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 Annual 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 year ended 30 June 2020, excluding the effect of fair-value changes on investment properties, amounted to HK$29,368 million, compared to HK$32,398 million last year. Underlying earnings per share were HK$10.13, compared to HK$11.18 last year.

Reported profit and reported earnings per share attributable to the Company's shareholders were HK$23,521 million and HK$8.12 respectively, compared to HK$44,912 million and HK$15.50 last year. The reported profit included a decrease in fair value of investment properties net of deferred taxation and non-controlling interests of HK$5,510 million, compared to an increase of HK$12,861 million last year.

DIVIDEND

The directors have recommended the payment of a final dividend of HK$3.70 per share for the year ended 30 June 2020. The dividend will be payable on 19 November 2020. Together with the interim dividend of HK$1.25 per share, the dividend for the full year will be HK$4.95 per share, the same as last year.

BUSINESS REVIEW

Property Sales and Rental Income

Property Sales

Revenue from property sales for the year under review as recorded in the financial statements, including revenue from joint-venture projects, amounted to HK$41,264 million. Profit generated from property sales was HK$18,377 million, as compared to HK$18,697 million in the last financial year. The Group achieved contracted sales of about HK$44,100 million for the year in attributable terms amid the outbreak of COVID-19.

Rental Income

Gross rental income, including contributions from joint-venture projects, dropped 3% year-on-year to HK$24,214 million, and net rental income decreased 6% year-on-year to HK$18,565 million. The performance was negatively affected by local social incidents and the subsequent outbreak of COVID-19 during the year, especially for shopping malls.

Property Business – Hong Kong

Land Bank

During the year under review, the Group acquired through government tender a prime mega commercial site atop the High Speed Rail West Kowloon Terminus, with a developable gross floor area of 3.16 million square feet. Subsequent to the acquisition, the Group disposed of a 50% interest of the office portion of the project in two separate transactions to two long-term strategic investors, the Kwok Family Companies and Ping An Life, which now own a 20% interest and a 30% interest respectively of the development's office portion. This is expected to enhance the value of the project. The Group will maintain 50% and 100% of the interests in the office portion and the retail portion of the development respectively for long-term investment. Located adjacent to ICC in West Kowloon and boasting a comprehensive transportation network of four railway lines, including direct access to many cities on the mainland especially to the Greater Bay Area via the High Speed Rail, the development will provide commercial premises of international standards and is expected to become another integrated landmark in the city.

As at 30 June 2020, the Group's attributable land bank in Hong Kong totalled some 57.5 million square feet, comprising 24.1 million square feet of properties of different usages under development and a diversified portfolio of completed properties covering 33.4 million square feet, the overwhelming majority of which are for rental and long-term investment purposes. Following the completion of the transaction with Ping An Life in July 2020, along with other changes, the Group's land bank in Hong Kong amounted to about 56.9 million square feet. This sizeable land bank should be sufficient to meet the Group's development needs over the next five years. In the meantime, the Group will continue to vigorously convert its agricultural lands into buildable sites and replenish its land bank via various channels when appropriate opportunities arise.

Property Development

Hong Kong's residential market was adversely affected by local social incidents in the second half of 2019 and the coronavirus pandemic beginning early 2020, with market transactions being impacted by social distancing measures. Home prices however remained relatively resilient on the back of the low interest rate environment and solid end-user demand for small- to medium-sized units.

During the year under review, the Group recorded contracted sales of about HK$33,600 million in attributable terms in Hong Kong. Major contributors included Cullinan West III in West Kowloon, the first two phases of Wetland Seasons Park near Hong Kong Wetland Park, Crown of St. Barths in Ma On Shan and PARK YOHO Napoli in Yuen Long. In addition, the first phase of Regency Bay in Tuen Mun was put on the market in July 2020 and has been well received by buyers. Apart from newly launched projects, the Group also continued to dispose of its remaining units in completed properties.

With a commitment to delivering premium quality products, the Group monitors customers' needs closely and implements thoughtful designs and efficient layouts with exquisite finishes for all its apartments. In addition, the Group is the first developer to offer a three-year warranty for its new residential units throughout the territory. To meet changing aspirations and needs of customers, the Group has continued to excel itself through the effective use of technology and enhancement of hygiene standards.

A total of 10 projects in Hong Kong with an attributable gross floor area of about 3.5 million square feet were ready for handover during the year under review. Of this, about three million square feet were for residential use and about 412,000 square feet were designated for long-term investment purposes. Project details are shown in the table below.

Project	**Location**	**Usage**	**Group's Interest (%)**	**Attributable Gross Floor Area (square feet)**
Wings at Sea & Wings at Sea II	1 Lohas Park Road, Tseung Kwan O	Residential	JV	1,316,000
PARK YOHO Napoli	18 Castle Peak Road Tam Mi, Yuen Long	Residential	100	543,000
Phase 1 of St Martin Development	12 Fo Chun Road, Pak Shek Kok, Tai Po	Residential	100	527,000
ALVA Hotel by Royal	1 Yuen Hong Street, Sha Tin	Hotel	100	344,000
Phase 1 of Mount Regency Development	8 King Sau Lane, Tuen Mun	Residential	100	241,000
TOWNPLACE SOHO	18 Caine Road, Central	Residential	92	127,000
Phase 1 of Central Peak Development	18 Stubbs Road, Mid-levels East	Residential	100	122,000
Downtown 38	38 Pak Tai Street, Ma Tau Kok	Residential / Shops	JV	105,000
W212	212 Texaco Road, Tsuen Wan	Industrial	50	71,000
Citygate (Extension)	16 Tat Tung Road, Tung Chung	Shopping Centre	20	68,000
Total				**3,464,000**

Property Investment

The Group's diversified property investment portfolio in Hong Kong registered a lower overall average occupancy of 92% during the year. Gross rental income from this portfolio, including contributions from joint-venture projects, decreased by 4% year-on-year to HK$19,009 million, mainly affected by the weakened performance of the retail portfolio due to the outbreak of the COVID-19 pandemic and local social incidents.

The Group has taken extra preventive measures to raise the hygiene standards of its residential and commercial properties, ensuring a safe and comfortable shopping, working and living environment for its customers, residents, tenants and employees, and reinforcing the Group's quality brand. Apart from reducing the burdens for a majority of tenants of its shopping malls through rent concessions for several months, the Group has made considerable efforts to retain customers' appetite for shopping. The Point by SHKP, a loyalty programme under the SHKP Malls App, serves as a dedicated platform to leverage the Group's extensive business arms and collaborate with tenants and business partners to promote consumption through enriched offerings. It also facilitates the Group's quality service delivery with a better understanding of customers' needs and preferences. In August this year, an online pre-ordering function was launched within the SHKP Malls App to help the operations of food and beverage tenants. Creative initiatives, such as the introduction of self-service stations for gift redemption and contactless parking with digital payment, were introduced in the Group's malls to enhance customer experience. In addition, the Group will continue to implement quality upgrades for its property investment including shopping malls.

The Group's retail portfolio has not been immune to the negative impact brought by a sharp decline in tourist arrivals and mandatory social distancing measures, facing near-term pressure on new leases and renewals. The overall occupancy of the Group's 12-million-square-foot portfolio of well-diversified retail properties edged down during the year, though remained relatively resilient. The Group's regional malls such as YOHO Mall in Yuen Long, APM in Kwun Tong and East Point City in Tseung Kwan O, serving mainly local customers, are well positioned to capture the rebound of domestic consumption when the pandemic subsides. The full recovery of the Group's shopping mall business, in particular malls in tourist locations, remains uncertain subject to the timing for the full-scale reopening of cross-border travel.

The Group's newly completed developments, including V Walk and Harbour North, have become lifestyle shopping destinations for their respective neighbourhoods with the introduction of refreshed tenant mix. A 300,000-square-foot shopping mall atop MTR Nam Cheong Station, V Walk serves residents of the Cullinan West residential development and the growing population nearby. Harbour North, the retail component of the Group's Victoria Harbour Development, represents the newest waterfront hub for shopping and dining in North Point, boasting a variety of lifestyle retailers.

During the year, the Group's portfolio of office space continued to deliver stable performance with overall average occupancies reaching 94%. This premium and diverse portfolio, together with the Group's trusted brand and quality management services, successfully tapped new demands from growing industries including insurers. IFC and ICC maintained their leading positions in Hong Kong's grade-A office leasing market and remained the preferred choices for renowned corporations. Both office buildings achieved healthy performance in terms of occupancy and rental income. Despite fierce competition resulting from abundant supply in Kowloon East, the Millennium City office cluster continued to draw tenants with its high specifications of large floor plates, attentive management services and close proximity to MTR stations.

Committed to continuing to invest in Hong Kong and with undaunted confidence in the city's long-term prospects, the Group will further strengthen its property investment portfolio through the development of new additions in the pipeline. Featuring excellent transportation connectivity, the landmark commercial development in West Kowloon sits atop the High Speed Rail West Kowloon Terminus. Under the existing plan, this mega project will comprise about 2.8 million square feet of grade-A offices and an approximate 349,000 square feet of premium shopping space, creating great synergy with the nearby ICC and evolving into a major business hub in the Greater Bay Area. Among other projects in the pipeline, a joint-venture development at 98 How Ming Street in Kowloon East will provide about 650,000 square feet of office space and an approximately 500,000-square-foot mall upon full completion, creating further synergy with the Millennium City cluster. With direct linkage to MTR Kai Tak Station, a 200,000-square-foot-plus mall beneath the Group's premium residential development in Kai Tak City Centre is under construction. The entire development is poised to inject vibrancy and diversity into this rapidly developing hub in Kai Tak.

Property Business – Mainland

Land Bank

The addition of the mixed-use Jianghehui project in August 2019 has further strengthened the Group's presence in the Yangtze River Delta. Consisting of two adjacent sites located at the intersection of the Qiantang River and Beijing-Hangzhou Grand Canal, the mega joint-venture project in Hangzhou will provide a total above-ground gross floor area of about nine million square feet.

As at 30 June 2020, the Group held a total attributable land bank of 68.1 million square feet on the mainland. Of this, 53.6 million square feet were properties under development, about 50% of which will be developed into high-end residences. An overwhelming majority of the remaining 14.5 million square feet are completed properties for rental and long-term investment purposes. Around 80% of completed properties were signature mixed-use developments strategically located in major cities. The Group will maintain a selective and focused approach in seeking business opportunities in major cities while continuing to deliver premium projects on the mainland.

Property Development

The mainland residential market met with headwinds from the pandemic in the first quarter of 2020 following a period of robust sales momentum in the second half of 2019. Thanks to effective pandemic control measures and a more accommodating credit environment, market sentiment and buyer confidence have recovered since the second quarter of 2020. Sales remain solid with relatively stable prices in major cities.

During the year, encouraging attributable contracted sales of RMB9,500 million were achieved on the mainland. Major contributions came from Phase 2B of Shanghai Arch, a prestigious development adjacent to the Little Lujiazui CBD in Shanghai, as well as several joint-venture projects in Guangdong, including Oriental Bund in Foshan and The Woodland in Zhongshan.

The completion of two wholly-owned projects during the year delivered a total of 1.4 million square feet of gross floor area. Arch Residence in Shanghai consists of over 200,000 square feet of exquisitely designed apartments with stunning views of the Bund and Huangpu River. In Guangzhou, Phase 2B of Park Royale comprises about 1.2 million square feet of residential gross floor area, offering a modern waterfront living experience to its residents. Homebuyers were impressed by the outstanding building quality of the property as well as its attentive after-sale service. The completion of the 1.5-million-square-foot Nanjing Two IFC, the iconic office tower in Hexi CBD in Nanjing, will be postponed to the second half of 2020, due mainly to construction delays as a result of the pandemic.

Property Investment

Gross rental income derived from the mainland, including contributions from joint-venture projects, increased 2% year-on-year to RMB4,166 million during the year under review. The performance was affected by the short-term impact of rent concessions granted to the Group's retail tenants to ease their operating pressure during the outbreak of COVID-19.

Similar to containment measures introduced in Hong Kong, the Group has made extra efforts to ensure the health and safety of its shoppers, tenants and employees. The performance of the Group's property investment portfolio on the mainland varied according to different city-specific quarantine and social distancing measures since the outbreak of the pandemic early this year. As a result of resumption of work and governmental initiatives to boost local spending in various cities since March 2020, tenant sales at IAPM in Shanghai, Parc Central and IGC in Guangzhou have recovered considerably, while Shanghai IFC Mall saw a sharp rebound in tenant sales as locals flocked back to this luxury shopping hotspot. For offices, the performance of the Group's premium space at Shanghai IFC and Shanghai ICC stayed resilient amid keen competition in the city. These two office developments remained one of the preferred choices for multinationals and mainland corporates, supported by comprehensive amenities within the integrated complexes and convenient transport network.

Over the next four financial years, the Group is expected to complete around 12 million square feet of properties for investment purposes in terms of attributable gross floor area. The Group's portfolio is set to significantly increase from the existing portfolio of some 14 million square feet. Covering a total area of 7.6 million square feet, ITC in Shanghai marked the latest milestone of the project with the opening of the One ITC mall during the year. With high committed occupancy, the 340,000-square-foot mall embraces an array of global flagship street-front stores with sophisticated designs that are new to the mainland, showcasing its grand luxury positioning. The introduction of specialty restaurants and unique art installations have also gradually turned the mall into a popular check-in destination, particularly for millennials. The premium offices in the first two phases of ITC were fully let. The remaining phase of the project will encompass a 2.5-million-square-foot shopping mall, a luxury hotel and grade-A office towers. Pre-leasing activities have commenced for the 220-metre grade-A office tower slated for completion in the first half of 2022 while the 370-metre skyscraper will be completed in late 2023, becoming one of the tallest buildings in Puxi.

Located in the Hexi CBD in Nanjing, the 3.4-million-square-foot Nanjing IFC comprises two premium office towers, a luxury shopping mall and a five-star hotel, Andaz Nanjing. Completed in mid 2019, Nanjing One IFC, consisting of about 500,000 square feet, has recorded a committed occupancy of about 70%. The soon-to-be-completed Nanjing Two IFC will provide about 1.5 million square feet of office space. Pre-leasing work has started, and negotiations with a leading mainland technology company and renowned professional services institutions are under way. Scheduled for opening in 2022, the luxury Nanjing IFC mall of over one million square feet has received positive preliminary marketing response. A new exit directly connecting the development to the metro station was recently opened, providing added convenience for tenants.

Looking ahead, the Group will continue to develop integrated developments on the mainland. Foundation work at the Qingsheng Project in Nansha, Guangzhou, has begun. To be developed in phases, the joint-venture Jianghehui project in Qianjiang New City CBD, Hangzhou, which the Group added in August 2019, will provide high-end offices, retail space, residential apartments and hotel facilities, with an above-ground gross floor area of about nine million square feet. Site formation is under way.

Other Businesses

Hotels

During the year under review, Hong Kong’s hospitality sector faced unprecedented challenges due to local social incidents along with paralyzed cross-border travel amid the coronavirus pandemic. Accordingly, the occupancy and revenue per available room of the Group’s hotel portfolio in Hong Kong saw a drastic decline. To mitigate such impacts, the management team has taken proactive measures, such as improvement of operational efficiency and the introduction of dining promotions and ‘staycation’ programmes, to attract local customers. Nevertheless, the Group’s hotel division recorded a substantial operating loss in the second half of the financial year.

The performance of Ritz-Carlton Shanghai, Pudong was also negatively affected by the pandemic, but there have been signs of recovery as domestic business and leisure travel on the mainland gradually resumed following the easing of most anti-pandemic measures. The Group will continue to develop premium hotels as part of its integrated developments in major cities. Four Seasons Hotel Suzhou and Andaz Nanjing are scheduled to open over the next one to two years.

Telecommunications and Information Technology

SmarTone

During the year under review, SmarTone continued to grow its customer base and lead the industry in postpaid ARPU. SmarTone also launched its 5G services and achieved good customer up-take. However, the mobile industry remained highly competitive, putting pressure on profitability. The outbreak of COVID-19 since January 2020 has dramatically reduced travelling and hence SmarTone's outbound and inbound roaming revenues, which were a major source of revenue for the company. Near-term business outlook is uncertain with the continuation of the pandemic and the global unprecedented drastic downturn in travel. Against 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. The Group remains confident of SmarTone's prospects and will continue to hold its interest in the company as a long-term investment.

SUNeVision

During the year under review, SUNeVision achieved healthy growth with additional contracts secured from existing and new customers. The outbreak of COVID-19 has significantly increased digital usage amongst enterprises and consumers alike such as video conferences, online streaming, e-commerce, and this drives up demand for data centre services. The outlook for data centre demand continues to look strong.

SUNeVision's existing data centres are upgrading their infrastructure and services to stay ahead of the competition. At MEGA-i, the initiative to substantially upgrade power capacity will be completed by 2020. This will cater for customers requiring higher power density. At MEGA Two, the company has launched further initiatives to upgrade the infrastructure after the acquisition of the property in November 2019. The development of the two new sites in Tsuen Wan and Tseung Kwan O is well under way and will be completed by phases starting in 2022. This will double the company's data centre portfolio to approximately 2.8 million square feet of gross floor area, and will firmly establish SUNeVision as the leading data centre player in Hong Kong.

Infrastructure and Other Businesses

During the year under review, the Group's infrastructure and transport businesses reported mixed performance, amidst local social incidents and the outbreak of COVID-19. These challenges adversely affected Wilson Group's business and traffic at Route 3 (CPS). Business at the Hong Kong Business Aviation Centre was disrupted by compulsory quarantine arrangements, but a number of mitigating measures were taken to maintain a healthy financial position. Airport Freight Forwarding Centre Company Limited registered stable performance, notwithstanding Sino-US trade tensions and disruptions of the supply chain due to the pandemic. The performance of the River

Trade Terminal was affected by a small drop in throughput but the business remained resilient with new customers and the introduction of cost-cutting measures.

YATA continued to perform well. The brand reputation has grown in strength since the opening of the North Point store and the full reopening of the mega store at New Town Plaza after reconfiguration. YATA has seen a substantial step-up in demand over the last six months when Hong Kong households prefer to dine at home during the outbreak of COVID-19, and when consumers pay high attention to quality products. With its loyalty programme covering now 500,000 members, YATA has developed a loyal customer base. YATA is committed to sourcing and offering high-quality products, especially fresh food items, as well as providing a superior shopping experience for its customers.

Corporate Finance

The Group believes that its prudent financial management of low leverage, balanced debt maturity profile and abundant liquidity can tide it over unpredictable economic situations. As at 30 June 2020, the Group's net debt to shareholders' funds ratio remained low at 14.1% and interest coverage ratio stood at 11.8 times.

Given its solid financial strength and leading industry position, the Group continued to maintain a good score of A1 and A+ credit ratings with stable outlooks from Moody's and Standard & Poor's respectively. As a result, the Group remains one of the best-rated local property companies by both agencies.

The Group has enhanced its financial flexibility to better prepare itself for challenges and opportunities ahead. Leveraging its high credit ratings and strong investor base, the Group has successfully issued a number of bonds to prolong its debt maturities at attractive costs. During the year, the Group issued publicly a total of US$1,300 million 10-year bonds. The Group also tapped the Hong Kong dollar bond market with the issuance of HK$320 million 7-year bonds, HK$800 million 10-year bonds and HK$816 million 12-year bonds by private placements. Subsequent to the end of the financial year, the Group issued 7-year offshore Renminbi bonds of CNH810 million and 7-year Hong Kong dollar bonds of HK$200 million by private placements. These, together with the Group's robust banking relationships, have enabled it to gain access to a deep pool of standby liquidity for its future needs.

The Group has not taken any speculative positions on derivatives and structured products. In addition, the Group has minimal foreign exchange risk because the overwhelming majority of its borrowings are denominated in Hong Kong dollars with remaining liabilities mainly in US dollars and Renminbi. Meanwhile, the Group's mainland projects are funded by bank financings and cash flows generated onshore in Renminbi, which to a certain extent can withstand the Renminbi currency fluctuations.

Corporate Governance

The Group has a comprehensive set of mechanisms in place to ensure sound corporate governance practices.

The Board directs and oversees the Group's overall strategies, backed by a number of Board Committees. The Executive Committee meets regularly and is primarily responsible for formulating business policies and decision making on key business issues. Chaired by Independent Non-Executive Directors, the Remuneration, the Nomination, and the Audit and Risk Management Committees have been established to ensure good corporate governance practices. Adequate internal controls are in place, and effective accountability and timely release of relevant information are all implemented to safeguard the interests of shareholders and the Group.

In addition, the Group set up a crisis management taskforce to coordinate, respond to and tackle ad hoc events in an effective manner. Led by two Deputy Managing Directors, the taskforce comprises senior management members of major business units. Apart from handling key issues or risks, the taskforce at present focuses on monitoring the latest development of the pandemic and providing advice on taking necessary measures with timely reviews to ensure their effectiveness.

Over the years, the Group has earned various major awards from leading financial publications, including *Euromoney, FinanceAsia* and *The Asset*, in recognition of its quality management and commitment to good corporate governance.

Sustainable Development

As a home-grown Hong Kong company that has embraced its philosophy and core value of Building Homes with Heart for decades, the Group demonstrated resilience to meet the challenges brought by local social incidents and the COVID-19 outbreak, ensuring business continuity and the interests of its stakeholders. The Group plays an active part in weathering impacts from the pandemic through care and support for customers, tenants, employees, and people in need in the community.

The Group's property management teams make all reasonable endeavours in comprehensive cleansing and disinfection across residential estates, malls and offices. Timely and caring measures were launched to help needy segments of society. To weather through the difficult time with business partners, the Group has offered rent concessions to its affected mall tenants for several months. For the underprivileged, it provided rent subsidies for households living in subdivided units, and helped frontline medical service providers, the elderly and other disadvantaged groups through the donation of masks.

To help ease Hong Kong's housing shortage, especially for the underprivileged, the Group has leased a site at a nominal rent to develop United Court, a transitional social housing project that will provide some 1,800 units when completed. Planning of the development is under way.

In addition to addressing keen housing needs, the Group endeavours to strike a balance between project development and environmental conservation. The rejuvenation of a 500,000-square-foot wetland as part of PARK YOHO, the Group's large-scale project in Yuen Long, serves as a prime example of achieving a harmonious integration between housing development and wetland conservation.

While the local social incidents and pandemic caused inevitable disruptions to its community initiatives, the Group enhanced promotion for its sports-for-charity spirit and happy reading among young people through creative online campaigns. To support youth entrepreneurship, the Group renewed its sponsorship in providing rent-free offices for the Hong Kong X-Tech Startup Platform to drive innovation and technology development in Hong Kong and the Greater Bay Area.

Apart from protecting the employment of staff, the Group safeguards their health through offering thoughtful anti-pandemic measures, including flexible work schedules and timely free virus tests, as well as enhanced medical benefits. Training continues uninterrupted via live webinars coupled with a new Technology Upskilling Portal to encourage self-learning among staff. Meanwhile, the SHKP Club fosters effective two-way communication with customers and helps keep the Group abreast of their needs. Members were engaged through newly launched interactive online initiatives to foster greater affinity.

Since 2019, the Group has committed to engaging the United Nations' Sustainable Development Goals as a universal call to action. It will continue to work hand-in-hand with stakeholders and explore ways to better align with and contribute to the United Nations' goals, striving towards a more sustainable future for all.

PROSPECTS

The outbreak of COVID-19 has become the biggest threat to the world economy for the year 2020. While the impact of the pandemic has yet to come to its head, global economic activities are expected to remain subdued in the short to medium term as containment measures are likely to linger for a while. This, together with intensified Sino-US tensions, increased trade protectionism and continued geopolitical risks, will pose further challenges and uncertainties to economic recovery. Nevertheless, the easing of monetary policies and fiscal stimulus measures should help cushion the economic downturn. As with all previous pandemics, history shows that the current coronavirus will eventually end.

On the mainland, domestic economic activity is on track to recovery thanks to effective measures to contain the pandemic. Solid domestic demand and the positive stimulus measures introduced by the government should help maintain the economic activities at a healthy level in the near future. The mainland economy is expected to revert to its long-term growth path, given wider scope of market opening, including financial markets, as well as deepening technological development. All these will be conducive to the healthy development of the property market.

In Hong Kong, the local economy will continue to face internal and external headwinds. The operating environment for tourism remains tough, causing continued severe disruptions to travel-related businesses. Nonetheless, noticeable government relief measures should be able to help stabilize the job market and support domestic consumer spending. Hong Kong will have a positive long-term prospect on the back of the Group's unwavering faith in the enduring success of 'One Country, Two Systems' and the Central Government's support for Hong Kong as an international financial and business centre. This should help underpin the development of the local property sector over time. In addition, solid end-user demand and low interest rates are expected to remain key drivers for the housing market.

With a vote of confidence for a better tomorrow, the Group will continue to focus on land acquisitions and property developments in Hong Kong as well as major cities on the mainland. While new projects will continue to be launched for sale, the market response is expected to be uncertain, depending on the state of the pandemic and economic recovery. Over the next nine months, a number of residential developments will be put on the market in Hong Kong, including the second phase of Victoria Harbour in North Point and the third phase of Wetland Seasons Park, as well as the first phases of a number of residential developments including Central Peak in Mid-levels East, a project in Sha Tin Mid-levels and Yuen Long Station Development, together with the completed units at Cullinan West in West Kowloon to be launched late this year. An industrial building in Tsuen Wan is also scheduled for sale. On the mainland, major developments to be offered for sale will include a new phase at the wholly-owned Grand Waterfront in Dongguan as well as new batches at several joint-venture projects, including TODTOWN in Shanghai and Oriental Bund in Foshan.

The performance of the Group's property investment portfolio will inevitably be affected by the sluggish economy and the lingering pandemic. Shopping malls, in particular, are expected to be affected by anti-pandemic measures, including stringent dine-in restrictions. The Group has been making additional efforts to raise the level of hygiene standards at its premises to offer ease of mind to its customers, residents, tenants and employees through the provision of a safe and healthy environment in which to shop, work and live. In addition, the Group will capitalize on its extensive operations network and join hands with its tenants to promote traffic and sales in its malls through creative marketing campaigns. To enhance its malls' competitiveness and to offer incentives to shoppers, the Group will continue to leverage its loyalty programme, The Point by SHKP, which rewards loyal customers and offers refined services with a deeper understanding of customers' needs. However, the timing on the full-scale reopening of cross-border travel, especially with the mainland, remains uncertain and is crucial to the recovery of shopping malls' and hotels' business.

In addition, the Group will continue to expand its diversified property investment portfolio, providing a sizeable recurring income stream over the long term. A number of large-scale integrated developments are under way. These include the integrated landmark project atop the High Speed Rail West Kowloon Terminus in Hong Kong, the mega ITC in Shanghai and Jianghehui project in Hangzhou. Over the next two to three years, the Group will complete an office-cum-retail project in Kwun Tong and an extension of YOHO Mall, which represents the retail portion at Yuen Long Station Development in Hong Kong. On the mainland, the second office tower at Nanjing IFC in Nanjing along with the hotel, Andaz Nanjing, and the first office tower at the remaining phase of ITC in Shanghai are also scheduled for completion.

Hong Kong is our home and the Group will continue to offer a better living environment for the city by developing high-quality residences across a wide range of prices and unit sizes as well as other premises with excellent customer services. Caring for different segments of society, the Group is committed to being a responsible corporate citizen and continues with its pledge of Building Homes with Heart while serving a wider community, creating long-term value for stakeholders.

Having experienced different economic and political crises over the past decades, the economy of Hong Kong has not always been smooth sailing. With the unique strength of 'One Country, Two Systems' and favourable international competitiveness such as a low tax regime and world-standard business practices, Hong Kong will once again be able to turn adversity into opportunity. Coupled with growth impetus from the Greater Bay Area development amid promising future prospects of the mainland, the Group firmly believes that Hong Kong will prosper as in the past over the long term. Likewise, guided by an indomitable spirit of our late founder, Mr. Kwok Tak-seng, the Group has also gone through ups and downs since its public listing about 50 years ago, during which the management team has accumulated valuable experiences in dealing with various kinds of uncertainties, difficulties and challenges. Together with a strong financial position, a time-tested business strategy as well as a solid and proactive corporate culture, the Group is confident of being able to once again excel by overcoming the challenges in the times ahead and emerge as a better and more caring company.

Nevertheless, the Group's medium-term earnings prospects are expected to be uncertain, mainly depending on the development of the pandemic and the easing of respective containment measures, including the reopening of cross-border travel, which are crucial to the performance of property sales, rental income and hotels of the Group.

DIRECTORS AND APPRECIATION

Dr. Lee Shau-kee will retire as a Non-Executive Director of the Company and cease to act as the Vice Chairman of the Board of the Company at the annual general meeting of the Company to be held in November 2020. A close business associate of Mr. Kwok Tak-seng, the late founder of the Company, Dr. Lee has been serving on the Board of the Company as Vice Chairman for over 48 years since the Company was listed in 1972. His outstanding leadership, enormous wealth of industry experience and invaluable advice have been instrumental to the growth and success of the Group. I would like to express my sincere gratitude to Dr. Lee for his immense contribution to the Group over the years.

Mr. Leung Kui-king, Donald, an Independent Non-Executive Director of the Company, will also retire at the annual general meeting. Mr. Leung has been serving on the Board of the Company for more than eight years since his appointment as an Independent Non-Executive Director in 2012. I would like to thank him for his valuable contribution to the Group during his tenure of service.

I would also like to take this opportunity to pay tribute to all staff members for their dedication, hard work and professionalism, in particular their industrious attitude and efforts in tackling the many tough challenges during the social incidents in the second half of 2019 and the ensuing pandemic so far this year, which helped maintain the Group's effective operations and deliver quality services to customers. My gratitude also goes to my fellow directors for their guidance and all our shareholders and customers for their continued support.

Kwok Ping-luen, Raymond
Chairman & Managing Director

Hong Kong, 10 September 2020

ANNOUNCEMENT

The Board of Directors of Sun Hung Kai Properties Limited announces the following audited consolidated figures for the Group for the year ended 30 June 2020 with comparative figures for 2019:-

Consolidated Income Statement
For the year ended 30 June 2020

(Expressed in millions of Hong Kong dollars)

	Notes	2020	2019
Revenue	**3**	**82,653**	85,302
Cost of sales		**(40,517)**	(40,455)
Gross profit		**42,136**	44,847
Other net income		**831**	740
Selling and marketing expenses		**(4,560)**	(4,791)
Administrative expenses		**(2,952)**	(2,938)
Operating profit before changes in fair value of investment properties	**3**	**35,455**	37,858
(Decrease)/increase in fair value of investment properties		**(4,423)**	12,535
Operating profit after changes in fair value of investment properties		**31,032**	50,393
Finance costs		**(2,528)**	(2,446)
Finance income		**408**	395
Net finance costs	**4**	**(2,120)**	(2,051)
Share of results of:			
Associates		**181**	445
Joint ventures		**1,418**	5,696
	3	**1,599**	6,141
Profit before taxation	**5**	**30,511**	54,483
Taxation	**6**	**(6,197)**	(8,474)
Profit for the year		**24,314**	46,009
Attributable to:			
Company's shareholders		**23,521**	44,912
Perpetual capital securities holders		**169**	171
Non-controlling interests		**624**	926
		24,314	46,009
(Expressed in Hong Kong dollars)			
Earnings per share based on profit attributable to the Company's shareholders (reported earnings per share)	**7(a)**		
Basic		**$8.12**	$15.50
Diluted		**$8.12**	$15.50
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		**$10.13**	$11.18
Diluted		**$10.13**	$11.18

Consolidated Statement of Comprehensive Income
For the year ended 30 June 2020
(Expressed in millions of Hong Kong dollars)

	2020	2019
Profit for the year	**24,314**	46,009
Items that may be reclassified subsequently to profit or loss:		
Translation difference on foreign operations	**(3,138)**	(3,522)
Cash flow hedge		
- fair value gains recognized directly in reserves during the year	**254**	105
- fair value gains transferred to consolidated income statement	**(31)**	-
	223	105
Debt securities at fair value through other comprehensive income		
- fair value gains recognized directly in reserves during the year	**-**	2
Share of other comprehensive loss of associates and joint ventures	**(787)**	(605)
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 year	**(332)**	(253)
Share of other comprehensive income/(loss) of an associate	**154**	(88)
Other comprehensive loss for the year	**(3,880)**	(4,361)
Total comprehensive income for the year	**20,434**	41,648
Total comprehensive income for the year attributable to:		
Company's shareholders	**19,728**	40,659
Perpetual capital securities holders	**169**	171
Non-controlling interests	**537**	818
	20,434	41,648

Consolidated Statement of Financial Position
As at 30 June 2020
(Expressed in millions of Hong Kong dollars)

	Notes	2020	2019
Non-current assets			
Investment properties	**9**	**380,717**	386,612
Property, plant and equipment		**40,825**	35,862
Associates		**6,306**	6,014
Joint ventures		**72,476**	67,737
Financial investments		**2,603**	3,313
Intangible assets		**4,288**	4,445
Other non-current assets		**6,954**	4,764
		514,169	508,747
Current assets			
Properties for sale		**196,153**	196,107
Inventories		**367**	356
Trade and other receivables	**10**	**17,029**	22,811
Financial investments		**824**	1,103
Bank deposits and cash		**31,705**	22,038
Assets of subsidiaries contracted for sale	**11**	**37,584**	-
		283,662	242,415
Current liabilities			
Bank and other borrowings		**(26,375)**	(9,168)
Trade and other payables	**12**	**(36,851)**	(28,699)
Deposits received on sales of properties		**(21,462)**	(16,983)
Current tax payable		**(12,654)**	(11,052)
		(97,342)	(65,902)
Net current assets		**186,320**	176,513
Total assets less current liabilities		**700,489**	685,260
Non-current liabilities			
Bank and other borrowings		**(86,231)**	(85,838)
Deferred tax liabilities		**(22,638)**	(23,328)
Other non-current liabilities		**(1,205)**	(275)
		(110,074)	(109,441)
NET ASSETS		**590,415**	575,819
CAPITAL AND RESERVES			
Share capital		**70,703**	70,683
Reserves		**501,110**	495,722
Shareholders' equity		**571,813**	566,405
Perpetual capital securities		**3,813**	3,813
Non-controlling interests		**14,789**	5,601
TOTAL EQUITY		**590,415**	575,819

1. Basis of Preparation

The financial information relating to the years ended 30 June 2020 and 2019 included in this preliminary announcement of annual results does not constitute the Company's statutory annual consolidated financial statements for those years 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 will deliver the consolidated financial statements for the year ended 30 June 2020 in due course. The Company's auditor has reported on the consolidated financial statements for both years. The auditor's reports were 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 consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards and interpretation (collectively, "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the Hong Kong Companies Ordinance (Cap. 622) and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The consolidated financial statements are prepared under the historical cost convention except for investment properties and certain financial instruments, which are measured at fair value.

In the current year, the Group has adopted a number of new and amendments to HKFRSs issued by the HKICPA that are first effective for the Group's financial year beginning 1 July 2019. Except for HKFRS 16, Leases as described in Note 2 below, the adoption of these new or amended HKFRSs does not have a material effect on the Group's financial statements.

The Group has not applied any new standard or amendment that is not effective for the current year.

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.

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 subsequently measured at cost less accumulated depreciation, applying the depreciation requirements in HKAS 16 Property, Plant and Equipment 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.

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

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 to the lessee, and classified as an operating lease if it does not.

(Expressed in millions of Hong Kong dollars)

(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

(Expressed in millions of Hong Kong dollars)

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 current year is summarized below:

Decrease in operating expenses	1,092
Increase in depreciation and amortization	(1,071)
Increase in finance costs	(52)
Decrease in income tax expense	2
Decrease in profit for the year	(29)
Decrease in profit attributable to the Company's shareholders	(24)

(Expressed in millions of Hong Kong dollars)

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.

(a) Segment revenue and results

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

For the year ended 30 June 2020

	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	36,268	15,965	605	368	36,873	16,333
Mainland China	3,497	1,667	862	367	4,359	2,034
Singapore	-	-	32	10	32	10
	39,765	17,632	1,499	745	41,264	18,377
Property rental						
Hong Kong	15,914	11,898	3,095	2,558	19,009	14,456
Mainland China	3,995	3,211	622	451	4,617	3,662
Singapore	-	-	588	447	588	447
	19,909	15,109	4,305	3,456	24,214	18,565
Hotel operations	2,595	(335)	480	5	3,075	(330)
Telecommunications	6,986	520	-	-	6,986	520
Transport infrastructure and logistics	4,051	1,181	3,490	184	7,541	1,365
Data centre operations	1,714	855	-	-	1,714	855
Other businesses	7,633	1,372	597	57	8,230	1,429
	82,653	36,334	10,371	4,447	93,024	40,781
Other net income/(loss)		831		(5)		826
Unallocated administrative expenses		(1,710)		-		(1,710)
Operating profit before changes in fair value of investment properties		35,455		4,442		39,897
Decrease in fair value of investment properties						
Hong Kong		(3,463)		(1,225)		(4,688)
Mainland China		(960)		(177)		(1,137)
Singapore		-		(246)		(246)
		(4,423)		(1,648)		(6,071)
Operating profit after changes in fair value of investment properties		31,032		2,794		33,826
Net finance costs		(2,120)		(452)		(2,572)
Profit before taxation		28,912		2,342		31,254
Taxation						
- Group		(6,197)		-		(6,197)
- Associates		-		8		8
- Joint ventures		-		(751)		(751)
Profit for the year		22,715		1,599		24,314

(Expressed in millions of Hong Kong dollars)

For the year ended 30 June 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	36,518	16,372	23	23	36,541	16,395
Mainland China	2,055	1,105	2,717	1,197	4,772	2,302
	38,573	17,477	2,740	1,220	41,313	18,697
Property rental						
Hong Kong	16,555	12,741	3,143	2,632	19,698	15,373
Mainland China	4,035	3,310	631	436	4,666	3,746
Singapore	-	-	713	559	713	559
	20,590	16,051	4,487	3,627	25,077	19,678
Hotel operations	4,786	1,180	896	253	5,682	1,433
Telecommunications	8,415	823	-	-	8,415	823
Transport infrastructure and logistics	4,261	1,341	3,574	409	7,835	1,750
Data centre operations	1,561	765	-	-	1,561	765
Other businesses	7,116	1,186	415	56	7,531	1,242
	85,302	38,823	12,112	5,565	97,414	44,388
Other net income		740		30		770
Unallocated administrative expenses		(1,705)		-		(1,705)
Operating profit before changes in fair value of investment properties		37,858		5,595		43,453
Increase in fair value of investment properties						
Hong Kong		8,305		1,965		10,270
Mainland China		4,230		428		4,658
Singapore		-		25		25
		12,535		2,418		14,953
Operating profit after changes in fair value of investment properties		50,393		8,013		58,406
Net finance costs		(2,051)		(497)		(2,548)
Profit before taxation		48,342		7,516		55,858
Taxation						
- Group		(8,474)		-		(8,474)
- Associates		-		(62)		(62)
- Joint ventures		-		(1,313)		(1,313)
Profit for the year		39,868		6,141		46,009

(Expressed in millions of Hong Kong dollars)

As of 30 June 2020, the aggregate amount of transaction price allocated to the remaining performance obligations under the Group's existing contracts of sales of properties was HK$46,405 million (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 73% (2019: 77%) is expected to be recognized as revenue within one year 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$779 million (2019: HK$518 million) and HK$74 million (2019: HK$144 million) that relate to pre-sale of property projects in Hong Kong and Mainland China, respectively.

Other businesses comprise revenue and profit derived from other activities including property management, department store operations and financial services.

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

(b) Geographical information

An analysis of the Group's revenue by geographical area of principal markets is as follows:

	2020	2019
Hong Kong	**74,567**	78,175
Mainland China	**7,860**	6,678
Others	**226**	449
	82,653	85,302

4. Net Finance Costs

	2020	2019
Interest expenses	**3,345**	2,982
Notional non-cash interest accretion	**12**	17
Finance costs on lease liabilities	**52**	-
Less : Amount capitalized	**(881)**	(553)
	2,528	2,446
Interest income on bank deposits	**(408)**	(395)
	2,120	2,051

(Expressed in millions of Hong Kong dollars)

5. Profit before Taxation

	2020	2019
Profit before taxation is arrived at		
after charging:		
Cost of properties sold	**19,336**	18,073
Cost of inventories sold	**3,806**	4,912
Depreciation of property, plant and equipment	**2,832**	1,617
Amortization of intangible assets (included in cost of sales)	**549**	544
Amortization of contract acquisition costs	**1,200**	751
Impairment of intangible assets	**3**	4
Short-term lease expenses	**500**	-
Low-value assets lease expenses	**2**	-
Variable lease payment expenses	**185**	-
Operating lease rentals for land and buildings, transmission sites and leased lines	**-**	1,855
Staff costs (including directors’ emoluments and retirement schemes contributions)	**8,620**	8,511
Share-based payments	**25**	19
Auditors’ remuneration	**25**	24
Loss on disposal of financial assets at fair value through profit or loss	**40**	24
Fair value losses on financial assets at fair value through profit or loss	**-**	22
Loss on disposal of property, plant and equipment	**-**	34
and crediting:		
Dividend income from equity securities	**125**	154
Interest income from financial investments	**75**	84
Fair value gains on financial assets at fair value through profit or loss	**29**	-
Profit on disposal of property, plant and equipment	**6**	-

6. Taxation

	2020	2019
Current tax expenses		
Hong Kong profits tax	**4,502**	4,822
(Over)/under provision in prior years	**(77)**	6
	4,425	4,828
Tax outside Hong Kong	**1,777**	1,280
Under provision in prior years	**1**	1
	1,778	1,281
Total current tax	**6,203**	6,109
Deferred tax expenses		
Changes in fair value of investment properties	**(477)**	1,856
Other origination and reversal of temporary differences	**471**	509
Total deferred tax	**(6)**	2,365
Total income tax expenses	**6,197**	8,474

(Expressed in millions of Hong Kong dollars)

Hong Kong profits tax is provided at the rate of 16.5% (2019: 16.5%) based on the estimated assessable profits for the year. Tax outside Hong Kong, which includes withholding tax on income distributions, 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$23,521 million (2019: HK$44,912 million).

The basic earnings per share is based on the weighted average number of shares in issue during the year of 2,897,778,151 (2019: 2,897,232,781) shares. The diluted earnings per share is based on 2,897,778,583 (2019: 2,897,292,613) shares which is the weighted average number of shares in issue during the year plus the weighted average number of 432 (2019: 59,832) 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$29,368 million (2019: HK$32,398 million), excluding the net effect of changes in the valuation of investment properties. A reconciliation of profit is as follows:

	2020	2019
Profit attributable to the Company's shareholders as shown in the consolidated income statement	**23,521**	44,912
Decrease/(increase) in fair value of investment properties		
Subsidiaries	**4,423**	(12,535)
Associates	**27**	(63)
Joint ventures	**1,621**	(2,355)
	6,071	(14,953)
Effect of corresponding deferred tax expenses		
Subsidiaries	**(477)**	1,856
Joint ventures	**(100)**	188
Non-controlling interests	**16**	48
Unrealized fair value losses/(gains) of investment properties net of deferred tax	**5,510**	(12,861)
Fair value gains realized on disposal of investment properties net of deferred tax	**337**	347
Net effect of changes in fair value of investment properties	**5,847**	(12,514)
Underlying profit attributable to the Company's shareholders	**29,368**	32,398

(Expressed in millions of Hong Kong dollars)

8. Dividends

(a) Dividends payable to equity shareholders of the Company attributable to profit for the year

	2020	2019
Interim dividend declared and paid of HK$1.25 (2019: HK$1.25) per share	**3,622**	3,622
Final dividend proposed after the end of the reporting period of HK$3.70 (2019: HK$3.70) per share	**10,722**	10,722
	14,344	14,344

The final dividend proposed 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 profit for the previous financial year, approved and paid during the year

	2020	2019
Final dividend in respect of the previous financial year, approved and paid during the year of HK$3.70 (2018: HK$3.45) per share	**10,722**	9,995

9. Investment Properties

(a) Movement during the year

	Completed	**Under development**	**Total**
Valuation			
At 1 July 2019	**330,084**	**56,528**	**386,612**
Additions	**951**	**45,411**	**46,362**
Transfer from property, plant and equipment	**16**	**-**	**16**
Disposals	**(408)**	**-**	**(408)**
Transfer to			
- property, plant and equipment	**(2,250)**	**-**	**(2,250)**
- properties for sale	**-**	**(4,057)**	**(4,057)**
- assets of subsidiaries contracted for sale	**-**	**(37,584)**	**(37,584)**
Exchange difference	**(2,351)**	**(1,200)**	**(3,551)**
Decrease in fair value	**(3,608)**	**(815)**	**(4,423)**
At 30 June 2020	**322,434**	**58,283**	**380,717**

(Expressed in millions of Hong Kong dollars)

(b) The Group's investment properties were valued at their fair values at 30 June 2020 and 30 June 2019 by Knight Frank Petty Limited, an independent firm of qualified valuers, on a market value basis, in accordance with Valuation Standards on Properties issued by Hong Kong Institute of Surveyors.

	Fair value		**Weighted average capitalization rate**	
	2020	2019	**2020**	2019
Completed				
Hong Kong	**259,103**	264,069	**5.1%**	5.1%
Mainland China	**63,331**	66,015	**6.6%**	6.6%
	322,434	330,084		
Under development				
Hong Kong	**25,319**	24,071	**4.4%**	3.6%
Mainland China	**32,964**	32,457	**6.5%**	6.4%
	58,283	56,528		

10. Trade and Other Receivables

Included in trade and other receivables of the Group are trade receivables of HK$3,343 million (2019: HK$7,896 million), of which 65% (2019: 86%) are aged less than 30 days, 14% (2019: 4%) between 31 to 60 days, 5% (2019: 2%) between 61 to 90 days and 16% (2019: 8%) more than 90 days.

11. Assets of Subsidiaries Contracted for Sale

As announced by the Company on 29 April 2020, the Group entered into an agreement with a third party to sell a 25% equity interest in Vivid Synergy limited (a subsidiary of the Company, which together with its wholly-owned subsidiaries owns the office portion of a proposed investment property development on a site situated in Kowloon West). The consideration of the sale is HK$9,394 million representing the Group’s original cost of investment plus reimbursement of certain costs of funding of the consideration and of the project costs incurred. Deposits of HK$7,613 million were received during the year. The remaining balance of the consideration was settled upon completion of the sale on 21 July 2020. The Group currently owns a 75% equity interest in Vivid Synergy Limited, which will be owned as to 50% and accordingly accounted for as a joint venture by the Group after the sale.

At 30 June 2020, the assets of Vivid Synergy Limited and its subsidiaries, with carrying value of HK$37,584 million representing principally the market value of the investment property under development, are presented as contracted for sale in the consolidated statement of financial position in accordance with HKFRS 5, Non-current assets held for sale and discontinued operations.

12. Trade and Other Payables

Included in trade and other payables of the Group are trade payables of HK$2,809 million (2019: HK$2,909 million), of which 58% (2019: 50%) are aged less than 30 days, 10% (2019: 19%) between 31 to 60 days, 5% (2019: 5%) between 61 to 90 days and 27% (2019: 26%) more than 90 days.

FINANCIAL REVIEW

Review of Operating Results

Profit attributable to the Company's shareholders for the year ended 30 June 2020 decreased by 48% or HK$21,391 million to HK$23,521 million (2019: HK$44,912 million) after taking into account the net effect of revaluation loss of investment properties. A net fair value loss (net of related deferred tax and non-controlling interests) of HK$5,510 million arising on revaluation of investment properties (including investment properties held through joint ventures and associates) was recognized in the current year's consolidated income statement due to lower open market rents at 30 June 2020 as compared with a net revaluation gain of HK$12,861 million for the previous year.

Underlying profit attributable to the Company's shareholders for the year, which excluded revaluation gain or loss of investment properties, was HK$29,368 million, a decrease of 9.4% or HK$3,030 million compared with HK$32,398 million for the previous year. The reduction in underlying profit was mainly attributable to a lower rental contribution from investment properties due to the granting of retail rent relief, an operating loss from the Group's hotel operations and a significant decline in the Group's transport infrastructure and telecommunications business. The profit decline mostly occurred in the second half of the financial year under review, reflecting the severe impact of the rapid deterioration in the economic environment and market conditions triggered by the outbreak of COIVD-19 pandemic beginning in late January 2020.

Profit from property sales for the year, including share of joint ventures, was HK$18,377 million (2019: HK$18,697 million). Property sales in Hong Kong reported a profit of HK$16,333 million (2019: HK$16,395 million), primarily attributed to profit contributions from the sales of residential units in Wings at Sea & Wings at Sea II, Phase 1 of St. Martin, Phase 1 of Mount Regency and PARK YOHO Napoli. As for the Mainland, profit from property sales was HK$2,034 million (2019: HK$2,302 million) and was mainly derived from sales of residential units in Park Royale, Forest Hills and Grand Waterfront. As of 30 June 2020, the Group had HK$49.8 billion contracted (including share of joint ventures) but unrecognized property sales, of which HK$40 billion related to the pre-sale of Hong Kong development projects including Cullinan West III, Phase 2 of St. Martin, Phase 2 of Mount Regency and Wetland Seasons Park and HK$9.8 billion from pre-sale of development projects on the Mainland.

The Group's gross rental income revenue, including share of joint ventures and associates was HK$24,214 million (2019: HK$25,077 million), representing a decrease of 3.4% or HK$863 million year-on-year. Net rental income for the year, including share of joint ventures and associates, decreased by HK$1,113 million or 5.7% to HK$18,565 million (2019: HK$19,678 million). Net rental income from the Group's Hong Kong and Mainland rental portfolios amounted to HK$14,456 million (2019: HK$15,373 million) and HK$3,662 million (2019: HK$3,746 million) respectively, which correspond to a year-on-year decrease of 6% and 2.2%. The decrease was primarily due to the retail rental concessions granted, which more than offset the positive rental reversions from the Group's office portfolio. Since February 2020, the Group has offered rent reductions by 30% to 50% to its distressed retail tenants, with an aggregate amount of over HK$1 billion rental concessions having been granted by end of June 2020. The impact of these rental concessions has been fully recognized in the second half of the financial year.

The Group's hotel business has been hit hardest by the outbreak of COVID-19 pandemic. Both occupancies and room rates have dropped to unprecedented low levels, resulting in substantial negative contribution recorded in the second half of the financial year. The hotel segment (including share of joint ventures) recorded a loss of HK$330 million (after depreciation charge of HK$584 million) for the full year as compared with a profit of HK$1,433 million a year ago. The Group has deployed proactive measures to save costs and improve operating efficiency, and also introduced various dining promotions and staycation packages to target the neighbourhood and local customers.

SmarTone's operating profit decreased by 37% to HK$520 million (2019: HK$823 million). The COVID-19 outbreak since January 2020 has brought global travel to an abrupt halt and significantly reduced its roaming revenue. Handset sales were also adversely affected due to weakness in the handset trading business.

Operating profit from transport infrastructure and logistics business (including share of joint ventures and associates) decreased by 22% to HK$1,365 million (2019: HK$1,750 million). The COVID-19 pandemic is having a massive impact on the transport infrastructure sector. The anti-pandemic measures put in place, such as travel restrictions and restrictions on social gathering, have had a widespread negative impact on people's social, economic and travelling activities and adversely affected the Group's transport, toll road and business aviation centre operations.

SUNeVision delivered an operating profit of HK$855 million (2019: HK$765 million), an increase of 12% over the previous year, driven by increased demand for data centre services from its existing and new customers.

The Group's other businesses (including share of joint ventures), mainly comprising property management and department store operations, continued to perform well with operating profit increased by 15% to HK$1,429 million (2019: HK$1,242 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.

Shareholders' equity was HK$571.8 billion or HK$197.3 per share as at 30 June 2020 compared with HK$566.4 billion as at 30 June 2019, an increase of HK$5.4 billion. The increase was primarily driven by net profit attributable to the shareholders of HK$23.5 billion, as reduced by dividends paid of HK$14.3 billion and partially offset by foreign exchange losses of HK$3.8 billion on translation of financial statements of foreign operations.

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's financial position remains sound with a low debt leverage and high interest cover. Gearing ratio as at 30 June 2020, calculated on the basis of net debt to shareholders' equity of the Company, was 14.1% compared to 12.9% a year ago. Interest coverage was 11.8 times, measured by the ratio of operating profit to total net interest expenses including those capitalized for the current year.

As at 30 June 2020, the Group's gross borrowings totalled HK$112,606 million. Net debt, after deducting bank deposits and cash of HK$31,705 million, increased by HK$7,933 million to HK$80,901 million, primarily due to land payment for the commercial site in West Kowloon acquired in November 2019. The maturity profile of the Group's gross borrowings is set out as follows:

	30 June 2020	30 June 2019
	HK$ Million	*HK$ Million*
Repayable:		
Within one year	**26,375**	9,168
After one year but within two years	**15,559**	14,070
After two years but within five years	**41,917**	53,803
After five years	**28,755**	17,965
Total bank and other borrowings	**112,606**	95,006
Bank deposits and cash	**31,705**	22,038
Net debt	**80,901**	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 30 June 2020, about 77% of the Group's bank and other borrowings were raised by the Company and through its wholly-owned finance subsidiaries and the remaining 23% 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 30 June 2020, about 73% of the Group's total borrowings were denominated in Hong Kong dollars (after cross currency interest rate swaps) and 10% in US dollars, which were raised for financing the Group's business operations in Hong Kong while the remaining 17% were mostly in Renminbi and for financing the construction cost of property projects in 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 in 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 30 June 2020, approximately 18% of the Group's net assets were denominated in Renminbi. During the year, the translation of foreign operations into the Group's presentation currency has resulted in a decrease of HK$3.8 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 30 June 2020, about 55% 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 45% were on fixed rate basis.

As at 30 June 2020, 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$20,431 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 30 June 2020, about 30% of the Group's bank deposits and cash were denominated in Hong Kong dollars, 41% in Renminbi, and 29% 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 30 June 2020, 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$1,411 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 30 June 2020, 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$2,437 million (30 June 2019: HK$2,106 million).

EMOLUMENT POLICY AND LONG-TERM INCENTIVE SCHEMES OF THE GROUP

As at 30 June 2020, the Group employed more than 39,500 employees. The related employees' costs before reimbursements for the year amounted to approximately HK$12,306 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. Share option schemes are in place to provide appropriate long-term incentive to the key staff of the Group. Details of the share option schemes of the Group are set out in the section headed "Share Option Schemes" of the annual report of the Company.

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.

DIVIDEND

The Board of Directors of the Company (the "Board") has decided to recommend the payment of a final dividend of HK$3.70 per share (2019: HK$3.70 per share) for the year ended 30 June 2020. Including the interim dividend of HK$1.25 per share paid on 19 March 2020, the total dividend for the year ended 30 June 2020 amounts to HK$4.95 per share (2019: HK$4.95 per share).

The proposed final dividend, if approved at the forthcoming annual general meeting of the Company (the "2020 Annual General Meeting"), will be payable in cash on Thursday, 19 November 2020 to the shareholders of the Company (the "Shareholders") whose names appear on the register of members of the Company on Wednesday, 11 November 2020. Shares of the Company will be traded ex-dividend as from Monday, 9 November 2020.

ANNUAL GENERAL MEETING

The 2020 Annual General Meeting will be held on Thursday, 5 November 2020 and the Notice of the 2020 Annual General Meeting will be published and despatched to the Shareholders in due course.

CLOSURE OF REGISTER OF MEMBERS

(1) For the purpose of ascertaining Shareholders' entitlement to attend and vote at the 2020 Annual General Meeting, the register of members of the Company will be closed from Monday, 2 November 2020 to Thursday, 5 November 2020, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the 2020 Annual General Meeting, Shareholders must lodge all transfer documents accompanied by the relevant share certificates (together the "Share Transfer Documents") for registration not later than 4:30 p.m. on Friday, 30 October 2020.

(2) For the purpose of ascertaining Shareholders' entitlement to the proposed final dividend, the register of members of the Company will be closed on Wednesday, 11 November 2020, during which no transfer of shares will be registered. In order to establish entitlements to the proposed final dividend, Shareholders must lodge the Share Transfer Documents for registration not later than 4:30 p.m. on Tuesday, 10 November 2020.

(3) The Share Transfer Documents shall be lodged 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.

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 year ended 30 June 2020.

AUDIT AND RISK MANAGEMENT COMMITTEE

The annual results for the year ended 30 June 2020 have been reviewed by the Audit and Risk Management Committee of the Company. The Group's consolidated financial statements have been audited by the Company's auditor, Messrs. Deloitte Touche Tohmatsu, and it has issued an unmodified opinion.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the year ended 30 June 2020, 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.

ANNUAL REPORT

The 2019/20 annual 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 October 2020.

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

Hong Kong, 10 September 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.