恒隆集團有限公司
**HANG LUNG GROUP LIMITED**

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00010)

# 2017 INTERIM RESULTS

恒隆集團
HANG LUNG GROUP



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恒隆集團
HANG LUNG GROUP



# FINANCIAL HIGHLIGHTS

*in HK$ Million (unless otherwise stated)*

## RESULTS

| | *For the Six Months Ended June 30* | | |
|---|---|---|---|
| | **2017** | 2016 | Change |
| **Revenue** | **6,641** | 6,610 | - |
| Property Leasing | **4,118** | 4,206 | -2% |
| Property Sales | **2,523** | 2,404 | 5% |
| **Operating Profit** | **4,743** | 4,531 | 5% |
| Property Leasing | **3,101** | 3,142 | -1% |
| Property Sales | **1,642** | 1,389 | 18% |
| **Net Profit Attributable to Shareholders** | **2,396** | 1,790 | 34% |
| **Earnings Per Share** (HK$) | **$1.76** | $1.32 | 33% |
| **Interim Dividend Per Share** (HK$) | **$0.19** | $0.19 | - |

## UNDERLYING RESULTS

| | *For the Six Months Ended June 30* | | |
|---|---|---|---|
| | **2017** | 2016 | Change |
| **Underlying Net Profit Attributable to Shareholders** | **1,811** | 1,864 | -3% |
| **Underlying Earnings Per Share** (HK$) | **$1.33** | $1.37 | -3% |

## FINANCIAL POSITION

| | **At June 30** | At December 31 | |
|---|---|---|---|
| | **2017** | 2016 | Change |
| **Shareholders' Equity** | **78,497** | 75,658 | 4% |
| **Net Assets** | **142,619** | 138,013 | 3% |
| **Net Debt** | **4,554** | 6,595 | -31% |
| **Financial Ratio** | | | |
| Net Debt to Equity Ratio | **3.2%** | 4.8% | -1.6 pts |
| Debt to Equity Ratio | **19.1%** | 22.5% | -3.4 pts |
| **Shareholders' Equity Per Share** (HK$) | **$57.6** | $55.5 | 4% |
| **Net Assets Per Share** (HK$) | **$104.7** | $101.3 | 3% |

# REVIEW OF OPERATIONS

## CONSOLIDATED RESULTS

Total revenue of Hang Lung Group Limited and its subsidiaries (the Group) amounted to HK$6,641 million in the first half of 2017. Property sales revenue rose 5% to HK$2,523 million. Revenue of property leasing decreased 2% to HK$4,118 million, but was up 1% if excluding the 5% Renminbi (RMB) depreciation against the Hong Kong Dollar (HKD) over the corresponding period of last year. Total operating profit increased 5% to HK$4,743 million.

Due to lower interest income and a smaller amount of interest expense capitalization, underlying net profit retreated 3% to HK$1,811 million. Net profit attributable to shareholders increased 34% to HK$2,396 million, after taking account of effects of property revaluation gain. Earnings per share increased similarly to HK$1.76.

***Revenue and Operating Profit for the Six Months Ended June 30***

| | Revenue | | | Operating Profit | | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | Change | **2017** | 2016 | Change |
| | **HK$ Million** | HK$ Million | | **HK$ Million** | HK$ Million | |
| **Property Leasing** | **4,118** | 4,206 | -2% | **3,101** | 3,142 | -1% |
| Mainland China | **2,153** | 2,259 | -5% | **1,413** | 1,478 | -4% |
| Hong Kong | **1,965** | 1,947 | 1% | **1,688** | 1,664 | 1% |
| **Property Sales** | **2,523** | 2,404 | 5% | **1,642** | 1,389 | 18% |
| **Total** | **6,641** | 6,610 | - | **4,743** | 4,531 | 5% |

## DIVIDEND

The Board of Directors has declared an interim dividend of HK19 cents per share for 2017 (2016: HK19 cents) to be paid by cash on September 28, 2017, to shareholders whose names appeared on the register of members on September 14, 2017.

## PROPERTY LEASING

For the six months ended June 30, 2017, total revenue of property leasing decreased 2% to HK$4,118 million largely because of renovation programs at Grand Gateway 66 in Shanghai and Causeway Bay and The Peak Galleria in Hong Kong. The consolidated results were also adversely affected by the 5% RMB depreciation. Income of the Hong Kong leasing portfolio was up 1%. Revenue of the mainland portfolio decreased 5%, but was stable in RMB terms. Total operating profit decreased 1% to HK$3,101 million. Overall rental margin was 75%.

### Mainland China

Revenue of our entire mainland China portfolio was stable at RMB1,903 million. Operating profit increased 1% to RMB1,249 million. The resulting average rental margin increased one point to 66%.

Consumption of luxury goods in Mainland cities where we have operations was subdued except at our Shanghai Plaza 66 mall. During the first half of 2017, the renovation of the Shanghai Plaza 66 mall was almost completed and the mall recorded strong growth in both rental income and retail sales. On the other hand, major asset enhancement programs at the Shanghai Grand Gateway 66 mall commenced in early 2017; they had caused temporary income interruption, as expected.

The performance of our non-Shanghai portfolio was mixed. Overall business environment remained challenging in cities such as Shenyang and Wuxi. Vigilant tenant remix and marketing measures were implemented in the first six months of 2017. These efforts would have inevitable short-term adverse impact on occupancy and financial performance. Such relentless pursuit of continuous improvements is expected to yield better future returns.

***Mainland China Property Leasing Portfolio for the Six Months Ended June 30***

| **Name and City of the Property** | **Revenue** (RMB Million) | | | **Occupancy Rate at June 30, 2017** | |
|---|---|---|---|---|---|
| | **2017** | 2016 | Change | Mall | Office |
| Shanghai Plaza 66 | **710** | 654 | 9% | 89% | 86% |
| Shanghai Grand Gateway 66 | **631** | 670 | -6% | 81% | 88% |
| Shenyang Palace 66 | **77** | 70 | 10% | 88% | N/A |
| Shenyang Forum 66 | **105** | 119 | -12% | 77% | 69% |
| Jinan Parc 66 | **133** | 135 | -1% | 92% | N/A |
| Wuxi Center 66 | **105** | 119 | -12% | 84% | 77% |
| Tianjin Riverside 66 | **90** | 96 | -6% | 87% | N/A |
| Dalian Olympia 66 * | **52** | 36 | 44% | 64% | N/A |
| **Total** | **1,903** | 1,899 | - | | |
| *Total in HK$ Million equivalent* | ***2,153*** | *2,259* | *-5%* | | |

* Grand opening on September 9, 2016.

- *Shopping Malls*

Revenue of our eight shopping malls in mainland China increased 2% to RMB1,338 million. Higher contributions from the Shanghai Plaza 66 mall and the new Dalian Olympia 66 mall were largely offset by the rental interruption due to renovation work at the Shanghai Grand Gateway 66 mall and negative rental reversions at some malls outside Shanghai.

Benefitting from the re-opening of the renovated basement and higher sales rents, revenue of the Shanghai Plaza 66 mall increased 23%. The brand new basement, which had been closed for renovation since March 2016, was re-opened in phases from January 2017. It introduced more than 30 tenants to enrich the offerings of the mall. For the first half of 2017, retail sales at the Plaza 66 mall increased 29% compared to the same period last year.

The major upgrading program of the Shanghai Grand Gateway 66 mall will be carried out in phases, spread over 30 months to mid-2019. The work will include a new main entrance for the shopping mall, a new subway link to Metro Line 9, and a major layout re-configuration at Level 1 and the basement of the mall, etc. 19% of the leasable area has been closed for the enhancement and renovation program. As a result, occupancy of the mall dropped 15 points to

81%. Rental income retreated 7%, but was up 9% when excluding the affected areas. Due to renovation, retail sales at the Grand Gateway 66 mall decreased 5%. Some of the affected areas will be re-opened in phases from 2018 to minimize the adverse impact on income and profit. This carefully planned asset enhancement program will strengthen the mall's long-term competitiveness and profitability.

The performance of our six malls outside of Shanghai was mixed. Overall revenue decreased by 3%. Some malls had to make downward adjustments in rents to optimize tenant mix and occupancy in a challenging market environment. Rental income of Shenyang Palace 66 increased 10%, despite occupancy rate was down one point to 88% by the end of June 2017. Revenue of Jinan Parc 66 decreased by 1%, while occupancy increased eight points to 92%. Revenue of the Tianjin Riverside 66 mall decreased 6%, but occupancy improved five points to 87%. Retails sales at Palace 66, Parc 66 and Riverside 66 increased by 12%, 8% and 14%, respectively.

The Shenyang Forum 66 mall was undergoing a tenant optimization exercise to replace non-performing tenants. Its revenue fell 28% with occupancy rate decreased seven points to 77% by the end of June 2017. The performance of this mall is expected to improve gradually with the introduction of new tenants to the mall and increasing occupancy of its office tower. The upper 19 floors of the office tower are being converted into a five-star Conrad hotel that is expected to open in 2019. It will enrich the composition of this mixed-use development. Despite a lower occupancy, retail sales at the mall increased by 2% because of a better tenant mix.

With the success of the first office tower, construction of the second office tower above the Wuxi Center 66 mall was progressing as planned. About 9% of the mall's leasable area was void temporarily during construction. Revenue of the mall decreased 13%. With occupancy stood at 84% at the end of June 2017, the remaining space available for leasing was only 7%. Leasing of such space is progressing well. Retail sales increased by 19% as more new brands were introduced to the mall to enrich its offerings.

Olympia 66, our new mall in Dalian, had its grand opening on September 9, 2016. Occupancy was 64% at the end of June 2017.

- *Offices*

Offices in Shanghai Plaza 66 and Grand Gateway 66 recorded a 6% rental drop collectively due to transitional voids associated with major tenant relocation within the buildings and phased re-letting of units previously occupied by large space users.

The major upgrade work for Office Tower One at Plaza 66 was completed in 2016, a similar program for Office Tower Two also commenced in the fourth quarter of 2016. The whole upgrade program will be completed in phases by 2018. The renovation of the office tower at Shanghai Grand Gateway 66 has also commenced as part of the asset enhancement programs. The enhancement work will have minimal adverse impact on the revenue of Plaza 66 and Grand Gateway 66.

Revenue from offices in Shenyang Forum 66 and Wuxi Center 66 grew by 4% in total. The office towers at both Forum 66 and Center 66 have established a strong foothold in the respective cities, attracting multi-national companies and renowned nationals. The tenant mix continued to improve via expansion and replacements.

Overall, revenue of the office portfolio in mainland China decreased 5% to RMB496 million.

- *Residential and Serviced Apartments*

Revenue of residential and serviced apartments at Grand Gateway 66 in Shanghai increased 2%, although the occupancy rate was adversely affected by the renovation work at the mall. Overall occupancy decreased five points to 89% by the end of June 2017.

**Hong Kong**

Total revenue and operating profit of our Hong Kong leasing properties both advanced 1% to HK$1,965 million and HK$1,688 million, respectively. Overall rental margin was up one point to 86%.

***Hong Kong Property Leasing Portfolio for the Six Months Ended June 30***

| | **Revenue** (HK$ Million) | | | **Occupancy Rate at June 30, 2017** |
|---|---|---|---|---|
| | **2017** | 2016 | Change | |
| Commercial | **1,130** | 1,143 | -1% | 94% |
| Office and Industrial / Offices | **689** | 663 | 4% | 94% |
| Residential & Serviced Apartments | **146** | 141 | 4% | 74% |
| **Total** | **1,965** | 1,947 | 1% | |

- *Commercial*

Revenue of the Hong Kong commercial portfolio retreated 1% to HK$1,130 million, but was up 2% when excluding areas closed for upgrading in Causeway Bay and The Peak Galleria. Overall occupancy was 94% at the end of June 2017.

Rental revenue of the Causeway Bay portfolio was affected by renovation work and decreased 4%. A sizeable area at 9 Kingston Street, representing 23% of our Causeway Bay portfolio retail space, has been closed for renovation since January 2017. The brand new 9 Kingston Street, with enhanced ambience and more offerings, will be re-opened in the second half of 2017. When excluding the affected areas, rental income of the Causeway Bay retail space was up 2%. Retail sales of our tenants in Causeway Bay recorded an 8% growth on a like-for-like basis driven by enhanced tenant mix and offerings after renovation of Fashion Walk and Hang Lung Centre.

Benefitting from positive rental reversions and tenants upgrade, Kornhill Plaza in Hong Kong East collected 4% more in rents. Grand Kornhill Cinema added new excitement to this mall with the launch of Hong Kong's first MX4D technology-enabled movie offerings in April 2017. The re-opening of the refurbished AEON STYLE in July 2016 and the addition of better quality food and beverage tenants further enriched the overall offerings of Kornhill Plaza. The mall was fully leased by the end of June 2017.

Revenue of our leasing properties in Mongkok, mainly comprising Grand Plaza and Gala Place, were stable. The "Where Trends Meet" program was launched to enhance the profile of our malls in Mongkok. The jewelry and watch tenants at Grand Plaza, which were adversely affected in 2016, recorded a double digit sales growth in the first six months of 2017. Decathlon, a world-famous sports brand from France, will unveil its first flagship in Hong Kong this summer at Grand Plaza. Goji Studios, a unique fitness and wellness center, has also selected Grand Plaza as the home of its new flagship store of 35,000 square feet which provides one-stop experience for personal training, food and nutrition guidance.

Revenue of Amoy Plaza in Kowloon East increased 4%. A major tenant mix reshuffle was undertaken in 2016 to uplift its position as an attractive one-stop shopping, dining, entertainment and lifestyle hub. More food and beverage tenants and fashion brands have been introduced to enrich the offerings.

The Peak Galleria commenced a major renovation program in March 2017. About 60% of its leasable area has been closed for renovation. The entire asset enhancement program is targeted to complete in phases by 2019. Upon completion, The Peak Galleria, with a new façade and enhanced internal layout reconfigurations, would become an iconic destination on the Peak.

- *Offices*

Driven by positive rental reversions and higher occupancy, revenue of our Hong Kong office portfolio advanced 4% to HK$689 million. By the end of June 2017, overall occupancy rate increased one point to 94%. Our offices in Central and Causeway Bay both posted a 5% rental growth. The Mongkok offices collected 3% more in rents.

- *Residential and Serviced Apartments*

Revenue of residential and serviced apartments advanced 4% to HK$146 million. Occupancy of the Kornhill Apartments in Hong Kong East was higher than the corresponding period of last year.

## PROPERTY SALES

For the first six months of 2017, property sales revenue increased 5% to HK$2,523 million, mainly because of higher selling prices. Profit from property sales advanced 18% to HK$1,642 million. The resulting profit margin was 65%. The sold units comprised 197 units of The Long Beach flats (2016: 226 units) and the last unit (duplex) of The HarbourSide (2016: Nil).

As at June 30, 2017, the inventory of properties available for sale included 16 semi-detached houses at 23-39 Blue Pool Road, 39 units of The Long Beach and a small number of car parking spaces. The total book cost of these properties was HK$1,866 million.

## PROPERTY REVALUATION

As at June 30, 2017, the investment properties of the Group were revalued by Savills, an independent valuer. The total value of the investment properties was HK$136,853 million by the end of June 2017. The value of the Hong Kong portfolio was HK$62,086 million. The total value of the properties in mainland China was HK$74,767 million.

For the first half of 2017, an overall revaluation gain of HK$870 million was recorded (2016: loss of HK$314 million). The Hong Kong portfolio had a revaluation gain of HK$1,127 million. The mainland China portfolio recorded a revaluation loss of HK$257 million.

## PROPERTY DEVELOPMENT AND CAPITAL COMMITMENT

The total value of investment properties under development was HK$18,418 million as at June 30, 2017. They represented mainland China projects in Kunming, Wuhan and the remaining phases of the developments in Shenyang and Wuxi. The portfolio consists of shopping malls, office towers, hotel and serviced apartments.

The construction work for Kunming Spring City 66 is progressing well. The entire complex is expected for completion in phases from the end of 2018. Total gross floor area of the entire mixed-use development is 434,000 square meters, comprising a world-class shopping center, a Grade A office tower, serviced apartments and car parking spaces. Leasing activities for the mall have commenced.

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

The conversion of the upper 19 floors of the 67-story Grade A office tower at Shenyang Forum 66 into a five-star Conrad hotel is making good progress. It is expected to open in 2019. The hotel will have 315 exquisitely appointed guest rooms and suites.

The construction work for the second office tower at Wuxi Center 66 is in progress and is scheduled for completion in 2019. The main contract has been awarded. This new tower will have a gross floor area of 56,000 square meters. It is being built above the southeastern part of the Center 66 mall. About 9% of the leasable area of the Center 66 mall has been vacated while the new tower is under construction.

In May 2017, the Group took possession of the piece of land for Wuxi phase 2 development. This plot of land with 16,700 square meters is planned for serviced apartments.

These projects represented the majority of the Group's capital commitments at the reporting date, amounting to HK$36 billion. They will be completed in phases over a number of years and the Group has ample financial resources to meet those commitments.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group centrally manages liquidity and financial resources. The aims are to maintain an appropriate degree of liquidity and ample financial resources to meet foreseeable funding needs. Multiple channels of debt finance have also been established to seize new investment opportunities and to provide a buffer against other unexpected circumstances. All related risks management, including debt re-financing, foreign exchange exposure and interest rates volatility, etc., are centrally managed and controlled at the corporate level.

- *Liquidity Management*

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

As at June 30, 2017, the Group had total cash and bank balances of HK$22,693 million (December 31, 2016: HK$24,524 million). All deposits are placed with banks with strong credit ratings and counterparty risk is monitored on a regular basis.

The currencies of cash and bank balances at the reporting date were as follows:

| | **At June 30, 2017** | | At December 31, 2016 | |
|---|---|---|---|---|
| | **HK$ Million** | *% of Total* | HK$ Million | *% of Total* |
| Denominated in: | | | | |
| HKD | **14,031** | *61.9%* | 2,950 | *12.1%* |
| RMB | **8,651** | *38.1%* | 21,563 | *87.9%* |
| USD | **11** | - | 11 | - |
| Total cash and bank balances | **22,693** | *100%* | 24,524 | *100%* |

As at June 30, 2017, the available amount of undrawn committed banking facilities amounted to HK$14,339 million. The undrawn balance of the USD3 billion MTN Program was equivalent to HK$10,623 million.

- *Debt Management*

The Group manages the debt portfolio with a focus on mitigating the re-financing and interest rate risks. These risks are well managed by maintaining an appropriate mix of fixed / floating rate borrowings, a staggered debt repayment profile and multiple channels of funding.

As at June 30, 2017, total borrowings of the Group were HK$27,247 million. The lower debt balance compared to December 31, 2016 was mainly resulted from prepayments of some bank borrowings. The following table shows the mix of floating rate bank borrowings and fixed rate bonds:

| | **At June 30, 2017** | | At December 31, 2016 | |
|---|---|---|---|---|
| | **HK$ Million** | *% of Total* | HK$ Million | *% of Total* |
| Floating rate HKD bank loans | **3,742** | *13.7%* | 8,145 | *26.2%* |
| Floating rate RMB bank loans | **10,816** | *39.7%* | 10,345 | *33.2%* |
| Fixed rate bonds | **12,689** | *46.6%* | 12,629 | *40.6%* |
| *Denominated in USD* | ***7,806*** | *28.7%* | *7,756* | *24.9%* |
| *Denominated in HKD* | ***4,883*** | *17.9%* | *4,873* | *15.7%* |
| Total borrowings | **27,247** | *100%* | 31,119 | *100%* |

At the balance sheet date, the average tenor of the entire loan portfolio was 3.4 years (December 31, 2016: 3.7 years). The maturity profile was well staggered, with over 74% of loans repayable after 2 years.

| | At June 30, 2017 | | At December 31, 2016 | |
|---|---|---|---|---|
| | **HK$ Million** | *% of Total* | HK$ Million | *% of Total* |
| Repayable: | | | | |
| Within 1 year | **2,153** | *7.9%* | 568 | *1.8%* |
| After 1 but within 2 years | **4,660** | *17.1%* | 4,844 | *15.6%* |
| After 2 but within 5 years | **17,063** | *62.6%* | 17,154 | *55.1%* |
| Over 5 years | **3,371** | *12.4%* | 8,553 | *27.5%* |
| Total borrowings | **27,247** | *100%* | 31,119 | *100%* |

- *Gearing Ratios & Interest Cover*

As at June 30, 2017, the Group had a net debt balance of HK$4,554 million (December 31, 2016: HK$6,595 million). The net debt to equity ratio was 3.2% (December 31, 2016: 4.8%) while the debt to equity ratio was 19.1% (December 31, 2016: 22.5%).

For the six months ended June 30, 2017, the amount of total gross interest expense was HK$694 million (2016: HK$715 million). The decrease in gross interest expense was mainly due to lower average bank borrowings balance in Hong Kong as a result of loan prepayments. However, the amount of finance costs charged to the statement of profit or loss for the first half of 2017 increased by HK$83 million to HK$670 million year-on-year because of a smaller amount of interest capitalization.

For the six months ended June 30, 2017, interest income was HK$321 million (2016: HK$479 million). The decrease in interest income was mainly due to a lower average balance of RMB deposits which had higher yields.

With lower interest income and a higher amount of finance costs, the amount of net interest expense, i.e. the excess of finance costs over interest income, for the first half of 2017 increased by HK$241 million to HK$349 million over a year ago.

As part of the foreign exchange risk management strategy to match our funding policy, more RMB debts which have higher interest rates than HKD loans were used to finance development projects in mainland China. Consequently, the average effective cost of borrowings for the first half of 2017 was 4.9% (2016: 3.9%).

Interest cover, a key indicator for debt servicing capability, for the first six months of 2017 was 12 times (2016: 18 times).

- *Foreign Exchange Management*

The activities of the Group are exposed to foreign currency risks which mainly arise from its operations in mainland China and certain bank deposits denominated in RMB held in and relating to mainland China entities. In addition, it has exposure to USD arising from the two USD500 million bonds issued. Appropriate measures have been taken to mitigate the foreign exchange risk exposures.

(a) RMB Exposure

The RMB exposure of the Group is mainly derived from two respects of the operations. These are, firstly, the net assets of our Mainland subsidiaries which mostly comprise of investment properties. Secondly, they are the RMB deposits held in and relating to mainland China entities which are primarily for the purposes of settling future construction payments in RMB.

At June 30, 2017, net assets on the Mainland amounted to RMB64 billion. The re-translation of these net assets denominated in RMB into HKD using the exchange rate as at the reporting date resulted in a re-translation gain of HK$2,230 million, as the RMB appreciated by about 3% against the HKD compared to December 31, 2016. By the same token, the RMB4,002 million deposits held in Hong Kong had to be re-translated into HKD as well, and they accounted for HK$228 million of the re-translation gain for the first six months of 2017. The total re-translation gain of HK$2,458 million for the first half of 2017 (2016: total re-translation loss of HK$1,774 million) was recognized in other comprehensive income / exchange reserve.

RMB bank deposits were held as a natural hedge for meeting funding needs for projects under development in mainland China. The Group has adopted an enterprise risk management approach to mitigate the currency risks rather than forming a view on which side the currency will move. Regular business reviews are conducted to assess the level of funding needs for Mainland projects under development, after taking account of various factors such as regulatory constraints, project development timelines and the business environment. Appropriate modifications to the currency hedging program are made in light of the outcome of the periodic reviews.

(b) USD Exposure

The USD foreign exchange exposure of the Group is related to the two USD500 million fixed rate bonds issued, equivalent to HK$7,806 million at the reporting date. The related currency exchange risk was covered back-to-back by two USD/HKD cross currency swap contracts. The swap contracts were entered into in order to effectively fix the exchange rate between USD and HKD for future interest payments and principal repayments.

The changes in the fair value of both swap contracts did not impact the cash flows and the profit or loss materially as they qualified for cash flow hedge accounting.

- *Charge of Assets*

Assets of the Group were not charged to any third parties as at June 30, 2017.

- *Contingent Liabilities*

The Group did not have any material contingent liabilities as at June 30, 2017.

# OUTLOOK

The Group has been optimizing the tenant mix by introducing more quality food and beverage tenants and new trades, in response to changing consumer trends. More efforts on targeted and sales driven programs including special events and digital communications have been designed and implemented to drive both retail sales and footfall in our malls.

Facility management and service delivery enhancements across the portfolio will continue to enrich the shopping experience. The Group will continue to invest in and expand the Customer Relationship Management (CRM) programs, including the introduction of a high-end Very Important Customer (VIC) lounge at the Shanghai Plaza 66 mall in the third quarter of 2017. In Hong Kong, 9 Kingston Street in Causeway Bay is currently under renovation and is expected to be launched in the second half of 2017.

We will continue to closely monitor the residential property market in Hong Kong, and will sell some of the residential units on hand at appropriate terms. Backed by our financial strength, we may further build our land bank when opportunities arise.

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS
# FOR THE SIX MONTHS ENDED JUNE 30, 2017 (UNAUDITED)

| | | | | *For information purpose only* | |
|---|---|---|---|---|---|
| | | **2017** | 2016 | **2017** | 2016 |
| | *Note* | **HK$ Million** | HK$ Million | **RMB Million** | RMB Million |
| Revenue | *2(a)* | **6,641** | 6,610 | **5,868** | 5,563 |
| Direct costs and operating expenses | | **(1,898)** | (2,079) | **(1,677)** | (1,749) |
| Gross profit | | **4,743** | 4,531 | **4,191** | 3,814 |
| Other net income | *3* | **70** | 159 | **62** | 135 |
| Administrative expenses | | **(326)** | (346) | **(288)** | (291) |
| Operating profit before changes in fair value of investment properties | | **4,487** | 4,344 | **3,965** | 3,658 |
| Net increase/(decrease) in fair value of investment properties | | **870** | (314) | **760** | (266) |
| Operating profit after changes in fair value of investment properties | | **5,357** | 4,030 | **4,725** | 3,392 |
| Interest income | | **321** | 479 | **284** | 403 |
| Finance costs | | **(670)** | (587) | **(592)** | (494) |
| Net interest expense | *4* | **(349)** | (108) | **(308)** | (91) |
| Share of profits of joint ventures | | **77** | 107 | **68** | 90 |
| Profit before taxation | *2(a) & 5* | **5,085** | 4,029 | **4,485** | 3,391 |
| Taxation | *6(a)* | **(783)** | (708) | **(693)** | (595) |
| **Profit for the period** | | **4,302** | 3,321 | **3,792** | 2,796 |
| Attributable to: | | | | | |
| Shareholders | | **2,396** | 1,790 | **2,111** | 1,507 |
| Non-controlling interests | | **1,906** | 1,531 | **1,681** | 1,289 |
| | | **4,302** | 3,321 | **3,792** | 2,796 |
| Earnings per share | *8(a)* | | | | |
| Basic | | **HK$1.76** | HK$1.32 | **RMB1.56** | RMB1.11 |
| Diluted | | **HK$1.76** | HK$1.32 | **RMB1.56** | RMB1.11 |

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED JUNE 30, 2017 (UNAUDITED)

| | | | | *For information purpose only* | |
|---|---|---|---|---|---|
| | *Note* | **2017 HK$ Million** | 2016 HK$ Million | **2017 RMB Million** | 2016 RMB Million |
| **Profit for the period** | | **4,302** | 3,321 | **3,792** | 2,796 |
| **Other comprehensive income** | *6(b)* | | | | |
| Items that are or may be reclassified subsequently to profit or loss: | | | | | |
| Exchange difference arising from translation of foreign subsidiaries/to presentation currency | | **2,458** | (1,774) | **(1,666)** | 469 |
| Movement in hedging reserve: | | | | | |
| Effective portion of changes in fair value | | **(194)** | - | **(169)** | - |
| Net amount transferred to profit or loss | | **(44)** | - | **(38)** | - |
| Item that will not be reclassified to profit or loss: | | | | | |
| Net change in fair value of equity investments | | **2** | - | **2** | - |
| | | **2,222** | (1,774) | **(1,871)** | 469 |
| **Total comprehensive income for the period** | | **6,524** | 1,547 | **1,921** | 3,265 |
| **Total comprehensive income attributable to:** | | | | | |
| Shareholders | | **3,585** | 847 | **1,058** | 1,776 |
| Non-controlling interests | | **2,939** | 700 | **863** | 1,489 |
| | | **6,524** | 1,547 | **1,921** | 3,265 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION
# AT JUNE 30, 2017

| | Note | (Unaudited) June 30, 2017 HK$ Million | (Audited) December 31, 2016 HK$ Million | *For information purpose only* June 30, 2017 RMB Million | *For information purpose only* December 31, 2016 RMB Million |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Property, plant and equipment | | | | | |
| Investment properties | *9* | **136,853** | 133,005 | **118,915** | 119,212 |
| Investment properties under development | *9* | **18,418** | 16,160 | **15,985** | 14,455 |
| Other property, plant and equipment | | **1,484** | 1,446 | **1,288** | 1,294 |
| | | **156,755** | 150,611 | **136,188** | 134,961 |
| Interest in joint ventures | | **3,529** | 3,539 | **3,071** | 3,180 |
| Other assets | | **1,446** | 1,341 | **1,258** | 1,205 |
| Deferred tax assets | | **2** | 22 | **2** | 20 |
| | | **161,732** | 155,513 | **140,519** | 139,366 |
| **Current assets** | | | | | |
| Cash and deposits with banks | | **22,693** | 24,524 | **19,736** | 22,010 |
| Trade and other receivables | *10* | **1,530** | 3,958 | **1,329** | 3,552 |
| Properties for sale | | **1,866** | 2,374 | **1,624** | 2,133 |
| | | **26,089** | 30,856 | **22,689** | 27,695 |
| **Current liabilities** | | | | | |
| Bank loans and other borrowings | | **2,152** | 568 | **1,869** | 508 |
| Trade and other payables | *11* | **7,090** | 6,761 | **6,159** | 6,058 |
| Taxation payable | | **1,182** | 982 | **1,028** | 881 |
| | | **10,424** | 8,311 | **9,056** | 7,447 |
| **Net current assets** | | **15,665** | 22,545 | **13,633** | 20,248 |
| **Total assets less current liabilities** | | **177,397** | 178,058 | **154,152** | 159,614 |
| **Non-current liabilities** | | | | | |
| Bank loans and other borrowings | | **25,095** | 30,551 | **21,815** | 27,416 |
| Deferred tax liabilities | | **9,683** | 9,494 | **8,405** | 8,494 |
| | | **34,778** | 40,045 | **30,220** | 35,910 |
| **NET ASSETS** | | **142,619** | 138,013 | **123,932** | 123,704 |
| **Capital and reserves** | | | | | |
| Share capital | | **4,065** | 4,065 | **3,164** | 3,164 |
| Reserves | | **74,432** | 71,593 | **65,051** | 64,651 |
| Shareholders' equity | | **78,497** | 75,658 | **68,215** | 67,815 |
| Non-controlling interests | | **64,122** | 62,355 | **55,717** | 55,889 |
| **TOTAL EQUITY** | | **142,619** | 138,013 | **123,932** | 123,704 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. Basis of preparation

The interim results set out in the announcement do not constitute the interim report for the six months ended June 30, 2017 of Hung Lung Group Limited (the “Company”) and its subsidiaries (collectively the “Group”) but are extracted from the report.

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 the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The preparation of this 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 HKICPA has issued certain amendments to Hong Kong Financial Reporting Standards ("HKFRSs") that are first effective for the current accounting period of the Group. The adoption of these amendments to HKFRSs does not have significant impact on the Group's interim financial report.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the changes summarized below.

*Impact of early adoption of HKFRS 9, Financial Instruments*

Certain of the Group's equity investments of HK$130,720 which were previously classified as available-for-sale investments (not held for trading) and measured at cost less impairment under HKAS 39, *Financial Instruments: Recognition and Measurement,* have been designated as at fair value through other comprehensive income (“FVTOCI”). The estimated fair value of these equity investments was HK$105 million as at January 1, 2017. Consequently, the opening balance of the Group's other reserves and non-controlling interests as at January 1, 2017 was impacted.

**1. Basis of preparation (Continued)**

*Initial application of hedge accounting*

The Group has elected to adopt the hedge accounting requirements in HKFRS 9, which requires the Group to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

The Group uses USD/HKD cross currency swaps (entered into in 2015) to hedge the variability in cash flows arising from changes in foreign exchange rates relating to the USD-denominated Medium Term Notes. Starting from January 1, 2017, the Group has designated the cross currency swaps in their entirety as the hedging instrument in the above cash flow hedging relationship. The effective portion of changes in fair value of the hedging instruments is recognized in other comprehensive income and accumulated in a hedging reserve as a separate component of equity. Any ineffective portion of changes in fair value is recognized immediately in profit or loss. The associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

The presentation currency of these consolidated financial statements is Hong Kong dollar. In view of the Group's significant business operations in mainland China, management has included additional financial information prepared in Renminbi in the consolidated financial statements. Such supplementary information is prepared on the same basis as 2016.

The financial information relating to the financial year ended December 31, 2016 that is included in this announcement of interim results as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended December 31, 2016 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

**1. Basis of preparation (Continued)**

The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or 407(3) of the Hong Kong Companies Ordinance.

**2. Revenue and segment information**

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

Property leasing segment includes property leasing operation. The Group's investment properties portfolio, which mainly consists of retail, office, residential, serviced apartments and carparks are primarily located in 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 changes in fair value of investment properties are not included in segment profits. No segment liabilities analysis is presented as the Group monitors and manages its liabilities on a group basis.

## 2. Revenue and segment information (Continued)

(a) Revenue and results by segments

| | Revenue | | Profit before taxation | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | **HK$ Million** | HK$ Million | **HK$ Million** | HK$ Million |
| **Segment** | | | | |
| Property leasing | | | | |
| - Mainland China | **2,153** | 2,259 | **1,413** | 1,478 |
| - Hong Kong | **1,965** | 1,947 | **1,688** | 1,664 |
| | **4,118** | 4,206 | **3,101** | 3,142 |
| Property sales | | | | |
| - Hong Kong | **2,523** | 2,404 | **1,642** | 1,389 |
| Segment total | **6,641** | 6,610 | **4,743** | 4,531 |
| Other net income | | | **70** | 159 |
| Administrative expenses | | | **(326)** | (346) |
| Operating profit before changes in fair value of investment properties | | | **4,487** | 4,344 |
| Net increase / (decrease) in fair value of investment properties | | | **870** | (314) |
| - Property leasing in Hong Kong | | | **1,127** | 97 |
| - Property leasing in mainland China | | | **(257)** | (411) |
| Net interest expense | | | **(349)** | (108) |
| - Interest income | | | **321** | 479 |
| - Finance costs | | | **(670)** | (587) |
| Share of profits of joint ventures | | | **77** | 107 |
| Profit before taxation | | | **5,085** | 4,029 |

## 2. Revenue and segment information (Continued)

(b) Total assets by segments

| | Total assets | |
|---|---|---|
| | **June 30, 2017 HK$ Million** | December 31, 2016 HK$ Million |
| **Segment** | | |
| Property Leasing | | |
| - Mainland China | **94,262** | 89,851 |
| - Hong Kong | **62,612** | 60,999 |
| | **156,874** | 150,850 |
| Property sales | | |
| - Hong Kong | **2,100** | 4,971 |
| Segment total | **158,974** | 155,821 |
| Other property, plant and equipment | **1,177** | 1,122 |
| Interest in joint ventures | **3,529** | 3,539 |
| Other assets | **1,446** | 1,341 |
| Deferred tax assets | **2** | 22 |
| Cash and deposits with banks | **22,693** | 24,524 |
| Total assets | **187,821** | 186,369 |

## 3. Other net income

| | **2017 HK$ Million** | 2016 HK$ Million |
|---|---|---|
| Gain on disposal of investment properties | **2** | 2 |
| Fair value gain on derivative financial instruments (Note) | **-** | 164 |
| Ineffectiveness on cash flow hedges (Note) | **(5)** | - |
| Net exchange gain / (loss) | **73** | (7) |
| | **70** | 159 |

Note: The Group entered into USD/HKD cross currency swaps for the purpose of fixing the exchange rate for the USD-denominated Medium Term Notes. Starting from January 1, 2017, the Group has designated the cross currency swaps as the hedging instrument in cash flow hedges.

## 4. Net interest expense

| | **2017** | 2016 |
|---|---|---|
| | **HK$ Million** | HK$ Million |
| Interest income on bank deposits | **321** | 479 |
| Interest expense on bank loans and other borrowings | **607** | 670 |
| Other borrowing costs | **87** | 45 |
| Total borrowing costs | **694** | 715 |
| Less: Borrowing costs capitalized | **(24)** | (128) |
| Finance costs | **670** | 587 |
| Net interest expense | **(349)** | (108) |

## 5. Profit before taxation

| | **2017** | 2016 |
|---|---|---|
| | **HK$ Million** | HK$ Million |
| Profit before taxation is arrived at after charging: | | |
| Cost of properties sold | **707** | 820 |
| Staff costs, including employee share-based payments of HK$33 million (2016: HK$51 million) | **719** | 699 |
| Depreciation | **26** | 29 |

## 6. Taxation

(a) Provision for Hong Kong Profits Tax is calculated at 16.5% (2016: 16.5%) of the estimated assessable profits for the period. Mainland China Income Tax represents mainland China Corporate Income Tax calculated at 25% (2016: 25%) and mainland 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.

| | **2017** | 2016 |
|---|---|---|
| | **HK$ Million** | HK$ Million |
| Current tax | | |
| Hong Kong Profits Tax | **475** | 418 |
| Mainland China Income Tax | **371** | 343 |
| | **846** | 761 |
| Deferred tax | | |
| Changes in fair value of investment properties | **(64)** | (104) |
| Other origination and reversal of temporary differences | **1** | 51 |
| | **(63)** | (53) |
| Total income tax expense | **783** | 708 |

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

## 7. Dividends

(a) Interim dividend

| | **2017** | 2016 |
|---|---|---|
| | **HK$ Million** | HK$ Million |
| Proposed after the end of reporting period: | | |
| HK19 cents (2016: HK19 cents) per share | **258** | 258 |

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) Final dividend approved and paid during the period

| | **2017** | 2016 |
|---|---|---|
| | **HK$ Million** | HK$ Million |
| 2016 Final dividend of HK61 cents (2015: HK61 cents) per share | **831** | 827 |

## 8. Earnings per share

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

| | **2017** | 2016 |
|---|---|---|
| | **HK$ Million** | HK$ Million |
| Earnings used in calculating basic and diluted earnings per share (net profit attributable to shareholders) | **2,396** | 1,790 |

## 8. Earnings per share (Continued)

(a) (Continued)

| | Number of shares | |
|---|---|---|
| | **2017** | 2016 |
| | **Million** | Million |
| Weighted average number of shares used in calculating basic and diluted earnings per share (Note) | **1,362** | 1,356 |

Note: Diluted earnings per share were the same as the basic earnings per share for the periods as there were no dilutive potential ordinary shares in existence during both periods.

(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:

| | **2017** | 2016 |
|---|---|---|
| | **HK$ Million** | HK$ Million |
| Net profit attributable to shareholders | **2,396** | 1,790 |
| Effect of changes in fair value of investment properties | **(870)** | 314 |
| Effect of corresponding deferred tax | **(64)** | (104) |
| Effect of changes in fair value of investment properties of joint ventures | **(11)** | (34) |
| | **(945)** | 176 |
| Non-controlling interests | **360** | (102) |
| | **(585)** | 74 |
| Underlying net profit attributable to shareholders | **1,811** | 1,864 |

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

| | **2017** | 2016 |
|---|---|---|
| Basic | **HK$1.33** | HK$1.37 |
| Diluted | **HK$1.33** | HK$1.37 |

## 9. Investment properties and investment properties under development

(a) Additions

During the period, additions to investment properties and investment properties under development amounted to HK$2,520 million (2016: HK$891 million).

(b) Valuation

The investment properties and investment properties under development of the Group were revalued as at June 30, 2017 by Mr. Charles C.K. Chan, Registered Professional Surveyor (General Practice), of Savills Valuation and Professional Services Limited, on a market value basis.

## 10. Trade and other receivables

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

| | **June 30, 2017 HK$ Million** | December 31, 2016 HK$ Million |
|---|---|---|
| Not past due or less than 1 month past due (Note) | **250** | 2,621 |
| 1 - 3 months past due | **11** | 22 |
| More than 3 months past due | **3** | 13 |
| | **264** | 2,656 |

Note: Not past due or less than one month past due receivables mainly represented property sales receivables for residential units sold in the first half of the year. Most of the sales receivables would be settled over the next few months upon sales completion.

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.

## 10. Trade and other receivables (Continued)

(b) Included in other receivables of the Group is deposit of land acquisition in mainland China of HK$288 million (December 31, 2016: HK$279 million).

## 11. Trade and other payables

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

| | **June 30, 2017 HK$ Million** | December 31, 2016 HK$ Million |
|---|---|---|
| Due within 3 months | **1,470** | 1,690 |
| Due after 3 months | **2,443** | 1,855 |
| | **3,913** | 3,545 |

# OTHER INFORMATION

## Employees

As at June 30, 2017, the number of employees was 4,584 (comprising 1,215 Hong Kong employees and 3,369 mainland China employees). The total employee costs for the six months ended June 30, 2017 amounted to HK$719 million. We provide competitive remuneration packages for all employees including discretionary bonuses payable based on individual performance. We regularly review the remuneration packages to ensure that they comply with relevant regulatory requirements and market conditions. The Group has share option schemes for the executives and provides professional and high-quality training for all employees.

## Purchase, Sale or Redemption of Listed Securities

During the six months ended June 30, 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities.

## Compliance with Corporate Governance Code

During the six months ended June 30, 2017, the Company 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.

## Review of Interim Results

The interim results for the six months ended June 30, 2017 have been reviewed by the Company's Audit Committee and auditor, KPMG.

## Book Close Dates

| | |
|---|---|
| Book close dates (both days inclusive) | September 13 to 14, 2017 |
| Latest time to lodge transfers | 4:30 pm on September 12, 2017 |
| Record date for interim dividend | September 14, 2017 |
| Payment date for interim dividend | September 28, 2017 |

On Behalf of the Board
**Ronnie C. Chan**
*Chairman*

Hong Kong, July 27, 2017

*As at the date of this announcement, the board of directors of the Company comprises the following directors:*
*Executive Directors:* Mr. Ronnie C. CHAN, Mr. Philip N.L. CHEN, Mr. H.C. HO and Mr. Adriel W. CHAN
*Non-Executive Directors:* Mr. Gerald L. CHAN, Mr. George K.K. CHANG and Mr. Roy Y.C. CHEN
*Independent Non-Executive Directors:* Mr. Simon S.O. IP, Prof. L.C. TSUI, Mr. Martin C.K. LIAO and Prof. P.W. LIU

# GLOSSARY

## Financial Terms

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

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

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

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

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

## Financial Ratios

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

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

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

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

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