing well as scheduled. Metroplaza in Kwai Fong has been given a facelift with a reconfigured layout and newly introduced popular brands, bringing a refreshing shopping and dining experience to the locals. The new outdoor thematic piazza offers a series of new features that has turned it into a photo hotspot and a great place for relaxation, significantly increasing the traffic flow.

Following the rapid developments of the new economy and the increasing applications of new technology, the Group has leveraged innovative digital solutions to boost the appeal of physical stores. The recent launch of SHKP Malls mobile app, which is an integrated application, is a prime example. This new app would integrate during 2018 the Group's 26 major malls throughout the territory on a single easy-to-use platform, and offer additional functions to provide more convenient and enhanced shopping experience for customers. The Group also strives to strengthen its engagement with tenants and customers, particularly the millennials, through digital channels in different aspects. These initiatives helped to increase customer satisfaction and loyalty, enabling the Group's retail portfolio to record better sales and outperform the market.

Office portfolio

Hong Kong's office market continues to witness robust demand. With favourable Central Government initiatives such as Bond/Stock Connect and the Greater Bay Area development plan, the prospects for the office leasing market are expected to be promising over the long term. Supported by its premium quality and reputable brand, the Group's 10-million-square-foot office portfolio achieved healthy positive rental reversions with continuously high occupancies.

Renowned for its prestigious location and distinctive quality, the International Finance Centre (IFC) is perceived as one of the most preferred addresses for prominent corporations in Central. Backed by Hong Kong's strength in financial services and favourable market fundamentals such as a low level of office supply and vacancy in core areas, these landmark office buildings are fully let. Potential tenants are still in search of opportunities to conclude leases. During the period, IFC recorded noticeable positive rental reversions.

The International Commerce Centre (ICC) is set to take advantage of the burgeoning development of West Kowloon Cultural District, which has taken another step forward following the gradual completion of Xiqu Centre and the Freespace cultural projects in 2018. The planned opening of Express Rail Link (HK section) this year will expedite border crossing and further advance the flow of people and activities in the area. Such positive factors have further strengthened ICC's position in the prime office market and continued to draw concrete demand from respected international and mainland tenants. Rental growth of the virtually fully let ICC was healthy during the period under review.

The Millennium City continues to attract and retain mid-to-large corporations who preferred offices with large floor plates outside Central. The office cluster has established a diversified tenant base, boosting the resilience of its rental performance, which has been demonstrated by high occupancies and solid positive rental reversions. Meanwhile, the leasing of premium offices at the joint-venture Two Harbour Square in Kwun Tong is progressing well, with tenants moving in during the first half of 2018. The Group's 98 How Ming Street project currently under development is expected to synergize with the Millennium City, both of which are located in a maturing office zone supported by a convenient transportation network. Planning and design of this development is under way. A majority of the floor area will be designated for office use.

The Group continues with its substantial efforts to fulfil its pledge of surpassing customer expectations and further enhance its reputable brand. In addition to the conventional asset enhancement approach, the Group also embraces innovative technology to manage its portfolio. The growing popularity of co-working environment not only poses challenges but also creates opportunities for the office market. With its office space adaptable to different work modes, the Group can capture the rising demand from co-working space operators.

Property Business – Mainland

Land Bank

As at the end of December 2017, the Group held a total land bank of 64.7 million square feet of attributable gross floor area, inclusive of completed properties pending for sale. This portfolio included around 51.0 million square feet of properties under development, about 60% of which are earmarked for developing quality residences. In addition, the Group held over 12.8 million square feet of completed properties for investment use, about 80% of which were signature offices and shopping malls located strategically in first-tier cities such as Shanghai, Beijing and Guangzhou. The Group will adhere to its selective and focused approach to exploring investment opportunities in first-tier cities.

Property Development

The residential markets in first-tier and leading second-tier cities were in a consolidation mode amid various city-specific property measures over the past year, with home prices being effectively reined in and home transactions notably declined.

The Group recorded attributable contracted sales of about RMB2,000 million on the mainland during the period under review. Major contributions came from the wholly-owned residential project Grand Waterfront in Dongguan and several joint-venture projects, including upmarket offices at Top Plaza East Tower and luxury residences at Forest Hills in Guangzhou, as well as quality residences at Long King in Foshan. These projects were all well received by the market.

During the period under review, the Group completed about 1.6 million square feet of attributable gross floor area. The residential units of respective projects were almost sold out. Details of the projects are listed in the following table.

Project	**Location**	**Usage**	**Group's Interest** (%)	**Attributable Gross Floor Area** (square feet)
Park Royale Phase 2A	Huadu, Guangzhou	Residential	100	985,000
Long King Phases 1D & 2A	Chancheng, Foshan	Residential/Shops	50	591,000
Total				**1,576,000**

In the second half of this financial year, about one million square feet of attributable gross floor area are scheduled to be completed, including three luxury residential towers at Forest Hills in Guangzhou and two quality residential towers at Chengdu ICC.

Property Investment

The Group has made significant investments in developing large-scale integrated developments at strategic locations in prime cities on the mainland. The portfolio has continued to generate solid rental income growth over the years. During the period under review, gross rental income from the Group's mainland investment property portfolio, including joint-venture projects, rose by 13% to RMB1,815 million. The meaningful increase was mainly attributed to positive rental reversions and contributions from new investment properties. The scale of the portfolio will nearly double upon completion of another 12 million square feet of quality investment properties in terms of attributable gross floor area in five to six years.

Strategically located at the hub of three existing metro lines and two more lines under planning, the 7.6-million-square-foot ITC in the heart of Xujiahui represents another of the Group's iconic integrated development in Shanghai. The project is being developed in phases; the first phase, One ITC, was completed last year. Spanning 170,000 square feet of gross floor area, the office space at One ITC has attracted reputable multinationals and other quality tenants. The 340,000-square-foot mall at One ITC, which is expected to open in the first half of 2019, will target mainly at millennials. Response to leasing has been encouraging, attracting prospective tenants that include renowned luxury brands. These tenants are believed to bring a refreshing change to the retail landscape of Xujiahui.

Due for completion in the second half of 2018, phase 2 of ITC will provide 320,000 square feet of offices and about 43,000 square feet of retail space. Pre-leasing is currently under way. Construction of the remaining phases, which will feature office towers, shopping malls and a five-star hotel, is progressing on schedule. Two office towers – rising to 370 metres and 220 metres in height respectively – together with a 2.5-million-square-foot mall will stand out from the other structures, representing the crown jewel of the entire development. Upon its full completion by 2023, ITC is expected to give a fresh impetus to the economy of Xujiahui and further strengthen the district’s position as a prominent CBD in Shanghai.

Located in Hexi CBD, Nanjing IFC will enjoy transport convenience due to its connection to the interchange station of two existing metro lines. Targeted to be fully completed in 2020, the wholly-owned integrated project of about 3.4 million square feet of gross floor area will feature two grade-A office towers, a one-million-square-foot upscale mall and a luxury hotel. Construction of the two office towers is progressing on schedule with one of them having been topped out. Housing a number of top-tier international tenants, the premium mall is destined to become a sought-after shopping destination for luxury products, resembling the Shanghai IFC Mall. Pre-leasing for the offices and the shopping centre has commenced. These large-scale integrated developments in the pipeline, particularly ITC in Shanghai, will significantly raise the Group’s future rental income from the mainland upon completion.

Shanghai IFC in Pudong and Shanghai ICC in Puxi continue to excel in the city’s leasing market. The Shanghai IFC Mall achieved remarkable growth in tenant sales with high occupancy during the period under review. The application of multiple technologies for marketing events and customer loyalty programmes has significantly enhanced shoppers’ engagement and experience. The two office towers sitting atop the podium mall are virtually fully let and remain a prestigious business address for leading mainland and multinational financial institutions. Notable growth in rental rates on renewals was recorded during the period. Shanghai IFC will become even more accessible after it is connected to another metro line, which is targeted to open in 2020.

The IAPM mall at Shanghai ICC recorded healthy growth in retail sales and traffic with high occupancy during the period. The luxury and trend-setting image of the mall has been further enhanced through a variety of creative marketing campaigns as well as seamless online-to-offline shopping experience for modern shoppers. One ICC office tower recorded positive rental reversions with high occupancy during the period, and Two ICC is now 95% leased.

The footprint of the Group's retail network on the mainland covers other first-tier cities. In Guangzhou, the joint-venture IGC in Zhujiang New Town is popular for its specialty dining and has recorded an upswing in traffic and sales. The mall enjoys greater accessibility after a walkway linking it to the Liede metro station opened last year. Parc Central in the Tianhe shopping district, another of the Group's joint ventures in the city, continues to attract shoppers with its multi-level parkland features that provide a unique greenery leisure shopping environment. In the capital city, Beijing APM in Wangfujing – a key commercial district – continues to refine its trade mix to further draw young locals and tourists. During the period, the mall registered high occupancy and higher rents for new leases and renewals.

Other Businesses

Hotels

The performance of the Group's hotel portfolio picked up during the period under review. This was mainly attributable to increasing inbound visitors and the management team's effective marketing initiatives. Luxury hotels, including Four Seasons Hotel Hong Kong, achieved satisfactory revenue growth. The overall average occupancy of other premium hotels, including the Royal brand hotels, reached over 95% while room rates increased.

The Group will continue to expand its hotel portfolio in the territory given the promising prospects of Hong Kong as an international business and tourist hub. The city's appeal will be further strengthened by a significant increase in cross-border connectivity such as the opening of the high-speed rail this year. In November 2017, the Group acquired a prime hotel site on West Kowloon waterfront for building a premium avant-garde lodging development with magnificent views of Victoria Harbour. Supported by its unrivalled rail connectivity to CBDs and mainland cities, this project is expected to appeal to both local and overseas guests. The new development will also synergize with the residential towers of Cullinan West and the premium V Walk shopping mall at MTR Nam Cheong Station.

The premium Hotel VIC has been recently completed and is scheduled to commence operations in mid 2018. As part of the Group's integrated development on North Point waterfront, all the guestrooms at Hotel VIC will offer stunning views of Victoria Harbour. This stylish hotel is expected to add a splash of colour to the neighbourhood. Another high-quality hotel in Sha Tin, a sister project of Royal Park Hotel, is planned to open in 2019.

On the mainland, The Ritz-Carlton Shanghai, Pudong upheld its leading position in the deluxe hotel market and registered high occupancy and rising room rates during the period. Featuring a Michelin-starred restaurant and other dining outlets, its food and beverage business also performed well. The upcoming deluxe Four Seasons Hotel in Suzhou near Jinji Lake will be the first Four Seasons hotel in the city. Construction is proceeding on schedule.

Telecommunications and Information Technology

SmarTone

During the period under review, the Hong Kong telecom market remained challenging with intense competition and pressure on pricing. Despite the competition, SmarTone grew its customer base by 10% from a year ago. Core service business remained steady, but declines in handset and roaming businesses, as well as higher spectrum costs, had led to a decline in profitability. SmarTone's strategy continued to focus on building up its loyal customer base through better service and products, and through strong network performance. Standing at the forefront of the industry, the company offers a wide range of enterprise solutions, which not only lead to a healthy growth in revenue of this segment but also pave the way to capture rising business opportunities from the new 5G technology. Moving forward, SmarTone will further invest in 4.5G / 5G technologies to position itself as a leading service provider in Hong Kong. The Group remains confident in SmarTone's prospects and will continue to hold its interest in the company as a long-term investment.

SUNeVision

SUNeVision transferred its listing from the Growth Enterprise Market to the Main Board of The Stock Exchange of Hong Kong Limited on 22 January 2018. This will enhance the company's reputation, attract a wider base of investors and benefit its future growth. During the period under review, the company maintained its growth momentum with its core business in data centre, iAdvantage, continued to achieve promising results. In January this year, a government site in Tsuen Wan was acquired and this is expected to support the company's business growth and enhance its portfolio to attract different customer segments.

As for the company's existing data centres, the MEGA-i data centre in Chai Wan continues to be a prominent connectivity hub in Hong Kong. MEGA Plus, the company's latest development in Tseung Kwan O, represents the first facility in Hong Kong built on dedicated land for data centre usage. It is now in operation, with anchor customers gradually moving in. MEGA Two in Sha Tin has also been completely transformed into a fully dedicated data centre facility. The company is committed to providing superior infrastructure and service to its customers, and achieving sustained profitability.

Infrastructure and Other Businesses

The Group's infrastructure and transport businesses in Hong Kong provide a steady stream of recurring income. Wilson Group achieved satisfactory results during the period, while traffic on the Route 3 (Country Park Section) remained steady. Business at the Hong Kong Business Aviation Centre continued to be supported by good demand, although constraints in flight slots remained a challenge. The Airport Freight Forwarding Centre delivered healthy business growth with support from an improving global air freight market over the past months. The performance of the River Trade Terminal also recorded continuous improvement through enhancements in operational efficiency. YATA further strengthened its market position with two new store openings during the period and a renewed focus on unique Japanese merchandise.

Corporate Finance

A key factor for the Group's long-term success is its prudent financial management. As a commitment to this principle, the Group has consistently maintained a low gearing and high liquidity in order to sustain unforeseen circumstances. As at 31 December 2017, the Group's net debt to shareholders' funds stood at a low 8.5% while its interest coverage achieved a high of over 24 times.

Given this strong financial position, the Group continued to maintain the best credit ratings among local property companies, with A1 rating affirmed by Moody's and A+ by Standard & Poor's, with a stable outlook from both.

The Group continues to extend its debt maturity profile through issuing long-dated bonds under its Medium Term Note Programme. The Group has limited foreign exchange exposure as the majority of its borrowings are denominated in Hong Kong dollars and the remainder mostly in US dollars and Renminbi. As always, the Group has not taken any speculative positions on derivatives or structured products.

Corporate Governance

Maintaining high standards of corporate governance is essential for the long-term growth and sustainability of the Group's businesses.

The Board directs and oversees the Group's overall strategies, backed by a number of Board Committees. The Executive Committee meets regularly and is primarily responsible for formulating business policies and making decisions on key business issues. Chaired by Independent Non-Executive Directors, the Remuneration, the Nomination, and the Audit and Risk Management Committees have been established to ensure proper implementation of the Group's strategies. Adequate internal controls are in place, and effective accountability and timely release of relevant information are all implemented in order to safeguard the interests of the shareholders and the Company.

The Group has received widespread acclaim from the investment community for its exceptional performance in corporate governance. The Group won the top-notch Best Developers, Overall – Global and 13 other honors at the 2017 Real Estate Awards by *Euromoney* magazine. Other recognitions included the Platinum Award at The Asset Corporate Awards from *The Asset* magazine.

Sustainable Development

The Group's spirit of Building Homes with Heart is manifested by a commitment to providing premium products and services and creating long-term value for customers and other stakeholders.

The Group's pioneering first-three-year warranty on new residential units, unrivalled in the industry, underpins its brand reputation with quality excellence. It continues to leverage the SHKP Club for keeping close tabs on customers' preferences and the latest trends in the marketplace.

For employees, the Group treasures both young and veteran staff and ensures that they can give full play to their strength and expertise through continuous learning and professional training. Such caring spirit is extended to the staff's families with a scholarship scheme for children of qualified staff to cover their entire undergraduate studies.

During the period, through its two signature exercise-for-good events, namely the sixth SHKP Vertical Run for Charity and the third Sun Hung Kai Properties Hong Kong Cyclothon, the Group raised substantial public donations with its top-up funding to support needy children and youth. On reading promotion, the SHKP Reading Club launched a free 'linepaper' multimedia platform to encourage reading among young people via online and offline channels.

The Group's latest effort in conservation and environment includes eco-friendly and cost-effective measures for its development projects. An increasing adoption of precast facades represents the benefits of its economy of scale, while reusable aluminum formworks have minimized construction waste. At the community level, the Group organized recycling programmes for materials such as electronic products and unused festive gifts at its managed premises.

PROSPECTS

The world economy will likely continue to show synchronized and broad-based growth in 2018. The US tax cut will underpin the country's economic growth, while the euro zone economy will continue to expand. Nevertheless, uncertainties over the global economy continue to linger. These include the unexpected pace of monetary tapering in the US and other major economies, the volatility in the financial markets and some geopolitical issues.

Buoyed by growing exports, solid consumer spending and a facilitating government policy environment, the mainland will continue to see stable economic expansion with its focus shifting to high-quality growth. In view of the continuous economic development and the government's efforts to build a sustainable housing system for end users, the Group is positive about the long-term prospect of the mainland property market.

The Hong Kong economy is likely to see steady and healthy expansion supported by continuous growth in domestic spending and external demand. It will benefit from increased cross-border connectivity from 2018 onwards, contributed by the commissioning of the high-speed rail and the Hong Kong-Zhuhai-Macao Bridge. Moreover, the Greater Bay Area development plan will bring additional advantages to the local economy over the medium-to-long term. On the back of favourable economic conditions, including positive employment situations, Hong Kong's residential market will continue to perform well, notwithstanding the anticipated modest rises in interest rates.

The Group's rental income is expected to show steady and satisfactory growth, driven by the expansion of its investment property portfolio, high occupancies and positive rental reversions. V Walk in West Kowloon, Hong Kong and the mall at One ITC in Shanghai are planned to open in 2019. In the next three years, rental properties covering about 800,000 square feet of attributable gross floor area are scheduled for completion in Hong Kong, including Harbour North in North Point. On the mainland, the Group's rental properties comprising about 3.8 million square feet of attributable gross floor area are expected to be completed during the same period. Of this, the entire Nanjing IFC development and phase one of the shopping mall at Chengdu ICC are due for completion by 2020.

Between 2021 and 2023, the Group is expected to complete around 2.1 million square feet of investment property in terms of attributable gross floor area in Hong Kong, including the commercial development at 98 How Ming Street. In addition, around 8.1 million square feet of investment property on the mainland are expected to be completed during the same period. This will include the major portion of ITC and the joint-venture TODTOWN, two integrated projects in Shanghai which are planned for full completion in stages by 2023. The developments are expected to further boost the Group's recurrent income significantly over the medium-to-long term.

The Group's development business for sale will continue to perform well with satisfactory development margins. Although the existing land bank enables the Group to achieve a relatively high level of residential completion over the next several years, the Group will continue to seek opportunities for land bank replenishment in Hong Kong through active participation in public tenders and alternative means, including land use conversion, to fulfil its long-term development needs. On the mainland, the Group will adhere to its selective and focused strategy and continue to pursue business opportunities in first-tier cities.

The Group is confident of its performance in property sales during the current financial year. About 40% of residential floor area scheduled for completion in the coming financial year has already been pre-sold. Over the next 10 months, major new projects to be offered for sale in Hong Kong will include Phase 2C of PARK YOHO in Yuen Long, a premium residential development in Pak Shek Kok, Tai Po, and two quality residential projects in Tuen Mun. In addition, units at Victoria Harbour in North Point, Babington Hill in Mid-levels West and the 2.8 million square feet of completed properties pending for sale, including Cullinan West II in West Kowloon, will be put on the market at a gradual pace. The Group's medium-term target for its annual property sales value in Hong Kong is HK$40,000 million. On the mainland, major projects to be put on the market this year will likely comprise quality apartments of joint-venture projects TODTOWN in Shanghai, The Arch Suites in Chengdu and the wholly-owned Grand Waterfront in Dongguan.

The Group is facing a fast-changing operating environment amid recent developments in the new economy and keen competitions in both land and residential sales markets. Nonetheless, with its consistent but flexible business strategies, the Group has taken a proactive approach to turn challenges into opportunities. By making good use of new technology, the Group is able to further raise its overall competitiveness through offering products and services that enhance customer satisfaction and shoppers' experience as well as adopting a more efficient construction process. This, together with a strong balance sheet, seasoned management and a sizeable and growing recurrent income, will enable the Group to continue moving forward and prospering in the years to come.

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

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, 27 February 2018

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 2017 with comparative figures for 2016:-

Consolidated Income Statement
For the six months ended 31 December 2017
(Expressed in millions of Hong Kong dollars)

	Notes	(Unaudited) Six months ended 31 December 2017	2016
Revenue	**2**	**55,166**	46,343
Cost of sales		**(28,479)**	(26,246)
Gross profit		**26,687**	20,097
Other net income		**523**	679
Selling and marketing expenses		**(2,858)**	(2,418)
Administrative expenses		**(1,240)**	(1,149)
Operating profit before changes in fair value of investment properties	**2**	**23,112**	17,209
Increase in fair value of investment properties		**9,716**	5,079
Operating profit after changes in fair value of investment properties		**32,828**	22,288
Finance costs		**(910)**	(1,055)
Finance income		**188**	131
Net finance costs	**3**	**(722)**	(924)
Share of results (including increase in fair value of investment properties net of deferred tax of HK$4,459 million (2016: HK$2,028 million)) of:			
Associates		**434**	234
Joint ventures		**6,033**	3,514
	2	**6,467**	3,748
Profit before taxation	**4**	**38,573**	25,112
Taxation	**5**	**(5,094)**	(4,038)
Profit for the period		**33,479**	21,074
Attributable to:			
Company's shareholders		**33,031**	20,659
Perpetual capital securities holders		**87**	-
Non-controlling interests		**361**	415
		33,479	21,074
(Expressed in Hong Kong dollars)			
Earnings per share based on profit attributable to the Company's shareholders (reported earnings per share)	**6(a)**		
Basic		**$11.40**	$7.14
Diluted		**$11.40**	$7.14
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		**$6.90**	$5.05
Diluted		**$6.90**	$5.05

Consolidated Statement of Comprehensive Income

For the six months ended 31 December 2017

(Expressed in millions of Hong Kong dollars)

	(Unaudited) Six months ended 31 December	
	2017	2016
Profit for the period	**33,479**	21,074
Items that may be reclassified subsequently to profit or loss:		
Translation difference on foreign operations	**3,352**	(3,597)
Cash flow hedge		
- fair value losses recognized during the period	**-**	(1)
- fair value losses transferred to consolidated income statement	**-**	2
	-	1
Available-for-sale investments		
- fair value gains recognized during the period	**27**	60
- fair value gains transferred to consolidated income statement on disposal	**(1)**	(3)
- deferred tax on fair value change	**-**	1
	26	58
Share of other comprehensive income/(loss) of associates and joint ventures	**748**	(973)
Other comprehensive income/(loss) for the period	**4,126**	(4,511)
Total comprehensive income for the period	**37,605**	16,563
Total comprehensive income for the period attributable to:		
Company’s shareholders	**37,051**	16,269
Perpetual capital securities holders	**87**	-
Non-controlling interests	**467**	294
	37,605	16,563

Consolidated Statement of Financial Position
As at 31 December 2017
(Expressed in millions of Hong Kong dollars)

	Notes	**(Unaudited) 31 December 2017**	(Audited) 30 June 2017
Non-current assets			
Investment properties		**354,667**	337,980
Fixed assets		**32,958**	26,977
Associates		**5,135**	4,724
Joint ventures		**63,193**	59,117
Loan receivables		**4,986**	4,981
Other financial assets		**3,206**	3,375
Intangible assets		**5,250**	5,524
		469,395	442,678
Current assets			
Properties for sale		**151,578**	146,409
Inventories		**552**	444
Debtors, prepayments and others	**7**	**25,664**	17,813
Other financial assets		**888**	798
Bank deposits and cash		**31,677**	31,274
		210,359	196,738
Current liabilities			
Bank and other borrowings		**(9,361)**	(5,390)
Trade and other payables	**8**	**(30,624)**	(26,908)
Deposits received on sales of properties		**(6,716)**	(10,458)
Taxation		**(9,310)**	(8,216)
		(56,011)	(50,972)
Net current assets		**154,348**	145,766
Total assets less current liabilities		**623,743**	588,444
Non-current liabilities			
Bank and other borrowings		**(66,975)**	(61,936)
Deferred taxation		**(20,745)**	(18,930)
Other long-term liabilities		**(188)**	(215)
		(87,908)	(81,081)
NET ASSETS		**535,835**	507,363
CAPITAL AND RESERVES			
Share capital		**70,582**	70,516
Reserves		**455,965**	427,699
Shareholders' funds		**526,547**	498,215
Perpetual capital securities		**3,910**	3,910
Non-controlling interests		**5,378**	5,238
TOTAL EQUITY		**535,835**	507,363

Notes to the Condensed Consolidated Financial Statements

(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 2017 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 2017 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 2017, 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 ("HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning 1 July 2017.

Amendments to HKAS 7	Disclosure initiative
Amendments to HKAS 12	Recognition of deferred tax assets for unrealized losses
Amendments to HKFRS 12	As part of the annual improvements to HKFRSs 2014 - 2016 cycle

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements. Additional disclosures about changes in liabilities arising from financing activities on application of amendments to HKAS 7 will be provided in the consolidated financial statements for the year ending 30 June 2018.

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 2017

	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	31,735	12,645	26	26	31,761	12,671
Mainland China	1,697	709	1,125	515	2,822	1,224
	33,432	13,354	1,151	541	34,583	13,895
Property rental						
Hong Kong	7,527	5,733	1,484	1,240	9,011	6,973
Mainland China	1,889	1,505	251	146	2,140	1,651
Singapore	-	-	355	267	355	267
	9,416	7,238	2,090	1,653	11,506	8,891
Hotel operation	2,293	660	445	116	2,738	776
Telecommunications	4,108	453	-	-	4,108	453
Transport infrastructure and logistics	1,981	689	1,738	263	3,719	952
Other businesses	3,936	876	172	34	4,108	910
	55,166	23,270	5,596	2,607	60,762	25,877
Other net income		523		154		677
Unallocated administrative expenses		(681)		-		(681)
Operating profit before changes in fair value of investment properties		23,112		2,761		25,873
Increase in fair value of investment properties		9,716		4,543		14,259
Operating profit after changes in fair value of investment properties		32,828		7,304		40,132
Net finance costs		(722)		(248)		(970)
Profit before taxation		32,106		7,056		39,162
Taxation						
- Group		(5,094)		-		(5,094)
- Associates		-		(33)		(33)
- Joint ventures		-		(556)		(556)
Profit for the period		27,012		6,467		33,479

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

Results from property sales include selling and marketing expenses of HK$236 million (2016: HK$264 million) and HK$46 million (2016: HK$11 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	
	2017	2016
Interest expenses	**1,128**	1,241
Notional non-cash interest accretion	**12**	19
Less: Amount capitalized	**(230)**	(205)
	910	1,055
Interest income on bank deposits	**(188)**	(131)
	722	924

4. Profit before Taxation

	Six months ended 31 December	
	2017	2016
Profit before taxation is arrived at		
after charging:		
Cost of properties sold	**18,074**	14,761
Cost of inventories sold	**2,102**	3,182
Depreciation and amortization	**721**	720
Amortization of intangible assets (included in cost of sales)	**272**	242
Operating lease rentals for land and buildings, transmission sites and leased lines	**818**	810
Staff costs (including directors' emoluments and retirement schemes contributions)	**3,772**	3,647
Share-based payments	**2**	3
and crediting:		
Profit on disposal of available-for-sale investments	**4**	28
Dividend income from listed and unlisted investments	**85**	76
Interest income from debt securities	**43**	48
Fair value gains on financial assets at fair value through profit or loss	**102**	19

5. Taxation

	Six months ended 31 December	
	2017	2016
Current taxation		
Hong Kong profits tax	**3,194**	2,224
Under provision in prior years	**6**	20
	3,200	2,244
Tax outside Hong Kong	**721**	905
(Over)/under provision in prior years	**(3)**	16
	718	921
	3,918	3,165
Deferred taxation charge		
Change in fair value of investment properties	**946**	628
Other origination and reversal of temporary differences	**230**	245
	1,176	873
	5,094	4,038

Hong Kong profits tax is provided at the rate of 16.5 per cent (2016: 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$33,031 million (2016: HK$20,659 million).

The basic earnings per share is based on the weighted average number of shares in issue during the period of 2,896,552,660 (2016: 2,895,308,529) shares. The diluted earnings per share is based on 2,896,748,956 (2016: 2,895,467,095) shares which is the weighted average number of shares in issue during the period plus the weighted average number of 196,296 (2016: 158,566) shares deemed to be issued at no consideration if all outstanding options 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$19,973 million (2016: HK$14,608 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	
	2017	2016
Profit attributable to the Company's shareholders as shown in the consolidated income statement	**33,031**	20,659
Increase in fair value of investment properties		
Subsidiaries	**(9,716)**	(5,079)
Associates	**(44)**	(12)
Joint ventures	**(4,499)**	(2,046)
Effect of corresponding deferred tax charges		
Subsidiaries	**946**	628
Joint ventures	**84**	30
Non-controlling interests	**48**	23
Unrealized fair value gains of investment properties net of deferred tax	**(13,181)**	(6,456)
Fair value gains realized on disposal of investment properties net of deferred tax	**123**	405
Net effect of changes in fair value of investment properties	**(13,058)**	(6,051)
Underlying profit attributable to the Company's shareholders	**19,973**	14,608

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$16,443 million (30 June 2017: HK$9,376 million), of which 92% are aged less than 60 days, 1% between 61 to 90 days and 7% more than 90 days (30 June 2017: 88%, 2% and 10% respectively).

8. Trade and Other Payables

Included in trade and other payables of the Group are trade creditors of HK$3,208 million (30 June 2017: HK$2,320 million), of which 77% are aged less than 60 days, 2% between 61 to 90 days and 21% more than 90 days (30 June 2017: 67%, 5% and 28% respectively).

FINANCIAL REVIEW

Review of Operating Results

Underlying profit attributable to the Company's shareholders was HK$19,973 million for the six months ended 31 December 2017. This has excluded the net effect of fair value changes in investment properties and represents an increase of HK$5,365 million or 36.7% compared to HK$14,608 million for the corresponding period last year. The increase was mainly attributable to increase in Hong Kong property development profit and sustained growth in rental income.

After taking into account the revaluation gains on investment properties, reported profit attributable to the Company's shareholders for the half year ended 31 December 2017 increased by HK$12,372 million or 59.9% year-on-year to HK$33,031 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$9,716 million (2016: HK$5,079 million) and a share of an increase of HK$4,543 million (2016: HK$2,058 million) in fair value of investment properties held by its joint ventures and associates.

Property sales for the first half of the financial year, including share of joint ventures, reported a profit of HK$13,895 million, increased by HK$5,550 million or 66.5% when compared to HK$8,345 million of the same period last year. Profit from property sales in Hong Kong totalled HK$12,671 million, an increase of HK$5,980 million or 89% over the same period in the previous year. The substantial increase in profit recognized for the period was mainly due to the fact that most of the current financial year's development projects in Hong Kong were completed in the first half of the year. Major profit contributions were derived from residential units sold in Cullinan West, Cullinan West II and Ocean Wings. Property sales in the Mainland generated a profit of HK$1,224 million, primarily from sale of residential units in Shanghai Arch, Park Royale Phase 2A, Long King Phases 1D & 2A, and office units sold in Top Plaza East Tower. As at 31 December 2017, the Group had contracted property sales of HK$23.7 billion not yet recognized, of which HK$17.5 billion was derived from the presale of residential units for Hong Kong development projects including Wings at Sea, Wings at Sea II, Lime Gala, Eight Regency and Victoria Harbour.

The Group's diverse rental portfolio continued to deliver satisfactory results and growth. Net rental income for the period, including contributions of joint ventures and associates, increased by 7.5% or HK$618 million to HK$8,891 million on the back of positive rental reversions and contributions from new investment properties. Net rental income from the Group's rental portfolios in Hong Kong and the Mainland grew by 4.6% and 20.6% to HK$6,973 million and HK$1,651 million respectively over the same period last year.

The Group's hotel operations (including share of joint ventures) improved steadily on the strength of increase in visitor arrivals to Hong Kong, led mainly by the growth in overnight visitors, and achieved an operating profit of HK$776 million for the period, increased by HK$41 million or 5.6% over the same period a year ago.

SmarTone reported an operating profit of HK$453 million for the period, a decrease of HK$74 million or 14% when compared to the same period last year. SmarTone will continue its strategy in building up its loyal customer base and position itself as the leading provider of mobile telecommunication services in Hong Kong.

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$952 million for the period, representing a year-on-year increase of HK$129 million or 15.7%.

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 performed satisfactorily with operating profit increased by 2% to HK$910 million.

Financial Resources and Liquidity

(a) Capital management, net debt and gearing

The Group has been maintaining a strong capital base and sufficient 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 keeping financial leverage at a prudent level.

The Group's financial position remains strong, with total shareholders' equity increased by HK$28.3 billion to HK$526.5 billion or HK$181.8 per share as at 31 December 2017. The increase represented mainly the total comprehensive income for the period attributable to the Company's shareholders, as reduced by dividends paid.

The Group's strong balance sheet allows it to continue raising long-term financing at competitive rates, hence 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 2017, calculated on the basis of net debt to shareholders' funds of the Company, was 8.5% compared to 7.2% at 30 June 2017. Interest cover, measured by the ratio of operating profit to total net interest expenses including those capitalized, was 24.6 times compared to 15.5 times for the previous period. During the period, the Group paid land premiums in total sums of HK$19 billion for land acquisitions, including a residential site in Shap Sz Heung and a waterfront hotel site in West Kowloon.

As at 31 December 2017, the Group's gross borrowings totalled HK$76,336 million. Net debt, after deducting bank deposits and cash of HK$31,677 million, amounted to HK$44,659 million, representing an increase of HK$8,607 million since 30 June 2017. The maturity profile of the Group's gross borrowings is set out as follows:

	31 December 2017	30 June 2017
	HK$ Million	*HK$ Million*
Repayable:		
Within one year	**9,361**	5,390
After one year but within two years	**13,032**	10,311
After two years but within five years	**39,530**	39,040
After five years	**14,413**	12,585
Total bank and other borrowings	**76,336**	67,326
Bank deposits and cash	**31,677**	31,274
Net debt	**44,659**	36,052

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 available financial resources are sufficient to support its financing needs. The Group issued senior guaranteed perpetual capital securities of US$500 million in May 2017, which are redeemable on or after 23 May 2020 at the option of the Group. The perpetual capital securities have no maturity date and are accounted for as equity in the financial statements. The issuance has broadened the Group's sources of long-term funding and strengthened its capital structure.

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 2017, about 78% of the Group's bank and other borrowings were raised through its wholly-owned finance subsidiaries and the remaining 22% 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, which is the Group's presentation currency. The Group may borrow in foreign currencies to finance its operations in Hong Kong, which exposes the Group to currency risk. When appropriate, the Group may enter into currency swaps to hedge the currency risks associated with these borrowings. As at 31 December 2017, about 71% of the Group's total borrowings were denominated in Hong Kong dollars (after currency swaps) and 15% 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 in the Mainland. The Group is exposed to currency translation risk arising from translating the financial statements of foreign subsidiaries and joint ventures, which are mostly in Mainland China. Land acquisition costs for the Mainland projects are principally financed by capital injection funded by the Group's equity and internally generated funds. On-going business operations in the Mainland are financed through internal resources and borrowings in Renminbi as natural hedges to minimize the Group's exposure to exchange rate risk. The Group has not entered into foreign currency derivatives to hedge the translation risk exposure of its net investments in Mainland China. As at 31 December 2017, approximately 19% of the Group's net assets were denominated in Renminbi. During the period, the translation of foreign operations into the Group's presentation currency has resulted in an increase of HK$4 billion in the exchange reserve recorded under shareholders' equity.

The Group has insignificant currency risk exposure associated with certain monetary assets and liabilities denominated in foreign currencies. Where feasible and cost effective, the Group may enter into foreign exchange contracts to reduce the currency risk.

The Group maintained an appropriate combination of fixed and floating rate borrowings to mitigate interest rate risk. As at 31 December 2017, about 62% 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 38% were on fixed rate basis.

As at 31 December 2017, the Group has entered into certain interest rate swaps, currency swaps and forward foreign exchange contracts in the aggregate notional amount of HK$15,212 million to manage its interest rate risk and currency risk exposures. 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 2017, about 55% of the Group's bank deposits and cash were denominated in Hong Kong dollars, 35% in Renminbi, and 10% 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 2017, 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$2,025 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

As at 31 December 2017, the Group had contingent liabilities in respect of guarantees for bank borrowings of certain joint ventures and other guarantees in the aggregate amount of HK$1,403 million (30 June 2017: HK$1,504 million).

EMOLUMENT POLICY AND LONG-TERM INCENTIVE SCHEMES OF THE GROUP

As at 31 December 2017, the Group employed close to 37,000 employees. The related employees' costs before reimbursements for the six months ended 31 December 2017 amounted to approximately HK$5,382 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$1.20 per share (2016: HK$1.10 per share) for the six months ended 31 December 2017 to the shareholders of the Company (the "Shareholders") whose names appear on the register of members of the Company on Wednesday, 14 March 2018. The interim dividend will be payable in cash on Thursday, 22 March 2018. Shares of the Company will be traded ex-dividend as from Monday, 12 March 2018.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed on Wednesday, 14 March 2018, 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, 13 March 2018.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 31 December 2017.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the six months ended 31 December 2017, 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 2017 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 2017/18 interim report. The interim results have also been reviewed by the Audit and Risk Management Committee of the Company.

INTERIM REPORT

The 2017/18 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 2018.

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

Hong Kong, 27 February 2018

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.