RESULTS AND DIVIDEND

For the six months ended December 31, 2010, turnover decreased 74% to HK$2,521 million while net profit attributable to shareholders fell 81% to HK$3,418 million. Earnings per share was HK$0.8, representing a drop of 82%.

When excluding revaluation gain and its deferred tax as well as non-controlling interests, the underlying net profit and the underlying earnings per share both retreated 77% to HK$1,275 million and HK$0.3 respectively.

The Board has declared an interim dividend of HK17 cents per share payable on February 24, 2011 to shareholders of record on February 16, 2011.

OPERATIONS REVIEW

Results are in line with expectation. Developmental profit which was huge a year ago, had disappeared since we withheld from selling Hong Kong completed apartments. Market conditions were not yet auspicious. Revaluation gain was the other reason for the lower profit. A year ago, those "profits" were enormous due to then new accounting rules. As such, the year to year comparison is not meaningful and such gains are in any event not a cash item.

Hong Kong rents increased 9%, those on the Mainland by 19%. The latter was helped by the addition of Palace 66 in Shenyang which opened last June. It has since performed acceptably. Excluding it, rents from Shanghai advanced by 11%. As in the past few years, growth rate was affected by office rents which have yet to recover. However, shopping centers, especially the top end Plaza 66, again did well. It grew 29% while that of the sub-luxury The Grand Gateway rose 11%. Blended rate was 19%. All properties in the three cities -- Hong Kong, Shanghai and Shenyang -- remained basically fully occupied.

Mainland rents now account for 45% of the total. If one looks at the group level, i.e. at Hang Lung Group where all properties are included, the number is 48%. The expected parity between Hong Kong and the Mainland is fast approaching. Given new facilities coming on stream north of the border, this may be the last year where our home market is still ahead. This is a welcomed phenomenon since growth rates on the Mainland should in the coming years be much higher.

Two highlights of the period are the ground breaking of Dalian Olympia 66 in late September and the placement of shares in early November. The former signals that all of our new projects on the Mainland are now under construction. (The second Wuxi plot, purchased in the same month in 2009 as the land in Dalian, is designed as one huge complex called Center 66 along with the first piece across the street bought in 2006. We will first complete the older and larger portion whose mall should open in 2013.) Construction progress everywhere is according to plan.

At the last writing to shareholders in July 2010, I made it clear that equity raising is a distinct possibility. That in fact is what we have always told investors over the past many years. Although already in a net cash position, commercial realities constrained us to place shares in early November. We sold 293,864,000 shares at a price of HK$37.48 each and raised slightly over HK$11 billion. The market received the approach well, and it basically took about an hour to accomplish the task. History showed that our strike day was a market high for the stock -- at least for the time being.

The rationales for the placement are straightforward and overwhelming. First, in the next two years alone, construction costs on the Mainland will approximate the sum just raised. For the three years thereafter, we may further spend a similar amount. The number may be even larger if we were to speed up the construction of offices in Shenyang Forum 66 and Wuxi Center 66. On top of all that, we expect to buy more land on the Mainland; the size of each transaction is likely to be sizeable, a point to which I will return. That means total capital expenditure can easily exceed HK$30 billion in the coming few years.

There are two further considerations. First, no one knows when we will again have the opportunity to sell en masse completed apartments in Hong Kong. Secondly, whereas in principle we have no objection to using debt, we can do that any time. Our strong balance sheet will ensure that. But equity raising depends altogether on market conditions which are out of our control. As such, when they are propitious, we should act. Last November was such a time.

Last July, regulations were relaxed such that corporations could acquire renminbi in Hong Kong. Given the size of the aforementioned capital expenditure on the Mainland, we have been purchasing. As our long time shareholders know, we never speculate in currencies; we only buy when there is the need.

Last month, your Board visited Abu Dhabi and Dubai. To my knowledge, the best shopping centers in the world are found in three places -- Las Vegas in the U.S., Dubai in the U.A.E. and China. I suspect that most knowledgeable and objective observers will agree that Hang Lung's malls are among the best in China and indeed in the world. Nevertheless there is much room for improvement and studying quality properties elsewhere is a great way to learn. That we have been doing and will continue to do.

PROSPECTS

In 2007 and much of 2008, many Mainland residential developers invaded the commercial real estate space. That forced us to stop buying land for almost two and a half years. The global economic crisis which started in mid 2008 reversed that, and those developers had to beat the drum of retreat as they fought for survival. In the past year or so, we have entered into another phase where competition has returned. It is fortuitous that we have had a head start in negotiating several pieces and are hopeful that some of them will materialize in the coming year or two. Nevertheless, there is no denying that just as regulations for land acquisition keep evolving, so does the competitive landscape. These dictate that our thinking and actions must adjust. I will expound more at fiscal year-end, and it suffices here to give one example.

There is a tendency for the size of each plot of city center commercial land to become bigger than those seen in the past. When we bought in 1992 the 5.1-hectare lot in Shanghai which is now The Grand Gateway, people were surprised by its huge dimensions. The 9.2-hectare Shenyang Forum 66 piece purchased in 2006 was probably among the largest at the time. Even the 5.4-hectare Wuxi Center 66 (comprising the two pieces we bought respectively in 2006 and 2009) was already considered not small.

Moving forward, however, we now regularly see land of at least that size. Moreover, such a big plot cannot be for a stand-alone; it must be for a mixed use development comprising commercial and office elements. That implies that the plot ratio is higher, often well above 4 such as between 7 and 9. Coupled with ever increasing unit land price due mainly to the cost of relocating existing tenants, the amount of money required to buy such a piece has escalated. That, I suppose, also argues for the further shoring up of our balance sheet.

Mixed used development is a model with which we are familiar. Afterall, our two projects in Shanghai both fall into that category, as do Shenyang Forum 66 and Wuxi Center 66. That however does not mean that we will not do more stand-alone malls such as Shenyang Palace 66, Jinan Parc 66, Dalian Olympia 66 and Tianjin Riverside 66. We are equally at ease with both product types.

For our rental portfolio, I expect that income in the second half of the fiscal year will be substantially similar to that of the first. As always it is hard to predict whether we will sell Hong Kong completed apartments. We will watch the market carefully and will act accordingly.

I am pleased to confirm that Jinan Parc 66 will open in late August this year. This huge mall of 170,000 square meters is already over 85% leased up and I expect full occupancy at opening.

Our new Managing Director Philip Chen has settled in well; he has quickly and successfully climbed the learning curve and has begun to significantly contribute to all aspects of the Company. It is fair to say that management has greatly strengthened under his leadership. At fiscal year end, I will provide more detail.

Ronnie C. Chan
Chairman
Hong Kong, January 26, 2011