恒隆集團有限公司
HANG LUNG GROUP LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00010)

2016 ANNUAL RESULTS

CONTENTS

恒隆集團 HANG LUNG GROUP

FINANCIAL HIGHLIGHTS

in HK$ Million (unless otherwise stated)

RESULTS

	2016	2015	Change
Revenue	**13,648**	9,528	43%
Property Leasing	**8,326**	8,330	-
Property Sales	**5,322**	1,198	344%
Operating Profit	**9,338**	6,955	34%
Property Leasing	**6,129**	6,110	-
Property Sales	**3,209**	845	280%
Net Profit Attributable to Shareholders	**3,713**	3,211	16%
Earnings Per Share (HK$)	**$2.73**	$2.37	15%
Dividends Per Share (HK$)	**$0.80**	$0.80	-
Interim (Paid)	**$0.19**	$0.19	-
Final (Proposed)	**$0.61**	$0.61	-

UNDERLYING RESULTS

	2016	2015	Change
Underlying Net Profit Attributable to Shareholders	**3,772**	2,700	40%
Underlying Earnings Per Share (HK$)	**$2.78**	$1.99	40%

FINANCIAL POSITION

	At December 31		
	2016	2015	Change
Shareholders' Equity	**75,658**	75,470	-
Net Assets	**138,013**	140,302	-2%
Net Debt	**6,595**	5,848	13%
Financial Ratio			
Net Debt to Equity Ratio	**4.8%**	4.2%	0.6pt
Debt to Equity Ratio	**22.5%**	26.6%	-4.1pts
Shareholders' Equity Per Share (HK$)	**$55.5**	$55.7	-
Net Assets Per Share (HK$)	**$101.3**	$103.5	-2%

REVIEW OF OPERATIONS

CONSOLIDATED RESULTS

For the financial year ended December 31, 2016, total revenue of the Hang Lung Group Limited and its subsidiaries (the Group) increased 43% to HK$13,648 million driven by higher contribution from property sales. Benefitting from more residential units sold during the year, property sales revenue surged 344% to HK$5,322 million. Revenue of property leasing was flat at HK$8,326 million, or up 3% if excluding the 6% year-on-year Renminbi (RMB) depreciation against the Hong Kong Dollar (HKD). Total operating profit of the Group advanced 34% to HK$9,338 million.

Underlying net profit attributable to shareholders increased 40% to HK$3,772 million. After including a revaluation loss on investment properties, net profit attributable to shareholders increased 16% to HK$3,713 million. Earnings per share increased similarly to HK$2.73.

Revenue and Operating Profit

	Revenue			Operating Profit		
	2016	2015	Change	**2016**	2015	Change
	HK$ Million	HK$ Million		**HK$ Million**	HK$ Million	
Property Leasing	**8,326**	8,330	-	**6,129**	6,110	-
Mainland China	**4,427**	4,625	-4%	**2,814**	3,005	-6%
Hong Kong	**3,899**	3,705	5%	**3,315**	3,105	7%
Property Sales	**5,322**	1,198	344%	**3,209**	845	280%
Total	**13,648**	9,528	43%	**9,338**	6,955	34%

DIVIDEND

The Board of Directors has recommended a final dividend of HK61 cents per share for 2016 (2015: HK61 cents) to be paid by cash on May 18, 2017, to shareholders whose names appeared on the register of members on May 5, 2017. Together with an interim dividend of HK19 cents per share (2015: HK19 cents), the full year dividends for 2016 amounted to HK80 cents per share (2015: HK80 cents).

PROPERTY LEASING

During 2016, Hong Kong and the Mainland continued to experience a market correction and shifting consumer demand. In the major shopping districts in Hong Kong and Tier 1 cities on the Mainland, store closures, vacancies and delayed openings by major brands were commonplace.

In Hong Kong, gross domestic product (GDP) growth for full year 2016 is now forecast at 1.5%. Retail sales have fallen for almost two years. The first 11 months of 2016 posted an average drop in sales of 8.6% year-on-year. Mainland tourists have been spending overseas and arrivals in Hong Kong have shrunk by 7.8% over January to November 2016.

GDP growth in mainland China for 2016 was 6.7% which was lower than previous years. Retail sales remained sluggish, resulting in delayed mall openings and high vacancy rates in newly opened shopping centers.

Facing these challenges, we continued our focus on tenant reshuffling to enhance our mall positioning and optimize rental yield, launching creative and effective promotion campaigns, and implementing various cost control measures, etc. In light of the current down cycle, we continue to upgrade our facilities and service standards to enhance customer experience and loyalty.

On May 1, 2016, the final phase of the transition from the Business Tax to Value Added Tax (VAT) regime in mainland China took effect and became applicable to the real estate sector, among other industries. We took appropriate measures to implement the new tax regime accordingly.

For the financial year ended December 31, 2016, total revenue of our leasing properties in Hong Kong and on the Mainland stayed flat at HK$8,326 million, or up 3% when excluding the 6% RMB depreciation effect during 2016. Benefitting from asset enhancement initiatives and tenant mix optimization, revenue of our Hong Kong leasing portfolio advanced 5%. Revenue of our investment properties in mainland China, which accounted for 53% of total leasing revenue of the Group, recorded a moderate growth of 2% in RMB terms, mainly driven by contributions from the new shopping mall in Dalian and the office tower in Shenyang.

Total operating profit was flat at HK$6,129 million. Overall rental margin was 74%.

Mainland China

Overall revenue of the mainland China portfolio increased 2% to RMB3,785 million, mainly driven by contribution from the new Dalian Olympia 66 mall and higher revenue from the Shenyang Forum 66 office tower. Operating profit stayed flat at RMB2,405 million, and margin fell one point to 64% due to lower profitability of new properties during start-up period.

Mainland China Property Leasing Portfolio

Name and City of the Property	Revenue (RMB Million)			Occupancy Rate at Year-end 2016	
	2016	2015	Change	Mall	Office
Shanghai Plaza 66	**1,305**	1,341	-3%	93%	95%
Shanghai Grand Gateway 66	**1,343**	1,307	3%	96%	89%
Shenyang Palace 66	**142**	137	4%	93%	N/A
Shenyang Forum 66	**230**	227	1%	84%	58%
Jinan Parc 66	**262**	269	-3%	91%	N/A
Wuxi Center 66	**224**	237	-5%	80%	65%
Tianjin Riverside 66	**191**	193	-1%	82%	N/A
Dalian Olympia 66*	**88**	4	N/A	66%	N/A
Total	**3,785**	3,715	2%		
Total in HK$ Million equivalent	***4,427***	*4,625*	*-4%*		

* Grand opening on September 9, 2016.

- *Shopping Malls*

Our eight shopping malls in mainland China generated RMB2,633 million in rents collectively during 2016, stayed flat year-on-year. The contribution from the new Dalian Olympia 66 mall was largely offset by rental interruption to the Shanghai Plaza 66 mall due to renovation works and negative rental reversions at some malls outside Shanghai.

In 2016, the Group executed a major asset enhancement program at the Shanghai Plaza 66 mall, which has been in operation for about 15 years. This program was carefully planned, taking the opportunity of an economic down cycle to minimize the adverse effect of income interruption.

During the renovation, the entire basement representing over 13% of the leasable area of the mall was closed from March 2016. The renovation works were substantially completed and some tenants have already commenced fitting out works. The brand new basement, which was almost fully leased by the year-end, will re-open for business in early 2017. Consequently, revenue of the Shanghai Plaza 66 mall decreased 5% to RMB678 million, but was up 6% when excluding the renovation areas. By the end of 2016, occupancy rate was 93%.

Rental revenue of the Shanghai Grand Gateway 66 mall, our other flagship mall in Shanghai, increased 1% to RMB974 million driven by positive rental reversions. The Grand Gateway 66 mall also commenced its major renovation in the last quarter of 2016. About 28% of the leasable area of the mall will be closed in phases in 2017. Occupancy rate of the Shanghai Grand Gateway 66 mall decreased by one point to 96% by the end of 2016, as some leases were renewed on a short-term basis and a small number of leases were not renewed pending the imminent commencement of renovation. Although the asset enhancement program will result in a short-term disruption to revenue, it will enhance the mall’s long-term competitiveness and profitability.

In a challenging environment, revenue of our six shopping malls outside Shanghai increased 1% to RMB981 million. The performance of the Shenyang Palace 66 mall was resilient, posting a 4% rental growth year-on-year. By the end of 2016, occupancy rate of Palace 66 increased three points to 93%.

Revenue of Jinan Parc 66 and Tianjin Riverside 66 decreased 3% and 1%, respectively. Amidst tenant reshuffling, occupancy of Jinan Parc 66 increased three points to 91%. The improvement was consistent with the strategy of a gradual tenants upgrade, led by the grand opening of the first Apple Store in Jinan at Parc 66 in May 2016. Apple also chose Tianjin Riverside 66 as the home of its first flagship store in China designed by world renowned architect Norman Foster. The store opened in March 2016. Occupancy rate of the Riverside 66 mall was down four points to 82% by the end of 2016.

The malls at Shenyang Forum 66 and Wuxi Center 66, which housed a relatively larger number of high-end tenants, were severely hit by sluggish retail market sentiment. They suffered from non-renewals and early terminations and had to make some downward adjustments to rents. Total revenue of these two malls dropped 18% year-on-year. Occupancy of the Forum 66 mall retreated by three points to 84%. With more new leases concluded in the second half, occupancy rate of the Center 66 mall improved eight points to 80% at year-end date. Nevertheless, with the increasing popularity of their Grade A office towers and the continuous efforts made on tenant reshuffling, it is expected that the performance of these two malls will improve progressively.

The new Dalian Olympia 66 mall had its grand opening on September 9, 2016. Occupancy increased to 66% by the end of 2016. The mall offers an enriched tenant mix and a unique shopping experience, with brands including Apple Store, Coach, Moschino, Palace Cinema, Olé supermarket and up-market fashion retailers like H&M and UNIQLO.

- *Offices*

Rental income of our entire office portfolio in mainland China increased 5% to RMB1,015 million, mainly driven by higher contributions from the new office towers in Wuxi and Shenyang.

Revenue of the two office towers at Shanghai Plaza 66 was flat at RMB627 million. The enhancement works for Office Tower One were almost completed during the year. 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 remaining enhancement works will not have much adverse impact on the revenue of Plaza 66. Overall occupancy rate of the Plaza 66 office towers slipped three points to 95% by the end of 2016, mainly due to a transitional void as a result of relocation of a major tenant from Tower One to Tower Two.

Revenue of the office tower at Shanghai Grand Gateway 66 decreased 2% to RMB232 million. Occupancy rate dropped eight points to 89% by the end of 2016 mainly due to some leases expiring before year-end.

Amidst a challenging market environment, the performance of the Grade A office towers at Wuxi Center 66 and Shenyang Forum 66 was satisfactory. During the year, we replaced certain peer-to-peer (P2P) tenants in the financial and IT sectors with top-quality major corporations and financial institutions. To name a few, UBS took up two whole floors of the Wuxi Center 66 office tower while Bank of China occupied six whole floors of the Shenyang Forum 6 office tower. Meanwhile, the conversion of the upper 19 floors of the Forum 66 office tower into a Conrad Hotel with 315 rooms and suites is progressing well. Leasing inquiries for both office towers remained strong. We are confident that they will assume a leading position in their respective markets in future. Total revenue of these office towers at Wuxi Center 66 and Shenyang Forum 66 amounted to RMB156 million, representing a 58% growth year-on-year.

- *Residential and Serviced Apartments*

Revenue of residential and serviced apartments at Grand Gateway 66 in Shanghai rose 26% to RMB137 million after adopting a different marketing strategy. Occupancy rate was up 11 points to 92% by the end of 2016.

Hong Kong

Against a backdrop of slower economic growth and sliding retail sales, the performance of our leasing properties in Hong Kong was resilient. Revenue and operating profit in Hong Kong rose 5% and 7% to HK$3,899 million and HK$3,315 million, respectively. Overall rental margin was 85%.

Hong Kong Property Leasing Portfolio

	Revenue (HK$ Million)			**Occupancy Rate at Year-end 2016**
	2016	2015	Change	
Commercial	**2,275**	2,092	9%	96%
Offices and Industrial / Offices	**1,336**	1,299	3%	92%
Residential & Serviced Apartments	**288**	314	-8%	76%
Total	**3,899**	3,705	5%	

- *Commercial*

Revenue of the Hong Kong commercial portfolio advanced 9% to HK$2,275 million as the benefits of asset enhancement initiatives continued to flow through. Overall occupancy was 96% by the end of 2016.

The Causeway Bay portfolio generated 12% more in rents year-on-year. In May 2016, adidas opened a 14,500 square feet sports performance flagship store at Hang Lung Centre, combining shopping with a training experience for sports lovers. Taken together with the 4-story flagship store of H&M which opened in October 2015, Hang Lung Centre is now a dynamic hub for fashion and sporting trend-setters. During the year, Maje, Sandro, MO&Co., Reebok Classic and Fjällräven, etc., were added to the array of brands at Fashion Walk. The opening of the renowned stylish New York patisserie, Lady M's Hong Kong flagship, in June 2016 further increased the popularity of the Food Street at Fashion Walk. The brand new Fashion Walk look, as a result of the major renovation program started in 2013, presents an attractive cluster of fashion, dining and lifestyle offerings.

Revenue of our properties in Mongkok increased 21% mainly attributable to rental reversions resulting from completion of the asset upgrade at Gala Place. In January 2016, H&M unveiled its 54,000 square feet full-concept flagship store at Gala Place. Together with the opening of the largest single floor concept store of Starbucks in Hong Kong in December 2015, Gala Place is now a fashionable regional destination. In light of decreasing numbers of visitors from mainland China, the performance of our jewelry and watch tenants at Grand Plaza was adversely affected. Their sales declined by about 27% on average. The food & beverage tenants at Grand Plaza were more resilient in the current economic climate, and their sales improved by 16% year-on-year.

The performance of our two community malls, Kornhill Plaza in Hong Kong East and Amoy Plaza in Kowloon East, was resilient in a challenging environment. More efforts were made to improve the zoning and to enrich the offerings of these two malls during the year. Kornhill Plaza collected 6% more in rents attributable to positive rental reversions. Its major tenant, AEON STYLE, completed a major refurbishment in the second quarter of 2016 and re-opened in July. Revenue of Amoy Plaza advanced 5% driven by a better tenant mix.

Our Central commercial portfolio recorded a moderate rental growth amidst a subdued retail climate. Overall occupancy at the year-end was 87%.

We will continue our efforts to upgrade various properties progressively. Renovation of the Peak Galleria will commence in the first quarter of 2017. The entire asset enhancement program will take about three years and will be completed in phases by 2019. The tenant mix of the Fashion Walk lifestyle zone located in Cleveland Street in Causeway Bay will be further enhanced in 2017. As a result of the renovation works, there will be a short-term disruption to the revenue of these two properties. However, these programs will, upon completion, provide an impetus to long-term rental growth while enhancing the charm of The Peak as a major attraction of Hong Kong.

- *Offices*

Revenue of the entire Hong Kong office portfolio increased 3% to HK$1,336 million attributable to positive rental reversions. Overall occupancy rate decreased three points to 92% largely due to a transitional void arising from some recent lease expiries. Hang Lung Centre in Causeway Bay, in which the lift lobby and car parking spaces were upgraded during the year, posted a 5% rental growth year-on-year. The Central office portfolio collected 2% more in rents. Revenue of the Mongkok offices slipped 1% year-on-year.

- *Residential and Serviced Apartments*

Rental income of residential and serviced apartments decreased 8% to HK$288 million due to lower occupancy rates. Demand for the luxury apartments at The Summit remained soft as the housing allowances of corporate clients remained tight. Kornhill Apartments faced keen competition from hotels, which offered deep discounts in response to the decreasing number of visitors from mainland China.

PROPERTY SALES

Benefitting from the sales of more residential units during 2016, revenue of property sales surged 344% to HK$5,322 million. The sales comprised 436 units of The Long Beach flats (2015: 36 units), two semi-detached houses at 23-39 Blue Pool Road (2015: Nil), one duplex at The HarbourSide (2015: 10 typical units) and the last two apartments of Carmel-on-the-Hill (2015: Nil). Correspondingly, profit from property sales increased 280% to HK$3,209 million. Overall profit margin was 60%.

As at December 31, 2016, the book cost of the residential properties available for sale was HK$2,374 million, which included 16 semi-detached houses at Blue Pool Road, 236 units of The Long Beach and one duplex of The HarbourSide.

PROPERTY REVALUATION

As at December 31, 2016, our investment properties were revalued by Savills, an independent valuer. The total value of our investment properties amounted to HK$133,005 million at the year-end of 2016. That comprised the value of the Hong Kong portfolio of HK$60,483 million and the mainland China portfolio amounting to HK$72,522 million.

An overall revaluation loss of HK$254 million was recorded in 2016, compared to a gain of HK$676 million in 2015. The mainland China portfolio had a revaluation loss of HK$798 million mainly due to lower valuation of the malls at Forum 66 in Shenyang and Center 66 in Wuxi. The Hong Kong portfolio recorded a revaluation gain of HK$544 million, of which HK$340 million was attributable to the revaluation gain of some car parking spaces that were previously held as properties for sale and stated as costs. With the change of intention of holding those car parking spaces from properties for sale to investment properties, it was necessary to revalue them in accordance with the accounting rules.

PROPERTY DEVELOPMENT AND CAPITAL COMMITMENT

As at December 31, 2016, the total value of the investment properties under development was HK$16,160 million. They comprised 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 and serviced apartments.

The foundation work of the second office tower at Wuxi Center 66 is in progress and the main contractor work will be awarded in the first half of 2017. The Center 66 Office Tower 2 with a gross floor area of 56,000 square meters will be built above the southeastern part of the Center 66 mall. The construction work is expected to be completed in 2019.

The construction work of Kunming Spring City 66 is progressing as planned. Total gross floor area of the entire complex is 434,000 square meters, comprising a world-class shopping center, a Grade A office tower, serviced apartments and car parking spaces. The shopping mall of Spring City 66 is scheduled to open at end of 2018.

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

In July 2016, the conversion of the upper 19 floors of the 67-story Grade A office tower at Shenyang Forum 66 into a hotel was officially approved. Under the esteemed Conrad brand, this five-star hotel is expected to open in 2019 and will have 315 exquisitely appointed guest rooms and suites. The addition of a five-star hotel will complement our vision of the Forum 66 as the destination of choice for high-end shopping, entertainment, business and hospitality experiences in Shenyang.

These projects represented the majority of the Group's capital commitments at the reporting date, amounting to HK$37 billion. They will be completed in phases over many years and the Group has ample financial resources to meet the funding needs.

LIQUIDITY AND FINANCIAL RESOURCES

The Group centrally manages financial resources and related risks. The aims are to maintain an appropriate degree of liquidity and ample financial resources to meet foreseeable funding needs. Funding sources are well-diversified. All related risks, including debt management, foreign exchange exposure, and interest rates volatility are centrally controlled and managed by the group treasury.

- *Liquidity Management*

The cash flow position and major capital expenditure are closely monitored to ensure that the Group has a good degree of flexibility and liquidity to meet operational requirements and seize growth 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.

As at December 31, 2016, the Group had total cash and bank balances of HK$24,524 million (December 31, 2015: HK$31,482 million). All the deposits are placed with banks with strong credit ratings and the counterparty risk is monitored on a regular basis. About 88% of the liquid funds were held as RMB bank deposits, as a natural hedge for meeting future construction payments of projects under development in mainland China.

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

	At December 31, 2016		At December 31, 2015	
	HK$ Million	*% of Total*	HK$ Million	*% of Total*
Denominated in:				
RMB	**21,563**	*87.9%*	30,164	*95.8%*
HKD	**2,950**	*12.0%*	1,306	*4.2%*
USD	**11**	*0.1%*	12	-
Total cash and bank balances	**24,524**	*100%*	31,482	*100%*

As at December 31, 2016, the available amount of undrawn committed banking facilities and the undrawn balance of the USD3 billion MTN Program were HK$13,052 million and HK$10,523 million, respectively.

- *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 and a well-planned maturity profile.

As at December 31, 2016, total borrowings of the Group were HK$31,119 million, which were lower than those a year ago mainly due to repayment of floating rate HKD bank borrowings with the cash generated from property sales. The following table shows the mix of floating rate bank borrowings and fixed rate bonds:

	At December 31, 2016		At December 31, 2015	
	HK$ Million	*% of Total*	HK$ Million	*% of Total*
Floating rate HKD bank loans	**8,145**	*26.2%*	13,695	*36.7%*
Floating rate RMB bank loans	**10,345**	*33.2%*	11,031	*29.5%*
Fixed rate bonds	**12,629**	*40.6%*	12,604	*33.8%*
Denominated in USD	***7,756***	*24.9%*	*7,751*	*20.8%*
Denominated in HKD	***4,873***	*15.7%*	*4,853*	*13.0%*
Total borrowings	**31,119**	*100%*	37,330	*100%*

At the balance sheet date, the average tenor of the entire loan portfolio was 3.7 years (December 31, 2015: 3.6 years). The maturity profile was well staggered, with about 83% of loans repayable after 2 years:

	At December 31, 2016		At December 31, 2015	
	HK$ Million	*% of Total*	HK$ Million	*% of Total*
Repayable:				
Within 1 year	**568**	*1.8%*	6,640	*17.8%*
After 1 but within 2 years	**4,844**	*15.6%*	2,062	*5.5%*
After 2 but within 5 years	**17,154**	*55.1%*	14,567	*39.0%*
Over 5 years	**8,553**	*27.5%*	14,061	*37.7%*
Total borrowings	**31,119**	*100%*	37,330	*100%*

- *Gearing Ratios & Interest Cover*

As at December 31, 2016, the Group had a net debt balance of HK$6,595 million (December 31, 2015: HK$5,848 million). Net debt to equity ratio and debt to equity ratio were at 4.8% (December 31, 2015: 4.2%) and 22.5% (December 31, 2015: 26.6%), respectively.

The average cost of borrowings during the year was 4.0% (2015: 4.0%), comprising average cost of floating rate bank borrowings at 3.7% (2015: 3.7%) and fixed rate bonds at 4.6% (2015: 4.6%). For the financial year ended December 31, 2016, total gross interest expense incurred amounted to HK$1,425 million (2015: HK$1,591 million). The decrease in gross interest expense was mainly attributable to two reasons. Firstly, the average bank borrowings balance in Hong Kong dropped because of loan repayments using cash generated from operations. Secondly, the average cost of borrowings in mainland China was reduced due to the reductions in benchmark lending rates by the People's Bank of China. After netting off a smaller amount of interest capitalization upon completion of some projects under development, finance costs charged to the statement of profit or loss amounted to HK$1,202 million (2015: HK$1,147 million).

For the year ended December 31, 2016, interest income was HK$809 million (2015: HK$1,142 million). The decrease in interest income was mainly due to both lower RMB deposit rates and a lower average deposit balance for the year. Overall, net finance costs, i.e. the excess of finance costs over interest income, in 2016 amounted to HK$393 million (2015: HK$5 million).

The key indicator for debt servicing capability, interest cover, of 2016 was 14 times (2015: 14 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.

If appropriate, the Group may use derivative financial instruments for controlling or hedging foreign exchange risk exposures. Use of such instruments for speculative purposes is strictly prohibited. Derivative financial instruments currently used by the Group are cross currency swaps, with details set out in section (b) below.

Given that certain of the investments and operations are located in mainland China, the Group has exposure represented by the amount of net assets denominated in RMB. It endeavors to establish an appropriate level of external local borrowings in RMB up to the extent permitted by the prevailing regulations in order to minimize the foreign currency exposure.

(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 investment properties such as shopping malls, office towers and projects under development. 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 of those projects under development in mainland China.

At December 31, 2016, the amount of net assets on the Mainland amounted to RMB62 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 loss of HK$4,917 million, as RMB depreciated by about 6% compared to December 31, 2015. By the same token, the RMB14,238 million deposits held in Hong Kong had to be re-translated into HKD as well and they accounted for HK$1,055 million of the re-translation loss for the financial year of 2016. The total re-translation loss of HK$5,972 million for 2016 (2015: HK$6,144 million) was recognized in other comprehensive income / exchange reserve.

Our capital commitments on Mainland projects under development amounted to RMB32 billion as at December 31, 2016.

In light of increasing uncertainties in the global economy and rising volatility of the RMB exchange rate, the Group considered it appropriate to adopt an enterprise risk management approach in mitigating the currency risks rather than forming a view on which side the currency will move. Accordingly, management has taken appropriate measures to balance the impact of currency fluctuation, including using more onshore RMB debts to finance construction payments up to the limit allowed by the authorities. Regular business reviews have also been conducted to assess the level of funding needs for Mainland projects under development after taking account of various factors such as regulatory constraints on local RMB borrowings, project development timelines and the business environment. As a result of these regular updates of our business plans and changes in relevant regulations and rules, we will make necessary modifications to our currency hedging arrangements accordingly when appropriate.

(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$7,756 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 fix the exchange rate between USD and HKD for future interest payments and principal repayments.

Accounting rules stipulate that the swap contracts be marked to market value at each reporting date. Any differences in the marked to market valuation between the reporting dates shall be treated as unrealized gain or loss for the period. For the financial year ended December 31, 2016, the swap contracts had an unrealized fair value gain of HK$203 million (2015: fair value loss of HK$101 million).

- *Charge of Assets*

Assets of the Group were not charged to any third parties as at December 31, 2016.

- *Contingent Liabilities*

The Group did not have any material contingent liabilities as at December 31, 2016.

OUTLOOK

Certain events such as Britain's decision to leave the European Union (Brexit), Donald Trump's victory in the US presidential election and the rising likelihood of further interest rate hikes by the Federal Reserve increased the uncertainty of the global financial and economic outlook. The long term impact of these events remains unclear. We will closely monitor their developments.

It is expected that both mainland China and Hong Kong will continue to face the challenges posed by slow economic growth and weak retail consumption sentiment.

In 2017, our focus is to drive rental growth in Hong Kong and expand occupancy in cities outside Shanghai, while maximizing income in Shanghai and across the office portfolio. Retail trades have to be expanded to complement our high-end, high-quality positioning to grow footfall and retail sales. Improving cost efficiency is vital to maintaining and improving rental margin.

Our retail properties in Hong Kong are less exposed to the high-end sector; we expect a mild growth in rental income in this segment. The office and industrial segment is relatively more stable despite a higher tenant turnover. A moderate growth in office rental income is still expected in 2017. The under-performance of our residential and serviced apartments will be remedied by a more aggressive leasing strategy going into the fourth quarter 2016 and into 2017.

Our properties in Shanghai will continue to strengthen their positioning with continued improvements in their trade mix and tenancy profile. In 2016, the Plaza 66 mall underwent a well-executed major renovation with a manageable level of income interruption. Completion of the renovation along with new letting will return Plaza 66 to its growth path in 2017 and beyond. Like Plaza 66, the Grand Gateway 66 mall will go through its renovation cycle from 2017 to 2019.

Outside Shanghai, there were more store closures and delayed openings across different cities. Our malls in Shenyang Forum 66 and Wuxi Center 66 have suffered the most in 2016. The setback in the two malls is expected to be offset by the continuing lease-up of the two office towers. The emphasis in 2017 is on raising the level of occupancy.

The Dalian Olympia 66 mall was soft-opened for business in December 2015, in the face of excessive bureaucratic hurdles. Progress was gradually made in 2016 and, after the official opening in September, leasing will be expedited throughout 2017, along with a build-up in footfall and retail sales.

Backed by our financial strength, various asset enhancement programs will continue both in Hong Kong and in Shanghai. Some short-term rental loss may be inevitable during the renovation period. Projects under development in mainland China will continue to proceed as planned.

We will continue to closely monitor the residential property market in Hong Kong, and will sell some of the residential units on hand and may further build our land bank when opportunities arise.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED DECEMBER 31, 2016 (AUDITED)

	Note	2016 HK$ Million	2015 HK$ Million	*For information purpose only (Note 1)* 2016 RMB Million	*For information purpose only (Note 1)* 2015 RMB Million
Revenue	*2(a)*	**13,648**	9,528	**11,743**	7,692
Direct costs and operating expenses		**(4,310)**	(2,573)	**(3,709)**	(2,080)
Gross profit		**9,338**	6,955	**8,034**	5,612
Other net income	*3*	**228**	53	**196**	41
Administrative expenses		**(671)**	(728)	**(575)**	(591)
Operating profit before changes in fair value of properties		**8,895**	6,280	**7,655**	5,062
Net (decrease) / increase in fair value of properties		**(254)**	676	**(226)**	552
Operating profit after changes in fair value of properties		**8,641**	6,956	**7,429**	5,614
Interest income		**809**	1,142	**692**	926
Finance costs		**(1,202)**	(1,147)	**(1,031)**	(928)
Net interest expense	*4*	**(393)**	(5)	**(339)**	(2)
Share of profits of joint ventures		**129**	256	**110**	209
Profit before taxation	*2(a) & 5*	**8,377**	7,207	**7,200**	5,821
Taxation	*6(a)*	**(1,472)**	(1,216)	**(1,259)**	(976)
Profit for the year		**6,905**	5,991	**5,941**	4,845
Attributable to:					
Shareholders		**3,713**	3,211	**3,196**	2,603
Non-controlling interests		**3,192**	2,780	**2,745**	2,242
		6,905	5,991	**5,941**	4,845
Earnings per share	*8(a)*				
Basic		**HK$2.73**	HK$2.37	**RMB2.36**	RMB1.92
Diluted		**HK$2.73**	HK$2.37	**RMB2.36**	RMB1.92

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2016 (AUDITED)

				For information purpose only (Note 1)	
		2016	2015	**2016**	2015
	Note	**HK$ Million**	HK$ Million	**RMB Million**	RMB Million
Profit for the year		**6,905**	5,991	**5,941**	4,845
Other comprehensive income	*6(b)*				
Items that may be reclassified subsequently to profit or loss:					
Net movement in investment revaluation reserve		**-**	(38)	**-**	(30)
Exchange difference arising from translation of foreign subsidiaries / to presentation currency		**(5,972)**	(6,144)	**2,348**	1,784
Other comprehensive income for the year		**(5,972)**	(6,182)	**2,348**	1,754
Total comprehensive income for the year		**933**	(191)	**8,289**	6,599
Total comprehensive income attributable to:					
Shareholders		**543**	(39)	**4,553**	3,564
Non-controlling interests		**390**	(152)	**3,736**	3,035
		933	(191)	**8,289**	6,599

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT DECEMBER 31, 2016 (AUDITED)

				For information purpose only (Note 1)	
	Note	**2016 HK$ Million**	2015 HK$ Million	**2016 RMB Million**	2015 RMB Million
Non-current assets					
Property, plant and equipment					
Investment properties	*9*	**133,005**	137,338	**119,212**	115,631
Investment properties under development	*9*	**16,160**	16,709	**14,455**	13,998
Other property, plant and equipment		**1,446**	338	**1,294**	285
		150,611	154,385	**134,961**	129,914
Interest in joint ventures		**3,539**	3,455	**3,180**	2,928
Other assets		**1,341**	1,343	**1,205**	1,138
Deferred tax assets		**22**	19	**20**	16
		155,513	159,202	**139,366**	133,996
Current assets					
Cash and deposits with banks		**24,524**	31,482	**22,010**	26,595
Trade and other receivables	*10*	**3,958**	1,170	**3,552**	985
Properties for sale		**2,374**	3,852	**2,133**	3,264
		30,856	36,504	**27,695**	30,844
Current liabilities					
Bank loans and other borrowings		**568**	6,640	**508**	5,611
Trade and other payables	*11*	**6,761**	7,353	**6,058**	6,182
Taxation payable		**982**	577	**881**	485
		8,311	14,570	**7,447**	12,278
Net current assets		**22,545**	21,934	**20,248**	18,566
Total assets less current liabilities		**178,058**	181,136	**159,614**	152,562
Non-current liabilities					
Bank loans and other borrowings		**30,551**	30,690	**27,416**	25,915
Deferred tax liabilities		**9,494**	10,144	**8,494**	8,503
		40,045	40,834	**35,910**	34,418
NET ASSETS		**138,013**	140,302	**123,704**	118,144
Capital and reserves					
Share capital		**4,065**	3,893	**3,164**	3,015
Reserves		**71,593**	71,577	**64,651**	60,544
Shareholders' equity		**75,658**	75,470	**67,815**	63,559
Non-controlling interests		**62,355**	64,832	**55,889**	54,585
TOTAL EQUITY		**138,013**	140,302	**123,704**	118,144

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The financial information relating to the years ended December 31, 2016 and 2015 included in this announcement of annual results does not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those consolidated financial statements in accordance with section 436 of the Hong Kong Companies Ordinance (Cap.622). The Company has delivered the consolidated financial statements for the year ended December 31, 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance and will deliver the consolidated financial statements for the year ended December 31, 2016 in due course. The Company's auditor has reported on the consolidated financial statements for both years. The auditor's reports were unqualified and they did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports, and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

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), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies 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, 2015.

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

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

1. Basis of preparation (Continued)

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 following basis in respect of the translation of transactions/balances not denominated in Renminbi:

- assets and liabilities are translated at the closing exchange rates at the end of the reporting period;
- income and expenses are translated at the exchange rates approximating the exchange rates ruling at the dates of the transactions; and
- equity transactions are translated at exchange rates at the dates of the relevant transactions and are not re-translated.

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 mainland China and Hong Kong. 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 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	
	2016	2015	**2016**	2015
	HK$ Million	HK$ Million	**HK$ Million**	HK$ Million
Segment				
Property leasing				
- Mainland China (Note)	**4,427**	4,625	**2,814**	3,005
- Hong Kong	**3,899**	3,705	**3,315**	3,105
	8,326	8,330	**6,129**	6,110
Property sales				
- Hong Kong	**5,322**	1,198	**3,209**	845
Segment total	**13,648**	9,528	**9,338**	6,955
Other net income			**228**	53
Administrative expenses			**(671)**	(728)
Operating profit before changes in fair value of properties			**8,895**	6,280
Net (decrease) / increase in fair value of properties			**(254)**	676
- Property leasing in Hong Kong			**204**	947
- Property leasing in mainland China			**(798)**	(271)
- Upon transfer from completed properties for sale to investment properties			**340**	-
Net interest expense			**(393)**	(5)
- Interest income			**809**	1,142
- Finance costs			**(1,202)**	(1,147)
Share of profits of joint ventures			**129**	256
Profit before taxation			**8,377**	7,207

Note: Pursuant to Caishui [2016] No. 36 jointly issued by China's Ministry of Finance and State Administration of Taxation, from May 1, 2016, Value-Added Tax (VAT) has replaced Business Tax (BT) to cover all the sectors which were previously falling under the BT regime. The VAT rate for property leasing is 11% and VAT is excluded from revenue. With effect from May 1, 2016, the Group is no longer required to pay BT for property leasing in mainland China.

2. Revenue and segment information (Continued)

(b) Total assets by segments

	Total assets	
	2016	2015
	HK$ Million	HK$ Million
Segment		
Property Leasing		
- Mainland China	**89,851**	95,189
- Hong Kong	**60,999**	60,344
	150,850	155,533
Property sales		
- Hong Kong	**4,971**	3,874
Segment total	**155,821**	159,407
Other property, plant and equipment	**1,122**	-
Interest in joint ventures	**3,539**	3,455
Other assets	**1,341**	1,343
Deferred tax assets	**22**	19
Cash and deposits with banks	**24,524**	31,482
Total assets	**186,369**	195,706

3. Other net income

	2016	2015
	HK$ Million	HK$ Million
Gain on disposal of investment properties	**8**	69
Gain on disposal of listed investments	-	62
Dividend income from unlisted investments	**20**	1
Net exchange (loss) / gain	**(3)**	22
Unrealized gain / (loss) on remeasurement of derivative financial instruments (Note)	**203**	(101)
Other net income	**228**	53

Note: Derivative financial instruments represent cross currency swaps, which were entered into for the purpose of fixing the exchange rate for the Medium Term Note denominated in USD.

4. Net interest expense

	2016	2015
	HK$ Million	HK$ Million
Interest income on bank deposits	**809**	1,142
Interest expense on bank loans and other borrowings	**1,321**	1,470
Other borrowing costs	**104**	121
Total borrowing costs	**1,425**	1,591
Less: Borrowing costs capitalized	**(223)**	(444)
Finance costs	**1,202**	1,147
Net interest expense	**(393)**	(5)

5. Profit before taxation

	2016	2015
	HK$ Million	HK$ Million
Profit before taxation is arrived at after charging:		
Cost of properties sold	**1,815**	216
Staff costs, including employee share-based payments of HK$103 Million (2015: HK$150 million)	**1,438**	1,395
Depreciation	**57**	55

6. Taxation

(a) Provision for Hong Kong Profits Tax is calculated at 16.5% (2015: 16.5%) of the estimated assessable profits for the year. China Income Tax mainly represents China Corporate Income Tax calculated at 25% (2015: 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.

	2016	2015
	HK$ Million	HK$ Million
Current tax		
Hong Kong Profits Tax	**869**	467
Over-provision in prior years	**(10)**	(8)
	859	459
China Income Tax	**664**	743
	1,523	1,202
Deferred tax		
Changes in fair value of properties	**(145)**	(68)
Other origination and reversal of temporary differences	**94**	82
	(51)	14
Total income tax expense	**1,472**	1,216

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

7. Dividends

(a) Dividends attributable to the year

	2016	2015
	HK$ Million	HK$ Million
Interim dividend declared and paid of HK19 cents per share (2015: HK19 cents)	**258**	257
Final dividend of HK61 cents per share (2015: HK61 cents) proposed after the end of the reporting period	**831**	827
Total dividends attributable to the year	**1,089**	1,084

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 HK$827 million (calculated based on HK61 cents per share and the total number of issued shares as at the dividend pay-out date) for the year ended December 31, 2015 was approved and paid in the year ended December 31, 2016 (2015: HK$841 million).

8. Earnings per share

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

	2016	2015
	HK$ Million	HK$ Million
Earnings for calculation of basic and diluted earnings per share (net profit attributable to shareholders)	**3,713**	3,211

8. Earnings per share (Continued)

(a) (Continued)

	Number of shares	
	2016	2015
	(Million)	(Million)
Weighted average number of shares used in calculating basic earnings per share	**1,358**	1,355
Effect of dilutive potential shares – share options	**-**	2
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 properties net of related deferred tax and non-controlling interests, is calculated as follows:

	2016	2015
	HK$ Million	HK$ Million
Net profit attributable to shareholders	**3,713**	3,211
Effect of changes in fair value of properties	**254**	(676)
Effect of corresponding deferred tax	**(145)**	(68)
Effect of changes in fair value of investment properties of joint ventures	**4**	(96)
	113	(840)
Non-controlling interests	**(54)**	329
	59	(511)
Underlying net profit attributable to shareholders	**3,772**	2,700

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

	2016	2015
Basic	**HK$2.78**	HK$1.99
Diluted	**HK$2.78**	HK$1.99

9. Investment properties and investment properties under development

(a) Addition

During the year, additions to investment properties and investment properties under development amounted to HK$2,325 million (2015: HK$5,034 million).

(b) Valuation

The investment properties and investment properties under development of the Group were revalued as at December 31, 2016 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, ageing analysis of trade receivables (based on the due date) is as follows:

	2016	2015
	HK$ Million	HK$ Million
Current and within 1 month (Note)	**2,621**	42
1 - 3 months	**22**	8
Over 3 months	**13**	4
Total trade receivables	**2,656**	54

Note: Current and within 1 month receivables mainly represented property sales receivables for residential units sold in the second half of 2016. Most of the sales receivables would be settled over the next few months upon sales completion.

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$279 million (2015: HK$298 million).

11. Trade and other payables

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

	2016	2015
	HK$ Million	HK$ Million
Due within 1 month to 3 months	**1,690**	2,150
Due after 3 months	**1,855**	583
Total trade creditors	**3,545**	2,733

OTHER INFORMATION

Employees

As at December 31, 2016, the number of employees was 4,720 (comprising 1,322 Hong Kong employees and 3,398 mainland China employees). The total employee costs for the year ended December 31, 2016 amounted to HK$1,438 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 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.

Audit Committee

The annual results for the year ended December 31, 2016, have been reviewed by the Audit Committee of the Company. The Group's consolidated financial statements have been audited by the Company's auditor, KPMG, and it has issued an unmodified opinion.

Book Close Dates

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

Book close dates (both days inclusive)	April 26 to 27, 2017
Latest time to lodge transfers	4:30 pm on April 25, 2017
Record date	April 27, 2017
AGM	April 27, 2017

For ascertaining shareholders' entitlement to the proposed final dividend

Book close date	May 5, 2017
Latest time to lodge transfers	4:30 pm on May 4, 2017
Record date	May 5, 2017
Final dividend payment date	May 18, 2017

On Behalf of the Board
Ronnie C. Chan
Chairman

Hong Kong, January 26, 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 & 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 year (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 properties net of related deferred tax and non-controlling interests

Financial Ratios

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

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

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

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

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