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 Interim 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 six months ended 31 December 2012, excluding the effect of fair-value changes on investment properties, amounted to HK$11,546 million, compared to HK$11,773 million for the same period last year. Underlying earnings per share were HK$4.41, compared to HK$4.58 for the same period last year.

Reported profit and reported earnings per share attributable to the Company's shareholders were HK$22,515 million and HK$8.60 respectively, compared to HK$21,131 million and HK$8.22 for the corresponding period last year. The reported profit for the period included an increase in fair value of investment properties net of deferred taxation and non-controlling interests of HK$11,969 million compared to HK$9,463 million for the same period last year.

DIVIDEND

The directors have recommended an interim dividend payment of HK$0.95 per share for the six months ended 31 December 2012, the same as for the corresponding period last year.

BUSINESS REVIEW

Property Sales and Rental Income

Property Sales

Revenue from property sales for the period under review as recorded in the accounts, including revenue from joint-venture projects, was HK$17,098 million. Profit from property sales was HK$6,408 million, as compared to HK$7,886 million for the same period last year. The Group achieved contracted property sales of HK$15,209 million in attributable terms, versus HK$24,897 million for the same period last year. The Group's sales performance since the beginning of 2013 has been encouraging with contracted sales of over HK$10,000 million.

Rental Income

The Group's rental income kept growing continuously. Gross rental income, including contributions from joint-venture projects, rose 12% year-on-year to HK$7,801 million and net rental income increased 11% to HK$5,835 million during the period. The healthy growth was driven by continuing positive rental reversions, both in Hong Kong and on the mainland, and increased contributions from new mainland properties.

Property Business – Hong Kong

Land Bank

The Group was active in land acquisitions and added four new sites to its Hong Kong development land bank during the period under review, including one prime site in North Point on Hong Kong Island. This upcoming project is sure to become a new icon in the district, given its rare wide seafront and the Group's quality brand. The four new sites together have an attributable gross floor area of over 1.4 million square feet and the majority of the units to be built will be small- to medium-sized units of superior quality. Details are shown in the table below.

Location	**Usage**	**Group's Interest** (%)	**Attributable Gross Floor Area** (square feet)
Inland Lot 9027, Java Road, North Point	Residential / Shopping centre	100	701,000
Area 66D2, Tseung Kwan O	Residential / Shopping centre	100	563,000
97 Belcher's Street, Island West	Residential / Shops	92	85,000
38-52 Western Street, Island West	Residential / Shops	92	76,000
Total			**1,425,000**

The Group's total land bank in Hong Kong amounted to 46.5 million square feet in December 2012, comprising 28.8 million square feet of completed investment properties and 17.7 million square feet of properties under development. The Group also holds over 27 million square feet of farmland in terms of site area, spread across various locations in the New Territories. Most of this is along existing or proposed rail lines and is in the process of land use conversion.

Property Development

The underlying demand for Hong Kong residential properties, in particular small- and medium-sized units, has been resilient, while the two rounds of government measures introduced in the past four months restrain demand from non-locals, corporate buyers and investors. Continuous wage growth, reasonable affordability and higher rental yield relative to mortgage interest rate remained positive for the market. The supply of new units for pre-sale was also limited.

The Group's contracted sales in Hong Kong amounted to about HK$11,000 million during the period under review. The major launch was the first phase of Century Gateway. It will set new standards for quality living in Tuen Mun with its exceptional design and top materials, and over 90% of the units were sold within a month. The Wings II was launched for pre-sale in mid January this year. The project promises outstanding quality and is located in the well-planned Tseung Kwan O town centre with comprehensive facilities. It has been popular among buyers with over 95% of the units already sold, generating over HK$7,000 million in proceeds. The recently launched Residence 88 was also well received by the market and brought the total proceeds from Hong Kong property sales since the beginning of 2013 to nearly HK$9,000 million. The enthusiastic response and prices achieved for these projects reflected customers' ongoing confidence in the Group's reputation for premium products and services.

The Group is building a superior residential community in the town centre south of MTR Tseung Kwan O Station. It now has over 2.3 million square feet of premium residential and retail properties under development in the area, in addition to the recently-completed integrated complex development The Wings, internationally-renowned hotels and suites and a stylish mall. These projects include The Wings II recently offered for sale and the waterfront site at Area 66D2 just acquired in November 2012. The Group always makes efforts to enhance the attractiveness and value of its developments. These projects in Tseung Kwan O are designed to maximize synergy and capitalize on the overall urban framework of the area, offering high-quality living with ample greenbelts, convenient transportation and various leisure activities.

The Group's premium projects have helped bring transformation and growth to different areas. In addition to Tseung Kwan O, the Group is also developing several projects in the rapidly-changing Island West, including Imperial Kennedy and the two other redevelopment sites recently acquired. It will take only about ten minutes to Central with the MTR West Island Line opening in 2014.

Four projects were completed in Hong Kong during the period under review with 1.8 million square feet of attributable gross floor area. Around 300,000 square feet of retail space, including V City mall above MTR Tuen Mun Station, was retained for rent. These are described in the table below. The Group plans to complete one project in the second half of this financial year, which is a 120,000-square-foot office building in Kwun Tong.

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	Office / Shops	100	509,000
Elite Centre	22 Hung To Road	Office	100	207,000
Chatham Gate	388 Chatham Road North	Residential / Shopping centre	29	106,000
Total				**1,819,000**

Property Investment

The Group's Hong Kong rental portfolio generates significant recurrent income. It has been built over decades and includes well-diversified, quality premises across Hong Kong. The Group's high emphasis on building quality, premium service and continuous upgrading helps establish and maintain long-lasting relationships with tenants, and this extended commitment makes the Group their preferred choice for business expansion or relocation.

For the period under review, the Group's gross rental income from Hong Kong, including contributions from joint-venture projects, rose by 10% to HK$6,482 million, driven mainly by positive rental reversions and higher rents for new leases. Occupancy of the Group's rental portfolio stayed high at around 95%.

The Group continues to develop new premium investment properties across Hong Kong, enhancing the scale and diversity of its rental portfolio, while the Group also reviews options for non-core property disposal in an attempt to optimizing its portfolio**.**

Retail Portfolio

Conditions in the retail leasing market remained positive amid continuing growth in retail sales. For the period under review, the Group's retail portfolio of over ten million square feet in Hong Kong sustained decent rental growth. The portfolio offers exposure to shopping locations spanning different regions including traditional tourist areas. Sales growth for tenants in major malls was above the Hong Kong average and occupancy of major malls remained high at around 96%.

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, East Point City in Tseung Kwan O, New Town Plaza in Sha Tin, Tai Po Mega Mall, Landmark North in Sheung Shui and Metroplaza in Kwai Chung. Together with other malls, the significant size and composition of the Group's shopping mall network have helped the Group establish a leading position in the retail leasing market and meet ever-changing customer needs.

IFC mall in Central is a luxury shopping centre in the heart of Hong Kong's core business district with a vast array of international retailers under one roof, offering a comprehensive shopping experience. A constantly-refined trade mix and innovative marketing have made the mall appealing to locals and tourists. Another mall on Hong Kong Island in a key shopping area is WTC More in Causeway Bay. It is positioned as a trendy destination with an extensive selection of international retailers and sea view restaurants.

Commerce and tourism in Kwun Tong are expected to take off amid the government-led Energizing Kowloon East Initiative, providing an excellent opportunity for businesses to expand. APM is the leading regional mall in this dynamic district and will capitalize on the continual rise in demand for quality retail space.

A growing population is set to make Tseung Kwan O a vibrant community, and the Group's extensive presence in the area offers excellent synergy among its malls, which include Park Central, PopCorn and over 200,000 square feet of upcoming retail space beside MTR Tseung Kwan O Station, as well as East Point City next to MTR Hang Hau Station. The expanding retail cluster will continue to prosper as a result of rising local spending.

Regional malls in the New Territories that serve the demand of local residents have consistently delivered outstanding performance. New Town Plaza on the MTR East Rail Line in Sha Tin had its facilities upgraded and trade mix refined during the period, which resulted in a decent increase in traffic. The lifestyle shopping concept of Tai Po Mega Mall will be reinforced by the addition of a well-equipped fitness centre. Near the border, Landmark North in Sheung Shui, which is also along the MTR East Rail Line, is active in fine-tuning its trade mix to have greater appeal to shoppers in the neighbourhood.

Continuous upgrades are vital to maintaining the superior quality and competitiveness of shopping malls. The reconfiguration and renovation at Grand Century Place in Mong Kok involved redesigning the mall to optimize shoppers' convenience and meet their aspirations. The transformed arcade is expected to receive widespread recognition from local consumers with increasing spending power.

The Group will continue expanding its retail network in the years ahead. The retail space in V City in Tuen Mun, almost fully pre-leased, is expected to begin operation in mid 2013. Most of the tenants will be new to the area, and the Group is confident of attracting young locals and tourists to this fresh shopping destination.

The Group has been sowing seeds for long-term development in Yuen Long and West Kowloon. A new 470,000-square-foot shopping mall in Yuen Long will integrate with two existing malls upon completion, creating a fusion of a million square feet to be named YOHO Mall. It will offer tremendous potential and is drawing keen interest from international retailers. The MTR Nam Cheong Station residential and commercial complex with close to 300,000 square feet of retail space at the junction of MTR West Rail Line and MTR Tung Chung Line will be conveniently accessible from various heavily-populated districts. These new malls will boost the Group's presence in West Kowloon and the New Territories West, further enhancing the diversity and scale of the Group's retail network in Hong Kong.

Office Portfolio

The office leasing market remained healthy while new supply was limited. The Group holds a diverse office portfolio of over ten million square feet in Hong Kong. The majority of the office buildings are well connected with rail lines and located in non-Central areas where demand remained robust. Overall occupancy remained high and rental income increased during the period under review.

International Commerce Centre (ICC) above MTR Kowloon Station is one of the Group's flagship integrated projects and has created a new commercial cluster in West Kowloon and reinforced the Group's foundations as a leading office market player in Hong Kong. ICC tower is the tallest building in Hong Kong and home to The Ritz-Carlton, Hong Kong and Sky100 Hong Kong Observation Deck. It contains close to 2.5 million square feet of premium office space and houses renowned multinational and mainland financial institutions with near full occupancy.

The Kowloon East region is a prime example of the way the Group has helped revitalize an area into a popular commercial hub over the past decade. The large, multi-phase Millennium City in Kwun Tong has attracted various international and local firms, and the office space is nearly fully let. Kowloon East is rapidly evolving into a new core business district and the Group is well positioned to ride on this development.

The Group's major office properties in other non-Central areas include Sun Hung Kai Centre and Central Plaza in Wan Chai, Grand Century Place in Mong Kok and Landmark North in Sheung Shui. They all performed well with high occupancies and increased rents throughout the period.

The office leasing market in Central remained relatively steady, despite global economic uncertainties. The two first-class office towers at International Finance Centre (IFC) maintain their leading position in Central thanks to a prime location above Hong Kong Station on the Airport Express Line and comprehensive supplementary facilities including IFC Mall, Four Seasons Hotel Hong Kong and Four Seasons Place.

Property Business – Mainland

Land Bank

The Group's mainland land bank amounted to an attributable 82.3 million square feet in December 2012. This included 72.8 million square feet of properties under development, over 75% of which will be developed into premium residences or serviced apartments. Most of the 9.5 million square feet of completed investment properties on the mainland are top-grade offices and shopping malls in centres of prime cities.

Property Development

Government measures are conducive to the healthy development of the mainland property sector over the longer term. The residential markets in prime cities on the mainland continued to recover over the past few months on the back of rising market confidence and unleashing of pent-up demand.

The Group achieved contracted sales of over HK$4,000 million in attributable terms on the mainland during the period under review. The launch of the 70%-owned Forest Hills at a luxury area in Tianhe District in Guangzhou in December 2012 saw a highly-encouraging response. Almost 90% of the units in the first batch were sold within few weeks. The project has a superior location close to an interchange of two metro lines and the Guangzhou East railway station that provides through-train service between Guangzhou and Hong Kong. The sales of the wholly-owned Shanghai Arch have been progressing well, while a number of joint-venture projects were also well received, including The Riviera in Zhujiang Xincheng business district in Guangzhou and Taihu International Community in Wuxi. Sales of serviced apartments in Upper MIXC in Hangzhou began in January 2013 and response was also very positive, with 90% of the launched units sold. Since the beginning of 2013, contracted sales from mainland projects have exceeded HK$1,400 million.

The Group completed an attributable 1.6 million square feet of properties in Guangzhou and Wuxi during the period under review. Details are shown in the table below. Planned completions in the second half of the financial year will include 1.3 million square feet of properties, of which about 200,000 square feet at Shanghai ICC Residence is intended for rent.

Project	**Location**	**Usage**	**Group's Interest** (%)	**Attributable Gross Floor Area** (square feet)
Taihu International Community Phase 5A	Taihu New City, Wuxi	Residential	40	982,000
The Riviera Phase 1A	Zhujiang Xincheng, Guangzhou	Serviced Apartments	33	412,000
Lake Dragon Phase 2A	Dragon Lake Community, Guangzhou	Residential	60	211,000
Total				**1,605,000**

Projects under development on the mainland are proceeding as planned. The superstructure of the first phase of Shanghai Arch with over 500,000 square feet of gross floor area in Lujiazui has been completed and internal decoration is proceeding smoothly. Construction of the joint-venture Foothill Residence in a popular luxury residential district in Zhijiang in Hangzhou is progressing as planned.

Property Investment

Rental income from mainland investment properties has grown significantly in the past few years and has become a notable contributor to the Group's rental business. For the period under review, leasing demand for the Group's investment properties remained strong, despite the slowdown in the mainland economy. The Group's gross rental income from the mainland, including contributions from joint-venture projects, rose by 33% to HK$987 million, mainly driven by positive rental reversions, higher rents for new leases and increased contributions from new investment properties.

Extending the success of IFC and ICC, the Victoria Harbour Gateway in Hong Kong, the Group's Shanghai IFC in Pudong and Shanghai ICC in Puxi are being developed as new landmarks on both sides of Huangpu River.

The success of Shanghai IFC demonstrates the Group's ability to develop large-scale integrated complexes and boosts its brand recognition on the mainland. This comprehensive project comprises an upmarket shopping mall, grade-A office towers, The Ritz-Carlton Shanghai, Pudong and the deluxe IFC Residence serviced suites. The impeccable quality and facilities in the two state-of-the-art office towers have drawn many international and mainland financial institutions, as well as professional firms, as tenants. The first office tower is fully occupied and occupancy of the second tower is on the rise.

Numerous international brands are highly interested in taking space in the premium Shanghai IFC mall, which houses one of the largest collections of luxury flagships and specialty stores in Shanghai. Cutting-edge marketing campaigns were launched to enhance its high-end position and increased traffic flow was observed throughout the period under review. The second phase of over 180,000 square feet is open and both phases are fully let.

In the heart of the Puxi commercial zone is another Group's flagship integrated project – Shanghai ICC. This will have three million square feet of floor area with the premium IAPM shopping mall, two grade-A office towers and the luxury Shanghai ICC Residence. Nearly all the 660,000 square feet of space in the finished first office tower has been taken up by tenants including multinational firms, while the second tower is under construction and expected to be completed in 2015. The Shanghai ICC Residence is expected to be completed this year, delivering an outstanding choice of elegant, urban living.

The 1.3-million-square-foot IAPM is expected to open by mid 2013, offering a new choice for trendy luxury on Huai Hai Zhong Road, the traditional shopping district of Puxi in Shanghai. Proactive marketing helped boost publicity for IAPM in Shanghai and other prime cities. The retail space has been almost fully pre-leased, with many tenants being new to Shanghai.

Beijing APM in the Wangfujing traditional shopping area hosts Asia's largest flagship store of a world-leading consumer electronics brand. It has been constantly refining its tenant mix by introducing international brands. Reconfiguration and renovation work to enhance the spaciousness and positioning of the mall have been completed and are well received by tenants and shoppers.

The Group continues to develop its retail network in prime cities on the mainland. The 50%-owned Hong Cheng retail project near Tianhe metro station in Guangzhou, a traditional shopping district, is expected to commence operation in 2015. In Shanghai, the shopping mall in the 35%-owned integrated Minhang project will be another milestone addition to the Group's prestigious mainland retail portfolio in the medium term. These new investment properties will strengthen the Group's rental network on the mainland and serve as an important component of the Group's growth engine in the future.

Other Businesses

<u>Hotel</u>

Hong Kong's hotel sector continued to do well over the past few months. Overall occupancy stayed high and room rates in Hong Kong continued to grow, spurred mainly by the continuing growth of visitor arrivals.

During the period under review, the Group’s hotel portfolio continued to perform well with rising room rates, thanks to healthy growth of business and leisure traveller numbers. Occupancies, on available room basis, remained high. While the Royal Plaza in Mong Kok is currently undergoing a major renovation to make it more modern and stylish, the other three Royal-brand hotels maintained average occupancy at a high rate of over 95%. The Four Seasons Hotel Hong Kong and The Ritz-Carlton, Hong Kong continued to lead the market in terms of revenue per available room, and several of their fine restaurants received stars in the 2013 Michelin Guide. W Hong Kong, which offers trendy accommodation, continued to see growth in room rates.

The Crowne Plaza Hong Kong Kowloon East and Holiday Inn Express Hong Kong Kowloon East have been operating smoothly since opening in last September and October respectively. The Crowne Plaza has received lots of booking enquiries about its magnificent wedding garden and pillar-free grand ballroom from brides and grooms to be. The two new hotels have created synergy among the Group’s businesses, by helping enhance traffic to the Group’s shopping centres in Tseung Kwan O and bolstering the status of The Wings and The Wings II as new landmark residential developments in the district.

The Ritz-Carlton Shanghai, Pudong has seen healthy growth in its business. The hotel’s service and market positioning have been increasingly recognized by customers and it has established a reputation as the preferred choice for travellers in Shanghai after two years of operation.

Telecommunications and Information Technology

SmarTone

SmarTone has managed to grow service revenue amid intensified local market competition. SmarTone’s 4G network was launched in August 2012, which extended the company's leadership in network performance. Exclusive services were developed and introduced to meet customer needs, demonstrating SmarTone’s thoughtful customer care. The company will continue to deliver comprehensive customer experiences by providing a wide range of quality services. The Group remains confident in SmarTone’s prospects and will continue to hold the company as a long-term investment.

SUNeVision

SUNeVision showed growth in revenue and operating profit for the period under review. iAdvantage continues to be a major operator of carrier-neutral data centres in Hong Kong and its centres achieved satisfactory occupancy. SUNeVision will capitalize on its proven track record and solid financial position to further develop its core businesses.

Infrastructure and other businesses

Overall performance of the Group’s infrastructure and transport businesses in Hong Kong was generally satisfactory. The Wilson Group performed well, and traffic on the Route 3 (Country Park Section) increased steadily. The slowdown in major export markets affected the River Trade Terminal, while business at the Airport Freight Forwarding Centre performed well.

Business at the Group's 35%-owned Hong Kong Business Aviation Centre remained solid during the period. The Group's infrastructure projects are all in Hong Kong and provide steady income streams over the long term.

Corporate Finance

The Group sustained its robust financial position with low gearing and abundant liquidity. Interest coverage also continued to stay at a respectable level. Net debt to shareholders' funds stood at 16.5% as at 31 December 2012.

The Group maintains close business relationships with its bankers. For the period under review, all expiring banking facilities were renewed at competitive terms. Response to the Group's latest refinancing of the Shanghai ICC RMB2.7 billion syndicated loan was very enthusiastic. And the Group issued HK$300 million three-year and HK$750 million ten-year fixed rate bonds through its Medium Term Note programme to diversify sources of funds and lengthen debt maturity amid the ultra-low interest rate environment. In January 2013 the Group successfully issued a new HK$300 million ten-year fixed rate bond and a new US$500 million ten-year fixed rate bond which have received keen interest from investors. All these financings enabled the Group to assemble a large pool of stand-by funds on a committed basis for its continuous business development. The strong support from banks and investors demonstrates their confidence in the Group's well-balanced business model, quality assets, solid financial position and seasoned management.

The majority of the Group's borrowings are denominated in Hong Kong dollars, therefore making its foreign exchange risk insignificant. The Group continued to follow a conservative financial policy by not entering into any derivative or structured-product transactions for speculative purposes.

The Group has consistently attained the highest credit ratings among Hong Kong property companies. Moody's and Standard and Poor's awarded the Group A1 and A+ credit ratings with negative outlooks respectively. In addition, Moody's and Standard and Poor's recently awarded the Group's jointly-controlled entity, IFC Development Limited, A2 and A credit ratings with stable outlooks respectively.

Corporate Governance

The Group has mechanisms in place to safeguard sound corporate governance practices. The Board currently has 18 members and it directs and approves the Group's overall strategies with the support of Board committees. The 12-member Executive Committee meets regularly to formulate policies and make key business decisions. The Audit, Nomination and Remuneration Committees are all chaired by Independent Non-Executive Directors (INEDs) to ensure proper implementation of the Group's strategies. An additional INED has been appointed effective 1 March 2013, which will further strengthen the Board. INEDs will then account for over one-third of the Board members.

The Board maintains and consistently assesses the effectiveness of the internal control system by evaluating reviews performed by the Audit Committee, management and both internal and external auditors.

Corporate information is disseminated on a timely basis through various channels including press releases, annual and interim reports and public announcements, and all this information is available on the Group's website to maintain a high level of transparency. It also holds press conferences and investor meetings to keep stakeholders informed of the Group's business strategies and developments.

The Group's ongoing efforts in corporate governance are widely recognized by the investment community. It earned the recognition of Best Managed Company in Property Sector in Asia from *Euromoney* magazine. The Group also won Best Investor Relations by Company, Best Investor Relations Professional and Best CSR from *Corporate Governance Asia* magazine. The Group will continue its efforts to maintain its high standards of good corporate governance.

Sustainable Development

A sustainable approach is crucial to the Group's long-term growth and success. The concept is integral to business development and is further actualized through community care and preservation of the environment.

The Group engages customers on multiple levels to cultivate lasting loyalty, and it fosters staff training and career-development opportunities to ensure viable continuity. The Group is a responsible developer that champions the preservation of the environment and continually promotes community development, as described in its recent Sustainability Report.

Customer care is one of the Group's priorities for creating lasting bonds and product loyalty. The Group constantly tracks and responds to changing trends and meets customer expectations with innovative ideas. It has professional inter-departmental teams that examine newly-completed units before owners take possession. Its property-management subsidiaries Hong Yip and Kai Shing deliver value-added service to build good customer relationships, and a high emphasis on quality service in commercial buildings and shopping centres creates tenant allegiance and benefits their visitors and shoppers.

The Group collects opinions through various channels to enhance service quality. The SHKP Club is the largest property club in Hong Kong and it offers a myriad of benefits to build close ties with its 310,000 members. This is an effective vehicle for the Group's two-way communication with members and gathering feedback from potential customers for ongoing support.

The Group believes that its people are indispensable for continued success and sustained growth. Comprehensive training is provided to develop the full potential of people at all levels within the organization. All new staff undergo a proper orientation programme to learn the Group's mission, values and corporate culture, and there are workshops and seminars to strengthen managerial staff competencies and courses on a wide spectrum of technical skills and professional development topics. The Group provides social and recreational activities for its people and their families to liven the workplace environment, and this includes regular events for retired staff.

The Group's efforts go beyond the Company level to be effective over time, and one key aspect is care for the environment. Environmental considerations are taken into account in all aspects of business from planning and procurement to construction and development and on to property management. The Group additionally strives to minimize the ecological impact of operations, and it aims to acquire green building certification for all new projects to better serve the community and enhance the buildings' attractiveness.

The Group's SHKP G Power collects, builds and showcases its green policy initiatives and achievements under one banner, with programmes including eco-awareness events for the community and a Love Nature drive of beach clean ups and nature tours that make Hong Kong a better place to live.

A wider commitment to a sustainable community can be seen in the Group's Building Homes with Heart Caring Initiative, which provides timely assistance to the needy. Staff are encouraged to use their professional skills to help those in need, and the 2,000-plus members of the SHKP Volunteer Team take part in a wide range of programmes benefitting different community groups. The Group staged the first Race to ICC-100 – SHKP Vertical Run for the Chest at its landmark ICC to support child and youth services and promote a healthy, active lifestyle in the community.

The Group promotes reading and writing through the SHKP Book Club to prepare the younger generation for the future. Ongoing programmes include taking underprivileged children to the Hong Kong Book Fair and a fourth Young Writers' Debut competition extended to the mainland for the first time. The SHKP Reading Index also began tracking reading interest in Hong Kong. The SHKP-Kwoks' Foundation assists promising students with scholarships and grants, and it has been realizing its pledged commitment to the Community Care Fund.

The Group's efforts at sustainability are reflected by its inclusion in the Hang Seng Corporate Sustainability and Hang Seng (Mainland and HK) Corporate Sustainability indices since their inception in 2010 and its second Sustainability Report. The latest report is again based on the Global Reporting Initiative G3.1 guidelines, and now covers the Group's four Royal hotels. It has been independently assessed and certified with a B+ application level, which is an advancement from the previous report and shows the Group's commitment to enhanced transparency and sustainable development.

PROSPECTS

The global economy is expected to see some improvement in 2013. It will be supported by positive developments such as a recovering US housing sector and major central banks' continuously loose monetary policies with low interest rates and expanded quantitative easing programmes. However, elevated debt levels in the Euro zone and actions to tackle fiscal deficits in the US will remain the major risks.

Economic growth on the mainland is anticipated to improve in the year ahead, driven by the commitment to continuous urbanization, economic reform and infrastructure upgrading. The Group remains confident in the mainland's long-term prospects. The residential sector is expected to be supported by the demand of first-time buyers and rising affluence in society.

The Hong Kong economy is projected to pick up modestly this year in tandem with an improving mainland economy. Healthy domestic consumption, solid infrastructure investment, growing visitor spending and more financial market activity will be the major drivers. The potential development of Qianhai in Shenzhen as a modern service centre will complement

Hong Kong's development as an offshore renminbi centre, further strengthening its role as an international financial hub. All these factors, coupled with low mortgage rates and continuous income growth, should lend support to first-time buyer and upgrading demand in Hong Kong's residential market, though the latest round of housing measures unveiled last week are likely to affect market activity and sentiment. The supply of new homes will remain limited in the foreseeable future.

The Group will adhere to the goal of achieving a balance in income from property sales and investment properties. To cope with the ever-changing residential property market, the Group will continue to pursue high-quality products and services, as well as well-designed flat mixes to meet customer needs. The Group will look for good land acquisition opportunities and will continue to offer new projects for sale when ready. Major residential sales in Hong Kong in next nine months will include luxury Imperial Kennedy in Island West, phase two of Century Gateway atop MTR Tuen Mun Station, low-density homes RIVA in Yuen Long and a premium project in Fanling. A majority of the projects comprise mainly small- to medium-sized units. Major mainland joint-venture projects that will go on sale include phase one of Foothill Residence in Hangzhou and the second batch of Forest Hills in Tianhe District in Guangzhou, as well as the additional batches of Sirius residences in Chengdu ICC and Park Royale in Huadu, Guangzhou. In addition, an extra batch of Shanghai Arch at Lujiazui, a solely-owned project, will continue to be offered for sale.

The Group is one of the leading landlords in Hong Kong with a well-diversified investment property portfolio, and it is building its rental portfolio on the mainland. The Group will continue to optimize its rental portfolio by developing new investment properties and reviewing the options for non-core investment properties disposal. The Group's rental income, one of the growth engines, will continue to benefit from sustained high occupancies, positive rental reversions and growing contributions from new additions of investment properties.

The Group's retail network will grow and spread with the addition of new shopping malls in Hong Kong and on the mainland. Coming soon will be V City atop MTR Tuen Mun Station in Hong Kong and IAPM, a trendy luxury shopping mall at Shanghai ICC to open later this year. In the medium term, the regional YOHO Mall at MTR Yuen Long Station and a premium mall atop MTR Nam Cheong Station will boost the Group's presence in West Kowloon and the New Territories West. Mainland retail properties under development include the Hong Cheng shopping mall near Tianhe metro station in Guangzhou and a shopping mall as part of an integrated project in Minhang district atop the Xinzhuang metro station in Shanghai. All these projects will further boost the Group's premium brand recognition among customers. With the mainland investment portfolio maturing, its contribution to the Group's gross rental income will rise markedly over the next few years.

Hotels in Hong Kong and key mainland cities are set to benefit from the growing tourism in the region. The recent opening of Crowne Plaza Hong Kong Kowloon East and Holiday Inn Express Hong Kong Kowloon East, together with the Group's planned hotels in key mainland cities to be developed as parts of integrated projects, will enable the Group's hotel network to make a rising contribution over time.

The Group will continue to uphold its high standard of corporate governance and strengthen its management team and structure. As a responsible corporate citizen, the Group will also keep making Hong Kong a better place for all through charity work and environmental protection initiatives. All these coupled with prudent financial management discipline, robust recurrent rental income and solid property development businesses will enable the Group to achieve sustainable development and meet various challenges going forward.

Barring unforeseen circumstances, the results for the current financial year are expected to be satisfactory.

APPRECIATION

Mrs. Leung Ko May-yee, Margaret is appointed as an Independent Non-Executive Director of the Company effective 1 March 2013. Her extensive experience in the banking industry will be a valuable asset for the Group's long term development.

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, 28 February 2013