Financial Review

GROUP RESULTS

For the financial year ended December 31, 2014, turnover and operating profit of the Group soared by 86% and 90% to HK$17,030 million and HK$13,008 million, respectively. Turnover from property leasing increased by 9% to HK$7,216 million, with continual growth of mainland China and Hong Kong portfolios which recorded an 11% and 6% increment, respectively, when compared to a year ago. The Group took advantage of improved sentiments in the Hong Kong residential market by selling a total of 412 residential units and some car parking spaces in 2014. Turnover from property sales jumped 2.9 times to HK$9,814 million.

Correspondingly, underlying net profit attributable to shareholders reached HK$10,022 million, leaping 98% year-on-year. When including the revaluation gain of investment properties, net profit attributable to shareholders increased by 62% to HK$11,704 million and earnings per share rose similarly to HK$2.61.

BREAKDOWN OF TURNOVER AND OPERATING PROFIT OF THE GROUP

	Turnover			Operating Profit		
HK$ Million	**2014**	2013	Change	**2014**	2013	Change
Property Leasing	**7,216**	6,638	+9%	**5,589**	5,326	+5%
Mainland China	**3,916**	3,526	+11%	**2,800**	2,683	+4%
Hong Kong	**3,300**	3,112	+6%	**2,789**	2,643	+6%
Property Sales	**9,814**	2,500	+293%	**7,419**	1,511	+391%
Total	**17,030**	9,138	+86%	**13,008**	6,837	+90%

PROPERTY LEASING

Our core business, property leasing continued to achieve steady growth in a challenging business environment in mainland China and Hong Kong. Property leasing turnover and operating profit rose 9% and 5% to HK$7,216 million and HK$5,589 million, respectively. Our Tianjin Riverside 66 shopping mall had its grand opening on September 26, 2014. One month later, the office tower at Wuxi Center 66 also commenced operations. Both properties started contributing rental income to the Group in this reporting period.

Mainland China

Rental turnover generated by our mainland China portfolio advanced by 11% to HK$3,916 million for the year ended December 31, 2014. This growth was mainly attributable to the full year effect of Wuxi Center 66 mall and the stable performance of our Shanghai portfolio despite sliding sales of luxury goods during the year. Our two shopping malls in Shenyang achieved moderate rental growth, whereas the Jinan Parc 66 mall recorded an 8% drop in rents while the tenant reshuffling exercise was continuing. With more young properties being added to the Mainland portfolio, their relatively lower profitability during the startup period caused overall leasing margin of mainland China portfolio to fall 4.6 points to 71.5%. Total retail sales of our shopping malls on the Mainland exceeded RMB10 billion in 2014.

Shanghai Portfolio

Despite an increasingly competitive business environment, Plaza 66 and Grand Gateway 66 in Shanghai collected 5% more rents in total to HK$2,775 million, mainly benefitting from positive rental reversions. Rents collected by the two Shanghai malls reached HK$1,972 million or 7% higher than a year ago. The Grand Gateway 66 mall was almost fully let while occupancy rate of Plaza 66 mall stood at 96%. Retail sales of Plaza 66 slipped 4% given the adverse impact of persistent anti-grafting measures on luxury spending. On the other hand, Grand Gateway 66, which is more focused on trendy and lifestyle themes, recorded a 3% gain in retail sales year-on-year.

Rental turnover of the two office towers at Plaza 66 remained flat at HK$803 million. Amidst new supply in Shanghai, occupancy rate of the two office towers slipped four points to 91% as it took us longer than expected to fill the vacancy following the lease expiry of a major tenant who previously occupied 12% of the total leasable area.

Outside Shanghai Portfolio

For the financial year ended 2014, investment properties outside Shanghai contributed in total HK$1,141 million to the Group's rental turnover. That included the full year impact of Wuxi Center 66 mall and the additions of the Tianjin Riverside 66 mall and the office tower of Wuxi Center 66 during the second half of 2014.

At the year-end date, the Group had five shopping malls operating in Jinan, Shenyang (two malls), Wuxi and Tianjin and one office tower in Wuxi. Those properties are relatively young ranging from newly opened to four years old. As those properties are still going through a gestation period, tenant reshuffling and/or refinement are a normal process after completing the first or second lease cycle. Our young malls are no exception to this cycle. Inevitably, occupancy rates will be adversely affected during the process.

Hong Kong

Our diversified Hong Kong portfolio was resilient in the challenging market environment. Rental turnover and operating profit were both up by 6% to HK$3,300 million and HK$2,789 million, respectively. The resulting leasing margin was 84.5%.

BREAKDOWN OF RENTAL TURNOVER AND OCCUPANCY RATE OF HONG KONG PORTFOLIO

	Rental Turnover			Occupancy Rate	
HK$ Million	**2014**	2013	Change	**2014**	Change
Commercial	**1,832**	1,726	+6%	**98%**	–
Office and Industrial/Office	**1,048**	983	+7%	**94%**	-2% pts
Residential and Serviced Apartment	**295**	285	+3%	**73%**	-1% pt
Car Park	**125**	118	+6%	**N/A**	N/A
Total	**3,300**	3,112	+6%	**93%**	-1% pt

Commercial

The Hong Kong commercial portfolio collected 6% more rents to HK$1,832 million for the year ended December 31, 2014, largely attributable to positive rental reversions. Occupancy rate was maintained at 98%. The commercial portfolio accounted for 56% of Hong Kong rental turnover in 2014.

Our Central portfolio including the Standard Chartered Bank Building, 1 Duddell Street, Printing House and Baskerville House enjoyed a 25% rental growth in 2014.

In the fourth quarter of 2014, an area of the Causeway Bay portfolio was closed for extensive renovation in order to transform the portfolio into a distinctive lifestyle destination of the district. The upgraded Main Block of Fashion Walk was unveiled in December 2014, featuring an array of international brands opening their first concept stores in Hong Kong. Despite various disruptions during the renovation period, the Causeway Bay commercial portfolio enjoyed a 2% rental growth year-on-year.

Mongkok commercial properties achieved a solid 5% rental growth in 2014 mainly driven by positive rental reversions. Grand Plaza recorded a 7% rental growth during this reporting period. The asset enhancement initiatives commenced two years ago will be completed in early 2015, and the resulting benefits will flow through in the coming years. From October to December 2014 when the district was hit by the Occupy Central incident, retail sales of the portfolio decreased by 18%. Despite a contraction of retail sales during the affected period, income of the portfolio continued to expand as sales rent accounted for only a small portion of the rental turnover.

Other malls continued to deliver solid rental growth as a result of positive rental reversions, including The Peak Galleria, Amoy Plaza in Kowloon East and Kornhill Plaza in Hong Kong East. The rental growth of The Peak Galleria was 6% in 2014, while that of Amoy Plaza and Kornhill Plaza was 10% and 5%, respectively.

Office

The office portfolio collected 7% more rents to HK$1,048 million mainly attributable to positive rental reversions. Occupancy rate of the office portfolio stood at 94%.

The Central office portfolio achieved a 5% rental growth while occupancy rate was maintained at 97%. Hang Lung Centre in Causeway Bay, which is the major hub for trade groups such as travel agents, fashion wholesale and medical services, realized a 12% rental growth in 2014. Mongkok office properties enjoyed a stable rental growth of 3% with occupancy rate standing at 91%.

Residential and Serviced Apartments

Rental turnover of residential and serviced apartments recorded a slight growth of 3% to HK$295 million in 2014. Serviced apartments had a good year with turnover leaping 14% year-on-year, driven by a higher occupancy rate after effective marketing campaigns. The performance of luxury apartments remained soft as corporate clients were cost-conscious.

PROPERTY SALES

Riding on improved sentiments in the Hong Kong residential market, the Group sold a total of 412 residential units (2013: 272 units) and some car parking spaces during 2014. Property sales turnover reached HK$9,814 million, soaring by 2.9 times against the previous year. The 412 residential units sold comprised 261 units of The HarbourSide (2013: 1 unit) and 151 units of The Long Beach (2013: 267 units). Overall profit margin realized was 75.6%.

PROPERTY REVALUATION

Our investment properties portfolio was re-valued by Savills, an independent valuer, as at December 31, 2014. Hong Kong investment properties recorded a revaluation gain of HK$1,595 million mainly driven by a higher valuation of the Causeway Bay commercial portfolio because of significant positive rental reversions. The investment properties in mainland China had a moderate gain of HK$110 million. Overall, a revaluation gain of HK$1,705 million was recognized in 2014, compared to a gain of HK$2,482 million in 2013.

INVESTMENT PROPERTIES AND INVESTMENT PROPERTIES UNDER DEVELOPMENT

During the year, Tianjin Riverside 66 mall and Wuxi Center 66 office tower were transferred from investment properties under development to investment properties upon their opening for business. The value of investment properties increased by 12% to HK$120 billion.

Investment properties under development comprised several projects in mainland China including projects in Dalian, Kunming, Wuhan and the remaining phases of projects in Shenyang and Wuxi. The aggregate value was reduced by 16% to HK$25,611 million following the commencement of operations of Tianjin Riverside 66 mall and Wuxi Center 66 office tower during 2014.

The interior fitting out works of Shenyang Forum 66 office tower were almost completed and would be ready for occupation in the first quarter of 2015. The opening of this office tower would create synergistic effects with the Forum 66 mall. Pre-leasing activities have started with a good response.

Construction of the superstructure of Olympia 66 in Dalian is completed. This stunning development comprises almost 222,000 square meters of retail area and 1,200 car parking spaces. Interior fitting out works have already begun. Pre-leasing activities have been started ahead of a scheduled opening in the third quarter of 2015.

The foundation work of Spring City 66 in Kunming has commenced. Total gross floor area of the entire complex is 434,000 square meters comprising a world-class shopping center, a Grade A office tower and serviced apartments.

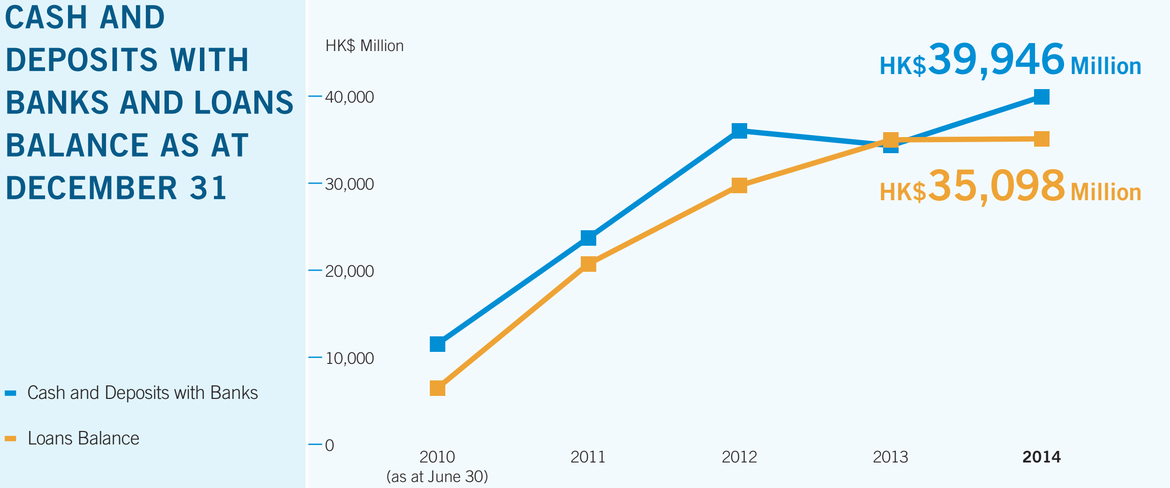
All other projects on the Mainland are progressing as planned.

23-39 Blue Pool Road, the luxury residential development in Happy Valley, Hong Kong, obtained its occupation permit in September 2014. The 18 luxurious semi-detached houses will be ready for release in 2015 if market conditions are favorable.

FINANCIAL RESOURCES AND CAPITAL COMMITMENTS

The Group continued to maintain a strong balance sheet, with net assets increased by 6% year-on-year. We had strong operating cash flow from both property leasing and property sales in 2014. Part of the property sales proceeds was used to repay bank loans. As at December 31, 2014, cash and bank balances of the Group amounted to HK$39,946 million. After netting off loan balances of HK$35,098 million, the Group had a net cash position of HK$4,848 million at year end date, compared to a net debt position of HK$658 million on the same reporting date last year.

CASH AND DEPOSITS WITH BANKS AND LOANS BALANCE AS AT DECEMBER 31



Close to 90% of the cash and bank balances was held in RMB bank deposits, providing a natural hedge against the currency fluctuations of our RMB construction commitments at the various projects in mainland China. The RMB deposits also earned a higher yield than Hong Kong dollar deposits. The Group continued to refine the debt capital structure to mitigate interest rate and re-financing risks. Through the Medium Term Notes Program ("MTN Program"), the Group had issued a total of HK$12,743 million fixed rate bonds as at December 31, 2014, accounting for 36% of total borrowings, compared with 21% last year. Those bonds were un-rated and issued with coupon rates ranging from 2.95% to 4.75% per annum. Weighted average loan tenor as at the balance sheet date was 3.8 years.

Total capital commitments of the Group at year end 2014 amounted to HK$47 billion. They were mainly RMB-denominated construction costs in respect of projects under development on the Mainland. These commitments would take many years to be completed. Taking into account our cash and bank balances of HK$40 billion and the committed undrawn banking facilities of HK$18 billion, the Group has ample financial resources to meet its capital commitments. In addition, under the current MTN Program, the Group can further issue bonds amounting to HK$10 billion.

The Group will continue to adopt a prudent and sound financial management strategy to support its long-term growth. With a strong balance sheet and high degree of liquidity, the Group is well positioned to seize new investment opportunities.