新鴻基地產發展有限公司
Sun Hung Kai Properties Limited

(Incorporated in Hong Kong with limited liability)
(Stock Code: 16)

2009 / 10 Annual Results

CHAIRMAN'S STATEMENT

I am pleased to present my report to the shareholders.

RESULTS

The Group's underlying profit attributable to the Company's shareholders for the year ended 30 June 2010, excluding the effect of fair-value changes on investment properties, was HK$13,883 million, an increase of 12 per cent from last year. Underlying earnings per share were HK$5.41, an increase of 12 per cent from last year.

Reported profit attributable to the Company's shareholders was HK$28,043 million, compared to HK$10,356 million last year. Earnings per share were HK$10.93, an increase of 171 per cent from last year. The reported profit for the year included a revaluation surplus (net of deferred taxation) on investment properties of HK$14,965 million compared to a revaluation deficit (net of deferred taxation) of HK$2,014 million last year.

DIVIDEND

The directors have recommended the payment of a final dividend of HK$1.85 per share for the year ended 30 June 2010. Together with the interim dividend of HK$0.85 per share, the dividend for the full year will be HK$2.70, an increase of eight per cent over last year.

BUSINESS REVIEW

Property Sales

Revenue from property sales for the year as recorded in the accounts, including revenue from joint-venture projects, was HK$15,027 million, a decrease of 12 per cent over last year. The Group sold or pre-sold an attributable HK$23,218 million worth of properties in the year under review, as compared to last year's HK$25,674 million. Sales of Hong Kong properties amounted to HK$20,562 million, mostly from YOHO Midtown in Yuen Long, Aria and The Latitude in Kowloon and The Cullinan at Kowloon Station. The remaining HK$2,656 million was from mainland and Singapore properties, including Lake Dragon in Guangzhou and Orchard Residences in Singapore. The Group has sold or pre-sold over HK$8,000 million worth of properties in Hong Kong since July 2010, mainly in Lime Stardom in Kowloon and Larvotto in Island South. Nearly 95 per cent of the units in these projects have been sold.

Property Business – Hong Kong

<u>Land Bank</u>

The Group added six new sites to its development land bank during the year through various means, including land use conversion and auction. The total developable gross floor area amounted to 4.8 million square feet in attributable terms.

Location	Usage	Group's Interest (%)	Attributable Gross Floor Area (square feet)
Yuen Long Town Lot 507	Residential/ Shopping centre	100	2,319,000
Kowloon Inland Lot 11175 Ho Man Tin	Residential	100	869,000
Tseung Kwan O Area 66B	Residential/ Shopping centre	100	728,000
Lot 5371 in DD 116 Ha Yau Tin, Yuen Long	Residential	100	233,000
Lot 495 in DD 399 Casam Beach, Ting Kau	Residential	100	78,000
Kwun Tong Inland Lot 240	Industrial *	50	575,000
Total			4,802,000

** application for conversion to office use in process*

These new acquisitions brought the Group's land bank in Hong Kong to 44.2 million square feet in June 2010, comprising 27.6 million square feet of completed investment properties and 16.6 million square feet of properties under development. The Group also holds approximately 26 million square feet of farmland in terms of site area. Most of this is along existing or planned rail lines in the New Territories and is in the process of land use conversion. A number of pieces of farmland in particular are in the land premium negotiation stage. The Group will replenish its development land bank through various means when appropriate opportunities arise. The current land bank is sufficient to meet the Group's development needs for the next five years.

Property Development

The Hong Kong residential market performed well in terms of prices and volume up to mid August but was affected by the latest government measures to dampen investment-related demand in the past month or so. Homebuyers became generally cautious, leading to fewer transactions and softening asking prices. The response to recent land auctions by contrast has been quite encouraging, with record land prices.

The Group's respected brand gives homebuyers confidence and enhances the marketability and margins on new projects, as demonstrated by its encouraging sales and premium prices on new projects.

Offering customers high-quality developments with elegant designs, top materials and finishes and efficient layouts keeps the Group ahead of its competitors. Its developments appeal to all segments of the market from stylish boutique apartments to large estates with comprehensive facilities and distinctive luxury residences. The Group also makes a wide range of flat sizes available, including contemporary studio flats, typical two- and three-bedroom apartments and deluxe specialty units to meet the needs of different homebuyers.

The Group's developments come with a full range of tailored services and facilities to fulfil residents' lifestyle aspirations, with trend-setting features and green elements in new projects.

The Group completed seven projects with 4.1 million square feet of attributable gross floor area in Hong Kong during the year, of which 2.2 million square feet are residential. International Commerce Centre (ICC) will be kept as a long-term investment.

Project	**Location**	**Usage**	**Group's Interest** (%)	**Attributable Gross Floor Area** (square feet)
YOHO Midtown	9 Yuen Lung Street Yuen Long	Residential/ Shopping centre	100	1,663,000
Valais	28 & 33 Kwu Tung Road Sheung Shui	Residential	100	683,000
Peak House	68 Mei Tin Road Sha Tin	Residential	100	33,000
GreenView	148 Fuk Hang Tsuen Road Tuen Mun	Residential	100	27,000
-	Tsing Lung Tau Lot 68	Residential	100	9,000
One Harbour East	108 Wai Yip Street Kwun Tong	Office	100	292,000
International Commerce Centre Phase 3 & Ritz-Carlton Hotel	1 Austin Road West Kowloon	Office / Hotel	Joint Venture	1,390,000
Total				4,097,000

Property Investment

The Group's gross rental income, including contributions from joint-venture projects, increased by 14 per cent to HK$11,082 million. Net rental income increased by 14 per cent to HK$8,314 million.

The increase in rental income of the Group was primarily driven by higher rents on renewals and new leases for retail and office space, plus an increased contribution from ICC. Occupancy of the Group's rental portfolio stayed high at 94 per cent.

Leasing demand for various types of properties has been picking up. Spot rents for office space were up as firms, particularly financial institutions, took steps to expand and retail rents rose steadily, fuelled by increased sales and optimism from retailers. The better job market in Hong Kong supported domestic consumption and mainland visitor spending also contributed to higher sales.

The completion of ICC makes it the city's tallest building, and about 95 per cent of the close to 2.5 million square feet of top-quality office space is already leased. ICC appeals to multinationals and investment banks with its convenient transportation and first-class facilities. It also offers attentive service to meet the operational requirements of global financial firms. Two of the three major tenants have moved in and the third will move in during the first quarter of 2011. The Ritz-Carlton Hotel with 312 suites and rooms covering a gross floor area of over 400,000 square feet will open in early 2011 and will be the world's tallest hotel, making a prestigious addition to the Group's hotel portfolio.

The Sky 100 ICC observation deck will be ready for visitors in the final quarter of 2010. This will be the highest indoor observation deck in Hong Kong with a spectacular 360-degree view of the city and beyond from the 100th floor, complemented by fine restaurants on the 101st floor. This new attraction will be a boost to Hong Kong tourism.

The Group is working on the second tower of Kowloon Commerce Centre in Kowloon West. It will be similar to the 35-storey grade-A Tower One office building, with over 500,000 square feet of floor space set for completion in 2013. There will be an air-conditioned footbridge so that people can get to the MTR station from the office lobby in a few minutes, plus comprehensive transport with fast links to Hong Kong International Airport, the mainland border and Kwai Chung terminals.

The Group's retail portfolio did well during the year. Malls continued to benefit from the increase in mainland visitor spending and increased domestic consumption with the improved job market. The Group continued to stage new initiatives to attract more local and mainland visitors, including promotions to boost traffic flow and shopping tours to tap the growing pool of mainlanders.

Regular renovations to the Group's retail portfolio are carried out to keep it competitive. Landmark North in Sheung Shui has a new mix of shops and near full occupancy after a major upgrade, and APM in Millennium City Phase 5 in Kowloon East is also undergoing an enhancement. The Group will continue to review its tenant composition from time to time to boost pedestrian flows.

The Group's newest shopping and entertainment attraction Mikiki is scheduled to open in the second quarter of 2011. This will be the retail podium of The Latitude with 205,000 square feet of space targeting young customers with a premium shopping experience.

The Group will create a million-square-foot shopping and entertainment hub at the heart of Yuen Long comparable to New Town Plaza in Sha Tin. It will develop a shopping mall at Yuen Long Town Lot 507 of 471,000 square feet linked to YOHO Midtown and Sun Yuen Long Centre. These malls are located in mid-town Yuen Long next to a West Rail MTR station. It takes only about 20 minutes to reach the core areas of Kowloon by rail. The Group is also developing a 269,000-square-foot shopping mall next to the West Rail Tuen Mun Station.

The Group's deluxe serviced suites at IFC Four Seasons Place and The HarbourView Place at Kowloon Station offer unparalleled luxury living and premium service. They continued to record high occupancy and increased rents during the year. The convenient locations and wide range of unit sizes attract guests from around the world.

Property Business – Mainland and Singapore

Land Bank

The Group's new acquisitions on the mainland during the year included an 80 per cent interest in two adjacent sites with a combined total gross floor area of 30 million square feet in the central district of Foshan. These sites will be developed into a large complex comprising mainly premium residences. It will be served by a new rail line linking Foshan town centre to downtown Guangzhou that is expected to start running in 2012. The Group also has a 70 per cent interest in a luxury residential joint-venture project of two million square feet at Linhecun in Tianhe, Guangzhou's business hub and traditional high-end residential area. Its close proximity to the Guangzhou East railway station offers the convenience of quick access to Hong Kong and other parts of the Pearl River Delta.

The Group's mainland land bank amounted to an attributable 82.3 million square feet as at June 2010. Close to 80 per cent of the 76.8 million square feet of properties under development will be high-end residences and serviced apartments. The rest will be top-grade offices, shopping malls and premium hotels. The remaining 5.5 million square feet of completed investment properties, mainly offices and shopping centres in prime locations in Shanghai and Beijing, are being held for rent.

Property Development

Residential markets in major mainland cities started to consolidate in early 2010 as a result of a series of Central government tightening measures, after having seen strong performance in 2009. Transaction volume shrank significantly and prices came under pressure after April, but overall market conditions have improved recently. The current policy tightening should nevertheless help underpin sustainable and healthy market development over the longer term.

Capitalizing on its expertise in Hong Kong, the Group focuses on developing high-end residences on the mainland. Homebuyers are generally impressed with the outstanding quality and design of its developments. The Group recorded satisfactory property sales and pre-sales in Guangzhou, Wuxi and Chengdu during the year, particularly for the second half of 2009, before the market went into consolidation. Three projects with 4.1 million square feet of attributable gross floor area were completed on the mainland during the year, of which close to one million square feet are residential.

Project	**Location**	**Usage**	**Group's Interest** (%)	**Attributable Gross Floor Area** (square feet)
Shanghai IFC Phase 1	8 Century Avenue, Lujiazui, Shanghai	Office/ Shopping Centre/ Hotel	100	2,454,000
Hangzhou MIXC Phase 1	Qianjiang New City, Hangzhou	Residential/ Shopping Centre	40	1,111,000
Taihu International Community Phase 2	Taihu New City, Wuxi	Residential	40	506,000
Total				4,071,000

Construction of a 1.7-million-square-foot luxury residential development with a magnificent view of the Bund at Wei Fong in Shanghai is under way. The development will be completed in phases with the first phase, containing nearly 200 world-class luxury residences, scheduled to go on sale in mid 2011. This initial phase will have over 500,000 square feet of gross floor area and is scheduled for completion in 2013. Other residential projects under development on the mainland are also progressing as planned.

The construction of Orchard Residences, a top-end luxury residential development in Singapore with over 400,000 square feet of gross floor area, finished in the third quarter of 2010. About 90 per cent of the units in the development have been sold; some at record prices for Singapore. The Group has a 50 per cent interest in this project.

Property Investment

The Group's new Shanghai IFC complex has more than four million square feet of gross floor area in two grade-A office towers, a world-class mall, deluxe IFC Residence serviced suite hotel and the new Ritz-Carlton Shanghai, Pudong. HSBC China has its head office in 22 floors of Tower One. The remaining office space is virtually fully leased with major tenants including noted companies from around the world. Tower Two with about 1.3 million square feet of gross floor area is scheduled for completion in the first half of 2011, and preliminary leasing is progressing smoothly with high interest from international and mainland companies.

The million-square-foot Shanghai IFC Mall opened in April this year to take advantage of the World Expo. The retail area is fully leased with over 170 top international stores, some of the world's finest restaurants, lifestyle shops and a deluxe cinema. Some of the retailers are famous brands opening for the first time on the mainland. Shanghai IFC Mall turns a new page in shopping elegance and offers patrons a brand new experience in China. The Ritz-Carlton Shanghai, Pudong with 285 luxury guest rooms and suites opened in June this year.

The Shanghai ICC development on Huai Hai Zhong Road in Xuhui near Luwan district, the heart of the commercial and retail zone in Puxi, is progressing smoothly. The project will have three million square feet of floor area with a leading shopping mall, two premium-quality office buildings and approximately 70 top luxury residences. The two office buildings will have 1.3 million square feet of gross floor area and the first tower of over 600,000 square feet is scheduled for completion in mid 2011. The shopping mall will cover 1.3 million square feet and preliminary marketing has started to a positive response, with many international retailers negotiating for space. Opening is scheduled for the end of 2011.

The full completion of Shanghai IFC in Pudong and Shanghai ICC in Puxi will add 2.5 million square feet of retail space, 2.9 million square feet of offices and 1.2 million square feet of hotels and service apartments to the Group's rental portfolio on the mainland. These top-quality premises will boost the Group's rental income from mainland operations significantly in the medium term.

The Group also completed a shopping mall in its 40-per-cent-owned Hangzhou MIXC joint venture in the Qianjiang New City central business district during the year. The retail mall covers 1.6 million square feet and had a soft opening in April this year. Over 95 per cent of the space is already leased.

The Group's 50-per-cent-owned ION Orchard, a world-class mall at the gateway of the Orchard Road shopping belt in Singapore, maintained a high occupancy of 97 per cent. Its innovative retail concept and diversified trade mix with leading international brands make it very popular.

Other Businesses

Hotel

Hong Kong's hotel sector recovered quickly over the past year. Tourist numbers from the mainland continued to see healthy growth, partly because of the measures allowing Shenzhen residents to visit Hong Kong more conveniently. Overseas travel numbers also returned to positive growth as the effects of the global financial crisis faded. Average occupancy of the Group's six existing hotels was close to 90 per cent during the year. Four Seasons was one of the best performers in the top-tier hotel segment, and the stylish W Hong Kong at Kowloon Station recorded significant growth in business during the period.

The Ritz-Carlton at Kowloon Station will be one of the most deluxe hotels in Hong Kong and the tallest hotel in the world when it opens in early 2011. The Group is also constructing two hotels above the Tseung Kwan O MTR station, with the first one planned for opening in 2012. These new developments will boost the Group's hotel portfolio and position it well to take advantage of business opportunities arising from Hong Kong's ongoing development as a major financial and business hub, and a primary tourist destination in the region.

The Group has extended its hotel portfolio into the mainland during the year. Ritz-Carlton Shanghai, Pudong, has been operating smoothly since its opening in June this year. This luxury hotel occupies the top 18 floors of Shanghai IFC Tower One. It has a contemporary style and its guest rooms and restaurants offer sweeping views of the Bund. The Group is also planning or is in the process of developing premium hotels in key cities including

Guangzhou, Hangzhou, Suzhou and Chengdu. The expanded mainland hotel portfolio will enhance the value of the Group's development projects in these cities over time.

Telecommunications and Information Technology

SmarTone

Growth in service revenue and cost savings resulted in a substantial increase in profit. Growth in data service revenue continued to be strong, driven by wider adoption of the company's data services with the proliferation of smart phones, mobile broadband and wireless fixed services. The Group is confident in SmarTone's prospects and will continue to hold the company as a long-term strategic investment.

SUNeVision

SUNeVision remained profitable during the year. iAdvantage strengthened its position in the carrier-neutral data centre market in Hong Kong and achieved good occupancy. SUNeVision will build on its solid financial position to further develop its core businesses in the coming year.

Transportation and Infrastructure

Transport International Holdings

Transport International Holdings' (TIH) franchised public bus operations in Hong Kong were adversely affected by the rebound of oil prices and a loss of passengers to the expanding railway network. TIH joint-venture companies in Beijing and Shenzhen operating taxi and public bus services made steady progress. RoadShow Holdings, a 73-per-cent-owned subsidiary of TIH, is mainly engaged in the media sales business.

Other Infrastructure Businesses

The Wilson Group performed well during the year. Business at the River Trade Terminal and Air Freight Forwarding Centre gained momentum due to the continuous recovery in the global economy. Traffic and toll revenue on the Route 3 (Country Park Section) remained stable. All the Group's infrastructure projects are in Hong Kong and will provide steady income streams over the long term.

Corporate Finance

The Group's healthy financial position is evidenced by its low gearing and high interest coverage, with net debt to shareholders' funds at a low 15.2 per cent at the end of June 2010. All these indicators demonstrate the Group's prudent financial management.

Response to the Group's five-year HK$18,120 million syndicated loan facility in March 2010 was enthusiastic. The facility carried favourable terms and was used to repay short-term debts and provide working capital. The Group has ample committed banking facilities on a standby basis, putting it in a good position for future business expansion.

The Group issued a total of HK$1,911 million in three- to ten-year bonds under its Euro Medium Term Note Programme during the year to extend its debt-maturity profile and diversify sources of funding.

The majority of the Group's debts are denominated in Hong Kong dollars, with the balance in US dollars or renminbi, primarily used to fund projects on the mainland. The Group's foreign exchange risk is very small, as most of its assets and operational cash flows are in Hong Kong dollars. The Group has no exposure to any transaction of derivatives or structured products for speculative purposes.

The Group has the strongest credit ratings among Hong Kong developers. Moody's maintained the Group's A1 rating with a stable outlook and Standard and Poor's upgraded the Group's A rating from a 'stable' outlook to a 'positive' outlook in December 2009, reflecting its robust financial strength and leadership in the industry.

Customer Service

The Group makes customer service a top priority and is constantly exploring new ways to provide the finest customer care in every aspect of its operations.

Owners of the Group's new residential developments are pampered with comprehensive handover service, and they have the confidence that comes with knowing that each unit has been carefully inspected by the developer's professional Property Liaison Team. The Group's property management subsidiaries Hong Yip and Kai Shing provide top-notch after-sales service for residents, including concierges in residential and office developments and various offerings online via the Internet.

As the Group expands its operations on the mainland, it is also transplanting its culture of service excellence. Customer service staff in Hong Kong and on the mainland receive extensive training to ensure the highest service standards. These efforts have earned substantial praise from residents and tenants and garnered many awards.

The SHKP Club was established to provide a channel for two-way communication with the market and now has over 300,000 members. The Club offers members a range of property-related benefits, shopping privileges and leisure and recreational activities.

CORPORATE GOVERNANCE

The Group maintains high standards of corporate governance and efficient accountability mechanisms through an effective board, good internal control and a proactive investor relations programme.

The board directs and oversees the Group's strategies. There are Audit, Remuneration and Nomination committees chaired by independent non-executive directors. All of the company's executive directors sit on the Executive Committee that formulates business policies and makes decisions on key business issues.

The Group's commitment to good corporate governance has earned widespread recognition and major awards from the investment community. Accolades during the year include Best Office Developer Overall in Hong Kong, China and Asia and Best Developer Overall in Hong Kong by *Euromoney* magazine, Best Real Estate Company in Asia and Hong Kong's Best Managed Company by *FinanceAsia* magazine and Best in Asia from *Corporate Governance Asia* magazine for the fifth year running. It also won a platinum award for Excellence in Management and Corporate Governance from *The Asset* magazine. The Group will continue its efforts to stay at the forefront of best corporate governance practices.

CORPORATE SOCIAL RESPONSIBILITY

The Group is committed to corporate social responsibility and it supports a wide range of charitable, environmental and educational initiatives. It was recently made one of the founding constituent companies in the new Hang Seng Corporate Sustainability Index in recognition of its social and environmental credentials.

The Group follows green policies in the design, construction and management of developments and encourages environmental awareness among its staff, residents and the public, both in Hong Kong and on the mainland. These efforts include energy-saving and waste-recycling programmes in commercial and residential developments, and special green features such as vertical gardens.

The SHKP Book Club contributes to society by encouraging reading with competitions, seminars, a free magazine, sponsorships and more, and the Group provides scholarships for talented students in Hong Kong and on the mainland. It additionally contributes to social harmony with community projects like the Ma Wan Island Noah's Ark theme park and encourages staff to become involved in community service. Its volunteer team has 1,600 members and is widely praised for the increasing number of hours it devotes to helping the less fortunate.

The Group believes that staff are its most important asset. It is constantly recruiting high-calibre graduates from local and mainland universities, and it provides comprehensive training to staff at all levels to help them fulfil their potential, including in-house courses, on-line learning and sponsorships for work-related study with various educational institutes.

PROSPECTS

The global economic recovery is likely to continue amid support from major central banks in the form of abundant liquidity at low interest rates. This is notwithstanding various challenges and uncertainty arising from the possibility of a double-dip recession in the US and budget retrenchment in some European countries. By contrast, emerging economies including mainland China's are expected to remain relatively buoyant.

Economic momentum on the mainland has been robust this year and this is expected to continue, though some tightening measures were introduced in certain industries such as the residential property sector early this year. Continued growth in domestic consumer spending and follow-through of existing fixed investment projects will fuel economic expansion.

Hong Kong's residential market is likely to see some volatility in the short term due mainly to the latest government measures to contain investment-related residential property demand. These measures, together with government plan to increase land supply that will translate into more new flats, should be conducive to healthy and sustainable development in the residential market over the medium to long term.

Despite the short-term uncertainty, demand fundamentals for residential properties in Hong Kong should remain solid and positive over the long term. While the job market is promising amid continued economic growth, affordability remains at reasonable levels. Mortgage interest rates remain attractive and banks' appetite for mortgage business continues to be good, despite the Hong Kong Monetary Authority's recent more stringent mortgage lending guidelines. In addition, buying interest from wealthy mainlanders will continue to rise over time.

The Group will focus on both asset turnover and growing recurrent income. It will continue to develop its property business in Hong Kong by adding new residential sites to its land bank through various means, particularly the conversion of farmland to residential sites. The Group's current land bank is sufficient to meet development needs for the next five years. It will also strengthen its leading position and sharpen its competitive edge by offering buyers the best products that feature modern designs, efficient layouts, comprehensive facilities and premium service.

New projects will be put on the market as planned. Major residential projects in Hong Kong to go on sale in the next nine months include the luxury Valais town houses at Beas River, Park Season on Castle Peak Road, Park Nara and a project on Po Yip Street in Yuen Long and the residential towers of the major integrated project in Tseung Kwan O town centre.

The demand for commercial properties to lease, including retail and office space, is expected to rise. The retail market will continue to benefit from the robust increase in spending by mainland visitors and growing domestic consumption due to an improved job market. Growing business opportunities will also support the demand for office space. The rental portfolio is expected to continue to perform well given the better operating environment.

The Group will continue building high-quality commercial buildings and premium shopping malls. The million-square-foot shopping and entertainment hub consisting of the shopping mall at Yuen Long Town Lot 507 currently under development, YOHO Midtown and Sun Yuen Long Centre at the heart of Yuen Long will be a future landmark in the northwest New Territories. The Group will also continue to further enhance its leading position by regular refurbishments and constant reviews of tenant mixes. More promotions will be staged to attract additional traffic flow and consumer spending in malls. In the long term, the Group will continue reviewing and optimizing its rental portfolio.

The Group will maintain a selective and focused investment strategy for mainland business. Major cities including Beijing, Shanghai, Guangzhou and Shenzhen are the preferred choices. With promising prospects for the mainland economy and property markets in the long term, the Group will continue to look selectively for good investment opportunities. The gradual completion of Shanghai IFC, Shanghai ICC and premium hotels in major mainland cities will boost contributions from the mainland projects over time. Continued sales of residential projects in the next few years should also significantly raise earnings from mainland businesses in the future.

With the positive impact of these developments and barring unforeseen circumstances, the results for the coming financial year are expected to be satisfactory.

APPRECIATION

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

Kwong Siu-hing
Chairman

Hong Kong, 20 September 2010