



完美寫照

PICTURE PERFECT

自一九九零年代起，我們在中國內地的主要城市打造世界級商業綜合項目。隨著天津的恒隆廣場於二零一四年開幕，我們的內地業務將開創另一新里程碑。

Since the 1990s, we have been branching out into mainland China with world-class commercial complexes in key cities. With the opening of Riverside 66 in Tianjin in 2014, we are poised to celebrate yet another milestone in our development on the Mainland.

恒隆廣場 • 天津

RIVERSIDE 66, TIANJIN







董事長致股東函
Chairman's Letter to Shareholders



陳啟宗
董事長

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Chairman



業績及股息

與上年度相比，營業額上升百分之二十四，至港幣九十一億三千八百萬元。由於出售的香港非核心投資物業較少，所得收益相對而言並不顯著，因此股東應佔純利減少百分之十四，至港幣七十二億一千二百萬元；每股盈利相應下降百分之十四，至港幣一元六角一仙。

倘扣除重估收益的所有影響，股東應佔基本純利下降百分之十八，至港幣五十億五千萬元；每股基本盈利亦相應下調至港幣一元一角三仙。

董事局建議派發末期股息每股港幣五角八仙。如獲股東批准，截至二零一三年十二月三十一日止年度的股息總額為每股港幣七角五仙，較上年度增加百分之一點四。

業務回顧

整體而言，倘不計入已售出的香港非核心投資物業的影響，租金收入及營業溢利同告上升百分之十二。縱使香港的投資物業組合略為縮減，兩項數字仍見增長百分之九。單從香港本土市場來看，倘按上述同比基準，租金收入及營業溢利分別上升百分之十及百分之十一；否則兩者分別增長百分之三及百分之五。

內地方面，租金收入上升百分之十四，營業溢利則上升百分之十三。單以購物商場計算，租金收入增長百分之十七；倘不計入瀋陽的市府恒隆廣場及無錫的恒隆廣場，租金收入上升百分之五。辦公樓方面，租金收入上升百分之七。將這些數字與十二個月和六個月前的數字相比，增長較一年前慢，但過去六個月開始有所改善。

RESULTS AND DIVIDEND

Compared to the previous year, turnover rose 24% to HK\$9,138 million. Net profit attributable to shareholders decreased by 14% to HK\$7,212 million due solely to much fewer disposals of Hong Kong non-core investment properties and thus a relatively insignificant gain therefrom. Correspondingly, earnings per share retreated 14% to HK\$1.61.

When excluding all effects of revaluation gain, the underlying net profit attributable to shareholders fell 18% to HK\$5,050 million. Underlying earnings per share came down similarly to HK\$1.13.

The Board recommends a final dividend of HK\$0.58 per share. If approved by shareholders, total dividends per share for the year ended December 31, 2013 will be HK\$0.75, an increase of 1.4% over the previous year.

BUSINESS REVIEW

Excluding the effect of alienated Hong Kong investment assets, overall rental turnover and operating profit both rose by 12%. Even with a smaller Hong Kong portfolio, the two numbers still grew by 9% each. Looking at our home market alone, turnover and operating profit respectively advanced by 10% and 11% on a like-for-like basis and by 3% and 5% otherwise.

On the Mainland, rental turnover rose 14% and operating profit 13%. On retail space alone, turnover grew 17%. If we exclude Shenyang Forum 66 and Wuxi Center 66, rent advanced by 5%. The equivalent number for offices was 7%. Comparing these figures to those of twelve and six months earlier reveals a deceleration from a year ago and a pick-up in the immediate past six months.



董事長致股東函

Chairman's Letter to Shareholders

單看上海這成熟市場，恒隆廣場和港匯恒隆廣場兩座購物商場的租金收入，均錄得百分之六的升幅；前者的辦公樓租金收入增加百分之七。以投資成本計算，兩者的無槓桿租金回報率約為百分之四十二。購物商場的租出率為百分之九十九，辦公樓的租出率為百分之九十五。

在我們較新的市場 — 瀋陽和濟南（不計算營運期僅三至四個月的無錫）— 我們觀察到一個有趣的現象：即使我們首次續訂租約時引致重整租戶組合，租出率難免有所下降，但實質零售額較一年前卻有頗佳升幅，而下半年的租戶零售額亦較上半年明顯上升。這非市況改善所致，而是管理層之努力成果。事實上，過去一年市況仍乏善可陳。

我們大部分的租約期為兩至三年。踏入二零一三年，瀋陽的皇城恒隆廣場和濟南的恒隆廣場已分別落成三年及兩年，更換部分租戶難免導致較高的空置率；這是購物商場之業務性質使然，乃其長遠穩健發展所需。因此，兩者的租出率維持於百分之八十八。彼等之租金收入與一年前比較並無改變，但與此同時，其租戶的零售額卻有增長 — 以同比計算，瀋陽的皇城恒隆廣場上升百分之九，濟南的恒隆廣場上升百分之八。倘以下半年與上半年相比，兩個購物商場的升幅分別為百分之二十及百分之七。

零售額與租金收入同樣重要，因為前者的增長必然會帶動後者的上升，這道理顯淺易明。最近的數據顯示，我們重整租戶組合已開始取得成效；經汰弱換強後，我們引入的新店已提升零售額。我亦很高興看到，我們配置的新管理團隊表現良好。儘管皇城恒隆廣場的租出率的上升速度未如我們所願般快，但大部分空置樓面現已租出，其租出率在未來數月將會回升。

Focusing on the mature market of Shanghai, both shopping centers – Plaza 66 and Grand Gateway 66 – recorded a 6% increase in rent. Offices at Plaza 66 collected 7% more rent. Gross yield on unleveraged investment cost was about 42%. Mall occupancy was 99% and for offices, 95%.

In our newer cities – Shenyang and Jinan (not counting Wuxi which is only three to four months old) – we have observed an interesting phenomenon: namely, as occupancy fell somewhat due to first-time lease renewal and hence tenant remixing, retail sales actually rose nicely from a year ago. The increase from the first half of the year to the second half was also evident. This should be the result of management efforts rather than market improvement. The fact was: the market went nowhere as the year progressed.

Most of our retail leases are for two or three years. By 2013, Shenyang Palace 66 has been open for three years and Jinan Parc 66 two. Some tenant changes were inevitable resulting in higher vacancy levels. This is the nature of the business which is necessary for the long-term health of the malls. Consequently occupancy remained at 88% for both properties. Rent collected was about the same as that received a year ago, but retail sales of our tenants have risen – year-on-year Palace 66 moved up 9% and Parc 66, 8%. Comparing the second half of the year versus the first half, the rate of increase was respectively 20% and 7% for the two malls.

Common sense tells us that retail sales figures are as significant as the rents we received, for growth of the former is a prerequisite and will inevitably lead to that of the latter. Recent numbers indicated that our tenant remixing was bearing fruit. Weaker shops were moved out and stronger ones capable of generating more sales were being introduced. I am also gratified to observe that the new management teams that we have put in place are performing. Although the improvement in occupancy at Palace 66 has not been as fast as we had hoped, much of the vacant space has been leased, so occupancy will rise in the coming months.



另一項較新的物業 — 瀋陽的市府恒隆廣場，現時表現理想。由於其開業僅有一年多，故衡量其進展的較有效的方法是採用日均數，例如其二零一三年的日均租金收入較二零一二年上升百分之四，同期的日均零售額上升百分之十五。然而，當該購物商場於未來一、兩年進入首個續訂租約期後，在皇城恒隆廣場和濟南的恒隆廣場發生之情況勢必重演 — 租出率會暫時下降，但租戶零售額及購物商場的租金收入可望持續上升。

於年結時只開業了三個半月的無錫的恒隆廣場情況理想，其租出率達百分之九十五，並正拾級而上。

租金邊際利潤方面，皇城恒隆廣場維持在百分之二十二至二十三；濟南的恒隆廣場仍約為百分之五十四，與市府恒隆廣場相同；無錫的恒隆廣場則為百分之十六。

The newer Shenyang Forum 66 is for now performing well. Because it only has slightly more than one year of history, a meaningful way to measure progress is by using per diem numbers. For example, average daily rental turnover was 4% higher in 2013 over 2012. Retail sales generated per day were 15% better in the same period. However, as the facility enters its first lease renewal period in the coming year or two, what happened at Palace 66 and Parc 66 will doubtless repeat itself – occupancy will temporarily fall. Hopefully tenant sales will continue to rise and so will our rental turnover.

All “vital signs” for Wuxi Center 66 which was three and a half months old at year end were positive. It is 95% full and the number is rising.

In terms of rental margin, Palace 66 remained at 22-23%; Parc 66 was still at around 54% which was the same number for Forum 66. Center 66 stood at 16%.



瀋陽的皇城恒隆廣場在完成首個租約期後，現正重整租戶組合
Palace 66 in Shenyang is now undergoing tenant mix reshuffle after the completion of the first lease term



董事長致股東函

Chairman's Letter to Shareholders

以投資成本計算初期無槓桿租金回報率，是一個有效的衡量指標。我們從數家機構投資者中聽聞，某些市場參與者承諾回報率約百分之九，但實際上，其以模糊的成本定義所達至的回報率卻僅有百分之一至二，令人愕然。至於本集團，我們經常對股東表示，以百分之四至五為目標，但過去四年，旗下所有新開業的購物商場，除其中一座外，全部表現均遠勝預期。濟南的恒隆廣場的首年回報率達百分之七點九，瀋陽的市府恒隆廣場約為百分之十，而無錫的恒隆廣場按其現況應與濟南的恒隆廣場相約。換句話說，我們一諾而倍於千金。由於市況甚為疲弱，該等物業的回報率尚未見銳升，但這將指日可待。事實上，在未來一或兩年，瀋陽的皇城恒隆廣場很有可能從後趕上，現時其回報率仍處於約百分之五。

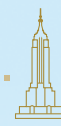
本人現轉談內地物業租賃業務的宏觀市況。十八個月前，本人在致股東函中表示，雖然二零零八/二零零九年的金融危機更為嚴重，但今趟中國奢侈品之低迷銷售情況，可能需要更長時間復甦。本人不幸而言中。現時的疲弱市道除了是因為正常的經濟週期外，部分亦是政府所促成。新政府針對政府官員推出的反腐反奢措施，其影響可謂立竿見影。

雖然該等措施對本集團的業務帶來短期利淡影響，但我們仍鼎力支持。任何行業，例如我們的地產業，均不應依賴社會歪風以奢求致遠，否則社會道德價值淪落，對經濟必有禍殃。我們是長期參與者，希望看到一個健康廉潔的經濟環境。再者，由於我們的財政極為穩健，故在市道放緩下，競爭對手遠較我們受創，歷史亦證明我們善於把握熊市帶來的機遇。

The initial unleveraged gross rental return on investment cost is a meaningful measure. It is intriguing to learn from several institutional investors that certain market players promised around 9% but actually delivered only 1-2% on a rather non-transparent definition of cost. Whereas we always tell shareholders that we aim for 4-5%, all but one newly opened malls of the past four years have significantly outperformed the threshold. Parc 66 yielded 7.9% in its first year, Forum 66 had about 10% and Center 66 at today's run rate should approximate that of Parc 66. In other words, we doubled what we told investors. Due to very weak market conditions, these properties have yet to see brisk improvements in this regard but they surely will. In fact the greatest progress in the coming year or two may well come from the laggard Palace 66, whose number still stands at about 5%.

Now let me turn to a more general review of the market condition for our Mainland rental business. Eighteen months ago, I wrote that although the 2008/2009 financial crisis was much more severe, recovery of the present downturn in Chinese luxury goods sales may in fact take longer. I have unfortunately been proven correct. One reason is that besides normal economic cyclicalities, the market lull today is partly government induced. Anti-corruption and anti-opulence measures instituted by the new government and targeting officials are biting hard.

While these policies have negatively affected our business in the short term, we fully support them. Any sector such as ours should not rely on irregular practices. If it does, the resulting degradation of social moral values will undoubtedly haunt the economy. We are a long-term player and want to see a healthy and clean economy. Moreover, given our extraordinarily strong financial position, the market slowdown probably hurts our competitors more. History also shows that we can better take advantage of bear markets.



如股東所知，每當經濟下滑，我們負責土地購置的項目開發團隊便特別忙碌。當市政府無法售出土地致財政緊絀之際，恒隆便翩然而至！每當全國各地的市領導開始靠攏時，我們便知道機會正向我們招手。數一數有多少位市領導代表出席我們的開工剪綵儀式或商場開幕典禮等公開活動，便知道市道放緩的程度。

在此背景下，我們去年二月在華中最大城市武漢購入一幅黃金地塊。該地塊坐落於市內最繁盛的購物樞紐，面積宏大達八點二六公頃，是迄今為止我們在內地購置的第二大土地，僅次於面積為九點二公頃的瀋陽的市府恒隆廣場地塊。我們將首先興建一座購物商場，繼而興建一座辦公樓及數幢可逐個單位出售的公寓式酒店。整個項目的可建面積為四百九十萬平方呎；如計入停車場則總面積為七百萬平方呎。

我們購地的時機頗堪參詳。二零一二年市況疲弱，發展商缺乏財力添置地塊，結果令很多市政府亦面對財困。就在那時，我們購入了武漢的地塊。到了二零一三年，市況好轉，發展商售出不少住宅單位，故有需要補充土地儲備；而由於市政府財政得到改善，不再急於賣地，地價因而上升，地王湧現。在此等情況下，在我們購置武漢地塊的七個月後，有發展商在附近購置了另一塊面積相若，但無論地點、形狀或獲准用途均遠比我們遜色的地塊，其單位價格卻比我們的高出一倍。這再次說明，我們購置地塊的時機，連同武漢在內，都是絕佳的。

一些投資者最近問及我們的股價，也許彼等一直慣見我們跑贏同儕。的而且確，在二零零零年代大部分時間直至二零一一年初，我們的股價節節上升；由股價飆升主力帶動的總回報率，縱非超越所有亦必勝過大部分地產股。然則，為何我們最近表現暫時回軟？

As our shareholders know, whenever the economy is down, our project development team tasked with land acquisition will be particularly busy. City governments may not be able to sell land and so their coffers are strained. Here comes Hang Lung! We know that opportunities are beckoning as municipal leaders from many corners of the country begin to stalk us. Counting the number of city leaders represented at our public events such as a project groundbreaking or a mall opening is one way to gauge how slow the market is.

With this background in view, last February we bought an excellent plot of land in the biggest city in central China, Wuhan. It is located in the busiest shopping district and is sizable, measuring 8.26 hectares. This is so far the second largest piece of land that we have purchased on the Mainland after the 9.2-hectare Shenyang Forum 66. We shall first construct a mall followed by an office tower and blocks of serviced apartments that can be sold by individual units. Buildable space is 4.9 million square feet; including car parks, it will be 7 million square feet.

Consider our timing. 2012 was a slow time for home builders so they did not have money to buy land. Consequently, many municipal governments were in financial difficulties. That was when we struck the Wuhan deal. As 2013 arrived, the market turned. Developers sold their residential units and so needed to replenish their land bank. The finances of cities improved and so they were less eager to part with land. Prices rose and previous highest records were repeatedly broken. Under these circumstances, seven months after we bought ours, a piece of similar size, close by but much inferior in location, shape and permitted usage, was sold for twice our unit price. This demonstrates again that our timing, like that for our other acquisitions, was excellent.

Some investors have recently asked about our share price. Perhaps they are used to our outperforming our peers. It is true that for much of the 2000s and until early 2011, our stocks have had a powerful run-up. Our total return, mainly buoyed by the share price rise, surpassed most if not all real estate counters. Why then has our price retreated of late?



董事長致股東函

Chairman's Letter to Shareholders

原因包括數點。首先，許多機構投資者對中國轉趨冷淡，特別是零售業，我們旗下購物商場等奢侈品的銷售額尤其深受打擊。這個市場行為其實可以理解，畢竟過去曾存在著一定的非理性憧憬；而最新一輪反腐反奢措施亦有如雪上加霜。

無用諱言，此乃長久以來首次奢侈品銷售增長落後於一般消費。縱使我們旗下多個購物商場，如上海的港匯恒隆廣場、瀋陽的皇城恒隆廣場，以至部分的濟南的恒隆廣場及無錫的恒隆廣場，均非以高檔時尚品牌的追隨者為對象，但我們作為世界級高檔購物商場發展商的名聲已根深柢固，以致投資者也許忘記了我們的其他業務。

市場還存在一個觀念，就是在芸芸香港地產公司中，恒隆是最精純的內地概念股。這個看法有一定的道理，儘管我們仍有百分之四十七的租金收入來自香港，而迄今百分之百的物業銷售收益亦來自本土市場。雖然如此，但當一眾投資者不再鍾情於中國概念時，我們的股價便首當其衝。

該觀念可能源於三項因素。首先，我們也許是首個香港頂級發展商公開表明以內地為未來發展方向；其次，我們是首批在內地市場獲利甚豐的公司之一；第三，我們自二零零一年起甚少在香港購置土地，但在內地數個城市則購入了多幅面積頗大的地塊。

箇中一個普遍的誤解是，恒隆乃首家進入內地市場的公司，故能以便宜價格購入土地並因而獲利甚豐。實情是，許多香港公司早於一九七九年或一九八零年已北上投資，而我們直至一九九一年才開始研究內地市場，至一九九二年十二月才首次購置土地。由於我們當年只屬初試牛刀，因此那兩幅上海地塊其實是於經濟高峰期購入，需時將近十年價格才重返我們的入市水平。縱使當年地價高昂，但我們仍然獲利甚豐！

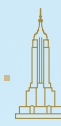
There are several reasons. First, China has fallen out of favor for many institutional investors. In particular, retail sales, especially luxury products like those in our malls, were even harder hit. The market behavior is understandable, for after all, there was previously a certain amount of irrational exuberance. The latest round of the anti-corruption and anti-opulence drive had added frost.

There is no denying that for the first time in a long while, the sales of luxury goods lag behind general consumption. Although many of our malls such as Shanghai Grand Gateway 66, Shenyang Palace 66, and parts of Jinan Parc 66 and Wuxi Center 66, are not tailored to high fashion brand seekers, our reputation for being developers of world-class luxury malls has been so ingrained that investors might have forgotten our other businesses.

Then there is a market perception that of all the Hong Kong real estate counters, Hang Lung is the purest Mainland play. There is a certain truth to that, although some 47% of all rents received and so far 100% of property sales proceeds are still derived from our home market. But that does not matter – when China fell out of favor, our share price suffered.

The perception existed probably because of three factors. First, we were perhaps the first among top-tier Hong Kong developers to publicly state that our future is on the Mainland. Secondly, we were among the earliest to have made sizable amounts of profits from the Mainland market. Thirdly, we have hardly bought any land in Hong Kong since 2001 while we have acquired several rather large pieces in several cities on the Mainland.

A common misconception here is that Hang Lung was the first to enter the Mainland market and so bought land cheap, thus the good profit. The fact was that many Hong Kong companies invested north of the border well before we did – as early as 1979 or 1980 – while we only started to research the market in 1991 and made our first land acquisition in December 1992. Because we were a novice in those days, the two Shanghai plots were in fact bought at the peak of the cycle. It took some ten years for prices to return to our purchase level. We have succeeded in spite of a high land price!



武漢的恒隆廣場將會建有購物商場、辦公樓和公寓式酒店
Heartland 66, Wuhan will have a shopping mall, an office tower and serviced apartments



董事長致股東函

Chairman's Letter to Shareholders

除外在市場因素外，股價受壓亦關乎我們業務營運上的問題。首先是瀋陽的皇城恒隆廣場面對的困難，其在施工時已挑戰重重，而於二零一零年底開業後，更多挑戰接踵而來。本人曾以長篇論述，在此不贅言，只消說此乃我們在上海以外的首個內地項目，故股東有理由懷疑我們能否在其他地方重演上海的成功故事。現時市道持續放緩，更增加投資者對本公司業務的疑慮。

從管理層的角度來看，我們不怎麼憂心本公司的股價；我們的職責是管理好公司而非股價。我們知道本公司的業務模式卓越，並作出了多項正確的決策（如土地購置及建築設計等），很快便會見到成果。營運挑戰或需時解決，但不會長期存在，彼等都只是初期問題。

話說回來，我們深諳部分股東（尤其那些短線投資者）感到沮喪。這也許可解釋為何一些股東不時問我們有否計劃回購本公司的股份。我的標準答案是：當有一天你看到恒隆地產回購本身股份，你應在同日沽售。我們現正面對二十一世紀以來其中一個最宏大及絕佳的經濟機遇——中國的崛起及其持續不斷的城鎮化和消費增長勢頭。在這有利環境下，本公司已手執致勝之道（即發展、持有和管理世界級商業綜合物業）；而由於市場參與者大多缺乏專業知識，因此我們面對的競爭不太激烈。在中國內地，人口逾五百萬的城市有八十五個，人口介乎三至五百萬的城市有九十一個，市場發展空間無限。

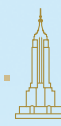
同時，經過多年努力，恒隆以成功的項目和扎實的管理團隊為後盾，建立了一個卓越非凡的聲譽。加上我們擁有非常強勁的財政實力，因而處於罕能比擬的優越地位，足可把握這些巨大的發展機遇。

Besides external market factors, there are also issues relating to our operations. First and foremost were the difficulties encountered at Shenyang Palace 66. Challenges abounded during construction and there were more to come after the opening in late 2010. I have written extensively about them and so will not repeat them here. Suffice to say that with that facility being the first outside of Shanghai on the Mainland, shareholders rightfully question if our huge success in Shanghai can be duplicated elsewhere. The sustained market slowdown presently experienced also cast a negative light on our business.

From the perspective of management, we are not that worried about our share price. We are here to manage the Company and not the price of its scripts. We know that our business model is excellent and we have taken many correct decisions (such as land acquisitions and building designs) which will sooner or later bear fruit. Operational challenges which take time to improve are not perennial. They are nothing more than teething problems.

That said, we are well aware of the frustration that some shareholders, especially those with a short-term horizon, may feel. Perhaps that was why from time to time shareholders would ask if we plan to buy back our own shares. My standard answer is: the day you see Hang Lung Properties buy back its own shares is the day when you should sell. We are facing one of mankind's biggest and best economic opportunities of the 21st century – the rise of China with seemingly unending urbanization and consumption growth. In such a favorable environment, we have found a niche (i.e. developing, owning and managing world-class commercial complexes) which is not fiercely competitive due to the lack of expertise on the part of market practitioners. With 85 cities having a population of five million or more and another 91 with three to five million, the market seems unlimited.

At the same time, Hang Lung has through hard work over long years built a top-notch reputation backed by successful developments and a solid management team. Together with our uncannily strong financial position, it seems that few people are as well positioned as we are to take advantage of these humongous opportunities.



當我們實力雄厚，但仍遠遠未能滿足市場需求時，我們便應擴大資本，皆因公司規模乃非常重要。既然如此，我們又何需回購本身股份致令資本縮少？！這等於向投資界表明：我們不懂得如何妥善調配資金。

然而，我們認為，由母公司恒隆集團購買恒隆地產的股份，卻是完全合理及審慎之舉。我們一直以來如此做，並已開誠佈公。

事實上，要證明恒隆地產近期股價相宜並非難事，只需略看其資產表內，包括香港和內地的銷售物業及租賃物業的主要資產類別，便略知一二。

首先，香港可供出售的已落成單位乃根據會計規則以成本入賬，其賬面值約為港幣五十七億元。以今天稍為疲弱的市道來計算，其價值可能仍達港幣二百億元。

其次，當我們於二零一二年把賬面值約港幣五十三億元的香港非核心投資物業出售時，彼等之作價較賬面值平均高出百分之七十四。由於我們是每六個月為該等物業重新估值，因此有關賬面值之列賬時間不會超過半年。這說明該等物業擁有很大的潛在價值。

再看看我們在內地的投資物業。在上海的兩項成熟項目，由獨立專業估值師採用的資本化率，介乎百分之七點五至八點二。約兩年前，另一家項目盈利遠遜於我們的購物商場發展商（根據公開資料顯示），以約百分之四點五的資本化率公開上市。我們相信彼等項目的增長前景不及我們。

正如上文所述，我們在上海以外購置的所有土地均已大幅升值。行內皆知，在芸芸地產商中，我們的地塊位置最好而且成本最低。我們一向較善於掌握時機；以百分比計算，土地成本佔我們的項目總成本低於兩成，而行內的基準約為四至五成。因此，很明顯我們的資產價值實應較賬面值為高。

When unsatisfied market demand far exceeds our financial capabilities, we should expand our balance sheet, for size matters. Given that, why should we buy back our own shares which has the effect of shrinking the balance sheet!? That would be a clear signal to the investment community that we do not know how to beneficially deploy our cash.

Nevertheless, in our opinion it is altogether reasonable, indeed prudent, for our parent company Hang Lung Group to buy Hang Lung Properties' scripts. Public information indicates that such has been ongoing.

Indeed it is not a difficult case to make that the shares of Hang Lung Properties are today inexpensive. One only needs to take a cursory look at the main asset classes in our balance sheet – properties for sale and for lease in Hong Kong and on the Mainland.

First, our completed Hong Kong apartments for sale are recorded at cost according to accounting rules. On the books the value is around HK\$5.7 billion. At today's somewhat weak market sentiment, they should still be worth perhaps HK\$20 billion.

Secondly, when we sold approximately HK\$5.3 billion of Hong Kong non-core investment properties in 2012, prices fetched were on average 74% higher than book. And since we revalue those properties every six months, the value indicated on the account cannot be significantly more than half a year old. This indicates that there is much hidden value.

Then consider our investment properties on the Mainland. For the two mature developments in Shanghai, the cap rate chosen by a third party expert valuer is between 7.5% and 8.2%. About two years ago, another mall developer/owner with much less profitable projects (according to public records) went public with a cap rate of around 4.5%. We believe that their growth prospects are inferior to ours.

As illustrated earlier, all the land that we have bought outside of Shanghai has appreciated substantially. It is common knowledge in the industry that our sites, while being best located, cost the least among our peers. Our timing is consistently among the best. As a percentage of total project cost, the land element for us is below 20% while the norm for the industry is likely 40-50%. As such, it seems obvious that our assets are worth much more than what is on the book.



董事長致股東函

Chairman's Letter to Shareholders

最後，我們尚有多達八百萬平方呎的豪宅物業可供逐個單位出售。這些物業分佈於瀋陽、無錫、昆明和武漢，當落成並售出後，其銷售所得的稅後純利輕易超過港幣一百億元。其現時的賬面值為何？只以土地成本列賬。這些都是公開資料，卻鮮有分析員能指出。

儘管股市長期而言頗能反映股價，但短期而言它可造成股價錯配。我們最清楚本公司的核心價值和潛力，而由於我們可長期持有股份，我們的表現定必勝過絕大部分短期炒家。倘母公司恒隆集團繼續購買本公司的股票，本人難以想到有任何不利於雙方股東的情況會發生。

策略性計劃

多年來，管理層一直留意電子商務的發展。我們邀請了內地專家向董事局（包括非執行董事）作出講解並為行政人員提供指導。初步結論如下：

毫無疑問，包括「企業對消費者」(B2C) 及「消費者對消費者」(C2C) 在內的電子商務零售，將在個人消費中佔愈來愈大的比重。二零零九年至二零一二年間，其每年增長率約為百分之七十，並料以每年百分之三十二的比率繼續增長至二零一五年。在二零零八年至二零一二年間，中國的非網路零售額增加一點八倍；同期，儘管其起步基數甚低，網路零售額飆升十九倍。到二零一五年，網路零售額料將佔消費品零售總額的百分之十以上，在實體商舖內進行的交易將無可避免受到影響。

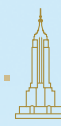
Finally, we have as much as eight million square feet of luxury residential condominiums that can be sold unit by unit. They are located in Shenyang, Wuxi, Kunming and Wuhan. Once built and sold, it is conceivable that the net after-tax profit therefrom can easily exceed HK\$10 billion. What are they valued on our books today? Only at land cost. These are all public information, yet hardly any analyst has pointed them out.

While the stock market in the long term is rather efficient, it can misprice in the short term. We know best the underlying value of the Company as well as its potential. Since our time horizon is very long, we will always outperform almost all short-term stock traders. If our parent Company Hang Lung Group continues to buy our scripts, I can hardly think of a scenario which is not advantageous to both their shareholders and ours.

STRATEGIC INITIATIVES

For several years now management has been following developments in e-commerce. We have invited Chinese experts to address our Board, (including Non-Executive Directors) and to educate our executives. Our tentative conclusion is as follows:

There is no question that retail e-commerce – B2C+C2C – will take an increasingly larger share of the private consumption pie. Between 2009 and 2012, it grew at approximately 70% annually and is projected to rise by 32% per year up to 2015. Between 2008 and 2012, China's non-online retail expanded 1.8 times in volume while retail online leapt 19 times, albeit from a very low base. By 2015, online retail volume is expected to account for over 10% of all consumer retail sales. Transactions at physical shops will inevitably be affected.



電子商務正迅速成為一種生活模式，情況就如一百年前出現的電話，或約十年前出現的智能手機一樣。由於人們仍然需要實地交往，因此這些早年的革新發明並沒有取代汽車或飛機；同一道理，網上購物也不會取代購物商場。畢竟人是群居動物，不僅需要耳聞目見，也需要感受和接觸事物，及與別人交往。就本人而言，不同意這個看法的人，應該是外星人！

某些類型的產品交易較易被網上購物取代，首當其衝的是標準化和商品類產品，電子用品和廉價衣履是最佳例子。另一方面，快速消費品，如鮮果、度身訂製、具「長尾效應」或高感性產品，如高檔時裝，以及提供體驗為本的商店，如餐廳等，所受到的影響會較小，甚至毫無影響。由於我們一直專注於高檔購物商場，所受到的衝擊會較小。

這從中國電子商務的一個現象可見一斑：城市的發展程度愈低，其受電子商務的影響愈大。因此，中國的一線城市對電子商務的倚賴程度不及二線城市，如此類推。原因很簡單，發展較落後城市的銷售渠道不足，例如缺乏百貨公司和購物商場等，市民在缺乏選擇下唯有依賴網上購物。而在北京和上海等大城市，儘管市民的平均教育程度較高因而較多人上網，但由於市內店舖林立，故他們對網上購物的需求較少。這可解釋為何在香港等網民普及的地方，網上購物不算十分普及。

同一現象亦顯示，電子商務的發展空間總會有個上限，儘管該上限離我們仍然頗遠。每個社區對某類商品的網上交易需求，佔該商品的總銷售額的百分比，總會有一個平衡點。

E-commerce is fast becoming a way of life, not unlike telephones a century ago and smartphones almost a decade ago. Just as these earlier transformative inventions did not replace automobiles or airplanes because people still have the need to physically interact, neither will online shopping displace malls. After all, humans are social beings who have the need not only to see and hear but also to feel, touch, smell and otherwise physically meet with their fellowmen. As far as I am concerned, anyone who thinks otherwise is from another planet!

Certain types of goods are more vulnerable to online shopping than others. Standardized and commodity-like products will be the first to be affected. Electronic appliances and lower price-point clothes and shoes are prime examples. On the other hand, fast consumables like fresh fruits, customized long tail or high-touch products like high fashion, and experience-based shops like restaurants are less affected or are not affected at all. In this regard, our long-standing focus on high-end malls has made us less exposed.

One phenomenon of Chinese e-commerce supports this assertion: namely, the less developed a city is, the more it is affected by it. So first tier Chinese cities are less dependent on it than second tier cities, and so on. The reason is simple. In less developed places with poor distribution channels such as the lack of department stores and shopping centers, citizens have little choice but to resort to the Internet for shopping. In metropolises like Beijing and Shanghai where physical stores abound, there is less need for it, even though their citizens are on average better educated and so in general more active online. This explains why e-shopping is less prevalent in places like Hong Kong even though it has a citizenry of high Internet dependence.

The same phenomenon seems to indicate that there is an upper limit to retail e-commerce although that point is still quite far away. Every community will sooner or later find its steady-state level for a particular category of products in terms of the percentage of total sales that will take place through the Internet.



董事長致股東函

Chairman's Letter to Shareholders



自二零零零年代初起，上海的港匯恒隆廣場一直是集團的中流砥柱之一
Grand Gateway 66 in Shanghai has been part of the Group's foothold since the early 2000s



隨著網上購物增加，一些品牌將毋須大量開設分店，這是一個必然的結果。舉例說，他們可能在中國策略性地選擇三十個地點開店，而非在過百個地點。無論如何，實體商店是必不可缺的。早前美國有線電視新聞網向一位駐上海的電子商務專家提問：「如西方品牌有意進軍中國網路零售市場，第一步該怎樣做？」這位專家的答案是：先找一個最佳的地點開店！

迄今，我們只在中國的八個城市（不包括香港）有十個購物商場，其中六個已投入營運，四個正在興建。由於彼等全部坐落於頂級商業城市的最佳地段，即使租戶的數目減少，我們仍有能力吸引他們進駐，此乃無人能及。因此，電子商務零售對我們不會帶來太大負面影響。相反，正如我在上文所述，隨著品牌在一個城市減少商舖，全市的銷售額將會集中於更少商店，我們置身其中定可受惠。

部分人擔心，電子商務將令市內尚餘的商舖變成只是用以展示品牌的地方，實質的交易少之又少。就此而言，蘋果專賣店提供了一個與眾不同的例子。這家科技公司的店舖裝修時尚，簇擁著年青員工，但公司並不期望在商店內有龐大的銷售額。該商店除發揮宣傳效益，亦讓客戶體驗和認識產品。隨之而來的大部分銷售交易有可能在網上完成，原因是蘋果基本上出售標準化產品。如上文所述，具「長尾效應」或高感性產品所受到的影響遠遠較小。

就此，恒隆幸好從一開始便堅持向租戶收取穩健的基本租金，這與許多競爭對手的做法迥然有別。當然，能否商議出一個穩健的保證租金，取決於業主與租戶之間的相對議價能力。我們的一貫做法是安位自處，令我們屬意的租戶同樣需要我們。我們能臻此境，乃靠堅持旗下所有購物商場的四大競爭優勢，即黃金地段、合適規模、卓越設計和優質施工，均是本人於過往函件中論及的。

A corollary to increased online shopping is that some brands will no longer need to open as many stores as they otherwise would. For example, they may only have 30 strategically chosen locations around China rather than say 100 or more. To be sure, physical stores are almost always required. In answer to the question on CNN: "What should be the first step for a Western brand desiring to enter the Chinese online retail space?" a Shanghai-based e-commerce expert advised the brand to look for the best located bricks and mortar!

So far we only have 10 malls – six operating and four being built – in eight Chinese cities not counting Hong Kong. Since they invariably have occupied the best locations in top commercial cities, our ability to attract the reduced number of tenants is perhaps unmatched. Consequently, retail e-commerce should not negatively impact us that much. On the contrary, as I have previously explained, the reduction of the number of stores for a particular brand in any city will only lead to city-wide sales being concentrated in fewer shops. Our being one of them will actually be a benefit.

Some have expressed concern that e-commerce will reduce the remaining shops to nothing more than an advertisement space where few sales actually take place. A curious case in this regard is the Apple stores. The technology company does not expect their chic-looking shops teeming with young staff to generate much sales. They are there for customer experience and product familiarization, besides advertising value. Much of the resulting sales may well take place through the Internet. The reason is that Apple basically sells standardized products. As mentioned earlier, long tail or high-touch goods are much less affected.

In this regard, it is fortuitous that Hang Lung has from the beginning insisted on charging all tenants a healthy base rent. This is quite unlike many of our competitors. The ability to negotiate a solid guaranteed rent depends of course on the bargaining power of the landlord relative to that of the tenant. It has always been our practice to put ourselves in a position where the desirable tenants need us as much as we need them. We accomplish this by insisting on the four competitive advantages mentioned in my previous reports for all of our malls, namely top location, adequate size, superior design and quality construction.



董事長致股東函

Chairman's Letter to Shareholders

讓本人談談租戶的租用成本。就上述蘋果專賣店的極端例子而言，該成本可謂極高；但以其商舖之效用而論，此模式的可持續性甚高。

某些分析員對此頗為武斷，認定倘租用成本太高，業主的加租能力必然有限。一般而言這是對的，但很難界定何謂最佳水平。應當注意，不同城市之間的成本可迥然有別，例如同一品牌在香港的租用成本便普遍較其在內地者顯著為高。即使在同一城市，同一品牌的不同店舖，其租用成本的可接受水平亦必然互有參差，此乃由於多項因素的影響，包括：購物商場的聲譽、目前和潛在的銷售額、店舖的宣傳效益、租客和業主的關係等。因此，我們切勿以偏概全。以理論理，租用成本在我們這種較佳的購物商場應當較高。

無可否認，互聯網已徹底改變我們的生活。對購物商場業務而言，互聯網帶來的影響，並非單單在於網上購物奪去我們部分業務，更在於它可以幫助我們創造銷售。它確實是一個影響深遠的推動者，影響人與人——包括我們的顧客在內——以及人與周遭世界的關係，並帶來了跨越時空的效應。它徹底改變了我們的生活種種，並將徹底改變我們的購物體驗。

基於這個原因，我們最近制定了一個名為EST的內部計劃，意思是體驗（Experience）、服務（Service）和科技（Technology）。從管理層的角度來看，先後次序應是倒轉的：我們先從科技尤其是互聯網技術入手，讓我們可提供前所未有的服務，最終令顧客在我們的購物商場享受愉快的購物體驗。這些都是我們業務上的軟件。

This leads me to comment briefly on the occupancy cost for tenants. In the extreme case of the Apple stores mentioned above, it can be extraordinarily high. Given the purpose of their stores, the model is more than sustainable.

Some analysts are dogmatic about this, saying that if the cost is too high, the landlord's ability to raise rent is limited. Generally speaking this is correct. However, it is hard to determine what the optimal level is. Notice that the general level in one city can differ substantially from that of another. For example, occupancy cost in Hong Kong for the same brand is in general considerably higher than that on the Mainland. Even in the same city, multiple stores of the same brand will inevitably have different acceptable levels. This is because many factors are at play – the prestige of the mall, current and prospective sales volume, advertising value of the shop, relationship between the lessor and the lessee, etc. As such, one should be careful not to generalize too much. Conceptually speaking, occupancy cost should be higher in better malls like ours.

There is no denying that the Internet has revolutionized our lives. For the shopping center business, its significance is much more than just taking some business away through online shopping. It can also help us generate sales. It is an enabler whose effects are indeed profound. By influencing how a person – any customer of ours – relates to another person and to the world around him or her, it can have the effect of warping time and space. It has revolutionized much of our lives and will yet revolutionize our shopping experience.

This is why we recently instituted an in-house program that we call EST. It stands for Experience, Service and Technology. From management's perspective, the order is the reverse. We begin with technology, especially Internet technology, which enables us to provide services heretofore not possible. As a result, shopping at our facilities becomes a pleasant experience. All these are the software of our business.



然而，就我們的業務而言，無論軟件有多好，除非硬件理想，否則亦是徒然。畢竟，前者可以隨時安裝、修改或提升，但後者一旦建成便永不能改變；此乃為何本人稱之為「地產業基因」。我們切勿愚昧地誤以為硬件不甚重要，此乃本末倒置！

很多人跟我們一樣，認為恒隆在業內擁有數一數二的硬件。現在，我要求我的團隊必須在軟件方面亦名列前茅，否則我們已建立的市場領導地位將會動搖。反過來說，倘恒隆引入科技，推動優質服務，從而為顧客帶來非凡的體驗，我們在業內的地位將穩如泰山。管理層已就此擬定多項計劃，並將其逐步引入至旗下購物商場。部分計劃只可意會，其他則較易察覺，所有計劃應能提升顧客體驗，從而增加盈利。

前景

連同我們在武漢最新購置的地塊，倘不計入兩個上海項目在內，我們在內地將坐擁合共近四千二百萬平方呎的世界級商業物業。其中略多於一千萬平方呎的物業已經落成，其餘則處於不同的施工階段。該八個項目位於七個城市，當中兩個項目位於瀋陽。計入合理的財務費用後，總成本約為港幣九百二十億元，其中近一半已經支付，未付部分主要為施工費。

過去四年，我們每年完成一個相等於紐約帝國大廈的項目。按此速度計算，正在施工的三千二百萬平方呎物業，全部竣工需時十二至十三年。這是一個非常進取的計劃。

In our business, no software, irrespective of how good it is, will be effective unless the hardware is adequate. After all, the former can always be installed, changed or improved. The latter however, once built, can never be altered. This is why I coin the term “real estate genetics.” Let us not go so far – and be so foolish – as to think that hardware is less important. To the contrary!

We are of the opinion, and many people will agree with us, that Hang Lung has some of the best hardware in the industry. I have now challenged my team to also be among the top in software. If not, the market leadership that we have built will not be secure. Conversely, by introducing superior services enabled by technology which bring about desirable customer experiences, our position in the industry will be unshakable. Your management has been working on many programs in this regard and will gradually introduce them to our shopping centers. Some will be quite subtle while others may be more easily felt. All of them should have the effect of improving customer experience and, eventually, our bottom line.

PROSPECTS

With the latest land acquisition in Wuhan, we will have a total of almost 42 million square feet of world-class commercial space on the Mainland not counting the two Shanghai complexes. Of that, a little over 10 million square feet have been completed and the rest are under construction at varying stages. The eight developments are in seven cities with two in Shenyang. The total cost including reasonable finance expenses is about HK\$92 billion, almost half of which has been expensed. The unpaid portion comprises mainly construction.

In the past four years, we have completed the equivalent of one New York Empire State Building annually. At this speed, it will take 12-13 years to build out the 32 million square feet still under construction. This will be a very aggressive program.



董事長致股東函

Chairman's Letter to Shareholders

一俟所有項目落成後，不計入未來任何新項目在內，我們將在中國擁有近四千七百萬平方呎的最佳商業物業；加上我們在香港之七百萬平方呎投資物業（假設我們不作增購或出售），我們將擁有一個約五千四百萬平方呎的物業組合，其中八成七將在內地。相比下，內地現佔六成八。至於香港的分額，將由今天的三成二減至屆時的一成三。

今年第三季，天津的恒隆廣場將會開幕，項目包括面積一百六十萬平方呎的大型購物商場及八百個停車位。此乃我們於二零零五年在上海以外購置的首幅土地開發而成的項目，其後購置的四幅土地——包括瀋陽的兩幅及濟南和無錫各一幅——所發展的購物商場均已落成。事實上，瀋陽的皇城恒隆廣場於三年多前經已落成。天津項目之進度如斯緩慢，無論從規模或建築複雜性而言，都無法作出合理解釋。事實上，濟南的恒隆廣場亦有相若的規模和建築複雜性。延遲的原因只有一個：要得到天津市政府多方面的同意，這個過程既複雜且漫長。

由於此項延誤，與當地政府相關的一座大型購物商場已於約十八個月前開業。儘管其位置、設計和施工均遠遠不如我們，但因彼乃現時市內唯一之選，故許多頂級奢侈品牌均已在彼落戶。因此，初期而言，天津的恒隆廣場的定位將與上海的港匯恒隆廣場相近，即以副奢侈品牌為主力的四星級購物商場。然而，我們位處天津市的最佳地點，設計出類拔萃，硬件卓越，有朝一日不難晉身成為五星級購物商場。

迄今，該購物商場已租出約五成樓面，本人預料其租出率至第三季時應超逾九成。一如以往，我們以百分之四至五作為其初期租金回報率之目標。

Once we are all done and not counting any new projects yet to be undertaken, we will own close to 47 million square feet of China's best commercial real estate. Add to that the seven million square feet of Hong Kong investment properties (provided that we do not take up more or sell off any), we will have a portfolio of about 54 million square feet. 87% of it will be on the Mainland as compared to 68% now. Hong Kong's share will be reduced from today's 32% to 13%.

In the third quarter of this year we will open Tianjin Riverside 66, a large freestanding mall of 1.6 million square feet plus 800 car parking spaces. The underlying land was our first acquisition outside of Shanghai back in 2005. Four plots acquired later – two in Shenyang and one each in Jinan and Wuxi – have all had their shopping centers completed. In fact Shenyang Palace 66 was completed over three years ago. Neither size nor construction complexity could be used as an excuse for Tianjin to be so slow. In fact, Jinan Parc 66 is similar on both counts. There could only be one explanation – the complicated and prolonged procedures in seeking various approvals from the municipal government.

Because of the delay, a huge mall associated with the local government opened some 18 months ago. Although its location, design and construction are all seriously inferior to ours, many top luxury brands are now housed there. It is for the time being the only game in town. For this reason, Riverside 66 will initially be akin to Shanghai Grand Gateway 66, i.e. a four-star mall comprising mostly sub-luxury names. However, our location is among the best in the city; the design is very beautiful, and our hardware is excellent. It is conceivable that one day the mall can easily be transformed into a five-star facility.

So far around 50% of the space has been leased, and I expect that by the third quarter, the figure should be over 90%. As always, we are targeting an initial gross yield of 4-5%.



香港方面，我們於市況許可下將繼續出售已落成的住宅物業。從過去三個月所見，市場存在著遏抑的需求，同時亦有許多發展商渴望沽售存貨。雖然我們並不急於出售，但亦樂意於現時價格沽出該等單位。

「藍塘道23-39」豪宅項目已接近完成，此乃全球首個獲得美國綠色建築協會「能源及環境設計先鋒獎 — 住宅」金獎認證的住宅項目。我們打算首先將其出租，但倘價格合適亦會考慮出售。

物業租賃乃我們的核心業務所在。就其市場而論，中國內地可能仍有一段時間處於平滯狀態。雖然如此，本人期望集團今年的內地業績會較好，因為業務營運已有所改善。瀋陽的皇城恒隆廣場的初期問題已得到解決，而濟南的恒隆廣場的情況亦將差不多。我們應當知道，一項物業需要一至兩個租賃週期，才會開始邁向成熟。正如我們過去四年，按步就班，每年為一座購物商場開業一樣，如今它們又一個接一個逐漸成熟。這總是一個教人興奮的轉變，其不久應可帶來更佳的業績。

本土市場方面，本人預期集團的租賃物業將錄得與回顧年度相若的表現。

多年來，本函件獲得股東熱切垂注，本人深感欣慰。各忠實讀者均知，本公司的管理層在過去兩至三年有如脫胎換骨。本人與董事總經理陳南祿合作無間，並深信我們今天擁有一支更佳的團隊以應對新的市場發展。當然，我們還需更加努力。

In Hong Kong, we will continue to sell completed apartments as the market allows. What we have witnessed in the past three months is that there is pent-up demand. At the same time many developers are also eager to unload their inventory. Although not in a hurry to sell, at today's price we shall be happy to part with them.

The luxury development, 23-39 Blue Pool Road, is near completion. It is the first residential project in the world to have received the Gold Level certification under the Leadership in Energy and Environmental Design (LEED) for Homes of the U.S. Green Building Council. We will primarily lease them out, but will also consider selling if the price is right.

As for our bread and butter business of property leasing, the Mainland market may remain slow for some time. For us, however, I anticipate better financial numbers this year due to improved operations. The teething problems at Palace 66 are basically behind us; Parc 66 will soon follow suit. As we all know, it takes one to two leasing cycles for a property to mature. Just as we have had a rolling schedule of opening one mall per year in the past four years, now one by one these malls will enter adolescence. This is always an exciting time of change which should bring improved results.

In our home market, I expect our rental properties to perform not unlike the year just reviewed.

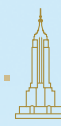
I am gratified that over the years, this letter has received a warm reception from shareholders. As my faithful readers know, this Company has in the past two to three years undergone a tremendous management upgrade. I have been working closely on it with our Managing Director Philip Chen and I firmly believe that today we have a much better team which is prepared to tackle new realities. Yet more needs to be done.



董事長致股東函 Chairman's Letter to Shareholders



我們把握時機於年內售出浪澄灣住宅單位
We catch the right timing to sell the residential units of The Long Beach during the year



試想想，我們現在是一家快速增長的跨地域公司。自二零一零年底至今，我們的投資物業組合已由一千三百萬平方呎增至約二千三百萬平方呎，租金收入由港幣四十八億元增至港幣六十六億元。我們以往只於兩個城市營運，現在已達五個，未來數年內每年還將增加一個。要落實施工及繼而為新增物業做好租賃和管理，我們需要的不單是一支更大而且水平更高的團隊。同時，許多服務多年的高級管理人員年紀漸長，我們確有需要更新管理層。今天部分同事經已退休，我們已聘請亦會繼續增聘更多新血。

南祿和本人從沒有一刻低估此項工作的難度，過程當中確實有痛苦的時刻。雖然如此，我相信最困難的時候經已過去。由於新項目如武漢已經上馬，我們的團隊仍需要補充生力軍。此等努力應有助我們實現由南祿前任人制定的卓越發展策略的潛力。本人為已取得的成果感到鼓舞，並期待著更佳日子的來臨。市場總會像最近般有波動，但只要我們策略方向正確，管理團隊準備就緒（兩大因素均已置備），我們定可享有燦爛的未來。

董事長

陳啟宗

香港，二零一四年一月二十三日

Consider this: we are now a fast growing multi-location company. Since late 2010, our investment portfolio has grown from 13 million square feet to around 23 million square feet, and total rents received have risen from HK\$4.8 billion to HK\$6.6 billion. We used to be in two cities, now we are in five and will add one per year for the coming few years. To execute the construction and then leasing and management of the added space will require not only an expanded but also an improved team. Coupled with the aging of long-serving senior executives, we have out of necessity gone through a management rejuvenation process. A number have retired, and more have been hired and will be hired.

Philip and I did not for a moment underestimate the difficulties associated with such an exercise. Indeed the process could be painful at times. Nevertheless I believe that the most challenging part should be behind us. There is still the need to add to the squad especially as new projects like Wuhan are brought on board. All these efforts should enable us to realize the potential of the excellent strategy put in place by Philip's predecessor. I am encouraged by what has been done and look forward to seeing better days ahead. There will always be market fluctuations like the lull of late, but as long as our strategic direction is proper and our management team is prepared – and now we have both in place – our future should be bright.

Ronnie C. Chan

Chairman

Hong Kong, January 23, 2014