新鴻基地產發展有限公司
Sun Hung Kai Properties Limited

(Incorporated in Hong Kong with limited liability)
(Stock Code: 16)

2011 / 12 Annual Results

CHAIRMAN'S STATEMENT

We are pleased to present our report to the shareholders.

RESULTS

The Group's underlying profit attributable to the Company's shareholders for the year ended 30 June 2012, excluding the effect of fair-value changes on investment properties, amounted to HK$21,678 million, compared to HK$21,479 million last year. Underlying earnings per share were HK$8.37, compared to HK$8.36 last year.

Reported profit and reported earnings per share attributable to the Company's shareholders were HK$43,080 million and HK$16.63 respectively, compared to HK$48,097 million and HK$18.71 last year. The reported profit for the year included an increase in fair value of investment properties net of deferred taxation and non-controlling interests of HK$22,076 million compared to HK$26,996 million last year.

DIVIDEND

The directors have recommended the payment of a final dividend of HK$2.40 per share for the year ended 30 June 2012. Together with the interim dividend of HK$0.95 per share, the dividend for the full year will be HK$3.35, the same as last year.

BUSINESS REVIEW

Property Sales and Rental Income

Property Sales

Revenue from property sales for the year as recorded in the accounts, including revenue from joint-venture projects, was HK$37,032 million. Profit generated from property sales was HK$13,074 million, as compared to last year's HK$16,647 million which included a one-off contribution from the sales of a luxury residential development in Singapore. The Group continued to record impressive contracted sales of HK$38,217 million for the year in attributable terms, versus last year's HK$39,148 million.

Rental Income

As new leases and renewals concluded during the year achieved higher rentals together with increased contributions from new mainland properties, the Group continued to record robust rental income growth. Gross rental income, including contributions from joint-venture projects, rose 15 per cent to HK$14,444 million, and net rental income increased 16 per cent to HK$11,069 million.

Property Business – Hong Kong

Land Bank

The Group held a total land bank of 46.6 million square feet in Hong Kong as at June 2012. This included 28.5 million square feet of premium completed investment properties and 18.1 million square feet of properties under development. The Group also held some 27 million square feet of farmland in terms of site area under various stages of land use conversion, located primarily along existing or planned railway lines in the New Territories.

With more sites available in the land market, the Group acquired a total of 5.2 million square feet of developable gross floor area in attributable terms during the year, compared to last year's 2.7 million square feet.

Location	**Usage**	**Group's Interest** (%)	**Attributable Gross Floor Area** (square feet)
MTR Nam Cheong Station Development	Residential/ Shopping centre	JV	2,609,000
Area 55A, Tung Chung	Residential/ Retail	100	1,394,000
Area 66A, Tseung Kwan O	Residential/ Shopping centre	100	793,000
Area 66C1, Tseung Kwan O	Residential/ Shopping centre	100	258,000
56-84 Belcher's Street, Island West	Residential/ Retail	92	144,000
Total			**5,198,000**

The Group continued to capitalize on land acquisition opportunities after the financial year ended, winning a government site on the North Point waterfront through a public tender in July. This North Point site, comprising 578,000 square feet of premium residences and 123,000 square feet of quality retail premises, offers stunning views of Victoria Harbour with its wide coastal frontage. This latest acquisition further boosted the Group's total land bank in Hong Kong to 47.3 million square feet.

Property Development

Activity in the primary market stayed at a healthy level, while secondary market transactions of residential premises were active in the past several months. Prices continued to firm up after a pause late in the second quarter this year.

Positive factors such as the low mortgage interest rate, reasonable affordability and sustained income growth continued to underpin demand from homebuyers, despite a restrictive loan-to-value ratio for mortgage financing. Supply in the pre-sale market continued to be limited over the past year. However, increased land supply should translate into more housing completions in the medium term.

The Group's contracted sales in Hong Kong remained good during the year at nearly HK$32,000 million in attributable terms. The sales of new residential projects like Imperial Cullinan in West Kowloon, The Wings in Tseung Kwan O and i・UniQ Grand in Hong Kong East met an encouraging market response and the sales of decentralized offices in Kowloon East, Cheung Sha Wan and elsewhere were also impressive.

Brisk sales and wide market acclaim for project quality showed customer recognition of the Group's Building Homes with Heart philosophy. The Group always takes initiatives to satisfy customers' changing preferences and rising expectations, and this is a priority from the very beginning of project designs. It devotes considerable attention to project master plans and provides suitable flat mixes, practical layouts and preferred specifications such as high ceilings and the finest finishes. All these have helped the Group build a powerful brand and create more value for development projects.

The Group completed over 3.6 million square feet of attributable gross floor area in Hong Kong during the year, of which over 2.8 million square feet were residential.

Project	Location	Usage	Group's Interest (%)	Attributable Gross Floor Area (square feet)
The Wings / Crowne Plaza Hong Kong Kowloon East / Holiday Inn Express Hong Kong Kowloon East / Vega Suites	Tong Yin Street / Tong Tak Street, Tseung Kwan O	Residential/ Office/Hotel	100	1,541,000
Imperial Cullinan	10 Hoi Fai Road, West Kowloon	Residential/ Shopping centre	100	889,000
Avignon	1 Kwun Chui Road, So Kwun Wat, Tuen Mun	Residential/ Retail	100	621,000
One Regent Place	18 Po Yip Street, Yuen Long	Residential	100	222,000
Lime Stardom	1 Larch Street, Tai Kok Tsui	Residential/ Retail	Joint venture	201,000
Shouson Peak	9-19 Shouson Hill Road, Island South	Residential	100	91,000
Twelve Peaks	12 Mount Kellett Road, The Peak	Residential	100	43,000
50 Stanley Village Road	48-50 Stanley Village Road, Island South	Residential	100	37,000
Total				**3,645,000**

One major completion during the year was the integrated project atop MTR Tseung Kwan O Station. The Group has acquired three other sites in the same vicinity since early 2010 as part of its efforts to build a vibrant new community in the Tseung Kwan O town centre. The new projects are situated along the planned Central Avenue leading to the future Waterfront Park for leisure and recreation, and will provide over 2,000 units, mainly small to medium sized. They will offer residents a pleasant living environment with the convenience of a full range of facilities including two premium hotels, high-quality retail space and various planned public cultural and civic facilities.

Property Investment

The overall Hong Kong leasing market remained solid. While demand from global financial institutions for office space in Central softened amid the uncertainty arising from the European sovereign crisis, the leasing market in non-Central areas continued to perform well. Retail sector performance was good against the backdrop of stable employment conditions, continuous income growth and higher tourist spending. The Group's holdings of 28.5 million square feet of well-diversified, quality investment properties make it one of the largest landlords in Hong Kong, benefitting from the continuous growth of the leasing market. Overall occupancy of the Group's investment property portfolio was around 95 per cent and positive rental reversions were achieved during the year under review.

Office portfolio

The Group has developed numerous major office projects over the years to meet the rising demand for quality office space. The projects house the regional headquarters of many multinational companies and play a vital role in supporting the business sector and driving Hong Kong's status as a global business and financial hub. The Group currently owns more than ten million square feet of well-diversified premium office portfolio in various regions serving a broad tenant base. The office portfolio in general did well for the period under review with relatively high occupancy.

International Finance Centre (IFC) is an excellent example of world-class office premises developed by the Group, and it is the address of choice for many leading financial institutions and multinational corporations. With its outstanding quality and unique location in Central, IFC is one of the most recognized landmarks on the Victoria Harbour shoreline. The average occupancy of the two office towers remained high.

International Commerce Centre (ICC) is another Group landmark that has extended Hong Kong's premier office circle from Central to the other side of Victoria Harbour by bringing in premier investment banks as anchor tenants. Market rents of office space in this flagship development rose over the year and the vacancy rate was low. ICC is above a major transport interchange at Kowloon Station and is supported by superior amenities including luxury hotels The Ritz-Carlton, Hong Kong and W Hong Kong, serviced suites in The HarbourView Place, the high-end Elements shopping mall and the Sky100 Hong Kong Observation Deck: a 'must see' tourist attraction in the city. These attractions have created a brand-new business cluster and established Kowloon West as a new premier business district in Hong Kong.

The Group also has prime office developments in areas outside the central cores. It has been building a cluster of offices in Kowloon East for more than a decade, and has helped revitalize Kwun Tong from an old industrial district into the latest commercial hub through the massive Millennium City project. Office space there was near-fully let over the year. The government's latest development plan is to establish Kowloon East as another central business district, and the Group will continue to develop high-quality office buildings in this area to satisfy the growing demand.

Kowloon Commerce Centre (KCC) in the western part of the territory has been a success with the Tower A offices recording high occupancy and satisfactory rental income. It is two minutes' walk from an MTR station with convenient access to the Kwai Chung terminals, the mainland border and Hong Kong International Airport. Tower B of KCC is scheduled for completion by the end of 2012. It was also planned as a source of rental income, but as users preferred buying to leasing, it ended up with all office space pre-sold amid keen interest from international and local buyers.

Retail portfolio

Gross rental income from the Group's well-diversified shopping centres showed reasonable growth for the year under review, with occupancy of major malls remaining high. Tenants in the Group's retail portfolio generally enjoyed solid growth in turnover.

The Group has built a network of prime shopping centres across Hong Kong over the past decades, and this now totals over ten million square feet in terms of gross floor area. The Group is committed to enhancing the value of its investment properties to grow with its tenants; constantly upgrading and renovating shopping centres, introducing innovative marketing campaigns and staging a wide range of activities to boost traffic flow. The existing retail portfolio and major new malls under development will reinforce the extensive shopping mall network and keep the Group at the forefront of the industry.

The Group's major malls include IFC Mall in Central, WTC More in Causeway Bay, The Sun Arcade in Tsim Sha Tsui, Grand Century Place in Mong Kok, APM in Kowloon East, New Town Plaza in Sha Tin, Tai Po Mega Mall, Landmark North in Sheung Shui and Metroplaza in Kwai Fong. The extensive mall network has enabled the Group to grow with the consumption market and help enrich lifestyles of local residents and tourists by satisfying their ever-changing shopping needs.

IFC Mall in the heart of the central business district of Hong Kong Island is a retail icon with its diverse blend of luxury brands and specialty stores. Sales in the shopping complex show consistent growth and it is virtually fully let with continuous interest from many potential tenants. Some shops in the mall are among the top performers for sales in their chains worldwide.

Across Victoria Harbour in Kowloon, the Group also possesses a number of leading shopping centres. APM in Kowloon East continues to be one of the trend-setting malls in Hong Kong with its late night shopping and entertainment concept and cutting-edge promotions. A major renovation finished in late 2011 and continual tenant mix refinement have strengthened its positioning as a young and trendy shopping destination in Kowloon East. Near-full occupancy and rising visitor traffic have led to continuous positive rental reversions. Kowloon is also home to a new component of the Group's retail network: Mikiki that opened in August 2011. It is close to the Kai Tak Development Area, which will help foster the transformation of Kowloon East into a new central business district. The mall has a gross floor area of about 210,000 square feet and is fully occupied.

The Group also has an extensive presence in the New Territories. New Town Plaza in Sha Tin recently brought in more fashion and shoe retailers to optimize its tenant mix. This regional mall has continued to draw keen interest from international retailers with solid growth in traffic and turnover. Landmark North in Sheung Shui saw impressive growth in sales turnover, due partly to introducing more cosmetic retailers. This has boosted its competitive position in the northern New Territories. The mall has also benefited from higher cross-border spending.

The opening of new shopping centres will boost the Group's retail network in Hong Kong. The first will be V City above MTR Tuen Mun Station and a major transportation hub with easy and rapid access to the border. This 270,000-square-foot mall will feature a modern lifestyle concept that appeals to both local young people and mainland visitors. Expected to open in the second quarter of 2013 with full occupancy and the majority of its tenants new to Tuen Mun, V City is set to become a retail icon providing exciting experiences for shoppers in the region.

Another upcoming addition to the Group's retail network will be a million-square-foot regional shopping hub, YOHO Mall next to MTR Yuen Long Station, comprising of a new shopping centre under development of over 470,000 square feet and two existing malls. This will be the largest shopping and entertainment hub in the northwest New Territories, providing a comfortable shopping environment, restaurants with al fresco dining and leisure facilities such as a state-of-the art cinema. And later will come a 300,000-square-foot premium mall above MTR Nam Cheong Station, which will further strengthen the Group's retail network along the West Rail when it opens.

Residential and serviced suites

Leasing of the Group's premium residential investment properties and serviced suites was good during the year under review. Overall occupancy was satisfactory with increased rents. The Group's portfolio of serviced suites, including those at The HarbourView Place at Kowloon Station and the 50-per-cent-owned Four Seasons Place at Hong Kong Station which taken together provide over 500 world-class suites in attributable terms, offers premium accommodation to guests from all over the globe. The new wholly-owned Vega Suites scheduled to open in the fall of this year will provide 176 serviced units in Kowloon East, making the portfolio more diversified and extensive. In addition, the Group owns close to a million square feet of luxury residential units for lease under Signature Homes.

Property Business – Mainland

Land Bank

The Group's mainland land bank amounted to an attributable 83.8 million square feet as at June 2012. About 74.4 million square feet are properties under development, of which over 75 per cent will be high-end residences and serviced apartments. The rest will be premium offices, shopping malls and hotels. The Group also held 9.4 million square feet of completed investment properties on the mainland, comprising mainly premium offices and shopping centres at prime locations in Shanghai and Beijing.

Property Development

The mainland residential market saw a meaningful rebound in transactions with prices stabilizing over the past few months, benefitting from credit loosening for first-time buyers, while measures to restrain investment demand have largely remained in place to maintain market stability.

The Group continued to extend its successful experience in developing premium residences in Hong Kong to major mainland cities, offering projects for sale as scheduled. During the period under review, the Group achieved satisfactory contracted sales of over HK$6,000 million in attributable terms on the mainland. The wholly-owned Shanghai Arch at Lujiazui was well received by the market with over half of the units planned for sale having been disposed of within a short period of time. These units are slated for completion by the end of 2013. A number of joint-venture projects also did well in the market, including The Riviera in Guangzhou, Lake Genève in Suzhou, Taihu International Community in Wuxi and Sirius in Chengdu. The Group's premium brand has been increasingly recognized on the mainland with its products and services being highly acclaimed by customers.

The Group completed four projects with about 3.5 million square feet of attributable gross floor area on the mainland during the year, of which 1.5 million square feet were residential. The remainder was retail space and a serviced suite hotel retained for investment.

Project	**Location**	**Usage**	**Group's Interest** (%)	**Attributable Gross Floor Area** (square feet)
International APM	999 Huai Hai Zhong Road, Shanghai	Shopping centre	100	1,307,000
Taihu International Community Phase 4	Taihu New City, Wuxi	Residential/ Retail	40	807,000
Jovo Town Phase 1B	Shuangliu County, Chengdu	Residential	91	770,000
IFC Residence / IFC Mall Phase 2	8 Century Avenue, Lujiazui, Shanghai	Hotel/ Shopping centre	100	593,000
Total				**3,477,000**

Projects under development on the mainland are proceeding as planned. Construction of the Zhijiang project in a popular resort-like luxury residential district in Hangzhou with marvellous natural scenery has been progressing as scheduled and it will go on sale in phases beginning in 2013. The superstructure of The Riviera in Guangzhou was also completed recently and handover of the units is expected by the end of 2013.

Property Investment

The overall leasing market in prime cities on the mainland remained positive over the past year, supported by solid demand for office and retail space from domestic and international corporates and retailers. Driven by both higher rents and increased contributions from new investment properties, the Group continued to see impressive rental income growth in its mainland investment property portfolio.

The Group is applying its long experience in developing networks of premium offices and shopping centres in Hong Kong and its long-established relationships with tenants to enhance the span and competitiveness of its investment properties in the mainland leasing market.

The latest milestone in the Group's growing mainland presence is the full completion of Shanghai IFC. The final part – the deluxe IFC Residence – offers close to 300 first-class serviced suites featuring fine quality and attentive services, and has become a new attraction for expatriates and executives since operation commenced in the first half this year. This integrated development in the Lujiazui Finance and Trade Zone also encompasses twin premium towers of grade-A offices, two phases of IFC Mall and a Ritz-Carlton hotel. This signature development has set a new standard for integrated projects in the city and helped bolster the Group's brand presence on the mainland.

The leasing performance of the Shanghai IFC complex has been encouraging. The first office tower is fully occupied and leasing of the second office tower is progressing well. Traffic in the first phase of Shanghai IFC Mall has been increasing since the opening in April 2010 and it is fully let. With more than 180 internationally-renowned retail brands and restaurants, this one-million-square-feet mall currently houses one of the highest numbers of luxury flagships and specialty stores in Shanghai. The recently-completed second phase has a gross floor area of 180,000 square feet. Scheduled to open by the end of this year, it is fully pre-let and will house a choice selection of up-market jewellery and renowned international fashion retailers.

Shanghai ICC is another mainland integrated project by the Group. It is in the traditional commercial and retail zone in Puxi and is conveniently connected by three metro lines. The first office tower with high occupancy is home to many multinational and mainland corporates. Completion of the second office tower is expected in the first half of 2015.

International APM shopping centre, part of the massive Shanghai ICC project, was recently completed. Internal decoration is ongoing and it is scheduled to open in the second quarter of 2013. This 1.3 million-square-foot mall will introduce the concept of leisure shopping experience with trendy luxury brands, restaurants and various entertainment to the city of Shanghai. Response to leasing has been impressive with over 90 per cent of the retail space already pre-leased.

Beijing APM is the Group’s landmark shopping mall in Beijing targeting local young customers and tourists. At the heart of Wangfujing, the Beijing APM mall is currently under a reconfiguration to further upgrade its layout and elevate its positioning. It will bring in more leading retail brands and restaurants as well as enhanced management service after the scheduled completion of its revamping by the end of this year.

The Group will continue to expand its investment portfolio on the mainland. The Guangzhou Hong Cheng project is located in the Tianhe business circle and along the central axis of Guangzhou. The nearly 900,000-square-foot joint-venture shopping mall is currently under construction and is scheduled to be completed in 2014. With fashionable design and green landscaping, this project will become a new shopping icon in Guangzhou. Tianhui Plaza – a joint-venture mega integrated complex – is also coming in Zhujiang Xincheng, a business area at the heart of Guangzhou. This integrated project will include a shopping and entertainment complex targeting the growing pool of middle class and businessmen in the central business district. This major shopping mall will have trendy international retailers, providing a fresh experience for shoppers.

The Minhang project in Shanghai is another integrated project by the Group in the pipeline. The entire development of this joint-venture project above Xinzhuang Station in Minhang will have over four million square feet of space. The planning of this project is being finalized, and will include a regional shopping centre, premium residences, quality offices and a prime hotel. The completion of the planned shopping mall will further enhance the Group’s market position in the Shanghai retail property sector.

The mainland rental portfolio will make a more notable contribution to the Group’s recurring income as those integrated projects are gradually completed. The Group is also developing other integrated projects in major mainland cities.

Other Businesses

<u>Hotel</u>

The Group’s hotel portfolio in Hong Kong performed well during the past year with healthy growth in the number of tourists and business travellers in the region. Average occupancy of the Four Seasons Hong Kong, The Ritz-Carlton, Hong Kong, W Hong Kong and the four Royal brand hotels stayed high at over 90 per cent, with average room rates recording impressive growth. The Ritz-Carlton Shanghai, Pudong also registered much higher occupancy than in the previous year.

The new Crowne Plaza Kowloon East and Holiday Inn Express Kowloon East above MTR Tseung Kwan O Station in Hong Kong are scheduled to open in late September and October 2012 respectively. Transport links to popular shopping areas and key commercial districts will make them the leading premium hotels in Kowloon East, a growing new business district in Hong Kong. The Crowne Plaza Kowloon East will have a magnificent wedding garden and one of the largest, pillar-free grand ballrooms in town, and the Holiday Inn Express Kowloon East will offer value-minded customers all types of modern amenities.

The new hotels in Kowloon East will expand the Group’s hospitality network and make it one of the leading hotel owners in Hong Kong with close to 3,600 rooms in attributable terms.

<u>Telecommunications and Information Technology</u>

SmarTone

SmarTone registered robust growth in service revenue and net profit, driven by increased average revenue per user and growth in customer numbers despite increasing competition. SmarTone launched its 4G network in August with focus on total customer experience and commitment to excellence. SmarTone will continue to innovate and develop new proprietary services and a focus on customer care at all touch-points. The Group remains confident in SmarTone's prospects and will continue to hold the company as a long-term investment.

SUNeVision

SUNeVision grew further in revenue and operating profit during the year. iAdvantage has continued to strengthen its prominent position in the carrier-neutral data centre market in Hong Kong and achieved satisfactory occupancy. SUNeVision will build on its track record and solid financial position to further develop its core businesses.

<u>Infrastructure and Other Businesses</u>

The Group's infrastructure and transport businesses in Hong Kong produced satisfactory results. The Wilson Group performed well, and traffic on the Route 3 (Country Park Section) rose steadily. Business at both the Airport Freight Forwarding Centre and River Trade Terminal held steady. The Group’s 35-per-cent-owned Hong Kong Business Aviation Centre recently opened a third hangar to meet increasing demand. All the Group’s infrastructure projects are in Hong Kong and constitute valuable investments for the long term.

Corporate Finance

The Group adheres to a prudent financial management policy with ample liquidity and a solid financial position. In addition, the Group proactively communicates with rating agencies and banks to ensure that they are informed about its latest developments. As at 30 June 2012, the Group recorded a low net debt to shareholders' fund ratio of 16.4 per cent.

Moody's and Standard and Poor's have affirmed the Group's A1 and A+ credit ratings respectively, albeit with negative outlooks. The Group's high ratings reflect the credit rating agencies' recognition of its well-balanced business model with strong recurrent income. The Group consistently receives one of the highest credit ratings assigned to property companies in Hong Kong.

The Group tapped into the debt capital market during the year under review and successfully expanded its funding sources and extended its debt maturity profile. Through the Medium Term Note Programme, the Group issued over HK$14 billion worth of bonds to fixed income investors globally.

Banks continue to provide the Group with ample unsecured banking facilities on a committed basis, demonstrating the strong confidence they have in the Group's quality assets and solid financial position.

In line with its prudent risk management, the majority of the Group's bank borrowings are denominated in Hong Kong dollars which help minimize foreign exchange risk. The Group has taken no speculative position in derivatives.

CORPORATE GOVERNANCE

The Group has always upheld its high standards of corporate governance with an effective Board of Directors, a good internal control system and a proactive investor-relations programme, all with the full support of the seasoned management team.

The Board has directed and overseen the effective implementation of the Group's strategies. To fulfill a new regulatory requirement, the Board has appointed two additional Independent Non-Executive Directors with effect from 1 July 2012. Since the appointments, Independent Non-Executive Directors account for one-third of the members of the Board.

The Board has established Executive, Audit, Nomination and Remuneration Committees to assist it in fulfilling its duties. The Executive Committee meets regularly and is responsible for formulating business policies, making decisions on key business issues, and exercising the powers and authorities delegated by the Board. The Executive Committee previously consisted of only Executive Directors. In view of the increasingly dynamic and challenging operating environment, the Board has further strengthened its management structure by appointing five additional members to enlarge the size of the Executive Committee, and two Executive Directors as Deputy Managing Directors. All Executive Committee members are well experienced and a large majority of them have been with the Group for a long time.

The Audit, Nomination and Remuneration Committees are all chaired by Independent Non-Executive Directors to ensure the Group's strategies are properly implemented in the best interests of the shareholders and the Company. The Group also has a sound and effective internal control system to safeguard its assets and the interests of its shareholders. The Company conducts regular reviews of the Group's internal control system with the assistance of the Audit Committee, the management team and both internal and external auditors.

As part of the Group's dedication to good corporate governance, it maintains interactive communication with stakeholders including investors, analysts, credit agencies and the media, providing information and disclosures relating to its corporate strategies and latest business developments. The Company provides its shareholders and other stakeholders with relevant corporate information on a timely basis to ensure transparency. Moreover, the Group participates frequently in large-scale investor conferences and presentations to further enhance communication with investors around the globe. In addition to regular meetings and conference calls with both equity and fixed income investors, the Group also hosts non-deal road shows overseas periodically.

The Group's sophisticated management and good corporate governance are widely recognized by the investment community. Accolades received during the year include the number one ranking as Best Managed Company and Best Investor Relations in Hong Kong by *FinanceAsia* Magazine. *Asiamoney* magazine named the Group Best Overall for Corporate Governance, Best for Disclosure and Transparency and Best for Responsibilities of Management and the Board of Directors in Hong Kong. The Group also earned the recognition of Best Managed Company in the Property Sector in Asia by *Euromoney* magazine. The Group will continue its efforts to achieve good corporate governance.

SUSTAINABLE DEVELOPMENT

The Group's belief in Building Homes with Heart has always gone further than bricks and mortar. The Group has consistently enhanced its products and services and worked for the betterment of the territory and its society; helping its people by building quality homes and enabling the commercial and retail sectors to thrive in their businesses. The Group has also provided employment and business opportunities to thousands of individuals and companies in the process.

Sustainable development is an integral part of the Group's philosophy and corporate social responsibility is one of its priorities. The Group published its first sustainability report during the year and will soon produce the second report. The Group has been a constituent of the Hang Seng Corporate Sustainability and Hang Seng (Mainland and HK) Corporate Sustainability indices since their inception in 2010.

Customer Service

The Group puts customers first and produces the finest developments with first-class service, and its premium reputation is widely trusted in the market. It earned a seventh platinum Reader's Digest Trusted Brand award during the year.

The Group's dedication to quality extends beyond the delivery of possession, on to comprehensive after-sale service. New owners have the Group's professional teams to help them with a smooth handover and quality check, and they get a two-year guarantee. Property management subsidiaries Hong Yip and Kai Shing offer first-class customer care, and constantly explore new ways to enhance service quality.

The Group communicates with customers through different channels. Senior management made home visits to residents during the year, listening to opinions and following up. The SHKP Club promotes two-way communication with members and potential customers and is the largest property membership club in Hong Kong. Property-related benefits are offered to its 310,000 members including exclusive previews of the Group's new projects.

Environmental Protection and Promotion

The Group integrates environmental considerations in all its operations from planning and procurement through to construction and development and on to property management for reducing the ecological impacts of its developments. Its goal is to secure green certification for all new developments.

The Group believes that managing energy consumption in a responsible manner helps reduce operating costs and greenhouse gas emissions. It has conducted voluntary carbon audits on more than 130 developments since 2008, with an aim to have audits be eventually conducted on all properties it manages.

The Group works closely with environmental groups to increase green awareness. Last year it began the SHKP G Power campaign to expand environmental initiatives through its property and community network. During the year, the Group also initiated A Love Nature campaign which included several beach clean ups with the participation of more than 1,000 staff members and student volunteers.

The Community

The Group is committed to making a positive contribution to the society. It also encourages its employees, business partners and customers to help address community needs.

The Group provides assistance to the needy through its Building Homes with Heart Caring Initiative. Over 10,000 elderly and underprivileged people took part in its festive events and its staff also helped seniors decorate and move to new homes. Employee volunteering is encouraged throughout the Group from top management to all employees.

The Group has been promoting reading and writing through the SHKP Book Club since 2005. New initiatives during the year included a letter-to-family writing competition and the fourth Young Writers' Debut competition, now open to the mainland. The Group sponsored book outings for children for the fifth straight year. Other educational programmes included the Nobel Lecture series with The Chinese University of Hong Kong. The SHKP-Kwoks' Foundation continued to administer an array of scholarship and training programmes.

Staff Development

The Group employs over 35,000 people and believes that they are its most valuable asset. It supports staff's career development through in-house training as well as external training programmes and sponsorships. The Group also encourages staff to work together as a team.

The Group is a caring employer and provides further educational opportunities to children of employees such as an undergraduate scholarship scheme and sponsorship of overseas exchanges. The Group encourages its staff to maintain a healthy balance between work and life and regularly organizes activities for staff and their family members.

PROSPECTS

The global economic environment will remain challenging and uncertain in the year ahead. While the lingering sovereign debt crisis and resulting recession risks in Europe remain the key market concerns, the tax increases and spending cuts scheduled in early 2013 may also weigh on the US economy. However, an ultra-low interest rate environment and recent policy response by the European Central Bank, coupled with anticipated further accommodating monetary policy measures by other major central banks, should help cushion the downside risks in the global economy.

The mainland economy, though slowing, should be able to grow at a reasonable rate. The Central Government will have sufficient policy flexibility to boost investment, support SMEs and stimulate consumption. Loosened monetary conditions together with policies to support first-time buyer demand should help improve the environment for the residential sector, though home purchase restrictions are likely to stay in place.

The Hong Kong economy is expected to grow mildly, supported by public investment in infrastructure, relatively resilient domestic consumption and continuing growth in inbound tourism. The latest Central Government policy initiatives for Hong Kong including giving the green light for RMB banking services to non-residents will be conducive to the city's long-term development. All these, coupled with continuing income growth, low mortgage rates and limited supply of new units will bode well for the residential market. The latest government measures in Hong Kong, in particular increasing land and housing supply and speeding up approvals of pre-sale consents, should help improve the demand and supply balance of residential properties over the medium to long term.

The Group's land bank has sufficient reserves for five years' development to support property development business expansion. The Group is currently selling the first phase of Century Gateway, a premium residential project above MTR Tuen Mun Station. The first batch of units has been well received by the market. There will also be a string of other projects for sale in Hong Kong and on the mainland in the next six to nine months. Major residential projects in Hong Kong that will go on sale include Riva near MTR Kam Sheung Road Station in East Yuen Long, the second phase of the premium development The Wings adjacent to MTR Tseung Kwan O Station, a luxury residential project on Belcher's Street in Western District, a premium residential project at Ha Yau Tin in Yuen Long as well as luxury houses Twelve Peaks and 50 Stanley Village Road. The Group will also proactively and selectively dispose of its non-core investment properties including new ones in Hong Kong in a bid to quicken its asset turnover and increase cash inflow. Major mainland projects to go on sale include the remaining batches of Shanghai Arch at Lujiazui, The Riviera in Guangzhou and Lake Genève in Suzhou, the first phase of Forest Hills and the third phase of Lake Dragon both in Guangzhou, as well as the Zhijiang project in Hangzhou.

The Group's rental income will continue to do well both in Hong Kong and on the mainland in the coming financial year. The overall occupancy of the rental portfolio is expected to stay high due to proactive strategies and a relatively stable leasing market. Positive rental reversions will likely continue for both lease renewals and new leases. Its rental income will be further enhanced by contributions from upcoming investment properties, including International APM at Shanghai ICC that is scheduled to open in the second quarter of 2013.

The Group will continue to boost its investment property portfolio, in particular shopping malls. In Hong Kong, the upcoming V City mall above MTR Tune Mum Station, YOHO Mall adjacent to MTR Yuen Long Station and a premium mall above MTR Nam Cheong Station will further strengthen the Group's retail network and market position. On the mainland, in addition to the newly-completed International APM in Shanghai and phase two of Shanghai IFC Mall, new shopping malls under development including the Hong Cheng project next to the Taine metro station in Guangzhou, and another mall as part of the Minoan integrated project in Shanghai will further enhance the Group's shopping mall network there. Rental income from mainland investment properties and its relative significance in the Group's gross rental income will rise materially in the next few years.

The Crowned Plaza Kowloon East and Holiday Inn Express Kowloon East, both in Hong Kong, scheduled for opening later this year, will create more synergy with existing hotels and enhance the market position of the Group's hotel portfolio. Together with new hotels as part of integrated projects on the mainland to be gradually completed, the Group's hotel network will be well positioned to take advantage of the region's thriving tourism, contributing to its recurring income growth over time.

The Group commits itself to achieving a balance for earnings from property sales and investment properties, both in Hong Kong and on the mainland. While it will put more focus on Hong Kong in the near term, particularly in terms of land acquisition, it also maintains a selective approach to development on the mainland, focusing on key cities. Anticipated strong sales proceeds together with steadily growing rental income will continue to enhance the Group's financial position and cash flow. Coupled with its position of high liquidity and low gearing, the Group will be able to grasp business opportunities when they arise, particularly in Hong Kong.

The Group will continue to strengthen corporate governance and management structure, with a view to meeting various challenges. The recent appointment of more Independent Non-Executive Directors, the promotion of two Executive Directors as Deputy Managing Directors and the increase in the size of the Executive Committee are testimony to the Group's commitment in this area. Under the leadership of the Board, the Group's professional and experienced management team as well as its stable and dedicated staff will effectively and efficiently formulate business strategies and execute business plans in the dynamic operating environment.

This year marks the 40th anniversary of the Company. The Group has been able to come out stronger together with Hong Kong after various economic downturns, challenges and crises over the past several decades. With strengthened corporate governance and management structure, prudent financial management discipline and a well-established corporate culture for excellence, the Group will be able to grow from strength to strength going forward.

The Group's results for the coming financial year are expected to be satisfactory, barring unforeseen circumstances.

IN MEMORY

Mr. Chan Kai Ming, Executive Director, passed away on 28 March 2012. Mr. Chan served the Group for 39 years and had been an Executive Director of the Company since January 1981. He made valuable contributions to the Group during his tenure of office and his dedication to the Group will be remembered by all directors and staff alike.

APPRECIATION

Dr. Norman Leung Nai Pang and Mr. Donald Leung Kui King were appointed as Independent Non-Executive Directors of the Company effective 1 July this year. Dr. Norman Leung's wealth of experience in business management and public service will contribute to the Group's long-term business development. Mr. Donald Leung's extensive exposure in finance and real estate sectors will benefit the Group's future development.

Mr. Victor Lui Ting, who has served the Group for 35 years, was appointed an Executive Director of the Company in April this year.

We would like to take this opportunity to express our gratitude to our fellow directors for their guidance and to all staff for their dedication and hard work.

Kwok Ping-kwong, Thomas
Chairman & Managing Director

Kwok Ping-luen, Raymond
Chairman & Managing Director

Hong Kong, 13 September 2012