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恒隆集團有限公司

HANG LUNG GROUP LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00010)

2014 Interim Results

FINANCIAL HIGHLIGHTS

in HK\$ Million (unless otherwise stated)

RESULTS

	Note	Six months ended June 30		
		2014	2013	Change
Turnover		4,746	3,605	+32%
Property Leasing		3,845	3,508	+10%
Property Sales		901	97	+829%
Operating Profit		3,613	2,909	+24%
Property Leasing		3,073	2,842	+8%
Property Sales		540	67	+706%
Net Profit Attributable to Shareholders		2,060	1,766	+17%
Earnings Per Share (HK\$)		\$1.52	\$1.31	+16%
Interim Dividend Per Share (HK\$)		\$0.19	\$0.19	-

UNDERLYING RESULTS

		Six months ended June 30		
		2014	2013	Change
Underlying Net Profit Attributable to Shareholders	1	1,516	1,159	+31%
Underlying Earnings Per Share (HK\$)	2	\$1.12	\$0.86	+30%

FINANCIAL POSITION

		At June 30, 2014			At December 31, 2013		
		2014	2013	Change	2013	Change	
Shareholders' Equity		71,206	70,572	+1%			
Net Assets		136,226	136,408	-			
Net Debt	3	6,727	5,320	+26%			
Financial Ratio							
Net Debt to Equity Ratio	3	4.9%	3.9%	+1.0% pts			
Debt to Equity Ratio	3	33.6%	33.0%	+0.6% pts			
Shareholders' Equity Per Share (HK\$)		\$52.6	\$52.3	+1%			
Net Assets Per Share (HK\$)		\$100.5	\$101.0	-			

Notes:

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

MANAGEMENT DISCUSSION AND ANALYSIS

GROUP RESULTS

Total turnover of Hang Lung Group grew 32% to HK\$4,746 million compared to the corresponding period of last year. Contributing to the solid performance was eight times increase in sales of residential properties in Hong Kong and 10% growth in rental turnover. Net profit attributable to shareholders rose 17% to HK\$2,060 million against a year ago. When excluding all the effects of property revaluation, underlying net profit attributable to shareholders rose 31% to HK\$1,516 million.

DIVIDEND

The Board of Directors has declared an interim dividend of HK19 cents per share (2013: HK19 cents) to be paid by cash on September 30, 2014, to shareholders. Details of the payment of the interim dividend are set out under the paragraph headed “Book Close Dates” of this announcement.

PROPERTY LEASING

Despite a slowdown in economic growth and retail sales in mainland China, rental turnover was up 10% to HK\$3,845 million and operating profit grew 8% to HK\$3,073 million compared to the last corresponding period. When excluding the first time contribution from shopping mall of Center 66 in Wuxi, the growth rates of rental income and profit would be both at 5% on a comparable basis.

Hong Kong

Both rental turnover and operating profit of the Hong Kong portfolio grew 7% to HK\$1,690 million and HK\$1,452 million, respectively. Profit margin was maintained at 86%.

Rental turnover from the commercial portfolio advanced by 9% to HK\$985 million compared to the first half of 2013 mainly driven by positive rental reversions and higher occupancy. Average unit rent increased by 7% mainly attributable to higher rental reversions from the Kowloon portfolio. Occupancy was close to 100%. Although overall retail sales in Hong Kong had decreased since February 2014 as compared to the last corresponding period, our tenants continued to record positive sales growth which proved that our tenant mix was resilient during a challenging economic environment.

Rental income of the office portfolio was up by 7% to HK\$567 million, mainly attributable to positive rental reversions. Occupancy of the office portfolio was 95% at the balance sheet date.

The performance of the residential and serviced apartments sectors was relatively sluggish with revenue decreased by 4% to HK\$138 million. Leasing activities for luxury apartments remained soft as corporate clients were more cost conscious with their housing budget allowances.

Mainland China

Benefitting from a solid performance by the existing portfolio and new contributions from the new mall in Wuxi, Center 66, which commenced operation in September 2013, rental turnover and operating profit of our mainland China investment properties rose 12% to HK\$2,155 million and 9% to HK\$1,621 million, respectively. Isolating the contributions from Center 66, the growth rates would be 4% and 3%, respectively, amidst declining retail sales of luxury goods and a moderate economic growth. Profit margin was at 75%. With four properties completed for operations on the Mainland since 2010, our mainland China portfolio now accounted for 56% and 53% of the Group's rental turnover and profit, respectively.

Rental income contributed by the Shanghai portfolio, Plaza 66 and Grand Gateway 66, reached HK\$1,617 million, representing a 6% growth period-on-period, mainly benefitting from rents increases. The two malls recorded 7% growth in rental income to \$972 million. Grand Gateway 66 mall remained fully let while occupancy of Plaza 66 mall stood at 95%. Retail sales of the two malls, however, dropped by 2% year-on-year amidst the anti-corruption and anti-opulence campaigns. The Shanghai office portfolio achieved 7% rental growth to HK\$566 million despite new supplies in the area. Occupancy of the offices stood at 94% during the period and average unit rent increased by 8% over a year ago. The solid results of the malls and offices were partially offset by a soft performance of residential and serviced apartments, which collected 14% less rents due to lower occupancy.

The young malls outside Shanghai contributed HK\$538 million rents collectively in the first half year of 2014. Center 66 in Wuxi has increased its occupancy rate to 92% since official opening last September. After completing the first lease cycle, the malls of Palace 66 and Forum 66 in Shenyang and Parc 66 in Jinan were in the process of optimizing their tenant mix and market positioning. While this is a normal stabilization exercise for young malls for the sake of longer term competitiveness, the malls would experience a temporary drop in occupancy as well. Despite the disruptions caused by tenant reshuffling, each of the three malls recorded positive growth in tenant sales compared to a year ago.

PROPERTY SALES

Out of the 110 units of The Long Beach apartments sold in the first half of 2014, 88 units were recognized as sales upon the signing of formal sales and purchase agreements, compared to only seven apartments sold in the same period last year. Turnover and operating profit boosted 8.3 times and 7.1 times to HK\$901 million and HK\$540 million correspondingly. Average profit margin realized was 60%.

PROPERTY DEVELOPMENT AND CAPITAL COMMITMENT

Investment properties under development comprised several projects in mainland China including projects in Tianjin, Dalian, Kunming, Wuhan and the remaining phases of Center 66 in Wuxi and Forum 66 in Shenyang.

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

Following the opening of the mall last September, the grade A Office Tower 1 of Center 66 in Wuxi will come on stream in the fourth quarter of 2014. The tower has a total floor area of 88,560 square meters and is our first office project to be completed outside Shanghai. Pre-leasing activities are making good progress.

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

Other Mainland projects are progressing as planned. In particular, construction of the superstructure of Olympia 66 in Dalian is nearly completed. Interior fitting out works will be commenced soon for this stunning mall, which has a gross floor area of almost 220,000 square meters.

The luxury residential development in Hong Kong, 23-39 Blue Pool Road in Happy Valley, is expected to obtain its occupation permit later this year. The 18 residential units will then be ready for release if market conditions are favorable.

Total capital commitments of the Group amounted to HK\$47 billion at the balance sheet date, and they were mainly RMB-denominated construction costs in respect of projects under development on the Mainland. Those development projects will take many years to build out and the Group has ample financial resources to meet the commitments as they fall due.

PROPERTY REVALUATION

As at June 30, 2014, the Group recorded a revaluation gain of its investment properties amounting to HK\$763 million compared to a gain of HK\$1,090 million in the last period. Those properties were re-valued by Savills, an independent valuer. Hong Kong investment properties recorded a revaluation gain of HK\$718 million while the Mainland portfolio had a moderate gain of HK\$45 million.

FINANCIAL POSITION

The Group had liquid funds of HK\$38,981 million as at June 30, 2014, of which more than 95% was held in Renminbi (“RMB”) bank deposits. It is our strategy to use RMB deposits as a natural hedge against the currency fluctuations of our RMB construction commitments on the Mainland. After deducting total borrowings of HK\$45,708 million, the Group had a net debt balance of HK\$6,727 million as at June 30, 2014. The net debt to equity ratio was 4.9%.

During the first six months of 2014, we issued HK\$5,180 million fixed rate bonds via the Medium Term Note (“MTN”) Program with the objective of mitigating future re-financing and interest rate risks. By the balance sheet date, an equivalent of HK\$12,470 million fixed rate bonds were issued in total under the MTN Program. Those bonds accounted for 27% of total borrowings, with a weighted average remaining tenor of 7.5 years, and were un-rated and issued with coupon rates ranging from 2.95% to 4.75% per annum. The average loan tenor of the Group was 3.6 years as at June 30, 2014.

At the balance sheet date, we had committed undrawn banking facilities amounting to HK\$16,705 million. Together with our strong cash flows generation capability, we have a strong balance sheet and high degree of financial flexibility to meet future funding needs of capital commitments and new investment opportunities when they arise.

OUTLOOK

For a large part of the six months ended June 30, 2014, both Hong Kong and mainland China experienced a slowdown in retail sales. In addition, the anti-corruption and anti-opulence campaigns on the Mainland were underway and are expected to continue. Online sales will continue to become more popular, affecting various segments of the retail sector to a different degree. Those challenges are likely to stay for some time.

While the anti-corruption measures will have a temporary adverse impact on high end retail sales, they are important for the long term health of the country. This should work in favor of long term players like Hang Lung.

The Group sees the increasing popularity of online sales as a catalyst for modifying our operation strategy rather than as a threat. The key for landlords is to adopt appropriate technologies to enhance service quality and unleash creativity to provide a unique experience that is unmatched by e-commerce.

In the absence of unforeseeable circumstances, the performance of our investment properties in Hong Kong and mainland China in the second half of 2014 will be similar to that of the first half. If the residential market situation in Hong Kong continues to improve as in the first half, this may present an opportunity for the Group to sell some completed apartments.

Our new shopping mall in Tianjin, Riverside 66, is going through the final preparation for its grand opening on September 26 this year.

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

(Expressed in Hong Kong dollars)

	<i>Note</i>	2014 \$ Million	2013 \$ Million
Turnover	3(a)	4,746	3,605
Direct costs and operating expenses		(1,133)	(696)
Gross profit		3,613	2,909
Other net (loss)/income	4	(3)	25
Administrative expenses		(341)	(330)
Operating profit before change in fair value of investment properties		3,269	2,604
Increase in fair value of investment properties		763	1,090
Operating profit after change in fair value of investment properties		4,032	3,694
Interest income		534	468
Finance costs		(305)	(282)
Net interest income	5	229	186
Share of profits of joint ventures		218	178
Profit before taxation	3(a) & 6	4,479	4,058
Taxation	7(a)	(697)	(662)
Profit for the period		3,782	3,396
Attributable to:			
Shareholders		2,060	1,766
Non-controlling interests		1,722	1,630
		3,782	3,396
Earnings per share	9(a)		
Basic		\$1.52	\$1.31
Diluted		\$1.52	\$1.30

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

(Expressed in Hong Kong dollars)

	<i>Note</i>	2014 \$ Million	2013 \$ Million
Profit for the period		3,782	3,396
Other comprehensive income	7(b)		
Items that may be reclassified subsequently to profit or loss:			
Net movement in investment revaluation reserve		1	(4)
Exchange difference arising from translation of overseas subsidiaries		(1,471)	1,637
Other comprehensive income for the period		<u>(1,470)</u>	<u>1,633</u>
Total comprehensive income for the period		<u>2,312</u>	<u>5,029</u>
Total comprehensive income attributable to:			
Shareholders		1,258	2,698
Non-controlling interests		1,054	2,331
		<u>2,312</u>	<u>5,029</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT JUNE 30, 2014

(Expressed in Hong Kong dollars)

		(Unaudited) June 30, 2014 \$ Million	(Audited) December 31, 2013 \$ Million
	<i>Note</i>		
Non-current assets			
Fixed assets			
Investment properties	<i>10</i>	116,241	115,818
Investment properties under development	<i>10</i>	32,619	30,478
Other fixed assets		306	295
		149,166	146,591
Interest in joint ventures		3,422	2,991
Other assets		1,287	1,282
Deferred tax assets		15	19
		153,890	150,883
Current assets			
Cash and deposits with banks		38,981	39,704
Trade and other receivables	<i>11</i>	1,233	2,661
Properties for sale		5,526	5,717
		45,740	48,082
Current liabilities			
Bank loans and other borrowings		5,885	1,657
Trade and other payables	<i>12</i>	6,367	6,250
Taxation payable		729	646
		12,981	8,553
Net current assets		32,759	39,529
Total assets less current liabilities		186,649	190,412
Non-current liabilities			
Bank loans and other borrowings		39,823	43,367
Deferred tax liabilities		10,600	10,637
		50,423	54,004
NET ASSETS		136,226	136,408
Capital and reserves			
Share capital		3,893	1,350
Reserves		67,313	69,222
Shareholders' equity		71,206	70,572
Non-controlling interests		65,020	65,836
TOTAL EQUITY		136,226	136,408

Notes:

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

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

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

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

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

3. Turnover and segment information

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

Property leasing segment includes property leasing operation. The Group's investment properties portfolio, which mainly consists of retail, office, residential, serviced apartments and car parks are primarily located in Hong Kong and mainland China. Property sales segment includes development and sale of the Group's trading properties in Hong Kong.

Management evaluates performance primarily based on profit before taxation.

Segment assets principally comprise all non-current assets and current assets directly attributable to each segment with the exception of interest in joint ventures, other assets, deferred tax assets and cash and deposits with banks. The investment properties of the Group are included in segment assets at their fair values whilst the change in fair value of investment properties is not included in segment profits.

Notes:

3. Turnover and segment information (Continued)

(a) Turnover and results by segments

<u>Segment</u>	Turnover		Profit before taxation	
	2014 \$ Million	2013 \$ Million	2014 \$ Million	2013 \$ Million
Property leasing				
- Hong Kong	1,690	1,580	1,452	1,352
- Mainland China	2,155	1,928	1,621	1,490
	<u>3,845</u>	<u>3,508</u>	<u>3,073</u>	<u>2,842</u>
Property sales				
- Hong Kong	901	97	540	67
Segment total	<u>4,746</u>	<u>3,605</u>	<u>3,613</u>	<u>2,909</u>
Other net (loss)/income			(3)	25
Administrative expenses			(341)	(330)
Operating profit before change in fair value of investment properties			<u>3,269</u>	<u>2,604</u>
Increase in fair value of investment properties			763	1,090
- property leasing in Hong Kong			718	704
- property leasing in mainland China			45	386
Interest income			534	468
Finance costs			(305)	(282)
Net interest income			229	186
Share of profits of joint ventures			218	178
Profit before taxation			<u>4,479</u>	<u>4,058</u>

(b) Total assets by segments

<u>Segment</u>	Total assets	
	June 30, 2014 \$ Million	December 31, 2013 \$ Million
Property leasing		
- Hong Kong	57,860	57,042
- Mainland China	92,201	90,417
	<u>150,061</u>	<u>147,459</u>
Property sales		
- Hong Kong	5,864	7,510
Segment total	<u>155,925</u>	<u>154,969</u>
Interest in joint ventures	3,422	2,991
Other assets	1,287	1,282
Deferred tax assets	15	19
Cash and deposits with banks	38,981	39,704
Total assets	<u>199,630</u>	<u>198,965</u>

Notes:

4. Other net (loss)/income

	2014	2013
	\$ Million	\$ Million
Gain on disposal of investment properties	3	7
Dividend income from listed investments	4	4
Dividend income from unlisted investments	-	1
Net exchange (loss)/gain	(10)	13
	<u>(3)</u>	<u>25</u>

5 Net interest income

	2014	2013
	\$Million	\$Million
Interest income on		
Bank deposits	534	462
Unlisted held-to-maturity investments	-	6
	<u>534</u>	<u>468</u>
Interest expenses on		
Bank loans and other borrowings	699	557
Other borrowing costs	51	41
	<u>750</u>	<u>598</u>
Total borrowing costs	750	598
Less: Borrowing costs capitalized	(445)	(316)
	<u>305</u>	<u>282</u>
Finance costs	305	282
	<u>229</u>	<u>186</u>
Net interest income	229	186

6. Profit before taxation

	2014	2013
	\$ Million	\$ Million
Profit before taxation is arrived at after charging:		
Cost of properties sold	267	21
Staff costs, including employee share-based payments of \$77 million (2013: \$65 million)	563	424
Depreciation	25	20
	<u>25</u>	<u>20</u>

Notes:

7. Taxation

- (a) Provision for Hong Kong Profits Tax is calculated at 16.5% (2013: 16.5%) of the estimated assessable profits for the period. China Income Tax mainly represents China Corporate Income Tax calculated at 25% (2013: 25%) and China withholding income tax at the applicable rates. A withholding tax of 5% is levied on the Hong Kong companies in respect of dividend distributions arising from profits of foreign investment enterprises in mainland China earned after January 1, 2008.

	2014	2013
	\$ Million	\$ Million
Current tax		
Hong Kong Profits Tax	254	182
China Income Tax	377	282
	631	464
Deferred tax		
Change in fair value of investment properties	11	97
Other origination and reversal of temporary differences	55	101
	66	198
Total income tax expense	697	662

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

8. Dividends

- (a) Dividends attributable to the period

	2014	2013
	\$ Million	\$ Million
Proposed after the end of the reporting period:		
19 cents (2013: 19 cents) per share	257	256

The dividend proposed after the end of the reporting period has not been recognized as a liability at the end of the reporting period.

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

	2014	2013
	\$ Million	\$ Million
Final dividend in respect of the previous financial year		
of 61 cents (2013: 60 cents) per share	827	810

Notes:

9. Earnings per share

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

	2014	2013
	\$ Million	\$ Million
Earnings for calculation of basic and diluted earnings per share (net profit attributable to shareholders)	2,060	1,766
	Number of shares	
	2014	2013
	(Million)	(Million)
Weighted average number of shares used in calculating basic earnings per share	1,352	1,350
Effect of dilutive potential shares - share options	4	8
Weighted average number of shares used in calculating diluted earnings per share	1,356	1,358

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

	2014	2013
	\$ Million	\$ Million
Net profit attributable to shareholders	2,060	1,766
Effect of changes in fair value of investment properties	(763)	(1,090)
Effect of corresponding deferred tax	11	97
Effect of changes in fair value of investment properties of joint ventures	(144)	(102)
Non-controlling interests	352	488
	(544)	(607)
Underlying net profit attributable to shareholders	1,516	1,159
The earnings per share based on underlying net profit attributable to shareholders are:		
	2014	2013
Basic	\$1.12	\$0.86
Diluted	\$1.12	\$0.85

Notes:

10. Investment properties and investment properties under development

(a) Additions

During the period, additions to investment properties and investment properties under development amounted to \$2,651 million (2013: \$6,640 million).

(b) Valuation

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

11. Trade and other receivables

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

	June 30, 2014 \$ Million	December 31, 2013 \$ Million
Current and within 1 month	376	1,834
1 - 3 months	9	14
Over 3 months	6	9
	<u>391</u>	<u>1,857</u>

The balance of bad and doubtful debts is insignificant.

The Group maintains a defined credit policy including stringent credit evaluation on and payment of a rental deposit from tenants. Proceeds from property sales are receivable pursuant to the terms of the sale and purchase agreements. In addition to the payment of rental deposits, tenants are required to pay monthly rents in respect of leased properties in advance. Except for sale of properties developed by the Group, it does not hold any collateral over the receivables. Receivables are regularly reviewed and closely monitored to minimize any associated credit risk.

(b) Included in other receivables of the Group is deposit of land acquisition in mainland China of \$315 million (December 31, 2013: \$318 million).

12. Trade and other payables

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

	June 30, 2014 \$ Million	December 31, 2013 \$ Million
Due within 1 month	2,814	2,693
Due after 3 months	569	548
	<u>3,383</u>	<u>3,241</u>

Purchase, Sale or Redemption of Listed Securities

During the six months ended June 30, 2014, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its listed securities.

Compliance with Corporate Governance Code

During the six months ended June 30, 2014, the Company has complied with the code provisions set out in the Corporate Governance Code as stated in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Book Close Dates

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

On Behalf of the Board

Ronnie C. Chan

Chairman

Hong Kong, July 31, 2014

As at the date of this announcement, the board of directors of the Company comprises the following directors:

Executive Directors: Mr. Ronnie C. CHAN, Mr. Philip N.L. CHEN and Mr. H.C. HO

Non-Executive Director: Mr. Gerald L. CHAN

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