



# Sun Hung Kai Properties Limited

*(incorporated in Hong Kong with limited liability)*

*(Stock Code : 16)*

## 2007 / 08 Annual Results

### CHAIRMAN'S STATEMENT

I am honoured to have been appointed as Chairman and a non-executive director of the Company in May 2008 and am pleased to present my report to the shareholders.

### RESULTS

Profit attributable to the Company's shareholders for the year ended 30 June 2008 was HK\$27,602 million. This is an increase of 30 per cent over last year. Earnings per share were HK\$10.87, an increase of 27.6 per cent over last year. The profit attributable to the Company's shareholders for the year includes a revaluation surplus (net of deferred taxation) on investment properties of HK\$15,851 million (2007: HK\$9,778 million). This unrealized valuation gain represents 57 per cent (2007: 46 per cent) of the reported profit attributable to the Company's shareholders.

Underlying profit attributable to the Company's shareholders, excluding the effect of fair-value changes on investment properties, was HK\$12,186 million, an increase of six per cent over last year. Underlying earnings per share were HK\$4.80, an increase of four per cent over last year.

### DIVIDEND

The directors have recommended the payment of a final dividend of HK\$1.70 per share for the year ended 30 June 2008. Together with the interim dividend of HK\$0.80 per share, the dividend for the full year will be HK\$2.50, an increase of nine per cent over last year.

### PROPERTY SALES

Revenue from property sales for the year as recorded in the accounts, including revenue from joint-venture projects, was HK\$11,510 million, as compared to last year's HK\$16,883 million. The Group sold and pre-sold an attributable HK\$14,151 million of properties during the year, as compared to HK\$20,930 million in the previous year. Of this, sales in Hong Kong contributed HK\$13,074 million, mainly from Harbour Place in Kowloon, The Arch and Harbour Green in West Kowloon and Severn 8 on The Peak. It also included HK\$542 million from sales on the mainland, mainly from The Woodland in Zhongshan and Taihu International Community in Wuxi, and HK\$535 million from The Orchard Residences in Singapore.

## **PROPERTY BUSINESS – HONG KONG**

### **Land Bank**

Four residential sites were added to the Group's development land bank in Hong Kong during the year through land use conversions and private negotiations. The total attributable gross floor area was 420,000 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
295-305 Shau Kei Wan Road	Residential	90	55,000
48-50 Stanley Village Road	Residential	100	37,000
<b>Total</b>			<b>420,000</b>

The Group had a Hong Kong land bank of 43 million square feet as at 30 June 2008, consisting of 25.6 million square feet of completed investment properties and 17.4 million square feet of properties under development. The Group holds more than 24 million square feet of agricultural land in terms of site area. Most of the agricultural land is along 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 residential market in Hong Kong remained relatively resilient despite volatilities in financial markets. While the volume of transactions moderated in the past few months, investors became less active. Strong affordability, negative real interest and attractive mortgage rates relative to rents continued to support home purchases by end-users.

New supply in the primary market remained limited and inventory was close to record-low levels. New land supply has also been limited so far this year, which will result in the tight supply of new residential units continuing over the next few years.

In addition to developing high-quality projects with efficient layouts, deluxe clubhouses and premium customer service, the Group is responding to an increasingly diverse homebuyer profile by constantly introducing new ideas to a wide range of products to suit their evolving needs and aspirations. The Cullinan at Kowloon Station will set a new standard for luxury residences. The low-density Peak One in Sha Tin and the extensive greenery at La Grove in Yuen Long are designed to give residents a relaxed lifestyle integrated with the natural environment. The Group's commitment to quality has earned widespread recognition from the industry. It won prestigious grand awards in the residential and non-residential categories of the Quality Building Award for the second time in a row with The Arch and the Four Seasons Hotel from nine building-related professional bodies. The constant striving for excellence has continued to strengthen the Group's premium brand and its market leading position.

The Group completed six projects in Hong Kong during the year with 2.5 million square feet of attributable gross floor area. International Commerce Centre (ICC) Phase 1 and Kowloon Commerce Centre Phase 1 are being kept as long-term investments.

<b>Project</b>	<b>Location</b>	<b>Usage</b>	<b>Group's Interest (%)</b>	<b>Attributable Gross Floor Area (square feet)</b>
Harbour Place	8 Oi King Street Hung Hom	Residential / Shops	50	793,000
Beacon Lodge	373 Po On Road Kowloon	Residential / Shopping Centre	Joint venture	134,000
Bedford 28	28 Bedford Road Kowloon	Residential	100	55,000
La Maison Vineyard	1 Ngau Tam Mei Road Yuen Long	Residential	100	36,000
International Commerce Centre Phase 1	1 Austin Road West Kowloon	Office	Joint venture	900,000
Kowloon Commerce Centre Phase 1	51 Kwai Cheong Road Kwai Chung	Office / Shops	100	578,000
<b>Total</b>				<b>2,496,000</b>

### **Property Investment**

The Group's gross rental income for the year, including its share from joint-venture properties, increased by 14.5 per cent to HK\$8,262 million. Net rental income for the year was up 14.2 per cent to HK\$5,992 million. Occupancy of the Group's rental portfolio remains high at 94 per cent. Overall rental income growth was driven by higher lease renewals in the office portfolio and stable growth in the retail portfolio.

The first phase of ICC was completed in late 2007 and the entire project will be finished in 2010. The excellent location and unparalleled transport connections are sure to make ICC a prestigious business address in Hong Kong. ICC is above Kowloon Station on the Airport Express. It offers exceptionally convenient access to Central and the airport, as well as to the mainland via planned cross-border rail lines. In addition to the Elements shopping mall that has become a major attraction since opening, the two deluxe hotels, Ritz Carlton and W Hong Kong, together with the HarbourView Place serviced suites also complement ICC's position as a new business hub.

The Group secured renowned international investment banks Morgan Stanley, Credit Suisse and Deutsche Bank to move their headquarters from Central to ICC. This will be the first time Hong Kong has seen major investment banks based in Kowloon, making ICC an extension of Central. In addition to the three banks, a number of other respected firms in the financial sector have committed to taking up space.

Most of Millennium City 6 in Kowloon East is leased and other companies are near to concluding negotiations for the remaining space. Superior quality and intelligent infrastructure set the building apart as a premium office project in Kowloon. The first phase

of Kowloon Commerce Centre in Kwai Chung is leasing well with a number of well-known companies having committed to taking up space. Construction of the second phase is under way. The gradual completion of these new projects will take the Group's total grade-A space beyond ten million square feet by 2010, making it the largest prime office landlord in Hong Kong.

The local retail sector continued to do well and the Group's shopping centres attracted more visitors, benefiting retail tenants with higher traffic and turnover. Occupancy of New Town Plaza, APM and IFC mall remains high and they continue to be popular spots for locals and tourists. The Group ensures that its shopping malls remain attractive by carrying out regular renovations and refinements to tenant mixes. The first phase of converting offices in World Trade Centre to retail space is finished and the second phase renewal of the facade is scheduled for completion by the end of 2008. The expansion and renovation of the mall added a substantial number of new retail tenants and enhanced its attraction. Other refurbished malls include East Point City in Tseung Kwan O and Tsuen Wan Plaza.

The deluxe HarbourView Place serviced suites have attracted intense interest. The initial release will be 70 units for lease. Its convenient location and range of unit sizes will meet the high demand for luxury suite accommodation.

## **PROPERTY BUSINESS – MAINLAND AND SINGAPORE**

### **Land Bank**

The Group added four new sites in Guangzhou, Suzhou, Nanjing and Chengdu to its mainland land bank since July 2007, adding 12.4 million square feet of attributable gross floor area.

<b>Location</b>	<b>Usage</b>	<b>Group's Interest (%)</b>	<b>Attributable Gross Floor Area (square feet)</b>
Liedecun, Guangzhou	Office / Shopping Centre / Hotel / Serviced Apartments	33.3	2,039,000
Industrial Park, Suzhou	Residential / Office / Shopping Centre / Hotel	90	3,257,000
Hexi CBD, Nanjing	Office / Shopping Centre / Serviced Apartments	100	1,699,000
Dongda Avenue, Chengdu	Residential / Shopping Centre / Office / Hotel	40	5,395,000
<b>Total</b>			<b>12,390,000</b>

The Group's mainland land bank currently has an attributable 56 million square feet. This includes 53 million square feet that will be developed as high-end residences, serviced apartments, 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 investment.

## **Property Development**

Continued macro-economic control measures, including tight credit for the property sector, weighed on the mainland residential market over the past year and market activity shrank. High-quality projects in prime locations or close to city centres showed resilience.

The initial phase of Taihu International Community in Wuxi has been very popular since it went on sale in 2007, and about 700 units have been sold to date. MIXC Residence in Hangzhou is now on sale and the response has been encouraging.

A deluxe 1.7-million-square-foot residential development being planned in Wei Fong will set new standards for luxury residences in Shanghai. Construction of other residential projects is progressing smoothly, and work on Jovo Town in Chengdu has resumed following the earthquake in May.

## **Property Investment**

The Group's mainland investment property portfolio showed good performance. Shanghai Central Plaza was over 96 per cent let with reasonable rent increases, and Arcadia Shanghai recorded further rent increases and satisfactory occupancy during the year.

The renovated Beijing APM has a large collection of modern international retailers and food and beverage choices. It offers a new lifestyle and has become a prime choice for shoppers. Rents have improved significantly after the renovations. The office towers have also been renovated recently and they now offer a premium business environment for large corporations and multinationals.

Major projects in prime cities are progressing on schedule. Shanghai IFC will have over four million square feet of gross floor area and is set to be a spectacular new addition to the city's skyline with its cutting-edge architecture and construction quality. The first phase of the development will have 900,000 square feet of offices and will house the mainland headquarters of HSBC, a W Hotel and a prime shopping mall. Completion is scheduled for the middle of 2009. The mall will be the finest shopping destination in Shanghai and market response has been encouraging with interest from leading international retailers. The second phase, which comprises the second office tower and a Ritz-Carlton Hotel, is scheduled for completion by 2010.

Another major project on Huai Hai Zhong Road in the centre of the commercial and retail zone in Puxi is under construction. It will contain 2.5 million square feet of attributable gross floor area taken up by a mega-shopping mall, offices and deluxe residences. Completion is planned in phases from mid 2010 to 2011. Marketing of the mall has started and response has been very positive among international retailers.

The world-class ION Orchard shopping mall on Orchard Road in Singapore is expected to open in mid 2009. Its prime location and innovative retail concept have attracted great market interest. Pre-leasing has been encouraging, with numerous renowned international retailers having committed to taking up space. The Group has 50 per cent interest in this project.

## **OTHER BUSINESSES**

### **Hotels**

The Group's Four Seasons, Royal Garden, Royal Plaza and Royal Park hotels recorded an average occupancy of 92 per cent during the year, and room rates continued to rise. The Royal View Hotel on the Ting Kau waterfront has been operating satisfactorily since it opened in June last year. The W Hong Kong at Kowloon Station will offer guests a full range of deluxe facilities and a chic style, while the luxury Kowloon Station Ritz-Carlton will be completed in 2010. Construction of a hotel project in Tseung Kwan O and two premium hotels in Shanghai IFC to be run by Ritz-Carlton and W Hotel is progressing smoothly.

### **Telecommunications and Information Technology**

#### ***SmarTone***

SmarTone registered an increase in service revenue and profit during the year, reflecting its improving customer profile and average revenue per user. Data revenue showed encouraging growth with the increasing popularity of multimedia services. The company expanded beyond mobile during the year to provide innovative new services in the fixed-line and broadband markets. These new moves are establishing the company as the premium-quality provider of total communication services in Hong Kong. Though competition is intensifying in the market, the Group is confident in SmarTone's prospects over time and will continue to hold the company as a long-term strategic investment.

#### ***SUNeVision***

SUNeVision saw further revenue growth and profitability during the year. iAdvantage kept strengthening its leading position in carrier-neutral data centre operation in Hong Kong and on the mainland, achieving good occupancy. With its sound financial strength, SUNeVision's business performance for the coming year will be good.

### **Transportation and Infrastructure**

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

The bus operations of Transport International Holdings Limited (TIH) have faced a challenging environment in Hong Kong as a result of intensifying competition from the railways and rising fuel prices, wages and tunnel tolls. Sales of the Manhattan Hill residential units helped strengthen TIH's financial position. The TIH group will continue to look for investment opportunities on the mainland in view of the positive outlook. RoadShow Holdings, the TIH subsidiary in the media sales business, achieved satisfactory results.

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

The Wilson Group performed well during the year, while both the River Trade Terminal and Airport Freight Forwarding Centre operated smoothly. Traffic on the Route 3 (Country Park Section) remained steady. All the Group's infrastructure projects are in Hong Kong, and given their potential to generate strong cash flows over time, the Group will continue holding them as long-term investments.

## **CORPORATE FINANCE**

The Group has always been prudent in its financial policies, maintaining high liquidity and low financial gearing. As at 30 June 2008, its net debt to shareholders' funds stood at 15.3 per cent.

The Group placed 72.5 million shares in October 2007 at 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.

A three-year RMB4,700 million syndicated term loan self-arranged by the Group at the most competitive interest rate in January 2008 will help finance the construction of its Shanghai IFC project. The Group also issued HK\$1,940 million worth of bonds under its Euro Medium Term Note Programme with terms of five to seven years in the past year, to diversify its funding base and lengthen debt maturity profile. The Group has substantial undrawn committed facilities that enable it to meet its current funding needs and future business expansion.

The Group has minimal exposure to foreign exchange risk as most of its borrowings are in Hong Kong dollars. The Group has not entered into any speculative derivative or structured product transactions and has no collateralized debt obligations, off-balance-sheet or contingent liabilities, except for borrowings by joint-venture companies. The Group has consistently earned the highest credit ratings among Hong Kong developers; currently A1 with a stable outlook from Moody's and A with a stable outlook from Standard & Poor's.

## **CUSTOMER SERVICE**

An ongoing commitment to constantly improving standards of customer service sets the Group apart. Its property management subsidiaries Hong Yip and Kai Shing provide the finest customer care; surpassing the expectations of modern homebuyers and international businesses. The two companies won numerous accolades during the year, and as they expand on the mainland they will replicate this same high standard of service to reinforce their reputation for quality.

The Group's SHKP Club provides an effective link to the community and a channel for two-way communication. The Club has over 270,000 members who have access to a variety of property-related offers and shopping privileges, leisure and recreational activities, plus a new SHKP Club Academy programme that encourages a healthy family life. The Club's co-brand VISA card also offers members a wide range of discounts and services.

## **CORPORATE GOVERNANCE**

A reputation for high standards of corporate governance is one of the keys to the Group's success. The Group has a comprehensive set of mechanisms to ensure sound corporate governance practices.

The board comprises directors who are respected leaders from various industries with extensive professional and management expertise. There are sub-committees with independent non-executive directors to monitor audit, remuneration and nominations. All of the Group's executive directors sit on its Executive Committee, which oversees business operations supported by an experienced team of managers. Decisions are made in the best interests of the Group and its shareholders after detailed discussion and study. This decision-making mechanism, together with an effective internal control system, sets the Group apart as a leading company.

To maintain a high level of transparency, the Group puts great emphasis on its proactive investor relations programme and timely disclosure of information to the public and shareholders through various channels.

The Group's sophisticated management and good corporate governance are widely recognized by the investment community. Some of the accolades received during the year included a Best Corporate Governance in Asia award from *Corporate Governance Asia* magazine for the third year running, Best Company for Corporate Governance in both Hong Kong and Asia award from *Asiamoney* magazine and being named the Best Managed Property Company in Asia and Hong Kong by *Euromoney* magazine and Hong Kong's Best Managed Company by *FinanceAsia* magazine. The Group was also named number one Global Developer and number one Developer in Hong Kong and Asia in the 2007 Liquid Real Estate awards. The Group will continue its efforts to stay at the forefront of best corporate governance practices.

## **CORPORATE SOCIAL RESPONSIBILITY**

A well-entrenched sense of corporate social responsibility motivates the Group's dedication to community involvement and concern for the environment. The Group encourages staff members to join its volunteer team to participate in various activities benefiting society. The Group also contributes to a wide variety of charitable organizations and supports education. It established the SHKP Book Club to promote a culture of reading in Hong Kong, and continues to host its Nobel laureates lecture series. The Group acts on its concern for the environment by following green practices in all aspects of its business from design and sourcing to construction and property management, and these efforts have garnered extensive praise.

The Group created a public City Art Square with a collection of pieces by artists from all over the world in an initiative to boost Hong Kong's standing as cultural centre in Asia. It was also one of the two Beijing 2008 Olympic Games equestrian events supporters, and its Royal Park Hotel served as the Olympic Village.

Believing that staff are the Group's most valuable asset, it recruits top graduates from respected universities and offers a broad range of training and development courses to all employees to help them reach their full personal and professional potential and ensure the continuity of its high-calibre management and corporate culture.

## **PROSPECTS**

The year ahead is likely to remain challenging for the global economy in light of the continuing credit crunch, high oil prices, concerns about inflation and weakness in the US housing market. Coordinated policy responses by relevant authorities in the US and Europe should help cushion the downside risk facing the global economy.

On the mainland, although downside risks to growth increase as a result of credit tightening and moderation in exports, the Central government is expected to continue to strike a balance between maintaining steady growth and keeping inflation under control. The success of the Beijing Olympic Games has showcased China's economic prosperity and reinforced its position as a major player in the world economy. Given continuous inflows of foreign investment, ongoing infrastructure spending, a competitive labour force and a huge consumer market, the mainland economy will continue to grow at a relatively fast pace over the longer term.

The Hong Kong economy is likely to advance modestly despite a challenging external macro-environment. Consumer spending should hold steady amid a tight labour market and the government's relief package, and the tourist sector will benefit from increasing numbers of mainland visitors.

Prospects for Hong Kong's residential property market remain promising over the medium to long term due to strong fundamentals and favorable demand and supply conditions. Continuous economic growth, strong affordability for homebuyers, low mortgage interest rates and higher rental yields relative to mortgage rates will underpin the demand for residential properties. The supply of new private housing will also remain tight in the coming years.

The Group will replenish its land bank in Hong Kong via various channels including agricultural land conversion and private negotiations. New residential projects will go on sale as planned.

The Group's rental portfolio in Hong Kong should continue to do well, given anticipated rises in rents on renewals and new leases. It currently has five million square feet of investment property 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 maintain its consistent and focused approach to mainland business, with emphasis on the prime cities of Beijing, Shanghai, Guangzhou and Shenzhen, as well as other selected major cities. It remains confident in the prospects for the mainland's property sector and will continue to stick to its strategy of raising its committed investments on the mainland to 30 per cent of total assets. With its strong financial position, the Group will take

advantage of current market conditions to look for attractive investment opportunities as appropriate.

Major residential projects in Hong Kong to go on sale in the next nine months include Peak One in Sha Tin, The Cullinan at Kowloon Station and La Grove in Yuen Long. Barring unforeseen circumstances, the results for the coming financial year are expected to be satisfactory.

Walter Kwok Ping-sheung ceased to be Chairman and Chief Executive of the Company during the year and has been redesignated a non-executive director. As the new chairman, I have full confidence in the Group, given its fundamental strengths and outstanding management team. I would like to reaffirm that the Group will adhere to its current business strategies and continue progressing with high standards of corporate governance. I believe that by building on these solid foundations, the Group will reach new heights in the future.

## **APPRECIATION**

I would also 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, 11 September 2008