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)

2012 / 13 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 2013, excluding the effect of fair-value changes on investment properties, amounted to HK$18,619 million, compared to HK$21,678 million last year. Underlying earnings per share were HK$7.05, compared to HK$8.37 last year.

Reported profit and reported earnings per share attributable to the Company's shareholders were HK$40,329 million and HK$15.28 respectively, compared to HK$43,080 million and HK$16.63 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$23,281 million, compared to HK$22,076 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 2013. 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$20,060 million. Profit generated from property sales was HK$7,190 million, as compared to last year's HK$13,074 million. The Group recorded satisfactory contracted sales of HK$32,905 million for the year in attributable terms, versus last year's HK$38,217 million, despite a challenging property sales market in Hong Kong.

Rental Income

The Group continued to record rent increases for new leases and renewals during the year, both in Hong Kong and on the mainland. Increased contributions from new mainland properties further boosted the robust rental income growth. Gross rental income, including contributions from joint-venture projects, rose 11% to HK$16,019 million and net rental income increased 11% to HK$12,236 million.

Property Business – Hong Kong

Land Bank

The total land bank in Hong Kong amounted to 46.6 million square feet as at the end of June 2013. This included 28.6 million square feet of completed investment properties. The other 18 million square feet were properties under development. In addition, the Group held over 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.

The Group continued to capitalize on opportunities in the land market and added seven sites during the year. These sites have a combined attributable gross floor area of about two million square feet, compared to the acquisition of 5.2 million square feet in the last financial year. Details are shown in the table below. The majority of the units planned for these sites will be of small-to-medium size, catering to changing market demand.

Location	Usage	Group's Interest (%)	Attributable Gross Floor Area (square feet)
Inland Lot No. 9027, North Point	Residential / Shopping centre	100	701,000
Tseung Kwan O Town Lot No. 118	Residential / Shopping centre	100	563,000
Inland Lot No. 9020, North Point	Hotel	100	388,000
Sha Tin Town Lot No. 566	Residential	100	130,000
Tung Chung Town Lot No. 11	Shopping centre	20	86,000
97 Belcher's Street, Kennedy Town	Residential / Shops	92	85,000
38-52 Western Street, Sai Ying Pun	Residential / Shops	92	76,000
Total			**2,029,000**

The Group bought a Yuen Long residential site with easy access to an MTR station by public tender in early September this year. The development has a total gross floor area of 232,000 square feet. A substantial majority of the units to be built will be of small-to-medium size. The Group's total land bank in Hong Kong increased to 46.8 million square feet with this acquisition.

Property Development

The year under review, particularly the latter half, was challenging for property sales amid various government measures to regulate and cool the market. Secondary market activity has slowed down meaningfully since late February this year following the adoption of further stringent government demand-side management measures. In the first-hand market, relatively few new projects were launched for sale after the new ordinance on first-hand residential sales became effective in late April and sales of remaining units in existing projects were also affected. This led to a significant drop in first-hand residential sales in the past few months.

Despite all these policy headwinds, low mortgage interest rates, reasonable repayment affordability, continuing income growth and positive demographic factors continued to support the demand from local end users. This helps underpin the resilience of residential property prices, particularly for the segment of small- to medium-sized units.

Contracted sales in Hong Kong during the year amounted to over HK$22,000 million, despite an unfavourable property sales market. Major residential projects sold included The Wings II in Tseung Kwan O, the first phase of Century Gateway in Tuen Mun and Residence 88 in Yuen Long. The Group also disposed of selected investment properties such as Kowloon Commerce Centre to meet keen demand from end users.

The Group has always done its utmost to satisfy customer needs by delivering the right products and quality service. It adds value at all stages of development from designing master layout plans and flat mixes to materials and finishes and on to attentive management service. This has resulted in many of the territory's most recognizable projects over the years and earned the Group a trusted brand name and leading market position, which further enhances the competitiveness of its developments.

The Group completed five projects with 1.9 million square feet of attributable gross floor area in Hong Kong during the year. They included 820,000 square feet of residential properties and 810,000 square feet of offices, both of which are 90% sold. The premium V City shopping mall in Tuen Mun and other retail space are being kept as rental properties.

Project	**Location**	**Usage**	**Group's Interest** (%)	**Attributable Gross Floor Area** (square feet)
Century Gateway Phase 1 / V City	83 Tuen Mun Heung Sze Wui Road, Tuen Mun	Residential / Shopping centre	Joint venture	997,000
Kowloon Commerce Centre Tower B	51 Kwai Cheong Road, Kwai Chung	Office / Shops	100	509,000
Elite Centre	22 Hung To Road, Kwun Tong	Office	100	207,000
49 King Yip Street	49 King Yip Street, Kwun Tong	Office	100	120,000
Chatham Gate	388 Chatham Road North, Hung Hom	Residential / Shopping centre	29	106,000
Total				**1,939,000**

Property Investment

The Group owns and manages over 28.6 million square feet of well-diversified investment properties in Hong Kong. This sizable portfolio creates synergy among properties, especially within integrated developments.

The leasing market in Hong Kong remained solid and healthy while the Group's premium properties continued to be the favoured option for business expansion and relocation alternatives. For the year under review, the Group's gross rental income from Hong Kong, including contributions from joint-venture projects, rose by 9% to HK$13,289 million, primarily attributable to positive rental reversions and higher rents for new leases. A high occupancy of over 95% was achieved for the Group's rental portfolio.

Long-term relationships with tenants are maintained by offering high-quality premises and service. Constant upgrades enable the Group to maintain superior building quality, while premium management service further enhances its competitiveness. The continual development of new premium investment properties across the territory strengthened the Group's leading position in the Hong Kong leasing market. To optimize its portfolio of unparalleled scale and diversity, the Group will continue to review options for non-core property disposal.

Retail Portfolio

The Group is in a leading position in Hong Kong's retail leasing market and has a diverse collection of quality shopping malls amounting to over ten million square feet of gross floor area. The unique positioning of each mall serves to target customers with distinctive needs. Occupancy stayed high and positive rental reversions were achieved throughout the year.

The Group's malls in traditional shopping destinations such as IFC mall in Central once again delivered impressive performance with high occupancies and increased rents. Its extensive shopping centre network extends beyond traditional shopping districts and has wide coverage in both the western and eastern parts of the territory. Many of these malls are easily accessible via adjoining MTR stations and a number of them are regional centres with broad customer bases.

The opening of V City in August this year represents another important step for the Group in expanding its shopping mall portfolio in the western part of the territory. This new mall along the West Rail brought different, new tenants to Tuen Mun, introducing a fresh lifestyle concept targeting young locals, professionals and tourists in the region. It has a well-balanced store mix with trendy fashion, accessories and beauty products, as well as well-known restaurants. The mall's unique position in the region, footbridges connecting neighboring areas and direct connections to both the West Rail and Light Rail contributed to the heavy traffic since opening. Tenant sales have also been better than expected. The fully-leased V City is expected to become the energized focal point of Tuen Mun's retail market.

The portfolio along the East Rail also performed well. New Town Plaza consistently attracted large crowds of shoppers after recent refinements to layout and tenant mix. Landmark North by the border continued to see rising shopper spending. APM is a regional mall at the heart of the emerging Kowloon East business hub and well-positioned to capture growing retail spending in the region.

Future additions to the Group's retail portfolio span various parts of Hong Kong, and two are located along the West Rail. The premium mall in the Nam Cheong Station development is scheduled to be completed in phases from 2017. This iconic shopping mall of nearly 300,000 square feet in West Kowloon is expected to benefit from its exceptional location at the interchange of the West Rail and Tung Chung lines. YOHO mall, adjoining Yuen Long Station, will be formed by two existing malls and a new mall under construction. It will be the largest shopping mall, covering one million square feet, in the northwest New Territories when completed.

On Hong Kong Island, a premium shopping mall in a high-quality residential / commercial project on the North Point waterfront is in the pipeline, and this will generate synergy with the Group's seafront hotel project next door. Retail space in projects under development in Tseung Kwan O will also further strengthen the Group's market position in this energetic community with a growing population. These additions will together enlarge the Group's diversified portfolio and reinforce its leading role in the market.

The Group always recognizes the importance of continuous improvement and carefully devises plans for portfolio upgrades. The reconfiguration of Grand Century Place above Mong Kok East Station has been progressing on schedule. A more contemporary image and fresh elements such as duplex fashion units will further boost the mall's appeal to shoppers upon completion in 2015. The planned renovation of Metroplaza adjacent Kwai Fong Station is expected to enhance its competitiveness.

Office Portfolio

The trend of office relocation and expansion to new high-potential business areas continues to benefit the Group's well-diversified Hong Kong office portfolio of approximately ten million square feet. During the year under review, overall occupancy remained high with steady growth in rental income. Properties outside of Central did particularly well.

International Commerce Centre (ICC) on top of Airport Express Kowloon Station and next to the coming high-speed rail terminal has helped establish West Kowloon as a premier business district in Hong Kong. It is complemented by world-class facilities including two luxury hotels, serviced suites and an upscale mall. The Sky100 Hong Kong Observation Deck and the recently-launched iconic ICC Light and Music Show further enhance the attractiveness of the complex. The virtually fully-let ICC continued to be the preferred choice of grade-A offices for multinational and mainland corporations, and this robust demand led to higher spot rents.

Across other non-Central districts in Hong Kong, the Group has strong presence in the office market. Sun Hung Kai Centre and Central Plaza by Victoria Harbour on Hong Kong Island, Millennium City in Kowloon East, as well as Grand Central Plaza and Metroplaza in the New Territories are examples of quality non-Central office space that have attracted tenants from diverse sectors, leading to high occupancies and increased rent for the year under review.

As the symbol of Hong Kong's core business district, International Financial Centre (IFC) continues to lead the Central office market amid a stabilizing global economy and achieved high occupancy. The two iconic towers above Hong Kong Station maintained their competitive edge of direct linkage to the Airport Express and superior quality with world-class facilities and specifications. Extensive ancillary components like a high-end hotel, luxury serviced suites and a prestigious mall round out the complex. Near-term new office supply in Central is expected to be limited and IFC continues to attract interest from international and mainland financial institutions.

The Group leverages its expertise to explore strategies for enhancing the value of existing properties. Besides regular upkeep and renovations to enhance building quality, the Group also aims to generate added value through various approaches like incorporating green elements in buildings.

Residential and serviced suites

Signature Homes is the Group's renowned affiliate for residential leasing, which oversees around one million attributable square feet of luxury accommodation and around 700 attributable serviced suites in Hong Kong. Overall occupancy was satisfactory during the year under review. The new Vega Suites atop MTR Tseung Kwan O Station is well-positioned to benefit from the expanding business potential in Kowloon East and occupancy has been on the rise since its opening in October last year. Four Seasons Place in Central and The HarbourView Place in West Kowloon, both with direct connections to the Airport Express, continued to be the preferred choice for extended stays.

Property Business – Mainland

Land Bank

The Group held an attributable 81.1 million square feet in its mainland land bank as at the end of June 2013. About 71.6 million square feet were properties under development, of which over 75% will be high-end residences or serviced apartments. The rest will be premium offices, shopping malls and hotels. The Group also held 9.5 million square feet of completed investment properties on the mainland, comprising mainly premium offices and shopping centres at prime locations in Shanghai and Beijing.

The Group acquired a prime site at Xujiahui, one of the busiest commercial hubs and most popular precincts for shopping and entertainment in Shanghai in September this year. This solely-owned integrated project has a total floor area of 7.6 million square feet, including about 1.3 million square feet of underground floor area, and will comprise high-end office, shopping and hotel premises.

Property Development

The residential markets in major mainland cities saw satisfactory sales over the past few months supported by solid end-user demand, while home prices stayed on an uptrend amid buyer confidence. Land prices in prime cities rose with limited supply and real estate developers' enthusiasm for replenishing their land banks in view of satisfactory home sales.

The Group achieved robust contracted sales of about HK$10,000 million in attributable terms on the mainland during the year under review, well exceeding expectations at the beginning of the financial year. Sales of the wholly-owned Shanghai Arch, a new standard for luxury residential development in the city, continued to be a major contributor, while a number of joint-venture projects were also well received by the market.

The Group completed four residential projects with about two million square feet of attributable gross floor area on the mainland during the year.

Project	Location	Usage	Group's Interest (%)	Attributable Gross Floor Area (square feet)
Taihu International Community Phase 5	Taihu New City, Wuxi	Residential	40	1,142,000
The Riviera Phase 1A	59 Linjiang Road, Guangzhou	Residential	33	412,000
The Woodland Phase 4B	Zhongshan Wu Road, Zhongshan	Residential	Joint venture	265,000
Lake Dragon Phase 2A	Dragon Lake Community, Huadu, Guangzhou	Residential	60	211,000
Total				**2,030,000**

The Group's residential projects under development on the mainland are progressing as planned. The first phase of Shanghai Arch with over 500,000 square feet of gross floor area is slated for completion by the end of this year. Phase 1A of the Forest Hills high-end residence in Tianhe, Guangzhou has about 430,000 square feet of gross floor area. The units are virtually sold out and expected to be completed in the second half of 2014. In early September this year, a new batch of units at Phase 1B of Forest Hills were put on the market and have been well received.

Property Investment

The gradual full completion of mainland landmark investment properties has further reinforced the Group's prestigious brand on the mainland. Rental income from mainland investment properties has become a meaningful contributor to the Group's recurring income. Gross rental income from the mainland, including contributions from joint-venture projects, rose by 28% to HK$2,067 million for the year under review as a result of higher rents for new leases and renewals and greater contributions from new investment properties. This was despite an economic slowdown on the mainland.

The Group continues to expand its investment property portfolio at key locations in major mainland cities. The newly-acquired Xujiahui Centre project in the core area of Xuhui district in Shanghai is the latest milestone addition to the Group's mainland property portfolio. It is one of the few projects connected to an interchange of three metro lines in Shanghai. The project will have a total gross floor area of over seven million square feet for premium shopping, office and hotel premises. Leveraging its experience in developing large-scale iconic projects such as IFC, ICC and New Town Plaza in Hong Kong, which are also at strategic rail stations, the Group will certainly make the project successful and a new landmark in the city like Shanghai IFC and Shanghai ICC. The Xujiahui Centre project, upon completion, is expected to become one of the major rental income contributors.

Other major investment properties under development include the Hong Cheng project in Guangzhou and Minhang project in Shanghai. Construction of the 50%-owned Hong Cheng project near Tianhe metro station in Guangzhou has been progressing well. It will offer around 900,000 square feet of retail space. Another integrated project above Xinzhuang metro station in Minhang, Shanghai will include a 1.5-million-square-foot regional mall. The Group has a 35% interest in this project and construction is targeted to commence in the first quarter of next year. These projects, together with Xujiahui Centre project, will strengthen the Group's market position on the mainland and make increasingly significant contributions to its recurring income in the medium-to-long term.

The Group's latest completed investment property on the mainland is the luxury 1.3-million-square-foot IAPM shopping mall, which is a part of the flagship integrated Shanghai ICC project. This upscale mall follows the success of the late-night shopping concept at APM in Hong Kong and features over 230 tenants, including international trendy luxury retailers, fine dining restaurants, a state-of-the-art cinema and a lifestyle supermarket. The fully-let IAPM has drawn high traffic since its soft opening in August this year. The Group is confident that the success of IAPM will lead to a significant increase in rental income from its mainland investment portfolio.

Shanghai ICC has two premium office towers of about 1.3 million square feet. One ICC is almost fully-let with reputable international firms as tenants. The construction of Two ICC is expected to be completed in financial year 2014/15. Pre-leasing of Two ICC will commence next year, focusing on major multinational companies, professional firms and mainland corporations. ICC Residence, offering over 200,000 square feet of luxury apartments for lease, is at the stage of interior decoration and will set a new standard of living in Shanghai.

Shanghai IFC is a standout integrated development with a direct connection to the Lujiazui metro station. The 1.2 million-square-foot Shanghai IFC Mall targets high-spending locals and tourists on the mainland. Traffic remained high and tenants' businesses were further boosted with the opening of Phase 2 last year. On top of a number of top-tier flagship stores in Phase 1, Phase 2 introduced more renowned luxury retailers for fashion, jewellery and international cuisine. The mall is virtually fully leased and has drawn continuous interest from many prospective tenants since it opened in 2010, showing good rental growth potential.

The two office towers of Shanghai IFC have attracted a spectrum of renowned banks, multinational corporations and professional firms. Tower One is fully occupied. Tower Two recorded increased occupancy. The IFC Residence serviced suites providing luxurious accommodations for senior executives and expatriates saw a gradual rise in occupancy over the past year.

Beijing APM in the heart of Wangfujing will have greater accessibility with a planned metro station exit. The newly-opened anchor flagship stores and popular new eateries have been well received. The tenant mix has been upgraded with more stylish brands and additional multi-storey stores and a beauty zone will be introduced to attract more shoppers. A notable growth in traffic flow and steady increase in tenant sales were observed during the year under review.

Other Businesses

Hotel

Hong Kong's hotel sector maintained high occupancy, underpinned mainly by solid growth in the number of visitors from the mainland. Against this background, the Group's hotels in Hong Kong continued to deliver satisfactory performance during the year under review. Since the opening in late 2012, overall business has been gathering momentum at the Holiday Inn Express Hong Kong Kowloon East, while the Crowne Plaza Hong Kong Kowloon East continued to attract more premium travellers and saw its restaurants and wedding business performing well. The Group's other seven hotels in Hong Kong, the Four Seasons Hotel Hong Kong, The Ritz-Carlton Hong Kong, W Hong Kong and the four Royal brand hotels, were able to keep average occupancy at a high level of above 90% during the year.

The Ritz-Carlton Shanghai, Pudong achieved increased occupancy and room rates despite a highly-competitive environment, and its restaurant with magnificent views of the Bund has increasingly been a hotspot for local residents and visitors.

The acquisition of a waterfront hotel site in North Point in Hong Kong through public tender in March this year will further strengthen the Group's hotel portfolio. This site can accommodate 388,000 square feet of gross floor area and will create a synergy with the adjacent residential / commercial site currently under development.

Telecommunications and Information Technology

SmarTone

SmarTone saw an increase in local mobile service revenue and customer numbers during the year despite intense market competition. Profitability was however pressured by lower roaming revenue and higher costs. The company launched its 4G network during the year and the acquisition of additional spectrum will enable further improvements in network quality and capacity in a cost-effective way. The Group remains confident in SmarTone's prospects and will continue to hold the company as a long-term investment.

SUNeVision

SUNeVision achieved further growth in revenue and operating profit for the year. iAdvantage reported good occupancy and maintained its position as a major operator of carrier-neutral data centres in Hong Kong. SUNeVision will build on its track record and solid financial position to further develop its core businesses.

Infrastructure and other businesses

The Group's infrastructure and transport businesses had a generally satisfactory year. The Wilson Group performed well and business at the Airport Freight Forwarding Centre remained steady despite uncertain economic conditions in Europe. The Group's joint-venture projects also operated smoothly. Traffic on the Route 3 (Country Park Section) increased steadily. Business at the Hong Kong Business Aviation Centre continued to grow in the year, while the slowdown in global trade affected the performance of the River Trade Terminal. The Group's infrastructure projects are all in Hong Kong and provide steady income streams over the long term.

Corporate Finance

The Group's strong financial position is evidenced by its low gearing and healthy interest coverage ratio. Net debt to shareholder's funds stood at a low level of 12.5% as at 30 June 2013. After the full payment of the land premium for the latest acquisition in Shanghai, the ratio is expected to remain at a healthy level below 20%.

The Group continues to enjoy strong support from banks and investors. A HK$15,200 million five-year term loan / revolving syndicated credit facility at competitive terms drew an overwhelming response from banks in March 2013. There was also high demand for the Group's HK$600 million and US$500 million ten-year bonds issued under its Medium Term Notes Programme during the year under review. These long-dated bonds have helped extend the Group's debt maturity profile.

Under the Group's conservative financial policy, the majority of its borrowings are denominated in Hong Kong dollars and no derivative or structured-product transactions have been executed for speculation.

The Group has consistently scored the highest credit ratings among local property companies – an A1 rating with a negative outlook from Moody's and an A+ rating with a negative outlook from Standard & Poor's.

Corporate Governance

Maintaining high standards of corporate governance is a core part of the Group's philosophy. The Board of the Company appointed an additional Independent Non-Executive Director (INED) effective 1 March 2013. Prior to this appointment, the number of INEDs accounted for one third of the Board. The total number of INEDs has now increased to seven as a result of the appointment. The diversified expertise and experience of INEDs are valuable assets for the Group's long-term development.

The Board oversees the Executive, Audit, Remuneration and Nomination Committees. The Executive Committee meets regularly and is primarily responsible for formulating business policies and making key business decisions. The Audit, Remuneration and Nomination Committees are all chaired by INEDs to ensure proper implementation of the Group's strategies. The Board also maintains and assesses the effectiveness of the internal control system through regular reviews performed by the Audit Committee, management and both internal and external auditors. These well-established Board committees and internal control system safeguard the Group's assets and the interests of stakeholders.

The Group is committed to maintaining high transparency. Communication channels include annual and interim reports, press releases and formal announcements, all of which can be found on the Group's website. As part of its efforts to strengthen close relationships with stakeholders worldwide, the Group participates frequently in large-scale investor conferences and presentations. It also hosted non-deal roadshows overseas, in addition to regular meetings with investors, analysts and credit agencies to keep stakeholders up to date on the latest developments.

In recognition of its efforts at transparency and dedication to maintaining a high standard of corporate governance, the Group has received various major awards from leading financial publications, including Asia's Icon on Corporate Governance from *Corporate Governance Asia* magazine. It won Best Corporate Governance and Best Corporate Social Responsibility in Hong Kong and was named Best Real Estate Company in Asia by *FinanceAsia* magazine. The Group was also named Best Managed Company in the Property Sector in Asia and Best Developer in Hong Kong Overall by *Euromoney* magazine.

Sustainable Development

The Group is devoted to sustainable development as part of its belief in Building Homes with Heart. It puts customers first and emphasizes care for staff, promoting environmental protection and making contributions to the community. The management also take the lead in caring for the needy.

The Group has won numerous accolades for its premium products and service. It has professional teams to ensure the quality of new residential developments and help owners as they take possession. Its property management subsidiaries Hong Yip and Kai Shing provide premium service and added convenience to residents. Shopping mall and office tenant care programmes and concierges are widely praised by tenants and shoppers. The Group's management visit residents and commercial tenants to hear their views. The SHKP Club additionally fosters two-way communication with customers. It now has nearly 320,000 members and maintains long-term, close relationships with customers with various initiatives including property-related benefits and service.

The Group is a caring employer and believes its 37,000-plus employees are its most valuable asset. It recruits high-calibre management trainees regularly and provides comprehensive training including in-house and overseas programmes to develop the full potential of staff at all levels. The Group encourages its staff to maintain balanced and healthy lives. It offers scholarships for the children of employees and maintains ties with retired staff through regular activities.

Protecting the environment is essential to sustainable development, so the Group integrates environmental considerations with all aspects of its operations and it makes a priority of reducing waste and energy consumption. The Group promotes green living through SHKP G Power and its Love Nature Campaign includes events to encourage the community to recognize the importance of conservation.

The Group considers it essential to be a positive force in the community and contributes in numerous ways. It held the first charity Race to ICC-100 – SHKP Vertical Run for the Chest to promote healthy and active lifestyles. The Group runs the Guinness world record ICC Light and Music Show to spread a positive Love Hong Kong message.

Reading and holistic development get a boost with the SHKP Book Club. Its fourth Young Writers' Debut Competition produced ten winners, who were the latest among 33 talented young writers to have their first books published since the contests started. The Group also took part in the Hong Kong Book Fair, sponsoring visits by 1,000-plus underprivileged children for the sixth consecutive year and the Pure Land: Inside the Mogao Grottoes at Dunhuang 3-D exhibition there this year.

The Group provides assistance to the needy through its Building Homes with Heart Caring Initiative with staff volunteers and puts on festive events for the less fortunate. The SHKP Volunteer Team is now in its tenth year and has 2,000-plus members who put in significantly more service hours this year than the year before. The SHKP Club continues its Loving Home initiative this year to promote domestic harmony. Activities staged included the Pictures of Love Gallery that attracted more than 600,000 views and the Loving Home Support the Family campaign to further spread the loving home spirit.

The Group's second sustainability report was published in late 2012 and was expanded to cover its four Royal hotels for the first time and provided more information on supply-chain performance, showing a commitment to enhanced transparency and sustainable development. The Group has also been a constituent of the Hang Seng Corporate Sustainability and Hang Seng (Mainland and HK) Corporate Sustainability indices since their inception in 2010.

PROSPECTS

Modest global economic growth is expected to continue with diminished systematic risks in the year ahead, supported mainly by an improving US economy and continuously accommodative monetary policies of major central banks. Although worries over an earlier exit of the US quantitative easing may dampen market sentiment and hence result in financial market volatility, major global interest rates including the US fed funds rate are likely to remain low for an extended period of time.

The mainland economy is likely to improve gradually in the months ahead, with government stimulus measures keeping economic growth and employment at acceptable levels. The Central Government's focus on structural reforms should help foster more sustainable growth over the long term. This should serve as a driver for Hong Kong's long-term economic development. In the near term, Hong Kong's economic expansion is expected to remain moderate, supported by continuous growth in domestic consumer spending, follow-through of transportation infrastructure works and expanding export service including tourism.

Residential markets, both on the mainland and in Hong Kong, will continue to be influenced by respective policy measures. On the mainland, demand from first-time buyers amid ongoing urbanization is expected to remain robust, while the sales of high-end units will continue to be restrained by home purchase restrictions. In Hong Kong, the new ordinance on first-hand sales has increased costs and time for preparing projects for sale. More importantly, the government's stringent measures, particularly various types of stamp duty, will continue to restrain various kinds of demand, though first-time buyers who usually purchase small- to medium-sized units will be less affected. Nevertheless, low mortgage rates, reasonable repayment affordability and continuous income growth will underpin potential residential demand. While the supply of new housing units will remain limited in the near term, the government's continuous efforts to increase housing and land supply should be conducive to long-term healthy development of the property market, offering more business opportunities for the sector. The Group remains positive about the prospects for Hong Kong's residential market over the medium-to-long term.

The Group will step up efforts to quicken the process of obtaining pre-sale consents and put new projects in Hong Kong and on the mainland up for sale when ready. Major new residential projects to be launched in Hong Kong over the next nine months will include Century Gateway II at MTR Tuen Mun Station, Imperial Kennedy in the western part of Hong Kong Island, a residential project in Fanling and Riva in Yuen Long East. The majority of these new launches will be small- to medium-sized units, which will be relatively easily absorbed in the current market conditions. The Group also plans to put a new batch of The Cullinan in West Kowloon and two office projects being developed on Hoi Bun Road in Kwun Tong and Wong Chuk Hang Road in Island South on the market. Major mainland projects that will go on sale include the quality offices in the integrated Tianhui Plaza in Guangzhou, premium homes and shops at Oriental Bund in Foshan and additional batches of other projects including Shanghai Arch in Lujiazui.

The Group will continue to bolster its leading market position through its steadily growing investment property portfolio. Regular tenant mix reviews and property upgrades will continue to enhance both the capital and rental values of the Group's existing investment property portfolio. Its rental income will continue to grow in Hong Kong and on the mainland, driven by high occupancies with rising rents in the existing portfolio and new contributions from new shopping malls including V City in Tuen Mun, Hong Kong and IAPM at Shanghai ICC. The

YOHO Mall next to MTR Yuen Long Station, a premium mall atop MTR Nam Cheong Station and a shopping mall on the North Point waterfront in the next few years will make the Group's shopping network more comprehensive and competitive across Hong Kong. Investment properties under development on the mainland include the Hong Cheng shopping mall near Tianhe metro station in Guangzhou and an integrated project in Minhang district atop Xinzhuang metro station in Shanghai. The new acquisition of the Xujiahui Centre project, comprising premium office, shopping and hotel premises, will become a new landmark in Shanghai and one of the major contributors to the Group's rental income on the mainland. All these projects, upon completion, will accelerate the rental income growth over the long term.

The Group continues to capitalize on the opportunities arising from growing tourism in the region. The acquisition of a hotel site in North Point in Hong Kong in March this year and future hotels in key mainland cities developed as parts of integrated projects will further boost the Group's position in the hospitality industry and recurrent income from its hotel portfolio over time.

The Group's current land bank will enable it to increase production volume over the medium term. It will focus more on developing small- to medium-sized units in response to the market environment in Hong Kong, and continue to follow a selective and focused approach to the property business in key mainland cities including Beijing, Shanghai, Guangzhou and Shenzhen.

Focusing on enhancing asset turnover, the Group will continue to launch residential projects for sale and proactively dispose of selected non-core property assets. These moves, together with its strong recurrent income and healthy financial position, will enable the Group to selectively grasp good business opportunities to invest in projects with high development potential. The Group will also continue to enhance its leading position by differentiating in terms of products and customer service, further raising its brand name to command price premiums. It will adhere to the goal of achieving a balance between earnings from property sales and investment properties.

Looking ahead, a high standard of corporate governance, seasoned management team and robust balance sheet with healthy gearing will continue to enable the Group to sustain business development in a competitive and challenging environment. Barring unforeseen circumstances, the results for the coming financial year are expected to be satisfactory.

APPRECIATION

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

Kwok Ping-kwong, Thomas
Chairman & Managing Director

Kwok Ping-luen, Raymond
Chairman & Managing Director

Hong Kong, 12 September 2013