

SUN HUNG KAI PROPERTIES LIMITED (新鴻基地產)

Sector	: Property developer	Chairman & Chief Executive	: Kwok ping-sheung, Walter (on leave temporarily) but Kwok ping-kwong, Thomas and Kwok ping-luen, Raymond assumed the Chairman's duties.
HKSE Code	: 0016	Vice Chairmen & Managing Directors	: Kwok ping-kwong, Thomas Kwok ping-luen, Raymond
HSI	: 23,342.73 (06/03/2008)		
Market Price	: HK\$132.70 (06/03/2008)		
Shares Issued	: 2,564.333 Million		
Mkt. Cap.	: HK\$340,287.0 million		
52 weeks Hi/ Lo	: HK\$175.40 / HK\$84.0		

SUMMARY OF THE INTERIM RESULTS FOR THE PERIOD ENDED 31ST DECEMBER 2007
Interim Results Highlights

	1H FY2008 <u>HK\$ million</u>	1H FY2007 <u>HK\$ million</u>	y-o-y <u>Change</u>
• Turnover	11,919	14,781	-19.36%
• Operating profit*	5,664	5,535	2.33%
• Increase in fair value of investment properties	5,842	5,547	5.32%
• Share of results of associates and jointly-controlled entities*	2,006	1,175	70.72%
• Increase in fair value of investment properties held by associates and jointly controlled entities	3,463	1,290	168.45%
• Net profit	13,626	10,910	24.89%
• Underlying net profit (excluding fair value changes on investment properties)	6,200	5,297	17.05%
	<u>HK\$</u>	<u>HK\$</u>	
• EPS- Basic	5.42	4.38	23.74%
• DPS- Interim	0.80	0.70	14.29%
• Underlying EPS	2.47	2.13	15.96%

* before change in fair value of investment properties

- Sun Hung Kai Properties (SHKP) reported a 24.89% y-o-y increase in attributable profit to HK\$13,626 million for the 6 months ended 31st Dec 2007. However, excluding revaluation gain on investment properties, the underlying profit was HK\$6.2 billion, representing a rise of 17.05% y-o-y. The increase was mainly due to higher profit contributions from property sales and net rental income as a result of improved development profit margin and notable rental reversions. Profit from property sales and net rental income for the period amounted to HK\$3,735 million and HK\$2,839 million, representing an increase of 13.8% and 12.0% respectively over the same period last year.
- Turnover dropped by 19.36% y-o-y to HK\$11,919 million mainly due a huge drop in property turnover (-48.40% y-o-y) despite that there was high growth turnover in hotel operation (+22.65% y-o-y) and rental income (+8.97% y-o-y).

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- EPS was HK\$5.42, down 23.74% y-o-y. An interim dividend of HK\$0.80 per share was proposed. Net debt to shareholders equity ratio was 14.0% compared to 13.4% as at 31st Dec 2006. Underlying EPS rose by 15.96% to HK\$2.47 from HK\$2.13.
- SHKP acquired 365,000 sq. ft. of land bank in Hong Kong during the period. Total land bank in Hong Kong amounted to 43.3 million sq. ft. comprising 25.2 million sq. ft. of completed investment properties and 18.1 million sq. ft. of properties under development. SHKP also owned more than 23 million sq. ft. (site area) of agricultural land in the New Territories, most of which is in conversion process to residential use. It completed Phase 1 of ICC and Harbour Place in 1HFY2008.
- Land acquisitions in the Mainland amounted to 6.995 million sq. ft during the reporting period. SHKP committed over RMB 8 billion for the three new projects – Liede project in Guangzhou, Industrial Park project in Suzhou, Hexi CBD project in Nanjing. The current commitments in the Mainland are about 20% of total assets, amounting to RMB 52bn, where majority of land costs have already been paid.

Business Highlights

Breakdown of turnover by activities

HK\$ million	For the 6 months ended 31 st December				
	2007	%	2006	%	Change
Property sales	3,554	29.82	6,888	46.60%	-48.40%
Rental income	3,232	27.12	2,966	20.10%	8.97%
Hotel operation	509	4.27	415	2.80%	22.65%
Telecommunications	2,056	17.25	2,102	14.20%	-2.19%
Other businesses	2,568	21.55	2,410	16.30%	6.56%
Total	11,919	100.00	14,781	100.0%	

Property Sales

- Property sales fell to HK\$3,554 million, down 48.40% y-o-y. About 1,200 units of Harbour Place were sold since its launch in December 2007. Other sales are mainly from remaining units at The Arch, Manhattan Hill and Harbour Green. Key projects like the Cullinan at Kowloon Station, To Fung Shan in Shatin and Lung Tin Tsuen in Yuen Long will be launched in the next 9 months.
- For residential sales on the Mainland, about 600 units were pre-sold at Phase 1 of Taihu International Community in Wuxi. It is expected that the remaining units of Phase 1 be sold shortly. In the next 12 months, SHKP will have initial presale projects of MIXC in Hangzhou, Shuangliu County Project in Chengdu, Lake Dragon in Guangzhou and Sandong Avenue Project in Guangzhou.

Rental income

- SHPK's gross rental income for the period under review rose by 8.97% to HK\$3.232 billion. The Group's net rental income was also up 12% to HK\$2.839 billion. Overall occupancy of the Group's rental portfolio remains high at about 95%. 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. SHKP will develop over 5.5m sq. ft. of new rental properties in the next 4 years and will also enhance the portfolio mix through disposal of non-core properties.
- Regarding the International Commerce Centre (ICC), other than Morgan Stanley, Credit Suisse also became an anchor tenant. Each will occupy 10 floors, which is 40%-50% larger than their current Central offices. Both investment banks will move the whole operation to Kowloon starting in 2H2008. Pre-leasing of office space is encouraging with 60% pre-let or under advanced stage of negotiations. Both the W-Hotel and The HarbourView Place at Kowloon Station will soon be opened.

- Regarding the Mainland's investment properties, about 90% of space committed at the new Beijing APM. The refurbishment of 460,000 sq. ft. of office towers is scheduled for completion in 2H2008. Pre-leasing is progressing smoothly for Shanghai IFC as many international retailers and renowned restaurants are under negotiations for opening flagship outlets. Preliminary marketing has begun for the retail mall of Huai Hai Zhong Road, which is scheduled for completion in 2010.

Hotel operations

- Revenue from hotel operations increased 22.65% y-o-y to HK\$509 million, with operating profit up 17.86% y-o-y, to HK\$165 million. The average occupancy of Four Seasons, Royal Garden, Royal Plaza, and Royal Park hotels were over 90%.

China Properties

- SHKP currently owns 52.7 million sq. ft. of gross floor area on the Mainland, comprising 3.0 million sq. ft. of completed investment properties and 49.7 million sq. ft. of properties under development.

Outlook & Prospects

- **The Cullinan will be launched in the next 9 months.** The Cullinan locates atop Kowloon MTR Station facing the Victoria Harbour with 800 luxury units. It is estimated that the all-in costs are only around HK\$5,000psf. It is expected that the company is going to sell this lucrative development gradually to maximize its profit margin in the coming years.
- **Reputable tenants joined International Commerce Centre (ICC)** Development of ICC will be completed in three phases. Phase 1 is expected to make its contribution in FY09. When fully let, ICC is expected to generate gross rental receipt of over HK\$1bn. At present, about 60% of space at ICC has been either pre-committed or in advanced stage of negotiation. Reputable tenants like Morgan Stanley and Credit Suisse have announced plans of relocating their headquarters to ICC from Central. This can provide positive externalities for the incoming finance-related institutions and enhance SHKP's bargaining power to set the rental rates.
- **Sustainable growth from property sales in Hong Kong with sizeable land bank** SHKP has sizeable land bank of 43.3 m sq. ft. as well as a large agricultural land reserves for development in the next 5 to 6 years.
- **Solid rental growth** Supported by increased rents upon lease renewals and new letting, SHKP's net rental earnings could have a double-digit growth in FY08 and FY09, as there will be fresh contributions from ICC and increased income from newly-completed Millennium City Phase 6 in Kwun Tong. Royal View Hotel in Ting Kau has opened for business. Also, W Hotel (scheduled for opening in mid-08) and Ritz-Carlton Hotel (under construction) at Kowloon Station, should boost hotel earnings over the next few years.
- **More business opportunities for the renovated malls and office towers** Riding on the frenzy of Beijing Olympics this year, the renovations and re-branding of the million-square-foot Sun Dong an Plaza as Beijing APM could be ready to capture more businesses opportunities. Leasing has been encouraging with commitments for almost 90% of the space. Moreover, a refurbishment of the 460,000 sq ft space in the office towers is on track for completion in the second half of 2008.

Recommendation: Long Term Buy

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