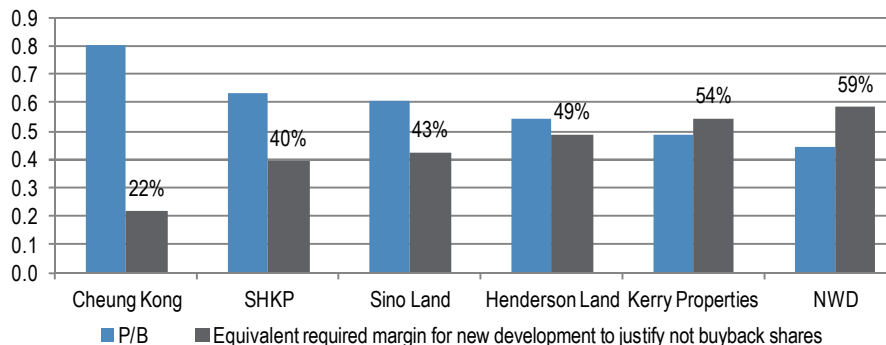


Hong Kong Property

Hard to justify not repurchasing shares

Required development margin to justify not buying back its own shares



Source: Company reports and J.P. Morgan estimates.

- Why are companies not buying back shares?** None of the Hong Kong property companies are actively managing their capital. One of the developers' most common arguments is that they will need to preserve capital to prepare themselves for a speedy response to any potential investment opportunities. We think this is why we are seeing only major shareholders buying the company's shares, but not any major corporate buybacks. However, is this really justifiable?
- Buying land is not necessarily more accretive than buying back shares.** Buying back shares can enhance both book value per share and ROE when developers are trading at a steep discount to book value. The same amount of capital should be deployed to property development unless it can generate an equivalent return and book value enhancement. *Our analysis suggests developers would require at least a 40% margin in order to justify them not buying back their shares.* The only exception is Cheung Kong, which has a pretty light hurdle rate of a required margin of 22%.
- Will developers think economically?** We believe the answer is "No". Gearing is one concern which we think limits the ability to buy back shares or purchase land in the case of NWD and Kerry Properties. Otherwise, either developers believe they can achieve such a margin in the long term if land prices are actually falling, or managements do not mind if their companies continue to trade at a discount to book. *Cheung Kong is the company we expect to face the least pressures from shareholders for active capital management* as it has been managing it quite well, and a required development margin of 22% is not that difficult to achieve.

Property

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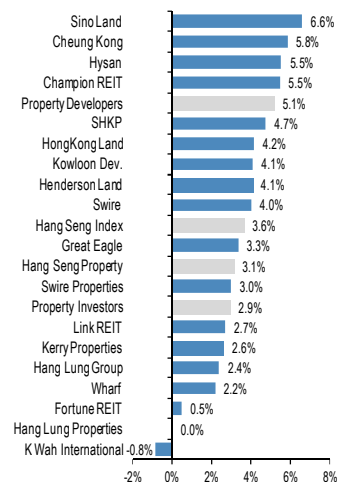
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J.P. Morgan Securities (Asia Pacific) Limited

Share price performance for HK property stocks – Feb 2014



Source: Bloomberg

See page 33 for analyst certification and important disclosures, including non-US analyst disclosures.

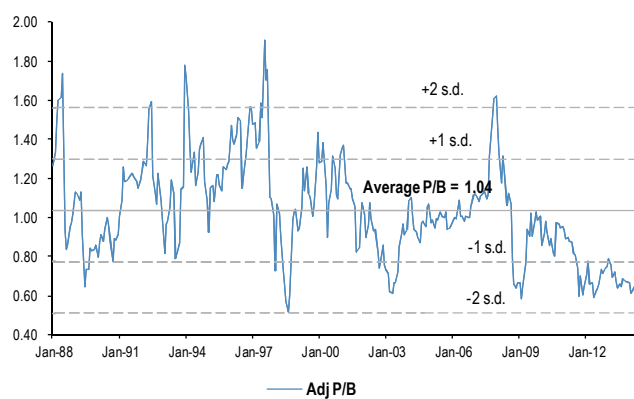
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Table 1: Breakeven analysis between share buybacks and property development

	Cheung Kong	SHKP	Sino Land	Henderson Land	Kerry Properties	NWD
P/B	0.81	0.63	0.61	0.54	0.49	0.44
BVPS	155.7	148.9	18.1	78.9	52.5	22.3
ROE	9.0%	5.4%	4.6%	4.0%	4.8%	5.3%
Assumed % of buyback	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
BVPS	156.3	150.0	18.2	79.6	53.1	22.5
ROE	9.1%	5.4%	4.7%	4.1%	4.9%	5.3%
Potential book value enhancement	0.4%	0.7%	0.8%	0.9%	1.0%	1.1%
Potential ROE enhancement	1.6%	1.3%	1.2%	1.1%	1.0%	0.9%
Gearing	-4%	-21%	0%	-16%	-37%	-46%
Equivalent required margin for new development to justify not buyback shares	22%	40%	43%	49%	54%	59%

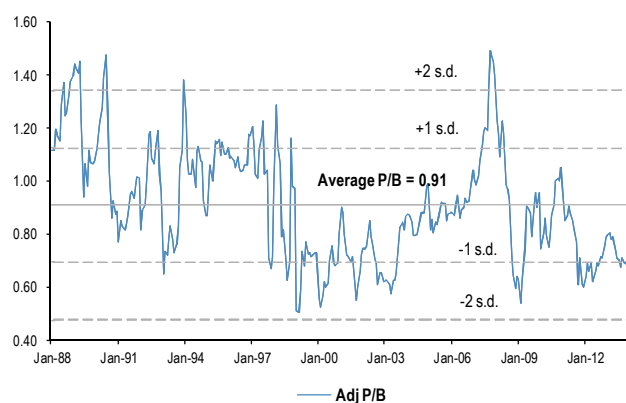
Source: Company reports and J.P. Morgan estimates.

Figure 1: Hong Kong property developers' historical P/BV



Source: Bloomberg, J.P. Morgan estimates.

Figure 2: Hong Kong property investors' Historical P/BV



Source: Bloomberg, J.P. Morgan estimates.

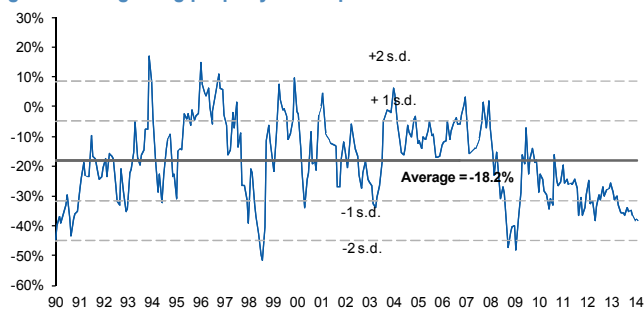
Valuation summary

Table 2: Hong Kong property: Valuation summary

	Rating	Stock code	Price 7-Mar-14 (HK\$)	PT Jun/Dec-14 (HK\$)	Potential upside (%)	NAV Dec-14 (HK\$)	Disc. to Dec-14 NAV (%)	P/E FY14E (x)	Div Yield FY14E (%)	P/BV FY14E (x)
Cheung Kong	OW	0001.HK	126.30	154.00	22%	189.4	-33%	9.4	2.8	0.74
Henderson Land	UW	0012.HK	43.60	45.30	4%	76.2	-43%	14.7	2.4	0.53
Kerry Properties	UW	0683.HK	25.40	29.80	17%	59.6	-57%	10.2	3.3	0.48
New World Dev	N	0017.HK	9.97	11.10	11%	20.6	-52%	8.9	4.2	0.44
Sino Land	N	0083.HK	10.94	10.00	-9%	18.7	-42%	16.4	4.6	0.59
Sun Hung Kai Prop	OW	0016.HK	94.10	113.00	20%	175.5	-46%	11.8	3.6	0.65
Great Eagle	N	0041.HK	27.10	26.00	-4%	62.5	-57%	10.4	2.4	0.33
Hang Lung Group	N	0010.HK	36.25	36.00	-1%	48.2	-25%	16.8	2.2	0.68
Hang Lung Prop	N	0101.HK	21.25	25.00	18%	31.7	-33%	19.3	3.6	0.76
HK Land (in US\$)	OW	HKLD.SI	6.50	7.30	12%	10.2	-36%	18.5	2.8	0.58
Hysan Development	N	0014.HK	32.95	36.20	10%	58.4	-44%	16.5	3.5	0.59
Swire Properties	OW	1972.HK	21.45	25.00	17%	33.2	-35%	21.6	2.6	0.63
Wharf Holdings	N	0004.HK	52.90	66.00	25%	93.4	-43%	12.0	3.3	0.61
Champion REIT*	N	2778.HK	3.47	3.50	1%	3.5	-1%	20.7	5.3	0.44
Fortune REIT*	OW	FRT.SP	5.96	7.90	33%	7.9	-25%	18.6	6.5	0.54
Link REIT*	OW	0823.HK	36.05	44.80	24%	44.8	-19%	21.8	4.6	1.00
Developers' Average					14%		-42%	11.4	3.2	0.64
Investors' Average					16%		-38%	17.0	3.1	0.62
REITs' Average					21%		-17%	21.3	4.9	0.86

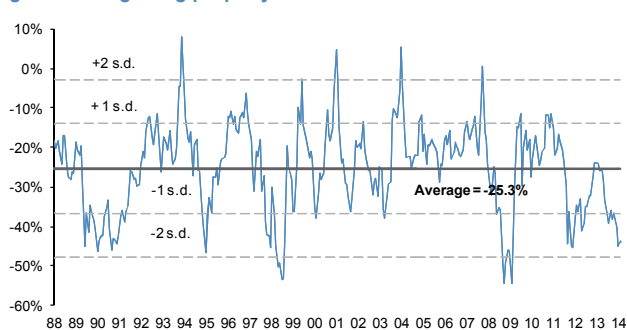
Source: Company data, Bloomberg, J.P. Morgan estimates. *NPV for REITs.

Figure 3: Hong Kong property developers' historical NAV discount



Source: Bloomberg, J.P. Morgan estimates.

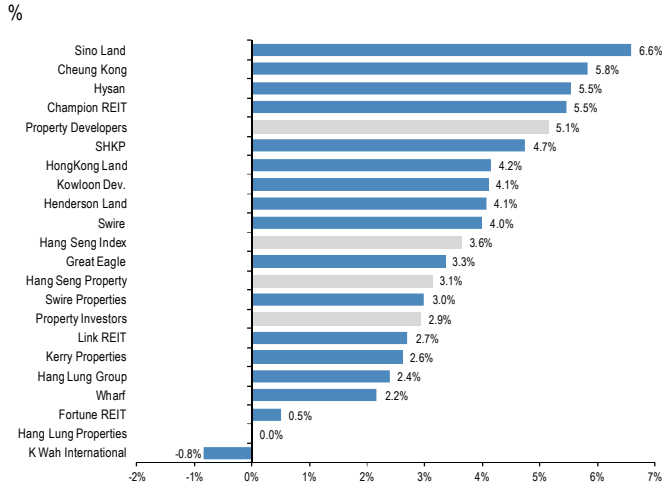
Figure 4: Hong Kong property investors' historical NAV discount



Source: Bloomberg, J.P. Morgan estimates.

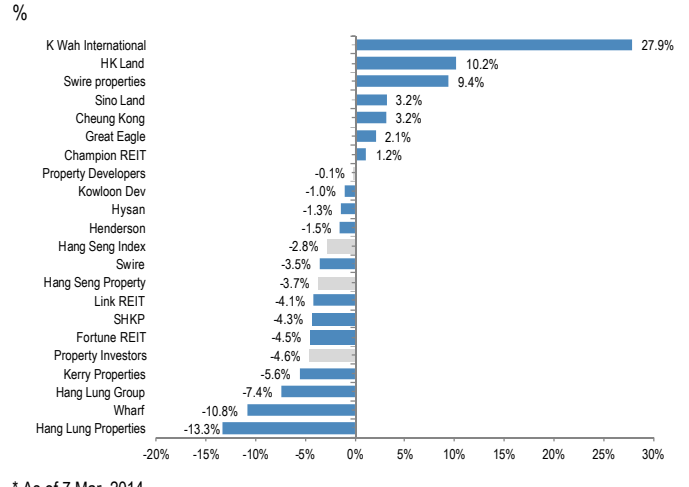
Market review

Figure 5: Share price performance for HK property stocks in Feb-14



Source: Bloomberg

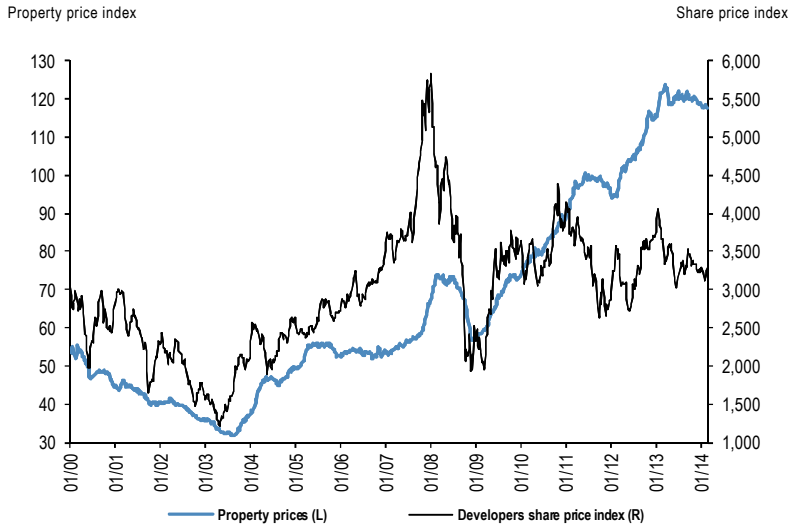
Figure 6: Share price performance for HK property stocks – YTD 2014



* As of 7 Mar, 2014

Source: Bloomberg.

Figure 7: Housing prices vs. property stock prices

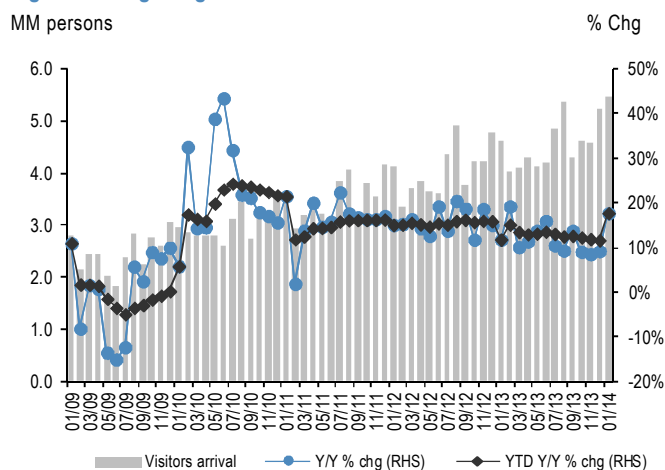


Source: Company reports and J.P. Morgan estimates.

Macro remains stable with further improvement in unemployment

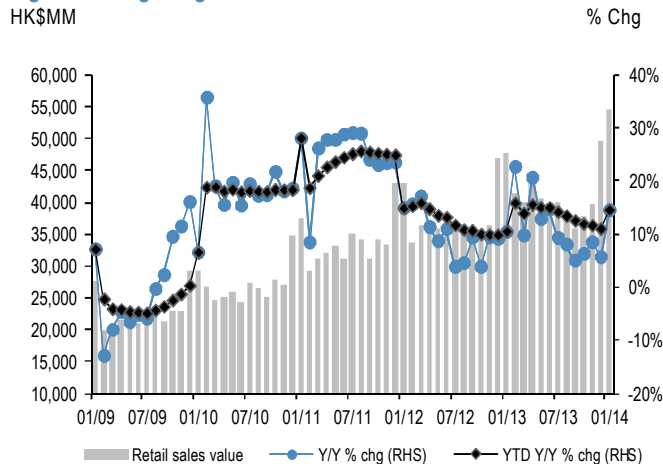
- **Domestic economics indicators remain generally solid with tourist arrivals and retail sales both reporting double-digit growth in January due to the Chinese New Year effect;**
- **Intact labor market is supportive of domestic consumption as unemployment rate further trended down to 3.1%;**
- **Real GDP growth reached 2.9% for 2013 and the government forecasts 3-4% for 2014.**

Figure 8: Hong Kong visitor arrivals



Source: CEIC.

Figure 9: Hong Kong retail sales value



Source: CEIC.

- **Tourist arrivals up 17.8% in January:** Visitor arrivals growth further strengthened to 17.8% Y/Y from the 9.3% recorded in December. Out of the 5.46 million visitors, Mainland tourists accounted for 80% (vs December: 74%) probably due to Chinese New Year holiday, followed by South & SE Asia (5%). Mainlanders (+23.3% Y/Y) continued to be the major growth driver, whereas Taiwan and North Asia also delivered 5.0% and 4.3% growth respectively. HK Tourism Board expects overall visitor arrivals to increase to 58.96 million this year, up 8.6% Y/Y (vs 11.7% recorded in 2013). In particular, it forecasts mainland tourist arrivals to increase 10.8% to 45.13 million this year.
- **Hong Kong's retail sales volume recorded stronger-than-expected growth at 16.8% Y/Y in January** (J.P. Morgan: 7.0%, consensus: 7.5%), compared to 6.1% in December. Total retail sales value increased 14.5% Y/Y in January, compared to 5.7% in December. The stronger performance came along with solid pickup up in total tourism inflows before Lunar New Year holiday. That said, details suggested that sales items like food, supermarket and durable goods picked up more notably than the traditional tourism-related items (i.e. clothing, department stores and jewelry and valuable gifts). This may also suggest decent consumption expenditure by local households in January.

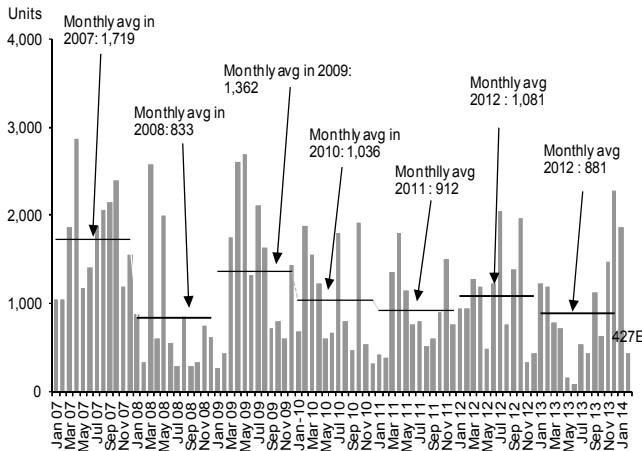
Looking ahead, on the domestic front, the labor market conditions remain intact, which is expected to provide decent support to private consumption. However, the external environment and corrections in the property market may raise headwinds on domestic front, and so as the private consumption. Meanwhile, inbound tourism is expected to remain steady but moderations in China economy may restrain tourism spending. We therefore might not see persistent robust retail growth compared to a few years ago.

- **Hong Kong's January headline CPI inflation was higher than expected at 4.6%** (JPMorgan: 4.2%, consensus: 4.4%), up from 4.3% in December. Netting out the effects of the one-off relief measures, underlying CPI inflation rose to 4.3% (vs 3.9% in December). Overall, food prices contributed 1.15pp to the headline CPI (vs. +1.14pp in December), while the other major component housing CPI contributed 1.8pp (vs +1.9pp in December). Contribution from misc services turned up relatively notably by 1.1pp (vs. +0.7pp in December), likely due to increase in service fees around the holiday period. Looking forward, headline inflation is likely to stay around the similar level in the near term. However, this should be temporary given the housing CPI component is expected to see more visible easing after 1Q14. Meanwhile, the price pressure from service component has been rising steadily since 2011 in light of a tight labor market which suggests that the inflation level is likely to remain sticky going forward. As the government reduced PRH rental subsidy from previous year's two months to one month this year in the 2014-15 budget, J.P. Morgan fine-tuned its headline inflation forecast to 4.0% from 3.8%.
- **Hong Kong's three-month average seasonally adjusted unemployment rate declined further to 3.1% in January** (J.P. Morgan and consensus: 3.2%), the lowest level since February 1998. Underemployment rate also fell slightly from 1.4% to 1.3% in January. Overall, the labor market remained tight in the new year in spite of a slowdown in employment growth since 2H13. Looking ahead, J.P. Morgan continues to expect HK's real GDP to expand in a moderate pace in the coming quarters with full-year GDP forecast at 3.2% for 2014 (vs. 2.9% in 2013). In terms of employment income, overall median household income increased 6% Y/Y to HK\$22,400 in 4Q13 whereas private median household income rose 1% Y/Y to HK\$30,400. The number of households with monthly income over HK\$100,000 also rose 3.6% Y/Y to 91,700 while those earning less than HK\$10,000 dropped 5% Y/Y to 504,100.
- **Hong Kong's 2013 real GDP growth at 2.9%:** HK's 4Q13 GDP growth picked up 3.0% Y/Y compared to 2.8% in 3Q13. For full-year 2013, real GDP rose 2.9% Y/Y compared to 1.5% in 2012. Private consumption and exports picked up in a faster pace on average for the full-year. J.P. Morgan believes that in 2014 the improving global economy is likely to provide support to HK's economy, particularly on the external front, though headwinds may arise on the domestic front amid the cooling property market. Meanwhile, the slower Chinese economy is also expected to impact the Hong Kong economy through trade, tourism and financial linkages, although a steady recovery of the global economy could weigh more on the growth outlook for 2014. J.P. Morgan's forecast for real GDP growth stands at 3.2% for full-year 2014 (vs. government forecast at 3-4%).

Residential – secondary volume rebounded slightly upon price cut

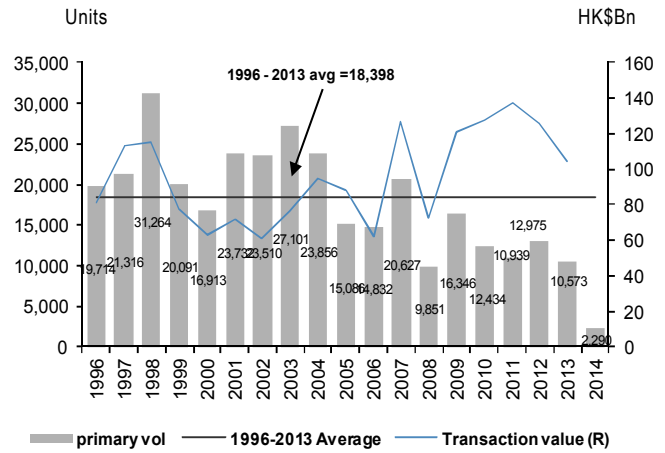
- **Primary market remains relatively muted post Chinese New Year due to limited new launches;**
- **Secondary volume rebounded modestly as more home owners are willing to offer price cut but may retreat again in March after the price-cut units were taken up and new launches start to kick off;**
- **Effective mortgage interest rate stays at 2.07% in January, suggesting tapering has not brought immediate impact to mortgage rate.**

Figure 10: Monthly primary transactions



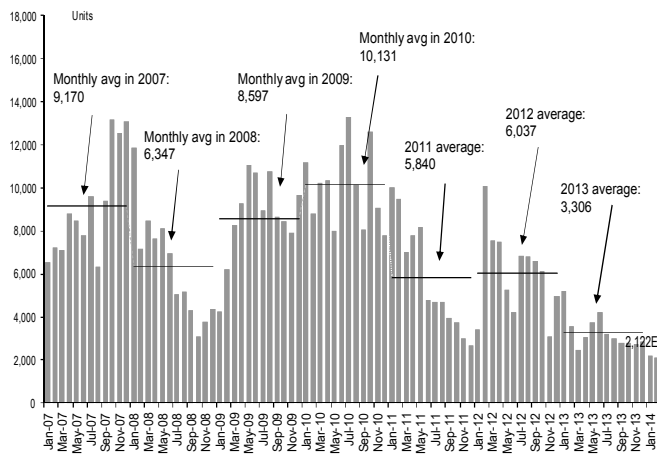
Source: Land registry, Midland Realty, J.P. Morgan estimates.

Figure 11: Annual primary transactions



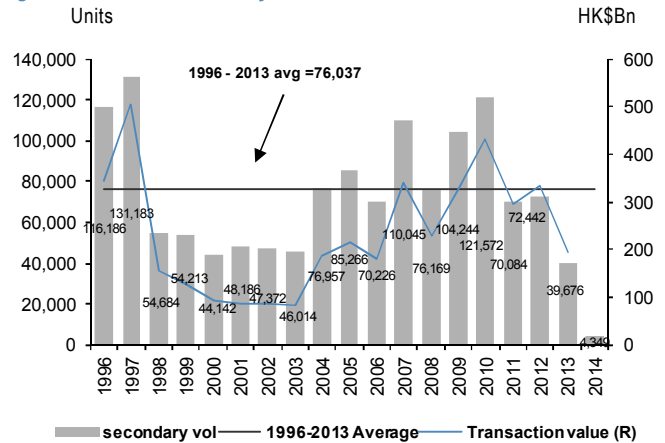
Source: Land registry, J.P. Morgan estimates.

Figure 12: Monthly secondary transactions



Source: Land registry, Midland, J.P. Morgan estimates.

Figure 13: Annual secondary transactions



Source: Land Registry, J.P. Morgan estimates.

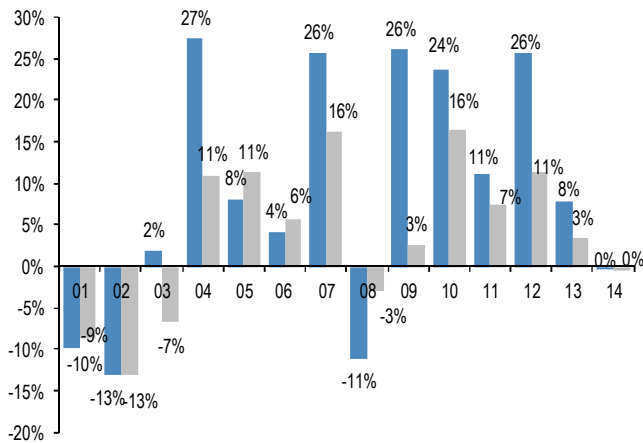
- **Primary market was relatively muted post CNY:** In light of the Chinese New Year holiday, there were less launches in February. After launching two small-scale projects, Chinachem's Golden Gate and Wang On's The Met. Delight, developers focus on clearing inventory. SHKP re-launched RIVA in Yuen Long which was the major contributor to primary sales during the month. Nan Fung also re-launched Winfield Building in mid-February whereas HLD/NWD launched the remaining units of Double Cove for sale in early March. Sales response was satisfactory as SHKP cleared all units available for sale at RIVA as of 6 March. We estimate that, in the overall primary market, 427 units were sold in February, down 77% M/M from 1,863 units in January.
- **Secondary volume rebounded slightly upon more price cut:** Secondary volume rebounded modestly in late February as more home owners are willing to offer slightly more price cut. Midland 35 housing estate volume index jumped from 35 in late January to 75 last week. Nevertheless, anecdotal feedbacks from property agents highlighted the price-cut units were mostly taken up and volume may retreat again as primary launches start to become more active in March. The CCL Index was up slightly by 0.2% M/M after a 1.3% decline in January and continued to hover at 117-119. It is still 14.4% above 1997 peak. We estimate 2,122 secondary transactions for February, 5% below 2,227 units in January.
- **Rents edged up by 1.1% M/M in January:** Centaline rental index was up 1.1% M/M to HK\$23.13 psf after retreating by 0.7% in December. The index showed a more resilient performance compared to the previous month. Other than Kowloon reporting flat rental, HK Island, New Territories West and New Territories East all recorded rental increase of 2.9%, 1.7% and 0.4% respectively.
- **Effective mortgage rate at 2.07% for January:** Referral Mortgage Brokerage quoted the effective mortgage rate for January is 2.07% which suggested that tapering from Federal Reserve has not brought immediate impact to mortgage rate. It expects more prominent pressure to raise mortgage rate in 2H14 and estimates the mortgage rate increase to be less than 0.5%. In particular, Hibor-based mortgage rate will rise earlier than prime-based mortgage rate.

Price trend and yield

- *The rise in the bond yield has made residential properties an unattractive investment asset class as far as positive carry is concerned;*
- *Besides the government stamp duty measures, we believe this is the key reason why investment demand either from foreign or local has reduced significantly.*

Figure 14: Price and rental movements

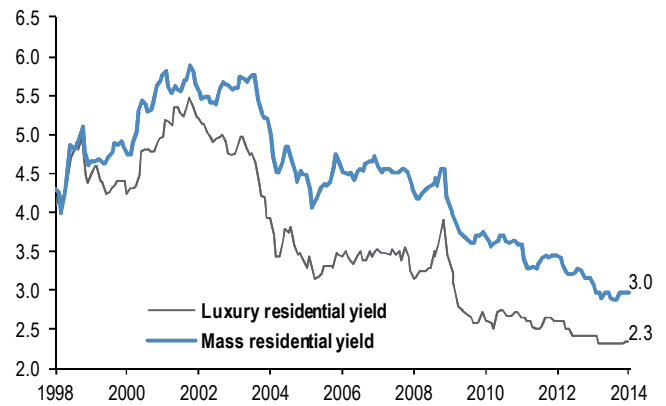
Year-on-year % changes



Source: CEIC, Rating and Valuation Department, J.P. Morgan estimates.

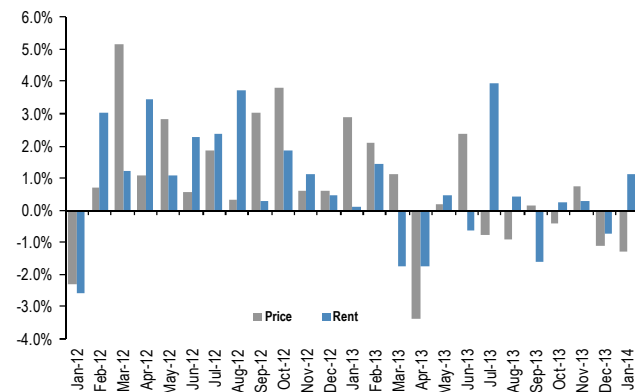
Figure 15: Mass versus luxury residential yields (1998 – Dec 2013)

%



Source: CEIC.

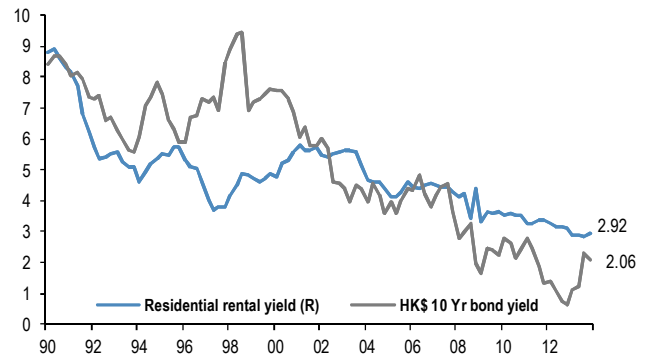
Figure 16: M/M change in Centaline's property price and rental index



Source: Centaline Agency.

Figure 17: Rental yield versus HK\$ 10yr bond yield – 4Q13

%



Source: CEIC.

Major new launches

SHKP re-launched RIVA with satisfactory sales response

SHKP re-launched RIVA in Yuen Long in mid-February. The low-density project is located between Yuen Long and Kam Sheung Road Station facing Kam Tin River and provides 780 units including 48 townhouses. SHKP first launched the project in April 2013 and sold two units before the implementation of the new sales ordinance. The developer offers a maximum of 8% discount plus a rebate of 70% of total stamp duty payment. SHKP also provide "Early Move-in Offer" which is applicable for units of HK\$6 million or above. Buyers opting for this offer can complete transactions within 540 days but can move in before that by paying a monthly administrative fee of HK\$5 psf.

10 units in the first price list were also launched last year and the list price was cut by some 34-35% and the price after discount (assuming individual local buyers who are required to pay DSD) was lowered by 36-37%. We believe the significant cut was not a surprise given they were overpriced in the first launch. For the 449 units in the four price lists released so far, the ASP after discount is some HK\$8,500 psf on saleable basis (same assumptions as above). As of 6 March, about 380 units were launched and all sold. Some of the units are restricted to HK permanent residents only. Another 21 units are available for sale on March 7.

Double Cove was re-launched at HK\$10,800-15,900 psf

HLD/NWD re-launched Double Cove in Lok Wo Sha, Ma On Shan. Out of 928 units of the project, 213 units were left for sale, of which 151 are three-bedroom units. The developers re-launched 197 units with a list ASP of HK\$10,800-15,900 psf on saleable basis. After a maximum of a 16% discount, the ASP range is HK\$9,100-13,400 psf. According to HKET, after accounting for price rises and various discount offers, the project was re-launched with a price cut of some 10% compared to the previous launch in September 2012. The developers offer six different payment methods now, and transactions can be completed within 90-238 days. Similar to RIVA, buyers can opt for "Early Move-in" payment method where they can occupy the units 30 days after the signing of preliminary ASP by HK\$1 psf per month and complete the transaction within 238 days. As of 4 March, 47 out of 50 units available for sale were cleared.

Nan Fung re-launched Winfield Building at Happy Valley

Nan Fung also re-launched Winfield Building (84 units) in Happy Valley with list ASP ranging from HK\$23,500-43,100 psf on saleable basis and a maximum discount of 22%. Compared with the pricing in 2011, some units are about 13% cheaper after accounting for all discount offers, according to HKET. Thus far, some 28 units were sold with sales proceeds of over HK\$1.3 billion whereas a majority of the 33 units remain unsold are under lease.

Upcoming new launches

Upcoming new launches in the coming months include Cheung Kong/URA's Trinity Towers (402 units) in Cheung Sha Wan, Swire Properties' Mount Parker Residences (92 units) in Quarry Bay, Kowloon Development's MacPherson Residence (293 units) in Mongkok, HLD's project at 8 Minden Avenue (262 units) in Tsim Sha Tsui as well as SHKP's Mount One Luen Wo Hui project (144 units) in Fanling.

In February, only a small scale project at 1 Tsing Lung Road, Tuen Mun (75 units) owned by Manhattan received presale consent.

Table 3: Upcoming potential new launches

Project	Location	Units	Developers	Completion	Comment
Mount Parker Residences, Sai Wan Terrace project	Quarry Bay	92	Swire Properties / Heng Land	1Q14	Soft marketing started
Trinity Towers, Yee Kok Street project	Cheung Sha Wan	402	Cheung Kong / URA	1Q15	May launch in 1Q14
MacPherson Residence, 38 Nelson Street	Mongkok	293	Kowloon Development / URA	1Q14	May launch in 1Q14
8 Minden Avenue	Tsim Sha Tsui	262	Henderson Land	NA	May launch in 1Q14
Mont Vert Phase 1	Tai Po	1,071	Cheung Kong	1Q14	
HEMERA, Lohas Park Phase 3	Tseung Kwan O	1,648	Cheung Kong	4Q14	
Mount One, Luen Wo Hui project	Fanling	144	SHKP	4Q14	
The Woodside, Hung Shui Kiu	Yuen Long	98	NWD	4Q14	
Tong Yan Sun Tsuen project - Park Villa	Yuen Long	51	NWD	2013	
City Point, Tsuen Wan West Station TW7	Tsuen Wan	1,717	CK / Nan Fung / MTR	1Q15	
Jade Cove, Tsing Fat Lane	Tuen Mun	86	Chinachem	2012	
Wang Tau Hom project	Kowloon City	37	Chinachem	NA	
123 Kadoorie Hill Road	Prince Edward	70	Citic Pacific	2014	
No 2 Cape Drive	Chung Hom Kok	7	COLI	2Q14	
No.6 Stanley Beach Road	Stanley	8	COLI	2011	
The Nova, 88 Third Street	Sai Ying Pun	255	COLI / URA	1Q16	
Pak Tai Street and Mok Cheong Street	Ma Tau Kok	168	COLI / URA	4Q15	
313 Prince Edward Road West	Prince Edward	50	Easyknit Group	2013	
Long Beach (remaining units)	West Kowloon	704	Hang Lung Prop	Completed	
131 - 135 Tong Yan San Tsuen Road	Yuen Long	14	Henderson Land	2013	
High Park Grand (68 Boundary Street)	Prince Edward	41	Henderson Land	4Q14	
Junction of Gillies Avenue South and Bulkeley Street	Hung Hom	95	HK Ferry	3Q15	
Positano, Phase 15, Discovery Bay	Lantau Island	102	HKR	1Q14	
Heya Delight, 392-410 Castle Peak Road	Sham Shui Po	130	Hong Kong Housing Society	2Q15	
Heya Star, 346-370 Castle Peak Road	Sham Shui Po	175	Hong Kong Housing Society	4Q15	
1 & 3 Ede Road	Kowloon Tong	41	Kerry Prop	1Q15	
298 Prince Edward Road	Prince Edward	56	Kerry Prop	1Q15	
33 Lai Ping Road, Kau To	Shatin	973	Kerry / Sino Land / Manhattan	2Q16	
12-22 Fuk Chak Street	Tai Kok Tsui	104	Kowloon Development	2014	
339 Tai Hang Road	Wong Nai Chung	9	Lai Sun	1Q14	
1 Tsing Lung Road, Area 58, Siu Lam	Tuen Mun	75	Manhattan Realty	1Q14	
Mount Nicholson Road Phase 1	The Peak	17	Nan Fung / Wharf	2Q16	
Mount Nicholson Road Phase 2	The Peak	26	Nan Fung / Wharf	3Q16	
Mount Nicholson Road Phase 3	The Peak	24	Nan Fung / Wharf	4Q16	
1 Ko Shan Road	Hung Hom	173	Nan Fung / Wing Tai	3Q16	
1-10 Kwai Fong Street	Happy Valley	152	NWD	2014	
The Pavilia Hill, 1-15 New Eastern Terrace	Tin Hau	358	NWD	1Q16	
Austin Station project - Site D	West Kowloon	691	NWD / Wheelock / MTR	4Q15	
Twelve Peaks, 12 Mount Kellett	The Peak	12	SHKP	4Q12	
The Wings III	Tsuen Kwan O	970	SHKP	2014	
3 Cheung Fu Street, Cheung Sha	Lantau Island	16	Sino	3Q14	
Providence Bay Phase 4, TPTL 200	Tai Po	545	Sino Land	3Q15	
Providence Bay Phase 4, TPTL 201	Tai Po	546	Sino Land / K Wah	3Q15	
Tseung Kwan O Area 66B2	Tseung Kwan O	591	Wheelock	4Q16	
18 Chi Kiang Street	Ma Tau Kok	84	Yau Lee Investment	1Q15	
99 High Street	Western District	25	Yu Tai Hing	NA	
		13,208			

* Development built on land with old deed can be launched anytime without presale permit; completed projects do not require presale permit
Sources: Company Report, Hong Kong Economic Journal, Hong Kong Economic Times, Sing Tao Daily, Mingpao, J.P. Morgan estimates.

Table 4: Launches since Jul-12 — % sold since launch

Launch	Location	Developer	Total Units	Units sold	% sold	ASP HK\$ psf	Secondary price HK\$ psf	
Jul-12	High West	Sai Ying Pun	Henderson	133	113	85%	12,000 - 18,000	9,900 - 16,000
Jul-12	Cadogan	West HK	Kowloon Development	197	113	57%	20,170	9,900 - 16,000
Sep-12	OPUS	Mid-levels	Swire	12	2	17%	63,600 - 73,000	60,000 - 64,000
Sep-12	Met Sublime	Western District	Wang On	97	51	53%	13,000 - 16,000	12,000 - 17,000
Sep-12	Century Gateway Ph 1	Tuen Mun	SHKP	1,075	950	88%	9,600 - 13,000	4,000 - 6,000
Sep-12	Double Cove Ph 1	Ma On Shan	Henderson Land / Others	928	659	71%	7,700 - 11,300	6,500 - 7,000
Sep-12	The Pierre	West Mid-levels	Wing Tai	77	74	96%	21,000 - 27,000	12,000 - 17,000
Sep-12	Le Chateau	Kowloon Tong	Cheung Kong	31	31	100%	16,800 - 18,000	13,000 - 16,000
Oct-12	Kadoorie Hill	Prince Edward	Wheelock Properties	66	57	86%	16,000 - 27,000	12,000 - 13,000
Oct-12	Ph14 Discovery Bay	Discovery Bay	HKR International	164	108	66%	9,700	6,000 - 8,000
Oct-12	Billionaire Avant	Kowloon City	Chinachem	134	31	23%	13,000	10,000-13,000
Oct-12	The Reach	Yuen Long	Henderson Land/ Others	2,580	1,911	74%	7,330	5,500-7,000
Oct-12	Ocean One	Yau Tong	Lai Sun Dev	124	98	79%	10,325	7,500-9,500
Dec-12	One West Kowloon	Cheung Sha Wan	Cheung Kong	286	286	100%	10,000 - 13,000	7,500 - 10,600
Jan-13	The Wings II	Tseung Kwan O	SHKP	784	716	91%	10,000 - 14,600	8,000 - 14,000
Jan-13	High Place	Kowloon City	Henderson Land	76	62	82%	12,800 - 15,000	7,000 - 13,000
Jan-13	The Grandeur	Kowloon City	COLI	28	12	43%	22,000	10,600-13,600
Feb-13	Upper West	Tai Kok Tsui	Kowloon Development	104	77	74%	12,800 - 14,000	7,800 - 12,000
Feb-13	Residence 88	Yuen Long	SHKP	352	306	87%	7,000 - 10,000	5,500 - 7,000
Feb-13	The Avery	Kowloon City	Sino Land	78	69	88%	12,000 - 15,000	10,000 - 13,000
Mar-13	Green Code	Fanling	Hongk Kong Ferry	728	690	95%	6,200 - 9,400	5,500 - 6,000
Mar-13	Sevilla Crest	Sham Shui Po	Far East Consortium	83	37	45%	9,500 - 12,500	5,800 - 7,800
Mar-13	Parkes Residence	Jordan	Chuang's	114	37	32%	15,700 - 16,100	8,500 - 10,000
Mar-13	Park Ivy	Tai Kok Tsui	Sino Land / URA	113	13	12%	11,000 - 13,000	8,000 - 14,000
Apr-13	Riva	Yuen Long	SHKP	780	383	49%	11,000 - 14,500	5,500 - 10,000
Apr-13	Yoo Residence	Causeway Bay	CSI / ITC Properties	144	135	94%	22,000 - 24,000	12,000 - 26,000
Apr-13	Dunbar Place	Ho Man Tin	Swire Properties	53	36	68%	19,000 - 22,000	14,000 - 16,000
Jun-13	Bayview	To Kwa Wan	Kerry Properties	175	175	100%	13,000 - 27,000	12,000 - 13,000
Jul-13	The Woodsville	Yuen Long	Others	236	200	85%	8,800 - 11,400	6,500 - 10,800
Aug-13	Park Signature	Yuen Long	Others	1,620	1,012	62%	6,900 - 10,000	7,600 - 7,800
Sep-13	The Rise	Tsuen Wan	Cheung Kong	402	372	93%	8,600 - 10,500	9,100 - 10,800
Oct-13	The Graces	Tai Po	Sino Land / Nan Fung / Wing Tai	193	110	57%	10,000 - 20,700	10,700 - 13,700
Oct-13	High Park	Prince Edward	HLD	59	12	20%	15,000-23,800	13,000-,13,100
Oct-13	The Austin	West Kowloon	Wheelock/Others	576	576	100%	16,000-25,000	21,000
Nov-13	Park Metropolitan	Kwun Tong	Sino/URA	299	173	58%	12,000-13,000	10,000
Nov-13	Imperial Kennedy	Kennedy Town	SHKP	161	125	78%	17,000-29,000	14,600-18,000
Nov-13	The Hemispheres	Tin Hau	Henderson Land	119	56	47%	18,700-23,500	14,200-20,200
Nov-13	28 Barker Road	The Peak	Hutchison	7	4	57%	94,300-107,800	N/A
Nov-13	The Avenue	Wanchai	Sino/Hopewell/URA	1,096	943	86%	17,600-22,960	17,490-25,150
Nov-13	The Visionary	Tung Chung	Nan Fung	1,419	769	54%	6,900-8,960	7,920-9,320
Dec-13	Harmony Place	Shau Kei Wan	HK Housing Society	274	135	49%	13,300	11,900
Dec-13	Eight South Lane	Kennedy Town	Others	94	20	21%	18,600-20,800	18,000
Dec-13	Century Gateway II	Tuen Mun	SHKP	911	911	100%	8,100-12,400	10,500
Jan-14	DIVA	Tin Hau	Cheung Kong	118	61	52%	17,800	15,700
Jan-14	Double Cove Starview	Lok Wo Sha	HLD/Others	865	787	91%	8,600-12,600	10,600-11,100
Jan-14	The Summa	Western	Kerry/Winford	168	58	35%	23,000-24,100	16,700-19,600
Jan-14	The Avenue Ph1	Wanchai	Sino/Hopewell/URA	179	31	17%	17,000-21,000	21,100-21,600
Feb-14	The Golden Gate	Tai Po	Chinachem	127	17	13%	10,700-13,800	9,000-9,200
Feb-14	The Met. Delight	Cheung Sha Wan	Wang On	84	55	65%	11,300-13,800	12,100-13,800
				18,523	13,659	74%		

Note: For launches before 29 April 2013, ASP was quoted on GFA basis whereas launches thereafter (i.e. from Dunbar Place onwards) are quoted on saleable basis.

Source: EPRC, Midland Realty, J.P. Morgan estimates.

A sharp contrast between urban and New Territories land tender results

- *Sharp contrast between urban and New Territories land tender results in light of diverging supply landscape;*
- *Increasingly aggressive participations of Chinese developers in HK given the current policy environment in China;*
- *34 residential sites which can provide 15,500 units will be launched for sale in FY14/15 of which six sites or 1,500 units will be made available in 2Q14.*

SHKP and Nan Fung won the Tuen Mun sites at lower-than-expected prices

SHKP and Nan Fung acquired two sites at Leung Tak Street at an AV of HK\$2,571 psf and HK\$2,139 psf, respectively. The land cost is lower than the market expectation of HK\$2,800-3,500 psf and land costs in recent land tenders in Tuen Mun (despite varying positioning and quality of sites). Nan Fung attributed the lower land cost to high construction cost. It will build two residential towers with at least 370 units and retail stores. On the other hand, SHKP's site is close to Light Rail station and the developer expects to invest a total of HK\$1.4 billion. The two tenders received eight bids each. (For further comments, please see [“Hong Kong Property: Low land cost at Tuen Mun viewed as positive for the sector.”](#))

Table 5: Development details and ASP calculation for the two Tuen Mun sites

Location	TMTL 509, Leung Tak Street, Area 2	TMTL 508, Junction of Tsun Wen Road and Leung Tak Street, Area 2
Developer	SHKP	Nan Fung
Total GFA (sf)	167,260	213,119
Residential GFA (sf)	140,996	179,654
Commercial GFA (sf)	26,264	33,465
Min. no. of units	290	370
Land cost (HK\$ mn)	430	456
AV (HK\$ psf)	2,571	2,139
ASP calculation		
Construction cost (HK\$ psf)	3,000	3,000
Interest cost (HK\$ psf)	500	500
Total cost (HK\$ psf)	6,071	5,639
Future salable ASP assuming 20% margin (HK\$ psf)	8,899	8,266

Note: Assume the developers will opt for the maximum commercial GFA and in turn maximum total GFA. Also, 78% efficiency and 10% GFA inflation are assumed.

Source: Lands Department, J.P. Morgan estimates.

Kai Tak sites fetched a higher-than-expected price of HK\$5,845 psf

The government sold three Kai Tak sites today at an average AV of HK\$5,845 psf, which is higher than the market expectation of HK\$4,500-5,700 psf reported by HKET and 13% higher than the average AV COLI paid (HK\$5,157 psf) back in June 2013 for the two “Hong Kong Property for Hong Kong People” sites nearby. Individually speaking, Poly Property paid the highest price to acquire Site 3 at HK\$6,530 psf which is 15% higher than the high end of market estimates. These three sites will provide some 2,600 units in total. The positive land tender result suggested that developers remain optimistic to the urban sites where supply is limited. We continue to believe land price for sites in New Territories still have room to decline.

Chinese developers have been increasingly participating in the HK residential market. Other than COLI, Vanke and Metallurgical Corp of China, Poly Property also acquired land in HK via government land tender while Shimao participated in this tender too. Some Chinese developers also entered the HK market through old building redevelopment. We believe the policy environment in China will continue to encourage Chinese developers to look for opportunities in HK amid increase in land supply. (For further comments, please see [“Hong Kong Property: Sharp contrast between urban and New Territories sites”](#).)

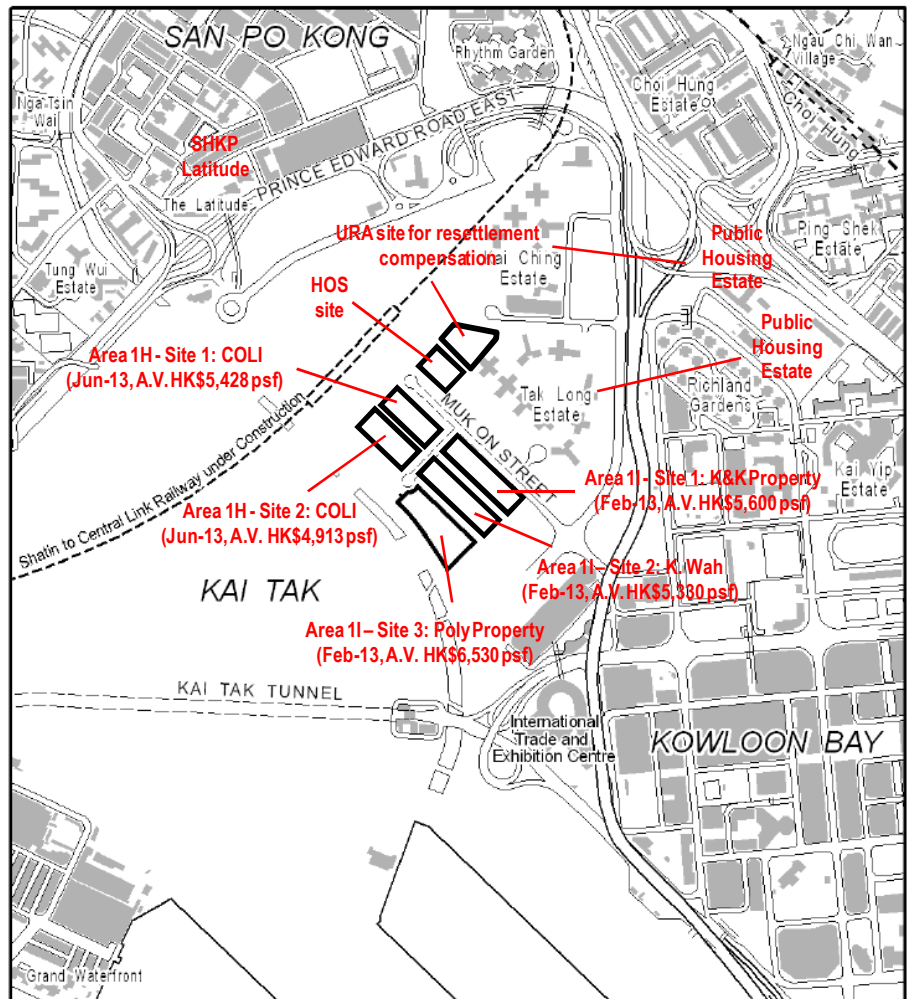
Table 6: Land tender results for Kai Tak sites

Lot	NKIL 6525, Kai Tak Area 1I Site 1	NKIL 6526, Kai Tak Area 1I Site 2	NKIL 6527, Kai Tak Area 1I Site 3
Developer	K&K Property	K. Wah	Poly Property
Site area (sf)	94,508	100,245	109,244
Plot ratio (x)	5.5	5.5	5.5
GFA (sf)	519,789	551,338	600,830
Min. no. of units	805	855	930
Tender terms	1. GFA of low-rise block(s) shall not be less than 10% of total GFA; 2. No guarantee as to whether the roads serving the lot will be completed and utilities services will be provided by the Government as scheduled		
No. of bids submitted	7	9	12
Bidders	Sole bid: Cheung Kong, Henderson Land, SHKP, K Wah, Poly Property, etc Consortium: NWD, Sino Land, CSI Properties, Emperor and Nan Fung, etc.	Sole bid: Cheung Kong, Henderson Land, SHKP, K Wah, Wheelock, Far East Consortium, Poly Property, etc Consortium: NWD, Sino Land, CSI Properties, Emperor and Nan Fung, etc.	Sole bid: Cheung Kong, Henderson Land, SHKP, K Wah, Wheelock, Poly Property, etc Consortium: NWD, Sino Land, CSI Properties, Emperor and Nan Fung; Paliburg and Regal Hotel etc.
Land cost (HK\$ mn)	2,911	2,939	3,923
AV (HK\$ psf)	5,600	5,330	6,530
Market est. valuation (HK\$ mn)	2,339-2,963	2,481-3,143	2,700-3,425
... on psf basis (HK\$ psf)	4,500-5,700	4,500-5,700	4,500-5,700
ASP calculation			
Construction cost (HK\$ psf)	3,000	3,000	3,000
Interest cost (HK\$ psf)	500	500	500
Total cost (HK\$ psf)	9,100	8,830	10,030
Future salable ASP assuming 20% margin (HK\$ psf)	13,340	12,944	14,703

Note: Assume the developers will opt for the maximum commercial GFA and in turn maximum total GFA. Also, 78% efficiency and 10% GFA inflation are assumed.

Source: Lands Department, HKET, J.P. Morgan estimates.

Figure 18: Kai Tak map



Source: Lands Department, J.P. Morgan.

2014-15 land sale program to provide 15,500 units

For the 2014-15 land sale program, there will be 34 residential sites available for sale which can provide 15,500 units, up some 13% from 13,700 units in 2013-14. However, 21 sites (or 11,000 units) are not converted to residential use yet and only 11 of the 34 sites are located in HK Island and Kowloon. The government will also sell seven commercial sites and one hotel site in the coming fiscal year.

In 2Q14 (i.e. 1st quarter for fiscal year 2014-15), the government will launch six residential sites and one commercial site for sale of which four have restrictions on number of units. However, these six sites can only provide 1,500 units, down 73% Q/Q. If the 1,700 units from URA's Kwun Tong redevelopment are included, total supply can go up to 3,200 units. (For more details on property-related news from 2014-15 HK budget, please see [“Hong Kong property sector: Hong Kong budget speech FY14/15 - a non-event for the property sector”](#).)

Table 7: 2014-15 1Q land sale program

Lot No.	Location	Use	Site area (sf)	Plot ratio (x)	GFA (sf)
IL 9048	Schooner Street, Wan Chai, Hong Kong	Res	2,906	5.0	14,530
STTL 599	Ma Kam Street, Ma On Shan, Sha Tin	Res	33,368	5.0	166,840
STTL 598	Hang Kwong Street, Ma On Shan, Sha Tin	Res	33,368	3.3	110,114
TMTL 512	Lok Chui Street, Area 59, Tuen Mun	Res	10,764	1.0*	10,764*
TMTL 513	Yan Ching Street, Area 10, Tuen Mun	Res	14,531	6.0*	87,186*
TWTL 393	Yeung Uk Road, Tsuen Wan	Res and Comm/ Hotel	152,418	7.0	1,066,926
KIL 11237	15 Middle Road, Kowloon	Comm/ Office/Hotel	28,309	12.0	339,708
Total			275,664		1,796,068

*Estimates: Source: HKET, Development Bureau

Table 8: 2013-14 private housing land supply and 2014-15 estimated supply capacity

Source of Land Supply	2013-14 (sold and to be sold)	2014-15 (estimates)
Government Land Sale Programme	13,700	15,500
Railway property development projects	2,300	6,530*
Projects of Urban Renewal Authority	110	3,200
Projects subject to lease modification/land exchange	80 (April 2013 – January 2014)	3,300
Private redevelopment projects not subject to lease modification/land exchange	1,700 (April 2013 – January 2014)	1,400
Total	17,890 (~18,000)	29,930

*Including West Rail project (Yuen Long Station: 1,880 units) and MTRC's projects (Tai Wai Station and Tseung Kwan O Area 86 Package 5: 4,650 units)

Note: Excluding the project at the Tin Shui Wai Light Rail Terminus which was not successfully tendered in 2013-14 numbers.
Source: Development Bureau, J.P. Morgan.

Table 9: 2014-15 government land sale program summary

Land Use	No. of sites	Est. no. of units / max GFA/ no. of rooms
Residential	34	about 15,500 flats
Commercial / Business	7	about 230,000sqm
Hotel	1	about 1,100 rooms
Total	42	

Source: Development Bureau.

Hong Kong investment properties

- *Swire acquired the government's floors in Cornwall House in TaiKoo Place to consolidate its portfolio for redevelopment;*
- *Chinese firms continue to take up Central office space and property consultants expect a stable outlook for Central office in light of weak demand and limited supply;*
- *Landlords reported double-digit growth in retail sales and foot traffic during the Chinese New Year period.*

Swire acquired the government's interest in TaiKoo Place to consolidate portfolio

Swire Properties reached an agreement with the government to acquire its interest in Cornwall House in TaiKoo Place. The agreement provides for the exchange of 10 floors of Grade A office space in Cityplaza Three (205,000 sf) for all the areas in Cornwall House currently owned and occupied by the government, consisting principally of eight floors in the building (187,000 sf). The agreement includes a cash consideration payable to the government of HK\$537 million, and an additional amount to reflect any potential appreciation in office values between the date of the agreement and the date of completion of construction of the second phase of the TaiKoo Place redevelopment. In addition, Swire will fund relocation costs and expenses for the existing government departments to vacate Cornwall House, including the fit out of the 10 floors of Cityplaza Three. The transaction is expected to be completed no later than 30 December 2016.

Chinese firms continue to fill up Central office space

Chinese firms remain active in taking up office space in Central. Cinda Asset Management recently leased the entire 12/F (12,000 sf) at AIA Central for HK\$130 psf whereas a Chinese real estate company took up 3,385 sf high-floor units at Exchange Square for HK\$135 psf on lettable basis. Guoyuan Securities also relocated from Li Po Chun Chambers in Sheung Wan to 22/F (7,400 sf) at CCB Tower in Central for some HK\$100 psf.

Property consultants expect a stable outlook for Central office

Knight Frank reported 1.0% M/M increase for Central prime Grade A office rents and 1.3% increase in traditional Central Grade A office rents in January. Overall Central rents showed the largest increase last month among all the districts. Knight Frank expects Central office rents to be stable in 2014 while the overall office market to remain stable or showing mild correction. Cushman & Wakefield also pointed out that major financial firms are still conservative in expansion and there were not many leasing activities. The weak demand and limited supply in Central will continue to support a stable rental outlook in Central with limited leasing activities. It forecasts vacancy rate in Central to fall from 7% in 2013 to 6.6% this year.

Landlords reported double-digit sales footfall growth during Chinese New Year

During the Chinese New Year holiday period, Wharf recorded double-digit growth for both footfall and retail sales at Times Square as footfall reached 200K (compared to 160K in other periods) and average spending rose 20%.

On the other hand, during Jan 25 to Feb 3, SHKP's V city recorded retail sales of HK\$60 million, up 15% from normal season. Foot traffic was also 30% higher at 1.6 million and overall average spending ranged from HK\$800-3,000 per person. On the other hand, another 9 malls of SHKP (wtc more, East Point City, Mikiki, Landmark North, Park Central in TKO, K-Point and Chelsea Heights Plaza in Tuen Mun as well as Tsuen Kam Centre and Grand City Plaza in Tsuen Wan) also reported 15% Y/Y footfall growth to 9.6 million and 18% Y/Y retail sales growth to HK\$645 million from Jan 24 to Feb 3. Moreover, Apm Mall also recorded 10% and 20% Y/Y growth for footfall and retail sales from Jan 31 to Feb 9.

Hysan's Sunning Plaza redevelopment plan approved with 25% GFA increase

Hysan reported occupancy of 98% and rental reversion of about 50% for its office buildings in Causeway Bay. On the other hand, the building plan for Sunning Plaza redevelopment has recently been approved and the site will be redeveloped into a 27-storey commercial building with retail and office space. GFA will increase by 25% to reach some 460K sf. The redevelopment is slated for completion in 2017-18. Hysan expects retail rental growth to slow down but believes the overall rental trend will be stable.

SHKP to convert another industrial building to commercial use

SHKP paid land premium of HK\$42.41 million to convert Hip Lik Industrial Building at 33 Tseuk Luk Street in San Po Kong to a commercial building (23/24 storeys) with GFA of 240,000 sf. According to HKET, SHKP already paid HK\$156 million land premium in 2011 and the project is slated for completion this year.

Demand unveils as quality commercial assets put for sale

CLSA acquired 8 Russell Street at Causeway Bay which was the Shama serviced apartment last December for HK\$1.8 billion. The fund recently converted the serviced apartment to commercial use and launched the project for strata-title sale. Thus far, 14 floors were sold generating sales proceeds of HK\$2 billion and only four floors were left. ASP of the floors sold was around HK\$30,000 psf and HK\$28,000 psf after stamp duty rebate whereas some floors could reach over HK\$32,500 psf after discount.

Table 10: JLL 4Q13 Grade A office/prime retail key figures

4Q13		Avg (HK\$/sqft)	Q/Q % chg	YTD % Chg	From 11 Peak	Cap rate in 4Q	Cap rate chg in 4Q (bps)	Vacancy
Overall Office	Rental	58.7	-0.5%	1%	-5%	3.1%	-2	4.3%
	Capital Value	22,847	0.1%	4%	New high			
Central Office	Rental	88.4	-1.1%	-1%	-17%	2.9%	-3	4.6%
	Capital Value	36,910	0.0%	3%	New high			
Wanchai/CWB Office	Rental	55.7	0.3%	1%	New high	3.1%	1	3.0%
	Capital Value	21,578	0.0%	3%	New high			
TST Office	Rental	43.9	0.0%	0%	New high	3.1%	0	3.2%
	Capital Value	17,172	0.0%	4%	New high			
HK East Office	Rental	41.9	0.3%	6%	New high	4.1%	0	1.6%
	Capital Value	12,219	0.3%	4%	New high			
Kln East Office	Rental	31.7	0.0%	9%	New high	3.4%	-2	7.8%
	Capital Value	11,106	0.5%	12%	New high			
Retail	Rental	152.2	1.0%	5%	New high	4.8%	0	2.8%
	Capital Value	37,898	1.0%	3%	New high			

Source: Jones Lang LaSalle - Real Estate Intelligence Services, J.P. Morgan estimates.

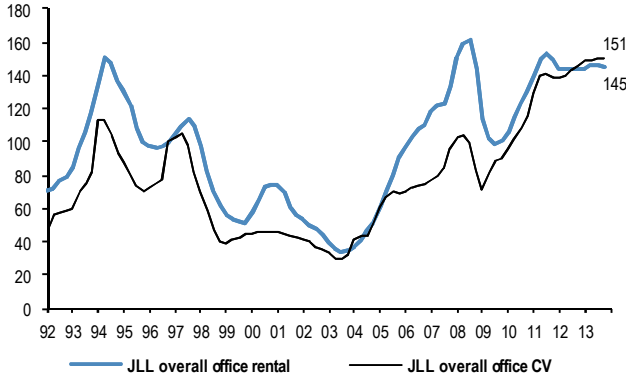
Table 11: Selected office lease/sales transactions in February 2014

Date	Lease/ Sale	Building	Location	Unit size (sq ft)	Price (HK\$MM)	Price/rent (psf)	Remarks
4-Feb-14	Sale	Chuang's Enterprises Building	Wanchai	5,200	43.9	8,442	Two low-floor units
4-Feb-14	Lease	Shun Tak Centre West Wing	Sheung Wan	2,000	0.096	HK\$48 psf pm	Unit 1101
4-Feb-14	Lease	Shun Tak Centre West Wing	Sheung Wan	1,147	0.055	HK\$48 psf pm	Unit 1103
4-Feb-14	Lease	World Wide House	Central	3,290	0.197	HK\$60 psf pm	Unit 2402
6-Feb-14	Lease	Two IFC	Central	22,000	2.86	HK\$130 psf pm	27/F; leased to a US asset management company for ten years; previously leased to Ernst & Young
7-Feb-14	Sale	YHC Tower	Kowloon Bay	11,415	117.6	10,302	26/F
7-Feb-14	Sale	YHC Tower	Kowloon Bay	1,963	20.2	10,290	Unit B on 27/F; leased for HK\$26 psf/mth immediately after the transaction, 3.1% yield
10-Feb-14	Sale	Tower 2, Lippo Centre	Admiralty	1,052	21	19,962	A low-floor unit 2
10-Feb-14	Lease	Tower 2, Lippo Centre	Admiralty	1,770	0.0796	HK\$45 psf pm	Unit 2005A
10-Feb-14	Lease	World Trade Centre	Causeway Bay	4,557	0.218	HK\$48 psf pm	Mid-floor units 05 and 06
12-Feb-14	Sale	Tower 1, Lippo Centre	Admiralty	8,949	0.402	HK\$45 psf pm	Units 1003 to 1004A
18-Feb-14	Lease	COSCO Tower	Sheung Wan	2,588	0.14	HK\$54 psf pm	Unit 411
18-Feb-14	Lease	Shun Tak Centre West Tower	Sheung Wan		0.0615	HK\$47 psf pm	Unit 3517
19-Feb-14	Sale	E-trade Plaza	Chai Wan	7,769	53.39	6,872	18/F; sold with vacant possession
19-Feb-14	Sale	Lippo Centre Tower Two	Admiralty	1,556	53	34,062	Unit 3206
19-Feb-14	Sale	Tesbury Centre	Wanchai	4,109	61.5	14,967	Units 2601 to 08
19-Feb-14	Lease	Fortis Centre	Wanchai	6,270	0.263	HK\$42 psf pm	A high floor
20-Feb-14	Lease	YHC Tower, 1 Sheung Yuet Road	Kowloon Bay	1,963	0.051	HK\$26 psf pm	A high-floor unit B; leased to a IT company
20-Feb-14	Lease	Billion Centre, 1 Wang Kwong Road	Kowloon Bay	1,900	0.038	HK\$20 psf pm	Unit C on 19/F
20-Feb-14	Lease	Tower 2, Lippo Centre	Admiralty	996		HK\$40 psf pm	Unit 2103B on 21/F
21-Feb-14	Lease	The Center	Central	12,000	0.66	HK\$55 psf pm	42/F
24-Feb-14	Lease	28 Hennessy Road	Wanchai	9,870		HK\$50 psf pm	6/F and 7/F; leased to The Executive Centre
26-Feb-14	Sale	9 Queen's Road	Central	1,339	41.5	30,993	A mid-floor unit; sold with vacant possession
26-Feb-14	Sale	Cosco Tower	Sheung Wan	1,225	23.15	18,898	Unit 1209
27-Feb-14	Lease	The Center	Central	2,487		HK\$65 psf pm	A high-floor unit 7
27-Feb-14	Lease	The Center	Central	12,000	0.66	HK\$55 psf pm	Half of 42/F
27-Feb-14	Lease	Bank of America Tower	Central	3,826		HK\$70 psf pm	Unit 2602 on 26/F
27-Feb-14	Lease	China Insurance Group Building	Central	790		HK\$30 psf pm	Unit 2106 on 21/F
27-Feb-14	Lease	Tung Wai Commercial Building, 109-111 Gloucester Road	Wanchai	2,125		HK\$30 psf pm	Unit 1 on 10/F
27-Feb-14	Lease	Tung Ka Nin Wah Commercial Building, 423-425 Hennessy Road	Wanchai	1,168		HK\$21.5 psf pm	14/F
27-Feb-14	Lease	Kwai Hung Holdings Centre, 89 King's Road	North Point	2,094		HK\$24 psf pm	Units 1 to 3 on 22/F
28-Feb-14	Sale	Lippo Centre	Admiralty	12,225	281.1	22,994	42/F; sold by Lippo China Resources Limited
28-Feb-14	Sale	Chuang's Enterprises Building, Lockhart Road	Wanchai	2,520	22	8,730	9/F
28-Feb-14	Lease	Lippo Centre	Admiralty	12,108	0.702	HK\$58 psf pm	41/F
28-Feb-14	Lease	Cigna Tower	Causeway Bay		0.1185	HK\$29 psf pm	18/F

Source: Savills, Jones Lang LaSalle, HKET, SingTao Daily.

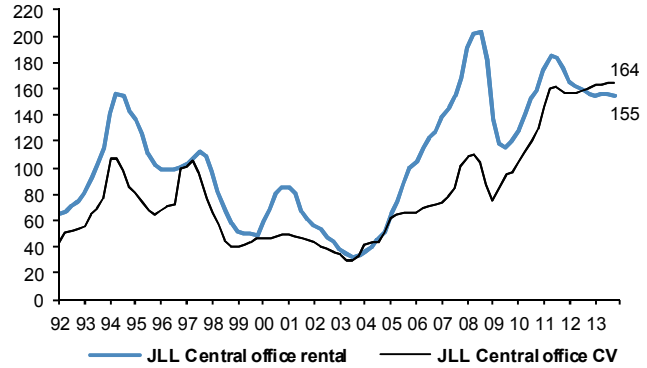
Office rental/capital value trends

Figure 19: JLL: Overall rental /capital value indices
 1997=100



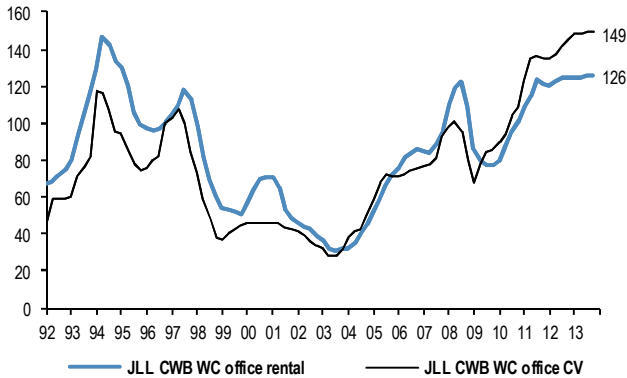
Source: Real Estate Intelligence Services – Jones Lang LaSalle

Figure 20: JLL: Central rental /capital value indices
 1997=100



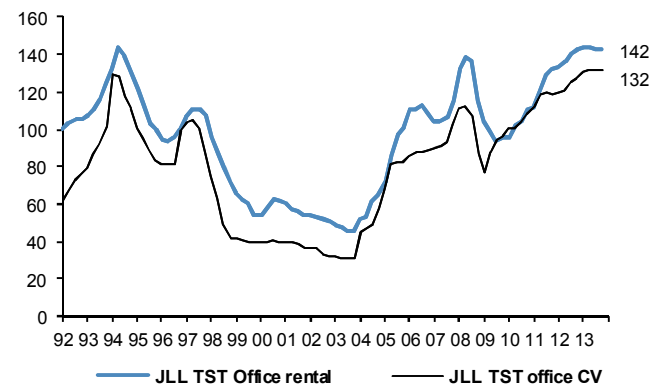
Source: Real Estate Intelligence Services – Jones Lang LaSalle

Figure 21: JLL: CWB rental /capital value indices
 1997=100



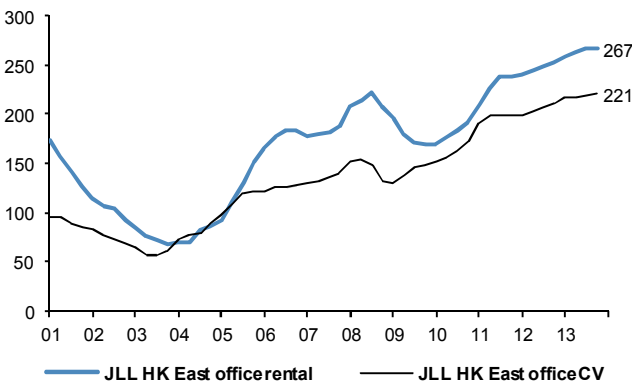
Source: Real Estate Intelligence Services – Jones Lang LaSalle

Figure 22: JLL: TST rental /capital value indices
 1997=100



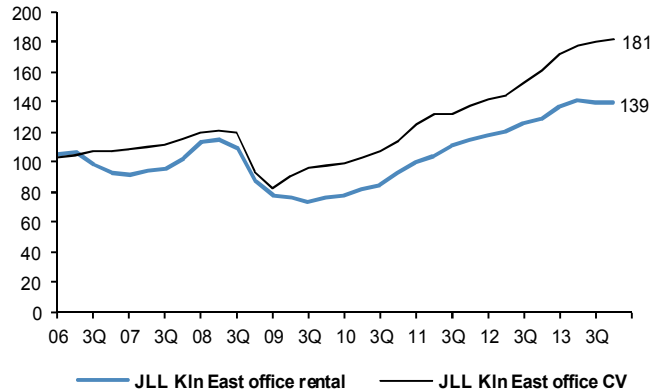
Source: Real Estate Intelligence Services – Jones Lang LaSalle

Figure 23: JLL: HKE rental /capital value indices
 2000=100



Source: Real Estate Intelligence Services – Jones Lang LaSalle

Figure 24: JLL: Kowloon East rental /capital value indices
 4Q06=100



Source: Real Estate Intelligence Services – Jones Lang LaSalle

Table 12: Selected retail lease/sales transactions in February 2014

Date	Lease/ Sale	Building	Location	Unit size (sq ft)	Price (HK\$MM)	Price/rent (psf)	Remarks
6-Feb-14	Sale	52-56 Tsun Yip Street	Kwun Tong	2,269	75	33,054	Two shops on 1/F and a low-floor unit B; including a 550-sf podium; sold to a mainland Chinese investor
6-Feb-14	Sale	52-56 Tsun Yip Street	Kwun Tong		255		Five shops range from 726 sf to 4,481 sf on G/F and 1/F; sold to an investor for HK\$14.8K-25K per sf
6-Feb-14	Sale	91 Belcher's Street	Sai Wan	600	33	55,000	Street shop; sold with vacant possession; currently leased to a dentist
6-Feb-14	Sale	1C Davis Street	Kennedy Town	880	64.8	73,636	Street shop
7-Feb-14	Sale	Pakpolee Commercial Centre	Mong Kok	19,217	600	31,222	G/F shops 10 and 11 and 1-3/F; two G/F shops and 1/F currently leased to Sa Sa Cosmetics for HK\$1.25 mn/mth
10-Feb-14	Sale	164 Apliu Street	Sham Shui Po	800	28	35,000	Street shop; sold with vacant possession
10-Feb-14	Sale	Po Ming Building, 96-106 Percival Street	Causeway Bay	700	252.8	361,143	Shop G on G/F
10-Feb-14	Lease	104 Chung On Street	Tsuen Wan	1,200	0.15	HK\$125 psf pm	Shop; lease renewed; 39% hike from previous HK\$108K/mth
11-Feb-14	Sale	8 Russell Street	Causeway Bay		142		18/F retail unit
12-Feb-14	Sale	77-83 Percival Street	Causeway Bay	685	40	58,394	Shop C on 1/F with a signage board; previous rent of HK\$100.5K/mth, 3.2% yield
12-Feb-14	Sale	13-17 Kik Yeung Road	Yuen Long	970	38	39,175	Street shop J; with rent of HK\$91K/mth
12-Feb-14	Lease	Phase 1B, Argyle Centre	Mong Kok	731	0.5	HK\$684 psf pm	Shops G24A and G62A; leased to Chow Tai Fook
12-Feb-14	Lease	39-47 Lee Garden Road	Causeway Bay	600	0.35	HK\$583 psf pm	Street shop I
13-Feb-14	Sale	489 Shanghai Street	Mong Kok	1,100	36.8	33,455	Street shop; currently leased to a restaurant for HK\$380K/mth
13-Feb-14	Sale	150-158 Lockhart Road	Wanchai	300	28.8	96,000	Street shop 4
14-Feb-14	Lease	One Peking	Tsim Sha Tsui	3,549	6	HK\$1,690 psf pm	Street shop 8 and unit 108 on 1/F; lease renewed by Cartier; 150% hike from existing rent of HK\$2.42mn/mth
14-Feb-14	Lease	One Peking	Tsim Sha Tsui	14,231	6.345	HK\$445 psf pm	Street shops 6 and 7 and units 106, 107 and 206; lease renewed by Ermenegildo Zegna; 83% hike from existing rent of HK\$2.42mn/mth; new lease will commence in early 2015
14-Feb-14	Sale	37 Lok Shan Road	To Kwa Wan	670	10.45	15,597	Street shop
17-Feb-14	Sale	498 Shanghai Street	Mong Kok	1,800	36.8	20,444	Retail shop with a cockloft (700 sf); sold with vacant possession; rent of HK\$38K/mth
17-Feb-14	Sale	SUP Tower	North Point	10,000	80	8,000	6/F and 7/F
18-Feb-14	Sale	364-366 Hennessy Road	Wanchai	2,000	56	28,000	G/F shop A (1,000 sf) with a mezzanine (1,000 sf); currently leased to a restaurant for HK\$75K/mth until Dec-14; 1.6% yield
19-Feb-14	Lease	Hanley House, 60-86 Canton Road	Tsim Sha Tsui	1,940	3.3	HK\$1,701 psf pm	Street shops 5 and 6
19-Feb-14	Sale	26-40 Yan Ching Street	Tuen Mun	800	35	43,750	Street shop 5 with a cockloft; existing rent of HK\$100K/mth; 3.4% yield
19-Feb-14	Lease	Hanchung Mansion, 8-10 Hankow Road	Tsim Sha Tsui	680	0.48	HK\$706 psf pm	Street shop B
20-Feb-14	Sale	148 Austin Road	Tsim Sha Tsui	1,556	76.8	49,357	A street shop; currently leased to a shoe retailer
20-Feb-14	Sale	Shopping arcade of The Met. Delight, 142 Camp Street	Sham Shui Po	1,577	56.176	35,622	Shops 1 to 4, and 6 and 7; sold to six different buyers
20-Feb-14	Sale	3 Whampoa Street	Hung Hom	800	16.4	20,500	A street shop; sold with vacant possession
21-Feb-14	Sale	Infinity Eight, 8 Clear Water Bay Road	Choi Hung	141 to 2,026	200		Sixteen shops; HK\$6.18 mn to HK\$29.6 mn per shop; Shop G04 (159 sf) had the highest price at HK\$10 mn (HK\$63,000 psf)
21-Feb-14	Sale	The Met. Delight	Sham Shui Po	320	12	37,500	Street shop 5
25-Feb-14	Sale	27 Aberdeen Street	Central	1,300	27	20,769	G/F shop and mezzanine
25-Feb-14	Sale	Ning Po Street	Jordan	1,300	37.8	29,077	G/F shop B and the mezzanine; currently leased for HK\$98K/mth, 3.1% yield
25-Feb-14	Sale	160 Wing Lok Street	Sheung Wan	2,100	34.5	16,429	G/F shop; leased for HK\$48K/month
25-Feb-14	Lease	33 Fa Yuen Street	Mong Kok	1,080	0.45	HK\$417 psf pm	G/F shop; leased to a sports equipment retailer
25-Feb-14	Lease	Kam Fai Building	Tsim Sha Tsui	800	0.336	HK\$420 psf pm	G/F shop E; leased to a watch retailer
26-Feb-14	Sale	61-63 Heung Wo Street	Tsuen Wan	560	20	35,714	Street shop 61 and the cockloft; existing rent of HK\$60K/mth, 3.6% yield

Date	Lease/ Sale	Building	Location	Unit size (sq ft)	Price (HK\$MM)	Price/rent (psf)	Remarks
26-Feb-14	Sale	5-7 Heung Wo Street	Tsuen Wan	2,200	21.2	9,636	Street shop 5 and the cockloft
26-Feb-14	Lease	77-83 Percival Street	Causeway Bay	1,100	0.6	HK\$545 psf pm	Shops A and B; leased to Standard Chartered Bank; 33% hike from previous lease
26-Feb-14	Lease	40-54 Castle Peak Road	Yuen Long	927	0.26	HK\$280 psf pm	Street shop 52A; 73% hike from previous lease of HK\$150K/mth
26-Feb-14	Lease	416-418 Prince Edward Road West	Kowloon City	7,344	0.125	HK\$34 psf pm	Street shop with B/F and 1/F
26-Feb-14	Lease	30 Jardine's Bazaar	Causeway Bay	250	0.11	HK\$440 psf pm	Street shop B
27-Feb-14	Sale	219 Queen's Road Central	Central	1,300	60	46,154	A street shop (650 sf) with a 650-sf cockloft; currently leased for HK\$80K/mth
27-Feb-14	Lease	18A-18B Peel Street	Central	600	0.048	HK\$80 psf pm	Street shop 4; leased to an organic vegetable retailer
28-Feb-14	Sale	427-437 Queen's Road West	Sai Wan	900	29.8	33,111	Street shop E; currently leased to a butcher's shop for HK\$52.5K/mth until May-15
28-Feb-14	Sale	21-27A Kam Ping Street	North Point	600	13.3	22,167	Street shop; current tenant is a beauty salon paying HK\$39.5K/mth
28-Feb-14	Lease	654-658 Nathan Road	Mong Kok	1,000	0.4	HK\$400 psf pm	Street shop B; lease renewal; 60% hike from previous rent
28-Feb-14	Sale	Manly Plaza , 995 King's Road	Quarry Bay	25,000	180	7,200	

Source: Savills, Jones Lang LaSalle, HKET, SingTao Daily.

Table 13: Major events

Date	Details
5-Feb-14	HK's retail sales volume recorded softer-than-expected growth at 6.1% Y/Y in December, compared to 9.1% in November. Total retail sales value increased 5.7% Y/Y in December, compared to 8.5% in November. For full-year 2013, retail sales volume was up 10.6% Y/Y (vs 7.2% in 2012), with growth rate averaged at 14.4% during 1H13 and moderated to 7.0% in 2H13, whereas sales value rose 11.0% Y/Y. Details suggested that retail sales volume growth in 2013 was mainly driven by jewellery, watches and clocks, and valuable gifts (+24.8%), department stores (+16.8%) as well as consumer durable goods (+8.3%).
5-Feb-14	SHKP is looking to sell the office project at 181 Hoi Bun Road with an indicative price of HK\$13,000-15,000 psf. The 27-storey building provides 17,000-18,000 sf on each floor. SHKP owns 64.3% stake (i.e. 199,000 sf) and the other JV partner will hold 15-20/F for leasing purpose. SHKP acquired the site in 2007 for some HK\$1,100 psf and paid land premium of HK\$870 psf in 2010 to convert the site to commercial use.
5-Feb-14	The 2,500 successful applicants in the second batch of the Scheme of Extending the HOS Secondary Market to White Form Buyers were able to enter market starting from early January. This caused the secondary transactions of PRH and HOS units rose nearly 50% M/M to 146 units. However, anecdotal feedback suggested that many housing estates recorded price decline from last year's peak and market participants believe the fall in secondary HOS price will drag mass-end home price.
6-Feb-14	NWD planned to launch three projects in 1H14, namely Austin Station (Site D) (691 units), The Woodside (98 units) and Park Villa (51 townhouses) in Yuen Long. NWD still sees high demand for small to medium-sized units and expects overall residential market to be stable with mild decline. The renovation work for NWD's Manning House has recently completed. NWD spent around HK\$20 mn to refurbish the building and changed the retail tenants and the building is now over 90% occupied with an average rent of some HK\$50 psf.
6-Feb-14	Wellington Management relocated to 17/F of Two IFC (23,000 sf) for HK\$130 psf. The space is one of the floors previously occupied by Ernst & Young. The financial firm originally occupies two floors at Exchange Square and the relocation can help consolidate the office space. Banco Santander also took up part of 11/F at Two IFC (15,000 sf) for HK\$130 psf. The bank also occupies Exchange Square originally.
6-Feb-14	Wharf's Times Square in HK recorded occupancy of 98% and rental reversion of some 30% in 2013. It also highlighted that some retail tenants in the mall also take up office space in Times Square. Separately, Alibaba recently renewed the lease for their office (two entire floors) in Times Square with a rental increase of 10%. According to the company, around one-third of Times Square mall (i.e. ~330,000 sf) expires every year. Wharf is optimistic to the retail outlook and expects double-digit growth for both retail sales and rental reversion. During the Chinese New Year holiday period, Wharf recorded double-digit growth for both footfall and retail sales as footfall reached 200K (compared to 160K in other periods) and average spending rose 20%.
7-Feb-14	In light of shrinking secondary volume, real estate agents continue to face difficult operating environment. Number of agency branches reduced 117 to 6,204, down 1.9% M/M and hitting a 14-month low. Market participants believe the number has not reflected the current situation yet and will further decline in the coming months. On the other hand, the number of licensed agents fell for straight nine months to 35,645, down 4% from the peak.
8-Feb-14	Cheung Kong's HEMERA (Lohas Park Ph3A) (1,648 units) was the only project receiving presale consent in January. As of early February, there are 7 projects which obtained presale approval but have not been launched. These projects can provide a total of 3,462 units, of which the three largest ones are held by Cheung Kong, including Mont Vert Ph1 (1,071 units) in Tai Po and Trinity Towers (402 units) at Lai Chi Kok Road. As more large-scale projects received approval, the number of units awaiting presale permit fell 23% M/M to 5,915 units, hitting a 26-month low. COLI/URA's Ma Tau Kok project (168 units) was the only new application in January. Kowloon Development expects to launch MacPherson Residence at Mongkok as early as end-1Q14.
8-Feb-14	Wheelock expects to launch four residential projects and one commercial property in 2014 and the total sales proceeds can be over HK\$10 bn. The residential projects to be launched include Austin Station (Site D) (691 units), Tseung Kwan O project (591 units), Mount Nicholson project (19 townhouses and 48 apartments) and High Street project (75 units) in Western District. Several potential buyers also expressed interest in the East Tower of One Bay East (500K sf) in Kwun Tong. Wheelock believes residential prices would only fluctuate by 5-10% and does not expect a substantial correction in light of rising construction cost in recent years to some HK\$3,000-4,000 psf now.
8-Feb-14	Hysan reported occupancy of 98% and rental reversion of about 50% for its office buildings in Causeway Bay. On the other hand, the building plan for Sunning Plaza redevelopment has recently been approved and the site will be redeveloped into a 27-storey commercial building with retail and office space. GFA will increase by 25% to reach some 460K sf. The redevelopment is slated for completion in 2017-18. Hysan expects retail rental growth to slow down but believes the overall rental trend will be stable.
11-Feb-14	As Link REIT intends to expand in mainland China, it will focus on second tier areas surrounding city centres. In particular, Link REIT is looking for investment opportunities in Shenzhen and Guangzhou as there are more new community developments. It believes shopping malls with 600K-1,000K sf would fit its scale. Besides Vanke, Link REIT is also liaising with other China developers for cooperation but HK will remain its base. In a separate news, Link REIT also indicated that retail projects along the railway which has excellent transport network will be their main targets for investment in China. It does not mind paying a slight premium for projects that are already occupied and operating. It already hired staff with property investment experience in China.
11-Feb-14	70 SSD-related transactions were recorded in January, down 23% M/M and same as the record low reported in November 2013. It dropped 76% compared to the peak level in mid-2012 where close to 300 transactions were recorded. The SSD payment fell slightly by 4% M/M to HK\$16.5 mn which implies transaction value of SSD transactions increased last month. Out of the 70 transactions, 67 (96%) were resold after 1 to 2 years whereas 3 were resold within 6 months and none was resold after 6 months to 1 year. Since the introduction of SSD, 3,384 transactions involved SSD with a total payment of HK\$635 mn thus far (which did not take into account the extension of SSD).
11-Feb-14	Sino Land will launch five China projects (4,315 units) this year which spread across four cities, namely Chengdu, Chongqing, Xiamen and Zhangzhou. It expects to launch The Coronation Ph1A (851 units) in Chongqing first as early as March and intends to sell at over Rmb10,000 psm. The largest project launch this year will be The Palazzo, Chengdu Ph2A (1,704 units) and is expected to launch in 3Q14. Some 700 units of Ph1 were already sold at around Rmb11,000-12,000 psm. On the other hand, Sino plans to launch over 2,500 units in HK including three new projects, namely the Pak Shek Kok project (1,091 units), Kau To project (973 units) and Cheung Sha project (16 townhouses) in Lantau Island. The Pak Shek Kok project will be launched in 2H14 and Cheung Sha project will be sold after completion (expected to be in Sep-14). It will re-launch the leftover inventory of Providence Peak (106 units unsold) and Park Ivy (some 100 units unsold) soon in 1Q and continue to sell The Avenue (some 300 units unsold). Thus far, some 980 units of The Avenue Ph1 and 2 were sold generating sales proceeds of close to HK\$10 bn.
12-Feb-14	According to HKET, the Government has recently commenced the feasibility study to convert agricultural land, uncovered warehouses and other sites in North New Territories (including the Fanling Golf Course) to residential and commercial use. It is expected that the new development area can provide 160K units to accommodate some 450K residents and the study is expected to complete in mid-2015.

12-Feb-14	SaSa reported overall sales growth and SSSG at 19% and 14% respectively in 2014 up to mid-February. However, due to high base effect, for the first 7 days of Chinese New Year, the overall sales growth and SSSG were only 6% and 3% Y/Y. Despite the increase in transaction volume for nearly 20%, weak consumption power caused average transaction value to fall by some 10%.
13-Feb-14	SHKP and Nan Fung each acquired a site at Leung Tak Street in Tuen Mun at an AV of HK\$2,571 psf and HK\$2,139 psf, respectively. The land cost is lower than market expectation of HK\$2,800-3,500 psf and land costs in recent land tenders in Tuen Mun. Nan Fung attributed the lower land cost to high construction cost. It will build two residential towers with at least 370 units and retail stores. On the other hand, SHKP's site is close to Light Rail station and the developer expects to invest a total of HK\$1.4 bn.
13-Feb-14	mReferral Mortgage Brokerage quoted the effective mortgage rate for January is 2.07% which suggested that tapering from Federal Reserve has not brought immediate impact to mortgage rate. However, it believes if capital outflow accelerates, HK will increase interest rate earlier than the US. It expects more prominent pressure to raise mortgage rate in 2H14 and estimates the mortgage rate increase to be less than 0.5%. In particular, Hibor-based mortgage rate will rise earlier than prime-based mortgage rate. However, as banks are proactive in pushing Hibor-based mortgages, it believes Hibor-based mortgage market share can rise to 50% this year. Separately, BOC (HK) and Standard Chartered recently launched Hibor-based mortgage plan at H+1.7% together with a deposit account at 1.91%. Standard Chartered will even offer 2% deposit rate in the first year. This will help compensate the interest expense for mortgages.
13-Feb-14	Cheung Kong planned to launch 9 projects in HK and China in 2014 and has sales target of HK\$40 bn. For HK, 6 projects (with around 5,000 units) will be launched and Cheung Kong targets to sell 2,500 units. Its JV project with URA, Trinity Towers (402 units) at Lai Chi Kok Road, will be the next new launch. In China, Cheung Kong will launch three projects in Beijing, Shanghai and Guangzhou involving 1,000 units where the majority is townhouses. It expects to generate HK\$10 bn from China sales. Cheung Kong believes change in residential price in HK will be within 10% in 2014.
13-Feb-14	During the Chinese New Year period (Jan 25 - Feb 3), SHKP's V city recorded retail sales of HK\$60 mn, up 15% from normal season. Foot traffic was also 30% higher at 1.6 mn and overall average spending ranged from HK\$800-3,000 per person. On the other hand, another 9 malls of SHKP, namely wtc more, East Point City, Mikiki, Landmark North, Park Central in TKO, K-Point and Chelsea Heights Plaza in Tuen Mun as well as Tsuen Kam Centre and Grand City Plaza in Tsuen Wan, also reported 15% Y/Y footfall growth to 9.6 mn and 18% Y/Y retail sales growth to HK\$645 mn from Jan 24 to Feb 3. Moreover, apm Mall also recorded 10% and 20% Y/Y growth for footfall and retail sales from Jan 31 to Feb 9.
18-Feb-14	SHKP paid land premium of HK\$42.41 mn to convert Hip Lik Industrial Building at 33 Tseuk Luk Street in San Po Kong to a commercial building (23/24 storeys) with GFA of 240,000 sf. According to HKET, SHKP already paid HK\$156 mn land premium in 2011 and the project is slated for completion this year.
18-Feb-14	CY Leung, Chief Executive, believes that implementing rental control will bring negative impact to the residential market as there will be fewer units available for lease and some owners may even end the leasing contracts during the long law-making process. This would adversely affect tenants including the lower class. He believes the most effective way to resolve the housing problem is to increase housing supply.
19-Feb-14	HK's three-month average seasonally adjusted unemployment rate declined further to 3.1% in January, the lowest level ever reached since February 1998. Underemployment rate also fell slightly from 1.4% to 1.3% in January. Number of households with monthly income over HK\$100,000 rose 3.6% Y/Y to 91,700 in 4Q13 while those earning less than HK\$10,000 dropped 5% Y/Y to 504,100. Overall median household income increased 6% Y/Y to HK\$22,400 whereas private median household income rose 1% Y/Y to HK\$30,400.
19-Feb-14	Visitor arrivals growth further strengthened to 17.8% Y/Y from 9.3% recorded in December. Out of the 5.46 mn visitors, Mainland tourists accounted for 80% (vs Dec: 74%) probably due to Chinese New Year holiday, followed by South & SE Asia (5%). Mainlanders (+23.3% Y/Y) continued to be the major growth driver, whereas Taiwan and North Asia also delivered 5.0% and 4.3% growth respectively. HK Tourism Board expects overall visitor arrivals to reach 58.96 mn this year, up 8.6% Y/Y (vs 11.7% in 2013). In particular, it forecasts mainland tourist arrivals to increase 10.8% to 45.13 mn this year.
19-Feb-14	A street store (1,940 sf) at 60-86 Canton Road was taken up by a jewellery shop at a monthly rent of HK\$3.3 mn (i.e. HK\$1,701 psf). The store is currently occupied by HSBC and rent is up about 110% from HK\$1.55 mn of the existing lease. Since last year, there are already four bank branches in Canton Road being taken up by retail stores. A Hang Seng Bank's branch (2,518 sf) in Canton Road was also taken up by Chow Tai Fook Jewellery last year for HK\$4.3 mn per month (i.e. HK\$1,708 psf), up 228% from the rent paid by the bank.
20-Feb-14	Nan Fung offers a new stage payment method to its buyers. If buyers opt for the new method, they are only required to pay 5% upon signing of PASP and another 5% on or before 2 January 2015. The remaining 90% shall be paid upon completion of the project. The developer believes this would provide more flexibility to buyers on cash management especially upgraders. Separately, the developer also re-launched Winfield Building in Happy Valley with list ASP ranging from HK\$23,500-39,400 psf and a maximum discount of 22%. Compared with the pricing in 2011, some units are about 13% cheaper after accounting for all discount offers.
21-Feb-14	CLSA acquired 8 Russell Street at Causeway Bay which was the Shama serviced apartment last December for HK\$1.8 bn. The fund recently converted the serviced apartment to commercial use and launched the project for strata-title sale. Thus far, 14 floors were sold generating sales proceeds of HK\$2 bn and only 4 floors were left. ASP of the floors sold was around HK\$30,000 psf and HK\$28,000 psf after stamp duty rebate whereas some floors could reach over HK\$32,500 psf after discount.
21-Feb-14	Knight Frank reported 1.0% M/M increase for Central prime Grade A office rents and 1.3% increase in traditional Central Grade A office rents in January. Overall Central rents showed the largest increase last month among all the districts. Knight Frank expects Central office rents to be stable in 2014 while the overall office market to remain stable or showing mild correction. Separately, a 93,000 sf office space at KITEC was leased to a government department at HK\$21 psf. According to HKET, market participants expect the Electrical and Mechanical Services Department to relocate to KITEC from its previous headquarter at Caroline Hill Road, Causeway Bay. Cushman & Wakefield also pointed out that major financial firms are conservative in expansion and there were not many leasing activities. The weak demand and limited supply in Central will continue to support a stable rental outlook in Central with limited leasing activities. It forecasts vacancy rate in Central to fall from 7% in 2013 to 6.6% this year.
23-Feb-14	HK's January headline CPI inflation was 4.6%, up from 4.3% in December. Netting out the effects of the one-off relief measures, underlying CPI inflation rose to 4.3% (vs 3.9% in December). Overall, food prices contributed 1.15pp to the headline CPI (vs. +1.14pp in December), while the other major component housing CPI contributed 1.8pp (vs +1.9pp in December). Contribution from misc services turned up relatively notably by 1.1pp (vs. +0.7pp in December), likely due to increase in service fees around the holiday period.
24-Feb-14	SHKP's Co-Chairman Mr Thomas Kwok estimates that secondary home price in certain districts may fall 10% whereas projects in urban areas will see more stable prices. He also indicated that the third generation of the Kwok Family has already joined the company and there is a timetable for succession. He reiterated that the Kwok Family will not reduce stake in SHKP.
24-Feb-14	The Executive Centre, a business centre, leased 6-7/F (nearly 10,000 sf) at Swire Properties' 28 Hennessy Road at some HK\$50 psf and expects to open in 2Q14. The company has a total of 7 business centres in Hong Kong with a majority in Central. On the other hand, another business centre, Compass Office, also took up 14,000 sf low-floor units in Lee Garden for some HK\$50 psf.

25-Feb-14	Chinese firms remain active in taking up office space in Central. Cinda Asset Management recently leased the entire 12/F (12,000 sf) at AIA Central for HK\$130 psf whereas a Chinese real estate company took up 3,385 sf high-floor units at Exchange Square for HK\$135 psf on lettable basis. Guoyuan Securities also relocated from Li Po Chun Chambers in Sheung Wan to 22/F (7,400 sf) at CCB Tower in Central for some HK\$100 psf.
25-Feb-14	NWD's New Beach Resort Hotel in Sai Kung was recently sold at HK\$190 mn. With 32 hotel rooms and a total GFA of 15,000 sf, this implies nearly HK\$6 mn per room and HK\$12,700 psf. NWD acquired the hotel in early 2007 for HK\$78.5 mn but has recently spent on renovating the hotel. NWD is also active seeking buyers for other non-core assets, including the shopping mall at Harbour Place (G-1/F and 30 parking spaces; GFA 28,368 sf) in Hunghom and the shopping mall at Belair Monte (GFA 67,083 sf) in Fanling with a total estimated market value of over HK\$1 bn.
25-Feb-14	Champion REIT reported FY13 distributable income of HK\$1,271MM, up 1.4% Y/Y. DPU went up slightly by 0.6% Y/Y to HK\$0.2102. Investment property valuation went up 5.5% due to the acquisition of four floors at Citibank Plaza and higher rental at LP mall. While the occupancy level at Citibank Plaza decreased to 85.3% at the end of 2013 due to the acquisition of additional floors in the building, Champion managed to fill up part of the 14% of space to be vacated by BoAML in 2H14 (over 30K sf secured) and major tenant ICBC renewed its lease with a slight positive rental reversion. Management is prepared to stay competitive on prices to fill up the office space.
25-Feb-14	URA invited interested parties to submit Expression of Interest for the development of a residential-cum-retail and commercial project of its Kwun Tong Town Centre project. It involves Development Areas 2 and 3 which comprises a total residential GFA of 138,980 sqm providing about 1,700 units, together with a GFA of 14,420 sqm for retail purpose. According to HKET, URA estimates a total investment cost of HK\$16 bn (excl. podium which will be built by URA with some HK\$1.7 bn) and the project will provide mainly larger sized units of 600-800 sf (on saleable basis). URA tentatively schedules the tender invitation in May 2014 and expects the project to be completed in 2019.
26-Feb-14	The Government fetched three Kai Tak sites today at an average AV of HK\$5,845 psf which is higher than market expectation of HK\$4,500-5,700 psf reported by HKET and 13% higher than the average AV COLI paid (HK\$5,157 psf) back in June 2013 for the two "Hong Kong Property for Hong Kong People" sites nearby. Individually speaking, Poly Property paid the highest price to acquire Site 3 at HK\$6,530 psf which is 15% higher than the high end of market estimates. These three sites will provide some 2,600 units in total.
26-Feb-14	HK's 4Q13 GDP growth picked up 3.0% Y/Y compared to 2.8% in 3Q13. For full-year 2013, real GDP rose 2.9% Y/Y compared to 1.5% in 2012. Private consumption and exports picked up in a faster pace on average for the full-year.
27-Feb-14	New World Development reported better-than-expected 1HFY14 underlying earnings of HK\$4,207.5mn, up 3% Y/Y. The key reason for higher-than-expected earnings was strong growth in profit in New World China Land (917 HK), where the company reported profit growth of 46.3% to HK\$3,394.6 mn. For HK, residential profit recognition mainly came from Woodsville, Reach and Riverpark. Interim DPS remains unchanged at HK\$0.12. Net debt to equity stood at 35.1% as of 31 Dec 13. The company has no plan to raise its sales target of HK\$10 bn for FY14 despite the fact that it has already achieved HK\$13.6 bn of contracted sales for FY14 YTD.
27-Feb-14	Sino reported its 1HFY14 underlying earnings at HK\$2,481 mn, down 45% Y/Y due to lack of completion during the interim period. The projects that were booked during the period include The Grace, Providence Peak, and Providence Bay. Despite the fall in underlying earnings, Sino has maintained its interim dividend of HK\$0.12. The company is still maintaining a net cash balance of HK\$1.44 bn. If the associate debts were to be included, the net cash position would be reduced to HK\$88 mn.
27-Feb-14	Great Eagle reported FY13 core net profit of HK\$1,680 mn, down 6.8% Y/Y. While final DPS remains unchanged at HK\$0.43, the declaration of special final DPS of HK\$0.5 came as a surprise. After the spin-off of LHI in 2013, GE announced special DPS of HK\$1 in the interim results. In total, special dividend of HK\$1.5 was declared in relation to this spin-off.
27-Feb-14	With the stamp duty rebate offered by developers, more mainland buyers entered the residential market. In 4Q13, mainland buyers accounted for 13.7% in terms of transaction volume and 19.1% in terms of value in the primary market, up 2.5pp and 2.8pp Q/Q respectively. For secondary market, market share of mainland buyers edged up 0.5pp and 0.2pp Q/Q to 5.3% and 6.5% for transaction volume and value respectively. Overall, the market share in 4Q13 is the highest in the year as mainland buyers accounted for 8.2% of total transaction volume.
28-Feb-14	Cheung Kong reported FY13 profit ex-Hutchison at HK\$17.9 bn, up 26% Y/Y. With the share of profit of Hutchison also increasing by 20% Y/Y to HK\$15.5 bn, net profit of Cheung Kong grew 24% to HK\$33.5 bn. Final DPS rose 10% to HK\$2.9, giving a 10% uplift to full year DPS to HK\$3.48.
28-Feb-14	SHKP reported FY14 interim underlying earnings of HK\$10,644 mn, down 8% Y/Y. Gross rental income from HK and China went up 11% and 56% Y/Y, thanks to positive rental reversion and contribution of new properties such as V City in Tuen Mun and iAPM in Shanghai. Gearing remains below 20% in January after payment of land premium for Xujiahui Centre project. Interim DPS remains unchanged at HK\$0.95. SHKP proposed a bonus issue of warrants to shareholders on the basis of one warrant for every 12 existing shares. The warrants could be issued to shareholders starting from 23 April. According to the option valuation model by Bloomberg, this 24-month call option with a strike price of HK\$98.6 is worth about HK\$9.3. This equates to HK\$0.775 per share. SHKP can raise a maximum of HK\$22.2 bn if all warrants are exercised.
28-Feb-14	For the 2014-15 land sale plan, there are 34 residential sites available for sale which can provide 15,500 units, up some 13% from 13,700 units in 2013-14. However, 21 sites (or 11,000 units) are not converted to residential use yet and only 20% of the 24 newly added sites are in urban areas. The Government will also sell seven commercial sites and one hotel site in the coming fiscal year. The Government will launch six residential sites and one commercial site for sale in 2Q14 of which four have restrictions on number of units. However, these six sites can only provide 1,500 units, down 73% Q/Q. If the 1,700 units from URA's Kwun Tong redevelopment is included, total supply can go up to 3,200 units. In 2014-15 budget, the Government also highlighted various measures to increase commercial space, including revitalization of industrial buildings and conversion of GIC sites to commercial use. It will also launch six harbourfront sites at Kai Tak for hotel development one by one from end-2015 onwards.
1-Mar-14	MCM, a German leather brand, renewed its lease for the retail space at G/F and B/F of Entertainment Building, Central for over HK\$3 mn per month, up 50% from previous lease. With a GFA of 9,300 psf, the average rent is about HK\$320 psf.
1-Mar-14	Swire Properties reached agreement with the Government to acquire its interest in Cornwall House in TaiKoo Place. The agreement provides for the exchange of ten floors of Grade A office space in Cityplaza Three (205,000 sf) for all the areas in Cornwall House currently owned and occupied by the Government, consisting principally of eight floors in the building (187,000 sf). The agreement includes a cash consideration payable to the Government of HK\$537million, and an additional amount to reflect any potential appreciation in office values between the date of the agreement and the date of completion of construction of the second phase of the TaiKoo Place redevelopment. In addition, Swire will fund relocation costs and expenses for the existing Government departments to vacate Cornwall House, including the fit out of the 10 floors of Cityplaza Three. The transaction is expected to be completed no later than 30 December 2016.

Source: Savills, HKET, HKEJ, Mingpao, Singtao Daily, Jones Lang LaSalle, Bloomberg, Company, SCMP, J.P. Morgan.

Summary of Publications in February 2014

Industry reports

Hong Kong/China property: What has changed over the last 10 days?
(February 27, 2014)

Hong Kong property sector: Hong Kong budget speech FY14/15 – a non-event for the property sector
(February 26, 2014)

Hong Kong Property: Sharp contrast between urban and New Territories sites
(February 25, 2014)

Hong Kong Property: Early signs of positive catalysts coming through
(February 24, 2014)

Hong Kong Property: Low land cost at Tuen Mun viewed as positive for the sector
(February 12, 2014)

Hong Kong Property: Good news was completely ignored by the market
(February 10, 2014)

Company reports

Cheung Kong Holdings: Strong tailwind from Hutchison
(March 2, 2014)

Sun Hung Kai Properties: Preparing for the volume game
(March 2, 2014)

Cheung Kong Holdings: FY13 final results better than expected
(February 28, 2014)

Great Eagle: Special final dividend a positive surprise
(February 26, 2014)

New World Development: FY14 contracted sales ahead of expectation
(February 26, 2014)

New World Development: FY14 interim results better than expected
(February 26, 2014)

Sino Land: Downside risks cushioned by attractive dividend yield
(February 26, 2014)

Champion REIT: FY13 results show improvements in Citibank Plaza office leasing, upgrade to Neutral
(February 24, 2014)

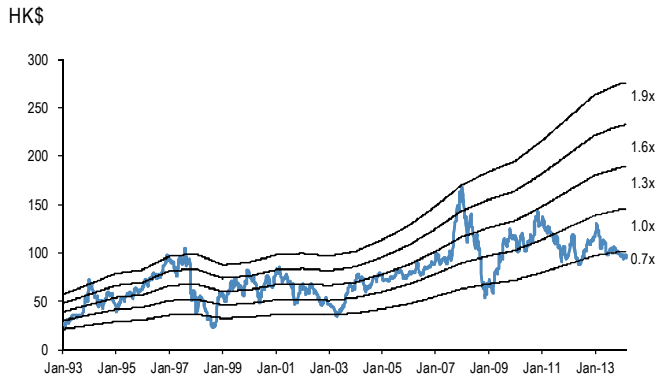
New World Development: FY14 interim preview: Watching for contract sales guidance
(February 14, 2014)

Sino Land: FY14 interim preview: earnings drop should not be a surprise
(February 13, 2014)

Sun Hung Kai Properties: Earnings downside limited
(February 10, 2014)

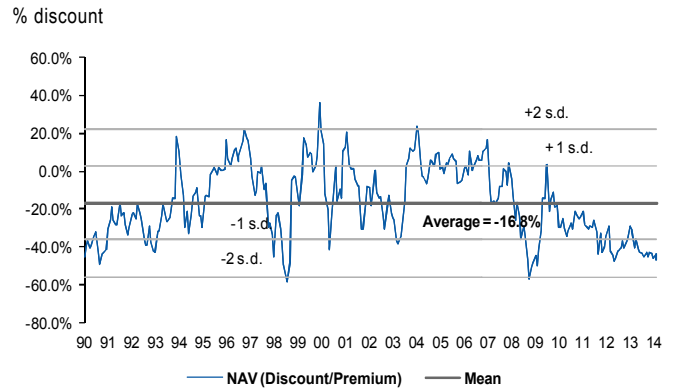
Valuations: NAV and P/BV bands

Figure 25: SHKP—Price-to-adjusted book band



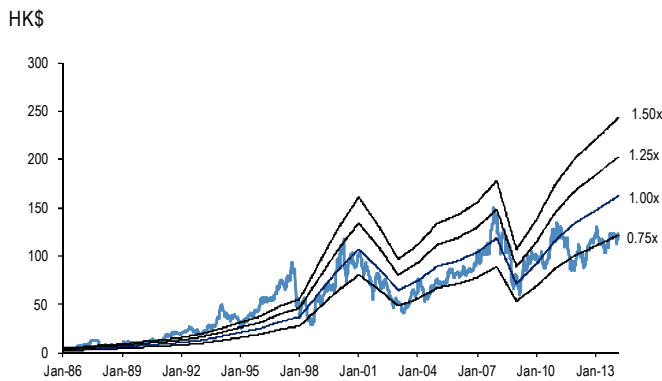
Source: Bloomberg, company, J.P. Morgan estimates.

Figure 26: SHKP—Current NAV discount



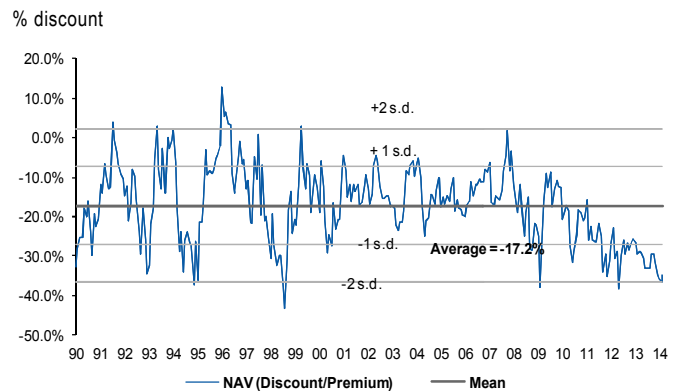
Source: Bloomberg, company, J.P. Morgan estimates.

Figure 27: Cheung Kong—Price-to-adjusted book band



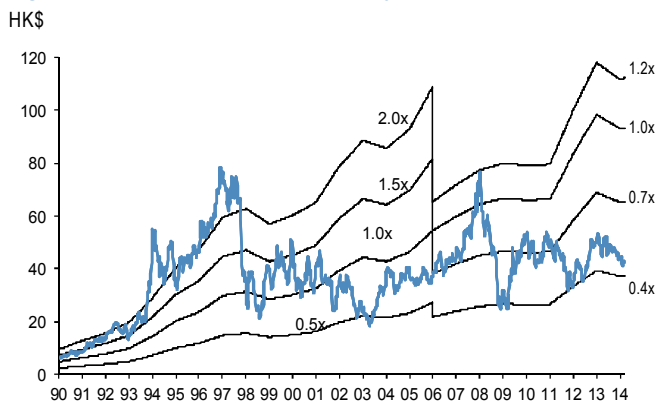
Source: Bloomberg, company, J.P. Morgan estimates.

Figure 28: Cheung Kong—Current NAV discount



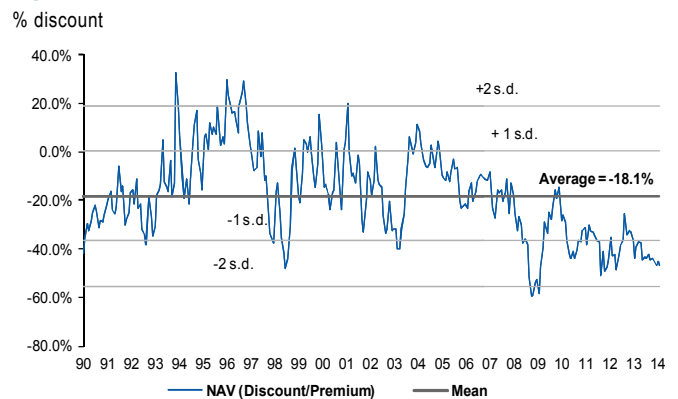
Source: Bloomberg, company, J.P. Morgan estimates.

Figure 29: Henderson Land—Price-to-adjusted book band



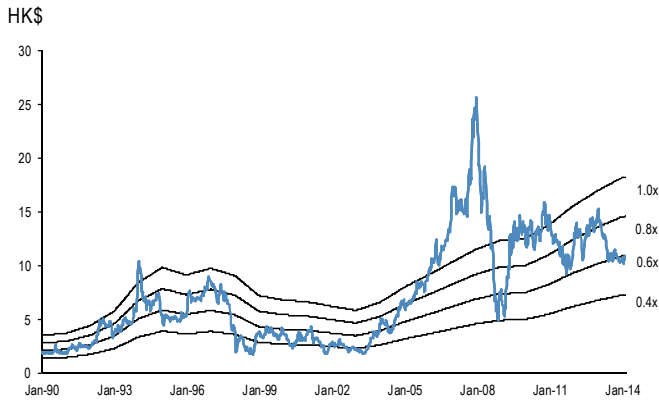
Source: Bloomberg, company, J.P. Morgan estimates.

Figure 30: Henderson Land—Current NAV discount



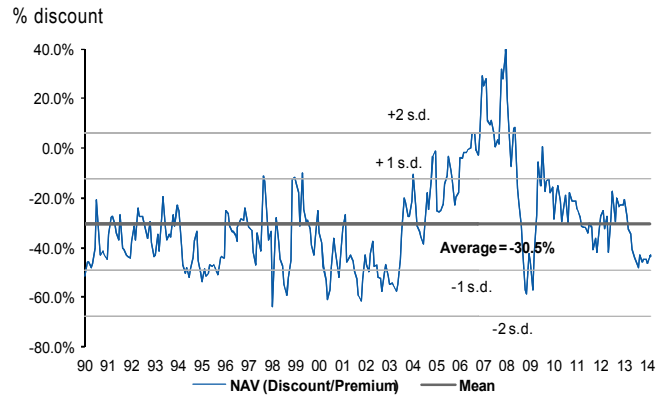
Source: Bloomberg, company, J.P. Morgan estimates.

Figure 31: Sino Land—Price-to-adjusted book band



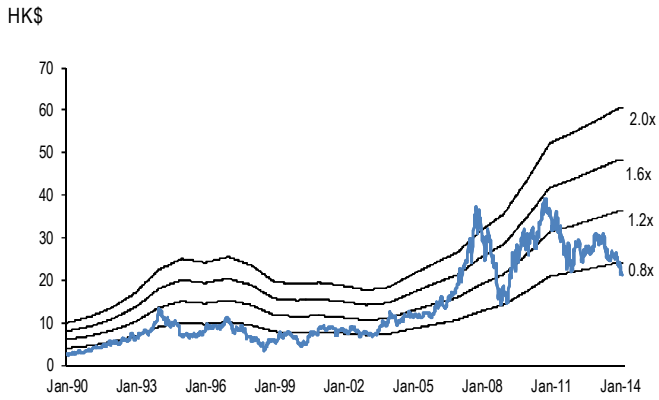
Source: Bloomberg, company, J.P. Morgan estimates.

Figure 32: Sino Land—Current NAV discount



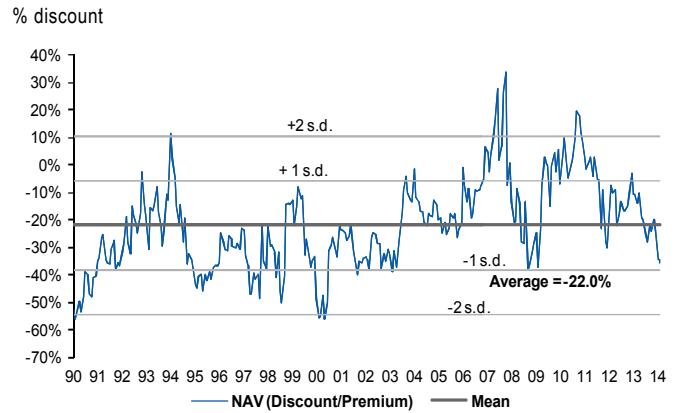
Source: Bloomberg, company, J.P. Morgan estimates.

Figure 33: HLP—Price-to-adjusted book band



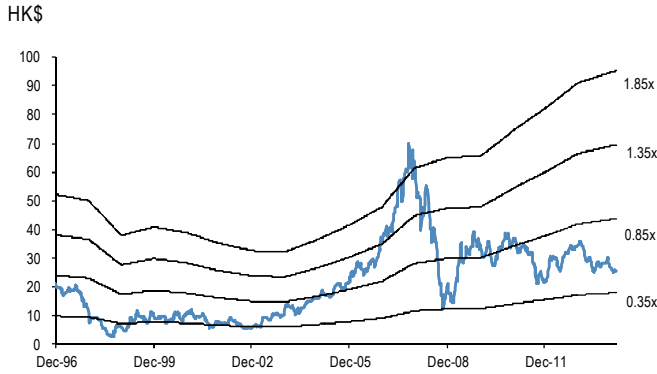
Source: Bloomberg, company, J.P. Morgan estimates.

Figure 34: HLP—Current NAV discount



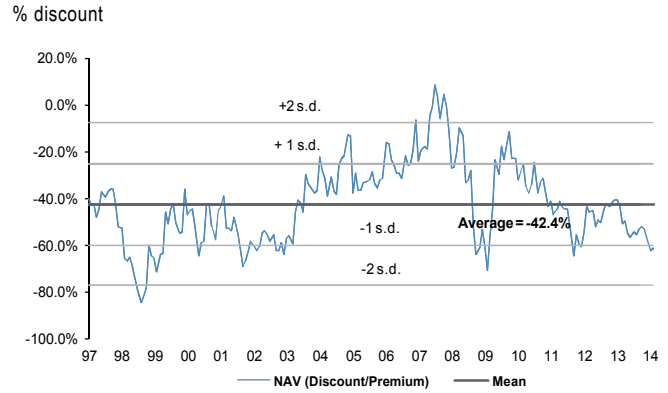
Source: Bloomberg, company, J.P. Morgan estimates.

Figure 35: Kerry—Price-to-adjusted book band



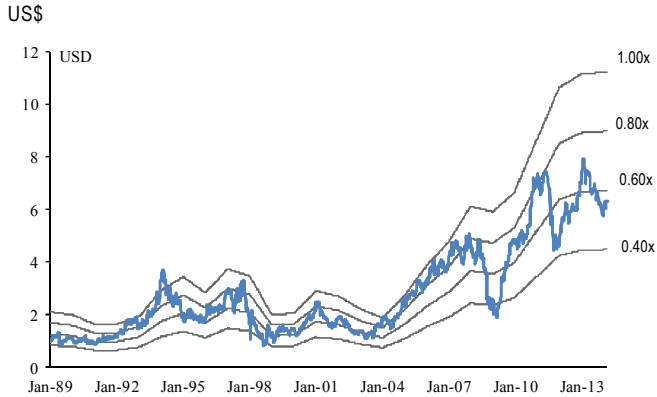
Source: Bloomberg, company, J.P. Morgan estimates.

Figure 36: Kerry—Current NAV discount



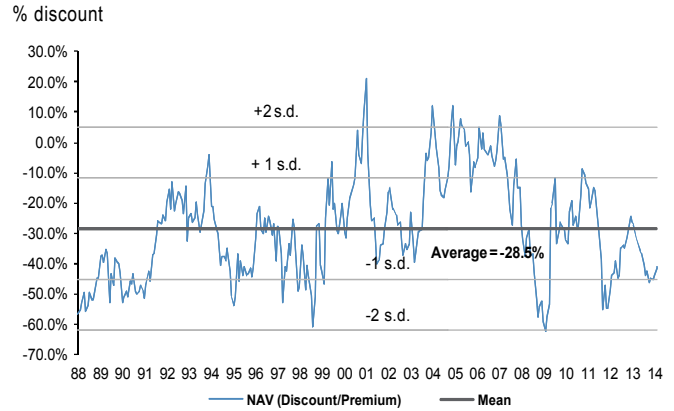
Source: Bloomberg, company, J.P. Morgan estimates.

Figure 37: HK Land—Price-to-adjusted book band



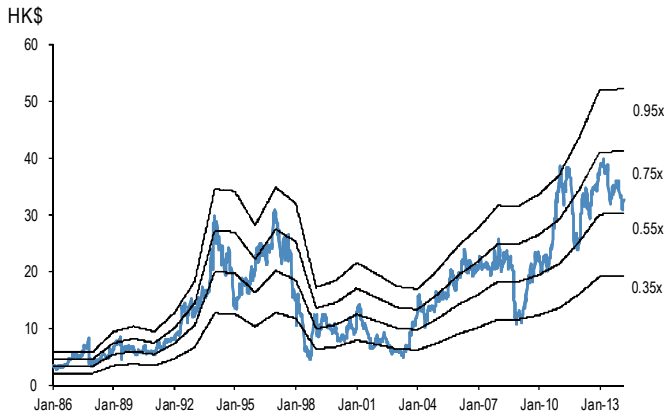
Source: Bloomberg, company, J.P. Morgan estimates.

Figure 38: HK Land—Current NAV discount



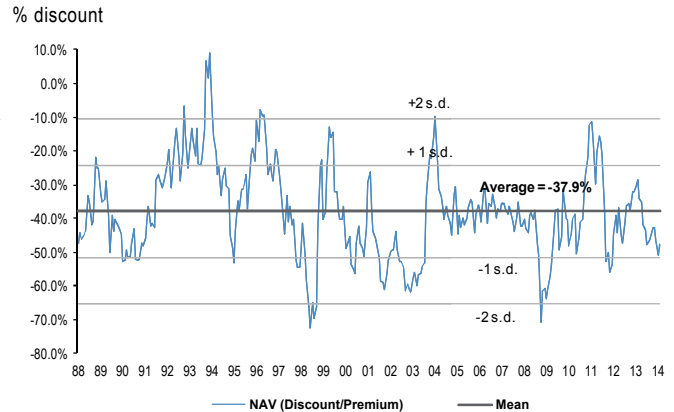
Source: Bloomberg, company, J.P. Morgan estimates.

Figure 39: Hysan—Price-to-adjusted book band



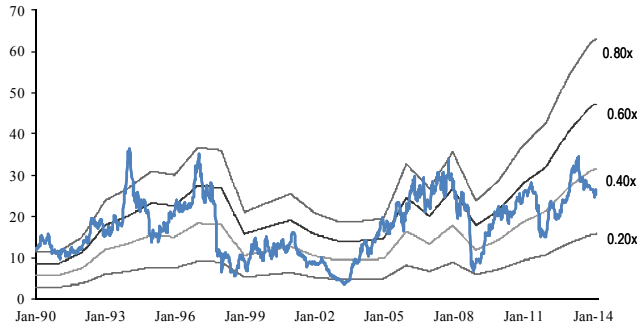
Source: Bloomberg, company, J.P. Morgan estimates.

Figure 40: Hysan—Current NAV discount



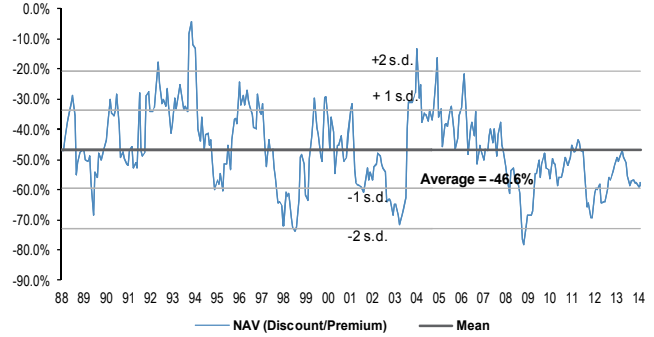
Source: Bloomberg, company, J.P. Morgan estimates.

Figure 41: Great Eagle—Price-to-adjusted book band
 HK\$



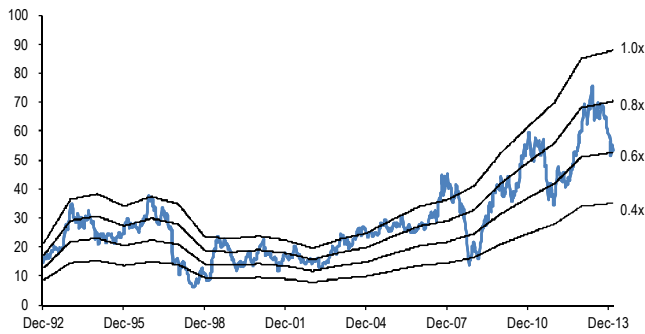
Source: Bloomberg, company, J.P. Morgan estimates.

Figure 42: Great Eagle—Current NAV discount
 % discount



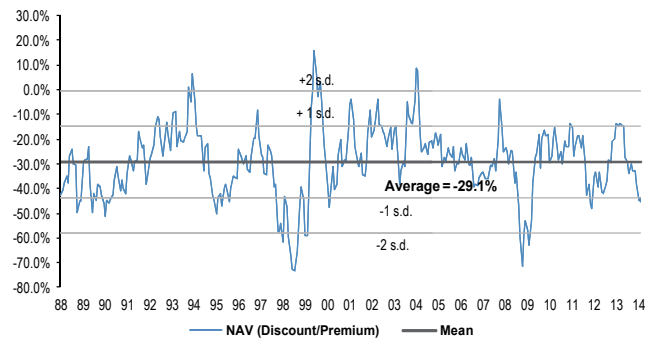
Source: Bloomberg, company, J.P. Morgan estimates.

Figure 43: Wharf—Price-to-adjusted book band
 HK\$



Source: Bloomberg, company, J.P. Morgan estimates.

Figure 44: Wharf—Current NAV discount
 % discount



Source: Bloomberg, company, J.P. Morgan estimates.

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