HARBOUR CENTRE DEVELOPMENT LIMITED

INTERIM REPORT 2019 Stock Code: 0051

Cover photo*: The Murray, Hong Kong, a Niccolo Hotel guards the intersection of traffic arteries in Central that run east-west and north-south. It commands open green views over Hong Kong Park and to Victoria Peak. It is well connected to other parts of Central and to the Mass Transit Railway.

* The photo has been edited and processed with computerised imaging techniques.

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GROUP RESULTS

Unaudited Group underlying net profit increased by 95% to HK$238 million (2018: HK$122 million). Inclusive of surplus on revaluation of Investment Properties ("IP"), Group profit attributable to equity shareholders decreased by 25% to HK$268 million (2018: HK$358 million).

Basic earnings per share were HK$0.38 (2018: HK$0.51).

INTERIM DIVIDEND

A first interim dividend of HK$0.07 (2018: HK$0.07) per share will be paid on 6 September 2019 to Shareholders on record as at 6:00 p.m., 19 August 2019. This will absorb a total amount of HK$50 million (2018: HK$50 million).

BUSINESS REVIEW

Economic performance in the Group's key markets turned down sharply since the beginning of the year and is generally not expected to recover quickly. Against that backdrop, Group revenue, operating profit and underlying net profit for the first half of 2019 fortunately reported improvements from a year earlier, partly due to business ramp-up at The Murray, Hong Kong, a Niccolo Hotel ("The Murray"), which opened in 2018.

As a whole, occupancy and unit rate were reasonably steady for the Group's core Hotel and IP segments. The Murray began to pick up revenue and pare its start-up loss in its first full year of business. Development Properties ("DP") continued to decline in significance as the project pipeline continued to shrink. Investments continued to report a steady return.

However, the second half of the year remains highly uncertain and raises serious concerns.

Overall, Group revenue in the first half increased by 8% to HK$799 million (2018: HK$740 million), operating profit by 81% to HK$275 million (2018: HK$152 million) and underlying net profit by 95% to HK$238 million (2018: HK$122 million). Inclusive of IP revaluation surplus, however, Group profit attributable to equity shareholders decreased by 25% to HK$268 million (2018: HK$358 million).

Pre-sale proceeds from Suzhou International Finance Square ("IFS") represented the main contributor to total net cash inflow amounting to HK$983 million. Net cash of HK$598 million was reported as at the end of the period (31 December 2018: net debt of HK$385 million).

Hong Kong

Investment Properties

Hong Kong retail sales momentum began to stumble during the period, although the Group's IP portfolio reported a 15% increase in revenue and a 13% increase in operating profit.

The portfolio was independently revalued as at 30 June 2019, and a net revaluation surplus of HK$30 million was registered.

Hotel

Investment helped to achieve occupancy at Marco Polo Hongkong Hotel ("MP Hong Kong") in Tsimshatsui at 94% with stable revenue per available room ("RevPAR"). Revenue was flat while operating profit decreased slightly by 12% due to increased costs.

In recognition of its leading position among discerning travellers, MP Hong Kong has been selected among the Top 10 "Best Hotels & Resorts in Hong Kong" in the 2019 DestinAsian Readers' Choice Awards, and attained the TripAdvisor Certificate of Excellence for its top-quality customer experience.

However, substantial capital expenditure and business disruption will be required for steps to be taken to restore the ageing hotel's competitiveness.

The Murray clinched an array of prestigious 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 highly-acclaimed Popinjays was crowned as one of "The 15 Best Rooftop Bars in the World" by Condé Nast Traveler Online.

This exquisite business and leisure destination has become the preferred choice for discerning travellers since its full operation in August 2018. Yet, business ramp-up in current market conditions is behind original expectation. As full depreciation of land and building costs over the 50-year lease term is the current accounting standard, EBITDA would be the immediate management focus.

Mainland China

Properties

DP segment experienced significant revenue and profit decline as the orderly exit led to substantial land bank depletion. At the end of June 2019, attributable land bank (net of recognised sales) was approximately 0.4 million square metres and the net order book stood at RMB2.8 billion for 81,000 square metres.

The 80%-owned Suzhou IFS is on track for phased completion between the end of this year and the second half of 2020. Accommodating 299,000 square metres of Grade A offices, Niccolo Suzhou (a luxury hotel), sky residences and luxury apartments, the 450-metre landmark skyscraper is poised to become one of the tallest in Jiangsu Province.

Pre-sale of the apartment units and office has commenced since late 2018. As at the end of the period, accumulated contracted sales amounted to RMB1.1 billion.

Full completion of the 27%-owned Shanghai South Station project is targeted for 2022.

Hotel

Unfavourable trading conditions, alongside increased supply, continued to weigh on the performance of Marco Polo Changzhou ("MP Changzhou") despite improvement.

FINANCIAL REVIEW

(I) Review of 2019 Interim Results

Group underlying net profit increased by 95% year-on-year to HK$238 million (2018: HK$122 million) mainly resulting from reduction in The Murray's loss and increase in rental income from MP Hong Kong.

Revenue and Operating Profit

Group revenue increased by 8% to HK$799 million (2018: HK$740 million) and operating profit by 81% to HK$275 million (2018: HK$152 million).

Hotel revenue increased by 18% to HK$499 million (2018: HK$423 million), benefitting from the increasing contribution from The Murray since its full operation in August 2018. MP Hong Kong's revenue remained unchanged for soft market demand. Operating profit improved to HK$19 million (2018: loss HK$37 million) mainly due to The Murray's operating loss reducing by HK$69 million. MP Hong Kong's operating profit decreased by 12% due to increase in operating expenses.

IP revenue increased by 15% to HK$220 million (2018: HK$192 million) and operating profit by 13% to HK$203 million (2018: HK$180 million), driven by the increase in rental income from MP Hong Kong.

DP revenue decreased by 85% to HK$10 million (2018: HK$66 million) with operating loss of HK$14 million (2018: HK$46 million) in the absence of major recognition. Including contributions from associate, DP reported underlying net profit at HK$28 million (2018: loss HK$9 million).

Operating profit from Investment and Others segment, comprising of interest and dividend income, increased by 19% to HK$70 million (2018: HK$59 million).

Finance Costs

Net finance costs amounted to HK$29 million (2018: HK$23 million) after interest capitalisation of HK$16 million (2018: HK$5 million) for the Group's DP projects.

Share of Results (after Tax) of Joint Ventures and Associates

Attributable profit from associate amounted to HK$25 million (2018: HK$48 million), solely from the Shanghai South Station project. No contribution (2018: loss HK$6 million) was recorded for joint ventures.

Income Tax

Taxation charge decreased to HK$26 million (2018: HK$51 million) due to an LAT downward adjustment for a previous DP project.

Profit Attributable to Equity Shareholders

Group profit attributable to equity shareholders for the period decreased by 25% to HK$268 million (2018: HK$358 million). Underlying net profit, excluding IP revaluation differences, increased by 95% to HK$238 million (2018: HK$122 million).

Earnings per share ("EPS") were HK$0.38 (2018: HK$0.51) based on 708.8 million issued shares.

(II) Review of Financial Position, Liquidity, Resources and Commitments

Shareholders' and Total Equity

As at 30 June 2019, shareholders' equity increased to HK$17,522 million (2018: HK$17,276 million), equivalent to HK$24.72 per share (2018: HK$24.38 per share). The increase was mainly attributable to increase in investment revaluation reserve by HK$152 million. Including non-controlling interests, the Group's total equity amounted to HK$18,140 million (2018: HK$17,889 million).

Assets and Liabilities

Total assets were recorded at HK$27,708 million (2018: HK$26,408 million). Total business assets, excluding bank deposits and cash, equity investments and deferred tax assets, amounted to HK$21,562 million (2018: HK$21,248 million).

Geographically, the Group's business assets in Hong Kong decreased by 1% to HK$13,129 million (2018: HK$13,242 million), representing 61% (2018: 62%) of the Group's total business assets.

Investment Properties

IP amounted to HK$6,486 million (2018: HK$6,396 million), which mainly included Hong Kong IP of HK$5,723 million (2018: HK$5,693 million). Mainland China IP, representing Suzhou IFS under development, was stated at book cost of HK$763 million (2018: HK$703 million).

Properties for Sale/Interests in Associates and Joint Ventures

DP amounted to HK$3,880 million (2018: HK$3,726 million), mainly representing DP portion of Suzhou IFS. DP undertaken through associates and joint ventures amounted to HK$2,916 million (2018: HK$2,895 million).

Hotels

Hotel properties comprised of The Murray, MP Hong Kong and MP Changzhou with total book cost at HK$7,674 million (2018: HK$7,758 million).

Pre-sale Deposits and Proceeds

Pre-sale deposits and proceeds rose by HK$1,716 million to HK$2,376 million (2018: HK$660 million).

Net Debt and Gearing

At 30 June 2019, the Group held net cash of HK$598 million (2018: net debt of HK$385 million), consisting of HK$3,179 million in cash and HK$2,581 million in bank borrowings, as a result of sales proceeds from Suzhou IFS.

Finance and Availability of Facilities and Funds

The Group's available loan facilities totalled HK$5,319 million, of which HK$2,581 million were utilised. Certain banking facilities were secured by mortgage over the Group's properties under development with total carrying value of HK$4,584 million (31 December 2018: HK$4,364 million).

The Group's debts were principally denominated in Hong Kong dollars ("HKD") and Renminbi ("RMB") at floating rates.

The use of derivative financial instruments is strictly controlled. Instruments entered into by the Group are mainly used for managing and hedging interest rate and currency exposures.

The Group continued to maintain a reasonable level of surplus cash denominated principally in HKD and RMB to facilitate business and investment activities. As at 30 June 2019, the Group also maintained a portfolio of equity investments mainly consisting of blue chip listed securities with an aggregate market value of HK$2,548 million (2018: HK$2,396 million), which is available for monetisation to meet needs if they arise. The performance of the portfolio was largely in line with the general market.

Net Cash Flows for Operating and Investing Activities

For the period under review, the Group generated a net cash inflow from operating activities of HK$1,237 million (2018: outflow HK$1,475 million), primarily attributable to sales proceeds from Suzhou IFS project. For investing activities, the Group recorded a net cash outflow of HK$84 million (2018: inflow HK$322 million) mainly for Suzhou IFS construction.

Commitments to Capital and Development Expenditure

As at 30 June 2019, major capital and development expenditure planned for the forthcoming years totalled HK$5.3 billion, of which HK$1.4 billion was committed primarily for Mainland China IP and DP. Uncommitted expenditure of HK$3.9 billion is mainly for the existing Mainland China IP and DP to be incurred by stage in the coming years.

The above expenditures will be funded by pre-sales and internal financial resources, including cash currently on hand, as well as bank loans. Other available resources include equity investments that can be liquidated when in need.

(III) Human Resources

The Group had approximately 1,200 employees as at 30 June 2019. Employees are remunerated according to their job responsibilities and the 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 INCOME STATEMENT

For The Six Months Ended 30 June 2019 – Unaudited

	Note	2019 HK$ Million	2018 HK$ Million
		Six months ended 30 June	
Revenue	2	**799**	740
Direct costs and operating expenses		**(314)**	(398)
Selling and marketing expenses		**(52)**	(58)
Administrative and corporate expenses		**(49)**	(29)
Operating profit before depreciation, interest and tax		**384**	255
Depreciation		**(109)**	(103)
Operating profit	2&3	**275**	152
Changes in fair value of investment properties		**30**	236
Other net income		**–**	2
		305	390
Finance costs	4	**(29)**	(23)
Share of results after tax of:			
Joint ventures		**–**	(6)
Associates		**25**	48
Profit before taxation		**301**	409
Income tax	5(a)	**(26)**	(51)
Profit for the period		**275**	358
Profit attributable to:			
Equity shareholders		**268**	358
Non-controlling interests		**7**	–
		275	358
Earnings per share	6		
Basic		**HK$0.38**	HK$0.51
Diluted		**HK$0.38**	HK$0.51

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	**275**	358
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Exchange difference on translation of the operations of:	**(12)**	(50)
– subsidiaries	**(12)**	(39)
– joint ventures	**–**	(11)
Share of reserves of joint ventures	**(1)**	–
Items that will not be reclassified to profit or loss:		
Fair value changes on equity investments	**152**	(33)
Other comprehensive income for the period	**139**	(83)
Total comprehensive income for the period	**414**	275
Total comprehensive income attributable to:		
Equity shareholders	**409**	282
Non-controlling interests	**5**	(7)
	414	275

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		**6,486**	6,396
Hotel properties, plant and equipment		**7,779**	7,867
Interest in associates		**1,313**	1,294
Interest in joint ventures		**1,603**	1,601
Equity investments		**2,548**	2,396
Deferred tax assets		**419**	336
Other non-current assets		**25**	27
		20,173	19,917
Current assets			
Properties for sale		**3,880**	3,726
Inventories		**5**	4
Trade and other receivables	8	**431**	263
Prepaid tax		**40**	70
Bank deposits and cash		**3,179**	2,428
		7,535	6,491
Total assets		**27,708**	26,408
Non-current liabilities			
Deferred tax liabilities		**(374)**	(372)
Bank loans		**(2,391)**	(2,743)
		(2,765)	(3,115)
Current liabilities			
Trade and other payables	9	**(2,721)**	(3,133)
Pre-sale deposits and proceeds		**(2,376)**	(660)
Taxation payable		**(1,516)**	(1,541)
Bank loans		**(190)**	(70)
		(6,803)	(5,404)
Total liabilities		**(9,568)**	(8,519)
NET ASSETS		**18,140**	17,889
Capital and reserves			
Share capital		**3,641**	3,641
Reserves		**13,881**	13,635
Shareholders' equity		**17,522**	17,276
Non-controlling interests		**618**	613
TOTAL EQUITY		**18,140**	17,889

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For The Six Months Ended 30 June 2019 – Unaudited

	Shareholders' equity						
	Share capital HK$ Million	Investments revaluation reserve HK$ Million	Exchange reserve HK$ Million	Revenue reserve HK$ Million	Total shareholders' equity HK$ Million	Non-controlling interests HK$ Million	Total equity HK$ Million
At 1 January 2019	**3,641**	**541**	**245**	**12,849**	**17,276**	**613**	**17,889**
Changes in equity for the period:							
Profit	**–**	**–**	**–**	**270**	**270**	**–**	**270**
Other comprehensive income	**–**	**152**	**(13)**	**–**	**139**	**5**	**144**
Total comprehensive income	**–**	**152**	**(13)**	**270**	**409**	**5**	**414**
2018 second interim dividend paid	**–**	**–**	**–**	**(163)**	**(163)**	**–**	**(163)**
At 30 June 2019	**3,641**	**693**	**232**	**12,956**	**17,522**	**618**	**18,140**
At 1 January 2018	3,641	853	593	12,467	17,554	649	18,203
Changes in equity for the period:							
Profit	–	–	–	358	358	–	358
Other comprehensive income	–	(33)	(43)	–	(76)	(7)	(83)
Total comprehensive income	–	(33)	(43)	358	282	(7)	275
2017 second interim dividend paid	–	–	–	(397)	(397)	–	(397)
At 30 June 2018	3,641	820	550	12,428	17,439	642	18,081

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For The Six Months Ended 30 June 2019 – Unaudited

	Six months ended 30 June	
	2019	2018
	HK$ Million	HK$ Million
Operating cash inflow	**314**	197
Changes in working capital/others	**1,016**	(942)
Tax paid	**(93)**	(730)
Net cash generated from/(used in) operating activities	**1,237**	(1,475)
Investing activities		
Additions to investment properties and hotel properties, plant and equipment	**(86)**	(37)
Other cash generated from investing activities	**2**	359
Net cash (used in)/generated from investing activities	**(84)**	322
Financing activities		
Dividends paid to equity shareholders	**(163)**	(397)
Other cash (used in)/generated from financing activities	**(230)**	331
Net cash used in financing activities	**(393)**	(66)
Increase/(decrease) in cash and cash equivalents	**760**	(1,219)
Cash and cash equivalents at 1 January	**2,428**	2,699
Effect on exchange rate changes	**(9)**	(22)
Cash and cash equivalents at 30 June (Note)	**3,179**	1,458
Note:		
Cash and cash equivalents		
Bank deposits and cash in the consolidated statement of financial position	**3,179**	1,458

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 "Listing Rules").

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.

With effect from 1 January 2019, the Group has adopted the below amendments which 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 amendments to HKFRSs and considered that there was no significant impact on the Group's results and financial position or any substantial changes in the Group's accounting policies.

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 accounts 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.

The financial information relating to the financial year ended 31 December 2018 that is included in the unaudited interim financial information as comparative information does not constitute the Company's statutory annual financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Companies Ordinance (Cap. 622 of the laws of Hong Kong) (the "Companies Ordinance") is as follows:

The Company has delivered the financial statements for the year ended 31 December 2018 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance. The Company's auditor has reported on those 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 (3) of the Companies Ordinance.

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 hotel, investment property and development property. No operating segment has been aggregated to form reportable segments.

Hotel segment represents the operations of The Murray, MP Hong Kong and MP Changzhou.

Investment property segment primarily represents the property leasing of the Group's investment properties in Hong Kong. Some of the Group's development projects in Mainland China include properties which are intended to be held for investment purposes on completion.

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

Management evaluates performance based on operating profit as well as the equity share of results of associates and joint ventures of each segment.

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

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

(a) Analysis of segment revenue and results

Six months ended	Revenue HK$ Million	Operating profit HK$ Million	Changes in fair value of investment properties HK$ Million	Other net income HK$ Million	Finance costs HK$ Million	Joint ventures HK$ Million	Associates HK$ Million	Profit/ (loss) before taxation HK$ Million
30 June 2019								
Hotel	**499**	**19**	**–**	**–**	**(20)**	**–**	**–**	**(1)**
Investment property	**220**	**203**	**30**	**–**	**(9)**	**–**	**–**	**224**
Development property	**10**	**(14)**	**–**	**–**	**–**	**–**	**25**	**11**
Segment total	**729**	**208**	**30**	**–**	**(29)**	**–**	**25**	**234**
Investment and others	**70**	**70**	**–**	**–**	**–**	**–**	**–**	**70**
Corporate expenses	**–**	**(3)**	**–**	**–**	**–**	**–**	**–**	**(3)**
Group total	**799**	**275**	**30**	**–**	**(29)**	**–**	**25**	**301**
30 June 2018								
Hotel	423	(37)	–	–	(15)	–	–	(52)
Investment property	192	180	236	–	(6)	–	–	410
Development property	66	(46)	–	(1)	(2)	(6)	48	(7)
Segment total	681	97	236	(1)	(23)	(6)	48	351
Investment and others	59	59	–	3	–	–	–	62
Corporate expenses	–	(4)	–	–	–	–	–	(4)
Group total	740	152	236	2	(23)	(6)	48	409

(i) Substantially all depreciation was attributable to the Hotel Segment.

(ii) No inter-segment revenue has been recorded during the current and prior periods.

(b) Disaggregation of revenue

	Six months ended 30 June	
	2019	2018
	HK$ Million	HK$ Million
Revenue recognised under HKFRS 15		
Management and services income	**17**	16
Other rental related income	**4**	5
Hotel	**499**	423
Sale of development properties	**10**	66
	530	510
Revenue recognised under other accounting standards		
Rental income under investment properties segment	**199**	171
Investment and others	**70**	59
	269	230
Total revenue	**799**	740

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 also 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 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.

3. Operating Profit

Operating profit is arrived at:

	Six months ended 30 June	
	2019	2018
	HK$ Million	HK$ Million
After charging/(crediting) :		
Depreciation	**109**	103
Staff costs (Note i)	**193**	173
Cost of trading properties for recognised sales	**9**	96
Gross rental revenue from investment properties (Note ii)	**(220)**	(192)
Direct operating expenses of investment properties	**9**	6
Interest income	**(18)**	(13)
Dividend income from equity investments	**(52)**	(46)

Notes:

(i) Staff costs included defined contribution pension schemes costs HK$11 million (2018: HK$7 million).

(ii) Rental income included contingent rentals of HK$79 million (2018: HK$53 million).

4. Finance Costs

	Six months ended 30 June	
	2019	2018
	HK$ Million	HK$ Million
Interest on bank borrowings	**39**	23
Other finance costs	**6**	5
	45	28
Less: Amount capitalised	**(16)**	(5)
Total	**29**	23

5. Income Tax

(a) Taxation charged to the consolidated income statement represents:

	Six months ended 30 June	
	2019 **HK$ Million**	2018 HK$ Million
Current income tax		
Hong Kong		
– provision for the period	**48**	46
Mainland China		
– provision for the period	**55**	(3)
	103	43
Land appreciation tax ("LAT") (Note (d))	**1**	2
Deferred tax		
Origination and reversal of temporary differences	**(78)**	6
Total	**26**	51

(b) The provision for Hong Kong profits tax is at the rate of 16.5% (2018: 16.5%) of the estimated assessable profits for the period.

(c) Income tax on profit assessable in Mainland China are corporate income tax calculated at a rate of 25% (2018: 25%) and withholding tax at a rate of up to 10%.

(d) 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.

(e) Under the tax law in Mainland China, withholding tax at 10% is imposed unless reduced by a treaty or agreement, for dividends distributed by a PRC-resident enterprise to its immediate holding company outside Mainland China.

(f) Tax attributable to joint ventures and associates for the six months ended 30 June 2019 of HK$8 million (2018: HK$43 million) is included in the share of results of joint ventures and associates.

6. Earnings Per Share

The calculation of basic and diluted earnings per share is based on the profit attributable to equity shareholders for the period of HK$268 million (2018: HK$358 million) and 709 million ordinary shares (2018: 709 million shares) in issue during the period.

7. Dividends Attributable to Equity Shareholders

	Six months ended 30 June			
	2019 HK$ Per share	**2019 HK$ Million**	2018 HK$ Per share	2018 HK$ Million
First interim dividend declared after the end of the reporting period	**0.07**	**50**	0.07	50

(a) The first interim dividend based on 709 million issued ordinary shares (2018: 709 million 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$163 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 doubtful debts) with an ageing analysis based on invoice date as at 30 June 2019 as follows:

	30 June 2019 HK$ Million	31 December 2018 HK$ Million
Trade receivables		
0 – 30 days	**47**	97
31 – 60 days	**4**	6
Over 60 days	**7**	6
	58	109
Prepayments	**59**	68
Other receivables	**237**	13
Amounts due from fellow subsidiaries	**77**	73
	431	263

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 invoice date as at 30 June 2019 as follows:

	30 June 2019 HK$ Million	31 December 2018 HK$ Million
Trade payables		
0 – 30 days	**19**	31
31 – 60 days	**3**	6
61 – 90 days	**4**	2
Over 90 days	**3**	2
	29	41
Other payables and provisions	**531**	549
Construction costs payable	**547**	921
Amounts due to fellow subsidiaries	**22**	29
Amounts due to joint ventures	**1,592**	1,593
	2,721	3,133

10. Fair Value Measurement of Financial Instruments

(a) Assets and liabilities carried at fair value

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair Value Measurement ("HKFRS 13"). The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique. The levels are defined as follows:

Level 1 valuations: Fair value measured using only level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 valuations: Fair value measured using level 2 inputs i.e. observable inputs which fail to meet level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

Level 3 valuations: Fair value measured using significant unobservable inputs.

Financial instruments carried at fair value

The fair value measurement information for financial instruments in accordance with HKFRS 13 is given below:

	Level 1 Total HK$ Million
At 30 June 2019	
Assets	
Equity investments:	
– Listed investments	**2,548**
At 31 December 2018	
Assets	
Equity investments:	
– Listed investments	2,396

During the six months ended 30 June 2019, there were no transfers of instruments between Level 1 and Level 2, or transfer into or out of Level 3 (31/12/2018: Nil).

The Group's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of reporting period in which they occur.

(b) Assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial assets and liabilities carried at cost or amortised costs are not materially different from their fair values as at 30 June 2019 and 31 December 2018. Amounts due from/(to) fellow subsidiaries and related parties are unsecured, interest free and have no fixed repayment terms.

11. Material Related Party Transactions

Material transactions between the Group and other related parties during the six months ended 30 June 2019 are set out below:

(a) There were in existence agreements with a subsidiary of The Wharf (Holdings) Limited ("Wharf"), being a fellow subsidiary of the Group, for the management, marketing, project management and technical services of the Group's hotel operations. Total fees payable under this arrangement during the current period amounted to HK$26 million (2018: HK$26 million). Such transaction constitutes a connected transaction as defined under the Listing Rules.

(b) There were in existence agreements with a subsidiary of Wharf and a subsidiary of the parent company for the property services in respect of the Group's property projects of subsidiaries. Total fees payable under this arrangement during the current period amounted to HK$12 million (2018: HK$8 million). Such transaction constitutes a connected transaction as defined under the Listing Rules.

(c) The Group leased out retail areas situated on G/F, 1/F, 2/F & 3/F of MP Hong Kong to Lane Crawford (Hong Kong) Limited, which is indirectly wholly owned by a trust of which a close family member of the chairman of the Company's ultimate holding company is the settlor. The rental earned by the Group from such shops during the current period, including contingent rental income, amounted to HK$178 million (2018: HK$149 million). Such a transaction does not constitute a connected transaction under the Listing Rules.

12. Contingent Liabilities

As at 30 June 2019, there were contingent liabilities in respect of guarantees given by the Company on behalf of subsidiaries relating to bank overdrafts, short term loans and credit facilities up to HK$3,480 million (31/12/2018: HK$3,980 million).

As at 30 June 2019, there were guarantees of HK$286 million (31/12/2018: HK$89 million) provided by the Group to the banks in favour of their customers in respect of the mortgage loans provided by the banks to those customers for the purchase of the Group's development properties. There were no (31/12/2018: HK$Nil) mortgage loan guarantees provided by joint ventures and associates of the Group to the banks in favour of their customers.

The Group and the Company have not recognised any deferred income of the above guarantees for subsidiaries, joint ventures and associates as their fair value cannot be reliably measured and their transaction price was HK$Nil (31/12/2018: HK$Nil).

As at the end of the reporting period, the directors do not consider it is probable that a claim will be made against the Group and the Company under any of the guarantees.

13. Commitments

The Group's outstanding commitments as at 30 June 2019 are detailed as below:

	30 June 2019			31 December 2018		
	Committed HK$ Million	Uncommitted HK$ Million	Total HK$ Million	Committed HK$ Million	Uncommitted HK$ Million	Total HK$ Million
Investment Property						
Hong Kong	12	–	12	12	–	12
Mainland China	152	205	357	142	278	420
	164	205	369	154	278	432
Hotel						
Hong Kong	12	7	19	5	5	10
Mainland China	–	106	106	–	114	114
	12	113	125	5	119	124
Development Property						
Mainland China	1,243	3,572	4,815	1,243	3,771	5,014
	1,243	3,572	4,815	1,243	3,771	5,014
Total						
Hong Kong	24	7	31	17	5	22
Mainland China	1,395	3,883	5,278	1,385	4,163	5,548
	1,419	3,890	5,309	1,402	4,168	5,570

14. 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 (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") were met by the Company, with the exception of Code Provision A.2.1 providing for the roles of chairman and chief executive to be performed by different individuals.

Such derivation is deemed appropriate as it is considered to be more efficient to have one single person to be the Chairman of the Company as well as to discharge the executive functions of a chief executive. 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 more than half of them being Independent Non-executive Directors.

CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct governing Directors' securities transactions with terms thereof being no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all Directors, and all of them have complied with the required standard set out in the Model Code and the code of conduct adopted by the Company during the period under review.

DIRECTORS' INTERESTS IN SECURITIES

(i) Interests in Shares and Debentures

At 30 June 2019, Directors of the Company had the following beneficial interests, all being long positions, in the shares and/or debentures of the Company, Wheelock and Company Limited ("Wheelock") (the ultimate holding company of the Company), Wharf Real Estate Investment Company Limited ("Wharf REIC") (the parent company of the Company), Wharf and Wharf Finance (No. 1) Limited (both being fellow subsidiaries of the Company). The percentages (where applicable) which the relevant securities represented to the numbers of shares in issue of the five companies are also set out below respectively:

	Quantity/ Amount held (percentage, where applicable)	**Nature of Interest**
The Company – Ordinary Shares		
Michael T P Sze	40,300 (0.0057%)	Family Interest
Wheelock – Ordinary Shares		
Stephen T H Ng	176,000 (0.0086%)	Personal Interest
Peter Z K Pao	175,760 (0.0086%)	Family Interest
Wharf REIC – Ordinary Shares		
Stephen T H Ng	1,009,445 (0.0332%)	Personal Interest
Peter Z K Pao	25,456 (0.0008%)	Family Interest
Michael T P Sze	53,949 (0.0018%)	Family Interest
Wharf – Ordinary Shares		
Stephen T H Ng	1,509,445 (0.0495%)	Personal Interest
Peter Z K Pao	25,456 (0.0008%)	Family Interest
Michael T P Sze	53,949 (0.0018%)	Family Interest
Frankie C M Yick	20,000 (0.0007%)	Personal Interest
Wharf Finance (No. 1) Limited – HKD Fixed Rate Notes due 2020		
Roger K H Luk	HK$4,000,000	Family Interest

Note:

The interests in shares disclosed above do not include interests in share options of the Company's associated corporation(s) held by Directors as at 30 June 2019. Details of such interests in share options are separately set out below under the sub-section headed "(ii) Interests in Share Options of Wharf".

(ii) Interests in Share Options of Wharf

Set out below are particulars of all interests (all being personal interests) in options held by Director(s) of the Company during the six months ended 30 June 2019 to subscribe for ordinary shares of Wharf granted/exercisable under the share option scheme of Wharf:

		No. of Wharf's shares under option					
Name of Director	**Date of grant** (Day/Month/Year)	**As at 1 January 2019**	**Exercised during the period**	**As at 30 June 2019** (percentage based on no. of shares in issue)		**Subscription price per share** (HK$)	**Vesting/Exercise Period** (Day/Month/Year)
Stephen T H Ng	07/07/2016	500,000	–	500,000		15.92	08/07/2017 – 07/07/2021
		1,000,000	–	1,000,000			08/07/2018 – 07/07/2021
		1,000,000	–	1,000,000			08/07/2019 – 07/07/2021
		1,000,000	–	1,000,000			08/07/2020 – 07/07/2021
	Total	**3,500,000**	**–**	**3,500,000**	(0.11%)		

Note:

Except as disclosed above, no share option of Wharf held by Directors of the Company (and/or their associate(s)) lapsed or was exercised or cancelled during the financial period, and no share option of Wharf was granted to any Director of the Company and/or their associate(s) during the financial period.

Except as disclosed above, as recorded in the register kept by the Company under section 352 of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO") in respect of information required to be notified to the Company and the Stock Exchange by the Directors and/or Chief Executive of the Company pursuant to the SFO or to the Model Code (or any other applicable code), there were no interests, whether long or short positions, held or deemed to be interested as at 30 June 2019 by any of Directors or Chief Executive of the Company in shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), nor had there been any rights to subscribe for any shares, underlying shares or debentures of the Company and its associated corporations held or deemed to be interested by any of them as at 30 June 2019.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

Given below are the names of all parties, other than person(s) who is/are Director(s), who/which were, directly or indirectly, interested in 5% or more of any class of voting shares of the Company as at 30 June 2019, the respective relevant numbers of shares in which they were, and/or were deemed to be, interested as at that date as recorded in the register kept by the Company under section 336 of the SFO (the "Register"):

Names	No. of Ordinary Shares (percentage based on total no. of shares in issue)	
(i) Wharf Real Estate Investment Company Limited	506,946,196	(71.53%)
(ii) Wheelock and Company Limited	506,946,196	(71.53%)
(iii) HSBC Trustee (C.I.) Limited	506,946,196	(71.53%)
(iv) Harson Investment Limited	57,054,375	(8.05%)

Notes:

(1) For the avoidance of doubt and double counting, it should be noted that the shareholdings stated against parties (i) to (iii) above represented the same block of shares.

(2) Wheelock's deemed shareholding interests stated above were held through, inter alia, its two wholly-owned subsidiaries, namely Wheelock Investments Limited and WF Investment Partners Limited, which in turn have interests in more than one-third of the number of shares in issue of Wharf REIC.

(3) Wharf REIC's deemed shareholding interests stated above were held through its three wholly-owned subsidiaries, namely Wharf REIC Holdings Limited, Wharf Estates Limited and Upfront International Limited.

All the interests stated above represent long positions. As at 30 June 2019, there were no short position interests recorded in the Register.

CHANGES IN INFORMATION OF DIRECTORS

Given below are changes in information of the Director(s) of the Company required to be disclosed pursuant to paragraphs (a) to (e) and (g) of the rule 13.51(2) under the Listing Rules since the publication of the last annual report of the Company:

	Effective Date
Stephen T H Ng	
• Greentown China Holdings Limited	
– appointed as non-executive director	11 July 2019
Peter Z K Pao	
• Modern Terminals Limited	
– appointed as director	1 June 2019
Frankie C M Yick	
• Chartered Institute of Procurement & Supply	
– ceased to be member	4 April 2019

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

By Order of the Board
Kevin C Y Hui
Director and Company Secretary

Hong Kong, 2 August 2019

As at the date of this interim report, the Board of Directors of the Company comprises Mr Stephen T H Ng, Hon Frankie C M Yick, Mr Kevin C Y Hui and Mr Peter Z K Pao, together with five Independent Non-executive Directors, namely, Mr David T C Lie-A-Cheong, Mr Roger K H Luk, Mr Michael T P Sze, Mr Brian S K Tang and Mr Ivan T L Ting.

Notwithstanding any choice of language or means for the receipt of corporate communications (viz. annual report, interim report, etc.) previously made by Shareholder(s) and communicated to the Company, Shareholder(s) is/are given the option (which may be exercised at any time by giving reasonable prior notice to the Company) of changing his/her/their choice of printed language version(s) to English only, Chinese only or both English and Chinese for receiving future corporate communications, or changing the choice of receiving future corporate communications to using electronic means instead of in printed version (or vice versa). Such notice of change of choice should contain the full name(s) in English, address and contact telephone number of the relevant Shareholder(s), together with the relevant words regarding the request for the change of choice, and should be sent to the Company, c/o the Company's Registrars, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, by post or by hand delivery, or via email to harbourcentre-ecom@hk.tricorglobal.com.