WHARF

Established 1886

WHARF REAL ESTATE INVESTMENT COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1997

Interim Results Announcement for the half-year period ended 30 June 2019

Weak Demand, Stable Results

HIGHLIGHTS

- Demand and market conditions have weakened noticeably since the beginning of the year and have intensified thereafter.
- Underlying Net Profit recorded an increase of 3% while Investment Properties (IP) revaluation surplus decreased by 65%. Group profit decreased by 31% to HK$6,989 million.
- Dividend (calibrated at 65% of core Underlying Net Profit) increased by 5% to HK$1.10 per share.
- Net cash inflow (net of dividend payment) of HK$3.0 billion reduced net debt to HK$36.4 billion (gearing 16.0%).

GROUP RESULTS

Unaudited Group underlying net profit for the half-year period ended 30 June 2019 increased by 3% to HK$5,184 million (2018: HK$5,022 million), equivalent to HK$1.71 (2018: HK$1.65) per share.

With IP revaluation surplus decreasing by 65% to HK$1,806 million (2018: HK$5,157 million), Group profit attributable to equity shareholders decreased by 31% to HK$6,989 million (2018: HK$10,179 million). Basic earnings per share were HK$2.30 (2018: HK$3.35).

INTERIM DIVIDEND

An interim dividend of HK$1.10 per share will be paid on 10 September 2019 to Shareholders on record as at 6:00 p.m. on 23 August 2019. The distribution will amount to HK$3,340 million, representing 65% of underlying net profit from IP and hotels in Hong Kong.

BUSINESS REVIEW

Revenue from Hong Kong IP increased by 4% to HK$7,433 million and operating profit by 4% to HK$6,591 million.

The Group's three malls combined for a 10% market share of total Hong Kong retail sales during the period. Harbour City (including hotels) remained the key driver of the Group, contributing 73% of revenue and 76% of operating profit.

Harbour City

Underpinned by the retail sales productivity and positive rental reversions, total revenue (including hotels) increased by 5% to HK$6,165 million and operating profit by 6% to HK$5,093 million.

Retail

Harbour City recorded steady retail sales notwithstanding challenging market conditions. Total sales slipped by 1% to HK$18,497 million (or about HK$2,700 per square foot per month), translating into an average of over HK$100 million per day. Retail revenue increased by 6% to HK$3,994 million, representing 65% of total revenue of Harbour City. Average passing rent grew by 4% to HK$508 per square foot per month. Occupancy rate was maintained at 96% at the end of June 2019.

Demand from international premium brands remained keen during the first few months of the year. A line-up of debut brands include the Hong Kong debuts of *BARREL, BRIC'S, Darphin, Infantry*, *Roots*, *Tom Ford Beauty,* as well as the Kowloon debuts of *Bon Parfumeur* and *Hobbs*. Other exciting new brands include *ASICS, IL Bisonte, JINS, Miller Harris, Superga, Young Versace,* and the luxury brand *Jaquet Droz*.

The luxury jewellery and specialty retailer *Tiffany & Co.* was enhanced and expanded. Expansions of fast-growing brands also include *Aesop, Balmain Paris*, *CELINE Men* and *FURLA.*

Ocean Terminal Extension, which houses a line-up of nine debut restaurants with panoramic harbour views and alfresco dining area, has achieved success. Other dining options at Harbour City were further elevated by the Hong Kong debut of *Kyoto ICHINODEN*, a long-established saikyozuke store in Kyoto, as well as the celebrity-loved *Vive Cake boutique*, bakery café *Dang Wen Li by Dominique Ansel*, the Michelin 1-star sukiyaki and shabu-shabu restaurant *Hiyama*.

The annual signature event "Chocolate Trail" featured the World's first chocolate convenience store "ChoConveni" and Hong Kong's first "KIT KAT® MY BREAK" personalisation pop-up store was successfully launched. Other crowd-drawing events include "HAPPIG New Year", Harbour Art Fair 2019, "The ART-CADE", "Beauty Bloom" annual beauty campaign featuring the "Perfume Garden" and 50 styles of branded fragrance, and the "LANCÔME ExtraÔrdinary Avenue Ô" turning the Ocean Terminal Forecourt into Parisian street.

Lifestyle campaigns "Wellness in the City" were launched, featuring a 5-day celebration event "Make the World Listen" with *Nike* and the cross-fit media sports day with *Reebok*.

Office

The newly-completed office converted from Gateway Apartments was more than 50% leased (total leasable area: over 360,000 square feet) but take-up has slowed over the last few months.

Overall office occupancy was 94% as at 30 June 2019. Revenue increased by 6% to HK$1,355 million, reflecting positive rental reversion. Lease renewal retention rate was 52%. Average spot rent grew by 9% during the period.

Gateway Apartments

Occupancy remained at 98% at the end of June 2019 with upward rental adjustments. Revenue, however, eased by 8% to HK$111 million, primarily due to the conversion of Hampton apartment units into office. In the first half of 2019, Gateway Apartments was awarded "Service Awards 2019" by Capital Weekly Magazine and "Best Luxury Serviced Apartments of China" in Hotel Starlight Award.

Hotel

Marco Polo Hongkong Hotel, Gateway and Prince translated their location advantage, brand reputation and guest satisfaction into positive business results. Overall occupancy rose slightly to 95% in a weak market to hold revenue per available room ("RevPAR") steady. Total revenue increased by 1% to HK$617 million but operating profit eased by 3% to HK$207 million due to rising operating costs.

Times Square

While office demands remained stable, the competitive retail landscape and softening consumption sentiment weighed heavily on the retail performance. Revenue remained at HK$1,431 million while operating profit slipped to HK$1,271 million.

Retail

Revenue remained stable at HK$1,062 million. Occupancy rate stood at 98% as at 30 June 2019. Average retail passing rent was HK$290 per square foot per month.

Retail and lifestyle offerings have been diversified. New additions of beauty offerings include *EVE LOM, Miller Harris, MTM, Rituals* as well as *Ampleur, Pra.L* and *Vine Vera* inside Facesss. The high zone trade-mix was further revamped with new tenants, namely *American Tourister, Mannings, Polo Ralph Lauren, ROCOCO, TUMI*, and the debuts of *Adidas Sportswear Collective* and *MOURI*. New brands on the basement floor include *Millie's*.

Meanwhile, the lifestyle offerings have been enriched by the debut digital game amusement center of *Planet J Hong Kong*, the launch of the first standalone yoga & sacred arts center of *Fivelements Habitat*, an award-winning integrated wellness lifestyle expert, and the debut of *PicoLabb*.

A wide variety of delectable cuisines was further enhanced with the additions of *Kei Cuisine*, a brand new restaurant concept specialising in fish maw dishes and *Lady M*, the popular patisserie café from New York.

The Open Piazza of Times Square presented a multicultural crossover event "Lunar Fantasy with Ancient Auspicious Animals" featuring media art creations by Korean artists, the "A Golden Year" installation by Dog and Pony Studio, a U.S. design collective, and a gigantic carousel-type 3D model created by a local illustrator.

A series of instagrammable and crowd-drawing events also include "Dumbo Exhibition" by Disney's fantasy adventure movie "Dumbo" featuring a variety of 3D trick art and "Dream Paradise" circus, the "Spring is in the Hair" event displaying more than 6,000 pots of flowers from over 50 species during the flowering season, Colours in Nature Phase I fun-filling Wild Animals room with over 2,000 stuffed animals, the Purple Crystals room inspired by the Games of Throne and the Blue Waterfall room lit up with over 10,000 LED bulbs, as well as "A Sip of Love" Installation featuring two gigantic 6-metre tall installations.

Office

Revenue rose slightly to HK$369 million on the back of positive rental reversion. Average spot rent increased by 7% and a positive rental reversion rate of 12% was achieved. Occupancy rate was maintained at 97% at the end of June 2019. Lease renewal retention rate was 30%.

Central Portfolio

Office demands for Wheelock House and Crawford House remained firm with positive rental reversion despite the softening office market. Revenue increased by 4% to HK$243 million and operating profit by 4% to HK$211 million.

Office occupancy rate at Wheelock House was 97% and a positive rental reversion rate of 32% was achieved. Lease renewal retention rate was 52%.

Crawford House office was fully occupied with a positive rental reversion rate of 29%. Lease renewal retention rate was 38%.

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

The Murray, Hong Kong, a Niccolo Hotel ("The Murray") was ranked as the top hotel in Hong Kong in "Readers' Choice Awards 2018 – Top Hotels in China" by Condé Nast Traveler and "World's Greatest Places 2018 – Places to Stay" by TIME Magazine. As the Group's latest long-term strategic investment and transformed from the iconic 1960s Murray Building, The Murray is a conservation project by British international studio for architecture and integrated design Foster + Partners. The minimalist décor with clean lines and modern fixtures characterises the 336 spacious rooms and suites in the 25-storey contemporary chic hotel. Alongside the well-curated array of dining options, as well as the exceptional meeting and event spaces, The Murray has promptly arisen as the city's icon for luxury hospitality.

In the first half of 2019, The Murray received a host of reputable awards including “Best Luxury Hotel in Hong Kong” by TTG China Travel Awards 2019 and “Best Hotel Openings in the past 12 months” by Travel + Leisure “Hotels It List 2019”. The rooftop restaurant Popinjays was also crowned one of the “15 Best Rooftop Bars in the World” by Condé Nast Traveler Online.

Start-up losses including full depreciation of land and building costs over a 50-year lease term as well as interest cost may weigh on profitability in the early years.

Plaza Hollywood
Revenue eased by 2% to HK$284 million and operating profit by 2% to HK$222 million. Occupancy rate was 98% as at 30 June 2019.

Constant tenant mix optimization and proactive marketing strategies are in place to better position the retail destination and to tap the potential of the emerging Kowloon East CBD. Free shuttle service, ambassadors and incentive programmes have been provided in collaboration with Kai Tak Cruise Terminal to further attract visitors and boost spending.

During the first half of 2019, new recruitments of retail and lifestyle offerings including *Bellain Accessories Shop*, *Bigpack*, *DPM®*, *ITSU*, *Joyful & Health Chinese Medicine Centre & Path One Medical Centre*, *Millie's* and *TREE HOUSE*. In addition, F&B and confectionery offerings were further fortified by housing *Sala Thai*, a modern Thai restaurant with a chic dessert counter, *Green Sun Garden*, *Gong Fu Teahouse* and *殿堂級自家製甜品專門店*.

With a purpose-built stadium housing a six-screen cinema multiplex with 1,614 seats, Plaza Hollywood has staged various celebrities’ events, including the promotion and media events of “Miss Behavior” Movie, “Zion. T Live in Concert”, and “Lee Joongi Asia Tour ‘Delight’ in HK”, garnering numerous fans and extensive media coverage. Highlights of its impactful marketing events also include “Japanese Goldfish Lantern” CNY Campaign, “Facesss Beauty Extravaganza”, “Spring – Flower Themed Promotion”, etc.

FINANCIAL REVIEW

(I) Review of 2019 interim results

Group underlying net profit increased by 3% to HK$5,184 million (2018: HK$5,022 million), out of which IP increased by 2% to HK$5,033 million. IP and Hotel, in aggregate, accounted for 99% of Group underlying net profit.

Profit attributable to shareholders decreased by 31% to HK$6,989 million (2018: HK$10,179 million) after including the IP revaluation surplus of HK$1,805 million (2018: HK$5,157 million).

Revenue and Operating Profit

IP and Hotel accounted for over 98% of Group revenue and operating profit.

IP revenue and operating profit grew steadily by 4% to HK$7,433 million (2018: HK$7,123 million) and HK$6,591 million (2018: HK$6,312 million) respectively. In particular, Harbour City revenue and operating profit increased by 6%, reflecting higher gross rental income from retail and office.

Hotel revenue and operating profit surged by 9% to HK$906 million (2018: HK$831 million) and 67% to HK$139 million (2018: HK$83 million) respectively, underpinned by the continuous start-up improvement in the performance of The Murray in Central. The Murray's operating loss (net of depreciation on land and building) improved by 52% to HK$64 million. Operating profit for the three Marco Polo Hotels & club at Harbour City, however, retreated by 6% against the backdrop of soft market demand and rising operating costs.

Development Properties ("DP") revenue decreased by 85% to HK$10 million (2018: HK$66 million) and an operating loss of HK$14 million (2018: HK$46 million) was recorded, stemming from the orderly exit from the segment by listed subsidiary Harbour Centre Development Limited ("HCDL").

Investment and others revenue grew by 11% to HK$149 million (2018: HK$134 million) and operating profit by 18% to HK$78 million (2018: HK$66 million).

Consolidated revenue increased by 4% to HK8,498 million (2018: HK$8,154 million) and operating profit by 6% to HK$6,722 million (2018: HK$6,352 million).

Fair Value Gain of IP

Book value of IP portfolio as at 30 June 2019 increased to HK$261.0 billion (2018: HK$259.0 billion) with HK$260.3 billion thereof stated at fair value based on independent valuation, which produced a revaluation gain of HK$1,814 million for the period (2018: HK$5,224 million). The attributable gain of HK$1,805 million (2018: HK$5,157 million), net of related non-controlling interests, was credited to the consolidated statement of profit or loss.

IP under development in the amount of HK$0.7 billion is carried at cost and will not be carried at fair value until the earlier of its fair values first becoming reliably measurable or the dates of completion.

Finance Costs

Net finance costs amounted to HK$460 million (2018: HK$320 million) upon interest capitalisation of HK$16 million (2018: HK$5 million) for DP projects. The effective borrowing rate for the period increased to 2.4% (2018: 1.5%), primarily due to HIBOR hike during the period.

Income Tax

Taxation charge for the period increased to HK$1,028 million (2018: HK$1,018 million) principally on higher taxable profit in relation to IP.

Profit Attributable to Equity Shareholders

Group profit attributable to equity shareholders for the period amounted to HK$6,989 million (2018: HK$10,179 million), representing a decrease of 31% from 2018. Basic earnings per share were HK$2.30, based on 3,036 million ordinary shares in issue (2018: HK$3.35 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 valuation gain.

Underlying net profit, excluding the net IP revaluation gain of HK$1,805 million rose by 3% to HK$5,184 million (2018: HK$5,022 million). Underlying earnings per share were HK$1.71 (2018: HK$1.65).

(II) Liquidity, Financial Resources and Capital Commitments

Shareholders' and Total Equity

As at 30 June 2019, shareholders' equity increased by HK$3.9 billion to HK$222.7 billion (2018: HK$218.8 billion), equivalent to HK$73.35 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 increased by HK$4.0 billion to HK$228.3 billion (2018: HK$224.3 billion).

Assets

Total assets as at 30 June 2019 rose to HK$283.7 billion (2018: HK$280.3 billion). Total business assets, excluding bank deposit and cash, equity investments, derivative financial assets and deferred tax assets, increased to HK$276.9 billion (2018: HK$274.7 billion).

Geographically, Hong Kong business assets amounted to HK$268.5 billion (2018: HK$266.7 billion), representing 97% (2018: 97%) of the Group total.

IP

IP increased to HK$261.0 billion (2018: HK$259.0 billion), representing 94% of total business assets. Harbour City (excluding the three hotels which were stated at cost) and Times Square were valued at HK$177.0 billion and HK$59.2 billion as at 30 June 2019, respectively, together representing 91% of the IP portfolio.

Hotels

Hotel properties comprising The Murray, three Marco Polo Hotels and Marco Polo Changzhou are stated at cost (less accumulated depreciation & impairment losses) at HK$8.0 billion (2018: HK$8.1 billion).

DP / Interests in an Associate and Joint Ventures

DP increased to HK$3.9 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 cash inflow (net of dividend payment) of HK$3.0 billion reduced net debt as at 30 June 2019 to HK$36.4 billion (2018: HK$39.4 billion). It comprised debts of HK$39.8 billion and bank deposits and cash of HK$3.4 billion.

An analysis of net debt is depicted below:

Net debt/(cash)	**30 June 2019 HK$ Billion**	31 December 2018 HK$ Billion
Wharf REIC (excluding HCDL)	**37.0**	39.0
HCDL	**(0.6)**	0.4
Total net debt	**36.4**	39.4

As at 30 June 2019, the ratio of net debt to total equity dropped to 16.0% (2018: 17.6%).

Finance and Availability of Facilities

Total available loan facilities as at 30 June 2019 amounted to HK$46.4 billion, of which HK$39.8 billion was utilised. The breakdown is depicted below:

	30 June 2019		
	Available Facility HK$ Billion	**Total Debts HK$ Billion**	**Undrawn Facility HK$ Billion**
Committed and uncommitted bank facilities			
Wharf REIC (excluding HCDL)	41.1	37.2	3.9
HCDL	5.3	2.6	2.7
	46.4	39.8	6.6

Certain banking facilities were secured by mortgage over the Group's investment properties under development and properties under development carried at HK$4.6 billion (2018: HK$4.4 billion).

The debt portfolio was primarily denominated in Hong Kong dollars ("HKD"). The respective funds available were mainly utlilised 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$2.5 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 period under review, the Group recorded net cash inflows (before changes in working capital) of HK$6.8 billion (2018: HK$6.4 billion) principally comprising rental income. Changes in working capital increased the net cash inflow from operating activities to HK$6.8 billion (2018: HK$4.0 billion). For investing activities, the Group recorded a net cash outflow of HK$0.3 billion (2018: inflow of HK$0.1 billion).

Capital Commitments

As at 30 June 2019, major expenditures to be incurred in the coming years were estimated at HK$6.1 billion, of which HK$1.5 billion was committed. A breakdown (by segment) is as follows:

	As at 30 June 2019		
	Committed HK$ Million	**Uncommitted HK$ Million**	**Total HK$ Million**
Properties			
IP			
Hong Kong	93	757	850
Mainland China	152	205	357
	245	962	1,207
DP			
Mainland China	1,243	3,572	4,815
Properties total			
Hong Kong	93	757	850
Mainland China	1,395	3,777	5,172
	1,488	4,534	6,022
Hotels			
Hong Kong	13	7	20
Mainland China	-	106	106
	13	113	126
Group total	1,501	4,647	6,148

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$5.3 billion, which will be funded by its own financial resources.

(III) Human Resources

The Group had approximately 2,800 employees as at 30 June 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 six months ended 30 June 2019 - Unaudited

	Note	Six months ended 30 June **2019** **HK$ Million**	 2018 HK$ Million
Revenue	2	**8,498**	8,154
Direct costs and operating expenses		**(1,312)**	(1,397)
Selling and marketing expenses		**(153)**	(146)
Administrative and corporate expenses		**(165)**	(111)
Operating profit before depreciation, amortisation, interest and tax		**6,868**	6,500
Depreciation and amortisation		**(146)**	(148)
Operating profit	2 & 3	**6,722**	6,352
Increase in fair value of investment properties		**1,814**	5,224
Other net income		**-**	1
		8,536	11,577
Finance costs	4	**(460)**	(320)
Share of results after tax of:			
- An associate		**25**	48
- Joint ventures		**-**	(6)
Profit before taxation		**8,101**	11,299
Income tax	5	**(1,028)**	(1,018)
Profit for the period		**7,073**	10,281
Profit attributable to:			
Equity shareholders		**6,989**	10,179
Non-controlling interests		**84**	102
		7,073	10,281
Earnings per share	6		
Basic		**HK$2.30**	HK$3.35
Diluted		**HK$2.30**	HK$3.35

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2019 – Unaudited

	Six months ended 30 June	
	2019	2018
	HK$ Million	HK$ Million
Profit for the period	**7,073**	10,281
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Fair value changes on equity investments at fair value through other comprehensive income (non-recycling)	**152**	(33)
Items that may be reclassified subsequently to profit or loss :		
Exchange difference on translation of foreign operations		
- subsidiaries	**(12)**	(39)
Share of reserves of joint ventures	**(1)**	(11)
Other comprehensive income for the period	**139**	(83)
Total comprehensive income for the period	**7,212**	10,198
Total comprehensive income attributable to:		
Equity shareholders	**7,091**	10,124
Non-controlling interests	**121**	74
	7,212	10,198

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2019 – Unaudited

	Note	**30 June 2019 HK$ Million**	31 December 2018 HK$ Million
Non-current assets			
Investment properties		**261,022**	258,984
Hotel and club properties, plant and equipment		**8,163**	8,277
Interest in an associate		**1,313**	1,294
Interest in joint ventures		**1,603**	1,601
Equity investments		**2,548**	2,396
Deferred tax assets		**419**	336
Derivative financial assets		**271**	60
Other non-current assets		**48**	51
		275,387	272,999
Current assets			
Properties for sale		**3,880**	3,726
Inventories		**14**	13
Trade and other receivables	8	**950**	873
Prepaid tax		**40**	70
Bank deposits and cash		**3,398**	2,675
		8,282	7,357
Total assets		**283,669**	280,356
Non-current liabilities			
Derivative financial liabilities		**-**	(41)
Deferred tax liabilities		**(2,322)**	(2,278)
Other deferred liabilities		**(331)**	(331)
Bank loans and other borrowings		**(37,631)**	(39,027)
		(40,284)	(41,677)
Current liabilities			
Trade and other payables	9	**(7,841)**	(8,351)
Pre-sale deposits and proceeds		**(2,376)**	(660)
Derivative financial liabilities		**-**	(105)
Taxation payable		**(2,668)**	(2,161)
Bank loans and other borrowings		**(2,190)**	(3,070)
		(15,075)	(14,347)
Total liabilities		**(55,359)**	(56,024)
NET ASSETS		**228,310**	224,332
Capital and reserves			
Share capital		**304**	304
Reserves		**222,396**	218,493
Shareholders' equity		**222,700**	218,797
Non-controlling interests		**5,610**	5,535
TOTAL EQUITY		**228,310**	224,332

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION

1. PRINCIPAL ACCOUNTING POLICIES AND BASIS OF PREPARATION

This unaudited interim financial information has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The preparation of the unaudited interim financial information in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The unaudited interim financial information contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the annual financial statements for the year ended 31 December 2018. The unaudited interim financial information and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The accounting policies and methods of computation used in the preparation of the unaudited interim 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 number of new HKFRSs and amendments to HKFRSs which are first effective for 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 interest in associates and joint ventures
Annual Improvements to HKFRSs 2015-2017 Cycle	

The Group has assessed the impact of the adoption of the above new standards and amendments to HKFRSs and considered that there was no significant impact on the Group's results and financial position.

HKFRS 16, Leases

Under HKFRS 16, the lessees no longer distinguish between operating and finance leases. Instead, subject to practical expedients, a lease liability in respect of the present value of the minimum future lease payments and a corresponding right-of-use asset are recognised in the consolidated statement of financial position for all lease arrangements of more than 12 months by lessees. HKFRS 16 does not significantly change the way that lessors account for their rights and obligations under a lease.

At the commencement date of the lease, the Group as lessee recognises and measures a lease liability at the present value of the minimum future lease payment and recognises a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the Group recognises interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset and impairment losses (if any), instead of the previous accounting policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term.

Given the Group does not have material lease arrangements as a lessee, the Group considers that there is no significant financial impact on the consolidated financial statements of the Group upon the adoption of HKFRS 16.

The Group has not applied any new standards 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 properties, development properties and hotels. No operating segments have been aggregated to form the reportable segments.

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

Hotels 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.

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

Six months ended	**Revenue HK$ Million**	**Operating profit HK$ Million**	**Increase in fair value of investment properties HK$ Million**	**Other net (loss)/ 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**
30 June 2019								
Investment properties	**7,433**	**6,591**	**1,814**	**-**	**(441)**	**-**	**-**	**7,964**
Development properties	**10**	**(14)**	**-**	**-**	**-**	**25**	**-**	**11**
Hotels	**906**	**139**	**-**	**-**	**(19)**	**-**	**-**	**120**
Segment total	**8,349**	**6,716**	**1,814**	**-**	**(460)**	**25**	**-**	**8,095**
Investment and others	**149**	**78**	**-**	**-**	**-**	**-**	**-**	**78**
Corporate expenses	**-**	**(72)**	**-**	**-**	**-**	**-**	**-**	**(72)**
Group total	**8,498**	**6,722**	**1,814**	**-**	**(460)**	**25**	**-**	**8,101**
30 June 2018								
Investment properties	7,123	6,312	5,224	-	(303)	-	-	11,233
Development properties	66	(46)	-	(1)	(2)	48	(6)	(7)
Hotels	831	83	-	-	(15)	-	-	68
Segment total	8,020	6,349	5,224	(1)	(320)	48	(6)	11,294
Investment and others	134	66	-	2	-	-	-	68
Corporate expenses	-	(63)	-	-	-	-	-	(63)
Group total	8,154	6,352	5,224	1	(320)	48	(6)	11,299

b. Disaggregation of revenue

Six months ended 30 June	**2019 HK$ Million**	2018 HK$ Million
Revenue recognised under HKFRS 15		
Management and services income	**602**	572
Other rental related income	**157**	98
Hotel and club operations	**906**	831
Sale of development properties	**10**	66
	1,675	1,567
Revenue recognised under other accounting standards		
Rental income under IP segment	**6,674**	6,453
Investment and others	**149**	134
	6,823	6,587
Total revenue	**8,498**	8,154

The Group has applied practical expedient in paragraph 121 of HKFRS 15 to exempt the disclosure of revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date to its property management fees and other rental related income as the Group recognises revenue at the amount to which it has a right to invoice, which corresponds directly with the value to the customer of the Group's performance completed to date.

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to exempt the disclosure of revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date to its revenue from sales of completed properties as the performance obligation is part of a contract that has an original expected duration of one year or less.

c. Geographical information

	Revenue		**Operating profit**	
	2019	2018	**2019**	2018
Six months ended 30 June	**HK$ Million**	HK$ Million	**HK$ Million**	HK$ Million
Hong Kong	**8,398**	8,000	**6,688**	6,359
Outside Hong Kong	**100**	154	**34**	(7)
Group total	**8,498**	8,154	**6,722**	6,352

3. OPERATING PROFIT

Operating profit is arrived at :

	Six months ended 30 June	
	2019	2018
	HK$ Million	HK$ Million
After charging / (crediting) :-		
Depreciation and amortisation on		
– hotel and club properties, plant and equipment	**142**	144
– leasehold land	**4**	4
Total depreciation and amortisation	**146**	148
Staff cost	**506**	478
Cost of trading properties for recognised sales	**9**	96
Gross rental revenue from investment properties (Note)	**(7,433)**	(7,123)
Direct operating expenses of investment properties	**801**	760
Interest income	**(19)**	(13)
Dividend income from investments	**(52)**	(46)

Note: Rental income included contingent rentals of HK$789 million (2018: HK$676 million).

4. FINANCE COSTS

	Six months ended 30 June	
	2019	2018
	HK$ Million	HK$ Million
Interest charged on :		
Bank loans and overdrafts	**358**	234
Other borrowings	**92**	62
Total interest charge	**450**	296
Other finance costs	**26**	29
Less : Amount capitalised	**(16)**	(5)
Total	**460**	320

The Group's average effective borrowing rate for the period was 2.4% p.a. (2018: 1.5% p.a.)

5. INCOME TAX

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

	Six months ended June	
	2019	2018
	HK$ Million	HK$ Million
Current income tax		
Hong Kong		
- provision for the period	**1,007**	970
Outside Hong Kong		
- provision for the period	**55**	(3)
	1,062	967
Land appreciation tax ("LAT")	**1**	2
Deferred tax		
Origination and reversal of temporary differences	**(35)**	49
Total	**1,028**	1,018

a. The provision for Hong Kong profits tax is based on the profit for the period as adjusted for tax purposes at the rate of 16.5% (2018: 16.5%).

b. Income tax on profits assessable 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%.

c. Under the Provisional Regulations on LAT, all gains arising from transfer of real estate property in Mainland China are subject to LAT at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including cost of land use rights, borrowings costs and all property development expenditures.

d. Tax attributable to an associate and joint ventures for the six months ended 30 June 2019 of HK$8 million (2018: HK$43 million) is 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 period of HK$6,989 million (2018: HK$10,179 million) and 3,036 million ordinary shares in issue during the period.

There are no potential dilutive ordinary shares in issue during the period ended 30 June 2019 and 2018.

7. DIVIDENDS ATTRIBUTABLE TO EQUITY SHAREHOLDERS

	Six months ended 30 June			
	2019	**2019**	2018	2018
	HK$	**HK$**	HK$	HK$
	Per share	**Million**	Per share	Million
First interim dividend declared after the end of the reporting period	**1.10**	**3,340**	1.05	3,188

(a) The first interim dividend based on 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 30 June 2019 as follows:

	30 June 2019 HK$ Million	31 December 2018 HK$ Million
Trade receivables		
0 - 30 days	**315**	409
31 – 60 days	**15**	40
61 – 90 days	**6**	9
Over 90 days	**9**	10
	345	468
Other receivables and prepayments	**605**	405
	950	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 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 30 June 2019 as follows:

	30 June 2019 HK$ Million	31 December 2018 HK$ Million
Trade payables		
0 - 30 days	**92**	128
31 - 60 days	**6**	19
61 - 90 days	**5**	7
Over 90 days	**5**	7
	108	161
Rental and customer deposits	**3,636**	3,579
Construction costs payable	**610**	1,005
Amount due to joint ventures	**1,592**	1,593
Other payables	**1,895**	2,013
	7,841	8,351

10. REVIEW OF UNAUDITED INTERIM FINANCIAL INFORMATION

The unaudited interim financial information for the six months ended 30 June 2019 has been reviewed with no disagreement by the Audit Committee of the Company.

CORPORATE GOVERNANCE CODE

During the financial period under review, 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 period under review.

RELEVANT DATES FOR INTERIM DIVIDEND

Ex-entitlement date	22 August 2019 (Thu)
Latest time to lodge share transfer	4:30 p.m., 23 August 2019 (Fri)
Record date/time	6:00 p.m., 23 August 2019 (Fri)
Payment date	10 September 2019 (Tue)

In order to qualify for the above-mentioned 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 Friday, 23 August 2019.

By Order of the Board
Kevin C. Y. Hui
Company Secretary

Hong Kong, 6 August 2019

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. K. H. Leung, 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.