恒 隆 地 產 有 限 公 司
HANG LUNG PROPERTIES LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00101)

2016 ANNUAL RESULTS

恒 隆 地 產
HANG LUNG PROPERTIES

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FINANCIAL HIGHLIGHTS

in HK$ Million (unless otherwise stated)

RESULTS

	2016	2015	Change
Revenue	**13,059**	8,948	46%
Property Leasing	**7,737**	7,751	-
Property Sales	**5,322**	1,197	345%
Operating Profit	**8,919**	6,548	36%
Property Leasing	**5,710**	5,704	-
Property Sales	**3,209**	844	280%
Net Profit Attributable to Shareholders	**6,195**	5,092	22%
Earnings Per Share (HK$)	**$1.38**	$1.13	22%
Dividends Per Share (HK$)	**$0.75**	$0.75	-
Interim (Paid)	**$0.17**	$0.17	-
Final (Proposed)	**$0.58**	$0.58	-

UNDERLYING RESULTS

	2016	2015	Change
Underlying Net Profit Attributable to Shareholders	**6,341**	4,387	45%
Underlying Earnings Per Share (HK$)	**$1.41**	$0.98	44%

FINANCIAL POSITION

	At December 31		
	2016	2015	Change
Shareholders' Equity	**126,565**	128,989	-2%
Net Assets	**132,145**	134,892	-2%
Net Debt	**2,757**	1,482	86%
Financial Ratio			
Net Debt to Equity Ratio	**2.1%**	1.1%	1.0pt
Debt to Equity Ratio	**20.5%**	24.3%	-3.8pts
Shareholders' Equity Per Share (HK$)	**$28.1**	$28.7	-2%
Net Assets Per Share (HK$)	**$29.4**	$30.0	-2%

REVIEW OF OPERATIONS

CONSOLIDATED RESULTS

For the financial year ended December 31, 2016, total revenue of Hang Lung Properties Limited and its subsidiaries (collectively known as "Hang Lung Properties") increased 46% to HK$13,059 million attributable to higher property sales. Property sales revenue surged 345% to HK$5,322 million as more residential units were sold during 2016. Revenue of property leasing was flat at HK$7,737 million, or up 3% if excluding the 6% year-on-year Renminbi (RMB) depreciation against the Hong Kong Dollar (HKD). Total operating profit advanced 36% to HK$8,919 million.

Underlying net profit attributable to shareholders increased 45% to HK$6,341 million. After including a revaluation loss on investment properties, net profit attributable to shareholders increased 22% to HK$6,195 million. Earnings per share increased similarly to HK$1.38.

Revenue and Operating Profit

	Revenue			**Operating Profit**		
	2016	2015	Change	**2016**	2015	Change
	HK$ Million	HK$ Million		**HK$ Million**	HK$ Million	
Property Leasing	**7,737**	7,751	-	**5,710**	5,704	-
Mainland China	**3,995**	4,194	-5%	**2,514**	2,715	-7%
Hong Kong	**3,742**	3,557	5%	**3,196**	2,989	7%
Property Sales	**5,322**	1,197	345%	**3,209**	844	280%
Total	**13,059**	8,948	46%	**8,919**	6,548	36%

DIVIDEND

The Board of Directors has recommended a final dividend of HK58 cents per share for 2016 (2015: HK58 cents) to be paid by cash on May 18, 2017, to shareholders whose names appeared on the register of members on May 5, 2017. Together with an interim dividend of HK17 cents per share (2015: HK17 cents), the full year dividends for 2016 amounted to HK75 cents per share (2015: HK75 cents).

PROPERTY LEASING

Hong Kong and the Mainland have undergone a period of market correction and shifting consumer demand in 2016. Store closures, vacancies and delayed openings by major brands were commonplace even in major shopping districts in Hong Kong and Tier 1 cities on the Mainland.

In Hong Kong, gross domestic product (GDP) growth for full year 2016 is now forecast at 1.5%. Retail sales have fallen for almost two years. The first 11 months of 2016 posted an average drop in sales of 8.6% year-on-year. Mainland tourists have been spending overseas and arrivals in Hong Kong have shrunk by 7.8% over January to November 2016.

On the Mainland, the GDP growth for 2016 was 6.7% which was lower than previous years. In the retail sector, the correction to over-expansion continued, resulting in delayed mall openings and high vacancy rates in newly opened shopping centers.

Facing these challenges, we continued our focus on tenant reshuffling to enhance our mall positioning and optimize rental yield, upgrading our facilities and service standards to enhance customer experience and loyalty, launching creative and effective promotion campaigns, and implementing various cost control measures, etc.

On May 1, 2016, the final phase of the transition from the Business Tax to Value Added Tax (VAT) regime in mainland China took effect and became applicable to the real estate sector, among other industries. We took appropriate measures to implement the new tax regime accordingly.

For the financial year ended December 31, 2016, total revenue from our leasing properties stayed flat at HK$7,737 million, or up 3% when excluding the 6% RMB depreciation effect during 2016. The Hong Kong leasing portfolio recorded a rental growth of 5%, mainly benefitting from asset enhancement initiatives and tenant mix optimization. Revenue of our investment properties in mainland China, accounted for 52% of total leasing revenue, recorded a moderate growth of 1% in RMB terms, mainly attributable to contributions from new properties in Dalian and Shenyang.

Total operating profit was flat at HK$5,710 million. Overall rental margin was 74%.

Mainland China

Revenue of the entire mainland China portfolio increased 1% to RMB3,416 million, mainly driven by contribution from the new Dalian Olympia 66 mall and higher revenue from the Shenyang Forum 66 office tower. Operating profit decreased 1% to RMB2,149 million, and margin fell two points to 63% due to lower profitability of new properties during start-up period.

Mainland China Property Leasing Portfolio

Name and City of the Property	Revenue (RMB Million)			Occupancy Rate at Year-end 2016	
	2016	2015	Change	Mall	Office
Shanghai Plaza 66	**1,305**	1,341	-3%	93%	95%
Shanghai Grand Gateway 66	**974**	960	1%	96%	N/A
Shenyang Palace 66	**142**	137	4%	93%	N/A
Shenyang Forum 66	**230**	227	1%	84%	58%
Jinan Parc 66	**262**	269	-3%	91%	N/A
Wuxi Center 66	**224**	237	-5%	80%	65%
Tianjin Riverside 66	**191**	193	-1%	82%	N/A
Dalian Olympia 66*	**88**	4	N/A	66%	N/A
Total	**3,416**	3,368	1%		
Total in HK$ Million equivalent	***3,995***	*4,194*	*-5%*		

* Grand opening on September 9, 2016.

- *Shopping Malls*

Revenue of the entire shopping mall portfolio in mainland China stayed flat at RMB2,633 million. The contribution from the new Dalian Olympia 66 mall was offset by rental interruption at the Shanghai Plaza 66 mall due to renovation works and negative rental reversions at some malls outside Shanghai.

The Shanghai Plaza 66 mall recorded a 5% decrease in rental income to RMB678 million mainly because of the closure of the basement for renovation. When excluding the renovation areas, rental income of the rest of the mall advanced 6% on a like-for-like basis. The Plaza 66 mall has been in operation since 2001. This major asset enhancement program was carefully planned, taking the opportunity of an economic down cycle to minimize the adverse impact on income and profit. In the final phase of the mall's renovation, the entire basement at the Plaza 66 mall representing over 13% of the leasable area of the mall was closed from March 2016. The works were largely completed and some tenants have already commenced fitting out works. The almost fully leased brand new basement will re-open for business in early 2017. Because of the renovation, occupancy rate of the Plaza 66 mall decreased four points to 93% by the end of 2016.

Benefitting from positive rental reversions, rental revenue of the Shanghai Grand Gateway 66 mall recorded a moderate growth of 1% to RMB974 million. The Grand Gateway 66 mall also commenced its major renovation in the last quarter of 2016. About 28% of the leasable area of the mall will be closed in phases in 2017. Correspondingly, some leases were renewed on a short-term basis and a small number of leases were not renewed pending the imminent commencement of renovation. As a result, the occupancy rate of the shopping mall at Shanghai Grand Gateway 66 decreased by one point to 96%, compared to a year ago. While the asset enhancement program will mean a short-term disruption of revenue, it will enhance the mall's long-term competitiveness and profitability.

Revenue of our six shopping malls outside Shanghai increased 1% to RMB981 million. In a challenging environment, the performance of Shenyang Palace 66 remained resilient and recorded a 4% growth in revenue over a year ago. Occupancy rate of the mall increased three points to 93% by the end of 2016.

Amidst tenant reshuffling, revenue of Jinan Parc 66 and Tianjin Riverside 66 decreased 3% and 1%, respectively. Occupancy of Jinan Parc 66 increased three points to 91% by the end of 2016. The improvement was consistent with the strategy of a gradual tenant upgrade, led by the grand opening of the first Apple Store in Jinan at Parc 66 in May 2016. Apple also chose Tianjin Riverside 66 as the home of its first flagship store in mainland China designed by Norman Foster, the world renowned architect. The store opened in March 2016. By the end of 2016, occupancy rate of the Riverside 66 mall was down four points to 82%.

The malls at Shenyang Forum 66 and Wuxi Center 66 were severely hit by sluggish retail market sentiment. These two malls, housing a relatively large number of high-end tenants, suffered from non-renewals and early terminations and had to make some downward adjustments to rents. Their aggregated revenue dropped by 18% when compared with last year. Occupancy of the Forum 66 mall retreated by three points to 84%. With more new leases concluded in the second half, occupancy rate of the Center 66 mall improved eight points to 80% at year-end date.

Nevertheless, with the increasing popularity of their Grade A office towers and continuing efforts on reshuffling of tenants, it is expected that the performance of both malls will improve over time.

The grand opening of our new mall, Olympia 66 in Dalian, took place on September 9, 2016. Occupancy increased to 66% by the end of 2016, with a lively tenant mix including Apple Store, Coach, Moschino, Palace Cinema, Olé supermarket and up-market fashion retailers like H&M and UNIQLO.

- *Offices*

The office portfolio in mainland China posted a 7% rental growth to RMB783 million, mainly attributable to contributions from the new office towers in Wuxi and Shenyang.

Revenue of the two office towers at Shanghai Plaza 66 was flat at RMB627 million. Occupancy rate slipped three points to 95% due to a transitional void. The enhancement works for Office Tower One at Plaza 66 were almost completed during the year. A similar program for Office Tower Two also commenced in the fourth quarter of 2016. The whole upgrade program will be completed in phases by 2018. It is expected that the remaining enhancement works will not have much adverse impact on the revenue at Plaza 66.

Total revenue of the Grade A office towers at Wuxi Center 66 and Shenyang Forum 66 increased 58% to RMB156 million. During the year, we took the opportunity of lease terminations of certain peer-to-peer (P2P) tenants in the financial and IT sectors to replace them with top-quality major corporations and financial institutions. To name a few, UBS took up two whole floors of the Wuxi Center 66 office tower while Bank of China occupied six whole floors of the Shenyang Forum 66 office tower. Meanwhile, the conversion of the upper 19 floors of the Forum 66 office tower into a Conrad Hotel with 315 rooms and suites is progressing well. Leasing inquiries at both office towers remained strong. We are confident that they will assume a leading position in their respective markets in future.

Hong Kong

Despite a slower economic growth and sliding retail sales, revenue and operating profit of our Hong Kong leasing portfolio increased 5% and 7% to HK$3,742 million and HK$3,196 million, respectively. Overall rental margin was 85%.

Hong Kong Property Leasing Portfolio

	Revenue (HK$ Million)			Occupancy Rate at Year-end 2016
	2016	2015	Change	
Commercial	**2,255**	2,072	9%	96%
Office and Industrial / Offices	**1,199**	1,171	2%	91%
Residential & Serviced Apartments	**288**	314	-8%	76%
Total	**3,742**	3,557	5%	

- *Commercial*

The Hong Kong commercial portfolio achieved a 9% rental growth to HK$2,255 million as the benefits of completed asset enhancement programs continued to flow through. Overall occupancy by the end of 2016 was 96%.

Rental revenue of the Causeway Bay portfolio advanced 12%. Our properties situated on the four vibrant streets in the heart of Causeway Bay, namely, Great George Street, Paterson Street, Cleveland Street and Kingston Street, present an attractive cluster of fashion, dining and lifestyle offerings. In May 2016, adidas opened a 14,500 square feet sports performance flagship store at Hang Lung Centre, combining shopping with a training experience for sports lovers. Taken together with the 4-story flagship store of H&M opened in October 2015, Hang Lung Centre is now a dynamic hub for fashion and sporting trend-setters. Maje, Sandro, MO&Co., Reebok Classic and Fjällräven, etc., were added to the array of brands at Fashion Walk during the year. The opening of the renowned stylish New York patisserie, Lady M's Hong Kong flagship, in June 2016 further increased the popularity of the Food Street at Fashion Walk.

Benefitting from rental reversions that resulted from completion of the asset enhancement program at Gala Place, revenue of our Mongkok portfolio increased 21% year-on-year. In January 2016, H&M unveiled its 54,000 square feet full concept flagship store at Gala Place. Together with the opening of the largest single floor concept store of Starbucks in Hong Kong in December 2015, Gala Place is now a fashionable regional destination. In light of decreasing numbers of visitors from mainland China, the performance of our jewelry and watch tenants at Grand Plaza was adversely affected. Their sales fell by about 27% on average. Our food & beverage tenants at Grand Plaza were more resilient in the face of the current economic climate. Their sales improved by 16%.

Kornhill Plaza in Hong Kong East collected 6% more in rents, mainly attributable to positive rental reversions. Its major tenant, AEON STYLE, executed a major refurbishment in the second quarter of 2016 and re-opened in July. More quality tenants have also been introduced to this regional mall during the year, further raising its profile.

Revenue of Amoy Plaza advanced 5%. More efforts were made to improve the zoning and enrich the offerings of this mall in Kowloon East, including a sports zone and a beauty zone featuring a variety of trendy brands.

Our Central commercial portfolio recorded a moderate rental growth amidst a subdued retail climate. Overall occupancy at the year-end was 87%.

We will continue our efforts to upgrade various properties progressively. The renovation of The Peak Galleria will commence in the first quarter of 2017. The entire asset enhancement program will take about three years and will be completed in phases by 2019. The tenant mix of the Fashion Walk lifestyle zone located in Cleveland Street in Causeway Bay will be further enhanced in 2017. Correspondingly, there will be a short-term disruption to revenue of these two properties during the renovation. However, these programs will, upon completion, provide an impetus to long-term rental growth while enhancing the charm of The Peak as a major attraction of Hong Kong.

- *Offices*

The Hong Kong office portfolio recorded a stable rental growth of 2% to HK$1,199 million, mainly contributed by positive rental reversions. Hang Lung Centre in Causeway Bay, in which the lift lobby and car parking spaces were upgraded during the year, achieved a 5% rental growth. The Central office portfolio collected 2% more in rents. Revenue of the Mongkok offices slipped 1% year-on-year. Overall occupancy rate decreased four points to 91% largely due to a transitional void arising from some recent lease expiries.

- *Residential and Serviced Apartments*

Revenue of residential and serviced apartments decreased 8% to HK$288 million due to lower occupancy rates. Demand for the luxury apartments at The Summit remained soft as housing allowances of corporate clients remained tight. Kornhill Apartments faced keen competition from hotels, which offered deep discounts in response to the decreasing number of visitors from mainland China.

PROPERTY SALES

As more residential units were sold during 2016, revenue from property sales surged 345% to HK$5,322 million. Correspondingly, profit from property sales increased 280% to HK$3,209 million. Overall profit margin realized was 60%. The sales comprised 436 units of The Long Beach flats (2015: 36 units), two semi-detached houses at 23-39 Blue Pool Road (2015: Nil), one duplex at The HarbourSide (2015: 10 typical units) and the last two apartments of Carmel-on-the-Hill (2015: Nil).

As at December 31, 2016, the book cost of the residential properties available for sale was HK$2,352 million. The inventory included 16 semi-detached houses at Blue Pool Road, 236 units of The Long Beach and one duplex of The HarbourSide.

PROPERTY REVALUATION

The total value of our investment properties amounted to HK$125,421 million as at December 31, 2016, which comprised the value of the Hong Kong portfolio and the mainland China portfolio of HK$58,314 million and HK$67,107 million, respectively. Our investment properties were revalued by Savills, an independent valuer, as at December 31, 2016.

An overall revaluation loss of HK$286 million was recorded in 2016, compared to a gain of HK$631 million in 2015. The mainland China portfolio had a revaluation loss of HK$809 million mainly due to lower valuation of the malls at Forum 66 in Shenyang and Center 66 in Wuxi. The Hong Kong portfolio recorded a revaluation gain of HK$523 million, of which HK$340 million was attributable to the revaluation gain of some car parking spaces which were previously held as properties for sale and stated as costs. With the change of intention of holding those car parking spaces from properties for sale to investment properties, it was necessary to revalue them in accordance with the accounting rules.

PROPERTY DEVELOPMENT AND CAPITAL COMMITMENT

The aggregated value of the investment properties under development was HK$16,160 million. They comprised mainland China projects in Kunming, Wuhan and the remaining phases of the developments in Shenyang and Wuxi. The portfolio consists of shopping malls, office towers and serviced apartments.

The foundation work of the second office tower at Wuxi Center 66 is in progress and the main contractor work will be awarded in the first half of 2017. The Center 66 Office Tower 2 with a gross floor area of 56,000 square meters will be built above the southeastern part of the Center 66 mall. The construction work is expected to be completed in 2019.

The construction work of Kunming Spring City 66 is progressing as planned. Total gross floor area of the entire complex is 434,000 square meters, comprising a world-class shopping center, a Grade A office tower, serviced apartments and car parking spaces. The shopping mall of Spring City 66 is scheduled to open at end of 2018.

Wuhan Heartland 66, covering a total gross floor area of 460,000 square meters, is a prestigious commercial project which will house a shopping mall of 177,000 square meters, a Grade A office tower, serviced apartments and car parking spaces. This project is scheduled for completion, in stages, from 2019 onwards.

In July 2016, the conversion of the upper 19 floors of the 67-story Grade A office tower at Shenyang Forum 66 into a hotel was officially approved. Under the esteemed Conrad brand, this five-star hotel is expected to open in 2019 and will have 315 exquisitely appointed guest rooms and suites. The addition of a five-star hotel will complement our vision of the Forum 66 as the destination of choice for high-end shopping, entertainment, business and hospitality experiences in Shenyang.

These projects represented the majority of Hang Lung Properties' capital commitments at the reporting date, amounting to HK$37 billion. They will be completed in phases over many years and Hang Lung Properties has ample financial resources to meet those commitments.

LIQUIDITY AND FINANCIAL RESOURCES

Hang Lung Properties centrally manages liquidity and financial resources. The aims are to maintain an appropriate degree of liquidity and ample financial resources to meet foreseeable funding needs. Multiple channels of debt finance have also been established to seize new investment opportunities and to provide a buffer for meeting other unexpected circumstances. All related risks, including debt management, foreign exchange exposure, and interest rates volatility are centrally controlled and managed by the group treasury.

- *Liquidity Management*

The cash flow position and funding needs are closely monitored to ensure that Hang Lung Properties has a good degree of flexibility and liquidity to meet operational requirements and seize investment opportunities. This is achieved by keeping sufficient cash resources, having adequate undrawn committed banking facilities available, and maintaining the Medium Term Note (MTN) Program for bond issuance.

As at December 31, 2016, Hang Lung Properties had total cash and bank balances of HK$24,325 million (December 31, 2015: HK$31,289 million). All the deposits are placed with banks with strong credit ratings and the counterparty risk is monitored on a regular basis. About 88% of the liquid funds were held as RMB bank deposits, as a natural hedge for meeting future construction payments of projects under development in mainland China.

The currencies of cash and bank balances at the year-end date were as follows:

	At December 31, 2016		At December 31, 2015	
	HK$ Million	*% of Total*	HK$ Million	*% of Total*
Denominated in:				
RMB	**21,499**	*88.4%*	30,102	*96.2%*
HKD	**2,821**	*11.6%*	1,181	*3.8%*
USD	**5**	-	6	-
Total cash and bank balances	**24,325**	*100%*	31,289	*100%*

As at December 31, 2016, the available amount of undrawn committed banking facilities and the undrawn balance of the USD3 billion MTN Program were HK$8,852 million and HK$10,523 million, respectively.

- *Debt Management*

Hang Lung Properties manages the debt portfolio with a focus on mitigating the re-financing and interest rate risks. These risks are well managed by maintaining an appropriate mix of fixed / floating rate borrowings and a well-planned maturity profile.

As at December 31, 2016, total borrowings of Hang Lung Properties were HK$27,082 million, which were lower than those a year ago mainly due to repayment of floating rate HKD bank borrowings with the cash generated from property sales. The following table shows the mix of floating rate bank borrowings and fixed rate bonds:

	At December 31, 2016		At December 31, 2015	
	HK$ Million	*% of Total*	HK$ Million	*% of Total*
Floating rate HKD bank loans	**4,108**	*15.2%*	9,136	*27.9%*
Floating rate RMB bank loans	**10,345**	*38.2%*	11,031	*33.7%*
Fixed rate bonds	**12,629**	*46.6%*	12,604	*38.4%*
Denominated in USD	***7,756***	*28.6%*	*7,751*	*23.6%*
Denominated in HKD	***4,873***	*18.0%*	*4,853*	*14.8%*
Total borrowings	**27,082**	*100%*	32,771	*100%*

At the balance sheet date, the average tenor of the entire loan portfolio was 3.9 years (December 31, 2015: 3.9 years). The maturity profile was well staggered, with over 86% of loans repayable after 2 years:

	At December 31, 2016		At December 31, 2015	
	HK$ Million	*% of Total*	HK$ Million	*% of Total*
Repayable:				
Within 1 year	**568**	*2.1%*	4,693	*14.3%*
After 1 but within 2 years	**3,106**	*11.4%*	1,862	*5.7%*
After 2 but within 5 years	**14,997**	*55.4%*	12,155	*37.1%*
Over 5 years	**8,411**	*31.1%*	14,061	*42.9%*
Total borrowings	**27,082**	*100%*	32,771	*100%*

- *Gearing Ratios & Interest Cover*

As at December 31, 2016, Hang Lung Properties had a net debt balance of HK$2,757 million (December 31, 2015: HK$1,482 million). Net debt to equity ratio and debt to equity ratio were at 2.1% (December 31, 2015: 1.1%) and 20.5% (December 31, 2015: 24.3%), respectively.

The average cost of borrowings during the year was 4.3% (2015: 4.2%), comprising average cost of floating rate bank borrowings at 4.1% (2015: 4.0%) and fixed rate bonds at 4.6% (2015:

4.6%). For the financial year ended December 31, 2016, total gross interest expense incurred amounted to HK$1,334 million (2015: HK$1,485 million). The decrease in gross interest expense was mainly attributable to two reasons. Firstly, the average bank borrowings balance in Hong Kong dropped because of loan repayments using cash generated from operations. Secondly, the average cost of borrowings in mainland China was also reduced due to the reductions in benchmark lending rates by the People's Bank of China. After netting off a smaller amount of interest capitalization upon completion of some projects under development, finance costs charged to the statement of profit or loss amounted to HK$1,111 million (2015: HK$1,041 million).

For the year ended December 31, 2016, interest income was HK$794 million (2015: HK$1,119 million). The decrease in interest income was mainly due to both lower RMB deposit rates and a lower average deposit balance for the year. Overall, net finance costs, i.e. the excess of finance costs over interest income, in 2016 amounted to HK$317 million (2015: net interest income of HK$78 million).

The key indicator for debt servicing capability, interest cover, of 2016 was 16 times (2015: 16 times).

- *Foreign Exchange Management*

The activities of Hang Lung Properties are exposed to foreign currency risks which mainly arise from its operations in mainland China and certain bank deposits denominated in RMB held in and relating to mainland China entities. In addition, it has exposure to USD arising from the two USD500 million bonds issued.

If appropriate, Hang Lung Properties may use derivative financial instruments for controlling or hedging foreign exchange risk exposures. Use of such instruments for speculative purposes is strictly prohibited. Derivative financial instruments currently used by Hang Lung Properties are cross currency swaps, with details set out in section (b) below.

Given that certain of the investments and operations are located in mainland China, Hang Lung Properties has exposure represented by the amount of net assets denominated in RMB. It endeavors to establish an appropriate level of external local borrowings in RMB up to the extent permitted by the prevailing regulations in order to minimize the foreign currency exposure.

(a) RMB Exposure

The RMB exposure of Hang Lung Properties is mainly derived from two respects of the operations. These are, firstly, the net assets of our Mainland subsidiaries which mostly comprise investment properties such as shopping malls, office towers and projects under development. Secondly, they are the RMB deposits held in and relating to mainland China entities which are primarily for the purposes of settling future construction payments in RMB of those projects under development in mainland China.

At December 31, 2016, the amount of net assets on the Mainland amounted to RMB59 billion. The re-translation of these net assets denominated in RMB into HKD using the exchange rate as at the reporting date resulted in a re-translation loss of HK$4,707 million, as RMB depreciated by about 6% compared to December 31, 2015. By the same token, the RMB14,238 million deposits held in Hong Kong had to be re-translated into HKD as well and they accounted for HK$1,055 million of the re-translation loss for the financial year of 2016. The total re-translation loss of HK$5,762 million for 2016 (2015: HK$5,730 million) was recognized in other comprehensive income / exchange reserve.

Our capital commitments on Mainland projects under development amounted to RMB32 billion as at December 31, 2016.

In light of increasing uncertainties in the global economy and rising volatility of the RMB exchange rate, we considered it appropriate to adopt an enterprise risk management approach in mitigating the currency risks rather than forming a view on which side the currency will move. Accordingly, management has taken appropriate measures to balance the impact of currency fluctuations, including using more onshore RMB debts to finance construction payments up to the limit allowed by the authorities. Regular business reviews have also been conducted to assess the level of funding needs for Mainland projects under development after taking account of various factors such as regulatory constraints on local RMB borrowings, project development timelines and business environment. As a result of these regular updates of our business plans and changes in relevant regulations and rules, we will make necessary modifications to our currency hedging arrangements accordingly when appropriate.

(b) USD Exposure

The USD foreign exchange exposure of Hang Lung Properties is related to the two USD500 million fixed rate bonds issued, equivalent to HK$7,756 million at the reporting date. The related currency exchange risk was covered back-to-back by two USD/HKD cross currency swap contracts. The swap contracts were entered into in order to fix the exchange rate between USD and HKD for future interest payments and principal repayments.

Accounting rules stipulate that the swap contracts be marked to market value at each reporting date. Any differences in the marked to market valuation between the reporting dates shall be treated as unrealized gain or loss for the period. For the financial year ended December 31, 2016, the swap contracts had an unrealized fair value gain of HK$203 million (2015: fair value loss of HK$101 million).

- *Charge of Assets*

Assets of Hang Lung Properties were not charged to any third parties as at December 31, 2016.

- *Contingent Liabilities*

Hang Lung Properties did not have any material contingent liabilities as at December 31, 2016.

OUTLOOK

The decision of Britain to leave the European Union (Brexit), Donald Trump's victory in the US presidential election and the rising likelihood of further interest rate hikes by the Federal Reserve increased the uncertainty of the global financial and economic outlook. It is widely expected that market volatility will increase over time. We will closely monitor the ensuing developments.

It is expected that both mainland China and Hong Kong will continue to face the challenges posed by slow economic growth and weak retail consumption sentiment.

In 2017, our focus is to drive rental growth in Hong Kong and expand occupancy in cities outside Shanghai, while maximizing income in Shanghai and across the office portfolio. Retail trades have to be expanded to complement our high-end, high quality positioning to grow footfall and retail sales. Improving cost efficiency is vital to maintaining and improving rental margin.

Our retail properties in Hong Kong held their ground well and are still expected to benefit from the leases negotiated before the current downturn. We are relatively less exposed to the high-end sector in Hong Kong and we experienced a mild growth in retail sales across our portfolio against the downward trend for Hong Kong overall. The office and industrial segment is relatively more stable despite a higher tenant turnover. A moderate growth in office rental income is still expected in 2017. The under-performance of our residential and serviced apartments will be remedied by a more aggressive leasing strategy going into the fourth quarter 2016 and into 2017.

Our properties in Shanghai will continue to strengthen their positioning with continued improvements in their trade mix and tenancy profile. In 2016, the Plaza 66 mall underwent a well-executed major renovation with a manageable level of income interruption. Completion of the renovation along with new letting will return Plaza 66 to its growth path in 2017 and beyond. Like Plaza 66, the Grand Gateway 66 mall will go through its renovation cycle from 2017 to 2019.

Outside Shanghai, there were more store closures and delayed openings across different cities. Our malls in Shenyang Forum 66 and Wuxi Center 66 have suffered the most in 2016. The setback in the two malls is expected to be offset by the continuing lease-up of the two office towers. The emphasis in 2017 is on raising the level of occupancy. The Dalian Olympia 66 mall was soft opened for business in December 2015 in the face of excessive bureaucratic hurdles. Progress was gradually made in 2016 and, after the official opening in September, leasing will be expedited throughout 2017, along with a build-up in footfall and retail sales.

Backed by our financial strength, various asset enhancement programs will continue both in Hong Kong and in Shanghai. Some short-term rental loss may be inevitable during the renovation period. Projects under development in mainland China will continue to proceed as planned.

We will continue to closely monitor the residential property market in Hong Kong, and will sell some of the residential units on hand and may further build our land bank when opportunities arise.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED DECEMBER 31, 2016 (AUDITED)

				For information purpose only (Note 1)	
	Note	**2016 HK$ Million**	2015 HK$ Million	**2016 RMB Million**	2015 RMB Million
Revenue	*2(a)*	**13,059**	8,948	**11,239**	7,225
Direct costs and operating expenses		**(4,140)**	(2,400)	**(3,563)**	(1,940)
Gross profit		**8,919**	6,548	**7,676**	5,285
Other net income / (loss)	*3*	**208**	(15)	**179**	(13)
Administrative expenses		**(607)**	(655)	**(522)**	(533)
Operating profit before changes in fair value of properties		**8,520**	5,878	**7,333**	4,739
Net (decrease) / increase in fair value of properties		**(286)**	631	**(254)**	515
Operating profit after changes in fair value of properties		**8,234**	6,509	**7,079**	5,254
Interest income		**794**	1,119	**679**	906
Finance costs		**(1,111)**	(1,041)	**(952)**	(841)
Net interest (expense) / income	*4*	**(317)**	78	**(273)**	65
Share of profits of joint ventures		**62**	75	**53**	62
Profit before taxation	*2(a) & 5*	**7,979**	6,662	**6,859**	5,381
Taxation	*6(a)*	**(1,372)**	(1,117)	**(1,175)**	(896)
Profit for the year		**6,607**	5,545	**5,684**	4,485
Attributable to:					
Shareholders		**6,195**	5,092	**5,331**	4,122
Non-controlling interests		**412**	453	**353**	363
		6,607	5,545	**5,684**	4,485
Earnings per share	*8(a)*				
Basic		**HK$1.38**	HK$1.13	**RMB1.19**	RMB0.92
Diluted		**HK$1.38**	HK$1.13	**RMB1.19**	RMB0.92

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2016 (AUDITED)

				For information purpose only (Note 1)	
		2016	2015	***2016***	*2015*
	Note	**HK$ Million**	HK$ Million	**RMB Million**	RMB Million
Profit for the year		**6,607**	5,545	**5,684**	4,485
Other comprehensive income	*6(b)*				
Item that may be reclassified subsequently to profit or loss:					
Exchange difference arising from translation of foreign subsidiaries / to presentation currency		**(5,762)**	(5,730)	**2,216**	1,827
Total comprehensive income for the year		**845**	(185)	**7,900**	6,312
Total comprehensive income attributable to:					
Shareholders		**839**	(282)	**7,572**	5,935
Non-controlling interests		**6**	97	**328**	377
		845	(185)	**7,900**	6,312

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT DECEMBER 31, 2016 (AUDITED)

				For information purpose only (Note 1)	
		2016	2015	**2016**	2015
	Note	**HK$ Million**	HK$ Million	**RMB Million**	RMB Million
Non-current assets					
Property, plant and equipment					
Investment properties	*9*	**125,421**	129,425	**112,419**	108,981
Investment properties under development	*9*	**16,160**	16,709	**14,455**	13,998
Other property, plant and equipment		**1,449**	336	**1,297**	283
		143,030	146,470	**128,171**	123,262
Interest in joint ventures		**1,249**	1,241	**1,122**	1,052
Other assets		**2**	4	**2**	3
Deferred tax assets		**10**	11	**9**	9
		144,291	147,726	**129,304**	124,326
Current assets					
Cash and deposits with banks		**24,325**	31,289	**21,832**	26,432
Trade and other receivables	*10*	**3,939**	1,173	**3,535**	987
Properties for sale		**2,352**	3,830	**2,113**	3,245
		30,616	36,292	**27,480**	30,664
Current liabilities					
Bank loans and other borrowings		**568**	4,693	**508**	3,961
Trade and other payables	*11*	**6,327**	6,806	**5,669**	5,723
Taxation payable		**932**	501	**836**	421
		7,827	12,000	**7,013**	10,105
Net current assets		**22,789**	24,292	**20,467**	20,559
Total assets less current liabilities		**167,080**	172,018	**149,771**	144,885
Non-current liabilities					
Bank loans and other borrowings		**26,514**	28,078	**23,783**	23,702
Deferred tax liabilities		**8,421**	9,048	**7,534**	7,584
		34,935	37,126	**31,317**	31,286
NET ASSETS		**132,145**	134,892	**118,454**	113,599
Capital and reserves					
Share capital		**39,912**	39,903	**37,431**	37,423
Reserves		**86,653**	89,086	**76,032**	71,231
Shareholders' equity		**126,565**	128,989	**113,463**	108,654
Non-controlling interests		**5,580**	5,903	**4,991**	4,945
TOTAL EQUITY		**132,145**	134,892	**118,454**	113,599

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The financial information relating to the years ended December 31, 2016 and 2015 included in this announcement of annual results does not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those consolidated financial statements in accordance with section 436 of the Hong Kong Companies Ordinance (Cap.622). The Company has delivered the consolidated financial statements for the year ended December 31, 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance and will deliver the consolidated financial statements for the year ended December 31, 2016 in due course. The Company's auditor has reported on the consolidated financial statements for both years. The auditor's reports were unqualified and they did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports, and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The principal accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2015.

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

1. Basis of preparation (Continued)

The presentation currency of these consolidated financial statements is Hong Kong dollar. In view of the Group's significant business operations in mainland China, management has included additional financial information prepared in Renminbi in the consolidated financial statements. Such supplementary information is prepared on the following basis in respect of the translation of transactions/balances not denominated in Renminbi:

- assets and liabilities are translated at the closing exchange rates at the end of the reporting period;
- income and expenses are translated at the exchange rates approximating the exchange rates ruling at the dates of the transactions; and
- equity transactions are translated at exchange rates at the dates of the relevant transactions and are not re-translated.

2. Revenue and segment information

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

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

Management evaluates performance primarily based on profit before taxation.

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

2. Revenue and segment information (Continued)

(a) Revenue and results by segments

	Revenue		Profit before taxation	
	2016	2015	**2016**	2015
	HK$ Million	HK$ Million	**HK$ Million**	HK$ Million
Segment				
Property leasing				
- Mainland China (Note)	**3,995**	4,194	**2,514**	2,715
- Hong Kong	**3,742**	3,557	**3,196**	2,989
	7,737	7,751	**5,710**	5,704
Property sales				
- Hong Kong	**5,322**	1,197	**3,209**	844
Segment total	**13,059**	8,948	**8,919**	6,548
Other net income / (loss)			**208**	(15)
Administrative expenses			**(607)**	(655)
Operating profit before changes in fair value of properties			**8,520**	5,878
Net (decrease) / increase in fair value of properties			**(286)**	631
- Property leasing in Hong Kong			**183**	897
- Property leasing in mainland China			**(809)**	(266)
- Upon transfer from completed properties for sale to investment properties			**340**	-
Net interest (expense) / income			**(317)**	78
- Interest income			**794**	1,119
- Finance costs			**(1,111)**	(1,041)
Share of profits of joint ventures			**62**	75
Profit before taxation			**7,979**	6,662

Note: Pursuant to Caishui [2016] No. 36 jointly issued by China's Ministry of Finance and State Administration of Taxation, from May 1, 2016, Value-Added Tax (VAT) has replaced Business Tax (BT) to cover all the sectors which were previously falling under the BT regime. The VAT rate for property leasing is 11% and VAT is excluded from revenue. With effect from May 1, 2016, the Group is no longer required to pay BT for property leasing in mainland China.

2. Revenue and segment information (Continued)

(b) Total assets by segments

	Total assets	
	2016	2015
	HK$ Million	HK$ Million
Segment		
Property Leasing		
- Mainland China	**84,420**	89,419
- Hong Kong	**58,830**	58,202
	143,250	147,621
Property sales		
- Hong Kong	**4,949**	3,852
Segment total	**148,199**	151,473
Other property, plant and equipment	**1,122**	-
Interest in joint ventures	**1,249**	1,241
Other assets	**2**	4
Deferred tax assets	**10**	11
Cash and deposits with banks	**24,325**	31,289
Total assets	**174,907**	184,018

3. Other net income / (loss)

	2016	2015
	HK$ Million	HK$ Million
Gain on disposal of investment properties	**8**	69
Unrealized gain / (loss) on remeasurement of derivative financial instruments (Note)	**203**	(101)
Net exchange (loss) / gain	**(3)**	17
Other net income / (loss)	**208**	(15)

Note: Derivative financial instruments represent cross currency swaps, which were entered into for the purpose of fixing the exchange rate for the Medium Term Note denominated in USD.

4. Net interest (expense) / income

	2016 **HK$ Million**	2015 HK$ Million
Interest income on bank deposits	**794**	1,119
Interest expense on bank loans and other borrowings	**1,262**	1,398
Other borrowing costs	**72**	87
Total borrowing costs	**1,334**	1,485
Less: Borrowing costs capitalized	**(223)**	(444)
Finance costs	**1,111**	1,041
Net interest (expense) / income	**(317)**	78

5. Profit before taxation

	2016 **HK$ Million**	2015 HK$ Million
Profit before taxation is arrived at after charging:		
Cost of properties sold	**1,815**	216
Staff costs, including employee share-based payments of HK$103 million (2015: HK$150 million)	**1,374**	1,323
Depreciation	**53**	51

6. Taxation

(a) Provision for Hong Kong Profits Tax is calculated at 16.5% (2015: 16.5%) of the estimated assessable profits for the year. China Income Tax mainly represents China Corporate Income Tax calculated at 25% (2015: 25%) and China withholding income tax at the applicable rates. A withholding tax of 5% is levied on the Hong Kong companies in respect of dividend distributions arising from profits of foreign investment enterprises in mainland China earned after January 1, 2008.

	2016	2015
	HK$ Million	HK$ Million
Current tax		
Hong Kong Profits Tax	**860**	459
Over-provision in prior years	**(10)**	(7)
	850	452
China Income Tax	**602**	674
	1,452	1,126
Deferred tax		
Changes in fair value of properties	**(148)**	(67)
Other origination and reversal of temporary differences	**68**	58
	(80)	(9)
Total income tax expense	**1,372**	1,117

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

7. Dividends

(a) Dividends attributable to the year

	2016 **HK$ Million**	2015 HK$ Million
Interim dividend declared and paid of HK17 cents (2015: HK17 cents) per share	**765**	765
Final dividend of HK58 cents (2015: HK58 cents) per share proposed after the end of the reporting period	**2,608**	2,608
Total dividends attributable to the year	**3,373**	3,373

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

(b) The final dividend of HK$2,608 million (calculated based on HK58 cents per share and the total number of issued shares as at the dividend pay-out date) for the year ended December 31, 2015 was approved and paid in the year ended December 31, 2016 (2015: HK$2,646 million).

8. Earnings per share

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

	2016 **HK$ Million**	2015 HK$ Million
Earnings for calculation of basic and diluted earnings per share (net profit attributable to shareholders)	**6,195**	5,092

8. Earnings per share (Continued)

(a) (Continued)

	Number of shares	
	2016	2015
	(Million)	(Million)
Weighted average number of shares used in calculating basic earnings per share	**4,497**	4,489
Effect of dilutive potential shares – share options	**-**	2
Weighted average number of shares used in calculating diluted earnings per share	**4,497**	4,491

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

	2016	2015
	HK$ Million	HK$ Million
Net profit attributable to shareholders	**6,195**	5,092
Effect of changes in fair value of properties	**286**	(631)
Effect of corresponding deferred tax	**(148)**	(67)
Effect of changes in fair value of investment properties of joint ventures	**(1)**	(16)
	137	(714)
Non-controlling interests	**9**	9
	146	(705)
Underlying net profit attributable to shareholders	**6,341**	4,387

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

	2016	2015
Basic	**HK$1.41**	HK$0.98
Diluted	**HK$1.41**	HK$0.98

9. Investment properties and investment properties under development

(a) Addition

During the year, additions to investment properties and investment properties under development amounted to HK$2,320 million (2015: HK$5,027 million).

(b) Valuation

The investment properties and investment properties under development of the Group were revalued as at December 31, 2016 by Mr. Charles C.K. Chan, Registered Professional Surveyor (General Practice), of Savills Valuation and Professional Services Limited, on a market value basis.

10. Trade and other receivables

(a) Included in trade and other receivables, ageing analysis of trade receivables (based on the due date) is as follows:

	2016	2015
	HK$ Million	HK$ Million
Current and within 1 month (Note)	**2,621**	41
1 - 3 months	**21**	8
Over 3 months	**12**	4
Total trade receivables	**2,654**	53

Note: Current and within 1 month receivables mainly represented property sales receivables for residential units sold in the second half of 2016. Most of the sales receivables would be settled over the next few months upon sales completion.

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

10. Trade and other receivables (Continued)

(b) Included in other receivables of the Group is deposit of land acquisition in mainland China of HK$279 million (2015: HK$298 million).

11. Trade and other payables

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

	2016	2015
	HK$ Million	HK$ Million
Due within 1 month to 3 months	**1,492**	2,094
Due after 3 months	**1,813**	582
Total trade creditors	**3,305**	2,676

OTHER INFORMATION

Employees

As at December 31, 2016, the number of employees was 4,720 (comprising 1,322 Hong Kong employees and 3,398 mainland China employees). The total employee costs for the year ended December 31, 2016 amounted to HK$1,374 million. We provide competitive remuneration packages for all employees including discretionary bonuses payable based on individual performance. We regularly review the remuneration packages to ensure that they comply with relevant regulatory requirements and market conditions. The Company has share option schemes for the executives and provides professional and high-quality training for all employees.

Purchase, Sale or Redemption of Listed Securities

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its listed securities.

Compliance with Corporate Governance Code

During the year, the Company has complied with the code provisions set out in the Corporate Governance Code as stated in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Audit Committee

The annual results for the year ended December 31, 2016, have been reviewed by the Audit Committee of the Company. Hang Lung Properties' consolidated financial statements have been audited by the Company's auditor, KPMG, and it has issued an unmodified opinion.

Book Close Dates

For ascertaining shareholders' right to attend and vote at the Annual General Meeting (AGM)

Book close dates (both days inclusive)	April 26 to 27, 2017
Latest time to lodge transfers	4:30 pm on April 25, 2017
Record date	April 27, 2017
AGM	April 27, 2017

For ascertaining shareholders' entitlement to the proposed final dividend

Book close date	May 5, 2017
Latest time to lodge transfers	4:30 pm on May 4, 2017
Record date	May 5, 2017
Final dividend payment date	May 18, 2017

On Behalf of the Board
Ronnie C. Chan
Chairman

Hong Kong, January 26, 2017

As at the date of this announcement, the board of directors of the Company comprises the following directors:
Executive Directors: Mr. Ronnie C. CHAN, Mr. Philip N.L. CHEN, Mr. H.C. HO and Mr. Adriel W. CHAN
Independent Non-Executive Directors: Mr. Ronald J. ARCULLI, Mr. Dominic C.F. HO, Mr. Nelson W.L. YUEN, Dr. Andrew K.C. CHAN, Prof. H.K. CHANG and Ms. Anita Y.M. FUNG

GLOSSARY

Financial Terms

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

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

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

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

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

Financial Ratios

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

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

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

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

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