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)

2019 / 20 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 2019, excluding the effect of fair-value changes on investment properties, amounted to HK$13,422 million, compared to HK$13,733 million for the corresponding period last year. Underlying earnings per share were HK$4.63, compared to HK$4.74 for the same period last year.

Reported profit and reported earnings per share attributable to the Company's shareholders were HK$15,419 million and HK$5.32 respectively, compared to HK$20,469 million and HK$7.07 for the corresponding period last year. The reported profit for the period included an increase in fair value of investment properties net of deferred taxation and non-controlling interests of HK$2,046 million, compared to HK$6,938 million for the same period last year.

DIVIDEND

The directors have declared an interim dividend payment of HK$1.25 per share for the six months ended 31 December 2019, the same as the corresponding period last year. The dividend will be payable on 19 March 2020.

BUSINESS REVIEW

Property Sales and Rental Income

Property Sales

Revenue from property sales for the period under review as recorded in the financial statements, including revenue from joint-venture projects, was HK$16,208 million. Profit generated from property sales was HK$6,850 million, as compared to HK$6,694 million for the corresponding period last year. Contracted sales during the period reached an approximate HK$21,600 million in attributable terms.

Rental Income

Gross rental income, including contributions from joint-venture projects, registered an increase of 3% year-on-year to HK$12,713 million and net rental income increased by 2% year-on-year to HK$9,669 million during the period under review. The increase was mainly driven by new rental properties, both in Hong Kong and on the mainland.

However, the operating environment in Hong Kong, in particular retail leasing and hotel operations, has weakened since mid 2019 impacted by local social incidents. In the short term, it will be further hit by the outbreak of a novel coronavirus early this year.

Property Business – Hong Kong

Land Bank

In November 2019, the Group acquired through a government tender a prime mega commercial site on and adjoining the High Speed Rail West Kowloon Terminus with a developable gross floor area of 3.16 million square feet. Situated in a strategic location in West Kowloon, the site will be developed into an office-cum-retail landmark of international standards. The new development is expected to create excellent synergy with the Group's neighbouring ICC office, two five-star hotels and the West Kowloon Cultural District, an international cultural centre under development, elevating West Kowloon's status as a key business hub in Hong Kong.

The Group intends to invite long-term strategic investors to participate in the development of this prime site, so that the parties can pool their expertise, resources and strength together to undertake this mega project. In mid December 2019, the Kwok Family Companies acquired a 25% stake in the office portion of the proposed development and is now a long-term strategic investor in the project. Discussions are under way in relation to another strategic investor in the office portion. It is the intention of the Group to maintain a 100% ownership in the retail portion of the project. As in the case of the IFC development in Central and ICC in West Kowloon, this mega landmark project will represent another key milestone of the Group's development and its long-term commitment to Hong Kong.

Together with the above acquisition, the Group's land bank in Hong Kong amounted to an approximate 58.9 million square feet of attributable gross floor area as at the end of December 2019. This consists of about 25.8 million square feet of properties under development for various usages and about 33.1 million square feet of completed properties, an overwhelming majority of which are for long-term investment. The Group will continue to adhere to its land bank replenishment policy, including active land use conversions of its agricultural land.

Property Development

Affected by lingering local social incidents, Hong Kong's residential market has been in a mode of correction since mid 2019 with softening prices and reductions in the volume of transactions. Property sales have further slowed following the outbreak of a new strain of the coronavirus, though end-user demand has remained for small- to medium-sized units.

During the period, the Group achieved contracted sales of about HK$17,900 million in attributable terms in Hong Kong. Major contributors included residential developments Cullinan West III in West Kowloon, Crown of St. Barths in Ma On Shan and PARK YOHO Napoli in Yuen Long. Wetland Seasons Park near Hong Kong Wetland Park was put on the market in early January 2020 and the first phase has nearly sold out.

The Group is committed to offering premium units and delivering attentive services to meet the expectations of its different customers. A number of projects, including Cullinan West II in West Kowloon, were handed over to buyers during the period with high acclaim for its building quality and workmanship. Such recognitions have helped reinforce the Group's market position despite the challenging operating environment.

During the period under review, five projects in Hong Kong comprising a total of about 1.8 million square feet of attributable gross floor area were completed, of which three residential projects comprising about 1.4 million square feet were ready for handover. Details of these projects are shown in the table below. In the second half of this financial year, an approximate 1.7 million square feet of attributable gross floor area is scheduled for completion, including about 1.6 million square feet of residential premises.

Project	Location	Usage	Group's Interest (%)	Attributable Gross Floor Area (square feet)
Wings at Sea	1 Lohas Park Road, Tseung Kwan O	Residential	JV	693,000
PARK YOHO Napoli	18 Castle Peak Road Tam Mi, Yuen Long	Residential	100	543,000
ALVA Hotel by Royal	1 Yuen Hong Street, Sha Tin	Hotel	100	344,000
Phase 1 of Central Peak Development	18 Stubbs Road, Mid-levels East	Residential	100	122,000
Citygate (Extension)	16 Tat Tung Road, Tung Chung	Shopping Centre	20	68,000
Total				**1,770,000**

Property Investment

For the period under review, the overall occupancy of the Group's diversified property investment portfolio stayed at around 93%. Inclusive of contributions from joint-venture projects, the Group's gross rental income from Hong Kong registered a slower increase of 3% to HK$9,941 million.

The overall leasing market in Hong Kong has been clouded by social incidents in the territory, uncertainties over Sino-US trade conflicts and sluggish domestic economic growth. The social incidents, in particular, have created an unprecedented challenge for the retail sector in Hong Kong with downward pressure on retail rental resulting from tumbling tenants' sales, especially for shops and malls in tourist areas. While the agreement of the first-phase Sino-US trade deal in January this year should help to improve overall business sentiment, the prevailing coronavirus epidemic has further hit both domestic and tourist spending.

During the period, the Group's retail portfolio was inevitably affected to a varying degree due to local social incidents. Despite short-term pressure on renewals and new leases, this quality portfolio achieved healthy occupancy. The Group endeavours to maintain the smooth operation of its malls and boost consumer spending. Appropriate measures were taken to help tenants tide over this difficult time, including the provision of immediate maintenance support to restore business operations, and the implementation of multifaceted strategies of spending boost and relief measures on top of traditional marketing campaigns. The Point by SHKP under the SHKP Malls App, the Group's integrated loyalty programme, has been well received since its launch. Encouraging customers to spend and shop more in the Group's malls under its extensive network, the programme has put together attractive offerings and helped benefit the Group's tenants and its diverse businesses, including hotels. In addition, relief initiatives were offered to tenants in the affected malls in light of unforeseen closure amid local social incidents in the latter part of last year. Owing to the recent epidemic outbreak, the Group granted rent concessions in February this year to a majority of tenants in its shopping malls, particularly food and beverage operators, helping to ease pressure on retailers while maintaining employment in the weakening economic environment.

The Group's premium office portfolio performed well with high overall occupancy during the period. Leasing demand for the Group's office premises remained solid with major tenants showing confidence in the Group's quality buildings and exceptional services as well as Hong Kong's long-term prospects. Providing premium office space with convenient access to public transport infrastructure and superior property management services, both IFC and ICC remained highly sought-after by international financial institutions and multinational corporations, with occupancies staying at a high level. The Millennium City office cluster in Kowloon East continued to register satisfactory overall occupancy, offering alternative choices to renowned corporations opting for large floor plate offices.

During the period, the Group's property investment portfolio in Hong Kong strengthened with the addition of two shopping malls. The virtually fully let 300,000-square-foot V Walk atop MTR Nam Cheong Station opened in July 2019, serving the growing population in the catchment areas. On Hong Kong Island, Harbour North, the retail component of the Group's residential development Victoria Harbour in North Point, is opening in stages. Anchor tenants, including YATA, a Japanese lifestyle supermarket, held their grand openings and have been well received by shoppers. Over the medium term, the completion of an office-cum-retail project at 98 How Ming Street in Kwun Tong will further scale up the Group's property investment portfolio in the territory. This project will comprise about 650,000 square feet of premium grade-A office space in two towers and a 500,000-square-foot regional shopping mall.

As reported earlier, the Group successfully acquired in November 2019 a strategic landmark commercial site in West Kowloon through government tender. Sitting on the High Speed Rail West Kowloon Terminus and adjoining three existing railway lines in Hong Kong, the project is located within a transportation hub offering convenient access to different parts of Hong Kong and other major cities on the mainland. Under the existing plan, this 3.16-million-square-foot transit-oriented development will comprise 2.8 million square feet of quality grade-A offices and about 349,000 square feet of retail space. Upon its full completion, the Group's property investment portfolio, especially in West Kowloon, will be further expanded.

Property Business – Mainland

Land Bank

During the period under review, the Group added a joint-venture project in Qianjiang New City CBD in Hangzhou with two neighbouring riverside sites. The two sites will be jointly developed into an integrated landmark with a total above-ground gross floor area of approximately nine million square feet, providing premium offices and retail areas as well as residential and hotel space. The Group's attributable gross floor area in the project amounts to about 4.5 million square feet.

As at 31 December 2019, the Group's attributable land bank on the mainland stood at 69.7 million square feet. About 55.1 million square feet were properties under development, over 50% of which will be developed into quality residences for sale. An overwhelming majority of the remaining 14.6 million square feet are completed properties for investment purpose. The Group will continue with its selective and focused strategy to seek business opportunities in major cities on the mainland.

Property Development

Transaction volumes in the mainland residential market were relatively stable during the period under review. Home prices remained steady and healthy under the long-term management and regulation mechanism aimed at stabilizing expectations. However, home sales activities have recently been severely disrupted by the outbreak of the novel epidemic amid corresponding quarantine and traffic-flow control measures. Over the medium-to-long-term, the housing market should resume healthy and stable development.

The Group recorded attributable contracted sales of about RMB3,300 million on the mainland during the period. Major contributions came from the wholly-owned Park Royale in Guangzhou and several joint-venture projects, including TODTOWN in Shanghai, Oriental Bund in Foshan and The Woodland in Zhongshan. With the introduction of new measures in facilitating Hong Kong residents' working and living in the Greater Bay Area, the Group's residential projects in the area have received a more encouraging response from Hong Kong people.

The Group will continue to deliver quality developments on the mainland, with a total of about 3.9 million square feet of attributable gross floor area scheduled to be completed in the second half of this financial year. These comprise a number of residential projects, including Phase 2B of Park Royale, Guangzhou and Phase 5A of The Woodland, Zhongshan.

Property Investment

Gross rental income from the mainland, including contributions from joint-venture projects, rose 7% year-on-year to RMB2,168 million during the period. Such increase was primarily driven by positive rental reversions and contributions from newly completed properties.

Covering about 340,000 square feet, the mall at One ITC is the Group's latest retail showcase of the 7.6-million-square-foot ITC integrated development in Shanghai. With its soft opening in December 2019, the mall is putting a new face on retailing in the burgeoning Xuhui district. With a focus on grand luxury, the virtually fully let mall houses a variety of world-leading luxury brands, including newcomers to the mainland. Coupled with gourmet restaurants and outdoor landscaped space, the mall has attracted shoppers seeking new experiences and enjoyment while further enhancing the leasing competitiveness of the offices atop with comprehensive amenities. At Two ITC, the 43,000-square-foot retail portion is fully let and scheduled to open in 2020, while the grade-A offices have all been leased. The 220-metre grade-A office building of the remaining phase is slated for completion by the end of 2021 and the construction of the 370-metre skyscraper and the 2.5-million-square-foot luxury mall is expected to be completed by late 2023.

Comprising 3.4 million square feet of gross floor area, Nanjing IFC in Hexi CBD, Nanjing, is another of the Group's integrated landmark developments currently under development. Nanjing One IFC achieved increased occupancy with tenants gradually moving in, while Nanjing Two IFC, which is expected to be completed in 2020, is undergoing internal decoration. Totalling two million square feet, these state-of-the-art office towers have drawn interest from quality tenants, including reputable multinationals. The Nanjing IFC mall, comprising over one million square feet, will become a shopping hotspot for luxury products in the city and has received a positive response from its preliminary marketing. In addition, this integrated development will house a new five-star hotel, Andaz Nanjing.

Located at the last prime site in Qianjiang New City CBD, Hangzhou, the joint-venture Jianghehui project, acquired in August 2019, marks a new milestone for the Group's property investment portfolio on the mainland. Spanning about nine million square feet of above-ground gross floor area, the integrated development is being developed in phases and destined to become a new landmark in Hangzhou. The project is now under planning.

The Group's existing property investment portfolio performed well during the period. Shanghai IFC Mall has seen healthy rental growth while Shanghai IAPM will further strengthen its image as a trend-setting mall and continuously enhance the brand mix and recruit popular eateries to the mall. Rental reversions of the Group's quality office spaces at Shanghai IFC and Shanghai ICC remained satisfactory. In Beijing, occupancy of New Town Plaza has stayed high since its opening in July 2019, and Beijing APM will undergo a refurbishment of its facade to elevate its positioning. More flagship stores have been opened at IGC and Parc Central, the Group's two joint-venture malls in Guangzhou, raising their overall occupancies. Since late January this year, the traffic flow and tenant sales of the Group's shopping malls on the mainland have been under pressure due to the novel coronavirus outbreak and related counter-measures. However, the Group remains positive about the medium-to-long term development of the retail property market.

Other Businesses

Hotels

The operating environment of the hospitality industry worsened amid plunging visitor arrivals as a result of local social incidents. The performance of the Group's hotel portfolio in Hong Kong was affected with a significant reduction in revenue per available room during the period under review, although it outperformed the overall industry. The near-term performance of the Group's hotel portfolio will be exacerbated by the recent epidemic.

ALVA Hotel by Royal in Sha Tin, the Group's fifth Royal brand hotel, held its grand opening in December 2019. Encompassing contemporary design, smart technology and sustainable living, the hotel is expected to synergize with its sister hotel, Royal Park Hotel in Sha Tin, and offers a modern and refreshing experience to its customers.

On the mainland, The Ritz-Carlton Shanghai, Pudong retained its leading position in Shanghai's luxury hotel market and delivered stable performance during the period. Among the hotels under development in the Group's integrated projects on the mainland, Four Seasons Hotel Suzhou, comprising 210 guestrooms, and Andaz Nanjing, with about 360 rooms, are expected to open by late 2021.

Telecommunications and Information Technology

SmarTone

During the period under review, the mobile industry remained highly competitive, putting pressure on profitability. While SmarTone continued to grow its customer base and lead the industry in postpaid ARPU, the recent drop in overseas visitors has led to a substantial decline in inbound roaming revenues. The business outlook over the next six months is highly uncertain with the outbreak of the novel coronavirus. Some aspects of SmarTone's business will be adversely affected. Inbound and outbound roaming, in particular, will be significantly affected due to reduced travels. In face of these headwinds, SmarTone will focus on serving its customers better and identifying new services and revenue streams, as well as maintaining vigilant control over costs and investments. The Group remains confident of SmarTone's prospects and will continue to hold the company as a long-term investment.

SUNeVision

SUNeVision sustained satisfactory results during the period and continued to attract new customers from cloud services and new economy. MEGA-i, one of the largest data hubs in Asia, is undergoing a major upgrade to improve service levels and power capacity to serve customers with high demand for electricity. During the period, SUNeVision successfully acquired the property where the MEGA Two data centre is housed; this will enable greater operating flexibility and support to high-growth customers. The planning and construction work for the two new data centres in Tsuen Wan and Tseung Kwan O are well under way. SUNeVision has high potential for growth, and will focus on delivering first-rate infrastructure and services for its key customers.

Infrastructure and Other Businesses

The Group's infrastructure and transport businesses maintained stable performance during the period under review. Wilson Group's business was impacted by local social incidents while Route 3 (CPS)'s performance remained healthy. Despite facing challenges from the slowdown in mainland-related business activities amidst Sino-US trade tensions, business at the Hong Kong Business Aviation Centre remained stable. Airport Freight Forwarding Centre Company Limited still saw demand from the logistics industry. The performance of the River Trade Terminal was affected by a drop in throughput amidst challenges in global trade despite strict cost control adopted by the business.

YATA expanded its network to 12 locations with the latest opening of its new store at Harbour North in North Point, extending its footprint to Eastern Hong Kong Island. A food street is featured within the new store to deliver an enhanced shop-and-eat experience to customers.

Corporate Finance

To overcome uncertain economic headwinds ahead, the Group reiterates the importance of prudent finance policies of keeping low gearing and robust liquidity. Its interest coverage ratio sustained at a high multiple whilst the Group's net debt to shareholders' funds maintained at a reasonable level after the payment of the land premium for the prime mega commercial site atop the High Speed Rail West Kowloon Terminus in December 2019. The Group is in a strong financial position to finance its business development with an abundant amount of committed banking facilities on a standby basis.

Consistently the best credit-ratings achiever among Hong Kong property companies, the Group is affirmed an A1 by Moody's and A+ by Standard & Poor's, both with stable outlooks. Such high ratings enable the Group to tap the debt capital markets as and when opportunities arise. In January 2020, the Group successfully issued a total of US$800 million 10-year bonds at a coupon rate of 2.875% to help diversify its funding sources.

In line with the Group's prudent financial discipline, most of its borrowings are denominated in Hong Kong dollars with the remainder mainly in US dollars and Renminbi. The Group has not entered into any derivative or structured product transactions for speculative purpose.

Corporate Governance

High standards of corporate governance play an important role in the sustainable development of the Group's businesses. There are 20 members on the Board, including nine Independent Non-Executive Directors (INEDs). The Board directs and oversees the Group's strategies and has delegated specific roles and responsibilities to Board Committees. The Executive Committee meets regularly to set business policies and make key business decisions. To ensure good corporate governance and in compliance with the regulatory requirements, the Remuneration, the Nomination, and the Audit and Risk Management Committees are all chaired by INEDs. These well-established Board Committees provide sufficient checks and balances that safeguard the interests of shareholders and the Group.

During the period, the Group received various major awards from leading financial publications for its ongoing efforts in corporate governance. It won the Best Developers – Overall in Hong Kong in the 2019 Real Estate Survey organized by *Euromoney* magazine and the Platinum honour in The Asset ESG Awards by *The Asset* magazine.

Sustainable Development

Guided by its Building Homes with Heart spirit and unwavering faith in Hong Kong, the Group pioneers premium landmark developments that create long-term value for the Group and the community. Along with this, community and environmental initiatives are actively undertaken while joint efforts are made with its stakeholders to make a positive and lasting impact on society. As a testimony to its upholding of environmental and social responsibility commitments, the Group remains one of the top three performers in the Hang Seng Corporate Sustainability Index and a constituent member of the FTSE4Good Global Index series of London.

The Group works relentlessly to encourage social harmony through engagement with different segments of the community. Among its latest initiatives, the Group had committed to providing lands with nominal rents on an eight-year term for transitional social housing, contributing to easing the acute housing shortage among the underprivileged and building a more cohesive society in Hong Kong. A joint effort with the Hong Kong Sheng Kung Hui Welfare Council, United Court in Yuen Long is only about a 10-minute walk to MTR Yuen Long Station with easy access to the community amenities. Together with two other sites in the New Territories, the three projects aim to provide a total of 2,000 transitional flats, benefitting over 6,000 families. In view of the latest novel coronavirus outbreak in Hong Kong, the Group had made timely donations of very high quality face masks to the Hospital Authority as well as seven charity organizations focusing on elderly and underprivileged children, in addition to ensuring provision for all staff of the Group in early February this year. Additionally, the SHKP-Kwoks' Foundation made a donation to The Chinese University of Hong Kong for the setting up of a brain health research centre, promoting brain health of Hong Kong people and prevention of cerebral stroke, particularly among the elderly.

Despite the cancellation of the SHKP Vertical Run for Charity – Race to Hong Kong ICC and the Sun Hung Kai Properties Hong Kong Cyclothon due to local social incidents during the period, the Group pledged to make extra donations to support beneficiary charities' youth and children programmes as planned. In this regard, the Group staged the SHKP Sports for Charity Carnival and turned participants' exercise efforts into extra donations. The fund, raised through the SHKP Sports-for-Charity initiatives in 2019, supported eight projects for underprivileged children and youngsters, benefitting over 10,000 people. Separately, the SHKP Reading Club ramped up reading promotion at schools by introducing a sponsorship scheme to its Read & Share programme, while enriching its reading platform to broaden readers' spectrum.

Proactively forging closer ties with target consumers and the public, SHKP Club remains the Group's integral two-way communication platform to keep pace with market changes and formulate customer-oriented products and services that stand out from the competition. To foster a healthy and caring workplace for its staff, the Group enhanced its staff benefits system and promoted physical and mental wellness through organizing regular work-life balance activities, stress management workshops, and offering professional counsel and emotional support.

PROSPECTS

Global economic conditions are expected to benefit from the conclusion of the first phase of the Sino-US trade deal as well as easing concerns over the issues that arise from Brexit. Continued accommodative monetary policies and positive government measures in major economies will also support economic growth. Nevertheless, geopolitical tensions and uncertainties, including protectionism and the global spread of the novel coronavirus, will continue to pose risks and challenges to the world economy. The outbreak of the epidemic will inevitably affect sectors related to retail, tourism and transportation in the near term.

The mainland economy and its overall property market will be clouded by the recent severe epidemic and lingering uncertainty over the second stage of the Sino-US trade talks in the near term. Nevertheless, the Central Government will continue to implement economy-stabilizing measures to support its economy on the mainland. Over the long term, the mainland economy is expected to see reasonable growth, which benefits the healthy development of the mainland property market.

In Hong Kong, external economic uncertainties, coupled with the latest epidemic outbreak and local social incidents, will pose greater downside risks to the territory's economy, particularly tourism and retail-related sectors. With its unique strength of 'One Country, Two Systems' and the city's solid fundamentals, such as a well-established common law legal system and an efficient infrastructure, together with various opportunities arising from continuous and rapid developments in the Greater Bay Area, Hong Kong will be able to further strengthen its position as an international hub for finance, business, trade and tourism over the long term. The Group remains highly confident that Hong Kong will see a brighter tomorrow.

The successful acquisition in late 2019 of the large-scale commercial site on and adjoining the High Speed Rail West Kowloon Terminus through government tender demonstrates the Group's faith in, and commitment to, the long-term future of Hong Kong. Upon completion, this mega landmark project, together with the neighbouring ICC, will raise West Kowloon's status as a major office and commercial hub while bolstering the Group's leading position in the leasing markets in Hong Kong. ITC in Shanghai and the newly acquired Jianghehui joint-venture project in Hangzhou will further enlarge the Group's property investment portfolio on the mainland. All these developments will provide a sustainable and sizeable recurring income to the Group in the long run.

The Group will continue to expand its diversified property investment portfolio in the near term. In Hong Kong, Harbour North, the Group's latest mall in North Point, is opening in stages. On the mainland, the mall at One ITC in Shanghai was soft opened in late 2019 while the second office tower at Nanjing IFC in Nanjing will be completed in 2020.

The Group will also dedicate efforts to property development for sale and acquiring new sites when opportunities arise. New projects will be put on the market as soon as they are ready. Over the next 10 months, the second phase of Victoria Harbour in North Point and the second phase of Wetland Seasons Park near Hong Kong Wetland Park, as well as the first phases of a number of residential developments will be put up for sale in Hong Kong, including Central Peak in Mid-levels East, To Shek Street project in Sha Tin and Hoi Wing Road project in Tuen Mun. The Group also plans to launch an industrial building in Tsuen Wan for sale. All these are expected to offer sizeable cash flow to the Group. On the mainland, the Group will, in appropriate circumstances, put various residential developments on the market, including a brand new residence at the 90%-owned Suzhou ICC, a new phase at the wholly-owned Shanghai Arch and new batches at several joint-venture projects, including Oriental Bund in Foshan and Chengdu ICC in Chengdu. Nevertheless, should the latest epidemic linger for a longer while, its adverse impact on the Group's property sales and earnings will be felt in the next two years.

Over the past several decades, the Group has grown with Hong Kong and gone through numerous crises with the city. As in the past, the Group is dedicated to supporting Hong Kong by developing landmark projects in difficult times. This can be exemplified by the commitment and development of Two IFC during the Asian financial crisis and the ICC project following the tech bubble burst in 2000. With a commitment to the long-term development of Hong Kong and a firm belief that the city will eventually get back on track, the Group will continue to invest in Hong Kong and the mainland.

Addressing the ever-changing environment and market needs, the Group will continuously listen to the feedback of its customers with an open mind and provide quality products and services in the spirit of Building Home with Heart. At the same time, the Group will remain committed to fulfilling its corporate social responsibility by making optimal use of its resources and proactively engaging stakeholders to produce positive energy in the community. In view of the recent novel coronavirus outbreak, the Group has taken active steps to offer rent concessions to a majority of its shopping mall tenants in easing their operating pressure, as well as strengthening the standards of hygiene at the Group's shopping malls, offices and other properties to offer a safe and clean environment for customers, residents and staff. Leveraging its solid foundation, strong balance sheet and seasoned management team, the Group has full confidence in overcoming the difficulties arising from local social incidents and the latest epidemic, among other challenges, and helping further develop the city as in the past.

APPRECIATION

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

Kwok Ping-luen, Raymond
Chairman & Managing Director

Hong Kong, 27 February 2020

ANNOUNCEMENT

The Board of Directors of Sun Hung Kai Properties Limited announces the following unaudited consolidated figures of the Group for the six months ended 31 December 2019 with comparative figures for 2018:-

Consolidated Income Statement
For the six months ended 31 December 2019
(Expressed in millions of Hong Kong dollars)

	Notes	(Unaudited) Six months ended 31 December **2019**	2018
Revenue	3	**38,711**	37,112
Cost of sales		**(19,106)**	(18,268)
Gross profit		**19,605**	18,844
Other net income		**351**	276
Selling and marketing expenses		**(2,358)**	(1,951)
Administrative expenses		**(1,446)**	(1,342)
Operating profit before changes in fair value of investment properties	3	**16,152**	15,827
Increase in fair value of investment properties		**2,500**	6,167
Operating profit after changes in fair value of investment properties		**18,652**	21,994
Finance costs		**(1,302)**	(1,244)
Finance income		**214**	219
Net finance costs	4	**(1,088)**	(1,025)
Share of results (including increase in fair value of investment properties net of deferred tax of HK$131 million (2018: HK$1,384 million)) of:			
Associates		**188**	254
Joint ventures		**1,574**	3,245
	3	**1,762**	3,499
Profit before taxation	5	**19,326**	24,468
Taxation	6	**(3,388)**	(3,398)
Profit for the period		**15,938**	21,070
Attributable to:			
Company's shareholders		**15,419**	20,469
Perpetual capital securities holders		**85**	86
Non-controlling interests		**434**	515
		15,938	21,070
(Expressed in Hong Kong dollars)			
Earnings per share based on profit attributable to the Company's shareholders (reported earnings per share)	7(a)		
Basic		**$5.32**	$7.07
Diluted		**$5.32**	$7.07
Earnings per share excluding the effects of changes in fair value of investment properties net of deferred tax (underlying earnings per share)	7(b)		
Basic		**$4.63**	$4.74
Diluted		**$4.63**	$4.74

Consolidated Statement of Comprehensive Income
For the six months ended 31 December 2019

(Expressed in millions of Hong Kong dollars)

	(Unaudited) Six months ended 31 December	
	2019	2018
Profit for the period	**15,938**	21,070
Items that may be reclassified subsequently to profit or loss:		
Translation difference on foreign operations	**(1,336)**	(3,192)
Cash flow hedge		
- fair value gains recognized directly in reserves during the period	**85**	-
- fair value gains transferred to consolidated income statement	**(16)**	-
	69	-
Debt securities at fair value through other comprehensive income		
- fair value losses recognized directly in reserves during the period	**-**	(1)
Share of other comprehensive loss of associates and joint ventures	**(197)**	(562)
Items that will not be reclassified to profit or loss:		
Equity securities at fair value through other comprehensive income		
- fair value losses recognized directly in reserves during the period	**(83)**	(305)
Share of other comprehensive income of an associate	**144**	5
Other comprehensive loss for the period	**(1,403)**	(4,055)
Total comprehensive income for the period	**14,535**	17,015
Total comprehensive income for the period attributable to:		
Company's shareholders	**14,056**	16,513
Perpetual capital securities holders	**85**	86
Non-controlling interests	**394**	416
	14,535	17,015

Consolidated Statement of Financial Position
As at 31 December 2019
(Expressed in millions of Hong Kong dollars)

	Notes	**(Unaudited) 31 December 2019**	(Audited) 30 June 2019
Non-current assets			
Investment properties	9	**429,739**	386,612
Property, plant and equipment		**40,530**	35,862
Associates		**6,311**	6,014
Joint ventures		**72,033**	67,737
Financial investments		**2,918**	3,313
Intangible assets		**4,304**	4,445
Other non-current assets		**5,844**	4,764
		561,679	508,747
Current assets			
Properties for sale		**196,860**	196,107
Inventories		**453**	356
Trade and other receivables	10	**25,035**	22,811
Financial investments		**1,157**	1,103
Bank deposits and cash		**22,383**	22,038
		245,888	242,415
Current liabilities			
Bank and other borrowings		**(11,047)**	(9,168)
Trade and other payables	11	**(30,196)**	(28,699)
Deposits received on sales of properties		**(27,179)**	(16,983)
Current tax payable		**(12,914)**	(11,052)
		(81,336)	(65,902)
Net current assets		**164,552**	176,513
Total assets less current liabilities		**726,231**	685,260
Non-current liabilities			
Bank and other borrowings		**(112,645)**	(85,838)
Deferred tax liabilities		**(23,833)**	(23,328)
Other non-current liabilities		**(10,662)**	(275)
		(147,140)	(109,441)
NET ASSETS		**579,091**	575,819
CAPITAL AND RESERVES			
Share capital		**70,703**	70,683
Reserves		**499,054**	495,722
Shareholders' equity		**569,757**	566,405
Perpetual capital securities		**3,813**	3,813
Non-controlling interests		**5,521**	5,601
TOTAL EQUITY		**579,091**	575,819

Notes to the Condensed Consolidated Financial Statements

(Expressed in millions of Hong Kong dollars)

1. Basis of Preparation and Principal Accounting Policies

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34, Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules").

The financial information relating to the year ended 30 June 2019 included in this interim results announcement as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those consolidated financial statements. The Company has delivered the consolidated financial statements for the year ended 30 June 2019 to the Registrar of Companies and the Company's auditor has reported on the consolidated financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or 407(3) of the Hong Kong Companies Ordinance.

The accounting policies applied in these interim financial statements are the same as those applied in the consolidated financial statements for the year ended 30 June 2019, except for the adoption of HKFRS 16, Leases as described in Note 2 below. Other amendments to Hong Kong Financial Reporting Standards and new interpretation that are effective for the first time for this interim period did not have any material impact on the Group’s accounting policies.

The Group has not early adopted any new standard or amendment that is not effective for the current accounting period.

2. Adoption of HKFRS 16, Leases

On 1 July 2019, the Group adopted HKFRS 16 which replaces HKAS 17, Leases and related interpretations.

HKFRS 16 removes the distinction between operating and finance lease for lessee accounting and introduces a single on-balance sheet accounting model for lessees, which requires a lessee to capitalize all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

The impact of HKFRS 16 on the Group is primarily where the Group is a lessee in property lease contracts, which are entered into in respect of the leasing of premises for use as retail stores, offices and sites for transport, logistics and car parking operations and installation of telecommunications equipment. Prior to 1 July 2019, payments made under operating leases were charged to profit and loss on a straight-line basis over the period of the lease. From 1 July 2019, each lease payment is allocated between settlement of the lease liability and finance cost.

The finance cost is charged to profit and loss over the lease period. The right-of-use asset is depreciated over the shorter of the asset’s useful life and the lease term on a straight-line basis.

The standard does not significantly change the accounting of lessors. The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17.

The Group applied HKFRS 16 retrospectively on 1 July 2019 using the modified retrospective approach without restating comparative information. This has resulted in the Group recognizing HK$1,856 million of right-of-use assets and HK$1,867 million of lease liabilities in relation to leases which were previously classified as operating leases under HKAS 17 at 1 July 2019. There is no impact on the opening balance of equity.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(a) Key changes to accounting policies for leases

HKFRS 16 introduces a new definition of a lease, which applies a control model to identify and distinguish a lease from a service contract on the basis of whether a customer is able to control the asset being leased. A contract is assessed for whether it is or contains a lease at its inception. A contract is or contains a lease if it provides a customer with the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed if the customer, throughout the period of the use, has both the right to direct the use and to obtain substantially all of the economic benefits from that use.

<u>The Group as a lessee</u>

The Group as a lessee recognizes a right-of-use asset and a lease liability when a lease is capitalized at the commencement date, except for leases with a lease term of 12 months or less (“short-term leases”) and leases of low value assets. Payments in relation to short-term leases and leases of low-value assets are recognized as an expense in profit or loss on a straight-line basis over the lease term. Low-value assets comprise IT-equipment and small items of office furniture.

The lease liability is initially measured at the present value of lease payments payable with reference to an expected lease term, which includes optional lease periods when the Group is reasonably certain to exercise the option to extend or not to terminate the lease. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. Lease payments included in the measurement of the lease liability are made up of fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable payments that depend on an index or a rate, amounts expected to be payable under residual value guarantees and payments arising from options reasonably certain to be exercised. Variable lease payments that do not depend on an index or a rate are not included in the measurement of the lease liability and are expensed in the period to which they relate.

The lease liability is subsequently measured by increasing its carrying amount to reflect interest on the lease liability (using the effective interest rate method) and by reducing its carrying amount to reflect the lease payments made. The lease liability is remeasured (with a corresponding adjustment made to the related right-of-use asset) when there is a change in future lease payments in case of renegotiation, changes of an index or rate or in case of reassessment of options.

The right-of-use asset is initially measured at cost which comprises the initial amount of the lease liability, any initial direct costs incurred, the obligation to restore the asset, and any lease payments made in advance of the commencement date less any incentives received. The right-of-use asset is depreciated over the shorter of the lease term and the useful life of the underlying asset and is subject to impairment review whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Right-of-use assets are presented in property, plant and equipment, except for right-of-use assets that meet the definition of investment properties, which are presented in investment properties, and are subsequently measured at fair value, in accordance with the Group's accounting policy.

Lease liabilities are presented in other non-current liabilities with the payments due within 12 months from the balance sheet date classified in trade and other payables.

The Group as a lessor

The standard does not include significant changes to the requirements for accounting by lessors. As a lessor the Group continues to classify its leases as either operating or finance leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not.

(b) Effect of adoption of HKFRS 16

Impact on transition

In applying the modified retrospective approach, the Group has elected to apply the new definition of a lease to all contracts on transition to the new standard. In addition, the Group has elected not to apply the requirements of HKFRS 16 for operating leases with a remaining lease term of less than 12 months from the date of initial application.

At the date of transition, the Group recognized lease liabilities and right-of-use assets in relation to leases which had previously been classified as operating leases under the principles of HKAS 17. The Group measured these liabilities at the present value of the remaining lease payments, discounted using the incremental borrowing rate of the lessees at 1 July 2019 and has elected to measure the associated right-of-use assets at the amounts equal to the lease liabilities, adjusted by any prepaid or accrued lease payments that existed at the date of transition.

As a result of the capitalization of the leases previously classified as operating leases, the Group recognized HK$1,856 million of right-of-use assets and HK$1,867 million of lease liabilities on its balance sheet at 1 July 2019 with no effect on net assets or retained profits. The difference between right-of-use assets and lease liabilities recognized on 1 July 2019 represented existing prepayments and accruals recognized under HKAS 17 as of 30 June 2019 being included in the measurement of the right-of-use assets. The Group presents the right-of-use assets in property, plant and equipment. The non-current and current portion of the lease liabilities are presented in other non-current liabilities and trade and other payables.

The table below summarized the transition impact on the Group's consolidated statement of financial position at 1 July 2019:

Increase in property, plant and equipment	1,856
Decrease in trade and other receivables	(19)
Increase/(decrease) in trade and other payables	
Current portion of lease liabilities	859
Other payables and accrued expenses	(30)
Increase in other non-current liabilities	
Non-current portion of lease liabilities	1,008

The following table reconciles the operating lease commitments at 30 June 2019 to the lease liabilities recognized at 1 July 2019:

Operating lease commitments at 30 June 2019	3,171
Less: Contracts reassessed as service agreement based on the lease definition in HKFRS 16	(958)
Leases with remaining lease term ending on or before 30 June 2020	(241)
Leases of low value assets	(2)
Operating lease liabilities before discounting at 30 June 2019	1,970
Effect from discounting at incremental borrowing rate at 1 July 2019	(103)
Lease liabilities recognized at 1 July 2019	1,867
Of which are:	
Current portion	859
Non-current portion	1,008
	1,867

Notes:

(1) The weighted average incremental borrowing rate applied at 1 July 2019 was 2.87%.
(2) As at 30 June 2019, the Group had no obligations for leases previously classified as finance leases.

Impact on financial result

After the initial recognition of right-of-use assets and lease liabilities at 1 July 2019, the Group as a lessee recognized finance costs accrued on the outstanding balance of the lease liabilities and the depreciation of the right-of-use assets, instead of the previous policy of recognizing rental expenses incurred under operating leases on a straight-line basis over the lease term. The impact of the adoption of HKFRS 16 on the financial result for the six months ended 31 December 2019 is summarized as below:

Decrease in operating expenses	544
Increase in depreciation and amortization	(531)
Increase in finance costs	(27)
Decrease in income tax expense	1
Decrease in profit for the period	(13)
Decrease in profit attributable to the Company's shareholders	(12)

3. Segment Information

Segment revenue and results are measured without allocation of central administration costs, other net income, net finance costs and changes in fair value of investment properties, which are reported to the Group's management for the purposes of resource allocation and assessment of segment performance.

An analysis of the revenue and results for the period of the Group and its share of associates and joint ventures by reportable and operating segments is as follows:

For the six months ended 31 December 2019

	The Company and its subsidiaries		Associates and joint ventures			
	Revenue	**Results**	**Share of revenue**	**Share of results**	**Combined revenue**	**Consolidated results**
Property sales						
Hong Kong	**14,656**	**6,318**	**22**	**17**	**14,678**	**6,335**
Mainland China	**902**	**235**	**628**	**280**	**1,530**	**515**
	15,558	**6,553**	**650**	**297**	**16,208**	**6,850**
Property rental						
Hong Kong	**8,350**	**6,225**	**1,591**	**1,314**	**9,941**	**7,539**
Mainland China	**2,071**	**1,632**	**342**	**226**	**2,413**	**1,858**
Singapore	**-**	**-**	**359**	**272**	**359**	**272**
	10,421	**7,857**	**2,292**	**1,812**	**12,713**	**9,669**
Hotel operations	**1,826**	**135**	**353**	**62**	**2,179**	**197**
Telecommunications	**4,257**	**359**	**-**	**-**	**4,257**	**359**
Transport infrastructure and logistics	**2,160**	**680**	**1,899**	**186**	**4,059**	**866**
Data centre operations	**819**	**394**	**-**	**-**	**819**	**394**
Other businesses	**3,670**	**632**	**339**	**28**	**4,009**	**660**
	38,711	**16,610**	**5,533**	**2,385**	**44,244**	**18,995**
Other net income		**351**		**-**		**351**
Unallocated administrative expenses		**(809)**		**-**		**(809)**
Operating profit before changes in fair value of investment properties		**16,152**		**2,385**		**18,537**
Increase in fair value of investment properties						
Hong Kong		**729**		**17**		**746**
Mainland China		**1,771**		**87**		**1,858**
Singapore		**-**		**73**		**73**
		2,500		**177**		**2,677**
Operating profit after changes in fair value of investment properties		**18,652**		**2,562**		**21,214**
Net finance costs		**(1,088)**		**(220)**		**(1,308)**
Profit before taxation		**17,564**		**2,342**		**19,906**
Taxation						
- Group		**(3,388)**		**-**		**(3,388)**
- Associates		**-**		**(22)**		**(22)**
- Joint ventures		**-**		**(558)**		**(558)**
Profit for the period		**14,176**		**1,762**		**15,938**

For the six months ended 31 December 2018

	The Company and its subsidiaries		Associates and joint ventures			
	Revenue	Results	Share of revenue	Share of results	Combined revenue	Consolidated results
Property sales						
Hong Kong	12,094	5,485	25	22	12,119	5,507
Mainland China	857	394	1,701	793	2,558	1,187
	12,951	5,879	1,726	815	14,677	6,694
Property rental						
Hong Kong	8,060	6,155	1,572	1,317	9,632	7,472
Mainland China	2,001	1,580	301	193	2,302	1,773
Singapore	-	-	352	263	352	263
	10,061	7,735	2,225	1,773	12,286	9,508
Hotel operations	2,490	660	465	132	2,955	792
Telecommunications	5,187	439	-	-	5,187	439
Transport infrastructure and logistics	2,141	678	1,713	227	3,854	905
Data centre operations	729	363	-	-	729	363
Other businesses	3,553	562	224	32	3,777	594
	37,112	16,316	6,353	2,979	43,465	19,295
Other net income		276		23		299
Unallocated administrative expenses		(765)		-		(765)
Operating profit before changes in fair value of investment properties		15,827		3,002		18,829
Increase in fair value of investment properties						
Hong Kong		4,893		1,113		6,006
Mainland China		1,274		453		1,727
Singapore		-		8		8
		6,167		1,574		7,741
Operating profit after changes in fair value of investment properties		21,994		4,576		26,570
Net finance costs		(1,025)		(252)		(1,277)
Profit before taxation		20,969		4,324		25,293
Taxation						
- Group		(3,398)		-		(3,398)
- Associates		-		(34)		(34)
- Joint ventures		-		(791)		(791)
Profit for the period		17,571		3,499		21,070

As of 31 December 2019, the aggregate amount of transaction price allocated to the remaining performance obligations under the Group's existing contracts of sales of properties was HK$51,423 million (30 June 2019: HK$48,527 million). This represents the aggregate amount of revenue expected to be recognized by the Group in the future, of which approximately 95% (30 June 2019: 77%) is expected to be recognized as revenue within the next 12 months when the control over the ownership or physical possession of the property is transferred to the customers.

Results from property sales include selling and marketing expenses of HK$555 million (2018: HK$196 million) and HK$89 million (2018: HK$42 million) that relate to pre-sale of property projects in Hong Kong and Mainland China, respectively.

Other net income includes mainly net gain on disposal of investment properties and net investment income from financial assets.

4. Net Finance Costs

	Six months ended 31 December	
	2019	2018
Interest expenses	**1,643**	1,439
Notional non-cash interest accretion	**7**	9
Finance costs on lease liabilities	**27**	-
Less: Amount capitalized	**(375)**	(204)
	1,302	1,244
Interest income on bank deposits	**(214)**	(219)
	1,088	1,025

5. Profit before Taxation

	Six months ended 31 December	
	2019	2018
Profit before taxation is arrived at		
after charging:		
Cost of properties sold	**7,515**	6,026
Cost of inventories sold	**2,470**	3,393
Depreciation of property, plant and equipment	**1,394**	773
Amortization of intangible assets (included in cost of sales)	**273**	272
Amortization of contract acquisition costs	**427**	211
Impairment of intangible assets	**1**	-
Short-term lease expenses	**232**	-
Low-value assets lease expenses	**1**	-
Variable lease payment expenses	**122**	-
Operating lease rentals for land and buildings, transmission sites and leased lines	**-**	933
Staff costs (including directors' emoluments and retirement schemes contributions)	**4,351**	4,111
Share-based payments	**13**	8
Loss on disposal of financial assets at fair value through profit or loss	**2**	25
Fair value losses on financial assets at fair value though profit or loss	**-**	54
and crediting:		
Dividend income from equity securities	**73**	81
Interest income from financial investments	**42**	42
Fair value gains on financial assets at fair value through profit or loss	**14**	-

6. Taxation

	Six months ended 31 December	
	2019	2018
Current tax expenses		
Hong Kong profits tax	**2,117**	2,006
Under/(over) provision in prior years	**4**	(1)
	2,121	2,005
Tax outside Hong Kong	**476**	572
(Over)/under provision in prior years	**(1)**	1
	475	573
	2,596	2,578
Deferred tax expenses		
Changes in fair value of investment properties	**549**	581
Other origination and reversal of temporary differences	**243**	239
	792	820
	3,388	3,398

Hong Kong profits tax is provided at the rate of 16.5 per cent (2018: 16.5 per cent) based on the estimated assessable profits for the period. Tax outside Hong Kong is calculated at the rates applicable in the relevant jurisdictions.

7. Earnings per Share

(a) Reported earnings per share

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to the Company's shareholders of HK$15,419 million (2018: HK$20,469 million).

The basic earnings per share is based on the weighted average number of shares in issue during the interim period of 2,897,776,051 (2018: 2,897,150,850) shares. The diluted earnings per share is based on 2,897,776,911 (2018: 2,897,162,740) shares which is the weighted average number of shares in issue during the interim period plus the weighted average number of 860 (2018: 11,890) shares deemed to be issued at no consideration if all outstanding options had been exercised.

(b) Underlying earnings per share

For the purpose of assessing the underlying performance of the Group, basic and diluted earnings per share are additionally calculated based on the underlying profit attributable to the Company's shareholders of HK$13,422 million (2018: HK$13,733 million), excluding the net effect of changes in the valuation of investment properties. A reconciliation of profit is as follows:

	Six months ended 31 December	
	2019	2018
Profit attributable to the Company's shareholders as shown in the consolidated income statement	**15,419**	20,469
Increase in fair value of investment properties		
Subsidiaries	**(2,500)**	(6,167)
Associates	**(28)**	(37)
Joint ventures	**(149)**	(1,537)
Effect of corresponding deferred tax expenses		
Subsidiaries	**549**	581
Joint ventures	**46**	190
Non-controlling interests	**36**	32
Unrealized fair value gains of investment properties net of deferred tax	**(2,046)**	(6,938)
Fair value gains realized on disposal of investment properties net of deferred tax	**49**	202
Net effect of changes in fair value of investment properties	**(1,997)**	(6,736)
Underlying profit attributable to the Company's shareholders	**13,422**	13,733

8. Dividends

(a) Dividends payable to equity shareholders of the Company attributable to the interim period

	Six months ended 31 December	
	2019	2018
Interim dividend declared after the interim period of HK$1.25 (2018: HK$1.25) per share	**3,622**	3,622

The interim dividend declared after the end of the reporting period has not been recognized as a liability at the end of the reporting period.

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the interim period

	Six months ended 31 December	
	2019	2018
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of HK$3.70 (2018: HK$3.45) per share	**10,722**	9,995

9. **Investment Properties**

(a) Movement during the period

	Completed	Under development	Total
Valuation			
At 1 July 2019	**330,084**	**56,528**	**386,612**
Additions	**485**	**43,974**	**44,459**
Transfer upon completion	**107**	**(107)**	**-**
Transfer from property, plant and equipment	**16**	**-**	**16**
Disposals	**(108)**	**-**	**(108)**
Transfer to property, plant and equipment	**(2,250)**	**-**	**(2,250)**
Exchange difference	**(1,003)**	**(487)**	**(1,490)**
Increase in fair value	**1,233**	**1,267**	**2,500**
At 31 December 2019	**328,564**	**101,175**	**429,739**

(b) The Group's investment properties were revalued at 31 December 2019 and 30 June 2019 by Knight Frank Petty Limited, an independent firm of professional qualified valuers, on a market value basis, in accordance with Valuation Standards on Properties issued by Hong Kong Institute of Surveyors.

	Fair value	
	31 December 2019	30 June 2019
Completed		
Hong Kong	**263,016**	264,069
Mainland China	**65,548**	66,015
	328,564	330,084
Under development		
Hong Kong	**66,779**	24,071
Mainland China	**34,396**	32,457
	101,175	56,528

10. **Trade and Other Receivables**

Included in trade and other receivables of the Group are trade receivables of HK$3,112 million (30 June 2019: HK$7,896 million), of which 56% are aged less than 30 days, 14% between 31 to 60 days, 5% between 61 to 90 days and 25% more than 90 days (30 June 2019: 86%, 4%, 2% and 8% respectively).

11. Trade and Other Payables

Included in trade and other payables of the Group are trade payables of HK$3,021 million (30 June 2019: HK$2,909 million), of which 60% are aged less than 30 days, 12% between 31 to 60 days, 4% between 61 to 90 days and 24% more than 90 days (30 June 2019: 50%, 19%, 5% and 26% respectively).

FINANCIAL REVIEW

Review of Operating Results

Underlying profit attributable to the Company's shareholders excluding fair value gains on investment properties was HK$13,422 million for the six months ended 31 December 2019, which was HK$311 million or 2.3% lower than the HK$13,733 million reported for the same period last year.

Fair value gains on investment properties (net of deferred taxation and non-controlling interest) were HK$2,046 million for the period, reduced by HK$4,892 million when compared to HK$6,938 million recorded for the same period a year ago. Investment properties have been valued using the same valuation methods and key assumptions as those described in Note 15 of the Company's annual consolidated financial statements for the year ended 30 June 2019, with no material changes in the capitalization rates used.

After incorporating the fair value gains on investment properties, profit attributable to the Company's shareholders was HK$15,419 million for the six months ended 31 December 2019, representing a year on year decrease of HK$5,050 million or 24.7%.

Property sales, inclusive of share of joint ventures, reported a profit of HK$6,850 million for the first half of the financial year, and increased by HK$156 million or 2.3% when compared to HK$6,694 million for the same period last year. Profit from Hong Kong property sales was HK$6,335 million, increased by HK$828 million or 15% over the same period last year. Profit recognized in the first half was mainly derived from residential units in Wings at Sea, PARK YOHO Napoli, Cullinan West, Grand YOHO and Ultima. Property sales on the Mainland delivered a profit of HK$515 million for the period, primarily from sale of residential units in Forest Hills, Oriental Bund and Grand Waterfront Phase 2. As at 31 December 2019, contracted property sales attributable to the Group (including share of joint ventures) not yet recognized amounted to HK$49.2 billion in Hong Kong and HK$6.3 billion on the Mainland.

Net rental income for the period, including contributions of joint ventures and associates, increased HK$161 million or 1.7% to HK$9,669 million, driven mainly by the additions of new investment properties and contributions from newly renovated shopping malls. While the Group's office portfolio performed satisfactorily, the challenging business environment faced by the retail sector in Hong Kong has created downward pressure for retail rental. Measures had been taken to support retail tenants' business operations and accommodate their requests. Net rental income from the Group's rental portfolios in Hong Kong and the Mainland respectively increased by 1% and 4.8% to HK$7,539 million and HK$1,858 million for the period.

Hotel operating profit (including share of joint ventures) decreased considerably by HK$595 million or 75.1% to HK$197 million, with significant reduction in revenue per available room as a result of local social incidents during the first half of the financial year, which have caused a severe decline in visitor arrivals, while proactive cost control initiatives have been implemented to cushion the impact of the difficult operating environment.

SmarTone reported an operating profit of HK$359 million for the period, which is 18.2% lower than the same period last year, mainly as a result of lower handset sales and decline in roaming revenue. Despite keen market competition, customer number continued to grow and postpaid churn rate improved to an industry low compared to the same period last year.

Operating profit from transport infrastructure and logistics businesses (including share of joint ventures and associates) decreased by 4.3% to HK$866 million, reflecting lower contributions from the Group's franchised bus business and carpark operations but were partly mitigated by higher tunnel utilization.

SUNeVision achieved an increase of 8.5% in operating profit to HK$394 million over the same period last year, driven mainly by revenue growth from data centre operations. It will further grow with its new data centres in Tsuen Wan and Tseung Kwan O which are currently under construction.

The Group's other businesses (including share of joint ventures and associates), mainly comprising property management, department store operations and financial services, have performed satisfactorily with operating profit increased by 11.1% to HK$660 million.

Financial Resources and Liquidity

(a) Capital management, net debt and gearing

The Group has always maintained a strong capital base and sufficient financial resources to support business development and growth. The Group regularly reviews and manages its capital structure to ensure that it remains financially sound, so that the Group can continue to provide returns to shareholders while keeping financial leverage at a prudent level.

The Group's balance sheet remains strong, with total shareholders' equity increased over the financial period by HK$3,352 million to HK$569,757 million or HK$196.6 per share as at 31 December 2019. The increase represented mainly the total comprehensive income for the period attributable to the Company's shareholders, as reduced by dividends paid.

The Group's strong financial strength allows it to continue raising long-term financing at competitive rates, thus reducing the overall cost of capital. The Group is in a sound financial position with a healthy debt leverage and high interest cover. Gearing ratio, calculated on the basis of net debt to shareholders' equity of the Company, increased from 12.9% as at 30 June 2019 to 17.8% as at 31 December 2019, mainly due to the increased bank borrowings to finance the land premium for a commercial site in West Kowloon that the Group successfully acquired in November 2019 through government tender. Interest coverage was 11 times, measured by the ratio of operating profit to total net interest expenses including those capitalized for the current period.

As at 31 December 2019, the Group's gross borrowings totalled HK$123,692 million. Net debt, after deducting bank deposits and cash of HK$22,383 million, amounted to HK$101,309 million, representing an increase of HK$28,341 million since 30 June 2019. The maturity profile of the Group's gross borrowings is set out as follows:

	31 December 2019	30 June 2019
	HK$ Million	*HK$ Million*
Repayable:		
Within one year	**11,047**	9,168
After one year but within two years	**15,946**	14,070
After two years but within five years	**80,030**	53,803
After five years	**16,669**	17,965
Total bank and other borrowings	**123,692**	95,006
Bank deposits and cash	**22,383**	22,038
Net debt	**101,309**	72,968

The Group has also procured substantial undrawn committed banking facilities, most of which are arranged on a medium to long term basis, to help minimize refinancing risk and strengthen the Group's financing flexibility. The Group regularly reviews its liquidity and financing requirements to ensure that available financial resources are sufficient to cover its financing needs.

With ample committed banking facilities in place, continuous cash inflow from property sales and a solid base of recurrent income, the Group has adequate financial resources for its funding requirements and is well positioned to take advantage of investment opportunities when they arise.

(b) Treasury policies

The Group adopts a prudent policy in cash and debt management. The entire Group's financing and treasury activities are centrally managed and controlled at the corporate level. As at 31 December 2019, about 81% of the Group's bank and other borrowings were raised through its wholly-owned finance subsidiaries and the remaining 19% through its operating subsidiaries.

The Group's foreign exchange exposure was small given both its large asset base and operational cash flow are primarily denominated in Hong Kong dollars, which is the Group's presentation currency. The Group may borrow in foreign currencies to finance its operations in Hong Kong, which exposes the Group to currency risk. When appropriate, the Group may enter into cross currency interest rate swaps to hedge the currency risks associated with these borrowings. As at 31 December 2019, about 80% of the Group's total borrowings were denominated in Hong Kong dollars (after cross currency interest rate swaps) and 6% in US dollars, which were raised for financing the Group's business operations in Hong Kong while the remaining 14% were mostly in Renminbi and for financing the construction cost of property projects on the Mainland. The Group is exposed to currency translation risk arising from translating the financial statements of foreign subsidiaries and joint ventures, which are mostly in Mainland China. Land acquisition costs for the Mainland projects are principally financed by capital injection funded by the

Group's equity and internally generated funds. On-going business operations on the Mainland are financed through internal resources and borrowings in Renminbi as natural hedges to minimize the Group's exposure to exchange rate risk. The Group has not entered into foreign currency derivatives to hedge the translation risk exposure of its net investments in Mainland China. As at 31 December 2019, approximately 18% of the Group's net assets were denominated in Renminbi. During the period, the translation of foreign operations into the Group's presentation currency has resulted in a decrease of HK$1.5 billion in the exchange reserve recorded under shareholders' equity.

The Group has insignificant currency risk exposure associated with certain monetary assets and liabilities denominated in foreign currencies. Where feasible and cost effective, the Group may enter into foreign exchange contracts to reduce the currency risk.

The Group maintained an appropriate combination of fixed and floating rate borrowings to mitigate interest rate risk. As at 31 December 2019, about 69% of the Group's total borrowings were on floating rate basis including those borrowings that were converted from fixed rate basis to floating rate basis through interest rate swaps, and 31% were on fixed rate basis.

As at 31 December 2019, the Group has entered into certain interest rate swaps, cross currency interest rate swaps and forward foreign exchange contracts in the aggregate notional amount of HK$18,114 million to manage its interest rate risk and currency risk exposures. The use of derivative instruments is strictly controlled and solely for managing the Group's underlying financial exposures for its core business operations. It is the Group's policy not to enter into derivative and structured product transactions for speculative purposes.

As at 31 December 2019, about 40% of the Group's bank deposits and cash were denominated in Hong Kong dollars, 51% in Renminbi, and 9% in US dollars. The Renminbi deposits were held by the Mainland subsidiaries for meeting the funding needs of their Mainland projects.

Charges of Assets

As at 31 December 2019, certain bank deposits of the Group's subsidiaries in the aggregate amount of HK$5 million were pledged for securing guarantees issued by the banks. Additionally, certain assets of the Group's subsidiaries with an aggregate carrying value of HK$1,611 million have been charged as security for bank borrowings. Except for the aforementioned charges, all the Group's assets are free from any encumbrances.

Contingent Liabilities

As at 31 December 2019, the Group had contingent liabilities in respect of guarantees for bank borrowings of certain joint ventures and other guarantees in the aggregate amount of HK$2,089 million (30 June 2019: HK$2,106 million).

EMOLUMENT POLICY AND LONG-TERM INCENTIVE SCHEMES OF THE GROUP

As at 31 December 2019, the Group employed more than 39,500 employees. The related employees' costs before reimbursements for the six months ended 31 December 2019 amounted to approximately HK$6,185 million. Compensation for the Group is made with reference to the market as well as individual performance and contributions. Extensive use of bonuses to link performance with reward is adopted. The Group also provides a comprehensive benefit package and career development opportunities, including retirement schemes, medical benefits, and both internal and external training appropriate to individual needs. A share option scheme is in place to provide appropriate long-term incentive to the key staff of the Group.

BASIS OF DETERMINING EMOLUMENT TO DIRECTORS

The same remuneration philosophy also applies to the Directors of the Company. Apart from benchmarking against the market, the Company looks at individual competence and contributions and the affordability of the Company in determining the exact level of remuneration for each Director. Appropriate benefits schemes are in place for the Executive Directors, including the share option scheme, which is the same as that offered to other employees of the Group.

INTERIM DIVIDEND

The Board of Directors of the Company (the "Board") has declared an interim dividend of HK$1.25 per share (2018: HK$1.25 per share) for the six months ended 31 December 2019 to the shareholders of the Company (the "Shareholders") whose names appear on the register of members of the Company on Friday, 13 March 2020. The interim dividend will be payable in cash on Thursday, 19 March 2020. Shares of the Company will be traded ex-dividend as from Wednesday, 11 March 2020.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed on Friday, 13 March 2020, during which no transfer of shares will be registered. In order to establish entitlements to the interim dividend, Shareholders must lodge all transfer documents accompanied by the relevant share certificates for registration with Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 12 March 2020.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 31 December 2019.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the six months ended 31 December 2019, the Company has complied with the code provisions (the "Code Provisions") of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, except that there is no separation of the roles of chairman and chief executive as required under Code Provision A.2.1. However, the powers and authorities have not been concentrated as all major decisions have been made in consultation with the Board and appropriate Board committees, as well as top management. In addition, there are three Non-Executive Directors and nine Independent Non-Executive Directors on the Board offering their experience, expertise, independent advice and views from different perspectives. The Board is therefore of the view that there are adequate balance of power and safeguards in place.

REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim results for the six months ended 31 December 2019 are unaudited, but have been reviewed in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants by Messrs. Deloitte Touche Tohmatsu, whose report on review of condensed consolidated financial statements will be set out in the 2019/20 interim report. The interim results have also been reviewed by the Audit and Risk Management Committee of the Company.

INTERIM REPORT

The 2019/20 interim report containing all the financial and other related information of the Company required by the Listing Rules will be published on the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the website of the Company at www.shkp.com, and printed copies will be sent to the Shareholders before the end of March 2020.

By order of the Board
YUNG Sheung-tat, Sandy
Company Secretary

Hong Kong, 27 February 2020

As at the date hereof, the Board comprises eight Executive Directors, being KWOK Ping-luen, Raymond (Chairman and Managing Director)(KWOK Ho-lai, Edward being his Alternate Director), WONG Chik-wing, Mike (Deputy Managing Director), LUI Ting, Victor (Deputy Managing Director), KWOK Kai-fai, Adam, KWOK Kai-wang, Christopher, KWONG Chun, TUNG Chi-ho, Eric and FUNG Yuk-lun, Allen; three Non-Executive Directors, being LEE Shau-kee (Vice Chairman), KWAN Cheuk-yin, William and KWOK Kai-chun, Geoffrey; and nine Independent Non-Executive Directors, being YIP Dicky Peter, WONG Yue-chim, Richard, LI Ka-cheung, Eric, FUNG Kwok-lun, William, LEUNG Nai-pang, Norman, LEUNG Kui-king, Donald, LEUNG KO May-yee, Margaret, FAN Hung-ling, Henry and WU Xiang-dong.