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)

2020 / 21 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 2020, excluding the effect of fair-value changes on investment properties, amounted to HK$17,482 million, compared to HK$13,422 million for the corresponding period last year. The increase was mainly due to the fact that the majority of the current financial year's development projects for sale in Hong Kong were completed in the first half of the year. Underlying earnings per share were HK$6.03, compared to HK$4.63 for the same period last year.

Reported profit and reported earnings per share attributable to the Company's shareholders were HK$13,578 million and HK$4.69 respectively, compared to HK$15,419 million and HK$5.32 for the corresponding period last year. The reported profit for the period included a decrease in fair value of investment properties net of deferred taxation and non-controlling interests of HK$3,833 million, compared to an increase of HK$2,046 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 2020, the same as the corresponding period last year. The dividend will be payable on 18 March 2021.

BUSINESS REVIEW

Development Profit and Rental Income

Development Profit

During the period under review, profit generated from property sales reached HK$12,366 million, as compared to HK$6,850 million for the corresponding period last year. The substantial increase was mainly due to the fact that the majority of the current financial year's development projects for sale in Hong Kong were completed in the first half of the year. Contracted sales during the period totalled an approximate HK$14,700 million in attributable terms.

Rental Income

Gross rental income, including contributions from joint ventures and associates, dropped 3% year-on-year to HK$12,361 million, and net rental income decreased 2% year-on-year to HK$9,496 million during the six-month period under review. The performance was mainly affected by the decrease in rental income of its Hong Kong rental portfolio.

Property Business – Hong Kong

Land Bank

During the period under review, the Group added a residential site in So Kwun Wat, Tuen Mun through the conversion of agricultural land. Covering a gross floor area of about 614,000 square feet, this new site is earmarked for the development of a mass residential project which offers a wide range of flat types. The Group has a 75.2% stake in the development. In addition, the Group acquired an industrial site in Tuen Mun via a private deal during the period, of which the Group owns an effective interest of 69.9%. The Group plans to convert the site into office and retail uses with a gross floor area of about 772,000 square feet.

As at 31 December 2020, the Group's attributable land bank in Hong Kong amounted to 56.0 million square feet. This included about 22.3 million square feet of properties under development which are sufficient to meet the Group's development needs over the next five years, and around 33.7 million square feet of completed properties of different usages across the city. An overwhelming majority of the completed properties are for rental and long-term investment purposes. The Group will continue to replenish its land bank when appropriate opportunities arise through different channels, including active conversion of its agricultural lands into buildable sites.

Property Development

The volume of transactions in the Hong Kong primary residential market was affected by social distancing measures which lasted for months, while secondary market transactions and prices remained resilient. Meanwhile, the low interest rate environment and solid end-user demand, particularly for small- to medium-sized units, continued to support the market.

During the period, the Group achieved contracted sales of about HK$11,300 million in attributable terms in Hong Kong. Major contributors included the third phase of Wetland Seasons Park near Hong Kong Wetland Park and the first phases of Regency Bay in Tuen Mun and Central Peak in Mid-levels East. The Group also continued to dispose of the remaining units in completed developments, including Cullinan West III and Phase 2 of Grand YOHO. The Group will capitalize on its ample saleable resources to drive sales, with a number of new projects to be put on the market in the next couple of months, including a residential development, Prince Central in Ho Man Tin, which will be launched very soon.

Guided by its commitment to providing premium products and services for its customers, the Group has continued to enhance its building quality and offer practical layouts for its developments. A variety of initiatives have also been introduced to meet customers' rising expectations and requirements on hygiene standards and smart technology. Continuous enhancements such as better sewerage designs and a wider use of digital technology will be implemented to provide increased safety, flexibility and convenience for customers. This customer-centric spirit continues to reinforce the Group's premium brand and leading position in the market.

A total of five projects in Hong Kong with an attributable gross floor area of about 1.6 million square feet were ready for handover during the period under review. Of this, about 1.3 million square feet were for residential use and approximately 138,000 square feet of retail space 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)
Cullinan West III	28 Sham Mong Road, West Kowloon	Residential	JV	670,000
Phase 2 of St Martin Development	12 Fo Chun Road, Pak Shek Kok, Tai Po	Residential	100	374,000
Phase 2 of Mount Regency Development	8 King Sau Lane, Tuen Mun	Residential	100	235,000
W LUXE	5 On Yiu Street, Shek Mun, Sha Tin	Office / Shops	100	174,000
Harbour North	133 Java Road, North Point	Shopping Centre	100	138,000
Total				**1,591,000**

In the second half of this financial year, an approximate 893,000 square feet of attributable gross floor area are scheduled for completion, including about 768,000 square feet of residential premises.

Property Investment

Inclusive of contributions from joint ventures and associates, the Group's gross rental income from Hong Kong during the period under review recorded a decrease of 8% to HK$9,181 million. Tightened social distancing measures and cross-border travel restrictions continued to weigh on the performance of the Group's rental portfolio and dealt a blow to selected shopping malls and tourism- and leisure-related businesses. Negotiations both on new leases and renewals remained challenging with near-term downward pressure on rents. During the period, the Group's diversified property investment portfolio recorded an overall average occupancy of about 90%.

The Group continued to enhance the quality, competitiveness and value of its property investment portfolio. In addition to proactive asset enhancement work, considerable efforts have been made to provide tenants and customers with a care-free living and working environment amid the COVID-19 pandemic. The Group has raised hygiene standards at its properties via hardware upgrades and innovations. These include enhancements of air ventilation systems and installation of additional contactless facilities. In addition, the Group's experienced leasing teams have responded to fast-changing market dynamics in a proactive way to ensure an optimal trade and tenant mix for its rental portfolio.

On the retail front, the Group has made continuous efforts to leverage its online platforms to better understand customers' needs and preferences. With a membership surpassing one million to date, The Point by SHKP, the loyalty programme under the SHKP Malls App, not only better served shoppers and tenants but also managed to drive footfall and boost sales for tenants in a difficult environment. Apart from upgrading the functions of its digital platforms, the Group has revitalized outdoor space and introduced sports facilities at selected shopping malls to cater for the growing appetite for outdoor activities. The Group will further enhance the hygiene standards of its shopping malls by utilizing 5G and advanced technology, including smart washroom solutions. To support the business of its tenants, the Group has introduced thematic installations and launched spending reward initiatives as well as online and offline campaigns to boost customer sales. To a certain extent, such measures have been able to help mitigate the adverse impacts from tightened social distancing measures, but a full recovery of the retail business will depend on the effective containment of the pandemic, mass vaccination among wider local population and the substantial relaxation of cross-border travel restrictions.

The Group's diversified office portfolio continued to deliver a stable performance during the period. As one of the most prestigious office towers in the city, IFC has maintained tenant loyalty and achieved high occupancy, while ICC continued to attract interest from reputable tenants. Offering a wide range of choices from its office portfolio in terms of floor plates, locations and rental levels, the Group has been able to maintain a competitive position even in a slow market, retaining existing tenants and attracting new customers. In addition, the Group has built a premium brand in the office market and has been widely acclaimed for its building quality and professional management services, cementing long-term relationships with its tenants. All these factors have helped the Group stay at the forefront of the industry amid an uncertain macro-environment.

The Group has demonstrated its vote of confidence in the future of Hong Kong with the development of a number of properties for long-term investment. Complementing the existing Millennium City cluster, the development at 98 How Ming Street in which the Group owns an effective interest of 69.9% will further strengthen the Group's strong foothold in Kowloon East. Comprising about 650,000 square feet of grade-A office space and a 500,000-square-foot shopping mall, the project is scheduled for completion in 2023. Construction work is progressing smoothly and preliminary marketing of its office towers has commenced. The mega commercial complex atop the High Speed Rail West Kowloon Terminus will comprise around 2.8 million square feet of grade-A offices and about 349,000 square feet of premium retail space under the existing plan. Riding on its strategic location and comprehensive transportation network to many cities on the mainland, this future landmark will not only create synergy with the Group's ICC and the West Kowloon Cultural District which is under development in the vicinity, but will also play an important part in reinforcing West Kowloon as a vibrant integrated commercial hub for both Hong Kong and the Greater Bay Area.

Property Business – Mainland

Land Bank

As at 31 December 2020, the Group held a total attributable land bank of 66.9 million square feet on the mainland. It comprises about 16.3 million square feet of completed properties, of which an overwhelming majority were for rental and long-term investment purposes in prime locations. The remaining 50.6 million square feet were properties under development, about 50% of which will be developed into quality residences for sale. The Group will continue with its selective and focused approach to seeking investment opportunities in key cities on the mainland.

Property Development

The residential market on the mainland registered robust sales in the second half of 2020 on the back of solid end-user demand and revival of buyer confidence amid effective control of the pandemic. Gradual tightening of housing measures, adhering to the principle that 'housing is for living in, not for speculation', will be conducive to a healthy and stable property market in the long run.

The Group achieved attributable contracted sales of about RMB3,000 million during the period, mainly contributed by the wholly-owned Grand Waterfront in Dongguan and Shanghai Arch in

Shanghai, together with several joint-venture projects including Oriental Bund in Foshan and Forest Hills in Guangzhou. With its brand name increasingly recognized and respected by the market, the Group has continued to deliver quality residences and integrated projects in key cities on the mainland.

During the period under review, five projects were ready for handover on the mainland, totalling an attributable gross floor area of about three million square feet. Project details are shown in the table below. The iconic 290-metre-tall Nanjing Two IFC office tower is designated for rental purpose and began to be handed over to tenants during the period. Equipped with advanced technology to ensure a safe and clean work environment, the office tower won high praise for its superior building quality and attentive service.

Project	**Location**	**Usage**	**Group's Interest (%)**	**Attributable Gross Floor Area (square feet)**
Nanjing Two IFC	Hexi CBD, Nanjing	Office	100	1,495,000
The Woodland Phase 5A	Zhongshan 5 Road, Zhongshan	Residential/ Shops	JV	773,000
Chengdu ICC Phase 2B	Jinjiang, Chengdu	Residential	40	397,000
TODTOWN Phase 1	Minhang, Shanghai	Residential	35	214,000
Oriental Bund Phase 3A	Chancheng, Foshan	Residential	50	141,000
Total				**3,020,000**

In the second half of this financial year, an approximate 709,000 square feet of attributable gross floor area are scheduled for completion, including the exquisitely crafted apartments in Phase 2B of Shanghai Arch in Shanghai.

Property Investment

During the period under review, gross rental income derived from the mainland, including contributions from joint ventures and associates rose 15% year-on-year to RMB2,486 million. The increase was mainly driven by the recovery of the mainland economy and solid consumer spending.

With effective pandemic containment and government stimulus measures, consumer confidence has rebounded since the middle of 2020. International travel restrictions have also resulted in a spending boom in luxury goods in major mainland cities. The Group's signature shopping malls, including Shanghai IFC Mall, IAPM, and One ITC in Shanghai as well as Parc Central and IGC, the two joint-venture projects in Guangzhou, are at the forefront to capture a demand surge in luxury-end retail sales. In line with the government's dedicated initiatives to upgrade the environment in the district, Beijing APM completed a greening project in 2020 and is undergoing trade-mix enhancement. These measures will enable the mall to seize opportunities upon economic recovery. In addition to asset enhancement work, the Group continued to offer a superior shopping experience with a comprehensive range of brands through the use of digital technology, ongoing tenant-mix refinement and effective marketing strategies, including attractive loyalty programmes and the addition of pop-up stores. During the period, the Group's retail portfolio registered strong rental income growth. On the office front, the Group's office portfolio in Shanghai continued to perform satisfactorily. The premium office space at Shanghai IFC and Shanghai ICC remained popular addresses for renowned corporations. Offices in the first two phases of ITC in Shanghai were fully let. However, keen competition due to ample new supply may affect leasing performance going forward.

The Group is expanding its rental portfolio at key mainland cities for its medium- to long-term growth prospects. In Shanghai, the bulk of the Group's mega ITC project will see gradual completions by phases over the next few years. Retail space at Two ITC of about 43,000 square feet, featuring specialty restaurants, is scheduled to open in 2021. Construction of the pedestrian footbridge network linking various phases will commence in the next few months and this will significantly enhance connectivity and competitiveness of the entire development. Providing some 1.2 million square feet of grade-A office space, the 220-metre-tall premium office tower is scheduled for completion in mid 2022 and its pre-leasing activities have commenced. Construction of the remaining parts, including a world-standard shopping mall of 2.5 million square feet, another 370-metre office skyscraper of about 2.4 million square feet, and a hotel, is progressing smoothly.

Totalling an approximate gross floor area of 3.4 million square feet, Nanjing IFC in Hexi CBD, Nanjing is one of the Group's latest integrated development showcases. While Nanjing One IFC, with about 500,000 square feet of grade-A office space, has achieved a committed occupancy of about 75%, Nanjing Two IFC, providing about 1.5 million square feet of premium office space, was completed in the second half of 2020. Attributed to their sizeable floor plates and easy accessibility atop the metro station, the two towers have drawn keen interest from leading firms, and leasing activities are progressing smoothly. The remaining components of this project, Nanjing IFC Mall and a luxury hotel, Andaz Nanjing, are still being built. The luxury shopping mall comprising one million square feet is expected to open in 2022. It will house a wide range of luxury brands and a great variety of cuisine, including al fresco dining. Preliminary leasing responses have been encouraging.

Foundation work of the Group's Qingsheng project in Nansha, Guangzhou has commenced and the connectivity of the development will be further enhanced with the upgrade of the regional railway network proposed by the National Development and Reform Commission in 2020. Consisting of two adjacent sites located at the intersection of the Qiantang River and Beijing-Hangzhou Grand Canal, the Jianghehui project in Hangzhou will provide a total above-ground gross floor area of about nine million square feet. This mega joint-venture project will offer high-quality space for business, working and living, forming a landmark and adding a new look to Hangzhou's urban landscape. Construction work of the development has commenced. Upon completion of all medium- to long-term projects, the Group's recurrent income on the mainland is expected to rise substantially from the current levels.

Other Businesses

Hotels

The Group's hotel portfolio in Hong Kong was inevitably affected by the COVID-19 pandemic with its occupancy and revenue per available room having fallen significantly. To mitigate negative impacts from the pandemic, the management team has initiated a series of measures, including launching creative promotional campaigns as well as sales and marketing programmes targeted towards long-staying customers. The operational efficiencies of the hotels were further enhanced, and stricter sanitizing measures have been introduced to help protect hotel guests and employees.

Performance at Ritz-Carlton Shanghai, Pudong saw a modest improvement, although it has been affected by fluctuations of the pandemic. As part of the Nanjing IFC integrated development, the first phase of Andaz Nanjing is scheduled to open in 2022. The development of Four Seasons Hotel Suzhou, complementary to the adjacent Lake Genève on the bank of Jinji Lake, is also proceeding well and is expected to open in two years.

Telecommunications and Information Technology

SmarTone

COVID-19 has continued to negatively affect the mobile industry in Hong Kong. The biggest impact comes from the near stoppage of international travel, which impacts both inbound and outbound roaming revenues. To address such challenges, SmarTone undertook a series of initiatives, including new services and solutions such as enterprise solutions and 5G Home broadband to boost revenues, as well as cost optimization measures. All these initiatives have helped minimize the impact of such external factors on SmarTone's profitability. SmarTone's 5G launch has so far been a success, as customer demand for such services has been strong. SmarTone has also used its expertise to support the Group in piloting initiatives to enhance operational efficiency and customer experience, leveraging 5G and AI analytics. These include solutions that enable better security at Route 3 (CPS) as well as various 'Smart Malls' initiatives that improve shopper experience.

The company is investing to ensure its network is the best in Hong Kong in terms of quality and coverage. Its 5G network now covers over 95% of Hong Kong's population and has been extended to a majority of country parks and hiking trails in the territory. SmarTone believes 5G is the essential infrastructure for Hong Kong's drive to become a 'smart city', and for its further integration with the Greater Bay Area. The company is proud to play its part in building Hong Kong's digital infrastructure and helping Hong Kong to be a leading 5G-enabled city by investing in a world-class 5G network for the city. The Group remains confident of SmarTone's prospects and will continue to hold the company as a long-term investment.

SUNeVision

During the period under review, SUNeVision continued to see strong business growth, driven by demand from both existing and new customers. The pandemic has reinforced the need for data communications for businesses and consumers. Demand for higher quality data centres has also grown with the accelerating usage of 5G. These developments fit well with SUNeVision's strengths. To meet these business needs, SUNeVision has upgraded its existing facilities and has enhanced its power provision at MEGA-i and MEGA Two. The company also has a robust pipeline, and will double its capacity from the current 1.4 million square feet to 2.8 million square feet over the next few years. The first phase of the new Tseung Kwan O data centre is scheduled for completion in 2022. This facility is being built on a dedicated data centre land, and will be a state-of-the-art data centre with superior infrastructure and power capacity. The new Tsuen Wan data centre, another green-field facility, will also be ready for operation in 2022. These two projects will substantially increase SUNeVision's capacity to serve large cloud service providers and data intensive customers. The company is also investing to attain high standards in Environmental, Health and Safety (EHS), to provide a safe, healthy and sustainable environment for its customers and staff. The Group has strong confidence in SUNeVision's capabilities and will support its further robust growth.

Infrastructure and Other Businesses

During the period under review, the Group's infrastructure and transport businesses reported mixed performance amidst the COVID-19 pandemic. Wilson Group's business remained steady despite the pandemic situation, thanks to new projects and cost optimization initiatives. Traffic at Route 3 (CPS) has been impacted by less commuting and social distancing. Business at the Hong Kong Business Aviation Centre has been negatively affected by substantially reduced air travel, but its financial position remained healthy thanks to the implementation of cost mitigating measures. Airport Freight Forwarding Centre performed well. The River Trade Terminal, through a diversification of its customer base, also maintained a steady performance amidst the challenging environment.

YATA delivered strong sales growth, especially with its supermarket business. With its strength in offering high-quality products, YATA caters to increasingly health-conscious customers amid COVID-19. The company also focuses on sourcing unique merchandise from different parts of Japan to meet a growing demand for diversified products. In addition, YATA started to experiment with new formats such as a convenience store at ALVA Hotel by Royal in Sha Tin. YATA's priority is to enhance customers' shopping, home-cooking and eating experience as it continues to grow its footprint and product range.

Corporate Finance

The Group continues to comply with the principle of prudent financial management, which enables it to maintain sustainable business development amid an uncertain economic environment. Given its low net gearing ratio, healthy interest coverage, balanced debt maturity profile and abundant liquidity, the Group has been able to maintain a strong financial position.

The Group remains one of the best-rated developers in Hong Kong. Moody's and Standard & Poor's have affirmed the Group's A1 and A+ ratings respectively with stable outlooks. To further diversify its debt maturities, the Group issued a total of HK$780 million 7-year bonds during the period. The Group additionally issued HK$710 million 7-year bonds and CNH300 million 7-year bonds in January 2021 to capitalize on the active private placement market. The latest measures undertaken by the mainland regulatory bodies to curb systemic risks in the property sector should help promote the healthy development of the real estate industry in the long term. Amid the changes in the regulatory backdrop, the Group has continued to receive strong support from banks in providing Renminbi financing for both the construction and operations of mainland projects.

The Group has not entered into any derivative or structured product transactions for speculative purposes. The Group has limited exposure to foreign exchange risk on debt financing, with the vast majority of its borrowings denominated in Hong Kong dollars and the remaining mostly in US dollars and Renminbi.

Corporate Governance

The Group is committed to upholding high standards of corporate governance for the sustainable development of its businesses.

The Board, currently consisting of 18 members with eight Independent Non-Executive Directors (INEDs), directs and approves the Group's overall strategies. The Board has delegated specific roles and responsibilities to Board Committees. The Executive Committee is responsible for making key business decisions and overseeing the Group's daily business operations. The Remuneration, the Nomination, and the Audit and Risk Management Committees are all chaired by INEDs, with all members being non-executive directors, in order to ensure good corporate governance.

Additionally, the Group's crisis management taskforce, set up in the previous financial year, continued to play an important role in managing major issues. Under the leadership of the two Deputy Managing Directors, the taskforce enables the Group to make prompt decisions and take proactive response to challenges. It currently focuses on dealing with business and health-related issues posed by the pandemic.

The Group's dedication to corporate governance and creating long-term value for all stakeholders has been recognized by internationally renowned financial publications over the years. During the period under review, the Group won the top regional award, Asia Pacific's Best Overall Developer, in the Real Estate Survey 2020 by *Euromoney*, and was chosen as the Most Outstanding Company in Hong Kong – Real Estate Sector in the Asia's Outstanding Companies Poll 2020, organized by *Asiamoney*.

Sustainable Development

Amid continuing challenges posed by the COVID-19 pandemic, the Group worked relentlessly to maintain effective operations and provide quality products and services, minimizing impact on business partners, tenants, customers and staff. To ensure long-term sustainable business growth and value creation for stakeholders, the Group has embarked on further enhancing its environmental, social and governance performance and disclosure practices. Latest efforts include establishing a new 10-year energy reduction target and updating its sustainability-related policies to strengthen operational governance. The Group will also reinforce its commitment to the environment and other key areas with measures that include, among other things, setting performance targets and stepping up communications with major stakeholders to enhance transparency.

In addition to ensuring an environment with peace of mind for residents and tenants, the Group extended all-round support to its employees. Staff were offered timely free COVID tests at headquarters, and more stringent test and quarantine guidelines have been implemented at construction sites to safeguard the health of workers. Comprehensive protective equipment such as face shields and goggles as well as rapid tests were also provided for frontline property management employees to reduce the risk of infection. Continuous training and professional development are essential to ensuring a more agile and responsive workforce that not only responds swiftly to the immediate challenges under the pandemic but also becomes more capable, helping the Group capture new opportunities. During the period, the SHKP Club elevated member engagement to interactive online platforms, maintaining bonding and two-way communication with customers amid the pandemic.

In keeping with its Building Homes with Heart spirit, the Group spread care to the needy through working with different social welfare organizations on anti-pandemic support projects, in which SHKP volunteers distributed essential supplies and anti-pandemic items to underprivileged families and elderly residents while offering emotional support. Meanwhile, the Group continued to promote sports for charity and happy reading among youths through creative online initiatives, encouraging positive living and continuous learning amidst social distancing measures and suspension of classes. The period also saw the Group sponsoring the 2020 Greater Bay Area Youth Cycling League in Guangzhou to promote youth exchanges in the Area.

Reflecting its commitment to green building development and management, the Group was named the Best Innovative Green Development Developer in *Euromoney*'s Real Estate Survey 2020, covering Global, Asia Pacific, the Mainland and Hong Kong. In addition to previously attaining the BEAM Plus Existing Buildings V2.0 Platinum Certificate, the Group's ICC set another remarkable environmental standard as the first building in Hong Kong to obtain the highest honour under BREEAM In-Use International, a green building assessment method by the renowned British Research Establishment. Environmentally friendly specifications and measures to reduce energy consumption and carbon emissions have been applied in a substantial majority of the Group's existing shopping malls and office buildings, earning widespread industry recognition. The Group will continue to strive to achieve leading green building standards and certifications for its future development projects.

PROSPECTS

Global business confidence is likely to gradually improve following the increasing uptake of COVID-19 vaccinations in most developed countries. This, together with ongoing fiscal stimuli and accommodative monetary policies introduced by various governments, is expected to help revive the world economy going forward. Despite the rising optimism, existing challenges and uncertainties, including the volatile Sino-US relations and geopolitical landscape, may slow the anticipated global economic recovery.

The mainland economy is expected to remain a bright spot in growth prospects thanks to the Central Government's effective containment of the pandemic which led to the subsequent recovery of economic activities. With its dual circulation development mode emphasizing both domestic and international demand, the mainland economy will continue to grow at a relatively fast pace. Accelerating technological advancement will also facilitate its economic expansion. Coupled with further economic reforms and opening-up of the market, the mainland property market is expected to progress at a steady and healthy pace against a solid backdrop.

However, various domestic and external challenges will continue to weigh on the economy of Hong Kong in the short term. The operating environment for selected industries such as tourism-related sectors remains tough, while tight border controls with the mainland amid COVID-19 infections in the territory present a key obstacle for near-term economic recovery. Nonetheless, Hong Kong is well positioned under the principle of 'One Country, Two Systems' to take advantage of the continuous growth of the Greater Bay Area and the anticipated recovery in global economic prospects. Coupled with the city's time-tested economic resilience, hard-working ethic, cultural diversity and world-standard business practices, Hong Kong will remain a premier financial, trade and business hub for both the mainland and the world, and sees a promising future in the long run. The anticipated recovery will also provide a positive landscape for the long-term development of Hong Kong's property market.

As always, with its unwavering confidence in the future, the Group is committed to investing in Hong Kong and the mainland. Over the next two to three years, the extension of YOHO Mall in Yuen Long and an office-cum-retail project in Kowloon East will be completed in Hong Kong. On the mainland, the Group will continue to gradually expand its strong foothold in prime locations in key cities. Rental contributions from the two office buildings at Nanjing IFC are expected to pick up over time. The Group's completed properties for investment will be further expanded from currently about 15 million square feet to over 25 million square feet in the next four years, significantly strengthening the recurrent income base from the mainland. These include Nanjing IFC Mall and the hotel Andaz Nanjing, which are scheduled for opening from 2022, as well as the office towers of the remaining phase at ITC in Shanghai, which are planned for completion in 2024. Over the medium to long term, the Group's portfolio for property investment will be further expanded with the development of the landmark integrated project atop the High Speed Rail Terminus in Hong Kong as well as the Jianghehui joint-venture project in Hangzhou. These will support the Group's long-term rental income growth both in Hong Kong and on the mainland.

Over the short term, lease renewals remain challenging for the Group's rental portfolio in Hong Kong and rents continue to see downward pressure. Shopping mall business will continue to be affected until the travel restrictions with the mainland are removed. Hotel business is likely to remain tough as long as cross-border global travel is restricted. Against this scenario, the Group believes that a customer-centric strategy is the best way to embrace market changes and challenges. The management and its team will stay agile to respond to changing customer needs. Apart from offering peace of mind for customers and the community by raising hygiene standards in its premises, including increasing natural air ventilation, the Group will keep up its efforts to enhance the competitiveness of its portfolio of completed properties for investment. Wider application of smart technology such as 5G and Internet of Things (IoT) to strengthen digital platforms, including the SHKP Malls App, combined with greater collaboration with tenants and other business units of the Group, will help deliver better service to customers and tenants.

Solid end-user demand, an extremely low interest rate environment and a buoyant equity market will underpin the residential market in Hong Kong, despite the likelihood of the fluctuating local COVID-19 situation in the coming months. Over the next 10 months, the Group plans to launch a number of projects for sale in Hong Kong, though their sale schedules and performance may be uncertain and contingent upon the epidemic situation. These projects will include Prince Central in Ho Man Tin, the second phases of Victoria Harbour in North Point and Regency Bay in Tuen Mun, as well as the first phases of residential projects, including St Michel in Sha Tin, Yuen Long Station Development and a large-scale project near Hong Kong Wetland Park. An industrial building in Tsuen Wan will also be scheduled for sale. On the mainland, the Group will put several projects on the market, including a new phase of the wholly-owned Grand Waterfront in Dongguan, and new batches of joint-venture projects such as Oriental Bund in Foshan and The Woodland in Zhongshan.

Established for over half a century, the Group has weathered many crises and cycles together with Hong Kong and is adept at turning challenges into opportunities. The Group remains confident in the long-term economic prospects of Hong Kong and the mainland and will continue to acquire land for development when good opportunities arise. With its trusted brand and strong fundamentals, including a forward-looking, experienced management team and a solid financial position, the Group believes it will overcome this unprecedented challenge and become a stronger, increasingly resilient and competitive company, creating long-term value for all stakeholders.

APPRECIATION

I would like to take this opportunity to express my sincere gratitude to all staff for their commitment, diligence and contribution, particularly in ensuring the Group's effective operations and providing quality customer services throughout this challenging period. I would also like to thank 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, 25 February 2021

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 2020 with comparative figures for 2019:-

Consolidated Income Statement
For the six months ended 31 December 2020
(Expressed in millions of Hong Kong dollars)

	Notes	(Unaudited) Six months ended 31 December **2020**	2019
Revenue	2	**46,070**	38,711
Cost of sales		**(21,569)**	(19,106)
Gross profit		**24,501**	19,605
Other net income		**627**	351
Selling and marketing expenses		**(2,829)**	(2,358)
Administrative expenses		**(1,276)**	(1,446)
Operating profit	2	**21,023**	16,152
Change in fair value of investment properties		**(3,240)**	2,500
Finance costs		**(1,172)**	(1,302)
Finance income		**155**	214
Net finance costs	3	**(1,017)**	(1,088)
Share of results of:			
Associates		**674**	188
Joint ventures		**675**	1,574
	2	**1,349**	1,762
Profit before taxation	4	**18,115**	19,326
Taxation	5	**(4,140)**	(3,388)
Profit for the period		**13,975**	15,938
Profit for the period attributable to:			
Company's shareholders		**13,578**	15,419
Perpetual capital securities holders		**66**	85
Non-controlling interests		**331**	434
		13,975	15,938
(Expressed in Hong Kong dollars)			
Earnings per share based on profit attributable to the Company's shareholders (reported earnings per share)	6(a)		
Basic		**$4.69**	$5.32
Diluted		**$4.69**	$5.32
Earnings per share excluding the effects of change in fair value of investment properties net of deferred tax (underlying earnings per share)	6(b)		
Basic		**$6.03**	$4.63
Diluted		**$6.03**	$4.63

Consolidated Statement of Comprehensive Income
For the six months ended 31 December 2020

(Expressed in millions of Hong Kong dollars)

	(Unaudited) Six months ended 31 December	
	2020	2019
Profit for the period	**13,975**	15,938
Items that may be reclassified subsequently to profit or loss:		
Translation difference on foreign operations	**6,883**	(1,336)
Cash flow hedge		
- fair value (losses)/gains recognized directly in reserves during the period	**(231)**	85
- fair value gains transferred to consolidated income statement	**(9)**	(16)
	(240)	69
Debt securities at fair value through other comprehensive income		
- fair value gains recognized directly in reserves during the period	**3**	-
Share of other comprehensive income/(loss) of associates and joint ventures	**2,070**	(197)
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	**(66)**	(83)
Share of other comprehensive income of an associate	**145**	144
Other comprehensive income/(loss) for the period	**8,795**	(1,403)
Total comprehensive income for the period	**22,770**	14,535
Total comprehensive income for the period attributable to:		
Company's shareholders	**22,177**	14,056
Perpetual capital securities holders	**66**	85
Non-controlling interests	**527**	394
	22,770	14,535

Consolidated Statement of Financial Position
As at 31 December 2020
(Expressed in millions of Hong Kong dollars)

	Notes	**(Unaudited) 31 December 2020**	(Audited) 30 June 2020
Non-current assets			
Investment properties	8	**388,315**	380,717
Property, plant and equipment		**42,221**	40,825
Associates		**7,032**	6,306
Joint ventures		**94,084**	72,476
Financial investments		**3,065**	2,603
Intangible assets		**4,003**	4,288
Other non-current assets		**6,329**	6,954
		545,049	514,169
Current assets			
Properties for sale		**193,182**	196,153
Inventories		**422**	367
Trade and other receivables	9	**16,156**	17,029
Financial investments		**1,178**	824
Bank deposits and cash		**23,502**	31,705
Assets of subsidiaries contracted for sale	10	**-**	37,584
		234,440	283,662
Current liabilities			
Bank and other borrowings		**(18,748)**	(26,375)
Trade and other payables	11	**(30,049)**	(36,851)
Deposits received on sales of properties		**(14,208)**	(21,462)
Current tax payable		**(13,080)**	(12,654)
		(76,085)	(97,342)
Net current assets		**158,355**	186,320
Total assets less current liabilities		**703,404**	700,489
Non-current liabilities			
Bank and other borrowings		**(88,709)**	(86,231)
Deferred tax liabilities		**(24,484)**	(22,638)
Other non-current liabilities		**(1,290)**	(1,205)
		(114,483)	(110,074)
NET ASSETS		**588,921**	590,415
CAPITAL AND RESERVES			
Share capital		**70,703**	70,703
Reserves		**512,583**	501,110
Shareholders' equity		**583,286**	571,813
Perpetual capital securities	12	**-**	3,813
Non-controlling interests		**5,635**	14,789
TOTAL EQUITY		**588,921**	590,415

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 and the applicable disclosure provisions 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 2020 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 2020 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 the preparation of these interim financial statements are consistent with those applied in the consolidated financial statements for the year ended 30 June 2020. The Group has adopted a number of amendments to Hong Kong Financial Reporting Standards that are effective for the first time for this interim period. None of these amendments had a material impact on the Group's financial statements.

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

2. Segment Information

Segment revenue and results are measured without allocation of central administration costs, other net income, net finance costs and change 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 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	23,374	10,449	59	35	23,433	10,484
Mainland China	1,590	891	1,885	991	3,475	1,882
	24,964	11,340	1,944	1,026	26,908	12,366
Property rental						
Hong Kong	7,736	5,754	1,445	1,169	9,181	6,923
Mainland China	2,454	2,024	412	289	2,866	2,313
Singapore	-	-	314	260	314	260
	10,190	7,778	2,171	1,718	12,361	9,496
Hotel operations	1,030	(202)	183	(26)	1,213	(228)
Telecommunications	3,244	380	-	-	3,244	380
Transport infrastructure and logistics	1,868	612	1,523	235	3,391	847
Data centre operations	923	471	-	-	923	471
Other businesses	3,851	799	342	36	4,193	835
Segment total	46,070	21,178	6,163	2,989	52,233	24,167
Other net income		627		-		627
Unallocated administrative expenses		(782)		-		(782)
Operating profit		21,023		2,989		24,012
Change in fair value of investment properties						
Hong Kong		(3,258)		(164)		(3,422)
Mainland China		18		37		55
Singapore		-		(492)		(492)
		(3,240)		(619)		(3,859)
Net finance costs		(1,017)		(180)		(1,197)
Profit before taxation		16,766		2,190		18,956
Taxation						
- Group		(4,140)		-		(4,140)
- Associates		-		14		14
- Joint ventures		-		(855)		(855)
Profit for the period		12,626		1,349		13,975

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
Segment total	38,711	16,610	5,533	2,385	44,244	18,995
Other net income		351		-		351
Unallocated administrative expenses		(809)		-		(809)
Operating profit		16,152		2,385		18,537
Change 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
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

As of 31 December 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$34,563 million (30 June 2020: HK$46,405 million). This represents the aggregate amount of revenue expected to be recognized by the Group in the future, of which approximately 80% (30 June 2020: 73%) 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$458 million (2019: HK$555 million) and HK$52 million (2019: HK$89 million) that relate to pre-sale of property projects under construction 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.

3. Net Finance Costs

	Six months ended 31 December	
	2020	2019
Interest expenses	**1,500**	1,643
Notional non-cash interest accretion	**9**	7
Finance costs on lease liabilities	**22**	27
Less: Amount capitalized	**(359)**	(375)
	1,172	1,302
Interest income on bank deposits	**(155)**	(214)
	1,017	1,088

4. Profit before Taxation

	Six months ended 31 December	
	2020	2019
Profit before taxation is arrived at after charging:		
Cost of properties sold	**11,674**	7,515
Cost of other inventories sold	**1,822**	2,470
Depreciation of property, plant and equipment	**1,459**	1,394
Amortization of		
Intangible assets (included in cost of sales)	**287**	273
Contract acquisition costs	**1,119**	427
Impairment of intangible assets	**1**	1
Lease expenses		
Short-term leases	**227**	232
Low-value assets leases	**-**	1
Variable lease payments	**78**	122
Staff costs (including directors' emoluments and retirement schemes contributions)	**3,905**	4,351
Share-based payments	**13**	13
Loss on disposal of financial assets at fair value through profit or loss	**-**	2
and crediting:		
Dividend income from equity securities	**57**	73
Interest income from financial investments	**39**	42
Profit on disposal of financial assets at fair value through profit or loss	**43**	-
Fair value gains on financial assets at fair value through profit or loss	**203**	14

5. Taxation

	Six months ended 31 December	
	2020	2019
Current tax expenses		
Hong Kong profits tax	**2,714**	2,117
(Over)/under provision in prior years	**(18)**	4
	2,696	2,121
Tax outside Hong Kong	**1,168**	476
Over provision in prior years	**-**	(1)
	1,168	475
Total current tax	**3,864**	2,596
Deferred tax expenses		
Change in fair value of investment properties	**(29)**	549
Other origination and reversal of temporary differences	**305**	243
Total deferred tax	**276**	792
Total income tax expenses	**4,140**	3,388

Hong Kong profits tax is provided at the rate of 16.5% (2019: 16.5%) based on the estimated assessable profits for the period. Tax outside Hong Kong, which includes withholding tax on income distribution, is calculated at the rates applicable in the relevant jurisdictions.

6. Earnings per Share

(a) Reported earnings per share

The calculations of basic and diluted earnings per share are based on the Group's profit for the period attributable to the Company's shareholders of HK$13,578 million (2019: HK$15,419 million).

The basic earnings per share is based on the weighted average number of shares in issue during the interim period of 2,897,780,274 (2019: 2,897,776,051) shares. No diluted earnings per share for the six months ended 31 December 2020 is presented as there are no potential ordinary shares. The diluted earnings per share for the six month ended 31 December 2019 is based on 2,897,776,911 shares which is the weighted average number of shares in issue during the period plus the weighted average number of 860 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 for the period attributable to the Company's shareholders of HK$17,482 million (2019: HK$13,422 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	
	2020	2019
Profit attributable to the Company's shareholders as shown in the consolidated income statement	**13,578**	15,419
Decrease/(increase) in fair value of investment properties		
Subsidiaries	**3,240**	(2,500)
Associates	**(405)**	(28)
Joint ventures	**1,024**	(149)
Effect of corresponding deferred tax expenses		
Subsidiaries	**(29)**	549
Joint ventures	**15**	46
Non-controlling interests	**(12)**	36
Unrealized fair value losses/(gains) of investment properties net of deferred tax	**3,833**	(2,046)
Fair value gains realized on disposal of investment properties net of deferred tax	**71**	49
Net effect of changes in fair value of investment properties	**3,904**	(1,997)
Underlying profit attributable to the Company's shareholders	**17,482**	13,422

7. Dividends

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

	Six months ended 31 December	
	2020	2019
Interim dividend declared after the interim period of HK$1.25 (2019: 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	
	2020	2019
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of HK$3.70 (2019: HK$3.70) per share	**10,722**	10,722

8. Investment Properties

(a) Movement during the period

	Completed	Under development	Total
Valuation			
At 1 July 2020	**322,434**	**58,283**	**380,717**
Additions	**556**	**2,140**	**2,696**
Transfer upon completion	**2,799**	**(2,799)**	**-**
Disposals	**(71)**	**-**	**(71)**
Transfer to property, plant and equipment	**(257)**	**-**	**(257)**
Exchange difference	**5,549**	**2,921**	**8,470**
(Decrease)/increase in fair value	**(3,611)**	**371**	**(3,240)**
At 31 December 2020	**327,399**	**60,916**	**388,315**

(b) The Group's investment properties were revalued at their fair values at 31 December 2020 and 30 June 2020 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		**Weighted average capitalization rate**	
	31 December 2020	30 June 2020	**31 December 2020**	30 June 2020
Completed				
Hong Kong	**258,813**	259,103	**5.1%**	5.1%
Mainland China	**68,586**	63,331	**6.6%**	6.6%
	327,399	322,434		

	Fair value (residual method)		**Capitalization rate**	
	31 December 2020	30 June 2020	**31 December 2020**	30 June 2020
Under development				
Hong Kong	**23,325**	25,319	**3.0%-5.5%**	3.0%-5.5%
Mainland China	**37,591**	32,964	**5.0%-8.8%**	5.0%-8.8%
	60,916	58,283		

9. Trade and Other Receivables

Included in trade and other receivables of the Group are trade receivables of HK$3,105 million (30 June 2020: HK$3,343 million), of which 56% are aged less than 30 days, 17% between 31 to 60 days, 4% between 61 to 90 days and 23% more than 90 days (30 June 2020: 65%, 14%, 5% and 16% respectively).

10. Assets of Subsidiaries Contracted for Sale

	31 December 2020	30 June 2020
Investment property under development	**-**	37,584

Assets of subsidiaries contracted for sale at 30 June 2020 relate to the office portion of the proposed investment property development on the site located atop the High Speed Rail West Kowloon Terminus held by the Company's 75% owned subsidiary Vivid Synergy Limited and was stated at fair value determined by an independent valuer. In April 2020, the Group contracted with a third party to sell a 25% interest in Vivid Synergy Limited for a consideration of HK$9,394 million. The sale was completed in July 2020. Accordingly, Vivid Synergy Limited ceased to be a subsidiary of the Company and the Company's remaining 50% equity interest is accounted for as interest in joint venture in the consolidated financial statements.

11. Trade and Other Payables

Included in trade and other payables of the Group are trade payables of HK$2,863 million (30 June 2020: HK$2,809 million), of which 64% are aged less than 30 days, 10% between 31 to 60 days, 2% between 61 to 90 days and 24% more than 90 days (30 June 2020: 58%, 10%, 5% and 27% respectively).

12. Perpetual Capital Securities

These securities were issued in 2017 with no fixed maturity and are redeemable at the Group's option on or after 23 May 2020. Distributions are payable semi-annually in arrears at a fixed rate of 4.45 per cent per annum, which may be deferred at the Group's discretion. Therefore, perpetual capital securities are classified as equity instruments and distributions are treated as dividends.

During the period, the Group exercised its option and redeemed on 23 November 2020 all of the outstanding perpetual capital securities at their outstanding principal amount of US$487.5 million. There are no further securities in issue upon completion of the redemption.

FINANCIAL REVIEW

Review of Operating Results

Underlying profit attributable to the Company's shareholders excluding fair value changes on investment properties was HK$17,482 million for the six months ended 31 December 2020, which was HK$4,060 million or 30% higher than the HK$13,422 million reported for the same period last year. The increase was mainly attributable to the increase in property development profit both in Honk Kong and Mainland China.

A net fair value loss (net of deferred taxation and non-controlling interest) of HK$3,833 million on revaluation of investment properties (including investment properties held by joint ventures and associates) was recognized for the period as compared to the net fair value gain of HK$2,046 million recognized for the same period a year ago. The revaluation loss was primarily due to lower estimated market rents applied at 31 December 2020 in determining the fair value by the independent external valuer, with no material changes in the capitalization rates used. The majority of the revaluation deficit was attributable to the retail portfolio in Hong Kong due to the impact of the COVID-19 pandemic, while the Mainland China portfolio remained resilient.

After incorporating the net revaluation loss on investment properties, profit attributable to the Company's shareholders was HK$13,578 million for the six months ended 31 December 2020, representing a decrease of HK$1,841 million or 12% compared to HK$15,419 million for the corresponding period last year.

Aggregate revenue of the Group's business segments (including share of joint ventures and associates) for the six months ended 31 December 2020 was HK$52,233 million (2019: HK$44,244 million). Total operating profit from all business segments (including share of joint ventures and associates) was HK$24,167 million (2019: HK$18,995 million), increased by HK$5,172 million or 27% over the same period last year.

Revenue from property sales (including share of joint ventures) for the six months ended 31 December 2020 was HK$26,908 million (2019: HK$16,208 million), comprising revenue of HK$23,433 million from Hong Kong (2019: HK$14,678 million) and HK$3,475 million from the Mainland China (2019: HK$1,530 million). The significant increase in property sales revenue compared to the corresponding period last year was primarily due to higher volume of residential units delivered as the majority of the current financial year's residential development projects were completed in the first half of the year. Profit from property sales, inclusive of share of joint ventures, was HK$12,366 million (2019: HK$6,850 million), increased by HK$5,516 million. Profit from Hong Kong property sales was HK$10,484 million, increased by HK$4,149 million over the same period last year, primarily attributable to the sales of residential units in Cullinan West III, St Martin Phase 2, Mount Regency Phase 2, as well as W LUXE office units. Profit from property sales on the Mainland increased by HK$1,367 million to HK$1,882 million, primarily from sale of residential units in Forest Hills, The Woodland Phase 5A, Park Royale Phase 2B, Oriental Bund and TODTOWN Phase 1. As at 31 December 2020, contracted property sales attributable to the Group (including share of joint ventures) not yet recognized amounted to HK$37.5 billion, comprising HK$26.7 billion in Hong Kong and HK$10.8 billion on the Mainland, of which approximately

HK$15 billion is expected to be recognized in the second half of the current financial year and HK$14 billion in the next financial year.

Rental revenue of the Group for the first half of the financial year, including share of joint ventures and associates, was HK$12,361 million, dropped by 3% compared with the same period last year. Net rental income of the Group, including contributions of joint ventures and associates, decreased by 2% to HK$9,496 million. While both the Mainland and Hong Kong portfolios were affected by the COVID-19, the Mainland portfolio, especially the retail portfolio, recorded a respectable recovery starting from the second quarter of 2020 as the pandemic was better contained and consumer confidence returned. Rental revenue of the Group's Mainland portfolio achieved a remarkable growth of 19% year-on-year to HK$2,866 million, while net rental income increased by 24% to HK$2,313 million. The Group's leasing business in Hong Kong is inevitably affected by the faltering economy caused by the pandemic. Rental revenue of Group's Hong Kong portfolio fell by 8% year-on-year to HK$9,181 million, and net rental income decreased by 8% to HK$6,923 million. The decrease was largely attributable to the retail portfolio as a result of negative rental reversions and rental concessions granted, while the office portfolio recorded a moderate rental growth compared with the same period last year. The Group has continued offering rent relief to selective retail tenants on certain retail malls in Hong Kong, with a total amount of HK$370 million rental concessions having been granted during the period. The impact of these rental concessions were fully recognized in the first half of the financial year.

Hotel operations (including share of joint ventures) suffered a loss of HK$228 million (after depreciation charge of HK$330 million) as compared with the profit of HK$197 million for the same period last year, due to impact of the COVID-19 which squashed the demand for hotel rooms and catering services. New revenue initiatives and cost savings measures were undertaken to manage through the pandemic crisis.

SmarTone reported an operating profit of HK$380 million for the period compared with HK$359 million for the same period last year. The improvement was driven by initiatives undertaken to boost revenues and effective cost optimization measures despite the decline in roaming revenue amid the COVID-19 pandemic.

Operating profit from transport infrastructure and logistics businesses (including share of joint ventures and associates) decreased by 2% to HK$847 million. The decrease was largely attributable to lower profit contribution from the Group's toll road and business aviation centre operations due to the impact of the COVID-19 pandemic, while performance of Wilson's Group business and the Airport freight Forwarding Centre remained stable.

SUNeVision achieved a strong growth of 20% in operating profit to HK$471 million over the same period last year, driven by continuous demand for data centre services from both existing and new customers.

The Group's other businesses (including share of joint ventures and associates), mainly comprising property management, department store operations and financial services continued to perform well with operating profit increased by 27% to HK$835 million. YATA has seen strong sales growth especially with its supermarket business.

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$583.3 billion or HK$201.3 per share as at 31 December 2020 compared with HK$571.8 billion as at 30 June 2020, an increase of HK$11.5 billion. The increase was primarily driven by the net profit attributable to the shareholders of HK$13.6 billion and foreign exchange gain of HK$8.7 billion on translation of financial statements of foreign operations, as reduced by dividends paid of HK$10.7 billion.

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 31 December 2020, calculated on the basis of net debt to shareholders' equity of the Company, was 14.4% compared to 14.1% as at 30 June 2020. Interest coverage was 15.3 times, measured by the ratio of operating profit to total net interest expenses including those capitalized for the current period.

As at 31 December 2020, the Group's gross borrowings totalled HK$107,457 million. Net debt, after deducting bank deposits and cash of HK$23,502 million, amounted to HK$83,955 million, representing an increase of HK$3,054 million since 30 June 2020. The maturity profile of the Group's gross borrowings is set out as follows:

	31 December 2020 ***HK$ Million***	30 June 2020 *HK$ Million*
Repayable:		
Within one year	**18,748**	26,375
After one year but within two years	**22,767**	15,559
After two years but within five years	**33,476**	41,917
After five years	**32,466**	28,755
Total bank and other borrowings	**107,457**	112,606
Bank deposits and cash	**23,502**	31,705
Net debt	**83,955**	80,901

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 2020, about 73% of the Group's bank and other borrowings were raised through its wholly-owned finance subsidiaries and the remaining 27% 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 dollar, 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 2020, about 72% of the Group's total borrowings were denominated in Hong Kong dollar (after cross currency interest rate swaps) and 9% in US dollar, which were raised for financing the Group's business operations in Hong Kong while the remaining 19% 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 2020, approximately 18% of the Group's net assets were denominated in Renminbi. Following the Renminbi's appreciation by 8.8% against the Hong Kong dollar as of the reporting date compared with 30 June 2020, the conversion of these net assets into Hong Kong dollar resulted in a translation gain of HK$8.5 billion recognized in the exchange reserve.

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 2020, about 54% 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 46% were on fixed rate basis.

As at 31 December 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$21,341 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 2020, about 23% of the Group's bank deposits and cash were denominated in Hong Kong dollar, 64% in Renminbi, and 13% in US dollar. The Renminbi deposits were mostly held by the Mainland subsidiaries for meeting the funding needs of their Mainland projects.

Charges of Assets

As at 31 December 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$1,313 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 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$2,361 million (30 June 2020: HK$2,437 million).

EMOLUMENT POLICY AND LONG-TERM INCENTIVE SCHEMES OF THE GROUP

As at 31 December 2020, the Group employed more than 39,500 employees. The related employees' costs before reimbursements for the six months ended 31 December 2020 amounted to approximately HK$5,762 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.

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 (2019: HK$1.25 per share) for the six months ended 31 December 2020 to the shareholders of the Company (the "Shareholders") whose names appear on the register of members of the Company on Friday, 12 March 2021. The interim dividend will be payable in cash on Thursday, 18 March 2021. Shares of the Company will be traded ex-dividend as from Wednesday, 10 March 2021.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed on Friday, 12 March 2021, 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, 11 March 2021.

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 2020.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the six months ended 31 December 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 two Non-Executive Directors and eight 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 2020 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 2020/21 interim report. The interim results have also been reviewed by the Audit and Risk Management Committee of the Company.

INTERIM REPORT

The 2020/21 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 2021.

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

Hong Kong, 25 February 2021

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; two Non-Executive Directors, being KWAN Cheuk-yin, William and KWOK Kai-chun, Geoffrey; and eight 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 KO May-yee, Margaret, FAN Hung-ling, Henry and WU Xiang-dong.