Outlook

The decision of Britain to leave the European Union (Brexit), Donald Trump's victory in the U.S. presidential election and the rising likelihood of further interest rate hikes by the Federal Reserve increased the uncertainty of the global financial and economic outlook. It is widely expected that market volatility will increase over time. We will closely monitor the ensuing developments.

It is expected that both mainland China and Hong Kong will continue to face the challenges posed by slow economic growth and weak retail consumption sentiment.

In 2017, our focus is to drive rental growth in Hong Kong and expand occupancy in cities outside Shanghai, while maximizing income in Shanghai and across the office portfolio. Retail trades have to be expanded to complement our high-end, high quality positioning to grow footfall and retail sales. Improving cost efficiency is vital to maintaining and improving rental margin.

Our retail properties in Hong Kong held their ground well and are still expected to benefit from the leases negotiated before the current downturn. We are relatively less exposed to the high-end sector in Hong Kong and we experienced a mild growth in retail sales across our portfolio against the downward trend for Hong Kong overall. The office and industrial segment is relatively more stable despite a higher tenant turnover. A moderate growth in office rental income is still expected in 2017. The under-performance of our residential and serviced apartments will be remedied by a more aggressive leasing strategy going into the 4th quarter of 2016 and into 2017.

Our properties in Shanghai will continue to strengthen their positioning with continued improvements in their trade mix and tenancy profile. In 2016, the Plaza 66 mall underwent a well-executed major renovation with a manageable level of income interruption. Completion of the renovation along with new letting will return Plaza 66 to its growth path in 2017 and beyond. Like Plaza 66, the Grand Gateway 66 mall will go through its renovation cycle from 2017 to 2019.

Outside Shanghai, there were more store closures and delayed openings across different cities. Our malls in Shenyang Forum 66 and Wuxi Center 66 have suffered the most in 2016. The setback in the two malls is expected to be offset by the continuing lease-up of the two office towers. The emphasis in 2017 is on raising the level of occupancy. The Dalian Olympia 66 mall was soft opened for business in December 2015 in the face of excessive bureaucratic hurdles. Progress was gradually made in 2016 and, after the official opening in September, leasing will be expedited throughout 2017, along with a build-up in footfall and retail sales.

Backed by our financial strength, various asset enhancement programs will continue both in Hong Kong and in Shanghai. Some short-term rental loss maybe inevitable during the renovation period. Projects under development in mainland China will continue to proceed as planned.

We will continue to closely monitor the residential property market in Hong Kong, and will sell some of the residential units on hand and may further build our land bank when opportunities arise.