



# Sun Hung Kai Properties Limited

*(incorporated in Hong Kong with limited liability)*

*(Stock Code : 16)*

## 2007 / 08 Interim Results

### CHAIRMAN'S STATEMENT

We are pleased to present the report to the shareholders on behalf of the Chairman, who is currently on leave.

### RESULTS

The Group's unaudited profit after tax and minority interests for the six months ended 31 December 2007 was HK\$13,626 million, including a revaluation surplus on investment properties of HK\$7,459 million net of deferred tax. This represents a 25 per cent increase from the corresponding period last year. Earnings per share were HK\$5.42, an increase of 24 per cent from the same period last year.

Underlying profit attributable to the Company's shareholders, excluding the effect of fair-value changes on investment properties, was HK\$6,200 million, an increase of 17 per cent from the corresponding period last year. Underlying earnings per share were HK\$2.47, an increase of 16 per cent from the same period last year.

### DIVIDEND

The directors have recommended the payment of an interim dividend of HK\$0.80 per share for the six months ended 31 December 2007, an increase of 14 per cent from the corresponding period last year. It will be payable on 7 April 2008, to shareholders whose names appear on the Register of Members of the Company on 31 March 2008.

## BUSINESS REVIEW

### Property Sales

Property sales turnover for period under review as recorded in the accounts was HK\$3,554 million, as compared to HK\$6,888 million during the same period last year. The Group sold and pre-sold an attributable HK\$8,505 million of properties during the period, a 13 per cent increase from the same period last year. Of this, Hong Kong contributed HK\$7,518 million, mainly from Harbour Place in Kowloon that went on the market in December 2007 and remaining units in completed projects including The Arch, Manhattan Hill and Harbour Green. Mainland sales amounted to HK\$452 million and Singapore accounted for HK\$535 million.

### Land Bank

#### *Hong Kong*

Three residential sites were added to the Group's development land bank in Hong Kong during the period through land use conversions and private negotiations. The total attributable gross floor area was 365,000 square feet.

<b>Location</b>	<b>Usage</b>	<b>Group's Interest (%)</b>	<b>Attributable Gross Floor Area (square feet)</b>
18 Po Yip Street, Yuen Long	Residential	100	222,000
Chatham Garden Redevelopment, Kowloon	Residential / Shopping Centre	29	106,000
48-50 Stanley Village Road	Residential	100	37,000
Total			365,000

The Group's Hong Kong land bank was 43.3 million square feet as at 31 December 2007, consisting of 25.2 million square feet of completed investment properties and 18.1 million square feet of properties under development. The Group also acquired a 90 per cent stake in a residential project in Shau Kei Wan on Hong Kong Island after the reporting period, amounting to 55,000 square feet of attributable gross floor area. The Group holds more than 23 million square feet of agricultural land in terms of site area. Most of this is along existing or planned railways in the New Territories and is in the process of land use conversion. The Group will replenish its development land bank through various means when appropriate opportunities arise.

## ***Mainland China***

The Group continued to expand its investments on the mainland and completed three acquisitions during the period. These add about seven million square feet of attributable gross floor area to its mainland land bank.

<b>Location</b>	<b>Usage</b>	<b>Group's Interest (%)</b>	<b>Attributable Gross Floor Area (square feet)</b>
Liede, Guangzhou	Office / Shopping Centre / Hotel / Serviced Apartments	33.3	2,039,000
Industrial Park, Suzhou	Residential / Hotel / Office / Shopping Centre	90	3,257,000
Hexi CBD, Nanjing	Office / Shopping Centre / Serviced Apartments	100	1,699,000
<b>Total</b>			<b>6,995,000</b>

The Liede project in the heart of Guangzhou at Zhujiang Xincheng will be an integrated commercial complex with comprehensive transport connections. The Suzhou Industrial Park project consists of three sites. Luxury residences and a hotel will take shape on the sites abutting Jinji Lake, and a shopping mall and offices will go up in the eastern-central district that will be served by a future mass transit line. The Hexi CBD project in the new Nanjing town centre will have a shopping centre, high-end offices and serviced apartments.

These additions brought the Group's mainland land bank to an attributable 52.7 million square feet. Over 70 per cent of the 49.7 million square feet of properties under development will be high-end residences and serviced apartments, with the rest being top-grade offices, shopping malls and premium hotels. The remaining three million square feet of completed investment properties, mainly offices and shopping centres in prime locations, are being held for rent.

## **Property Development**

The Hong Kong residential market saw both volume and price increases in 2007. Homebuyers' confidence remained high and the market remained resilient in recent months, with firm prices despite high stock market volatility. Prices for luxury property continued to outperform the mass market. Supply constraints meant fewer new units were available for pre-sale.

The profile of homebuyers was increasingly diverse with more up-graders and investors, and buying interest among mainlanders was also on the rise. While real interest rates have gone into negative territory, short-term speculation remains limited and substantially below the levels in 1997.

With changing customers' needs and preferences, the Group has selectively modified the flat mix of various residential projects under development to provide more large units. Development margins on projects are enhanced by creating value through quality upgrades and innovative designs and layouts, along with comprehensive luxury clubhouse facilities and premium customer service. The forthcoming residential project The Cullinan will set a new standard for luxury apartments.

The Group completed the first phase of International Commerce Centre (ICC) during the period, with 900,000 square feet of top-class office space. The entire ICC development will be held as a long-term investment.

## **Property Investment**

The Group's gross rental income for the period under review, including its share from joint-venture rental properties, rose by 11 per cent to HK\$3,873 million. Net rental income for the period was also up 12 per cent to HK\$2,839 million. Overall occupancy of the Group's rental portfolio remains high at about 95 per cent.

The increase in rental income was primarily driven by strong positive renewals in the office portfolio as a result of robust growth in the Hong Kong economy. The retail portfolio also registered stable rental growth during the period.

The most important project under development is the 118-storey International Commerce Centre (ICC). The first phase of the building was completed in late 2007, and the entire project will be finished in 2010. The project is conveniently located above Kowloon Station on the Airport Express with easy access to Central and the airport, as well as to the mainland via planned cross-border rail connections. ICC is supported by a comprehensive range of amenities including The HarbourView Place serviced suite hotel, top-class hotels operated by Ritz-Carlton and W Hotels and the 900,000-square-foot Elements mall that has become a popular spot for shoppers since its opening in October 2007.

Pre-leasing of ICC is progressing well, with top investment banks Morgan Stanley and Credit Suisse now secured as major tenants. About 1.5 million square feet, or 60 per cent of the total office space, is pre-let or in advanced stages of negotiations with prospective tenants from various sectors.

Other office projects under construction in various locations will set new area benchmarks for premium quality. The Group is developing a large office project on Kwai Chung Town Lot 215. The project is close to the Kwai Hing MTR station and will have a sizeable floor plate and intelligent facilities. Construction of the first phase of 600,000 square feet is under way. New projects including ICC will cement the Group's position as one of the largest grade-A office landlords in Hong Kong.

The local retail sector has flourished and the Group's shopping centres have attracted more visitors, bringing retail tenants higher traffic and turnover. Occupancy at APM and IFC malls remained high, and their successes have further reinforced the Group's leading position in the retail leasing market. Regular promotional campaigns and refinements to tenant mixes

will continue in the Group's malls, to draw shoppers and boost tenants' business. Renovations to World Trade Centre are under way and new tenants have started moving into the fresh new mall. Visitor numbers are expected to increase after the renovations are finished, creating a better shopping environment.

The prosperous business climate in Hong Kong has raised demand for high-end residential rental accommodation. The serviced suites in The HarbourView Place at Kowloon Station will open in mid 2008 to offer unparalleled luxury living and premium service.

## **Mainland Business**

Rapid economic growth, rising incomes, continued capital inflow and abundant liquidity resulted in a strong property market across the country for most of 2007. Accelerated macro-economic control measures amid rising inflationary pressures affected the property sector, notably the residential market, late last year. Although residential prices have softened with reduced transaction volume, the current adjustment should be conducive to sustainable and healthy development in the mainland property market over the long term.

The Group made further headway in its mainland investment drive during the period under review, with acquisitions in Guangzhou, Nanjing and Suzhou. Major projects under construction on the mainland are progressing apace.

Shanghai IFC in the Lujiazui financial trade zone will have over four million square feet. It is scheduled for completion in phases by 2010. The office space will meet the latest international standards and specifications to cater for the needs of leading multinationals and financial institutions. HSBC will have its mainland headquarters there and will be the largest occupant of the south office tower. Market interest in the flagship shopping mall is high and the response to initial leasing has been very encouraging, with many international retailers and renowned restaurants in negotiations with a view to opening flagship outlets.

Construction of another top-quality integrated development in Shanghai with 2.5 million square feet of attributable gross floor area is under way. The project is on Huai Hai Zhong Road in a bustling area that includes the interchange of three subway lines. It will have a shopping mall, offices and deluxe residences, scheduled for completion in 2010. Preliminary marketing of the shopping mall has already begun.

Planning of a 1.7-million-square-foot luxury residential project on the bank of the Huangpu River in Wei Fong is in the final stages. The project is expected to set a new standard for world-class luxury residences in Shanghai.

Taihu International Community in Wuxi is progressing smoothly and pre-sales have been encouraging, with about 600 units in the first phase sold. Other projects in Hangzhou, Chengdu and Guangzhou are progressing as scheduled. Projects are also being planned for recently-acquired sites in Guangzhou, Nanjing and Suzhou.

The mainland investment property rental portfolio continued to show impressive performance. Shanghai Central Plaza was fully let with rent increases for both the retail and office space during the period and Arcadia Shanghai achieved over 90 per cent occupancy.

Renovations and re-branding of the million-square-foot Sun Dong An Plaza as Beijing APM finished late last year. Leasing has been encouraging with commitments for almost 90 per cent of the space. The renovated mall features a wider collection of modern international retailers and food and beverage choices, and it should see the full benefit of business opportunities arising from the Beijing Olympics this year. A refurbishment of the 460,000 square feet of space in the office towers is on track for completion in the second half of 2008.

## **Hotels**

The Group's Four Seasons, Royal Garden, Royal Plaza and Royal Park hotels recorded high average occupancies of over 90 per cent with impressive rises in room rates during the period. This can be attributed to management's continued efforts to elevate service and Hong Kong's growing popularity as a tourist destination.

The Royal View Hotel on the Ting Kau waterfront has seen steady business growth since it opened in June last year, while the W Hotel at Kowloon Station is scheduled to open in the second half of 2008.

This year will be an exciting one for Hong Kong's tourism sector as the city co-hosts the equestrian events of the Beijing Olympics. The Group's Royal Park Hotel is honoured to have been chosen as the Olympic Village for many of the athletes during the events in August, reinforcing the Group's leading reputation for premium hospitality and service in the territory.

The Group is well-positioned to take advantage of growing business opportunities in Hong Kong and on the mainland. A world-class hotel operated by Ritz-Carlton will be completed in 2010 and construction of another hotel project in Tseung Kwan O has also commenced. Construction of two premium hotels at Shanghai IFC to be run by Ritz-Carlton and W Hotels is progressing smoothly.

## **Telecommunications and Information Technology**

### ***SmarTone***

SmarTone saw continued increases in service revenue and profits during the period under review, and while competition remained intense, it registered solid growth in average revenue per user as a result of an improved customer profile. Data revenue increased significantly, reflecting the company's consistent focus on delivering compelling multimedia services and a superior customer experience. The Group is confident of SmarTone's positioning and prospects, and will maintain its interest in the company as a long-term investment.

## ***SUNeVision***

SUNeVision recorded further growth in revenue and recurring profit for the period under review. The company's core iAdvantage data centre business continued to entice high-calibre local and multinational customers with its superior facilities, as reflected by steadily rising occupancy. The Group remains confident in the company's financial strength and earning prospects.

## **Transportation and Infrastructure**

### ***Transport International Holdings***

The performance of Transport International Holdings' (TIH) bus operations in Hong Kong and on the mainland continued to be suppressed by soaring fuel prices, wage increases and inflation. Sales of the Manhattan Hill residential development in 2007 contributed significantly to the company's bottom line, and rapid economic growth on the mainland will continue to offer new investment opportunities. TIH also has a 73 per cent interest in RoadShow Holdings, which is mainly engaged in media sales in Hong Kong and on the mainland.

### ***Other Infrastructure Businesses***

The Wilson Group achieved satisfactory results during the period, while both the River Trade Terminal and Airport Freight Forwarding Centre operated smoothly. The Route 3 (Country Park Section) continued to achieve steady traffic volume during the period under review. All the Group's infrastructure projects are in Hong Kong and will provide steady income streams over the long term.

## **Corporate Finance**

The Group remains committed to prudent financial management with low leverage and high interest coverage. Solid cash flows from rental income and property sales enabled the Group to post a net debt to shareholders' funds of 14.3 per cent as at 31 December 2007.

The Group placed 72.5 million shares in October 2007 at a placing price of HK\$150.75 per share, raising net proceeds of HK\$10,884 million. This put the Group in a better financial position for future expansion both in Hong Kong and on the mainland. Following its HK\$15,250 million six-year, fully-revolving syndicated loan facility arranged in June 2007, the Group will keep watching market conditions to arrange longer-term financing at favourable rates through the syndicated loan market or its Euro Medium Term Note Programme.

The Group has not entered into any derivative or structured product transactions, including collateralized debt obligations. Its exposure to foreign exchange risk is very low, as the overwhelming majority of its financing is denominated in Hong Kong dollars and its development projects in China are financed by renminbi loans.

The Group's robust financial condition and leading market position have enabled it to score an A1 rating with a stable outlook from Moody's and an A rating with a stable outlook from Standard & Poor's. These are the highest credit ratings among Hong Kong developers.

## **Customer Service**

The Group has always made customers its first priority. Its property-management subsidiaries, Hong Yip Service Company and Kai Shing Management Services, manage estates that include over a quarter of a million households in Hong Kong, offering residents the best in customer care.

The Group pays close attention to changing market trends so that it can consistently offer customers quality products and service. The SHKP Club provides an effective channel for two-way communications with the market with its over 270,000 members. The Club offers them a wide range of property-related benefits, shopping privileges and leisure and recreational opportunities, and its co-brand VISA card also provides members with a variety of discounts and offers.

## **Corporate Governance**

The Group is committed to high standards of corporate governance in all aspects of its business. It strives to maintain effective accountability mechanisms through well-developed reporting systems and internal controls, as well as prompt disclosure of information to investors to ensure full transparency.

These ongoing efforts in corporate governance have won the Group widespread international recognition. Awards include the top rankings among the Best Company for Corporate Governance in both Hong Kong and Asia from *Asiamoney* magazine and being named the Best Managed Property Company in Asia and Best Managed Company in Hong Kong by *Euromoney* magazine in 2007. The Group was also named Best Global Developer and Best Developer in Hong Kong and Asia in the 2007 *Liquid Real Estate* awards.

## **Corporate Social Responsibility**

The Group is committed to corporate social responsibility. It supports numerous activities that promote education and the well-being of the community.

Environmental protection is one of the Group's key concerns. It follows eco-friendly concepts in the planning, design, construction and management of new developments to advance greener, healthier living. The Group's environmental policies and achievements have earned extensive recognition, including the top HK-BEAM ranking for International Commerce Centre.

The SHKP Book Club was set up to encourage reading. Its initiatives include organizing book review competitions, staging seminars and publishing a free literary magazine. The Group presents an ongoing lecture series by Nobel Laureates and also encourages positive living and good mental health through numerous events and seminars.

Knowing that dedicated staff are its most valuable asset, the Group regularly recruits top graduates from local and mainland universities, and it has a comprehensive management trainee programme in place. It also makes numerous training programmes available to staff at all levels to help them reach their full potential, both personally and professionally.

## **PROSPECTS**

2008 is a challenging year for the global economy, particularly for the US. There are more risks to growth in view of the contagion of the sub-prime crisis and subsequent credit crunch in developed economies, but vigorous policy responses by the relevant governments and central banks should enable the global economy to weather these uncertainties.

The mainland economy faces rising inflation and external imbalance, and macro-tightening measures are likely to remain in place for most of 2008. The Beijing Olympics this August should spur business opportunities, and sustained growth in domestic consumption and follow-through on fixed asset investments will support economic expansion.

The Group welcomes the positive initiatives and tax concessions introduced in the Hong Kong government's 2008 / 09 budget. The new measures coupled with a low interest rate environment will support healthy economic growth in the territory this year.

The residential property market in Hong Kong will continue to do well. Rising incomes, strong affordability for homebuyers and negative real interest rates will continue to underpin demand for residential properties in spite of uncertainty about external economies and volatility in equity markets. Supply of new private housing will remain at record low levels in the next few years.

The Group will carry on offering quality residential projects for sale in Hong Kong. It will also look actively for opportunities to replenish its land bank through various channels, including the conversion of agricultural land to residential use.

Anticipated increased rents for tenancy renewals and new leases should mean that the Group's investment property portfolio in Hong Kong will continue to show good performance. Grade-A office rents in core areas on Hong Kong Island are likely to remain firm as a result of tight supply. Retail rents will keep rising steadily at a modest pace with a better job market, rising incomes and growing tourist spending.

The Group currently has 5.5 million square feet of investment properties under development in Hong Kong, and these new projects along with others on the mainland will substantially boost rental income over the medium to long term. The Group will consider disposing of some non-core investment property assets to optimize the rental portfolio.

The Group will adhere to its focused approach to mainland business expansion. While it will concentrate on the prime cities of Beijing, Shanghai, Guangzhou and Shenzhen, it will selectively invest in other major cities with higher income levels and geographical significance.

Sustained economic growth and ongoing urbanization mean that there will be more room for the property sector in major mainland cities to expand over the long term, though the residential market is likely to consolidate for a while longer amid macro-control measures and credit tightening. The Group will capitalize on the current mainland environment and selectively seek new projects with attractive returns as opportunities arise.

Major residential projects in Hong Kong to go on sale in the next nine months include The Cullinan at Kowloon Station, a luxury, low-density project at To Fung Shan in Shatin and a modern residential project for young professionals at Lung Tin Tsuen in Yuen Long. Mainland residential projects to go on pre-sale over the next year include Phase 1 of the MIXC project in Hangzhou, the Sandong Avenue residential project in Guangzhou, Phase 1 of the Shuangliu County project in Chengdu and Phase 4 of The Woodland in Zhongshan. Barring unforeseen circumstances, the results for the current financial year are expected to be satisfactory.

## **APPRECIATION**

Dr Marvin Cheung Kin-tung was appointed as an independent non-executive director in December 2007. His extensive knowledge of finance and experience in civic affairs will contribute to the Group's business.

We would also like to take this opportunity to express our gratitude to our fellow directors for their guidance, and to thank all our staff for their dedication and hard work.

By order of the Board

**Thomas Kwok Ping-kwong**  
*Vice Chairman & Managing Director*

**Raymond Kwok Ping-luen**  
*Vice Chairman & Managing Director*

Hong Kong, 6 March 2008