# Financial Review

## GROUP RESULTS

Turnover and operating profit of the Group soared by 81% and 85% to HK$17,606 million and HK$13,406 million, respectively, for the financial year ended December 31, 2014. Turnover from property leasing increased by 8% to HK$7,792 million, with the mainland China portfolio achieved a 9% rental growth and Hong Kong recorded a 6% increase, when compared to 2013. Riding on improved sentiments in Hong Kong residential markets, a total of 412 residential units and some car parking spaces were sold in 2014. Turnover from property sales jumped 2.9 times to HK$9,814 million.

Correspondingly, underlying net profit attributable to shareholders reached HK$5,730 million, an 87% increase year-on-year. When including the effect of revaluation gain of our investment properties, profit attributable to shareholders increased by 50% to HK$6,825 million and earnings per share increased similarly to HK$5.04.

**BREAKDOWN OF TURNOVER AND OPERATING PROFIT OF THE GROUP**

| | Turnover | | | Operating Profit | | |
|---|---|---|---|---|---|---|
| HK$ Million | **2014** | 2013 | Change | **2014** | 2013 | Change |
| **Property leasing** | **7,792** | 7,216 | +8% | **5,987** | 5,731 | +4% |
| Mainland China | **4,354** | 3,984 | +9% | **3,090** | 2,995 | +3% |
| Hong Kong | **3,438** | 3,232 | +6% | **2,897** | 2,736 | +6% |
| **Property sales** | **9,814** | 2,518 | +290% | **7,419** | 1,521 | +388% |
| **Total** | **17,606** | 9,734 | +81% | **13,406** | 7,252 | +85% |

## PROPERTY LEASING

Our core business, property leasing in mainland China and Hong Kong, continued to achieve solid growth in a challenging business environment. Rental turnover grew 8% to HK$7,792 million and operating profit rose 4% to HK$5,987 million. Tianjin Riverside 66 started contributing rental income to the Group since its grand opening in September 2014. Office tower at Wuxi Center 66 began generating rental turnover since its commencement of operation in October 2014.

### Mainland China

Our mainland China property portfolio recorded a 9% growth in rental turnover to HK$4,354 million for the year ended December 31, 2014. This was mainly attributable to the pleasing performance of our two Shanghai properties against the backdrop of the anticorruption and opulence campaign and the full year effect of Wuxi Center 66. The young investment properties outside Shanghai, including the Tianjin Riverside 66 mall opened in September 2014, collectively contributed HK$1,141 million to the rental turnover in 2014. Given the lower profitability of our younger properties during the gestation period, overall leasing margin of mainland China portfolio retreated four points to 71%. Total retail sales of our shopping malls on the Mainland exceeded RMB10 billion in 2014.

### *Shanghai Portfolio*

Plaza 66 and Grand Gateway 66 in Shanghai generated 4% more rents to HK$3,213 million despite increased competitions. Rental turnover of the two Shanghai malls rose 7% to HK$1,972 million over a year ago. Occupancy rate of Grand Gateway 66 mall was close to 100% and that of Plaza 66 mall stood at 96%. Retail sales of Plaza 66 slipped 4% as anti-graft measures have continued to affect luxury consumption in mainland China. On the other hand, Grand Gateway 66 recorded a 3% gain on retail sales year-on-year despite depressed sentiment.

Our Shanghai office portfolio collected 2% more rents to HK$1,096 million amidst increasing supply of office spaces. The Grand Gateway 66 office tower generated 6% more rents to HK$293 million due to increase in occupancy rate by two points to 96%. However, rents collected by the two office towers at Plaza 66 stayed at HK$803 million as positive rental reversions were offset by a drop in occupancy by four points to 91% after the lease expiry of a major tenant who previously occupied 12% of the total leasable area.

Rental turnover of residential and serviced apartments at Grand Gateway 66 slumped by 20% to HK$145 million as demand from corporate tenants remained weak and the local ambience was affected by construction works nearby.

### *Outside Shanghai Portfolio*

All of our investment properties outside Shanghai are relatively young ranging from newly opened to four years old. They included five shopping malls operating in Jinan, Shenyang (two malls), Wuxi and Tianjin and one office tower in Wuxi. In 2014, they collectively contributed HK$1,141 million rental turnover to the Group. As most of those properties are still going through their start-up period, it is understandable that tenant reshuffling and / or refinement after completing the first or second lease cycle would have an adverse impact on their occupancy during the process.

## Hong Kong

Our diversified Hong Kong portfolio continued to deliver a stable growth. Rental turnover and operating profit were both up by 6% to HK$3,438 million and HK$2,897 million, respectively. The resulting leasing margin was 84%.

**BREAKDOWN OF RENTAL TURNOVER AND OCCUPANCY RATE OF HONG KONG PORTFOLIO**

| | Rental Turnover | | | Occupancy Rate | |
|---|---|---|---|---|---|
| HK$ Million | **2014** | 2013 | Change | **2014** | Change |
| Commercial | **1,842** | 1,736 | +6% | **98%** | – |
| Office and Industrial/Office | **1,161** | 1,077 | +8% | **94%** | – |
| Residential and Serviced Apartments | **295** | 289 | +2% | **73%** | -1% pt |
| Car Park | **140** | 130 | +8% | **N/A** | N/A |
| **Total** | **3,438** | 3,232 | +6% | **93%** | -1% pt |

### *Commercial*

Rental turnover of the Hong Kong commercial portfolio grew 6% to HK$1,842 million for the year ended December 31, 2014, largely due to positive rental reversions. Occupancy rate was maintained at 98%. The commercial portfolio accounted for 54% of Hong Kong rental turnover in 2014.

Our Central portfolio including The Standard Chartered Bank Building, 1 Duddell Street, Printing House and Baskerville House enjoyed a 25% rental growth in 2014.

The Causeway Bay commercial portfolio achieved a 2% rental growth year-on-year while renovation work was in progress. Some area of the Causeway Bay portfolio was closed for extensive renovation in the last quarter of 2014 for the transformation of the portfolio into a distinctive lifestyle destination of the district. The upgraded Main Block of Fashion Walk was unveiled in December 2014, featuring an array of international brands opening their first concept stores in Hong Kong, including LOG-ON lifestyle shop, Michael Kors flagship store and Max Mara "Utility Luxe" concept flagship store.

Mongkok commercial properties achieved a solid 5% rental growth in 2014 mainly driven by positive rental reversions. Grand Plaza generated 7% rental growth during this reporting period amidst renovation programs. The asset enhancement initiatives commenced two years ago will be completed around mid-2015, with the resulting benefits flowing through in the coming years. During October to December 2014 when the district was hit by the Occupy Central incident, retail sales of this portfolio decreased by 18%. Despite the contraction of retail sales during the affected period, income of the portfolio continued to expand as sales rent accounted for only a small portion of the rental turnover.

Other malls continued to deliver solid rental growth as a result of positive rental reversions, including The Peak Galleria, Amoy Plaza in Kowloon East and Kornhill Plaza in Hong Kong East. The rental growth of The Peak Galleria was 6% in 2014, while that of Amoy Plaza and Kornhill Plaza was 10% and 5%, respectively.

### *Office*

Rental turnover of the office portfolio rose 8% to HK$1,161 million mainly attributable to positive rental reversions. Occupancy rate of the office portfolio stood at 94%.

The Central office portfolio generated a 5% rental growth while occupancy rate was maintained at 97%. Hang Lung Centre in Causeway Bay which is the major hub for trade groups such as travel agents, fashion wholesale and medical services, realized a 12% rental growth in 2014. Mongkok office properties enjoyed a stable rental growth of 3% with occupancy rate stood at 91%.

### *Residential and Serviced Apartments*

Rental turnover of residential and serviced apartments was up 2% to HK$295 million in 2014. Serviced apartments had a good year with turnover jumping 14% year-on-year, driven by a higher occupancy rate after effective marketing campaigns. The performance of luxury apartments remained soft as corporate clients were cost conscious.

## PROPERTY SALES

The Group took advantage of improved sentiments in the Hong Kong residential market by selling a total of 412 residential units (2013: 274 units) and some car parking spaces in 2014. Property sales turnover reached HK$9,814 million, soaring by 2.9 times against the previous year. Operating profit advanced by 3.9 times to HK$7,419 million. The 412 residential units sold comprised 261 units of The HarbourSide (2013: 1 unit) and 151 units of The Long Beach (2013: 267 units). Average profit margin was 76%.

## PROPERTY REVALUATION

The fair value of the Group's investment properties increased by HK$1,712 million, compared to a gain of HK$2,651 million in 2013. Property revaluation was undertaken by an independent professional valuer, Savills. There was no change in valuation methodology and capitalization rate used between the two reporting periods. Hong Kong investment properties recorded a revaluation gain of HK$1,623 million mainly driven by a higher valuation of the Causeway Bay commercial portfolio because of significant positive rental reversions. The mainland China portfolio had a moderate gain of HK$89 million.

## INVESTMENT PROPERTIES AND INVESTMENT PROPERTIES UNDER DEVELOPMENT

During the year, Tianjin Riverside 66 mall and Wuxi Center 66 office tower were transferred from investment properties under development to investment properties upon their opening for business. The value of investment properties increased by 11% to HK$128 billion.

Investment properties under development comprised several projects in mainland China including projects in Dalian, Kunming, Wuhan and the remaining phases of Shenyang and Wuxi. The aggregate value decreased by 16% to HK$25,611 million as Tianjin Riverside 66 mall and Wuxi Center 66 office tower were no longer classified as properties under development.

The interior fitting out works of Shenyang Forum 66 office tower were almost completed and would be ready for occupation in the first quarter of 2015. The opening of this office tower would create a synergistic effect with the Forum 66 mall. Pre-leasing activities have been started with a good response.

Construction of the superstructure of Olympia 66 in Dalian is completed. This stunning development comprises almost 222,000 square meters of retail area and 1,200 car parking spaces. Interior fitting out works have already begun. Pre-leasing activities have been started ahead of a scheduled opening in the third quarter of 2015.

The foundation work of Spring City 66 in Kunming has commenced. Total gross floor area of the entire complex is 434,000 square meters comprising a world-class shopping center, a Grade A office tower and serviced apartments.

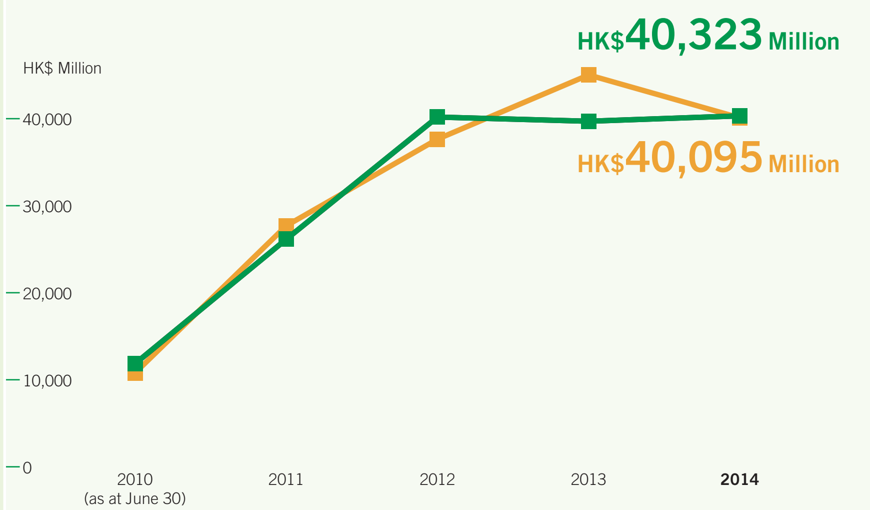
All other projects on the Mainland are progressing as planned.

23-39 Blue Pool Road, the luxury residential development in Happy Valley, Hong Kong, obtained its occupation permit in September 2014. The 18 luxurious semi-detached houses will be ready for release in 2015 if market conditions are favorable.

## FINANCIAL RESOURCES AND CAPITAL COMMITMENTS

The Group continued to maintain a strong balance sheet, with net assets increased by 6% year-on-year. We had strong operating cash flow from both property leasing and property sales in 2014. Part of the property sales proceeds was used to repay bank loans. As at December 31, 2014, cash and bank balances of the Group amounted to HK$40,323 million. After netting off loan balances of HK$40,095 million, the Group had a net cash position of HK$228 million at year end date, compared to a net debt position of HK$5,320 million on the same reporting date last year.

# CASH AND DEPOSITS WITH BANKS AND LOANS BALANCE AS AT DECEMBER 31




Over 88% of the cash and bank balances were held in RMB bank deposits, providing a natural hedge against the currency fluctuations of our RMB construction commitments at the various projects in mainland China. The RMB deposits also earned a higher yield than Hong Kong dollar deposits. The Group continued to refine the debt capital structure to mitigate interest rate and re-financing risks. Through the Medium Term Notes Program ("MTN Program"), the Group had issued a total of HK$12,743 million fixed rate bonds as at December 31, 2014, accounting for 32% of total borrowings, compared with 16% last year. Those bonds were un-rated and issued with coupon rates ranging from 2.95% to 4.75% per annum. Weighted average loan tenor as at the balance sheet date was 3.4 years.

As at December 31, 2014, total capital commitments of the Group amounted to HK$47 billion. They were mainly RMB denominated construction costs in respect of projects under development on the Mainland. Those projects would take many years to complete. Taking into account our cash and bank balances of HK$40 billion and the committed undrawn banking facilities of HK$25 billion, the Group has ample financial resources to meet funding needs of any commitments. In addition, under the current MTN Program, the Group can further issue bonds amounting to HK$10 billion.

The Group will continue to adopt a prudent and sound financial management strategy to support its long-term growth. With a strong balance sheet and high degree of liquidity, the Group is well positioned for capturing any future expansion opportunities that may arise.