恒隆地產有限公司

HANG LUNG PROPERTIES LIMITED

(Incorporated in Hong Kong with limited liability)
(Stock Code: 00101)

2014 Interim Results

FINANCIAL HIGHLIGHTS

in HK$ Million (unless otherwise stated)

RESULTS

	Note	Six months ended June 30 **2014**	2013	Change
Turnover		**4,457**	3,305	+35%
Property Leasing		**3,556**	3,222	+10%
Property Sales		**901**	83	+986%
Operating Profit		**3,408**	2,705	+26%
Property Leasing		**2,868**	2,645	+8%
Property Sales		**540**	60	+800%
Net Profit Attributable to Shareholders		**3,217**	2,828	+14%
Earnings Per Share (HK$)		**$0.72**	$0.63	+14%
Interim Dividend Per Share (HK$)		**$0.17**	$0.17	-

UNDERLYING RESULTS

	Note	Six months ended June 30 **2014**	2013	Change
Underlying Net Profit Attributable to Shareholders	1	**2,484**	1,933	+29%
Underlying Earnings Per Share (HK$)	2	**$0.55**	$0.43	+28%

FINANCIAL POSITION

	Note	**At June 30, 2014**	At December 31, 2013	Change
Shareholders' Equity		**124,106**	124,534	-
Net Assets		**130,905**	131,167	-
Net Debt	3	**1,923**	658	+192%
Financial Ratio				
Net Debt to Equity Ratio	3	**1.5%**	0.5%	+1.0% pts
Debt to Equity Ratio	3	**29.1%**	26.7%	+2.4% pts
Shareholders' Equity Per Share (HK$)		**$27.7**	$27.8	-
Net Assets Per Share (HK$)		**$29.2**	$29.3	-

Notes:

1. Underlying net profit attributable to shareholders is presented by excluding the effect of adopting Hong Kong Accounting Standard 40, Investment Property, which requires changes in fair value of investment properties and investment properties under development, net of related deferred tax and non-controlling interests be accounted for in profit or loss.
2. The relevant calculations are based on underlying net profit attributable to shareholders.
3. Net debt represents bank loans and other borrowings less cash and deposits with banks. Equity comprises shareholders' equity and non-controlling interests.

MANAGEMENT DISCUSSION AND ANALYSIS

GROUP RESULTS

For the first six months ended June 30, 2014, we took advantage of improved sentiments in the Hong Kong residential market and sold a number of apartments. Turnover surged 35% to HK$4,457 million and net profit attributable to shareholders increased by 14% to HK$3,217 million. When excluding property sales, turnover rose 10% to HK$3,556 million against a year ago representing 7% and 14% rental income growth in Hong Kong and mainland China, respectively.

DIVIDEND

The Board of Directors has declared an interim dividend of HK17 cents per share (2013: HK17 cents) to be paid by cash on September 30, 2014, to shareholders. Details of the payment of the interim dividend are set out under the paragraph headed “Book Close Dates” of this announcement.

PROPERTY LEASING

Against the backdrop of a slowdown in retail sales in mainland China and Hong Kong, total rental turnover and operating profit from property leasing rose 10% and 8% to HK$3,556 million and HK$2,868 million, respectively. When excluding the contributions from Center 66 in Wuxi, which opened in September 2013, the comparable growth rates would be 6% and 5%, respectively.

Hong Kong

Rental turnover and operating profit generated from Hong Kong investment properties were both up by 7% to HK$1,623 million and HK$1,398 million, respectively. The resulting margin stayed at 86%.

The commercial sector generated 9% more rents to HK$972 million during the period as a result of positive rental reversions and higher occupancy. All the spaces were virtually fully let. Average unit rent increased by 6%. Retail sales of our tenants continued to record positive growth despite an overall reduction in Hong Kong retail sales since February 2014 against a year ago.

Our office portfolio collected 6% more rents to HK$513 million, mainly attributable to positive rental reversions. Occupancy of the office portfolio stood at 95% as at the balance sheet date.

The performance of the residential and serviced apartments sectors was relatively sluggish with revenue decreased by 2% to HK$138 million. Demands for luxury apartments renting remained soft as corporate clients became more cost conscious.

Mainland China

Rental turnover advanced by 14% to HK$1,933 million and operating profit grew 10% to HK$1,470 million for the six months ended June 30, 2014. When excluding the first time effect of Center 66 in Wuxi, property leasing income and profit increased by 5% and 4%, respectively amidst declining retail sales of luxury goods and a moderate economic growth. The mainland China portfolio now accounted for 54% and 51% of the Group's rental turnover and operating profit, respectively.

The Shanghai portfolio, Plaza 66 and Grand Gateway 66, collected 7% more rents to HK$1,395 million mainly benefitting from positive rental reversions. Rents from the two malls reached $972 million, achieving a 7% growth period-on-period. Grand Gateway 66 mall remained fully let while occupancy of Plaza 66 mall stood at 95%. Retail sales of the two malls, however, dropped by about 2% compared to the last corresponding period while the anti-corruption and anti-opulence campaigns continued. The two office towers of Plaza 66 achieved 8% rental growth in total to HK$423 million despite new supplies in the area. Occupancy of Plaza 66 office towers stood at 94% during the period with average unit rent increased by 10% against a year ago.

For the first half of 2014, our younger malls outside Shanghai contributed HK$538 million rents collectively. That total included the first time contribution by Center 66 in Wuxi. Since its grand opening last September, the occupancy rate of Center 66 has increased to 92%. The malls of Palace 66 and Forum 66 in Shenyang and Parc 66 in Jinan were undergoing the normal process of tenant reshuffling after completing their first lease cycle. Such an exercise would inevitably have a temporary adverse effect on occupancy, but it is nonetheless important for the long term benefit of any shopping mall. An encouraging sign was that all these three malls recorded positive growth in retail sales compared to a year ago while going through the tenant remix exercise.

PROPERTY SALES

Turnover of property sales boosted 9.9 times to HK$901 million and profit surged 8 times to HK$540 million. Average profit margin realized was 60%.

During the first six months of 2014, 110 units of The Long Beach apartments were sold, of which 88 units were recognized as sales upon the signing of formal sales and purchase agreements. During the last corresponding period, only one unit of The HarbourSide and four units of AquaMarine apartments were sold.

PROPERTY DEVELOPMENT AND CAPITAL COMMITEMENT

Investment properties under development comprised several projects in mainland China. They included projects in Tianjin, Dalian, Kunming, Wuhan and the remaining phases of Center 66 in Wuxi and Forum 66 in Shenyang. These projects represented the majority of the Group's capital commitments amounting to HK$47 billion as at June 30, 2014. The Group has ample financial resources to meet these commitments, particularly as they would take many years to be completed.

The shopping mall in Tianjin, Riverside 66, is scheduled to open on September 26 this year. Offering 152,800 square meters of retail area and 800 car parking spaces, Riverside 66 will provide customers with an all-round luxurious and diversified shopping and lifestyle experience backed by trend-setting facilities and premium services. The mall has already been over 80% leased.

The 250 meter-high grade A Office Tower 1 of Center 66 in Wuxi, having a total floor area of 88,560 square meters, is our first office project to be completed outside Shanghai. The opening of this tower is scheduled in the fourth quarter of 2014. Pre-leasing activities are making good progress.

Another world class office tower at Forum 66 in Shenyang is due for completion in 2015. The 350 meter-high tower will provide more than 190,000 square meters of leasing space in the heart of Shenyang, the capital city of Liaoning province.

Construction of the superstructure of Olympia 66 in Dalian, a stunning development comprising almost 220,000 square meters of retail space and 1,200 car parking spaces, is nearly completed. Interior fitting out work will be commenced soon. Pre-leasing activities have recently been started ahead of a scheduled grand opening in the third quarter of 2015.

All other Mainland projects are progressing as planned.

The interior fitting out work for 23-39 Blue Pool Road, a luxury residential development in Happy Valley Hong Kong, is finished. The complex is expected to receive its occupation permit shortly. The 18 residential units will be ready for release later this year if market conditions are favorable.

PROPERTY REVALUATION

Our investment properties portfolio was re-valued by Savills, an independent valuer, as at June 30, 2014. Hong Kong investment properties recorded a revaluation gain of HK$712 million while Mainland properties had a moderate gain of HK$36 million. Overall, a revaluation gain of HK$748 million was recorded for the first half of 2014, compared to a gain of HK$1,014 million in the corresponding period last year.

FINANCIAL POSITION

Under the current market situation, the Group considers it is appropriate to adopt a strategy of using Renminbi ("RMB") cash deposits to hedge against the currency fluctuation of our Mainland construction costs, which are denominated in RMB. At the balance sheet date, the Group had HK$36,119 million liquid funds, with more than 95% held in RMB bank deposits. After deducting total borrowings of HK$38,042 million, the Group had a net debt balance of HK$1,923 million and a resulting net debt to equity ratio of 1.5% as at June 30, 2014.

We continue to refine our debt capital structure to further mitigate future interest rate and re-financing risks. During the first six months of 2014, we issued HK$5,180 million fixed rate bonds via the Medium Term Note ("MTN") Program. As at June 30, 2014, an equivalent of HK$12,470 million fixed rate bonds were issued under the MTN Program. Altogether, the fixed rate bonds accounted for 32% of total borrowings, with a weighted average remaining tenor of 7.5 years. Those bonds were un-rated and issued with coupon rates ranging from 2.95% to 4.75% per annum. The average loan tenor of the Group was 4.1 years as at June 30, 2014.

At the reporting date, we had committed undrawn banking facilities amounting to HK$12,135 million. Together with the strong cash flows generated from operations, the Group has a strong balance sheet with a high degree of liquidity to meet the funding needs of all capital commitments and new investment opportunities when they arise.

OUTLOOK

The market environment in the first half of 2014 was full of challenges. We do not expect such challenges will go away in the second half year. During the first five months of 2014, Hong Kong experienced its first contraction of retail sales after years of growth. In mainland China, the anti-corruption and anti-opulence measures are expected to remain in place. Online sales are expected to become more popular. All these affect various segments of the retail sector to a different degree.

While the anti-corruption measures will have a temporary adverse impact on high end retail sales, they will also promote a healthier and cleaner society, which is essential for a sustainable long term economic growth. This should work in favor of long term players like Hang Lung.

We believe that online sales and physical shopping malls will co-exist and make the whole market bigger. The increasing popularity of online sales will act as a catalyst for bricks and mortar players to evolve. The key for landlords is to adopt appropriate technologies to enhance service quality and unleash creativity in providing a unique experience that cannot be matched by the online world. The various initiatives being undertaken by Hang Lung, together with our projects' prime location, best possible hardware and excellent management will strengthen the Group's long term competitiveness.

Barring unforeseeable events, our well established investment properties in Hong Kong and Shanghai will continue to deliver a steady rental growth in the second half of 2014. For those younger commercial properties on the Mainland, we will continue to optimize the tenant remix and turn them into a valuable source of future income growth.

Recent improvements in the sentiment of the Hong Kong residential property market have resulted in an increase in sales price and transaction volume compared to a year ago. This may present an opportunity for us to sell some of our residential units on hand.

Final preparations are taking place for the grand opening of the shopping mall in Tianjin, Riverside 66, on September 26 this year.

CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED JUNE 30, 2014 (UNAUDITED)

(Expressed in Hong Kong dollars)

	Note	**2014** **$ Million**	2013 $ Million
Turnover	*3(a)*	**4,457**	3,305
Direct costs and operating expenses		**(1,049)**	(600)
Gross profit		**3,408**	2,705
Other net (loss)/income	*4*	**(2)**	15
Administrative expenses		**(313)**	(282)
Operating profit before change in fair value of investment properties		**3,093**	2,438
Increase in fair value of investment properties		**748**	1,014
Operating profit after change in fair value of investment properties		**3,841**	3,452
Interest income		**428**	395
Finance costs		**(218)**	(213)
Net interest income	*5*	**210**	182
Share of profits of joint ventures		**24**	45
Profit before taxation	*3(a) & 6*	**4,075**	3,679
Taxation	*7(a)*	**(634)**	(600)
Profit for the period		**3,441**	3,079
Attributable to:			
Shareholders		**3,217**	2,828
Non-controlling interests		**224**	251
		3,441	3,079
Earnings per share	*9(a)*		
Basic		**$0.72**	$0.63
Diluted		**$0.72**	$0.63

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2014 (UNAUDITED)

(Expressed in Hong Kong dollars)

	Note	**2014** **$ Million**	2013 $ Million
Profit for the period		**3,441**	3,079
Other comprehensive income	*7(b)*		
Item that may be reclassified subsequently to profit or loss:			
Exchange difference arising from translation of overseas subsidiaries		**(1,248)**	1,471
Total comprehensive income for the period		**2,193**	4,550
Total comprehensive income attributable to:			
Shareholders		**2,027**	4,199
Non-controlling interests		**166**	351
		2,193	4,550

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT JUNE 30, 2014

(Expressed in Hong Kong dollars)

	Note	**(Unaudited) June 30, 2014 $ Million**	(Audited) December 31, 2013 $ Million
Non-current assets			
Fixed assets			
Investment properties	*10*	**108,050**	107,587
Investment properties under development	*10*	**32,619**	30,478
Other fixed assets		**302**	289
		140,971	138,354
Interest in joint ventures		**1,266**	1,030
Other assets		**7**	8
Deferred tax assets		**9**	7
		142,253	139,399
Current assets			
Cash and deposits with banks		**36,119**	34,321
Trade and other receivables	*11*	**1,348**	2,865
Properties for sale		**5,504**	5,695
		42,971	42,881
Current liabilities			
Bank loans and other borrowings		**5,185**	1,657
Trade and other payables	*12*	**6,085**	5,977
Taxation payable		**716**	633
		11,986	8,267
Net current assets		**30,985**	34,614
Total assets less current liabilities		**173,238**	174,013
Non-current liabilities			
Bank loans and other borrowings		**32,857**	33,322
Deferred tax liabilities		**9,476**	9,524
		42,333	42,846
NET ASSETS		**130,905**	131,167
Capital and reserves			
Share capital		**39,661**	4,479
Reserves		**84,445**	120,055
Shareholders' equity		**124,106**	124,534
Non-controlling interests		**6,799**	6,633
TOTAL EQUITY		**130,905**	131,167

Notes:

1. The financial statements have been reviewed by the Audit Committee.

2. Basis of preparation

   The unaudited interim financial report has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure provisions of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

   The preparation of interim financial report in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

   The accounting policies and methods of computation used in the interim financial statements are consistent with those applied in the consolidated financial statements for the year ended December 31, 2013, except for the accounting policy changes that are expected to be reflected in consolidated financial statements for the year ended December 31, 2014.

   The HKICPA has issued certain amendments to Hong Kong Financial Reporting Standards ("HKFRSs") and one new interpretation that are first effective for the current accounting period of the Group. These new and revised HKFRSs have no significant impact on the interim report of the Group for the period ended June 30, 2014 and 2013, respectively.

3. Turnover 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 Hong Kong and mainland China. 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 change in fair value of investment properties is not included in segment profits.

Notes:

3. Turnover and segment information (Continued)

(a) Turnover and results by segments

	Turnover		Profit before taxation	
	2014	2013	**2014**	2013
	$ Million	$ Million	**$ Million**	$ Million
Segment				
Property leasing				
- Hong Kong	**1,623**	1,521	**1,398**	1,308
- Mainland China	**1,933**	1,701	**1,470**	1,337
	3,556	3,222	**2,868**	2,645
Property sales				
- Hong Kong	**901**	83	**540**	60
Segment total	**4,457**	3,305	**3,408**	2,705
Other net (loss)/income			**(2)**	15
Administrative expenses			**(313)**	(282)
Operating profit before change in fair value of investment properties			**3,093**	2,438
Increase in fair value of investment properties			**748**	1,014
- property leasing in Hong Kong			**712**	687
- property leasing in mainland China			**36**	327
Interest income			**428**	395
Finance costs			**(218)**	(213)
Net interest income			**210**	182
Share of profits of joint ventures			**24**	45
Profit before taxation			**4,075**	3,679

(b) Total assets by segments

	Total assets	
	June 30, 2014	December 31, 2013
	$ Million	$ Million
Segment		
Property leasing		
- Hong Kong	**55,828**	55,009
- Mainland China	**86,153**	84,417
	141,981	139,426
Property sales		
- Hong Kong	**5,842**	7,488
Segment total	**147,823**	146,914
Interest in joint ventures	**1,266**	1,030
Other assets	**7**	8
Deferred tax assets	**9**	7
Cash and deposits with banks	**36,119**	34,321
Total assets	**185,224**	182,280

Notes:

4. Other net (loss)/income

	2014 **$ Million**	2013 $ Million
Gain on disposal of investment properties	**3**	7
Net exchange (loss)/gain	**(5)**	8
	(2)	15

5 Net interest income

	2014 **$Million**	2013 $Million
Interest income on		
Bank deposits	**428**	389
Unlisted held-to-maturity investments	**-**	6
	428	395
Interest expenses on		
Bank loans and other borrowings	**623**	503
Other borrowing costs	**40**	26
Total borrowing costs	**663**	529
Less: Borrowing costs capitalized	**(445)**	(316)
Finance costs	**218**	213
Net interest income	**210**	182

6. Profit before taxation

	2014 **$Million**	2013 $Million
Profit before taxation is arrived at after charging:		
Cost of properties sold	**267**	15
Staff costs, including employee share-based payments of $77 million (2013: $65 million)	**538**	402
Depreciation	**23**	19

Notes:

7. Taxation

(a) Provision for Hong Kong Profits Tax is calculated at 16.5% (2013: 16.5%) of the estimated assessable profits for the period. China Income Tax mainly represents China Corporate Income Tax calculated at 25% (2013: 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.

	2014	2013
	$ Million	$ Million
Current tax		
Hong Kong Profits Tax	**250**	181
China Income Tax	**344**	278
	594	459
Deferred tax		
Change in fair value of investment properties	**9**	82
Other origination and reversal of temporary differences	**31**	59
	40	141
Total income tax expense	**634**	600

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

8. Dividends

(a) Dividends attributable to the period

	2014	2013
	$ Million	$ Million
Proposed after the end of the reporting period:		
17 cents (2013: 17 cents) per share	**762**	761

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) Dividends attributable to the previous financial year, approved and paid during the period

	2014	2013
	$ Million	$ Million
Final dividend in respect of the previous financial year of 58 cents (2013: 57 cents) per share	**2,601**	2,553

Notes:

9. Earnings per share

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

	2014	2013
	$ Million	$ Million
Earnings for calculation of basic and diluted earnings per share (net profit attributable to shareholders)	**3,217**	2,828

	Number of shares	
	2014	2013
	(Million)	(Million)
Weighted average number of shares used in calculating basic earnings per share	**4,481**	4,478
Effect of dilutive potential shares - share options	**2**	17
Weighted average number of shares used in calculating diluted earnings per share	**4,483**	4,495

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

	2014	2013
	$ Million	$ Million
Net profit attributable to shareholders	**3,217**	2,828
Effect of changes in fair value of investment properties	**(748)**	(1,014)
Effect of corresponding deferred tax	**9**	82
Effect of change in fair value of investment properties of joint ventures	**(1)**	(18)
	(740)	(950)
Non-controlling interests	**7**	55
	(733)	(895)
Underlying net profit attributable to shareholders	**2,484**	1,933

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

	2014	2013
Basic	**$0.55**	$0.43
Diluted	**$0.55**	$0.43

Notes:

10. Investment properties and investment properties under development

    (a) Additions

    During the period, additions to investment properties and investment properties under development amounted to $2,650 million (2013: $6,639 million).

    (b) Valuation

    The investment properties and investment properties under development of the Group were revalued as at June 30, 2014 by Mr. Charles C.K. Chan, Registered Professional Surveyor (General Practice), of Savills Valuation and Professional Services Limited, on a market value basis.

11. Trade and other receivables

    (a) Included in trade and other receivables are trade receivables (based on the due date) with the following terms:

	June 30, 2014 $ Million	December 31, 2013 $ Million
Current and within 1 month	**372**	1,830
1 - 3 months	**7**	12
Over 3 months	**5**	9
	384	1,851

The balance of bad and doubtful debts is insignificant.

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.

    (b) Included in other receivables of the Group are deposit of land acquisition in mainland China of $315 million (December 31, 2013: $318 million) and amount recoverable from a joint venture of $112 million (December 31, 2013: $212 million) which is unsecured and has no fixed terms of repayment.

12. Trade and other payables

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

	June 30, 2014 $ Million	December 31, 2013 $ Million
Due within 1 month	**2,741**	2,633
Due after 3 months	**569**	548
	3,310	3,181

Purchase, Sale or Redemption of Listed Securities

During the six months ended June 30, 2014, 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 six months ended June 30, 2014, 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.

Book Close Dates

Book close dates (both days inclusive)	September 16 to 17, 2014
Latest time to lodge transfers	4:30 pm on September 15, 2014
Record date for interim dividend	September 17, 2014
Interim dividend payment date	September 30, 2014

On Behalf of the Board
Ronnie C. Chan
Chairman

Hong Kong, July 31, 2014

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 and Mr. H.C. HO
Non-Executive Director: Mr. Nelson W.L. YUEN
Independent Non-Executive Directors: Mr. S.S. YIN, Mr. Ronald J. ARCULLI, Dr. H.K. CHENG, Ms. Laura L.Y. CHEN, Prof. P.W. LIU and Mr. Dominic C.F. HO