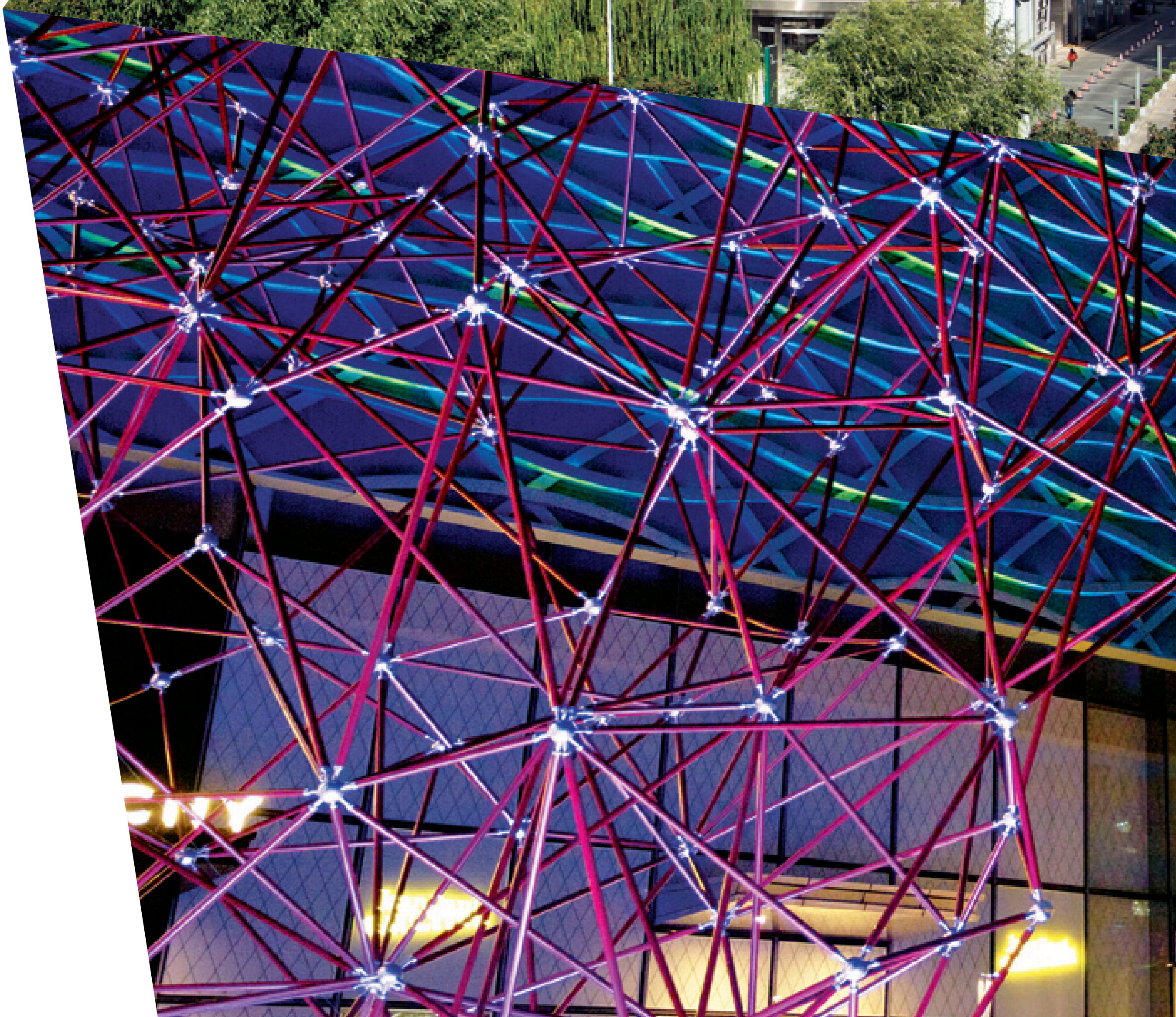
Solid Foundation

Parc 66,
Jinan



Hang Lung finds its unfaltering strength in prudent and comprehensive financial management strategies to maintain a strong financial position with a high degree of flexibility to meet the Company's capital commitments and long-term business plans.

Grand Gateway 66, Shanghai

Forum 66, Shenyang

GROUP RESULTS

For the financial year ended December 31, 2015, total revenue of the Group decreased by 46% to HK$9,528 million because of fewer residential units sold compared to a year ago. Correspondingly, total operating profit decreased by 48% to HK$6,955 million. Revenue from property leasing increased by 7% to HK$8,330 million mainly driven by continual growth of mainland China and Hong Kong portfolios.

Underlying net profit attributable to shareholders decreased by 53% to HK$2,700 million. When including a smaller revaluation gain on investment properties against a year ago, net profit attributable to shareholders decreased by 53% to HK$3,211 million. Earnings per share decreased similarly to HK$2.37.

REVENUE AND OPERATING PROFIT

	Revenue			Operating Profit		
	2015 HK$ Million	2014 HK$ Million	Change	**2015 HK$ Million**	2014 HK$ Million	Change
Property Leasing	**8,330**	7,792	+7%	**6,110**	5,987	+2%
Mainland China	**4,625**	4,354	+6%	**3,005**	3,090	-3%
Hong Kong	**3,705**	3,438	+8%	**3,105**	2,897	+7%
Property Sales	**1,198**	9,814	-88%	**845**	7,419	-89%
Total	**9,528**	17,606	-46%	**6,955**	13,406	-48%

PROPERTY LEASING

For the financial year ended December 31, 2015, total revenue of property leasing increased by 7% to HK$8,330 million. The whole mainland China portfolio generated 6% more in rent largely benefitting from contributions of the newly opened properties from the third quarter of 2014. Our mainland China portfolio accounted for 56% and 49% of the total leasing revenue and operating profit of the Group, respectively. The Hong Kong leasing portfolio posted a steady rental growth of 8% as the benefits of asset enhancement initiatives continued to flow through. Total operating profit from property leasing amounted to HK$6,110 million, up 2% year-on-year.

Mainland China

The retail market on the Mainland remained challenging in 2015. With slower economic growth and stock market adjustments since mid-2015, sales of high-end goods continued to slide. Many high-end brands either froze expansion plans or busied themselves with brand consolidation and store downsizing. Negative rental reversions and/or falling occupancy were inevitable.

For the year ended December 31, 2015, total revenue from mainland China reached HK$4,625 million, representing a 6% growth year-on-year. In addition to the rental growth of our Shanghai portfolio, contributions from properties that commenced operations from the third quarter of 2014 also boosted our rental revenue in 2015. Those new properties included shopping malls at Tianjin Riverside 66 which commenced operations in September 2014, followed by the soft opening of Dalian Olympia 66 in December 2015. The office towers at Center 66 in Wuxi and Forum 66 in Shenyang opened in October 2014 and January 2015, respectively. Their contribution to revenue growth was partly offset by the decrease in rental income of the malls at Shenyang Forum 66 and Wuxi Center 66.

Total operating profit of our mainland China portfolio retreated by 3% to HK$3,005 million because of the lower profitability of our newly opened properties during their first lease cycle. Correspondingly, overall rental margin retreated by six points to 65%.

MAINLAND CHINA PROPERTY LEASING PORTFOLIO

	Revenue			Occupancy Rate at Year-end 2015	
Name and City of the Property	**2015 HK$ Million**	2014 HK$ Million	Change	Mall	Office
Shanghai Plaza 66	**1,669**	1,618	+3%	97%	98%
Shanghai Grand Gateway 66	**1,627**	1,595	+2%	97%	97%
Shenyang Palace 66	**170**	166	+2%	90%	N/A
Shenyang Forum 66	**282**	283	–	87%	42%*
Jinan Parc 66	**335**	336	–	88%	N/A
Wuxi Center 66	**296**	293	+1%	72%	70%*
Tianjin Riverside 66	**241**	63	N/A*	86%	N/A
Dalian Olympia 66	**5**	N/A	N/A*	54%	N/A
Total	**4,625**	4,354	+6%		

* Opening dates: Tianjin Riverside 66 shopping mall in September 2014; Wuxi Center 66 office in October 2014; Shenyang Forum 66 office in January 2015; and Dalian Olympia 66 shopping mall on December 18, 2015 (soft opening).

Shopping Malls

Our eight shopping malls in mainland China collectively generated HK$3,287 million rent in 2015, up 6% year-on-year. The eight shopping malls are located in six cities on the Mainland, including two each in Shanghai and Shenyang, and one each in Jinan, Wuxi, Tianjin and Dalian. The last two are the newest. Riverside 66 in Tianjin commenced operation in September 2014 and Olympia 66 in Dalian was unveiled on December 18, 2015.

Amidst a challenging retail environment in Shanghai, total rental income of our two flagship malls in Shanghai, Plaza 66 and Grand Gateway 66, was up 6% year-on-year to HK$2,081 million. Plaza 66 and Grand Gateway 66 posted 9% and 3% rental growth to HK$885 million and HK$1,196 million over a year ago, respectively. The two malls continued to enjoy positive rental reversions in 2015. Their occupancy rates both stayed at 97% at the reporting date. Retail sales of the malls at Plaza 66 and Grand Gateway 66 recorded a moderate growth in 2015, despite sliding high-end sales on the Mainland.

Our asset enhancement programs in Shanghai were progressing well. The works at the Plaza 66 mall started last September and were expected to be completed by mid-2017. For Grand Gateway 66, the works will start in late 2016. In order to minimize disruptions to tenants and customers, the works will be carried out at night and by phases.

At the year-end date, the Group had six malls in operations outside Shanghai. Those malls are in different stages of the startup period, ranging from 14 days to five years old. Their performance was mixed in 2015, the longer they were in operation the better in general. Collectively, the six malls contributed 6% more in rent, year-on-year, to HK$1,206 million.

Palace 66 in Shenyang generated 2% more rent in 2015 as a result of higher occupancy. Occupancy rate of Palace 66 increased two points to 90% between the two reporting dates. Benefitting from more effective marketing activities, retail sales at Palace 66 rose by 2%. During 2015, more non-conventional shopping, entertainment and lifestyle tenants were introduced to our shopping mall in Jinan, Parc 66. Correspondingly, occupancy rate of Parc 66 increased to 88%, up three points over a year ago while tenant sales retreated 2%. Revenue of Parc 66 remained flat in 2015.

In 2015, many high-end brands in the second-tier cities were facing difficult environments with decreasing sales. Some even exited from the market entirely, causing occupancy of our Forum 66 in Shenyang and Center 66 in Wuxi to retreat to 87% and 72%, respectively. Retail sales at the Forum 66 mall and Center 66 mall (excluding car sales) both decreased by 3%.

Occupancy rate of our one-year-old Riverside 66 shopping mall in Tianjin increased by one point to 86% by end of 2015. The mall has recently won the Gold Awards in the categories of Best Innovative Green Building and Best Retail Development in the MIPIM Asia (Marché International des Professionnels de L'immobilier Asia) Awards 2015.

Our newest mall, Olympia 66 in Dalian, was unveiled on December 18, 2015. This 220,000 square-meter landmark building in Dalian is currently our largest shopping mall in mainland China. The mall is designed to bring fascinating entertainment, leisure and shopping experiences to Dalian with a world-class ice-rink and a cinema with 10 houses, one of the largest auditoriums has 400 seats. Against the backdrop of weak retail spending and with most international brands either contracting or freezing new shop openings on the Mainland, 124 tenants representing occupancy of 21% had commenced operations at the reporting date. Another 83 tenants accounting for additional 33% occupancy are fitting out at the same time. When including committed tenancies, occupancy rate reached 63% at the end of 2015.

Office

Revenue of our office portfolio in mainland China leaped 9% to HK$1,203 million in 2015. The whole office portfolio comprises five Grade A office towers, including three office towers in Shanghai, i.e. two at Plaza 66 and one at Grand Gateway 66, plus one each at Center 66 in Wuxi and Forum 66 in Shenyang which commenced operations in October 2014 and January 2015, respectively.

Total rent of the three office towers in Shanghai retreated 1% amidst an increasing supply of offices space. Revenue of the Plaza 66 office towers retreated by 2% year-on-year because of acceptance of marginally lower rent in order for quantum expansion by world-class tenants. Regular renewals and new lettings were achieving rent at the top range of the market. Occupancy rate of the Plaza 66 office towers increased by six points to 98%. Driven by positive rental reversions, revenue of the office tower at Grand Gateway 66 increased 1% to HK$296 million. Starting from June 2015, we have implemented the asset enhancement program for the two office towers at Plaza 66. The new look of the lobby at Office Tower One was unveiled in December 2015. The whole upgrade program will be completed in phases by 2017.

Occupancy rate of the Center 66 office tower reached 70% and that of Forum 66 was at 42% at the reporting date. Both professionally-managed world-class office towers have already commanded leadership positions in their markets.

Residential and Serviced Apartments

Revenue of residential and serviced apartments at Grand Gateway 66 in Shanghai was down by 7% to HK$135 million due to lower average occupancy, as the local ambience was affected by construction works nearby.

Hong Kong

Revenue and operating profit of our leasing portfolio in Hong Kong were up 8% and 7% to HK$3,705 million and HK$3,105 million, respectively. Overall rental margin stayed at 84%.

HONG KONG PROPERTY LEASING PORTFOLIO

	Revenue			Occupancy Rate at Year-end 2015
	2015 HK$ Million	2014 HK$ Million	Change	
Commercial	**1,983**	1,842	+8%	98%
Office and Industrial/Office	**1,261**	1,161	+9%	95%
Residential & Serviced Apartments	**316**	295	+7%	75%
Car Parking	**145**	140	+4%	N/A
Total	**3,705**	3,438	+8%	

Commercial

Our Hong Kong commercial portfolio collected 8% more rent to HK$1,983 million in 2015, despite sliding retail sales in Hong Kong. The commercial portfolio continued to benefit from positive rental reversions in 2015. Occupancy rate was flat at 98% at the end of 2015.

The benefits of asset enhancement continued to flow through as several renovation programs were completed in 2015. The new face of Fashion Walk in Causeway Bay was unveiled in May 2015. The modernized and stylish ambience provides an exceptional shopping experience to shoppers. A new mix of internationally renowned brands and designer labels further strengthened the positioning and image of the name, Fashion Walk. The Food Street has been refreshed with a variety of international cuisines. On October 30, 2015, the long-awaited H&M global flagship store was unveiled at Hang Lung Centre. The innovative marketing campaign Fashion Intelligence Index of Fashion Walk won five awards in the 2015 Kam Fan Awards, including the greatest honor Grand Kam Fan. This is great recognition of our efforts in transforming Fashion Walk into a stylish and iconic destination of Causeway Bay with a unique blend of indoor and outdoor shopping experiences.

The 3-year upgrade program at Grand Plaza in Mongkok was completed in March 2015. The shopping ambience and trade mix of the mall were enhanced after a complete facelift. Gala Place in Mongkok started enhancement works in June 2015. Starbucks opened the largest single floor concept store in Hong Kong in December 2015, delivering unique experiences to coffee lovers. After opening the largest flagship store in Asia at our Hang Lung Centre in Causeway Bay, H&M will open another mega store of 54,000 square-feet at Gala Place in January 2016.

All the asset enhancement initiatives have started to generate extra benefits as planned. The Causeway Bay commercial portfolio achieved a 15% revenue growth despite renovation interruptions during the year. Grand Plaza in Mongkok delivered a 14% growth.

The commercial portfolio in Central recorded an 11% rental growth. Other regional malls such as Amoy Plaza in Kowloon East and Kornhill Plaza in Hong Kong East posted rental growth of 9% and 6%, respectively.

In 2015, Hong Kong experienced a 4% drop in overall retail sales, the first retreat since the Individual Visit Scheme launched in 2003 by the Mainland government. Retail sales of our Hong Kong commercial portfolio, however, posted a sales growth of 5% in 2015 when excluding the areas under renovation. The Causeway Bay portfolio recorded a 14% sales growth against a year ago after its major upgrade. Amoy Plaza gained 9% in retail sales, and that of Grand Plaza increased by 6%.

Office

During 2015, the overall Hong Kong office leasing market was pleasing. Many financial institutions from mainland China set up offices in prime locations, e.g. Central, which boosted rent as a result. For the financial year ended December 31, 2015, our entire office portfolio in Hong Kong achieved a 9% rental growth to HK$1,261 million mainly driven by positive rental reversions. Occupancy rate at the year-end was 95%. Our Central office portfolio, comprising the Standard Chartered Bank Building, 1 Duddell Street, Printing House and Baskerville House, recorded a solid rental growth of 7% driven by higher rental reversions. Hang Lung Centre in Causeway Bay, featuring a trade-specific theme, achieved a 12% rental growth with occupancy rate up one point to 96% at the end of 2015. The Mongkok portfolio enjoyed an 11% rental growth with occupancy rate stood at 94%.

Residential and Serviced Apartments

Our residential and serviced apartments in Hong Kong recorded steady growth in 2015 with rent growing 7% to HK$316 million. Revenue of our high-end apartments was up 10%. Kornhill Serviced Apartments in Hong Kong East posted a rental growth of 3%.

PROPERTY SALES

During 2015, the Group sold 63 apartments (2014: 412 units) and some car parking spaces. Owing to fewer residential units sold, revenue from property sales decreased 88% to HK$1,198 million. Overall profit margin realized was 71%. The 63 residential units sold consisted of 10 units of The HarbourSide (2014: 261 units), 36 units of The Long Beach (2014: 151 units), and the last 17 units of AquaMarine (2014: Nil).

At the year-end date, the completed residential properties available for sale were 18 semi-detached houses at 23-39 Blue Pool Road, 672 units of The Long Beach, two duplex units of The HarbourSide and two Carmel-on-the-Hill apartments. These properties will be released for sale when market conditions are favorable.

PROPERTY REVALUATION

For the financial year 2015, total revaluation gain of our investment properties portfolio amounted to HK$676 million. The revaluation of our investment properties was undertaken by Savills, an independent valuer. Hong Kong investment properties recorded a revaluation gain of HK$947 million mainly benefitting from significant positive rental reversions of the Causeway Bay and Mongkok commercial portfolios after their renovation. The improved performance of offices in Central also contributed to the gain. The mainland China portfolio had a revaluation loss of HK$271 million mainly due to lower valuation of the malls at Forum 66 in Shenyang and Center 66 in Wuxi. As at December 31, 2015, the value of the investment properties of the Hong Kong portfolio amounted to HK$59,733 million and that of the mainland China portfolio was at HK$77,605 million.

PROPERTY DEVELOPMENT AND CAPITAL COMMITMENT

Following completion of the office tower in Shenyang Forum 66 last January and the soft opening of the Dalian Olympia 66 shopping mall in December 2015, the aggregate value of the Group's investment properties under development decreased by HK$8,902 million to HK$16,709 million against a year ago. Investment properties under development now comprise those in Kunming, Wuhan and the remaining phases of Shenyang and Wuxi in mainland China. The portfolio consists of shopping malls, office towers, and serviced apartments, etc. These projects represented the majority of the Group's capital commitments at the reporting date, amounted to HK$39 billion.

The foundation work for Kunming Spring City 66 is in progress. 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 about 2,000 car parking spaces. The shopping mall of Spring City 66 is scheduled to open in late 2018.

Wuhan Heartland 66, covering a total gross floor area of 460,000 square meters, is a world-class commercial project which will house a 177,000 square meters shopping mall, a Grade A office tower, serviced apartments and about 2,400 car parking spaces. This project is scheduled for completion, in phases, from late 2019.

LIQUIDITY AND FINANCIAL RESOURCES

The Group continued to maintain a strong financial position with a high degree of flexibility to meet its capital commitments. It also established multiple channels to raise debt finance in order to seize investment opportunities and/or cushion itself against unforeseeable circumstances.

Liquidity Management

As at December 31, 2015, the Group had cash and bank balances amounting to HK$31,482 million (December 31, 2014: HK$ 40,323 million). About 96% of the liquid funds were held as Renminbi (RMB) bank deposits which would be used to meet future construction payments in mainland China. The decrease in cash and bank balances was attributable to utilizing internal cash resources for some of the bank loans repayments which was part of our capital structure optimization plan.

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

	At December 31, 2015		At December 31, 2014	
	HK$ Million	% of Total	HK$ Million	% of Total
Denominated in:				
RMB	**30,164**	95.8%	35,592	88.3%
HKD	**1,306**	4.2%	4,721	11.7%
USD	**12**	–	10	–
Total cash and bank balances	**31,482**	100%	40,323	100%

Apart from available liquid funds, the Group had approximately HK$18,115 million of committed undrawn banking facilities at the reporting date and a bond issuance platform under the USD3 billion Medium Term Note Program. Together with strong recurring cash flows from operations, the Group has a strong capacity to meet future funding needs of both existing projects and new investments when the opportunity arises.

Debt Management

As at December 31, 2015, total borrowings of the Group were HK$37,330 million, lower than last year-end by HK$2,765 million. During the year, proceeds from property sales were used to repay some of the floating rate HKD bank borrowings. To further mitigate our foreign currency exposure, more RMB loans were obtained in mainland China to fund the construction payments of various projects under development.

The Group maintained an appropriate mix of fixed/floating interest rate loans and maturity profile to mitigate interest rate and re-financing risks. The table below shows the proportion of floating rates bank borrowings and fixed rates bonds.

	At December 31, 2015		At December 31, 2014	
	HK$ Million	% of Total	HK$ Million	% of Total
Floating rates HKD bank loans	**13,695**	36.7%	17,973	44.8%
Floating rates RMB bank loans	**11,031**	29.5%	9,531	23.8%
Fixed rate bonds	**12,604**	33.8%	12,591	31.4%
Total borrowings	**37,330**	100%	40,095	100%

The average tenor of the entire loan portfolio of the Group was extended to 3.6 years (2014: 3.4 years). The maturity profile of the total borrowings as at December 31, 2015, was as follows:

	At December 31, 2015		At December 31, 2014	
	HK$ Million	% of Total	HK$ Million	% of Total
Repayable:				
Within 1 year	**6,640**	17.8%	7,937	19.8%
After 1 but within 2 years	**2,062**	5.5%	6,175	15.4%
After 2 but within 5 years	**14,567**	39.0%	9,549	23.8%
Over 5 years	**14,061**	37.7%	16,434	41.0%
Total borrowings	**37,330**	100%	40,095	100%

Foreign Exchange Management

The Group's foreign exchange exposure mainly arises from its operations in mainland China and certain bank deposits denominated in RMB held in and relating to mainland China entities. In addition, the Group had exposure to USD arising from the two USD500 million bonds issued.

If appropriate, the Group may use derivative financial instruments for controlling or hedging foreign exchange risk exposures. Use of such instruments for speculative purposes is strictly prohibited.

(a) RMB Exposure

The RMB exposure of the Group is mainly derived from two respects. Firstly, the net assets of its mainland subsidiaries which mostly comprise investment properties such as shopping malls, office towers, serviced apartments and projects under development. Secondly, the RMB deposits held in and relating to mainland China entities are primarily for the purposes of settling future construction payments of those projects under development.

In respect of our operations in mainland China, we endeavor to establish an appropriate level of external local borrowings in RMB up to the extent permitted by the prevailing regulations. Given certain of its investments and operations are located in mainland China, the Group will always have exposure represented by the amount of net assets denominated in RMB. For the financial year ended December 31, 2015, the amount of net assets on the Mainland amounted to RMB 63 billion. The re-translation of these net assets to HKD using exchange rate as at the year-end date resulted in a translation loss for the year of HK$4.8 billion recorded in the exchange reserve.

With its continuous expansion on the Mainland, the Group had capital commitments amounted to RMB 33 billion as at December 31, 2015. Those commitments comprised projects under development such as Kunming Spring City 66, Wuhan Heartland 66 and remaining phases of Shenyang Forum 66 and Wuxi Center 66. The Group has established a risk management framework of managing the currency exposure relating to those capital commitments. Taking consideration of various factors such as regulatory constraints on local RMB borrowings, business environment and project development timeline etc, regular reviews have been conducted to assess the level of funding requirements in mainland China.

Out of the total RMB deposits in equivalent to HK$30,164 million, HK$21,926 million was held in Hong Kong. Those RMB deposits held in Hong Kong will match the funding needs of the mainland China developments and operations; they accounted for HK$1.3 billion of the re-translation loss during the year recorded in the exchange reserve.

As a result of the continuous update of our business plan and changes in relevant rules and regulations in mainland China, the amount of funds needed in mainland China will change over time. When appropriate, we will make necessary modifications to our currency hedging arrangement accordingly.

(b) USD Exposure

Out of the total amount of HK$12,604 million fixed rate bonds issued, an equivalent of HK$7,751 million was denominated in USD (i.e. USD1,000 million). The related USD foreign exchange exposure was covered by back-to-back 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. Besides the mitigation of foreign currency risk, the swap contracts also enable the Group to benefit from interest savings compared to the coupon rates throughout the remaining tenor of the bonds. But this was only incidental to the primary objective of hedging foreign currency risk. However, 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 year ended December 31, 2015, the Group's swap contracts had an unrealized fair value loss amounting to HK$101 million. Related valuation gains and losses will be self-correcting at the end of the swap contracts.

Gearing Ratios and Interest Cover

As at December 31, 2015, the Group had a net debt balance of HK$5,848 million (2014: Net cash of HK$ 228 million). The resulting net debt to equity and debt to equity ratios were 4.2% (2014: net cash) and 26.6% (2014: 27.7%), respectively. The interest cover of 2015 was 14 times (2014: 25 times).

Charge of Assets

Assets of the Group were not charged to any third parties as at December 31, 2015.

Contingent Liabilities

The Group did not have any material contingent liabilities as at December 31, 2015.