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恒隆集團有限公司
HANG LUNG GROUP LIMITED
(Incorporated in Hong Kong with limited liability)
 (Stock Code: 00010)

2014 Annual Results

FINANCIAL HIGHLIGHTS

in HK\$ Million (unless otherwise stated)

RESULTS

| | Note | 2014 | 2013 | Change |
|--|------|---------------|--------|--------|
| Turnover | | 17,606 | 9,734 | +81% |
| Property Leasing | | 7,792 | 7,216 | +8% |
| Property Sales | | 9,814 | 2,518 | +290% |
| Operating Profit | | 13,406 | 7,252 | +85% |
| Property Leasing | | 5,987 | 5,731 | +4% |
| Property Sales | | 7,419 | 1,521 | +388% |
| Net Profit Attributable to Shareholders | | 6,825 | 4,557 | +50% |
| Earnings Per Share (HK\$) | | \$5.04 | \$3.38 | +49% |
| Dividends Per Share (HK\$) | | \$0.81 | \$0.80 | +1% |
| Interim (Paid) | | \$0.19 | \$0.19 | - |
| Final (Proposed) | | \$0.62 | \$0.61 | +2% |

UNDERLYING RESULTS

| | | 2014 | 2013 | Change |
|---|---|---------------|--------|--------|
| Underlying Net Profit Attributable to Shareholders | 1 | 5,730 | 3,071 | +87% |
| Underlying Earnings Per Share (HK\$) | 2 | \$4.23 | \$2.27 | +86% |

FINANCIAL POSITION

| | | At December 31 | | |
|--|---|----------------|---------|-----------|
| | | 2014 | 2013 | Change |
| Shareholders' Equity | | 76,026 | 70,572 | +8% |
| Net Assets | | 144,696 | 136,408 | +6% |
| Net Cash / (Net Debt) | 3 | 228 | (5,320) | N/A |
| Financial Ratio | | | | |
| Net Debt to Equity Ratio | 3 | N/A | 3.9% | N/A |
| Debt to Equity Ratio | 3 | 27.7% | 33.0% | -5.3% pts |
| Shareholders' Equity Per Share (HK\$) | | \$56.1 | \$52.3 | +7% |
| Net Assets Per Share (HK\$) | | \$106.8 | \$101.0 | +6% |

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 calculation is based on underlying net profit attributable to shareholders.
3. Net cash / (Net debt) represents cash and deposits with banks net off bank loans and other borrowings. Equity comprises shareholders' equity and non-controlling interests.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

Breakdown of Turnover and Operating Profit of the Group

| HK\$ Million | Turnover | | | Operating Profit | | |
|-------------------------|---------------|-------|--------|------------------|-------|--------|
| | 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% |

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.

DIVIDEND

The Board of Directors has declared a final dividend of HK62 cents per share for 2014 (2013: HK61 cents) to be paid by cash on May 19, 2015, to shareholders. Details of the payment of the final dividend are set out under the paragraph headed “Book Close Dates” of this announcement.

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 anti-corruption 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%.

We further expanded our footprint on the Mainland with the additions of Tianjin Riverside 66 mall and Wuxi Center 66 office tower to the property leasing portfolio during 2014. Total gross floor area of the investment properties of the Group operating in five cities on the Mainland increased to 1,911,000 square meters, comprising 1,513,000 square meters of commercial area, 315,000 square meters of office spaces and 83,000 square meters of residential and apartments area. Total retail sales of our shopping malls on the Mainland exceeded RMB 10 billion in 2014.

Shanghai Portfolio (Plaza 66 and Grand Gateway 66)

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.

Non-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.

- ***Shenyang (Palace 66 and Forum 66)***

Our first mall outside Shanghai, Shenyang Palace 66, which debuted in June 2010, achieved a 4% rental growth as the tenant remixing process began to bear fruit. Benefiting from an improved tenant profile and more effective marketing activities, retail sales of the mall jumped 12% despite a decrease in occupancy rate by three points to 85% compared to a year ago.

The prestigious Forum 66 mall, which commenced operation in September 2012, delivered a stable rental turnover during 2014. Occupancy rate fell six points to 93% amidst a changing tenant mix. Encouragingly, retail sales of this mall increased by 2% as a result of more effective promotional activities.

- ***Parc 66, Jinan***

The Group was presented with an opportunity to modify the tenancy profile and product offering of Parc 66 as many tenancies came to the end of the first lease cycle. Our strategy was to increase the proportion of non-conventional shopping entertainment and new elements of lifestyle luxury to enrich customers' experience at this mall. As a result, innovative arrivals introduced in 2014 included Korean 3D brand The Trick Eye Museum, footwear icon UGG, Gymboree for children's apparel and education, American-style diner Laya Burger and a combined books-and-café tenant.

Meanwhile, the mall recorded an 8% decrease in rental turnover during 2014 and occupancy rate fell by six points to 82% during the process of change. Retail sales decreased by 2% while footfall remained stable and attached to the core offering in this reporting period.

- ***Center 66, Wuxi***

Occupancy rate of Center 66 mall has continued to build up to 91% since its grand opening in September 2013. With the opening of the first Ferrari & Maserati car showroom and Apple Store during 2014, the tenancy and product variety of this mall have continued to be enriched. Accessibility and popularity of the mall have continued to improve following the opening of a pedestrian tunnel linking the basement of the mall to the metro station last October. Retail sales of the mall in the last quarter of 2014 soared 48% against the corresponding period in 2013.

Center 66 office tower, our first office tower outside Shanghai, commenced operation on October 16, 2014. With the excellent location and superior quality of this building, we were able to command a premium rent rate in the market.

- *Riverside 66, Tianjin*

The performance of our newly opened mall in Tianjin, Riverside 66, was encouraging. Occupancy rate was 85% at the year-end date, or 91% when including the committed tenancies. 60 new brands were introduced to the Tianjin market for the first time when the mall opened last September. Average daily footfall has increased to 31,000 during weekdays or 52,000 over the weekends since the grand opening.

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

| HK\$ Million | Rental Turnover | | | Occupancy Rate | |
|-------------------------------------|-----------------|--------------|------------|----------------|--------|
| | 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% | | |
| Total | 3,438 | 3,232 | +6% | | |

- *Hong Kong - 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.

Over the past two years, the commercial space of The Standard Chartered Bank Building in Central has been transformed into a stylish banking hall, the home of a luxury fashion brand, Escada, and a contemporary fine dining establishment, Mott 32 restaurant. Together with the reshuffling of tenants of other properties including 1 Duddell Street, Printing House and Baskerville House, our Central portfolio 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.

The iconic mall on the Peak, The Peak Galleria, collected 6% more rents in 2014. Progressive tenant reshuffling brought in a number of interesting brands. The first Trick Eye Museum in Hong Kong was opened at The Peak Galleria in December 2014, offering extraordinary entertainment experience and attracted younger visitors.

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 regional malls continued to deliver solid rental growths as a result of positive rental reversions, including Amoy Plaza in Kowloon East and Kornhill Plaza in Hong Kong East which generated 10% and 5% more rents, respectively.

● *Hong Kong - 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, comprising The Standard Chartered Bank Building, 1 Duddell Street, Printing House and Baskerville House, 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%.

- ***Hong Kong - 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 residential units 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.

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.

**CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2014 (AUDITED)**

(Expressed in Hong Kong dollars)

| | <i>Note</i> | 2014 \$ Million | 2013 \$ Million |
|---|-------------|---------------------------|--------------------|
| Turnover | 3(a) | 17,606 | 9,734 |
| Direct costs and operating expenses | | (4,200) | (2,482) |
| Gross profit | | 13,406 | 7,252 |
| Other net income | 4 | 73 | 63 |
| Administrative expenses | | (705) | (698) |
| Operating profit before change in fair value of investment properties | | 12,774 | 6,617 |
| Increase in fair value of investment properties | | 1,712 | 2,651 |
| Operating profit after change in fair value of investment properties | | 14,486 | 9,268 |
| Interest income | | 1,090 | 978 |
| Finance costs | | (827) | (549) |
| Net interest income | 5 | 263 | 429 |
| Share of profits of joint ventures | | 355 | 431 |
| Profit before taxation | 3(a) & 6 | 15,104 | 10,128 |
| Taxation | 7(a) | (2,368) | (1,567) |
| Profit for the year | | 12,736 | 8,561 |
| Attributable to: | | | |
| Shareholders | | 6,825 | 4,557 |
| Non-controlling interests | | 5,911 | 4,004 |
| | | 12,736 | 8,561 |
| Earnings per share | 9(a) | | |
| Basic | | \$5.04 | \$3.38 |
| Diluted | | \$5.03 | \$3.36 |

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2014 (AUDITED)**

(Expressed in Hong Kong dollars)

| | <i>Note</i> | 2014 \$ Million | 2013 \$ Million |
|---|-------------|---------------------------|--------------------|
| Profit for the year | | 12,736 | 8,561 |
| Other comprehensive income | <i>7(b)</i> | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Net movement in investment revaluation reserve | | 16 | 13 |
| Exchange difference arising from translation of overseas subsidiaries | | (1,021) | 2,989 |
| Other comprehensive income for the year | | <u>(1,005)</u> | <u>3,002</u> |
| Total comprehensive income for the year | | <u>11,731</u> | <u>11,563</u> |
| Total comprehensive income attributable to: | | | |
| Shareholders | | 6,262 | 6,289 |
| Non-controlling interests | | 5,469 | 5,274 |
| | | <u>11,731</u> | <u>11,563</u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT DECEMBER 31, 2014 (AUDITED)

(Expressed in Hong Kong dollars)

| | <i>Note</i> | 2014 \$ Million | 2013 \$ Million |
|--|-------------|----------------------------------|--------------------|
| Non-current assets | | | |
| Fixed assets | | | |
| Investment properties | <i>10</i> | 128,357 | 115,818 |
| Investment properties under development | <i>10</i> | 25,611 | 30,478 |
| Other fixed assets | | 306 | 295 |
| | | 154,274 | 146,591 |
| Interest in joint ventures | | 3,300 | 2,991 |
| Other assets | | 1,438 | 1,282 |
| Deferred tax assets | | 23 | 19 |
| | | 159,035 | 150,883 |
| Current assets | | | |
| Cash and deposits with banks | | 40,323 | 39,704 |
| Trade and other receivables | <i>11</i> | 1,947 | 2,661 |
| Properties for sale | | 4,068 | 5,717 |
| | | 46,338 | 48,082 |
| Current liabilities | | | |
| Bank loans and other borrowings | | 7,937 | 1,657 |
| Trade and other payables | <i>12</i> | 8,249 | 6,250 |
| Taxation payable | | 1,606 | 646 |
| | | 17,792 | 8,553 |
| Net current assets | | 28,546 | 39,529 |
| Total assets less current liabilities | | 187,581 | 190,412 |
| Non-current liabilities | | | |
| Bank loans and other borrowings | | 32,158 | 43,367 |
| Deferred tax liabilities | | 10,727 | 10,637 |
| | | 42,885 | 54,004 |
| NET ASSETS | | 144,696 | 136,408 |
| Capital and reserves | | | |
| Share capital | | 3,893 | 1,350 |
| Share premium and capital redemption reserve | | - | 2,483 |
| Reserves | | 72,133 | 66,739 |
| Shareholders' equity | | 76,026 | 70,572 |
| Non-controlling interests | | 68,670 | 65,836 |
| TOTAL EQUITY | | 144,696 | 136,408 |

Notes:

1. The financial statements have been reviewed by the Audit Committee.
2. Basis of preparation

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") and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that 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, 2013 except for the changes stated as below.

The HKICPA has issued a number of amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- Amendments to HKAS 32, Financial instruments: Presentation — Offsetting financial assets and financial liabilities
- Amendments to HKAS 36, Recoverable amounts disclosure for non-financial assets

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

- (a) Amendments to HKAS 32, Financial instruments: Presentation — Offsetting financial assets and financial liabilities

The amendments to HKAS 32 clarified some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position. The amendments do not have a significant impact on the Group's financial statements.

- (b) Amendments to HKAS 36, Recoverable amounts disclosure for non-financial assets

The amendments to HKAS 36 modified the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or cash generating units whose recoverable amount is based on fair value less costs of disposal. The amendments do not have a significant impact on the Group's financial statements.

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

| <u>Segment</u> | Turnover | | Profit before taxation | |
|--|--------------------|--------------------|------------------------|--------------------|
| | 2014 \$ Million | 2013 \$ Million | 2014 \$ Million | 2013 \$ Million |
| Property leasing | | | | |
| - Mainland China | 4,354 | 3,984 | 3,090 | 2,995 |
| - Hong Kong | 3,438 | 3,232 | 2,897 | 2,736 |
| | <u>7,792</u> | <u>7,216</u> | <u>5,987</u> | <u>5,731</u> |
| Property sales | | | | |
| - Hong Kong | 9,814 | 2,518 | 7,419 | 1,521 |
| Segment total | <u>17,606</u> | <u>9,734</u> | <u>13,406</u> | <u>7,252</u> |
| Other net income | | | 73 | 63 |
| Administrative expenses (Note) | | | (705) | (698) |
| Operating profit before change in fair value of investment properties | | | 12,774 | 6,617 |
| Increase in fair value of investment properties | | | 1,712 | 2,651 |
| - property leasing in Hong Kong | | | 1,623 | 1,660 |
| - property leasing in mainland China | | | 89 | 991 |
| Interest income | | | 1,090 | 978 |
| Finance costs | | | (827) | (549) |
| Net interest income | | | 263 | 429 |
| Share of profits of joint ventures | | | 355 | 431 |
| Profit before taxation | | | <u>15,104</u> | <u>10,128</u> |

Note: Administrative expenses included share-based payments of \$157 million (2013: \$164 million) representing the amortization of the fair value of options granted to employees over the vesting period and do not involve any cash outflow for the Group.

(b) Total assets by segments

| <u>Segment</u> | Total assets | |
|------------------------------|--------------------|--------------------|
| | 2014 \$ Million | 2013 \$ Million |
| Property leasing | | |
| - Mainland China | 96,318 | 90,417 |
| - Hong Kong | 58,917 | 57,042 |
| | <u>155,235</u> | <u>147,459</u> |
| Property sales | | |
| - Hong Kong | 5,054 | 7,510 |
| Segment total | <u>160,289</u> | <u>154,969</u> |
| Interest in joint ventures | 3,300 | 2,991 |
| Other assets | 1,438 | 1,282 |
| Deferred tax assets | 23 | 19 |
| Cash and deposits with banks | 40,323 | 39,704 |
| Total assets | <u>205,373</u> | <u>198,965</u> |

Notes:

4. Other net income

| | 2014 | 2013 |
|---|-------------------|------------|
| | \$ Million | \$ Million |
| Gain on disposal of investment properties | 3 | 9 |
| Dividend income from listed investments | 4 | 4 |
| Dividend income from unlisted investments | - | 11 |
| Net exchange gain | 64 | 38 |
| Others | 2 | 1 |
| | <u>73</u> | <u>63</u> |

5. Net interest income

| | 2014 | 2013 |
|---------------------------------------|-------------------|------------|
| | \$ Million | \$ Million |
| Interest income on | | |
| Bank deposits | 1,090 | 967 |
| Unlisted held-to-maturity investments | - | 11 |
| | <u>1,090</u> | <u>978</u> |

| | | |
|-----------------------------------|--------------|--------------|
| Interest expenses on borrowings | 1,464 | 1,180 |
| Other borrowing costs | 129 | 85 |
| Total borrowing costs | <u>1,593</u> | <u>1,265</u> |
| Less: Borrowing costs capitalized | <u>(766)</u> | <u>(716)</u> |
| Finance costs | 827 | 549 |
| Net interest income | <u>263</u> | <u>429</u> |

6. Profit before taxation

| | 2014 | 2013 |
|--|-------------------|--------------|
| | \$ Million | \$ Million |
| Profit before taxation is arrived at after charging: | | |
| Cost of properties sold | 1,802 | 794 |
| Staff costs, including employee share-based payments of \$157 million (2013: \$164 million) | 1,211 | 1,002 |
| Depreciation | 52 | 40 |
| | <u>3,065</u> | <u>2,636</u> |

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 year. 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 | 1,517 | 582 |
| Over-provision in prior years | (33) | (13) |
| | 1,484 | 569 |
| China Income Tax | 762 | 601 |
| | 2,246 | 1,170 |
| Deferred tax | | |
| Change in fair value of investment properties | 23 | 248 |
| Other origination and reversal of temporary differences | 99 | 149 |
| | 122 | 397 |
| Total income tax expense | 2,368 | 1,567 |

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

8. Dividends

- (a) Dividends attributable to the year

| | 2014 | 2013 |
|--|-------------------|------------|
| | \$ Million | \$ Million |
| Interim dividend declared and paid of 19 cents (2013: 19 cents) per share | 257 | 256 |
| Final dividend of 62 cents (2013: 61 cents) per share proposed after the end of the reporting period | 840 | 823 |
| | 1,097 | 1,079 |

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 \$827 million (calculated based on 61 cents per share and the total number of issued shares as at dividend pay-out date) for the year ended December 31, 2013 was approved and paid in the year ended December 31, 2014 (2013: \$810 million).

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) | 6,825 | 4,557 |
| | Number of shares | |
| | 2014 | 2013 |
| | Million | Million |
| Weighted average number of shares used in calculating basic earnings per share | 1,353 | 1,350 |
| Effect of dilutive potential shares - share options | 5 | 7 |
| Weighted average number of shares used in calculating diluted earnings per share | 1,358 | 1,357 |

(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 | 6,825 | 4,557 |
| Effect of changes in fair value of investment properties | (1,712) | (2,651) |
| Effect of corresponding deferred tax | 23 | 248 |
| Effect of changes in fair value of investment properties of joint ventures | (205) | (243) |
| Non-controlling interests | 799 | 1,160 |
| Underlying net profit attributable to shareholders | 5,730 | 3,071 |
| The earnings per share based on underlying net profit attributable to shareholders are: | | |
| | 2014 | 2013 |
| Basic | \$4.23 | \$2.27 |
| Diluted | \$4.22 | \$2.26 |

Notes:

10. Investment properties and investment properties under development

(a) Additions

During the year, additions to investment properties and investment properties under development amounted to \$6,263 million (2013: \$10,703 million).

(b) Valuation

The investment properties and investment properties under development of the Group were revalued as at December 31, 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:

| | 2014 | 2013 |
|----------------------------|---------------------|--------------|
| | \$ Million | \$ Million |
| Current and within 1 month | 1,008 | 1,834 |
| 1 - 3 months | 8 | 14 |
| Over 3 months | 8 | 9 |
| | <u>1,024</u> | <u>1,857</u> |

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 is deposit of land acquisition in mainland China of \$317 million (2013: \$318 million).

12. Trade and other payables

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

| | 2014 | 2013 |
|--------------------|---------------------|--------------|
| | \$ Million | \$ Million |
| Due within 1 month | 4,350 | 2,693 |
| Due after 3 months | 565 | 548 |
| | <u>4,915</u> | <u>3,241</u> |

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.

Book Close Dates

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

| | |
|--|---------------------------|
| Book close dates (both days inclusive) | April 28 to 29, 2015 |
| Latest time to lodge transfers | 4:30 pm on April 27, 2015 |
| Record date | April 29, 2015 |
| AGM | April 29, 2015 |

For ascertaining shareholders' entitlement to the proposed final dividend:

| | |
|--------------------------------|------------------------|
| Book close date | May 6, 2015 |
| Latest time to lodge transfers | 4:30 pm on May 5, 2015 |
| Record date | May 6, 2015 |
| Final dividend payment date | May 19, 2015 |

On Behalf of the Board

Ronnie C. Chan

Chairman

Hong Kong, January 26, 2015

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. Gerald L. CHAN

Independent Non-Executive Directors: Mr. S.S. YIN, Dr. H.K. CHENG, Ms. Laura L.Y. CHEN, Mr. Simon S.O. IP, Prof. L.C. TSUI and Mr. Martin C.K. LIAO