

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



WHARF

Established 1886

WHARF REAL ESTATE INVESTMENT COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1997

2019 Final Results Announcement

Virus outbreak steepens the economy slide

HIGHLIGHTS

- After the rewarding 30 plus percent sales surge culminated in Harbour City's record year 2018 (as compared to 2016/17), 2019 sales decreased by 23%.
- The turnover rent income component drastically dropped by 49% in the third quarter and 78% in the fourth quarter. Fourth quarter Harbour City retail rental income decreased by 12%.
- Virus outbreak has steepened the retail demand drop. The first quarter 2020 performance would be noticeably affected also by the material rent relief measures and marketing aid programmes granted.
- 2019 Group revenue & underlying profit both decreased by 3% thanks to the good first half profit results and first half sales. The office rental's modest single digit growth helped slightly to buffer the declining retail rental (being more than 60% weighting to total rentals).
- Attributable profit decreased by 78% or HK\$14.1 billion due to investment property revaluation (deficit of HK\$5.7 billion in 2019 vs. surplus of HK\$8.0 billion in 2018).
- Total dividend for the year decreased by 3% accordingly per distribution policy.

GROUP RESULTS

Group underlying net profit for the year decreased by 3% to HK\$9,791 million (2018: HK\$10,053 million), equivalent to HK\$3.23 (2018: HK\$3.31) per share.

With investment property revaluation deficit of HK\$5,742 million (2018: surplus of HK\$7,974 million), Group profit attributable to equity shareholders decreased by 78% to HK\$3,928 million (2018: HK\$18,027 million). Basic earnings per share were HK\$1.29 (2018: HK\$5.94).

DIVIDENDS

A first interim dividend of HK\$1.10 per share was paid on 10 September 2019. In lieu of a final dividend, a second interim dividend of HK\$0.93 per share will be paid on 23 April 2020 to Shareholders on record as at 6:00 p.m. on 6 April 2020. Total distribution for the year 2019 will amount to HK\$2.03 (2018: HK\$2.10) per share, representing 65% of underlying net profit from investment properties and hotels in Hong Kong.

BUSINESS REVIEW

Harbour City

Harbour City's overall revenue (including hotels) and operating profit declined by 2% to HK\$11,577 million and HK\$9,447 million, respectively.

Retail

Inbound tourism and local consumption turned down sharply since the middle of the year but lagging effect will only be obvious in 2020. Retail revenue and operating profit eased by 1% to HK\$7,452 million and HK\$6,615 million respectively. Tenant sales lacked momentum following outstanding performance in the past few years, resulting in a 23% drop for the full year.

The two million square feet of contiguous mall space continued to provide an unrivalled range of comprehensive product offerings, cementing its position as a "must-have" address for global brands. Its diversified ecosystem and proven asset management capabilities continued to retain the best-in-class brands and attract the most sought-after newcomers. Occupancy rate stood at a high level of 97% at year-end on the back of stable tenants' demand.

As a curator of compelling retail experiences, Harbour City proactively identifies and recruits the most differentiating and aspirational names. Together with the delicious and surprising culinary offerings, the seamless combination of the unique and alluring experiences is elevating retail experience to new heights.

Office

Momentum of leasing demand was hindered by the unfavourable business environment and increased vacancies in the market.

Occupancy rate was 93% at year-end and lease renewal retention rate was 77%. Revenue increased by 4% to HK\$2,748 million. The close proximity to West Kowloon Station for High Speed Rail is poised to hold up demand in the coming years.

Gateway Apartments

The serviced apartments were 89% occupied at year-end amidst the increase of competitive supply. Revenue totalled HK\$221 million during the year.

Hotels and Club

The three Canton Road hotels, Marco Polo Hongkong, Gateway and Prince, suffered from the plunge in visitor arrivals since the middle of the year.

As a result, total revenue of hotels and club dropped by 22% to HK\$1,156 million and operating profit by 47% to HK\$250 million. Overall occupancy was 81% during the year following a sharp deterioration in the second half of the year.

Times Square

Impacted by the weak market sentiment and intensified competition, overall revenue decreased by 3% to HK\$2,761 million and operating profit by 2% to HK\$2,423 million.

Retail

Situated in one of the most disrupted districts, foot traffic and sales performance were seriously affected.

As a result, tenant sales dropped by 19% for the full year. Revenue decreased by 4% to HK\$2,020 million and operating profit by 3% to HK\$1,774 million. Occupancy rate stood firm at 97% at year-end.

Office

Due to the uncertain business environment and social disruptions, office leasing activities slowed down. The shrinking rental cost in some of the CBD office spaces continued to narrow the rental gap and further dampened the office demand in Causeway Bay.

Revenue remained steady at HK\$741 million. Occupancy rate was 94% at year-end.

Central Portfolio

Occupancies at Wheelock House and Crawford House remained high on the back of prime locations and cost effectiveness. Revenue increased to HK\$495 million and operating profit to HK\$431 million.

Wheelock House offices were 97% occupied at year-end. Lease renewal retention rate was 98%.

Crawford House offices were 99% occupied at year-end. Lease renewal retention rate was 93%.

The retail premises at both Crawford House and Wheelock House were fully let at the end of December.

The Murray, Hong Kong, a Niccolo Hotel became fully operational in August 2018. The challenging environment caused a significant drop in occupancy and cancellations of events and F&B bookings, which severely impacted the hotel's revenue. Depreciation of land and building costs over the 50-year lease term limits profitability in the early years of ramp-up stage.

Plaza Hollywood

A well-established retail destination and lifestyle hub serving the emerging middle class in the surrounding residential areas in Kowloon East. Affected by weak consumer sentiment, revenue decreased by 3% to HK\$552 million and operating profit by 3% to HK\$415 million. Occupancy rate was 96% at year-end.

Following the partial opening of the Tuen Ma Line from Tai Wai to Kai Tak via Diamond Hill in mid-February 2020, the full completion of the Sha Tin-Central MTR link by phases is poised to expand Plaza Hollywood's geographical reach in the longer term.

Singapore Portfolio

In December 2019, the Group acquired two prime assets in the heart of the renowned Orchard Road belt of Singapore. Wheelock Place and Scotts Square enjoy strategic locations within the city's prime retail and hotel hub.

Behind the distinctive conical facade, Wheelock Place houses seven floors of the finest retail stores, services, and dining options. Above the retail podium is an office tower which is home to several top multinational companies.

Located a few minutes away, Scotts Square boasts a wide pedestrian promenade and triple volume entrance to welcome shoppers into four floors of refined shopping from designer labels to specialty services and dining selections.

Wheelock Place office tower and retail portion achieved 96% occupancy whilst Scotts Square retail was 97% occupied.

OUTLOOK

The world would likely be preoccupied with the virus outbreak this quarter and next. It is not simple to fathom the damages the virus will leave in its trail and the path to economic and community recovery. Local social political events coupled with the unrelenting tension between China and U.S.A. are added factors influencing Hong Kong's recessionary trend.

Retail and Hotel sectors are not expected to be spared from the brunt of these threats. Office occupancy rates and rental levels are under more pressure with the slowdown this year.

FINANCIAL REVIEW

(I) Review of 2019 full year results

Group underlying net profit for 2019 decreased by 3% to HK\$9,791 million (2018: HK\$10,053 million) with the solid growth in the first half of the year erasing by the slackened second half amid the dampening economy of Hong Kong. Underlying net profit from Investment Properties (“IP”) decreased by 3% to HK\$9,455 million which accounted for 97% of Group total.

Profit attributable to shareholders decreased by 78% to HK\$3,928 million (2018: HK\$18,027 million) mainly due to inclusion of a net IP revaluation deficit of HK\$5,742 million (2018: surplus of HK\$7,974 million).

Revenue and Operating Profit

Group revenue decreased by 3% to HK\$16,043 million (2018: HK\$16,481 million) while operating profit was flattened at HK\$12,711 million (2018: HK\$12,724 million).

IP revenue and operating profit slightly decreased to HK\$14,279 million (2018: HK\$14,304 million) and HK\$12,501 million (2018: HK\$12,545 million) respectively. Amid the prevailing adverse economic condition particularly in the fourth quarter of the year, Times Square recorded revenue and operating profit decline of 3% and 2% respectively while Harbour City performed just at par.

Hotel was heavily hit by the social unrest with revenue and operating profit decreasing by 17% to HK\$1,507 million (2018: HK\$1,821 million) and 76% to HK\$61 million (2018: HK\$255 million) respectively. Operating profit for the three Marco Polo Hotels and the Club at Harbour City retreated by 47% while The Murray still operated at loss amid the challenging environment during the latter half of the year and for its depreciation for land and building.

Total revenue and operating profit of Harbour City (including hotels) dropped by 2% to HK\$11,577 million (2018: HK\$11,871 million) and HK\$9,447 million (2018: HK\$9,678 million) respectively, representing 72% (2018: 72%) of Group revenue and 74% (2018: 76%) of Group operating profit.

Development Properties (“DP”) revenue decreased by 57% to HK\$38 million (2018: HK\$89 million) while operating profit of HK\$131 million (2018: loss of HK\$60 million) was recorded, resulting from a credit cost adjustment for Suzhou Times City.

Investment and others revenue grew by 8% to HK\$289 million (2018: HK\$267 million) and operating profit by 17% to HK\$144 million (2018: HK\$123 million).

Fair Value Loss of IP

IP portfolio as at 31 December 2019 was stated at valuation of HK\$259.9 billion (2018: HK\$259.0 billion), including the newly acquired Wheelock Place and Scotts Square. As affected by the softening market, IP revaluation carried out by independent valuers gave rise a loss of HK\$5,788 million (2018: a gain of HK\$8,065 million). Netting relevant non-controlling interests, the attributable loss of HK\$5,742 million (2018: a gain of HK\$7,974 million) was charged to the consolidated statement of profit or loss.

Finance Costs

Net finance costs amounted to HK\$1,007 million (2018: HK\$815 million) after interest capitalisation of HK\$41 million (2018: HK\$17 million) for DP and an unrealised mark-to-market loss on borrowings of HK\$9 million (2018: Nil). The Group's effective borrowing rate was 2.6% per annum (2018: 2.0%).

Income Tax

Taxation charge for the year decreased by 2% to HK\$1,961 million (2018: HK\$1,994 million) principally on a reduction in taxable profit of hotels for the year.

Profit Attributable to Equity Shareholders

Group profit attributable to equity shareholders for the year amounted to HK\$3,928 million (2018: HK\$18,027 million), representing a decrease of 78% from 2018. Basic earnings per share were HK\$1.29, based on 3,036 million ordinary shares in issue (2018: HK\$5.94 based on 3,036 million ordinary shares in issue).

Underlying net profit is a performance indicator of the Group's major business segments and arrived at after excluding the attributable net IP revaluation gain/loss, impairment loss on hotels and unrealised mark-to-market differences on borrowings.

Underlying net profit, excluding the net IP revaluation loss of HK\$5,742 million and other non-core items, decreased by 3% to HK\$9,791 million (2018: HK\$10,053 million). Underlying earnings per share were HK\$3.23 (2018: HK\$3.31).

(II) Liquidity, Financial Resources and Capital Commitments

Shareholders' and Total Equity

As at 31 December 2019, shareholders' equity decreased by HK\$2.6 billion to HK\$216.2 billion (2018: HK\$218.8 billion), equivalent to HK\$71.20 per share based on 3,036 million ordinary shares in issue (2018: HK\$72.06 per share based on 3,036 million ordinary shares in issue).

Total equity including non-controlling interests decreased by HK\$2.9 billion to HK\$221.4 billion (2018: HK\$224.3 billion).

Assets

Total assets as at 31 December 2019 was HK\$284.3 billion (2018: HK\$280.3 billion), 94% (2018: 97%) of which was in Hong Kong. Total business assets, excluding bank deposits and cash, equity investments, derivative financial assets and deferred tax assets was HK\$276.6 billion (2018: HK\$274.7 billion).

IP

IP slightly increased to HK\$259.9 billion (2018: HK\$259.0 billion), representing 94% (2018: 94%) of total business assets. Harbour City (excluding the three hotels which were stated at cost) was valued at HK\$172.6 billion (2018: HK\$175.6 billion). Including the internal valuation of these hotels, Harbour City had a total valuation of HK\$180 billion or HK\$59 per share. Times Square was valued at HK\$56.5 billion, or about HK\$19 per share.

Hotels

Hotel properties comprising The Murray, three Marco Polo Hotels in Hong Kong and Marco Polo Changzhou are stated at cost less accumulated depreciation & impairment losses of HK\$7.7 billion (2018: HK\$8.1 billion). Internal valuation of these hotels amounted to HK\$15.2 billion (2018: HK\$16.1 billion).

DP / Interests in an Associate and Joint Ventures

DP increased to HK\$5.1 billion (2018: HK\$3.7 billion) and DP undertaken through an associate and joint ventures remained at HK\$2.9 billion.

Debts and Gearing

Net debt as at 31 December 2019 rose to HK\$42.6 billion (2018: HK\$39.4 billion). It comprised debts of HK\$45.5 billion and bank deposits and cash of HK\$2.9 billion.

An analysis of net debt is depicted below:

<u>Net debt/(cash)</u>	31 December 2019 HK\$ Billion	31 December 2018 HK\$ Billion
The Group (excluding Harbour Centre Development Limited (“HCDL”))	40.9	39.0
HCDL	1.7	0.4
Total net debt	42.6	39.4

As at 31 December 2019, the ratio of net debt to total equity was 19.3% (2018: 17.6%).

Finance and Availability of Facilities

Total available loan facilities as at 31 December 2019 amounted to HK\$49.4 billion, of which HK\$45.5 billion was utilised. The breakdown is depicted below:

	31 December 2019		
	Available Facility HK\$ Billion	Total Drawn HK\$ Billion	Undrawn Facility HK\$ Billion
Committed and uncommitted bank facilities			
The Group (excluding HCDL)	44.4	41.9	2.5
HCDL	5.0	3.6	1.4
	<u>49.4</u>	<u>45.5</u>	<u>3.9</u>

Certain banking facilities were secured by mortgage over the Group's IP under development and DP for sales carried at HK\$5.7 billion (2018: HK\$4.4 billion).

The debt portfolio was primarily denominated in Hong Kong dollars ("HKD"). The respective funds available were mainly utilised to finance the Group's IP and remaining DP investments.

The Group continued to adhere to a high level of financial discipline with a strong financial position. Ample surplus cash and undrawn committed facilities were available to facilitate business and investment activities. In addition, the Group also maintained a portfolio of liquid equity investments with an aggregate market value of HK\$4.1 billion (2018: HK\$2.4 billion), which is available for use if necessary.

Cash Flows for the Group's Operating and Investing Activities

For the year under review, the Group recorded net cash inflows (before changes in working capital) of HK\$12.8 billion (2018: HK\$12.9 billion) principally comprising rental income. Changes in working capital increased the net cash inflow from operating activities to HK\$12.0 billion (2018: HK\$9.5 billion), primarily attributable to sale proceeds from Suzhou IFS and deferral of Hong Kong Profit Tax payment. For investing activities, the Group recorded a net cash outflow of HK\$8.1 billion (2018: HK\$0.2 billion) mainly attributable to acquisition of Wheelock Place and Scotts Square in Singapore and equity investments.

Capital Commitments

As at 31 December 2019, major expenditures to be incurred in the coming years were estimated at HK\$5.7 billion, of which HK\$1.2 billion was committed. A breakdown (by segment) is as follows:

	As at 31 December 2019		
	Committed HK\$ Million	Uncommitted HK\$ Million	Total HK\$ Million
Properties			
IP			
Hong Kong	125	871	996
Mainland China	82	152	234
Singapore	2	-	2
	<u>209</u>	<u>1,023</u>	<u>1,232</u>
DP			
Mainland China	<u>968</u>	<u>3,371</u>	<u>4,339</u>
Properties total			
Hong Kong	125	871	996
Mainland China	1,050	3,523	4,573
Singapore	2	-	2
	<u>1,177</u>	<u>4,394</u>	<u>5,571</u>
Hotels			
Hong Kong	11	5	16
Mainland China	-	104	104
	<u>11</u>	<u>109</u>	<u>120</u>
Group total	<u>1,188</u>	<u>4,503</u>	<u>5,691</u>

These expenditures will be funded by internal financial resources including surplus cash, cash flows from operations, as well as bank loans and other borrowings. Other available resources include monetisation of equity investments.

Included in the above are HCDL's expenditures totalling HK\$4.7 billion, which will be funded by its own financial resources.

(III) Human Resources

The Group had approximately 2,800 employees as at 31 December 2019. Employees are remunerated according to their job responsibilities and market pay trend with a discretionary annual performance bonus as variable pay for rewarding individual performance and contributions to the Group's achievement and results.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2019

	Note	2019 HK\$ Million	2018 HK\$ Million
Revenue	2	16,043	16,481
Direct costs and operating expenses		(2,431)	(2,885)
Selling and marketing expenses		(326)	(389)
Administrative and corporate expenses		(285)	(191)
Operating profit before depreciation, amortisation, interest and tax		13,001	13,016
Depreciation and amortisation		(290)	(292)
Operating profit	2 & 3	12,711	12,724
(Decrease)/increase in fair value of investment properties		(5,788)	8,065
Other net (charge)/income		(40)	46
		6,883	20,835
Finance costs	4	(1,007)	(815)
Share of results after tax of:			
- An associate		76	111
- Joint ventures		-	122
Profit before taxation		5,952	20,253
Income tax	5	(1,961)	(1,994)
Profit for the year		3,991	18,259
Profit attributable to :			
Shareholders of the Company		3,928	18,027
Non-controlling interests		63	232
		3,991	18,259
Earnings per share	6		
Basic and diluted		HK\$1.29	HK\$5.94

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2019

	2019 HK\$ Million	2018 HK\$ Million
Profit for the year	3,991	18,259
Other comprehensive income		
Item that will not be reclassified to profit or loss:		
Fair value changes on equity investments at fair value through other comprehensive income (non-recycling)	10	(312)
Items that may be reclassified subsequently to profit or loss:		
Exchange difference on translation of operations outside Hong Kong		
- subsidiaries	(75)	(227)
Share of reserves of an associate and joint ventures	(24)	(153)
Others	9	(4)
Other comprehensive income for the year	(80)	(696)
Total comprehensive income for the year	3,911	17,563
Total comprehensive income attributable to:		
Shareholders of the Company	3,895	17,551
Non-controlling interests	16	12
	3,911	17,563

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2019

	Note	31 December 2019 HK\$ Million	31 December 2018 HK\$ Million
Non-current assets			
Investment properties		259,873	258,984
Hotel and club properties, plant and equipment		7,928	8,277
Interest in an associate		1,249	1,294
Interest in joint ventures		1,604	1,601
Equity investments		4,065	2,396
Deferred tax assets		374	336
Derivative financial assets		238	60
Other non-current assets		57	51
		<u>275,388</u>	<u>272,999</u>
Current assets			
Properties for sale		5,123	3,726
Inventories		16	13
Trade and other receivables	8	885	873
Prepaid tax		22	70
Bank deposits and cash		2,907	2,675
		<u>8,953</u>	<u>7,357</u>
Total assets		<u>284,341</u>	<u>280,356</u>
Non-current liabilities			
Derivative financial liabilities		(20)	(41)
Deferred tax liabilities		(2,403)	(2,278)
Other deferred liabilities		(333)	(331)
Bank loans and other borrowings		(33,236)	(39,027)
		<u>(35,992)</u>	<u>(41,677)</u>
Current liabilities			
Trade and other payables	9	(8,384)	(8,351)
Pre-sale deposits and proceeds		(3,172)	(660)
Derivative financial liabilities		-	(105)
Taxation payable		(3,079)	(2,161)
Bank loans and other borrowings		(12,300)	(3,070)
		<u>(26,935)</u>	<u>(14,347)</u>
Total liabilities		<u>(62,927)</u>	<u>(56,024)</u>
NET ASSETS		<u>221,414</u>	<u>224,332</u>
Capital and reserves			
Share capital		304	304
Reserves		215,860	218,493
Equity attributable to the shareholders of the Company		<u>216,164</u>	<u>218,797</u>
Non-controlling interests		<u>5,250</u>	<u>5,535</u>
TOTAL EQUITY		<u>221,414</u>	<u>224,332</u>

NOTES TO THE FINANCIAL INFORMATION

1. PRINCIPAL ACCOUNTING POLICIES AND BASIS OF PREPARATION

This financial information is extracted from the consolidated financial statements which have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies and methods of computation used in the preparation of the financial information are consistent with those used in the annual financial statements for the year ended 31 December 2018 except for the changes mentioned below.

The HKICPA has issued a new HKFRS and a number of amendments to HKFRSs that are first effective starting from the current accounting period of the Group. Of these, the following developments are relevant to the Group’s consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC) 23	Uncertainty over income tax treatments
Amendments to HKAS 28	Long-term interests in associates or joint ventures
Annual Improvements to HKFRSs 2015-2017 Cycle	

The adoption of these developments does not have significant impact on the Group’s results and financial position for the current and prior periods have been prepared or presented.

HKFRS 16, Leases

HKFRS 16 replaces HKAS 17, Leases, and the related interpretations, HK(IFRIC) 4, Determining whether an arrangement contains a lease, HK(SIC) 15, Operating leases – incentives, and HK(SIC) 27, Evaluating the substance of transactions involving the legal form of a lease. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less (“short-term leases”) and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

Given the Group does not have any material lease arrangements as a lessee (except for the leasehold land and properties which the Group is a registered owner of the ownership interests), the Group considers that there is no significant financial impact on the Group’s results (including segment results), financial position and cash flows.

Further details of the nature and effect of the changes to previous accounting policies of the Group upon the adoption of HKFRS 16 are set out below:

a. New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The change in the definition of a lease does not have any material impact on the Group's lease arrangements.

b. Leasehold investment property

Under HKFRS 16, the Group is required to account for all leasehold properties as investment properties when these properties are held to earn rental income and/or for capital appreciation ("leasehold investment properties"). The adoption of HKFRS 16 does not have a significant impact on the Group's consolidated financial statements as the Group previously elected to apply HKAS 40, Investment properties, to account for all of its leasehold properties that were held for investment purposes as at 31 December 2018. Consequentially, these leasehold investment properties continue to be carried at fair value.

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

2. SEGMENT INFORMATION

The Group manages its diversified businesses according to the nature of services and products provided. Management has determined three reportable operating segments for measuring performance and allocating resources. The segments are investment property, development property and hotel. No operating segments have been aggregated to form the reportable segments.

Investment property segment primarily includes property leasing operations. Currently, the Group's investment properties portfolio, which mainly consists of retail, office and serviced apartments, is primarily located in Hong Kong.

Development property segment encompasses activities relating to the acquisition, development, design, construction, sales and marketing of the Group's trading properties in Mainland China.

Hotel segment includes hotel operations in Hong Kong and Mainland China.

Management evaluates performance primarily based on operating profit as well as the equity share of results of an associate and joint ventures of each segment. Inter-segment pricing is generally determined on an arm's length basis.

Segment business assets principally comprise all tangible assets and current assets directly attributable to each segment with the exception of bank deposits and cash, equity investments, derivative financial assets and deferred tax assets.

Revenue and expenses are allocated with reference to sales generated by those segments and expenses incurred by those segments or which arise from the depreciation of assets attributable to those segments.

2. SEGMENT INFORMATION

a. Analysis of segment revenue and results

	Revenue HK\$ Million	Operating profit HK\$ Million	(Decrease)/ Increase in fair value of investment properties HK\$ Million	Other net (charge)/ income HK\$ Million	Finance costs HK\$ Million	Share of results after tax of an associate HK\$ Million	Share of results after tax of joint ventures HK\$ Million	Profit before taxation HK\$ Million
For the year 2019								
Investment property	14,279	12,501	(5,788)	-	(952)	-	-	5,761
Development property	38	131	-	-	-	76	-	207
Hotel	1,507	61	-	(157)	(46)	-	-	(142)
Inter-segment revenue	(70)	-	-	-	-	-	-	-
Segment total	15,754	12,693	(5,788)	(157)	(998)	76	-	5,826
Investment and others	289	144	-	117	(9)	-	-	252
Corporate expenses	-	(126)	-	-	-	-	-	(126)
Group total	16,043	12,711	(5,788)	(40)	(1,007)	76	-	5,952
For the year 2018								
Investment property	14,304	12,545	8,065	-	(774)	-	-	19,836
Development property	89	(60)	-	21	(2)	111	122	192
Hotel	1,821	255	-	-	(39)	-	-	216
Segment total	16,214	12,740	8,065	21	(815)	111	122	20,244
Investment and others	267	123	-	25	-	-	-	148
Corporate expenses	-	(139)	-	-	-	-	-	(139)
Group total	16,481	12,724	8,065	46	(815)	111	122	20,253

2. SEGMENT INFORMATION

b. Disaggregation of revenue

	2019 HK\$ Million	2018 HK\$ Million
Revenue recognised under HKFRS 15		
Management and services income	1,161	1,164
Other rental related income	306	240
Revenue under investment property segment	1,467	1,404
Hotel and club operations	1,507	1,821
Sale of development properties	38	89
	3,012	3,314
Revenue recognised under other accounting standards		
Rental income		
- Fixed	11,750	11,619
- Variable	1,013	1,281
	12,763	12,900
Investment and others	268	267
	13,031	13,167
Total revenue	16,043	16,481

c. Analysis of inter-segment revenue

	2019			2018		
	Total Revenue HK\$ Million	Inter-segment revenue HK\$ Million	Group Revenue HK\$ Million	Total Revenue HK\$ Million	Inter-segment revenue HK\$ Million	Group Revenue HK\$ Million
Investment property	14,279	(49)	14,230	14,304	-	14,304
Development property	38	-	38	89	-	89
Hotel	1,507	-	1,507	1,821	-	1,821
Investment and others	289	(21)	268	267	-	267
	16,113	(70)	16,043	16,481	-	16,481

2. SEGMENT INFORMATION

d. Analysis of segment business assets

	2019	2018
	HK\$ Million	HK\$ Million
Investment property	260,415	259,556
Development property	8,192	6,739
Hotel	8,011	8,456
Total segment business assets	276,618	274,751
Unallocated corporate assets	7,723	5,605
Total assets	284,341	280,356

Unallocated corporate assets mainly comprise equity investments, deferred tax assets, derivative financial assets and bank deposits and cash.

e. Geographical information

	Revenue		Operating Profit	
	2019	2018	2019	2018
	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million
Hong Kong	15,836	16,246	12,509	12,776
Outside Hong Kong	207	235	202	(52)
Group total	16,043	16,481	12,711	12,724

	Specified non-current assets		Total business assets	
	2019	2018	2019	2018
	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million
Hong Kong	260,326	265,997	260,928	266,745
Outside Hong Kong	10,328	4,159	15,690	8,006
Group total	270,654	270,156	276,618	274,751

Specified non-current assets exclude deferred tax assets, equity investments, derivative financial assets and other non-current assets.

The geographical location of revenue and operating profit is analysed based on the location at which services are provided and in the case of equity investments, where they are listed. The geographical location of specified non-current assets and total business assets is based on the physical location of operations.

3. OPERATING PROFIT

Operating profit is arrived at:

	2019 HK\$ Million	2018 HK\$ Million
After charging/(crediting)		
Depreciation and amortisation on		
- hotel and club properties, plant and equipment	283	285
- leasehold land	7	7
Total depreciation and amortisation	<u>290</u>	<u>292</u>
Staff costs (Note (i))	1,006	1,004
Auditors' remuneration		
- audit services	8	8
- non-audit services*	-	-
Cost of trading properties for recognised sales	(134)	131
Gross rental revenue from investment properties	(14,279)	(14,304)
Direct operating expenses of investment properties	1,696	1,652
Interest income (Note (ii))	(37)	(24)
Dividend income from equity investments	(117)	(82)
Loss on disposal of plant and equipment	<u>-</u>	<u>3</u>

* Total represents amount less than HK\$1 million.

Note:

- (i) Staff costs included defined contribution pension schemes costs for the year ended 31 December 2019 of HK\$48 million (2018: HK\$50 million).
- (ii) Interest income for the year ended 31 December 2019 of HK\$37 million (2018: HK\$24 million) are generated in respect of financial assets (mainly comprising bank deposits) stated at amortised cost.

4. FINANCE COSTS

	2019 HK\$ Million	2018 HK\$ Million
Interest charged on:		
Bank loans and overdrafts	750	582
Other borrowings	228	153
Total interest charge	<u>978</u>	<u>735</u>
Other finance costs	61	97
Less : Amount capitalised	(41)	(17)
	<u>998</u>	<u>815</u>
Fair value loss on other borrowings	9	-
Total	<u>1,007</u>	<u>815</u>

5. INCOME TAX

Taxation charged/(credited) to the consolidated statement of profit or loss represents:

	2019 HK\$ Million	2018 HK\$ Million
Current income tax		
Hong Kong		
- provision for the year	1,851	1,904
- (over)/under-provision in respect of prior year	(9)	23
Outside Hong Kong		
- provision for the year	102	6
- over-provision in respect of prior year	-	(17)
	<u>1,944</u>	<u>1,916</u>
Land appreciation tax (“LAT”) in Mainland China	<u>1</u>	<u>2</u>
Deferred tax		
Origination and reversal of temporary differences	<u>16</u>	<u>76</u>
Total	<u>1,961</u>	<u>1,994</u>

- a. The provision for Hong Kong Profits Tax is based on the profit for the year as adjusted for tax purposes at a rate of 16.5% (2018: 16.5%).
- b. Income tax on assessable profits outside Hong Kong is mainly China corporate income tax calculated at a rate of 25% (2018: 25%) and China withholding income tax at a rate of up to 10% for the years ended 31 December 2019 and 2018.
- c. Under the Provisional Regulations on LAT, all gains arising from the transfer of real estate property in Mainland China are subject to LAT at progressive rates ranging from 30% to 60% on the appreciation of the land value, being the proceeds on sales of properties less deductible expenditures including cost of land use rights, borrowings costs and all property development expenditure.
- d. Tax attributable to an associate and joint ventures for the year ended 31 December 2019 are an aggregate of HK\$21 million (2018: HK\$102 million), which are included in the share of results of an associate and joint ventures.

6. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders for the year of HK\$3,928 million (2018: HK\$18,027 million) and 3,036 million ordinary shares in issue during the year (2018: 3,036 million ordinary shares in issue).

There are no potential dilutive ordinary shares in issue during the years ended 31 December 2019 and 2018.

7. DIVIDENDS ATTRIBUTABLE TO EQUITY SHAREHOLDERS

	2019	2019	2018	2018
	HK\$	HK\$	HK\$	HK\$
	Per share	Million	Per share	Million
First interim dividend declared and paid	1.10	3,340	1.05	3,188
Second interim dividend declared after the end of the reporting period (Note (b))	0.93	2,824	1.05	3,188
	2.03	6,164	2.10	6,376

- (a) The second interim dividend based on 3,036 million (2018: 3,036 million) issued ordinary shares declared after the end of the reporting period has not been recognised as a liability at the end of the reporting period.
- (b) The second interim dividend of HK\$3,188 million for 2018 was approved and paid in 2019.

8. TRADE AND OTHER RECEIVABLES

Included in this item are trade receivables (net of allowance for bad and doubtful debts) with an ageing analysis based on the invoice date as at 31 December 2019 as follows:

	2019	2018
	HK\$ Million	HK\$ Million
Trade receivables		
0 - 30 days	271	409
31 - 60 days	32	40
61 - 90 days	14	9
Over 90 days	15	10
	332	468
Other receivables and prepayments	553	405
	885	873

The Group has established credit policies for each of its core businesses. The general credit terms allowed range from 0 to 60 days, except for the sale of properties from which the proceeds are receivable pursuant to the terms of the agreements. All the trade and other receivables are expected to be recoverable within one year.

9. TRADE AND OTHER PAYABLES

Included in this item are trade payables with an ageing analysis based on the invoice date as at 31 December 2019 as follows:

	2019	2018
	HK\$ Million	HK\$ Million
Trade payables		
0 - 30 days	133	128
31 - 60 days	7	19
61 - 90 days	1	7
Over 90 days	10	7
	151	161
Rental and customer deposits	3,761	3,579
Construction costs payable	615	1,005
Amounts due to joint ventures	1,589	1,593
Other payables	2,268	2,013
	8,384	8,351

10. REVIEW OF FINANCIAL RESULTS

The financial results for the year ended 31 December 2019 have been reviewed with no disagreement by the Audit Committee of the Company. The figures in respect of the announcement of the Group's results for the year ended 31 December 2019 have been agreed by the Company's Auditors to the amounts set out in the Group's consolidated financial statements for the year.

CORPORATE GOVERNANCE CODE

During the financial year ended 31 December 2019, all the code provisions set out in the Corporate Governance Code in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited were met by the Company, with one exception as regards Code Provision A.2.1 providing for the roles of the chairman and chief executive to be performed by different individuals.

Such deviation is deemed appropriate as it is considered to be more efficient to have one single person to be Chairman of the Company as well as to discharge the executive functions of a chief executive thereby enabling more effective planning and better execution of long-term strategies. The Board of Directors believes that the balance of power and authority is adequately ensured by the operations of the Board which comprises experienced and high calibre individuals, with half of them being Independent Non-executive Directors.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the financial year under review.

RELEVANT DATES FOR SECOND INTERIM DIVIDEND AND ANNUAL GENERAL MEETING

Second Interim Dividend

Ex-entitlement date	3 April 2020 (Fri)
Latest time to lodge share transfer	4:30 p.m., 6 April 2020 (Mon)
Record date/ time	6:00 p.m., 6 April 2020 (Mon)
Payment date	23 April 2020 (Thu)

In order to qualify for the above-mentioned second interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Monday, 6 April 2020.

Annual General Meeting ("AGM")

Ex-entitlement date	28 April 2020 (Tue)
Latest time to lodge share transfer	4:30 p.m., 29 April 2020 (Wed)
Book closure period	4 May 2020 (Mon) to 7 May 2020 (Thu), both days inclusive
Record date	4 May 2020 (Mon)
AGM date/ time	11:15 a.m., 7 May 2020 (Thu)

In order to be eligible for attending and voting at the AGM, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Wednesday, 29 April 2020.

By Order of the Board

Kevin C. Y. Hui

Director and Company Secretary

Hong Kong, 5 March 2020

As at the date of this announcement, the Board of Directors of the Company comprises Mr. Stephen T. H. Ng, Ms. Doreen Y. F. Lee, Mr. Paul Y. C. Tsui, Ms. Y. T. Leng and Mr. Kevin C. Y. Hui, together with five Independent Non-executive Directors, namely Mr. Alexander S. K. Au, Hon. Andrew K. Y. Leung, Mr. Andrew J. Seaton, Mr. R. Gareth Williams and Professor E. K. Yeoh.