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)

2010 / 11 Interim 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 six months ended 31 December 2010, excluding the effect of fair-value changes on investment properties, was HK$10,416 million, an increase of 60 per cent from the corresponding period last year. Underlying earnings per share were HK$4.05, an increase of 60 per cent from the same period last year.

Reported profit attributable to the Company's shareholders was HK$21,019 million, compared to HK$15,439 million for the corresponding period last year. Earnings per share were HK$8.18, an increase of 36 per cent from the same period last year. The reported profit for the period included a revaluation surplus (net of deferred taxation) on investment properties of HK$10,617 million compared to a revaluation surplus (net of deferred taxation) of HK$9,746 million for the same period last year.

DIVIDEND

The directors have recommended the payment of an interim dividend of HK$0.95 per share for the six months ended 31 December 2010, an increase of 12 per cent from the corresponding period last year.

BUSINESS REVIEW

PROPERTY SALES

Revenue from property sales for the period as recorded in the accounts, including revenue from joint-venture projects, was HK$28,837 million. The corresponding figure for last year was HK$4,607 million. The Group sold or pre-sold an attributable HK$22,089 million worth of properties during the period, as compared to HK$9,159 million for the same period last year. Robust sales of two large Hong Kong luxury projects – Valais at Beas River and Larvotto in Island South – contributed to this encouraging performance. Both projects were over 90 per cent sold shortly after going on the market. Together with other projects including Lime Stardom in Kowloon, sales proceeds of Hong Kong properties amounted to HK$21,263 million during the period. The rest came mainly from mainland properties, including Jovo Town in Chengdu and Taihu International Community in Wuxi.

PROPERTY BUSINESS – HONG KONG

Land Bank

The Group added a total of 193,000 square feet of developable floor area to its land bank in Hong Kong during the period under review. This included the Fanling site acquired at a government auction last September, which will produce about 140,000 square feet of mainly small-to-medium residential units.

The Group's total land bank in Hong Kong amounted to 42.3 million square feet in December 2010, comprising 27.9 million square feet of completed investment properties and 14.4 million square feet of properties under development. The Group also holds over 26 million square feet of agricultural land 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. The Group will replenish its development land bank through various means when appropriate opportunities arise.

Property Development

The Hong Kong residential market experienced short-term volatility during the past year or so because of cooling measures introduced by the government and related authorities. A special stamp duty imposed since November last year on resales of residential properties within two years of purchase has effectively forced short-term speculators out of the market.

With continued income growth, record low mortgage rate and reasonable affordability, activity gradually recovered over recent months particularly in the secondary market, underpinned by genuine end users and long-term investors.

The Group continues to pursue excellence in a highly-competitive business environment. The market recognizes its premium-quality developments with efficient, practical designs and fine finishings. The Group's brand name means that its developments often draw great market interest and buyers are willing to pay a premium for superior product quality and service. This explains the impressive sales of the Valais town-house project and shows how the Group can redefine an area as a new luxury residential district. Valais blends fine architecture and a style of modern luxurious living with the green environment and sets new standards for suburban houses.

The Group develops a wide range of products to address different customers' needs and preferences. There are luxury residences, small-to-medium units in large estates and urban boutique apartments. Tailored, full-ranging service, comprehensive facilities and trendy features fulfill residents' evolving lifestyle demands. The Group has also initiated the incorporation of green elements in new projects to satisfy the rising aspirations for green living.

Four projects with 2.4 million square feet of attributable gross floor area (2.1 million square feet residential) were completed in Hong Kong during the period under review. Another 400,000 square feet is scheduled for completion in the second half of the financial year. The four completed projects are listed below.

Project	**Location**	**Usage**	**Group's Interest** (%)	**Attributable Gross Floor Area** (square feet)
The Latitude	638 Prince Edward Road East San Po Kong	Residential / Shopping Centre	100	1,230,000
Aria	51 Fung Shing Street Ngau Chi Wan	Residential	100	775,000
Larvotto	8 Ap Lei Chau Praya Road Ap Lei Chau	Residential / Shops	35	320,000
Excel Centre	483A Castle Peak Road Cheung Sha Wan	Office	100	109,000
Total				**2,434,000**

Property Investment

The Group's gross rental income for the period under review, including contributions from joint-venture projects, rose by 13 per cent to HK$6,081 million. Net rental income for the period was up 16 per cent to HK$4,612 million. The encouraging results from the investment portfolio were mainly driven by higher rents on new leases, continuous positive rental reversions and increased occupancy. The Group's overall rental portfolio was 95 per cent let.

Rental income from the office portfolio rose and market rents firmed up during the period under review. Office space in central areas continued to benefit from expanding financial firms chasing new business opportunities. Office rents in other areas also edged up with reduced vacancies.

The Group's position as a major premium landlord in Hong Kong means that it can take advantage of the good office leasing market. Its major International Commerce Centre (ICC) and International Finance Centre (IFC) office developments standing on opposite shores form a marvelous gateway to Victoria Harbour and demonstrate the Group's vision and commitment to Hong Kong.

ICC 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 a planned cross-border rail connection. The office space is almost fully leased. The final major tenant and a number of other notable tenants are set to move in during the third quarter of 2011. The development also includes a 400,000-square-foot Ritz-Carlton Hotel scheduled to open soon.

On the 100th floor of ICC is the Sky 100 observation deck; the only vantage point in Hong Kong offering a 360-degree view of the city. It will open in April with an array of multi-media exhibits and 3-D displays of local culture and development. There will also be touch screens and interactive installations offering numerous fun facts about Hong Kong. The new attraction will be a boost to the city's tourism sector and complement the whole ICC development.

IFC on the opposite shore of Victoria Harbour above Hong Kong station on the Airport Express has prestigious tenants including leading financial and banking institutions. All office space remained near fully leased and rental performance was also impressive.

The second phase of Kowloon Commerce Centre with over 500,000 square feet of space is under way to boost the Group's office portfolio. It is scheduled for completion in 2013 and will have comprehensive transport with fast links to the Hong Kong International Airport, Kwai Chung terminals and the mainland. It will be a few minutes' walk from the MTR via an air-conditioned footbridge to be ready in the second quarter of this year.

The Group's retail portfolio is one of the largest in the city, with malls situated conveniently near MTR stations. Increased domestic consumption and higher spending by mainland visitors produced good results for the Group's malls. The Group continued organizing more shopping tours for the growing pool of mainland visitors to boost traffic and sales in its malls located in key tourist areas and along rail lines.

The Group will tap the new opportunities arising from mainland visitors by developing a 470,000-square-foot shopping mall at Yuen Long Town Lot 507 just next to the MTR station. Combined with YOHO Midtown and Sun Yuen Long Centre, it will form a regional shopping and entertainment hub with a million square feet of gross floor area in the west New Territories, comparable to the Group's Sha Tin New Town Plaza in the east New Territories. The development of another 269,000-square-foot mall at the Tuen Mun West Rail MTR station is progressing well and will add to the Group's retail portfolio.

Mikiki will be the Group's latest shopping attraction with 205,000 square feet of space scheduled to open in the second quarter of this year. Leasing demand has been high. Mikiki is well-positioned to benefit from its proximity to the future Kai Tak metropolis and transformation of southeast Kowloon that will include a world-class cruise terminal.

The Group carries out regular renovations to its malls to keep them attractive and also stages promotional campaigns and makes refinements to tenant mixes. Tai Po Mega Mall was transformed into a lifestyle mall with an enhanced tenant mix during the period under review.

Four Seasons Place at IFC and The HarbourView Place at Kowloon Station continued to record high occupancies with higher rents during the period under review and attracted guests from around the world.

PROPERTY BUSINESS – MAINLAND

Land Bank

The Group added three million square feet of attributable floor area to its mainland development land bank in the period, of which 2.6 million square feet will be developed into residential premises and serviced apartments. One addition was a 40 per cent interest in a luxury residential project in the resort area of Zhijiang, Hangzhou.

The Group's mainland land bank amounted to an attributable 82.1 million square feet in December 2010. Over 75 per cent of the 76.6 million square feet of properties under development will be high-end residences or serviced apartments, with the rest top-grade offices, shopping malls and premium hotels. The Group held another 5.5 million square feet of completed investment properties, mainly high-quality offices and shopping centres in prime locations of major cities.

Property Development

The mainland residential market was generally affected by stricter monetary and housing measures introduced by the central government, particularly in terms of transaction volumes in prime cities. The measures and policies should nonetheless be helpful for the healthy development of the mainland residential market over the longer term.

The Group completed an attributable 3.5 million square feet of residential properties on the mainland during the period under review, mainly in Lake Dragon Phase 1 and The Arch in Huadu in Guangzhou, Taihu International Community Phase 3 in Wuxi and Jovo Town Phase 1A in Chengdu. Nearly all the units in these projects were presold before completion. The handover quality of the projects was highly praised by homebuyers, reinforcing the Group's premium brand in major mainland cities.

A 1.7-million-square-foot development in Wei Fong that will redefine luxury residences in Shanghai is slated for completion in phases. The first phase of nearly 200 world-class luxury residences with total gross floor area of over 500,000 square feet will go on sale in the second half of 2011. Its unrivalled magnificent view of the Bund and prime location in the heart of the city's new finance and trade zone are sure to make it a favourite with the market. In Guangzhou, the second phase of over 700,000 square feet of luxury apartments and town houses at Lake Dragon is under construction and should be put up for presale around mid 2011. The Group's other residential projects under development on the mainland are progressing as planned.

The world-class Orchard Residences luxury development project in Singapore was completed during the period. About 90 per cent of the units in this 400,000-square-foot development have been sold. The Group has a 50 per cent interest in the project.

Property Investment

The Group's mainland rental portfolio performed well during the period under review, driven mainly by increased rents and new contributions from investment properties like Shanghai IFC Phase 1 and the Hangzhou MIXC shopping mall.

Shanghai IFC is in the heart of Pudong finance and trade zone with a direct connection to a metro station that provides easy access to the airports. Excluding the 22 floors occupied by HSBC as its China headquarters, Tower One has leased well and is almost fully taken. Preliminary leasing of Tower Two has also been encouraging. Tower Two with a total office floor area of 1.3 million square feet is put on lease by phases. The initial phase of 320,000 square feet has been fully leased. Many international financial firms have expressed interest in this premium office tower.

The million-square-foot Shanghai IFC Mall is virtually fully leased and business is gathering momentum. The mall has a unique design concept and international flavour that puts a new face on retailing in Shanghai, and it is now the choice of shoppers looking for a new experience and enjoyment. The new Ritz-Carlton Shanghai, Pudong has been operating smoothly, bringing the city an ultimate destination of uncompromising style and luxury.

Shanghai ICC at the heart of Puxi is another landmark integrated project under development, with links to a metro station at the interchange of three lines. Preliminary leasing of the offices has been encouraging, with commitments from multinationals, renowned local enterprises and professional firms. Tower One has over 600,000 square feet of top-quality office space and is scheduled for completion in the middle of this year. Preliminary marketing of International APM, the 1.3 million square-foot premium shopping mall at Shanghai ICC, has started to a positive response. Opening is scheduled in 2012.

These two major integrated projects are the foundation of the Group's quality investment portfolio on the mainland. The full completion of Shanghai IFC and ICC 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 serviced suites to the Group's rental portfolio. These two projects and additional quality investment properties under development in other major mainland cities will underpin the Group's mainland rental income.

Shanghai Central Plaza maintained high occupancy with increased retail and office rents. Beijing APM is refining its tenant mix to give shoppers a fresh experience and achieved continued rent increases during the period under review, despite a very competitive retailing environment.

OTHER BUSINESSES

Hotel

Hong Kong's hotel sector did well over the past few months. The number of travellers from overseas showed steady growth and mainland tourist arrivals remained buoyant. Shenzhen further loosened restrictions on residents visiting Hong Kong individually in December last year, so further growth is likely to continue in the year ahead.

The Group's six hotels in Hong Kong maintained overall average occupancy of over 90 per cent and posted impressive increases in average room rates from a year ago. The deluxe Ritz-Carlton at Kowloon Station will soon be another premium addition to the Group's hotel portfolio. It will be the world's tallest hotel with unrivaled views of Victoria Harbour and the city when it begins operating soon. The Group will keep on building premium hotels in Hong Kong, given the territory's position as a major financial and business hub in Asia and a popular destination for leisure travellers. Two premium hotels are being developed atop the Tseung Kwan O MTR station. The first one will be a 350-room Crowne Plaza that will open in 2012.

The Ritz-Carlton Shanghai, Pudong is the Group's first hotel in Shanghai. It has a prime location in Lujiazui in the Shanghai IFC integrated deluxe office, serviced suite and retail development offering a contemporary style, lavish comfort and convenience with sweeping views of the Bund. The hotel has been operating smoothly since opening in June last year. The Group is also building or planning other premium hotels in major cities including Guangzhou, Hangzhou, Suzhou, Nanjing and Chengdu, complementing its integrated developments in these cities.

Telecommunications and Information Technology

SmarTone

Higher service revenue derived from the wider adoption of data services and proliferation of smartphones resulted in a substantial growth in profit for SmarTone, at the same time as growth in customer numbers and average revenue per user kept rising. SmarTone will maintain its focus on extending its leadership in network performance, differentiated services and customer care. The Group remains confident in SmarTone's prospects and will continue to hold the company as a long-term investment.

SUNeVision

Revenue and operating profitability at SUNeVision continued growing during the period under review. iAdvantage built upon its position in the carrier-neutral data centre market in Hong Kong by maintaining high occupancy and signing up new clients. SUNeVision will take advantage of its solid financial position to further develop key business operations.

Transportation and Infrastructure

Transport International Holdings

Transport International Holdings' (TIH) franchised public bus operations in Hong Kong have been faced with a shift of passengers to the expanded rail network and higher costs due to rising fuel prices, wages and tunnel tolls. With an improved economy, TIH's non-franchised bus operations saw higher profits. Income from two joint-venture companies operating taxis and public buses on the mainland remained steady and the company's 73-per-cent-owned RoadShow Holdings expanded in the Hong Kong media sales business.

Other Infrastructure Businesses

The Wilson Group did well during the period and business at the Airport Freight Forwarding Centre was satisfactory following the rebound in air cargo. Throughput at the River Trade Terminal rose steadily and traffic and toll revenue on the Route 3 (Country Park Section) remained stable throughout the period. All the Group's infrastructure projects are in Hong Kong and will provide steady income streams over the long term.

CORPORATE FINANCE

The Group is committed to conservative financial policies, maintaining high liquidity, low gearing and high interest coverage.

Market responses were enthusiastic to all the Group's financing needs, whether in RMB bank loans on the mainland or Hong Kong dollar loans locally. The Group has a deep pool of stand-by banking facilities on a committed basis to meet short-term business requirements and long-term development. It issued a US$300 million, ten-year bond and HK$800 million in three- to ten-year bonds at very favorable rates under the Euro Medium Term Note programme during the period under review, to lengthen the Group's debt maturity profile and diversify its funding sources.

The majority of the Group's borrowings are denominated in Hong Kong dollars, with the remainder in US dollars or RMB for projects on the mainland. The Group has very little foreign-exchange risk and no exposure to derivative or structured products.

The Group has always attained the highest credit ratings amongst Hong Kong developers. Moody's gives the Group an A1 rating with a 'stable' outlook and Standard & Poor's raised the Group's rating from A to A+ with a 'stable' outlook in December 2010.

CUSTOMER SERVICE

Customer care is of prime importance to the Group and it goes to great lengths to find out what people think of its product and service offerings with an eye to constant improvement.

The Group's Hong Yip and Kai Shing property-management subsidiaries provide the best customer assistance, including concierges in housing estates and offices as well as Customer Care Ambassadors in shopping malls. Their popular home convenience service is constantly adding fresh features to satisfy residents.

New owners of the Group's residential developments have the benefit of a professional handover team that inspects completed units before purchasers take possession and offers help with the procedures of moving in. The same quality of service that Hong Kong buyers have come to expect is also on offer in the Group's mainland projects.

The SHKP Club celebrates its 15th anniversary this year. It has over 300,000 members and has proven to be an effective channel for two-way communication between the Group and the market. It offers members a range of property-related benefits, shopping privileges and leisure activities to build loyalty. The Club also undertakes multiple initiatives to promote harmonious families and a caring community.

CORPORATE GOVERNANCE

Maintaining high standards of corporate governance is a cornerstone of the Group's business philosophy. This is achieved through an effective board of directors, timely disclosure of information 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 the Company's executive directors sit on the Executive Committee that formulates policies and makes key business decisions.

The Group's sophisticated management and good corporate governance are widely recognized by the investment community. Accolades earned during the period under review included a Platinum award for Excellence in Management and Corporate Governance from *The Asset* magazine, being named Best Company in Asia for Corporate Governance and Best for Disclosure and Transparency by *Asiamoney* magazine and awards for Best Corporate Governance and Most Convincing and Coherent Strategy in Hong Kong from *Euromoney* magazine. The Group will maintain its efforts to stay at the forefront of best corporate governance practices.

CORPORATE SOCIAL RESPONSIBILTY

The Group takes its corporate social responsibility seriously and supports a range of charitable, environmental and educational initiatives. A new Building Homes with Heart Caring Initiative has been set up to provide immediate assistance to help tide individuals and families over crises or tragic accidents. The initiative has also organized special events for the needy, like celebrations at Chinese New Year with over 2,000 seniors.

The SHKP Book Club encourages reading with seminars, a free magazine, sponsorships and more, including a third staging of the popular Young Writers' Debut competitions. The Group's SHKP Volunteer Team recently added a Sunshine Team to harness the energy of young people to serve the community in the spirit of caring. The full Volunteer Team has nearly 1,800 members and is widely praised for its efforts to help the less fortunate. The Group also provides scholarships for talented mainland students through its SHKP-Kwoks' Foundation.

The Group's community projects like Ma Wan Park promote harmony and love for life, family and the Earth. Many special events for the benefit of the less fortunate have been held at the Ma Wan Park Noah's Ark.

An emphasis on green practices in the design, construction and management of developments provides residents and tenants with better living and working environments. And the Group conserves resources with extensive energy-saving programmes and widely-adopted green features.

The Group employs nearly 32,000 people and believes that staff are its most important asset. It recruits high-calibre graduates from local and mainland universities and provides extensive training to staff at all levels. The Group has extended this caring spirit to the children of employees with a new SHKP Group Undergraduate Scholarship scheme that provides full support for university studies.

PROSPECTS

The global economic recovery is likely to continue this year as a result of ongoing quantitative easing by several developed countries, despite various economic challenges and uncertainties including escalating oil prices resulting from geopolitical tensions in North Africa and the Middle East. While developed economies are likely to show modest growth amid high unemployment, buoyancy in emerging economies will remain with anticipated rising inflationary pressures. Interest rates in developed economies are expected to remain low for most of this year on the back of weakness in labour markets and the possibility of a sovereign debt crisis in some countries, particularly in the Euro zone.

Economic growth on the mainland is expected to remain robust this year, though at a less rapid pace. Export growth should continue with the global economic recovery and domestic consumption will do well given government policy support. The central government's tightening efforts and measures to contain inflation could create short-term financial market volatility, but they should be helpful to sustained economic expansion over the long term.

With continued global economic recovery and positive fundamentals on the mainland, the Hong Kong economy will continue to advance this year. Higher local consumer spending and robust external demand, particularly from mainland tourists, will sustain Hong Kong's economic momentum. Accelerating economic integration between Hong Kong and the mainland, particularly the quickening development of Hong Kong as an off-shore RMB centre, will offer more growth opportunities for the territory over time.

Fundamentals in Hong Kong's residential market will remain positive, notwithstanding worries over further government intervention that may create short-term market volatility and uncertainty. The affordability of homes will likely stay at comfortable levels with record low mortgage interest rates and decent income growth. Increasing integration with the mainland means that more well-off mainlanders will contribute extra demand for properties in Hong Kong. On the supply side, new units available in the presale market will remain limited over the next two to three years, although the government will increase land supply, and subsequently more private flat completions over the longer term, which should be conducive to a sustainable and healthy market.

With positive prospects for the Hong Kong residential market, the Group will continue to look for land bank replenishment opportunities, including the conversion of farmland to residential sites. It will maintain its commitment to quality and develop a diverse range of products that offer the best value to customers in terms of flat mix, layouts, design, facilities and finishes, along with premium customer service to fully meet people's aspirations for ideal homes.

Major residential projects in Hong Kong to go on sale in the next nine months include luxury sea view apartments at Imperial Cullinan in West Kowloon, One Regent Place in Yuen Long and residential towers at an integrated complex atop the Tseung Kwan O MTR station. Upcoming sales proceeds will continue to enhance the Group's financial position and cash flow.

Grade-A office rents are likely to keep rising given relatively tight new supply and greater demand for quality office space. Retail rents should also continue to go up with higher local consumption and more mainland tourist spending. The Group will capitalize on this positive environment and strengthen its leading market position with regular refurbishments and constant reviews of tenant mixes in its office and retail portfolios. More promotions will be staged in shopping malls to attract additional traffic and boost consumer spending, particularly from mainland visitors.

The Group's overall rental portfolio is expected to continue performing well in light of robust leasing demand and higher rents for new leases and renewals. The Group has nearly four million square feet of investment properties under development in Hong Kong, mostly premium office buildings and shopping malls. Non-core investment properties in Hong Kong will continue to be selectively replaced with new landmark projects to further enhance asset quality and returns over time.

On the mainland, the Group will continue seeking new business expansion opportunities, riding on the positive long-term prospects there, while adhering to its focused and selective investment approach. Shanghai IFC and Shanghai ICC will substantially raise the Group's rental income when fully finished and more completions of properties for sale will also boost profit from mainland projects over the medium term.

With the positive business environment and impressive sales and leasing, the Group's results for the current financial year are expected to be encouraging barring unforeseen circumstances.

APPRECIATION

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

Kwong Siu-hing
Chairman

Hong Kong, 28 February 2011