Hysan 希慎

NEWS RELEASE

To: Business/Property Editor

Date: 7 August 2018
For immediate release

HYSAN DEVELOPMENT COMPANY LIMITED
2018 INTERIM RESULTS

HIGHLIGHTS

- **The opening of Lee Garden Three affirms Hysan's commitment to lifestyle and community**
- **Recovery in retail market and steady office sector boosted 2018 first half performance**
- **Turnover and Recurring Underlying Profit increased year-on-year by 6.8% and 4.3% respectively**
- **Increased Reported Profit reflected changes in fair value of investment properties**
- **Occupancies of Retail and Office portfolios were 96% and 95% respectively**

RESULTS

		Six months ended 30 June		
		2018	2017	
	Notes	**HK$ million**	HK$ million	Change
Turnover	*1*	**1,912**	1,791	+6.8%
Recurring Underlying Profit	*2*	**1,280**	1,227	+4.3%
Underlying Profit	*3*	**1,280**	1,227	+4.3%
Reported Profit	*4*	**3,013**	746	+303.9%
		HK cents	HK cents	
Basic earnings per share, based on:				
Recurring Underlying Profit	*2*	**122.37**	117.37	+4.3%
Underlying Profit	*3*	**122.37**	117.37	+4.3%
Reported Profit	*4*	**288.06**	71.36	+303.7%
First Interim Dividend per share		**27.00**	26.00	+3.8%

		At 30 June 2018	At 31 December 2017	
		HK$ million	HK$ million	
Shareholders' Funds	*5*	**71,807**	69,953	+2.7%
		HK$	HK$	
Net Asset Value per share	*6*	**68.64**	66.89	+2.6%

Notes:

1. ***Turnover*** *comprises rental income and management fee income derived from the Group's investment property portfolio in Hong Kong.*
2. ***Recurring Underlying Profit*** *is a performance indicator of the Group's core property investment business and is arrived at by excluding from Underlying Profit items that are non-recurring in nature.*
3. ***Underlying Profit*** *is arrived at by excluding from Reported Profit unrealised fair value changes on investment properties. As a property investor, the Group's results are principally derived from the rental revenues on its investment properties. The inclusion of the unrealised fair value changes on investment properties in the condensed consolidated statement of profit or loss causes an increase in fluctuation in earnings and poses limitations on the use of the unadjusted earning figures, financial ratios, trends and comparison against prior period(s). Accordingly, unrealised fair value changes on investment properties are excluded in arriving at the Underlying Profit. Refer to note of "Earnings Per Share" for detail reconciliation.*
4. ***Reported Profit*** *is the profit attributable to owners of the Company. It is prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance.*
5. ***Shareholders' Funds*** *is the equity attributable to owners of the Company.*
6. ***Net Asset Value per share*** *represents Shareholders' Funds divided by the number of issued shares at interim period end/year-end.*

HYSAN DEVELOPMENT FIRST HALF 2018
TURNOVER UP 6.8% TO HK$1,912 MILLION

Results

Hysan Development Company Limited (Stock Code: 00014) today (7 August 2018) announced the Group's **turnover** was HK$1,912 million in the first half of 2018, representing a year-on-year increase of 6.8% from HK$1,791 million in the first half of 2017.

Recurring Underlying Profit, the key measurement of our core leasing business performance, and **Underlying Profit**, were both HK$1,280 million (2017: HK$1,227 million for both). These primarily reflected the gradual occupation of the newly completed Lee Garden Three and growth in gross profit of our portfolio.

The Group's **Reported Profit** for the first half of 2018 was HK$3,013 million (2017: HK$746 million). This reflected a fair value gain of HK$1,790 million (2017: fair value loss of HK$775 million) on the Group's investment properties' valuation. As at 30 June 2018, the independent professional valuation of the Group's investment property portfolio was HK$75,436 million (31 December 2017: HK$72,470 million). This reflected a convergence of factors: the recovery of the retail sector, a continued positive outlook on office rentals, and enhanced asset value after a number of upgrade works. The capitalisation rates used in valuing each portfolio remained unchanged from those used as at 31 December 2017.

Shareholders' Funds increased by 2.7% to HK$71,807 million (31 December 2017: HK$69,953 million).

Dividends

A first interim dividend of HK27 cents per share (2017: HK26 cents) was announced. The dividend will be paid in cash. Please see the table for all the relevant dates:

Closure of register of members	Wednesday, 22 August 2018
Ex-dividend date	Monday, 20 August 2018
Latest time to lodge transfer documents	4pm on Tuesday, 21 August 2018
Record date for first interim	Wednesday, 22 August 2018
First interim dividend payment date	On or about Friday, 31 August 2018

Financial Management

Hysan adhered to a policy of financial prudence and maintained a strong financial position.

Low Gearing

- Total Gross Debt: HK$6,026 million (31 Dec 2017: HK$6,176 million)
- Net Debt to Equity: 5.6% (31 Dec 2017: 5.0%)

Stable Debt Profile

- Fixed Rate Debt: 74.3% of the total gross debt (31 Dec 2017: 74.9% of the total gross debt)
- Average Debt Maturity: 3.9 years (31 Dec 2017: 4.3 years)
- Capital Market Issuance: 74.3% (31 Dec 2017: 74.9%)
- Average Cost of Finance: 3.5% (2017: 3.4%)

Strong Credit Rating

- Net Interest Coverage:17.9 times (2017: 19.3 times)
- Moody’s: A3; Standard and Poor’s: BBB+

COMMENTS BY MS. IRENE YUN LIEN LEE, CHAIRMAN

Overview

Hong Kong's economy grew by 4.7% in the first quarter of 2018, largely driven by strong consumer spending. This mainly reflected the public's optimism on the back of a robust labour market as well as a bullish residential property market. Visitor arrivals figures during the first half of 2018 also saw a good recovery, with year-on-year improvement of 10.1%, spearheaded by a 13.4% growth in Mainland visitors' numbers.

With this backdrop, Hong Kong retail sales data showed strong growth of 13.4% during the first half of 2018 as compared to the same period in 2017. For individual categories, jewellery and watches maintained their position as growth leaders. Many other mid-priced to affordable items, including clothing and footwear, consumer durable goods, as well as medicine and cosmetics, also showed signs of recovery.

The changes we launched during the slower times, together with the pick up in market sentiment, have resulted in a satisfactory first half. A fast-changing landscape, driven by economic factors and uncertainties over the past few years saw the retail market, in particular, contract and reposition. We seized the opportunity to re-position our portfolio to adapt to customer behavioural changes which were led by a combination of generational preferences, demographic re-mixes and technological advancements. Our directional changes are paying off. We have seen improved footfall and tenant sales outpacing Hong Kong's general retail sales growth.

Retail

- ***Our natural advantages***

Our concentrated portfolio at Hong Kong Island's commercial heartland has long provided our portfolio with unmatched competitive advantages. Richly endowed with buildings with cutting-edge facilities housing Grade A commercial tenants, to heritage structures tenanted by traditional, generations-old, family-run businesses, Lee Gardens attracts healthy footfall all year round. Locals and visitors alike enjoy this community of contrasts and diversity, set in a vibrant neighbourhood, which provides shopping, dining, working and social experiences that cannot be replicated elsewhere in this city.

The composition of our portfolio's visitors is balanced between one-third tourists, one-third long-time locals, and one-third "New Hong Kong residents", defined as those who have settled in the city due to work or family commitments over the past decade or so. This demographic mix works to our advantage as we do not rely solely on the taste and spending power of one group. Partly through conscious curation and partly through organic growth, our portfolio provides all manner of quality products and services catering to the needs of multi generations of these different groups, 24 hours a day, 7 days a week.

- ***Growing a community, curating its content***

As a landlord and a space manager, we strive to provide unique, fresh, dynamic and sophisticated physical content overlaid with entertainment that cannot be replicated in the online world. Our venues offer opportunities to touch, feel and try on products, which then provide exciting content for the youngsters to communicate and share with friends, online of course, before choices are made. Among other items of enjoyment that cannot be created virtually are good food and drinks. Our brand new Lee Garden Three is host to the first Starbucks Reserve flagship store in Hong Kong. An immersive experience offering specialist teas, coffee-inspired alcoholic beverages, unique handcrafted coffee and delicious food, Starbucks Reserve is set in a glass box overlooking a lush, green canopy of trees on Hysan Avenue. It has already become a must visit lifestyle destination.

We continue to add exciting culinary originals to our portfolio. Lee Garden Three will soon welcome a modern Chinese restaurant offering unique cooking techniques and twists on spices and presentation from Maximal Concepts. In addition, our new building will launch a Belgian café from El Grande Concepts and we welcome back our Seasons restaurant, re-emerging as a fresh, seasonal, casual Italian restaurant. Within the retail portion of our new commercial building are trend-setting furnishing and lifestyle shops as well as top fashion brand I.T's exciting new flagships.

Curating the area's content can take many forms. We presented another successful edition of the Cathay Pacific/HSBC Rugby Sevens Carnival in March and April this year. Building from last year's experience, we harnessed the best elements and expanded the event into three weekends, instead of one, while including the popular Lee Gardens Egglette Festival as part of the Rugby Carnival. We also hosted the Wolfpack Ninjas over two weekends. The obstacle courses created by American sports celebrities attracted hundreds of young athletes, with many more family members visiting the area to cheer them on. The entire Carnival was well supported by our energetic marketing team. Credit card partnerships with HSBC and popular dining and shopping promotions proved to be crowd pleasers.

The lead we are taking in growing the Lee Gardens Association is bearing fruit. The neighbourhood association played a major part in the Rugby Carnival and its related visual arts promotions, enlisting artists to decorate the area with inspiring rugby-themed artwork. In the summer, the Association partnered with Hong Kong Ballet to produce an outdoor spectacle based on the troupe's ALICE (in wonderland) performance. The Association is also strengthening its role as a link between the various Association members. It is introducing exciting concepts to neighbourhood owners, and has produced videos and social media stories to highlight the area as a community and a unique destination.

- ***Building retail brand and image***

Lee Garden Three is the catalyst to reinforce and expand our commitment to modern living. The building achieved provisional Platinum rating under BEAM Plus new buildings offering generous outdoor areas, including a running track and green features. Retail and office tenants are chosen to complement the rest of our Lee Gardens portfolio, with an emphasis on lifestyle content.

To further enhance brand equity both for local customers and Mainland Chinese tourists, we implemented a comprehensive media campaign to drive awareness of Lee Gardens. The campaign secured endorsements from Mainland social media's key opinion leaders as well as from celebrities. We have also been active in bringing our messages to tourists via various digital platforms such as WeChat, Weibo, Baidu and Ctrip, among others. In addition, an in-production drama by Hong Kong's top television network TVB is being filmed primarily within the Lee

Gardens portfolio. In the fourth quarter of 2018, we will be launching tourist booklets in coordination with our tenants, Hong Kong Tourism Board and leading hotels.

- ***Proactive tenant partnerships***

With a focus on a more customer-centric approach, we are making significant efforts to enhance our relationship building and partnering with our valued tenants. We hold regular meetings with our tenants to understand their needs and to propose ways to create win-win situations. Such initiatives include promotions for Rugby Sevens collaborations, Valentine's Day and Mother's Day offers, a Go Green campaign, as well as highly sought after events such as the launch of Starbucks' flagship store, Louis Vuitton launch events, a Nike yoga day, and high jewellery partnership events with major brands like Cartier, BVLGARI and Piaget. Other partnership activities included those with rue Madame, Brunello Cucinelli and ST. JOHN. We have also been successful in growing both our loyalty programmes: Club Avenue for VIPs and Lee Gardens Plus for general shoppers. New club facilities and special members-only events are among the initiatives aimed at further building the reputation of these loyalty programmes. More higher spending members means higher take up of tenants' offers, which in turn drives our tenants' sales performance and importantly, creates a sustainable and loyal clientele for our brands and Lee Gardens.

- ***Driving digital transformation***

We were an early adopter of mobile apps, but the relentless advance of technology in retailing means we must continue to evolve at pace to serve our customers and live up to their expectations. In the first half of 2018, we made final preparations for a number of new IT initiatives, including the improvement of data collection from all touchpoints and the integration of a customer relationship management system to better understand consumer needs. While these will help drive our strategic initiatives more effectively, we have implemented a range of measures to safeguard and secure the data we collect, as part of our commitment to protecting data privacy. We are in the final stages of rolling out an area-wide Wi-Fi system. We also aim to enhance the customer shopping experience by creating a paperless e-coupon system. All these offerings are scheduled to launch in the second half of 2018. Looking ahead, better big data analytics, the adoption of the IoT ("Internet of Things") and wider use of artificial intelligence are among the significant areas we are exploring for our retailing future.

Office

We identified co-working spaces will play a significant part in the global as well as Hong Kong's office scene in the foreseeable future. We are committed to providing a tech-friendly environment where sharing and collaboration are the norm. One of the best-known names in the co-working industry, Spaces, has chosen Lee Garden Three as its flagship. We look forward to Spaces' top quality experiences, which go hand in hand with their attractive design and work ambience. Other comprehensive offerings in this area include community-minded co-work space, theDesk, as well as more traditional business centres like Regus and Compass. These will provide ideal solutions to enhance corporate flexibility and efficiency, as well as networking and social interaction, which in turn will drive potential partnership and relationship building.

Lee Garden Three also welcomes an exciting range of multinational corporations, including renowned international banking institutions. These tenants require the highest standards in both building hardware and software. The building's green and wellness facilities with easy access to the lower floor retail podium which has an original mix of food and beverages and lifestyle shops plus generous car parking facilities, have proven to be the right formula to attract strong interest from retail and office tenants.

The high demand for non-Central core Grade A office space continues, while Central remains the most expensive office address in the world. Causeway Bay's advantage of being only a couple of MTR stops away from Central ensures it remains a top choice for major international corporations, especially those that value good work-life integration for their staff members. Our reputation for creating a quality office community is enhanced by our focus on lifestyle offerings within the portfolio, as well as the events and activities which regularly take place both in our malls and our neighbourhood.

Nurturing A Successful Ecosystem

We made good use of the slower times to make directional changes throughout our portfolio. We will continue to grow a progressive and inclusive retail and office ecosystem that responds to the needs and demands of modern-day users. All our initiatives are supported by a sustainability-minded and community-friendly environment, which will welcome locals and visitors for generations to come.

Outlook

The global economic outlook for the rest of 2018 remains healthy, despite concerns over changes in international trade policies, potential geopolitical upheavals and the prospect of interest rate increases. Hong Kong's economic growth is expected to remain steady.

Hysan continues to curate and grow our portfolio and is committed to building our neighbourhood and community. The Group is focused on the next generation of customers and we have initiated changes both in terms of satisfying their retail needs as well as working environment requirements. The past few years of retail downturn has given Hysan the opportunity to reinvent and reimagine our proposition and to emerge stronger than ever.

Last but not least, our commemoration of nearly a century in Causeway Bay is in full swing. We look forward to celebrating our 95th birthday with our Lee Gardens Community.

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CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the period ended 30 June 2018 (unaudited)

	Notes	Six months ended 30 June 2018 HK$ million	2017 HK$ million
Turnover	4	**1,912**	1,791
Property expenses		**(224)**	(188)
Gross profit		**1,688**	1,603
Investment income		**33**	38
Other gains and losses		**(9)**	-
Administrative expenses		**(108)**	(106)
Finance costs		**(107)**	(75)
Change in fair value of investment properties		**1,790**	(775)
Share of results of associates		**137**	106
Profit before taxation		**3,424**	791
Taxation	6	**(241)**	(243)
Profit for the period	7	**3,183**	548
Profit for the period attributable to:			
Owners of the Company		**3,013**	746
Non-controlling interests		**170**	(198)
		3,183	548
Earnings per share (expressed in HK cents)	8		
Basic		**288.06**	71.36
Diluted		**287.88**	71.34

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended 30 June 2018 (unaudited)

	Six months ended 30 June	
	2018	2017
	HK$ million	HK$ million
Profit for the period	**3,183**	548
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss:		
Gains on revaluation of properties held for own use (net of tax)	**27**	22
Items that may be reclassified subsequently to profit or loss:		
Net adjustments to hedging reserve	**3**	(70)
Share of translation reserve of an associate	**(36)**	108
	(33)	38
Other comprehensive (expenses) income for the period (net of tax)	**(6)**	60
Total comprehensive income for the period	**3,177**	608
Total comprehensive income attributable to:		
Owners of the Company	**3,007**	806
Non-controlling interests	**170**	(198)
	3,177	608

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018 (unaudited)

	Notes	**At 30 June 2018 HK$ million**	At 31 December 2017 HK$ million *(audited)*
Non-current assets			
Investment properties		**75,436**	72,470
Property, plant and equipment		**839**	751
Investments in associates		**3,696**	3,779
Loans to associates		**11**	10
Investment in a joint venture		**147**	147
Loans to a joint venture		**1,026**	982
Fund investment		**151**	21
Term notes		**31**	228
Other financial assets		**1**	2
Other receivables	10	**284**	332
		81,622	78,722
Current assets			
Accounts and other receivables	10	**137**	226
Term notes		**377**	509
Other financial assets		**-**	1
Time deposits		**73**	628
Cash and cash equivalents		**1,931**	2,034
		2,518	3,398
Current liabilities			
Accounts payable and accruals	11	**855**	736
Other financial liabilities		**1**	1
Rental deposits from tenants		**369**	389
Amounts due to non-controlling interests		**223**	327
Borrowings		**300**	150
Taxation payable		**282**	158
		2,030	1,761
Net current assets		**488**	1,637
Total assets less current liabilities		**82,110**	80,359
Non-current liabilities			
Borrowings		**5,729**	6,035
Other financial liabilities		**18**	30
Rental deposits from tenants		**594**	506
Deferred taxation		**808**	787
		7,149	7,358
Net assets		**74,961**	73,001
Capital and reserves			
Share capital		**7,707**	7,692
Reserves		**64,100**	62,261
Equity attributable to owners of the Company		**71,807**	69,953
Non-controlling interests		**3,154**	3,048
Total equity		**74,961**	73,001

Notes:

1. **Independent Review**

The interim results for the six months ended 30 June 2018 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 (the “HKICPA”), by Deloitte Touche Tohmatsu, whose report on review of condensed consolidated financial statements is included in the interim report to be sent to shareholders. The interim results have also been reviewed by the Group’s Audit Committee.

2. **Basis of Preparation**

The unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2018 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the HKICPA.

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

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

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

3. **Principal Accounting Policies**

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as appropriate.

The accounting policies and methods of computations followed in the preparation of the unaudited condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2017, except for the application of all the new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are relevant to its operations and effective for the Group’s financial year beginning on 1 January 2018 as disclosed below.

The adoption of these new and amendments to HKFRSs had no material effect on the results and financial position of the Group and / or disclosures set out in the unaudited condensed consolidated financial statements for the current and / or prior accounting periods.

Changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers"

In the current period, the Group has applied HKFRS 15 for the first time retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations with no material effect on timing and amount of revenues recognised in the condensed consolidated financial statements.

The Group recognises revenue from the following major sources:

- Leasing of investment properties
- Provision of property management services

Revenue from leasing of investment properties will continue to be accounted for in accordance with Hong Kong Accounting Standard 17 "Leases", whereas revenue from the provision of property management services recognised over time will be accounted for under HKFRS15.

HKFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents goods and services (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct goods or services.

Changes and impact in accounting policies of application on HKFRS 9 “Financial Instruments”

Except for the 2010 versions of HKFRS 9 and the new requirements for hedge accounting issued in 2013 that were early adopted by the Group in previous years, the Group has applied the remaining sections of HKFRS 9 and the related consequential amendments to other HKFRSs in the current period, whereas the introduction of new requirements for expected credit losses (“ECL”) for financial assets is relevant to the Group.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the requirements for ECL retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 “Financial Instruments: Recognition and Measurement”.

Changes in accounting policies

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from default events over the expected life of the relevant instrument. In contrast, 12-month ECL (“12m ECL”) represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on both quantitative and qualitative information combined with current conditions and forward-looking analysis. The Group evaluates the financial instruments on a collective basis, taking into account the instrument type, maturity date, and other relevant information with reference to the default rates of the counter parties of the instruments.

For financial assets at amortised cost, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Measurement and recognition of ECL

The measurement of ECL is a function of probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expect to receive, discounted at the discount rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKAS 17 "Leases".

For a financial guarantee contract, the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the expected losses is the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

Interest income is calculated based on the gross carrying amount of the financial assets unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amounts, with the exception of account receivables and term notes where the corresponding adjustment is recognised through a loss allowance account.

For financial guarantee contracts, the loss allowances are recognised at the higher of the amount of the loss allowance determined in accordance with HKFRS 9; and the amount initially recognised less, where appropriate, cumulative amount of income recognised over the guarantee period.

Summary of financial impact arising from initial application of ECL model under HKFRS 9

As at 1 January 2018, the Directors of the Company reviewed and assessed the Group's existing financial assets at amortised cost for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with HKFRS 9.

Loss allowance for financial assets at amortised cost is measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition. At the date of initial application on 1 January 2018, the additional credit loss allowance of approximately HK$6 million has been recognised against retained profits. The additional loss allowance is charged against the respective financial assets.

4. Turnover

Turnover represents gross rental income from leasing of investment properties and management fee income from provision of property management services for the period.

The Group's principal activities are property investment, management and development, and its turnover and results are principally derived from investment properties located in Hong Kong.

5. Segment Information

Based on the internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to segments and to assess their performance, the Group's operating and reportable segments are as follows:

Retail segment – leasing of space and related facilities to a variety of retail and leisure operators

Office segment – leasing of high quality office space and related facilities

Residential segment – leasing of luxury residential properties and related facilities

Property development segment – development and sale of properties

In second half of the financial year 2017, the Group's management began to monitor and review the operation of the Group's joint venture separately from other segments of the Group on a regular basis. Therefore, a separate operating and reportable segment is disclosed as property development. The figures for the six months ended 30 June 2017 have been re-presented accordingly for comparative purpose.

Segment turnover and results

The following is an analysis of the Group's turnover and results by operating and reportable segment.

	Retail HK$ million	Office HK$ million	Residential HK$ million	Property Development HK$ million	Consolidated HK$ million
For the six months ended 30 June 2018 (unaudited)					
Turnover					
Leasing of investment properties	**884**	**724**	**115**	-	**1,723**
Provision of property management service	**78**	**96**	**15**	-	**189**
Segment revenue	**962**	**820**	**130**	-	**1,912**
Property expenses	**(106)**	**(92)**	**(26)**	-	**(224)**
Segment profit	**856**	**728**	**104**	-	**1,688**
Investment income					**33**
Other gains and losses					**(9)**
Administrative expenses					**(108)**
Finance costs					**(107)**
Change in fair value of investment properties					**1,790**
Share of results of associates					**137**
Profit before taxation					**3,424**

	Retail	Office	Residential	Property Development	Consolidated
	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million
For the six months ended 30 June 2017 (unaudited)					
Turnover					
Leasing of investment properties	912	598	120	-	1,630
Provision of property management service	73	74	14	-	161
Segment revenue	985	672	134	-	1,791
Property expenses	(103)	(62)	(23)	-	(188)
Segment profit	882	610	111	-	1,603
Investment income					38
Administrative expenses					(106)
Finance costs					(75)
Change in fair value of investment properties					(775)
Share of results of an associate					106
Profit before taxation					791

All of the segment turnover reported above is from external customers.

Segment profit represents the profit earned by each segment without allocation of investment income, other gains and losses, administrative expenses (including central administration costs and directors' emoluments), finance costs, change in fair value of investment properties and share of results of associates. This is the measure reported to the chief operating decision maker of the Group for the purposes of resource allocation and performance assessment.

Segment assets

The following is an analysis of the Group's assets by operating and reportable segment.

	Retail HK$ million	Office HK$ million	Residential HK$ million	Property Development HK$ million	Consolidated HK$ million
As at 30 June 2018 (unaudited)					
Segment assets	**34,441**	**32,937**	**8,072**	**1,172**	**76,622**
Investments in and loans to associates					**3,707**
Fund investment					**151**
Other assets					**3,660**
Consolidated assets					**84,140**
As at 31 December 2017 (audited)					
Segment assets	33,195	31,325	7,961	1,129	73,610
Investments in and loans to associates					3,789
Fund investment					21
Other assets					4,700
Consolidated assets					82,120

Segment assets represented the investment properties and accounts receivable of each segment and investment in and loans to a joint venture under property development segment without allocation of property, plant and equipment, investments in and loans to associates, fund investment, term notes, other financial assets, other receivables, time deposits, cash and cash equivalents. This is the measure reported to the chief operating decision maker of the Group for the purpose of monitoring segment performances and allocating resources between segments. The investment properties are included in segment assets at their fair values whilst the change in fair value of investment properties is not included in segment profit.

No segment liabilities analysis is presented as the Group's liabilities are monitored on a group basis.

6. Taxation

	Six months ended 30 June	
	2018	2017
	HK$ million	HK$ million
Current tax		
Hong Kong Profits Tax		
- current period	**222**	216
- underprovision in prior periods	**3**	-
	225	216
Deferred tax	**16**	27
	241	243

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods.

7. Profit for The Period

	Six months ended 30 June	
	2018	2017
	HK$ million	HK$ million
Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**9**	12
Gross rental income from investment properties including contingent rentals of HK$54 million (2017: HK$25 million)	**(1,723)**	(1,630)
Staff costs (including directors' emoluments)	**127**	120
Share of income tax of associates (included in share of results of associates)	**60**	46

8. Earnings Per Share

(a) Basic and diluted earnings per share

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	Earnings Six months ended 30 June	
	2018	2017
	HK$ million	HK$ million
Earnings for the purposes of basic and diluted earnings per share:		
Profit for the period attributable to owners of the Company	**3,013**	746

	Number of shares Six months ended 30 June	
	2018	2017
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,045,976,162**	1,045,374,861
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	**642,092**	282,061
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,046,618,254**	1,045,656,922

In both periods, the computation of diluted earnings per share does not assume the exercise of certain of the Company's outstanding share options as the exercise prices of those options were higher than the average market price for shares.

(b) Adjusted basic and diluted earnings per share

For the purpose of assessing the performance of the Group's principal activities (i.e. leasing of investment properties), the management is of the view that the profit for the period attributable to the owners of the Company should be adjusted in the calculation of basic and diluted earnings per share as follows:

For the six month ended 30 June 2018 (unaudited)

	Profit HK$ million	**Basic earnings per share** HK cents	**Diluted earnings per share** HK cents
Profit for the period attributable to owners of the Company	**3,013**	**288.06**	**287.88**
Change in fair value of investment properties	**(1,790)**	**(171.14)**	**(171.03)**
Effect of non-controlling interests' shares	**95**	**9.08**	**9.08**
Share of change in fair value of investment properties (net of deferred taxation) of associates	**(33)**	**(3.15)**	**(3.15)**
Imputed interest income on interest-free loan to a joint venture	**(14)**	**(1.34)**	**(1.34)**
Other gains and losses	**9**	**0.86**	**0.86**
Underlying Profit	**1,280**	**122.37**	**122.30**
Recurring Underlying Profit	**1,280**	**122.37**	**122.30**

For the six month ended 30 June 2017 (unaudited)

	Profit HK$ million	Basic earnings per share HK cents	Diluted earnings per share HK cents
Profit for the period attributable to owners of the Company	746	71.36	71.34
Change in fair value of investment properties	775	74.13	74.12
Effect of non-controlling interests' shares	(280)	(26.78)	(26.78)
Share of change in fair value of investment properties (net of deferred taxation) of associates	(1)	(0.10)	(0.10)
Imputed interest income on interest-free loan to a joint venture	(13)	(1.24)	(1.24)
Underlying Profit	1,227	117.37	117.34
Recurring Underlying Profit	1,227	117.37	117.34

Notes:

(i) Recurring Underlying Profit is arrived at by excluding from Underlying Profit items that are non-recurring in nature. As there were no such adjustments in both the six months ended 30 June 2018 and 30 June 2017, the Recurring Underlying Profit is the same as the Underlying Profit.

(ii) The denominators used in calculating the adjusted basic and diluted earnings per share are the same as those detailed above for basic and diluted earnings per share.

9. Dividends

(a) Dividends recognised as distribution during the period:

	Six months ended 30 June	
	2018	2017
	HK$ million	HK$ million
2017 second interim dividend paid – HK111 cents per share	**1,161**	-
2016 second interim dividend paid – HK109 cents per share	-	1,139
	1,161	1,139

(b) Dividends declared after the end of the reporting period:

	Six months ended 30 June	
	2018	2017
	HK$ million	HK$ million
First interim dividend - HK27 cents per share (2017: HK26 cents per share)	**283**	272

The declared 2018 first interim dividend has not been recognised as a liability at the end of the reporting period and will be payable in cash.

10. Accounts and Other Receivables

	At 30 June 2018	At 31 December 2017
	HK$ million	HK$ million
Accounts receivable	**15**	11
Interest receivable	**42**	44
Prepayments in respect of investment properties	**122**	283
Other receivables and prepayments	**242**	220
Total	**421**	558
Analysed for reporting purposes as:		
Current assets	**137**	226
Non-current assets	**284**	332
	421	558

Rents from leasing of investment properties are normally received in advance. At 30 June 2018, accounts receivable of the Group with carrying amount of HK$15 million (31 December 2017: HK$11 million) mainly represented rental receipts in arrears, which were aged less than 90 days.

11. Accounts Payable and Accruals

	At 30 June 2018 HK$ million	At 31 December 2017 HK$ million
Accounts payable	**204**	215
Interest payable	**87**	74
Other payables	**564**	447
	855	736

At 30 June 2018, accounts payable of the Group with carrying amount of HK$118 million (31 December 2017: HK$157 million) were aged less than 90 days.