HARBOUR CENTRE DEVELOPMENT LIMITED

Stock Code: 0051

Annual Report 2019

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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BUSINESS MODEL

Harbour Centre Development Limited is a listed subsidiary of Wharf Real Estate Investment Company Limited ("Wharf REIC"), with property and hotel development and investment as its core business.

Flagship assets comprise Marco Polo Hongkong Hotel ("MP Hong Kong") and The Murray, Hong Kong, a Niccolo Hotel ("The Murray"). Strategically located in Harbour City in Tsimshatsui, MP Hong Kong has long been a core operating asset. The Murray, a luxury hotel at a prominent location in Central and part of the "Conserving Central" Initiative, opened in 2018.

As exit from Development Properties ("DP") in Mainland China continues, significantly lower revenue and profit from the depleted land bank were reported for 2019. With only two projects (Shanghai South Station and Suzhou International Finance Square ("IFS")) remaining in the land bank, revenue and profit will continue to be volatile and diminish in the coming years.

Other Mainland China assets comprise two hotels, Marco Polo Changzhou ("MP Changzhou") and Niccolo Suzhou (under development as part of Suzhou IFS).

BUSINESS STRATEGY

The Group endeavours to generate return to shareholders through:

(a) Owning and operating prime hotels and investment properties ("IP") in prime locations through continuous product and service enhancement to maximise income and value; and

(b) Exercising prudent and disciplined financial management at all times.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Chairman

Mr Stephen T H Ng

Non-executive Directors

Hon Frankie C M Yick, *SBS, JP*
Mr Peter Z K Pao

Independent Non-executive Directors

Mr David T C Lie-A-Cheong, *SBS, OM, JP*
Mr Roger K H Luk, *BBS, JP*
Mr Michael T P Sze
Mr Brian S K Tang
Mr Ivan T L Ting

COMPANY SECRETARY

Mr Kevin C Y Hui, *FCCA, CPA, FCIS, FCS*

AUDITORS

KPMG, Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited

REGISTRARS

Tricor Tengis Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE

16th Floor, Ocean Centre, Harbour City
Canton Road, Kowloon, Hong Kong
Tel: (852) 2118 8118
Fax: (852) 2118 8018
Website: www.harbourcentre.com.hk

SHAREHOLDER INFORMATION

LISTING

Ordinary Shares
The Stock Exchange of Hong Kong Limited
Stock Code: 51

As at 31 December 2019	
Number of issued shares	708,750,000
Market capitalisation (Approx.)	HK$9.0 billion

FINANCIAL CALENDAR

Payment of 2019 1st Interim Dividend	6 September 2019
Record Date and Time for 2019 2nd Interim Dividend	6:00 p.m., 2 April 2020
Payment of 2019 2nd Interim Dividend	21 April 2020
Closure of Register of Members (Shareholders' rights to attend and vote at Annual General Meeting)	28 April 2020 to 5 May 2020 (both days inclusive)
Annual General Meeting (at Jade Room, 6th Floor, The Marco Polo Hongkong Hotel 3 Canton Road, Kowloon, Hong Kong)	11:15 a.m., 5 May 2020

CONTACTS

Shareholder enquiries:	sh@harbourcentre.com.hk
Investor enquiries:	ir@harbourcentre.com.hk
Media enquiries:	pr@harbourcentre.com.hk

THE YEAR IN REVIEW

Hong Kong's economy was sluggish due to weakening external and internal environment, while export and domestic demand deteriorated sharply starting from the third quarter. Tourism encountered a heavy blow since the second half of the year with more than 40 countries or regions having issued travel advisories on the city. Visitor arrivals recorded a plunge of 14% in 2019 full year, the severest slump since 2003 SARS outbreak.

Hong Kong's retail sales felt the pinch by tumbling 11% in 2019. The Group's IP business, exposed to the worsening inbound tourism market and local consumption sentiment, was inevitably affected.

Significant drop was witnessed over the hotel occupancy in Hong Kong for the latter half of the year, which dampened the Group's hotel occupancy and room rates. Cancellations of international events further dragged on the overall hotel business.

The Murray, still in ramp-up mode, was more vulnerable to recent disruptions. Despite the tough environment, this award-winning hotel ranked first among the "Top 10 Hotels in Hong Kong and Macao" in Condé Nast Traveler's "Readers' Choice Awards 2019" for the second consecutive year and was honored to be included in "China's Top 50 Hotels" in 2019 Voyage Best Hotel & Resort Value Award. In addition, MP Hong Kong was awarded "Best 10 Hotels & Resorts in Hong Kong" in the 2020 DestinAsian Readers' Choice Awards. These international accolades fully testify both hotels' leading position among global travellers.

In Mainland China, the sale of DP assets was progressing orderly. The Group is on track to exit from DP in the Mainland by selling the remaining units at Suzhou IFS and Shanghai South Station project.

BUSINESS PERFORMANCE

Against the unfavourable backdrop, together with the start-up loss and depreciation of The Murray, the Group's total revenue from Hong Kong decreased by 10% to HK$1,207 million (2018: HK$1,348 million), and operating profit by 23% to HK$338 million (2018: HK$437 million).

During the year, the Group continued to liquidate assets in Mainland China. Total revenue from the Mainland decreased by 30% to HK$125 million (2018: HK$178 million) and an operating profit of HK$130 million (2018: operating loss of HK$109 million) was reported, mainly due to favourable prior year adjustments.

Overall, the Group's consolidated revenue decreased by 12% to HK$1,395 million (2018: HK$1,583 million) while operating profit increased by 38% to HK$531 million (2018: HK$385 million), and underlying net profit decreased by 15% to HK$435 million (2018: HK$512 million). Group profit decreased by 86% to HK$117 million (2018: HK$831 million) after taking the IP fair value changes and impairment provision for properties into account.

Pre-sale proceeds from Suzhou IFS represented the main contributor to total net cash inflow, which amounted to HK$1,993 million. Net debt of HK$1,725 million was reported as at the end of the year (31 December 2018: HK$385 million).

The Group's total assets aggregated to HK$28.4 billion as at the end of the year. Net asset value per share was HK$24.10 per share. The Board declared a second interim dividend of 15 HK cents per share. Full-year dividend will be 22 HK cents (2018: 30 HK cents) per share.

OUTLOOK

2019 revenue and underlying net profit were at their lowest since 2011, dividends since 2010 and attributable profit since 2002.

2020 has so far been drowned by a "perfect storm" of crisis proportions. On top of the seriously profound international geo-political/economic issues and coupled with the local political and social issues which carried over from 2019, the arrival of the novel coronavirus outbreak has sharply put the hotel and retail sectors on their knees, both in Hong Kong and Mainland China.

A weak market in January very quickly gave way to disaster. Hotel occupancy sank to below 10% in spite of very competitive room rates. Shopping malls turned empty. Out-of-home dining went into hibernation.

A few hotels have closed to slow the bleeding. Among those that remain open, many have had to resort to no pay leave on top of tight cost control to conserve cash to weather what can be a very long and hard winter.

Retail sales has plummeted across the board. Turnover rent evaporated immediately and rent relief initiatives were urgently needed. In addition, occupancy has fallen, as tenants close shop on lease expiry and new tenants are scarce, even at rental levels at a fraction of that a year ago.

There is no doubt that this could be the worst we have witnessed for these two sectors so far and our Company is no exception. We rely heavily on our balance sheet and the needed staying power as we have no crystal ball to tell us how much longer or how much harder this winter could be. Accordingly, the Board has resolved to defer all non-essential capital expenditures until further notice.

APPRECIATION

On behalf of the Board, my heartfelt thanks to all customers, business partners, colleagues and fellow directors for their support in the past difficult year.

I also wish to express my deepest gratitude to Mr Kevin C Y Hui, who stepped down from the Board at the end of 2019, for his invaluable counsel and contributions at the Board since 2015.

Stephen T H Ng
Chairman

Hong Kong, 28 February 2020

	2019 HK$ Million	2018 HK$ Million	Change
Results			
Revenue	**1,395**	1,583	–12%
Operating profit	**531**	385	+38%
Underlying net profit (Note a)	**435**	512	–15%
Profit attributable to equity shareholders	**117**	831	–86%
Total dividend for the year	**156**	213	–27%
Earnings per share			
Underlying net profit (Note a)	**HK$0.61**	HK$0.72	–15%
Reported profit	**HK$0.17**	HK$1.17	–85%
Dividends per share			
First interim	**HK$0.07**	HK$0.07	–%
Second interim	**HK$0.15**	HK$0.23	–35%
Total for the year	**HK$0.22**	HK$0.30	–27%
Financial Position			
Total assets	**28,385**	26,408	+7%
Total business assets (Note b)	**22,036**	21,248	+4%
Net debt	**(1,725)**	(385)	+348%
Shareholders' equity	**17,084**	17,276	–1%
Total equity	**17,467**	17,889	–2%
Number of issued shares (in million)	**709**	709	–
Net asset value per share	**HK$24.10**	HK$24.38	–1%
Net debt to total equity	**9.9%**	2.2%	+7.7% pt

	Profit to shareholders			Shareholders' equity		Earnings per share		
Financial year	Underlying net profit HK$ Million	Reported profit HK$ Million	Total equity HK$ Million	Total HK$ Million	Per share HK$	Underlying net profit HK$	Reported profit HK$	Dividends per share HK$
2010	226	1,015	11,440	10,674	15.06	0.32	1.43	0.20
2011	336	1,096	12,279	11,463	16.17	0.47	1.55	0.24
2012	1,937	3,058	15,563	14,591	20.59	2.73	4.31	0.96
2013	1,464	1,276	16,447	15,381	21.70	2.07	1.80	0.78
2014	851	1,082	17,246	16,205	22.86	1.20	1.53	0.60
2015	1,194	1,231	17,330	16,185	22.84	1.68	1.74	0.70
2016	762	692	16,546	15,829	22.33	1.08	0.98	0.50
2017	1,290	1,320	18,203	17,554	24.77	1.82	1.86	0.70
2018	512	831	17,889	17,276	24.38	0.72	1.17	0.30
2019	**435**	**117**	**17,467**	**17,084**	**24.10**	**0.61**	**0.17**	**0.22**

Notes:

(a) *Underlying net profit excludes changes in investment property revaluation and impairment for hotel properties.*

(b) *Business assets exclude unallocated corporate assets mainly comprising equity investments, deferred tax assets and bank deposits and cash.*

(c) *Ten-Year Financial Summary is detailed on page 126.*

Garden Lounge, The Murray

BUSINESS REVIEW

Hong Kong

IP

Due to the slump in visitor arrivals and weaker local consumption sentiment since the second half of the year, Hong Kong retail sales posted an 11% drop in 2019, including 22% in the fourth quarter. The Group's Hong Kong IP revenue and operating profit decreased by 9% and 11% respectively.

Hotel

The sharp decline in visitor arrivals and cancellation of international events due to the continual social activities dealt a heavy blow to the hotel industry. Occupancy rates suffered a dramatic drop and room rates in town were slashed, suppressing segmental performance. Revenue decreased by 15% while an operating loss was reported.

MP Hong Kong in Tsimshatsui achieved a higher than market average occupancy at 81% for 2019 against the downturn in the industry, underpinned by its established presence and ample accolades received.

The Murray suffered under the pressure of weakened inbound tourism and cancellation of major events in the latter half of the year. Alongside the full depreciation of land and building costs over the 50-year lease term, EBITDA remains as the primary management focus during the ramp-up stage and challenging market circumstances.

Mainland China

Properties

The exit from the DP segment is well underway. Attributable land bank (net of recognised sales) was approximately 0.4 million square metres at year-end. Lower revenue and profit were reported. The net order book stood as RMB3.5 billion for 108,000 square metres as at 31 December 2019.

Hotel

MP Changzhou continued to trade at a loss and is not expected to turn profitable in the foreseeable future.

FINANCIAL REVIEW

(I) Review of 2019 Final Results

Group underlying net profit decreased by 15% to HK$435 million (2018: HK$512 million) mainly attributable to the weak performance of Hotel and IP in the second half of 2019. In addition, DP also contributed lower profit in the absence of project completion.

Including IP revaluation deficits and impairment provision for hotel properties, profit attributable to shareholders decreased by 86% to HK$117 million (2018: HK$831 million).

Revenue and Operating Profit

Group revenue decreased by 12% to HK$1,395 million (2018: HK$1,583 million) while operating profit increased by 38% to HK$531 million (2018: HK$385 million).

Hotel revenue decreased by 15% to HK$835 million (2018: HK$978 million). Operating loss increased to HK$76 million (2018: profit HK$10 million) mainly due to decrease in operating profit of MP Hong Kong by 50% despite operating loss from The Murray was slightly narrowed.

IP revenue decreased by 9% to HK$373 million (2018: HK$411 million) and operating profit by 11% to HK$341 million (2018: HK$383 million) as adversely affected by lower retail rental income amid the acute retail market.

DP revenue decreased by 57% to HK$38 million (2018: HK$89 million) in absence of major project completion. Nevertheless, it recorded an operating profit amounting to HK$131 million (2018: loss HK$60 million), resulting mainly from a credit cost adjustment for Suzhou Times City, a project completed in prior years. Including profit contributions from associate, DP reported underlying net profit of HK$166 million (2018: HK$200 million).

Operating profit from Investment and Others, comprising of interest and dividend income from surplus cash and investments, increased by 42% to HK$149 million (2018: HK$105 million) with more dividend income from the Group's enlarged investments portfolio.

Decrease in Fair Value of IP

The Group's completed IP were stated at fair value based on an independent valuation as at 31 December 2019, resulting in a revaluation deficit of HK$161 million for the year (2018: surplus of HK$319 million). IP under development was carried at cost less impairment, if any, and would not be stated at fair value until the earlier of its fair value first becoming reliably measurable or the date of completion.

Impairment of Hotel

An impairment provision of HK$157 million (2018: HK$ Nil) was made for the MP Changzhou in Mainland China.

Finance Costs

Net finance costs amounted to HK$53 million (2018: HK$55 million) after interest capitalisation of HK$41 million (2018: HK$17 million) for the DP projects.

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

Attributable profit from associate amounted to HK$76 million (2018: HK$111 million), which was solely from the Shanghai South Station project. No contribution (2018: profit HK$122 million) was recorded for joint ventures.

Income Tax

Taxation charge for the year amounted to HK$89 million (2018: HK$89 million).

Profit Attributable to Equity Shareholders

Group profit attributable to equity shareholders for the year decreased by 86% to HK$117 million (2018: HK$831 million). Earnings per share ("EPS") were HK$0.17 (2018: HK$1.17) based on 708.8 million issued shares.

Excluding IP revaluation deficit of HK$161 million (2018: surplus of HK$319 million) and impairment provision for hotel properties of HK$157 million (2018: HK$ Nil), the Group's profit attributable to equity shareholders for the year was HK$435 million (2018: HK$512 million), representing a decrease of 15%. EPS before hotel property provision and IP revaluation deficit were HK$0.61 (2018: HK$0.72) based on 708.8 million issued shares.

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

Shareholders' and Total Equity

As at 31 December 2019, shareholders' equity slightly decreased to HK$17,084 million (2018: HK$17,276 million), equivalent to HK$24.10 per share (2018: HK$24.38 per share). The decrease was mainly caused by exchange deficit of HK$130 million on translation of the Group's Renminbi net assets and attributable investment revaluation surplus of HK$10 million. Including non-controlling interests, the Group's total equity amounted to HK$17,467 million (2018: HK$17,889 million).

Hotel properties are stated at cost less accumulated depreciation in accordance with prevailing Hong Kong Financial Reporting Standards ("HKFRSs").

Assets and Liabilities

Total assets were recorded at HK$28,385 million (2018: HK$26,408 million). Total business assets, excluding bank deposits and cash, equity investments and deferred tax assets, amounted to HK$22,036 million (2018: HK$21,248 million).

Geographically, the Group's business assets in Hong Kong decreased by 3% to HK$12,824 million (2018: HK$13,242 million), representing 58% (2018: 62%) of the Group's total business assets.

IP

IP amounted to HK$6,480 million (2018: HK$6,396 million), which primarily included Hong Kong IP of HK$5,532 million (2018: HK$5,693 million) with MP Hong Kong's podium valued at HK$4,938 million. Mainland IP, representing Suzhou IFS under development, was stated at book cost of HK$948 million (2018: HK$703 million).

Properties for Sale/Interests in Associates and Joint Ventures

DP amounted to HK$4,777 million (2018: HK$3,726 million), mainly representing DP portion of Suzhou IFS. DP undertaken through associates and joint ventures amounted to HK$2,853 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$7,408 million (2018: HK$7,758 million).

Pre-sale Deposits and Proceeds

Pre-sale deposits and proceeds increased by HK$2,512 million to HK$3,172 million (2018: HK$660 million), reflecting mainly the DP pre-sale proceeds of Suzhou IFS.

Net Debt and Gearing

At 31 December 2019, the Group had net debt of HK$1,725 million (2018: HK$385 million), consisting of HK$1,910 million in cash and HK$3,635 million in bank borrowings, mainly caused by purchases of investment.

Finance and Availability of Facilities and Funds

As at 31 December 2019, the Group's available loan facilities amounted to HK$4,992 million, of which HK$3,635 million were utilised. Certain banking facilities were secured by mortgage over the Group's properties under development with total carrying value of HK$5,701 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 31 December 2019, the Group also maintained a portfolio of equity investments mainly consisting of blue chip listed securities with an aggregate market value of HK$4,065 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 year under review, the Group generated a net cash inflow from operating activities of HK$1,007 million (2018: outflow HK$507 million), primarily attributable to sales proceeds from Suzhou IFS project exceeding construction cost payments. For investing activities, the Group recorded a net cash outflow of HK$1,858 million (2018: inflow HK$290 million) mainly for purchase of equity investments.

Commitments to Capital and Development Expenditure

As at 31 December 2019, major capital and development expenditure planned for the forthcoming years totalled HK$4.7 billion, of which HK$1.1 billion was committed primarily for Mainland IP and DP. Uncommitted expenditure of HK$3.6 billion is mainly for the existing Mainland IP and DP to be incurred by stage in the coming years.

The above expenditures will be funded by 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) Dividend Policy

Apart from compliance with the applicable legal requirements, the Company adopts a policy which targets to provide shareholders with reasonably stable and consistent dividends. Dividend payout from year to year will be subject to upward or downward adjustments as decided by the Board of Directors (the "Board") after taking into account of the Group's immediate as well as expected prevailing financial performance, cash flow, financial position, capital commitments and future requirements as well as the general business and economic environments.

The Board will review this policy from time to time with reference to its future prospect, capital requirements and other changing circumstances both internally and externally.

(IV) Human Resources

The Group had approximately 1,200 employees as at 31 December 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.

OUR SUSTAINABILITY APPROACH

The Group is committed to managing and minimising the environmental and social impacts generated from our business operations. In alignment with the sustainability governance structure of our parent company, Wharf REIC, the Group reports its sustainability performance to the Sustainability Steering Committee for continuous monitoring and regularly meets with the Cross-Business Unit Sustainability Group for knowledge exchange on best practices. In daily operation, dedicated executives are responsible to coordinate and manage sustainability programmes. The Group achieves beyond the minimum requirement of complying with legal and regulatory compliance and aspires to work together with our employees, customers, suppliers and other stakeholders to co-create a positive community impact.

OUR GOVERNANCE

The Group upholds the highest ethical and integrity standards and has zero tolerance for bribery, extortion, fraud or money laundering and corruption in our business operations. The Group adheres to the Prevention of Bribery Ordinance (Cap 201 of the laws of Hong Kong) and adopts a robust risk management and internal control system. Our Business Code of Conduct states the professional conduct the Group expects during business engagements and the Whistleblowing Policy and Procedures is in place to encourage employees to bring up concerns.

During the reporting year, there were no cases of non-compliance regarding the aspects mentioned above.

OUR ENVIRONMENT

The Group strictly complies with all applicable environmental laws and regulations in Hong Kong[1] and the Environmental Protection Law of the People's Republic of China. The Group continuously adopts a wide range of measures to reduce our carbon footprint by improving our energy and water efficiency and encouraging waste recycling and reduction. The Group, in line with our parent company Wharf REIC, is committed to reducing our electricity use. To achieve Wharf REIC's target, the Group continued to implement stricter control on the use of heaters during winter and to reduce the steam pressure required by the steam boiler to reduce energy consumption, to replace lighting in public areas with LED light to enhance energy efficiency, and to conduct night inspections by joint security departments to ensure that lights are turned off appropriately.

1 *Air Pollution Control Ordinance (Cap 311 of the laws of Hong Kong), Waste Disposal Ordinance (Cap 354 of the laws of Hong Kong), Water Pollution Control Ordinance (Cap 358 of the laws of Hong Kong), Noise Control Ordinance (Cap 400 of the laws of Hong Kong), Environmental Impact Assessment Ordinance (Cap 499 of the laws of Hong Kong) and Motor Vehicle Idling (Fixed Penalty) Ordinance (Cap 611 of the laws of Hong Kong)*

The Group recognizes the climate risks posed on our business operations and in 2019, the Group conducted a climate risk assessment to identify the significant risks posed by climate change and potential remedial measures. The assessment would be useful to develop an action plan in the future to mitigate climate risks and build up the resilience of our business.

The Group also implements initiatives to promote public awareness and foster an environmentally conscious company culture. The Group has been a supporter of the "No Plastic Straws" campaign and encourages our guests to eliminate the use of single-use plastics.

There were no cases of environmental non-compliance in the reporting year.

OUR PEOPLE

Employees serve as the foundation of our continuing success. The Group is committed to promoting inclusivity, productivity and safety in the workplace and strictly complies with all applicable laws and regulations for recruitment, remuneration[2] and workplace management. Seminars conducted by the Equal Opportunities Commission are held on a regular basis in order to ensure that employees are updated on the latest version of Anti-Discrimination Legislation[3]. Through a combination of on-the-job training and dedicated courses and seminars, the Group equips our employees with the required skillsets to deliver remarkable service, safeguard their health and safety, and uphold ethical business practices. The Group strictly complies with the Occupational Safety and Health Ordinance (Cap 509 of the laws of Hong Kong) and continuously reviews the Group's Safety Manual and Policy on Work Accidents and Injuries. Employees are also provided with regular trainings to further safeguard their health and safety.

There were no cases of non-compliance in the reporting year.

2 *Employment Ordinance (Cap 57 of the laws of Hong Kong) and Labour Law of the People's Republic of China*

3 *Sex Discrimination Ordinance (Cap 480 of the laws of Hong Kong), Disability Discrimination Ordinance (Cap 487 of the laws of Hong Kong), Family Status Discrimination Ordinance (Cap 527 of the laws of Hong Kong) and Race Discrimination Ordinance (Cap 602 of the laws of Hong Kong)*

OUR VALUE CHAIN

The Group attaches great emphasis on customer experience and satisfaction and complies with all applicable legal requirements[4] and voluntary codes[5] governing the material aspects of our business operations. Guided by the Operation Manual — Food Safety Hygiene, the Group conducts audits on our catering operations on a regular basis to identify food safety and hygiene issues and carry out corrective measures, if needed. To help our employees understand and comply with the Competition Ordinance (Cap 619 of the laws of Hong Kong), which prohibits anti-competitive agreements, abuse of market power and anti-competitive mergers and acquisitions[6], we have guidelines and trainings in place. Prior to the distribution, a stringent and thorough review of contracts, agreements and marketing collaterals is conducted. The Group adopts strict policies and procedures when handling customer's personal information in compliance with the Personal Data (Privacy) Ordinance (Cap 486 of the laws of Hong Kong) and EU General Data Protection Regulation. Relevant trainings are provided to employees to enhance their understanding. Customer data are handled solely by authorised personnel and documents are disposed appropriately after the removal of customer details. During the reporting year, there were no complaints and cases of non-compliance in regard to breaches of customer privacy.

We extend this commitment together with our environmental, social and governance ("ESG") values in the selection and interaction with our suppliers and require our suppliers to sign an Acknowledgment of Business Ethics and Integrity.

To further comply with the food safety control requirements of the government, we conduct supplier factory audits on a regular basis and adopt our traceability system of the country-of-origin labelling on all purchased food items.

OUR COMMUNITY

The Group is committed to local community empowerment through continuing our efforts in youth development, social welfare, education and environmental protection.

SUSTAINABILITY REPORTING

For more information about the Group's ESG performance, policies and initiatives, please refer to the Group's standalone ESG Report, which is prepared in accordance with the requirements of the ESG Reporting Guide (Appendix 27) issued by The Stock Exchange of Hong Kong Limited. The Group's ESG Report will be posted on the Company's corporate website www.harbourcentre.com.hk for download.

4 *Fire Services Ordinance (Cap 95 of the laws of Hong Kong), Hotel and Guesthouse Accommodation Ordinance (Cap 349 of the laws of Hong Kong), Food Hygiene Code published by the Government of the Hong Kong Special Administrative Region, Trade Descriptions Ordinance (Cap 362 of the laws of Hong Kong), consumer rights protection legislation and logo guidelines*

5 *Hazard Analysis and Critical Control Point ("HACCP") and the ISO22000 Food Safety Management System*

6 *At present, the Merger Rule only applies to mergers involving carrier licence holders within the meaning of the Telecommunications Ordinance (Cap 106 of the laws of Hong Kong)*

(A) CORPORATE GOVERNANCE PRACTICES

During the financial year ended 31 December 2019, all the code provisions in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") were met by the Company, with one exception as regards Code Provision A.2.1 as explained under section (D) below.

(B) DIRECTORS' SECURITIES TRANSACTIONS

During the financial year ended 31 December 2019, the Company adopted its own set of code of conduct regarding directors' securities transactions (the "Company's Code") 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 of the Company and all Directors have confirmed that they have complied with the required standard set out in the Model Code and/or the Company's Code during the financial year.

(C) BOARD OF DIRECTORS

(I) Composition of the Board and Directors' attendance records at Board meetings and annual general meeting

The Board has a balance of skills and experience. The Board composition and attendance records of our Directors at Board meetings and annual general meeting during the financial year ended 31 December 2019 are set out below:

	Number of Meeting(s) (Attended/Held)	
Directors	**Board Meetings**	**Annual General Meeting**
Chairman		
Stephen T H Ng	5/5	1/1
Non-executive Directors		
Frankie C M Yick	5/5	1/1
Kevin C Y Hui *(resigned on 1 January 2020)*	5/5	1/1
Peter Z K Pao	5/5	1/1
Independent Non-executive Directors		
David T C Lie-A-Cheong	5/5	1/1
Roger K H Luk	5/5	1/1
Michael T P Sze	5/5	1/1
Brian S K Tang	5/5	1/1
Ivan T L Ting	4/5	1/1

Each Director of the Company has been appointed on the strength of his calibre, experience and stature, and his potential to contribute to the proper guidance of the Group and its businesses. Apart from formal meetings, matters requiring Board approval were arranged by means of circulation of written resolutions.

During the financial year ended 31 December 2019, the Chairman held a meeting with Independent Non-executive Directors ("INED(s)") without the presence of other Directors.

(II) Appointment and Election of Directors

In accordance with the Articles of Association of the Company, all Directors are subject to retirement by rotation at an annual general meeting ("AGM") at least once every three years. Any new Directors appointed by the Board either to fill a casual vacancy or as an addition to the Board are subject to re-election by shareholders of the Company (the "Shareholder(s)") at the next general meeting of the Company. At each AGM, at least one-third of the Directors for the time being shall retire from office and the retiring Directors shall be eligible for re-election.

The Board, with support of the Nomination Committee, is responsible for developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment of Directors and assessing the independence of INEDs. A Nomination Policy was formally adopted (details provided under sub-section "(IV) Nomination Policy" of section "(C) BOARD OF DIRECTORS") which sets out the approach in identifying, assessing and nominating suitable candidates to the Board.

Mr Stephen T H Ng, Mr Michael T P Sze, and Mr Brian S K Tang will retire at the AGM to be held on 5 May 2020. The retiring Directors, being eligible, offer themselves for re-election. The proposed re-election of the retiring Directors was reviewed by the Nomination Committee and the Board with reference to the criteria set out in the Nomination Policy adopted by the Company. Both the Nomination Committee and the Board are of the view that each of the retiring Directors could continue to fulfill his role as required. The election of each candidate will be done through a separate resolution. Details with respect to the candidates standing for election as Directors are set out in the AGM circular to Shareholders.

(III) Board Diversity

Under the Board Diversity Policy adopted by the Board, the Company recognises and embraces the benefits of having a diverse Board towards enhancement of overall performance. With a vision to achieving a sustainable and balanced development, the Company regards increasing diversity at the Board level as an essential element in achieving a diversity of perspectives and supporting the attainment of its strategic goals. Directors are appointed on merits while having due regard for the benefits of diversity of the Board.

At present, more than half of the directors on the Board are INEDs. They represent diverse career experience in both international and local enterprises. They bring with them diverse professional backgrounds and they also hold or have held important public service positions in Hong Kong and China.

The board composition reflects various cultural and educational backgrounds, professional development, length of service, knowledge of the Company and a broad range of individual attributes, interests and values. The Board considers the current Board composition provides the Company with a good balance and diversity of skills and experience for the requirements of its business. The Board will continue to review its composition from time to time taking into consideration board diversity for the requirements and benefits of the Company's business.

The following table shows the diversity profile of the Board as at the date of this report:

Gender	Male: 100%
Age Group	40–50: 12.5% 51–60: 12.5% 61–70: 62.5% ≥71: 12.5%
Length of Service (No. of year)	< 4 years: 50% 4–10 years: 12.5% >10 years: 37.5%
Ethnicity	Chinese: 100%
Directorship with other publicly listed companies (Beyond the Group) (No. of company)	0: 37.5% 1–2: 50% ≥3: 12.5%
Career Experience	Diverse professional backgrounds: Engineering, banking, accounting, financial and securities, toy manufacturing, trading, investment, consulting and entrepreneurship. Important public service positions in Hong Kong and China: Business, industry and commerce, educations, regulatory legislation and politics.

(IV) Nomination Policy

The Company has adopted a formal Nomination Policy which sets out the approach in identifying, assessing and nominating suitable candidates to the Board. For an optimal composition of the Board with sustainability, the nomination will be in pursuit of a balance of skills, experience and diversity of perspectives in the Board appropriate to the requirements of the Company's business as well as succession continuity.

The criteria listed below will be used as reference in assessing the suitability of a proposed candidate:

- Character and integrity
- Skills, knowledge and experience relevant to the Company's business and corporate strategy
- Willingness and availability to dedicate sufficient time and attention to ensure the diligent performance of duties in concurrence with his/her other major appointments and significant commitments
- Attributes enhancing the Board diversity in line with the Company's Board Diversity Policy
- Such other perspectives appropriate to the Company's business
- Requirements in respect of INEDs under the Listing Rules and whether the candidate would be considered independent with reference to the independence guidelines as set out in the Listing Rules

For appointment of new director, the Nomination Committee as delegated by the Board shall identify and evaluate candidate based on the criteria set out above to determine whether the candidate is qualified for directorship. If the candidate is considered qualified, the Nomination Committee shall recommend to the Board for consideration and the Board, if considered appropriate, shall approve the appointment of the proposed candidate as a new Director.

For re-election of Director at general meeting, the Nomination Committee as delegated by the Board shall review the contribution made by the retiring Director and whether he/she can continue to fulfill his/her role as required with reference to the criteria set out above. The Board shall then, under advice of the Nomination Committee, make recommendation to Shareholders for the proposed re-election of Director(s) at the general meeting.

For any candidate (other than a Retiring Director) nominated by the Board or Shareholder(s) to stand for election as a Director in a general meeting of the Company, the Nomination Committee shall, upon receipt of the proposal of nomination and the biographical information of the candidate, evaluate his/her suitability based on the same criteria as set out above. The Board, under advice of the Nomination Committee, may or may not make recommendation to Shareholders on their voting to the proposed election in the relevant announcement and/or circular to Shareholders.

(V) Operation of the Board

The Company is headed by an effective Board which makes decisions objectively in the interests of the Company. The Company's management has closely monitored changes to regulations that affect its corporate affairs and businesses, and changes to accounting standards, and adopted appropriate reporting format in its interim report, annual report and other related documents to present a balanced, clear and comprehensible assessment of the Group's performance, position and prospects. Where these changes are pertinent to the Company or Directors' disclosure obligations, the Directors are either briefed during Board meetings or issued with regular updates and materials to keep them abreast of their responsibilities and of the conduct, business activities and development of the Group.

There is a clear division of responsibilities between the Board and the management. Decisions on important matters are specifically reserved to the Board while decisions on the Group's general operations are delegated to the management. Important matters include those affecting the Group's strategic policies, major investment and funding decisions and major commitments relating to the Group's operations.

(VI) Directors' Training

Newly appointed Directors receive briefings and orientation on legal responsibilities as a Director and the role of the Board. The Company Secretary also provides latest information of the business development, market changes and updates in the Listing Rules and relevant legal and regulatory requirements to the Directors in a timely manner in order to make an informed decision and discharge their duties and responsibilities.

The Company has also arranged for Directors to attend training sessions and forum which place emphasis on the roles, functions and duties of a listed company director. All the current Directors have, during the financial year under review, pursued continuous professional development and relevant details are set out below:

Directors	Type of trainings *(See Remarks)*
Stephen T H Ng	A, B
Kevin C Y Hui *(resigned on 1 January 2020)*	A, B
David T C Lie-A-Cheong	A, B
Roger K H Luk	A, B
Peter Z K Pao	A, B
Michael T P Sze	A, B
Brian S K Tang	A, B
Ivan T L Ting	A, B
Frankie C M Yick	A, B

Remarks:

A: attending seminars and/or conferences and/or forums

B: reading journals, updates, articles and/or materials, etc

(D) CHAIRMAN AND CHIEF EXECUTIVE

Mr Stephen T H Ng serves as the Chairman and also as the *de facto* chief executive of the Company. This is a deviation from Code Provision A.2.1 of the CG Code with respect to the roles of 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 chief executive thereby enabling more effective planning and better execution of long-term strategies. The Board believes that the balance of power and authority is adequately ensured by the operations and governance of the Board which comprises experienced and high calibre individuals, with more than half of them being INEDs.

The Chairman is responsible for the Board, focuses on Group strategies and Board issues, ensures a cohesive working relationship between members of the Board and management, and also in his capacity as *de facto* chief executive, he directly has responsibilities in certain major business units of the Group.

(E) NON-EXECUTIVE DIRECTORS

Five out of eight Directors are INEDs, a sufficient number to ensure their views to carry weight and implanting a strong independence element into the Board.

The Company has received written annual confirmation from each of the INEDs concerning their independence pursuant to Rule 3.13 of the Listing Rules, and considers that all INEDs are independent and meet the independence guidelines set out thereunder.

All those existing Directors of the Company who do not hold any executive office of the Company (including INEDs) have their respective terms of appointment coming to an end normally three years after their last re-election as Directors or, in the case of newly appointed Directors, at the next following general meeting. The re-election of any INED who has served on the Board for more than nine years is subject to (1) a separate resolution to be approved by Shareholders; and (2) further information to be sent out in the circular to Shareholders the reasons why the Board believes the relevant INED is still independent and should be re-elected.

Mr Michael T P Sze and Mr Brian S K Tang have served as INEDs for more than nine years. The Board is of the opinion that they remain independent, notwithstanding the length of their tenure. Both of them have confirmed to meet the criteria set out in the independence guideline of Rule 3.13 under the Listing Rules. They continue to demonstrate the attributes of INEDs and there is no evidence that their tenure has any impact on their independence. The Board believes that their profound knowledge and experience of the Group's business and their external experience continue to be of significant benefits to the Company, and that they remain independent.

(F) BOARD COMMITTEES

(I) Audit Committee

The Company has set up an Audit Committee comprising 3 INEDs, namely Mr Michael T P Sze (chairman of the Committee), Mr Roger K H Luk and Mr Brian S K Tang.

All Audit Committee members have sufficient experience in reviewing audited financial statements as aided by the auditors of the Group whenever required. In addition, Mr Michael T P Sze has the appropriate professional qualifications and/or experience in financial matters.

Three Audit Committee meetings were held during the financial year ended 31 December 2019. Attendance of the Audit Committee members is set out below:

Members	Attendance/Number of Meetings
Michael T P Sze *(Chairman)*	3/3
Roger K H Luk	3/3
Brian S K Tang	3/3

(i) The Audit Committee's terms of reference are aligned with the provisions set out in the CG Code and the recommendations set out in "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants. Given below are the main duties of Audit Committee:

(A) Relationship with the Company's external auditors

(a) to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditors, and to approve the remuneration and terms of engagement of the external auditors, and any questions of their resignation or dismissal;

(b) to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the auditors the nature and scope of the audit and reporting obligations before the audit commences; and

(c) to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed.

(B) Review of financial information of the Company

(a) to monitor integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained in them. In reviewing these reports before submission to the Board, the Committee should focus particularly on:

(i) any changes in accounting policies and practices;

(ii) major judgemental areas;

(iii) significant adjustments resulting from audit;

(iv) the going concern assumptions and any qualifications;

(v) compliance with accounting standards; and

(vi) compliance with the Listing Rules and legal requirements in relation to financial reporting;

(b) regarding (B)(a) above:

(i) members of the Committee should liaise with the Board and Senior Management and the Committee must meet, at least twice a year, with the Company's external auditors; and

(ii) the Committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, it should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, or for compliance function, or auditors (internal or external).

(C) Oversight of the Company's financial reporting system, and risk management and internal control systems

(a) to review the Company's risk management and internal control systems covering all controls; including financial, operational and compliance controls, with the support of the Risk Management and Internal Control Committee;

(b) to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budgets of the Company's accounting, internal audit and financial reporting functions;

(c) to consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings and review the statements concerning risk management and internal control to be included in the annual report;

(d) to ensure co-ordination between the internal and external auditors, to review and approve the annual internal audit plan, to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company for it to carry out an analysis and independent appraisal of the adequacy and effectiveness of the Company's financial reporting system and risk management and internal control systems, and to review and monitor the effectiveness of the internal audit function;

(e) to review the Group's financial and accounting policies and practices;

(f) to review the external auditors' management letter, any material queries raised by the auditors to management about accounting records, financial accounts or systems of control and management's response;

(g) to ensure that the Board will provide a timely response to the issues raised in the external auditors' management letter;

(h) to report to the Board on the matters in the code provisions in the Listing Rules;

(i) to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;

(j) to act as the key representative body for overseeing the Company's relations with the external auditors; and

(k) to consider other topics, as defined by the Board.

(D) Oversight of the Company's Corporate Governance Matters

(a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

(b) to review and monitor the training and continuous professional development of Directors and Senior Management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(e) to consider other topics, as defined by the Board.

(ii) The other work performed by the Audit Committee for the financial year ended 31 December 2019 is summarised below:

(a) approval of the remuneration and the appointment and terms of engagement of the external auditors;

(b) review of the external auditors' independence and objectivity and the effectiveness of audit process in accordance with applicable standards;

(c) review of the quarterly and annual financial statements before submission to the Board, with particular consideration of the points mentioned in paragraph (i)(B) above regarding the duties of the Audit Committee;

(d) discussion with the external auditors before the audit commences, the nature and scope of the audit;

(e) review of the audit programme of the internal audit function;

(f) review of the Group's financial controls, internal control and risk management systems; and

(g) meeting with the external auditors without executive Board members present.

(II) Remuneration Committee

The Company has set up a Remuneration Committee comprising 3 members, including Chairman of the Company, namely Mr Stephen T H Ng and two INEDs, namely Mr Michael T P Sze (chairman of the Committee) and Mr Brian S K Tang.

One Remuneration Committee meeting was held during the financial year ended 31 December 2019. Attendance of the Remuneration Committee members is set out below:

Members	Attendance/Number of Meeting
Michael T P Sze *(Chairman)*	1/1
Stephen T H Ng	1/1
Brian S K Tang	1/1

(i) The Remuneration Committee's terms of reference are aligned with the provisions set out in the CG Code. Given below are the main duties of Remuneration Committee:

(a) to make recommendations to the Board on the Company's policy and structure for all Directors' and Senior Management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

(b) to review and approve the management's remuneration proposals by reference to the Board's corporate goals and objectives;

(c) either:

(i) to determine, with delegated responsibility, the remuneration packages of individual executive Directors and Senior Management; or

(ii) to make recommendations to the Board on the remuneration packages of individual executive Directors and Senior Management.

This should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

(d) to make recommendations to the Board on the remuneration of non-executive Directors;

(e) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

(f) to review and approve compensation payable to executive Directors and Senior Management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

(g) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;

(h) to ensure that no Director or any of his associates is involved in deciding his own remuneration; and

(i) to advise Shareholders on how to vote with respect to any service contracts of Directors that require Shareholders' approval under the Listing Rules.

(ii) The work performed by the Remuneration Committee, which has the delegated authority and responsibility, for the financial year ended 31 December 2019 is summarised below:

(a) review of the Company's policy and structure for all remuneration of Directors and Senior Management;

(b) consideration and approval of the emoluments for the Chairman, all Directors and Senior Management; and

(c) review of the level of fees for Directors and Audit Committee members.

The remuneration payable to Directors and Senior Management by the Company is by reference to the level of emoluments normally paid by a listed company in Hong Kong to directors and senior executives of comparable calibre and job responsibilities so as to ensure a fair and competitive remuneration package as is fit and appropriate. The annual fees payable to each of the Directors of the Company, currently at the rate of HK$70,000 per annum (with effect from 1 January 2019), and the fee payable to each of those Directors who are also members of the Audit Committee of the Company, currently at the rate of HK$30,000 per annum (with effect from 1 January 2019), is by reference to the level of fees of similar nature normally paid by a listed company in Hong Kong to its directors.

(III) Nomination Committee

The Company has set up a Nomination Committee comprising 3 members, including Chairman of the Company, namely Mr Stephen T H Ng (chairman of the Committee) and two INEDs, namely Mr Michael T P Sze and Mr Brian S K Tang.

The Nomination Committee's terms of reference are aligned with the provisions set out in the CG Code. Given below are the main duties of Nomination Committee:

(a) to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(b) to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

(c) to assess the independence of INEDs; and

(d) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular Chairman of the Board and chief executive.

During the financial year ended 31 December 2019, no Nomination Committee meeting was held and the work performed by the Nomination Committee by way of resolutions in writing included the recommendation on the re-election of Mr Kevin C Y Hui, Mr Peter Z K Pao and Hon Frankie C M Yick as Director and Mr David T C Lie-A-Cheong, Mr Roger K H Luk and Mr Ivan T L Ting as INED.

(IV) Corporate Governance Functions

While the Board is and remains to be principally responsible for the corporate governance functions of the Company, it has delegated the relevant duties to Audit Committee to ensure the proper performance of corporate governance functions of the Company. In this connection, the Audit Committee terms of reference include various duties relating to corporate governance matters which are set out in paragraph "(D) Oversight of the Company's Corporate Governance Matters" on page 26 under sub-section "(I) Audit Committee" of section "(F) BOARD COMMITTEES" above.

(G) AUDITORS' REMUNERATION

For the financial year ended 31 December 2019, the external auditors of the Company received approximately HK$2.5 million for audit services and other services.

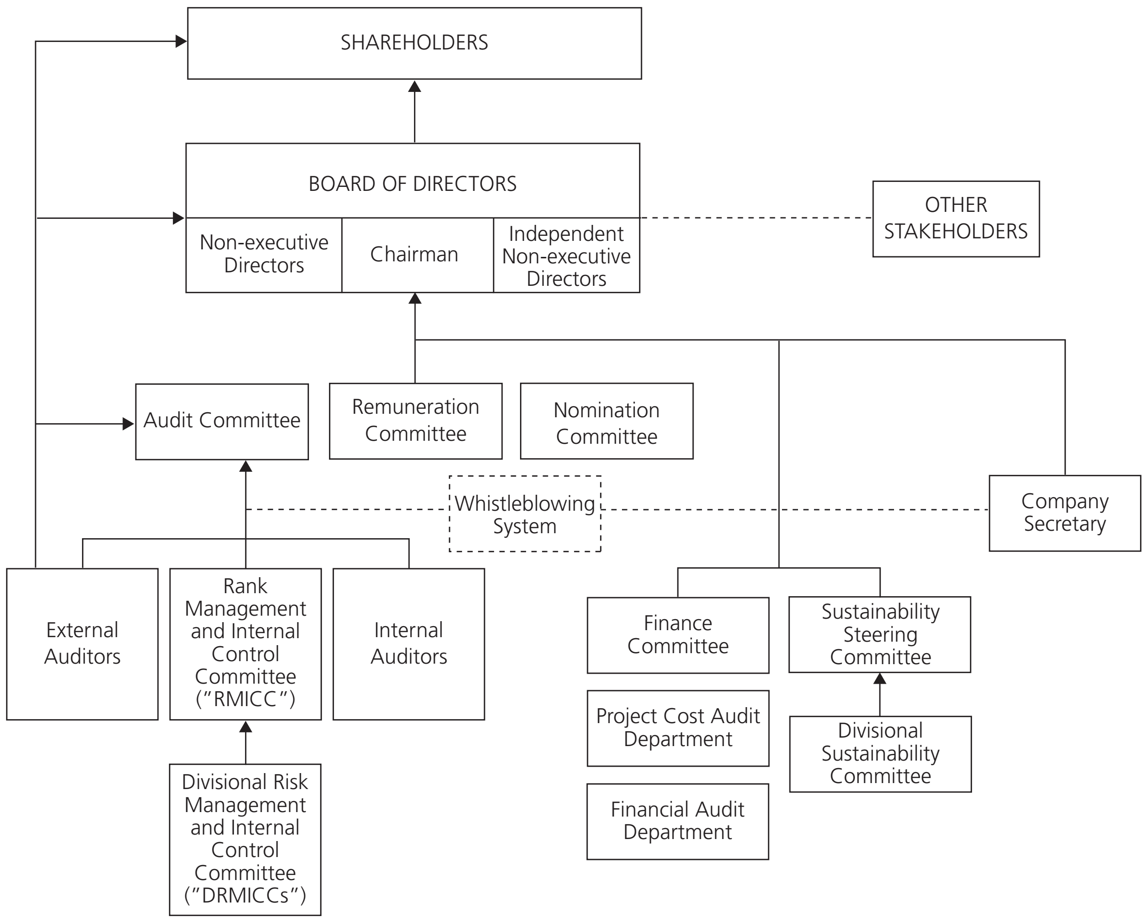
(H) RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

(I) Risk Governance Structure

The Board has overall responsibilities for the Group's risk management and internal control systems to safeguard the interests of the Company and its shareholders as a whole. To this end, the Board oversees and approves the Group's risk management and internal control strategies and policies, which are aimed at evaluating and determining the nature and extent of the risks that are compatible with the Group's strategic objectives and risk appetite, with main purpose for provision of reasonable assurance against material misstatement or loss rather than absolute elimination of the risk of failure to achieve business objectives.

Reporting to the Board, the Audit Committee is delegated with the authority and responsibility for ongoing monitoring and evaluation of the effectiveness of the relevant systems, with assistance of the Risk Management and Internal Control Committee.

In adherence to its long standing principle for prudent management, the Group has put in place a robust and inclusive framework, on leverage of the resources of the Wharf REIC Group in internal audit and other corporate control functions, to manage risks at different business operations in diversified segments within the organisation, diagrammatically illustrated as below:



RMICC plays a central role in the ongoing management of risk management and internal control system of the Group with the objective of assisting the Audit Committee in discharging of its oversight responsibility over risk management and internal control system of the Group. One of its major functions is to assist the Audit Committee to conduct periodical reviews of the effectiveness of the risk management and internal control systems of the Group based on the procedure as further explained below.

DRMICCs are set up at the level of business units with composition of the respective key management staff together with those charged with the internal control functions. Acting as divisional advisory bodies, DRMICCs are entrusted with implementation of the Group's control policies and on-going assessment of control activities in the relevant business units.

(II) Practices and Processes

With diversified range of business activities, the Group is operating in dynamic environments with varying risk exposures according to different business segments. Risk management and internal controls within the Group are not just serial process but dynamic and integrated operations embedded in the day-to-day routines with the primary ownership vested on the respective business units under stewardship residing with the Board.

Areas of responsibility of each operational unit are clearly defined with specific limits of authority in place to ensure effective checks and balances. Procedures have been designed for safeguarding assets against unauthorised use or disposition, maintenance of proper accounting records, assurance of the reliability of financial information for internal use or publication and compliance with relevant legislation and regulations. Risk management system, internal control measures and procedures are continuously under review and being improved where necessary in response to changes in business, operating and regulatory environments.

Furthermore, Whistleblowing Policy & Procedures has been adopted by the Group, with the authority and responsibility being delegated to the Audit Committee. Such Whistleblowing Policy is for employees and those who deal with the Group (e.g. customers and suppliers) to raise concerns, in confidence, with the Company Secretary, and any and all relevant complaints received may then be referred to the Audit Committee and/or Chairman of the Company about possible improprieties in any matter related to the Group.

The internal audit function monitors compliance with policies and standards and the effectiveness of internal control structures across the whole Group. Findings regarding internal control matters are reported to the Audit Committee. The external auditors have access to a full set of internal audit reports.

(III) Periodical Reviews

Under the leadership of RMICC, system reviews in a comprehensive approach on basis of COSO (Committee of Sponsoring Organisations of the Treadway Commission) framework are conducted throughout the Group at least annually. Each business unit, through the co-ordination of DRMICCs, makes a self-assessment by a process as illustrated in the following flow diagram.

Set business objectives → Identify risk factors → Assess likelihood of each risk factor → Examine control activities → Evaluation and conclusion

DRMICCs report on their reviews and findings, with the conclusions as to the effectiveness of the risk management and control activities of each individual business unit while RMICC will draw an overall review and conclusion for reporting to the Audit Committee and the Board. Such reviewing exercise is carried out on regular basis and affords good opportunities for the Group to identify and prioritise risks, and to develop and manage appropriate measures to control risks within acceptable levels and with a greater focus on anti-fraud measures.

(IV) Annual Confirmation

During the financial year ended 31 December 2019, the Audit Committee, with the assistance of RMICC and DRMICCs, has conducted a review of the effectiveness of the Group's internal control system and procedures covering all controls, including financial, operational and compliance and risk management, and the adequacy of, *inter alia*, resources, qualifications, experience and training of staff of the Company's accounting and financial reporting function. Confirmations from management in the form of certification that risk management and internal control procedures are functioning effectively to meet the respective financial reporting, operational and compliance needs, are submitted by business and corporate unit heads to RMICC for consolidation and reporting to the Audit Committee.

Based on the result of the review as reported by the Audit Committee, in respect of the financial year ended 31 December 2019, the Directors considered that the risk management and internal control systems and procedures of the Group were effective and adequate, and the Group has duly complied with the requirements under the CG Code relating to the risk management and internal control.

A discussion on the principal risks and uncertainties encountered by the Group are set out on pages 50 to 51 in the Directors' Report.

(I) INSIDE INFORMATION POLICY

The Company recognises the significance of consistent practices of fair disclosure with the aim of disclosing inside information in a timely and accurate manner.

The Company has a policy with regard to the principles and procedures for handling and disseminating the Company's inside information in compliance with the requirements under Part XIVA of the Securities and Futures Ordinance (Cap 571 of the laws of Hong Kong) (the "SFO") and the Listing Rules, and such policy has been communicated to the relevant senior executives of the Group. Company Secretary works closely with the senior executives in identifying potential inside information and assess the materiality thereof, and where appropriate, to escalate such information for the attention of the Board to resolve on further action(s) complying with the applicable laws and regulations.

In prevention of premature leakage of inside information, the Company has taken all reasonable measures from time to time to ensure proper preservation of confidentiality of inside information until disclosure to the general public, including *inter alia*:

- restrictive access to inside information to a limited number of employees on a need-to-know basis
- appropriate confidentiality agreements are put in place when entering into any significant negotiations
- inclusion of a strict prohibition on the unauthorised use or disclosure of inside information in Employee Code of Conduct
- an Insider Dealing Circular is issued to all employees annually reminding their duties and obligations in respect of any dealings in the listed securities of the Company as well as its subsidiaries and associated corporations

(J) DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors are responsible for overseeing the preparation of financial statements for the financial year ended 31 December 2019, which give a true and fair view of the affairs of the Company and of the Group and of the Group's results and cash flow for the year then ended and in compliance with the requirements of the Companies Ordinance (Cap 622 of the laws of Hong Kong) (the "Companies Ordinance") and the applicable disclosure provisions of the Listing Rules.

In preparing the financial statements for the financial year ended 31 December 2019:

(i) appropriate accounting policies are selected, applied consistently and in accordance with the Hong Kong Financial Reporting Standards;

(ii) prudent and reasonable judgments and estimates are made; and

(iii) the reasons for any significant departure from applicable accounting standards are stated, if applicable.

(K) COMMUNICATION WITH SHAREHOLDERS

A Shareholders Communication Policy has been adopted by the Company to ensure that Shareholders are provided with ready, equal and timely access to balanced and understandable information about the Company (including its financial performance, strategic goals and plans, material developments, governance and risk profile), in order to enable Shareholders to exercise their rights in an informed manner, and to allow Shareholders and the investment community to engage actively with the Company.

The Group uses several formal channels to ensure fair disclosure and comprehensive and transparent reporting of its performance and activities. Annual and interim reports are published/printed and printed copies of such reports or notifications of publication thereof on the Company's website are sent to all Shareholders. Such reports and press releases are posted and are available for download at the Company's corporate website www.harbourcentre.com.hk. Constantly being updated in a timely manner, the website contains a wide range of additional information on the Group's business activities.

The Company encourages its Shareholders to attend annual general meetings to ensure a high level of accountability and for Shareholders to stay informed of the Group's strategy and goals.

The Board and external auditors attend the annual general meetings to answer Shareholders' questions.

(L) SHAREHOLDERS' RIGHTS

(I) Convene an Extraordinary General Meeting

Pursuant to section 566 of the Companies Ordinance, on written requisition by Shareholders representing at least 5% of the total voting rights of all Shareholders having a right to vote at general meetings, the Directors of the Company must convene an extraordinary general meeting.

(II) Send Enquiries to the Board

The Company's corporate website www.harbourcentre.com.hk provides email address (for enquiry purpose only), postal address, fax number and telephone number by which Shareholders may at any time address their enquiries to the Board.

(III) Make Proposals at General Meetings

(i) The procedures for proposing candidate(s) for election as Director(s) at a Shareholders' meeting are set out in the Corporate Governance section of the Company's corporate website.

(ii) The procedures for proposing resolution(s) to be moved at the Company's annual general meeting(s) are as follows:

Pursuant to section 615 of the Companies Ordinance, Shareholder(s) can submit a written requisition to move a resolution at the Company's annual general meeting(s) if they represent:

- at least 2.5% of the total voting rights of all Shareholders who have a right to vote at the annual general meeting to which the requests relate; or
- at least 50 members who have a right to vote on the resolution at the annual general meeting to which the requests relate.

The relevant written requisition must:

(a) identify the resolution of which notice is to be given;

(b) be authenticated by the person or persons making it; and

(c) be received by the Company not later than 6 weeks before the relevant annual general meeting to which the requests relate; or if later, the time at which notice is given of that meeting.

Any written requisitions from Shareholders pursuant to sections 566 and 615 of the Companies Ordinance as set out in sections L(I) and L(III) above must be sent to the Company to be deposited at the Company's registered office (16th Floor, Ocean Centre, Harbour City, Canton Road, Kowloon, Hong Kong).

(M) AMENDMENTS TO CONSTITUTIONAL DOCUMENTS

There is no significant change in the Company's constitutional documents during the financial year ended 31 December 2019.

(N) DIVIDEND POLICY

A Dividend Policy, as set out in Financial Review on page 14, was adopted by the Company pursuant to Code Provision E.1.5 of the CG Code.

The Board of Directors has pleasure in submitting their Report and the Audited Financial Statements for the financial year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and those of its principal subsidiaries are set out on pages 122 to 124.

The principal activities of the Group are ownership of hotels and investment properties as well as development properties in Mainland China for which an orderly exit is in progress.

BUSINESS REVIEW

Discussion and analysis of the Group's business in accordance with Schedule 5 of the Companies Ordinance are covered in different sections of this Annual Report as set out below, which shall form an integral part of this Directors' Report:

- Chairman's Statement (pages 6 to 7)
- Business and Financial Review (pages 10 to 14)
- Financial Highlights (page 8)
- Business Model and Business Strategy (page 3)
- Principal Risks and Uncertainties (pages 50 to 51)
- Risk Management and Internal Control Systems (pages 29 to 32)
- Financial Risk Management and Fair Values (Note 20 to the Financial Statements on pages 87 to 93)
- Contingent Liabilities (Note 24 to the Financial Statements on page 96)
- Events after the Reporting Period (Note 28 to the Financial Statements on page 99)

In addition, the Group's policies and performance in the area of environmental, social and governance, and compliance with relevant laws and regulations are discussed in "Corporate Sustainability" on pages 15 to 17.

RESULTS AND APPROPRIATIONS

The results of the Group for the financial year ended 31 December 2019 are set out in the Consolidated Income Statement and Consolidated Statement of Comprehensive Income on pages 59 to 60.

Appropriations of profits during the financial year are set out in the Consolidated Statement of Changes in Equity on page 62.

DIVIDENDS

A first interim dividend of 7 HK cents per share was paid on 6 September 2019. In lieu of a final dividend, a second interim dividend of 15 HK cents per share will be paid on 21 April 2020 to Shareholders on record as at 6:00 p.m. on 2 April 2020. Total distribution for the year of 2019 will amount to 22 HK cents (2018: 30 HK cents) per share.

DONATIONS

The Group made donations during the financial year totalling HK$2 million.

SHARE CAPITAL

Details of movement in share capital of the Company during the financial year are set out in Note 21 to the Financial Statements on pages 93 to 94.

EQUITY-LINKED AGREEMENT

No equity-linked agreement which may result in the Company issuing shares was entered into or existed during the financial year.

DIRECTORS

The Directors of the Company during the financial year and up to the date of this report are Mr Stephen T H Ng, Mr Kevin C Y Hui (resigned on 1 January 2020), Mr David T C Lie-A-Cheong, Mr Roger K H Luk, Mr Peter Z K Pao, Mr Michael T P Sze, Mr Brian S K Tang, Mr Ivan T L Ting and Hon Frankie C M Yick.

Mr Stephen T H Ng, Mr Michael T P Sze and Mr Brian S K Tang are due to retire by rotation from the Board at the forthcoming AGM in accordance with Article 106(A) of the Company's Articles of Association. The retiring Directors, being eligible, offer themselves for re-election. None of the retiring Directors proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

A list of persons who serve/served as directors of the Company's subsidiaries during the financial year and up to the date of this report is set out in the sub-section headed "(K) Directors of Subsidiaries" on page 52.

INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transaction, arrangement or contract of significance in relation to the Company's business to which any subsidiary of the Company, the holding companies of the Company, or any subsidiary of such holding companies was a party and in which a Director of the Company or any connected entities of a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the financial year or at any time during that financial year.

MANAGEMENT CONTRACTS

Saved as disclosed herein, no contract for the management and administration of the whole or any substantial part of any business of the Company were entered into or existed during the financial year.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the financial year was the Company, its subsidiaries or its holding companies or any subsidiary of such holding companies a party to any arrangement to enable the Directors of the Company to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate, with the exception that during the year, there existed certain outstanding options to subscribe for ordinary shares of The Wharf (Holdings) Limited ("Wharf"), fellow subsidiary of the Company, granted under Wharf's share option scheme to certain employees/directors of companies in Wharf group, some of whom were Directors of the Company during the financial year.

Under the rule of Wharf's Share Option schemes (such rules being subject to the relevant laws and rules applicable from time to time), shares of Wharf would be issued at such respective prices as being not less than the highest of (a) the indicative price as specified in the written offer; (b) the closing price on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant of the options; and (c) the average closing price on the Stock Exchange for the five trading days immediately preceding the date of grant; and the relevant options would be exercisable during such periods, not being beyond the expiration of 10 years from the date of grant of relevant options, as determined by the board of directors of Wharf.

During the financial year, a total of 500,000 ordinary shares of Wharf were allotted and issued to Mr Stephen T H Ng, Chairman of the Company, on his exercise of options under Wharf's share option scheme, relevant details of which are set out on page 44.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Articles of Association, every Director is entitled to be indemnified out of the assets of the Company against all costs, expenses, losses or liabilities, which he may sustain or incur in or about the execution and discharge of the duties of his office, to the extent as permitted by laws.

The Company has, together with its parent company (Wharf REIC), its ultimate holding company (Wheelock and Company Limited ("Wheelock")) and a listed fellow subsidiary (Wharf), maintained directors' liability insurance which has been in force throughout the financial year and up to the date of this report to provide appropriate insurance cover for directors of their respective group companies, including *inter alia* the Directors of the Company.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

AUDITORS

The Financial Statements now presented have been audited by KPMG, Certified Public Accountants, who retire and being eligible, offer themselves for re-appointment.

OTHER CORPORATE INFORMATION

Other corporate information supplementary to this Directors' Report are set out on pages 39 to 52.

By Order of the Board
Kevin C Y Hui
Company Secretary

Hong Kong, 28 February 2020

OTHER CORPORATE INFORMATION

(A) BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

(i) Directors

Stephen Tin Hoi NG, *Chairman* (Age: 67)
Mr Ng has been Chairman and Director of the Company since 2009. He also serves as chairman of the Nomination Committee and a member of the Remuneration Committee. Mr Ng is deputy chairman of Wheelock, the ultimate holding company of the Company, chairman and managing director of Wharf REIC, the holding company of the Company, chairman and managing director of Wharf, a fellow subsidiary of the Company, all of which are publicly listed companies in Hong Kong. Furthermore, he is non-executive chairman of publicly listed Joyce Boutique Group Limited, a non-executive director of publicly listed Greentown China Holdings Limited ("Greentown") and chairman of Wheelock Properties (Singapore) Pte. Ltd. (formerly known as Wheelock Properties (Singapore) Limited and publicly listed in Singapore until October 2018), a subsidiary of Wharf REIC. He formerly served as chairman and chief executive officer of publicly listed i-CABLE Communications Limited until his resignation in September 2017 and also as a non-executive director of Hotel Properties Limited (publicly listed in Singapore and formerly an associated company of Wheelock) until his resignation in December 2018.

Mr Ng was born in Hong Kong in 1952 and grew up in Hong Kong. He attended Ripon College in Ripon, Wisconsin, USA and the University of Bonn, Germany, from 1971 to 1975, and graduated with a major in mathematics. He is chairman of Project *WeCan* Committee (a Business-in-Community school project), a council member, vice chairman of General Committee and a member of Executive Committee of the Employers' Federation of Hong Kong and a council member of the Hong Kong General Chamber of Commerce.

David Tai Chong LIE-A-CHEONG, *SBS, OM, JP, Director* (Age: 60)
Mr Lie-A-Cheong has been appointed as an INED of the Company since 2018. He is the executive chairman of Newpower International (Holdings) Co., Ltd. and China Concept Consulting Ltd. He has been selected as a member of the National Committee of the 8th, 9th, 10th, 11th and 13th Chinese People's Political Consultative Conference since 1993. He acted as a panel convenor cum member of the Financial Reporting Review Panel of Hong Kong Special Administrative Region ("HKSAR") from 2007 to 2013. Mr Lie-A-Cheong is currently the honorary consul of the Hashemite Kingdom of Jordan in the HKSAR, the chairperson of the Hong Kong-Taiwan Economic and Cultural Cooperation and Promotion Council, a standing committee member of the China Overseas Friendship Association and a general committee member of the Hong Kong General Chamber of Commerce. Mr Lie-A-Cheong is also an INED of two companies publicly listed in Hong Kong, namely, Aluminum Corporation of China Limited and Herald Holdings Limited.

Roger Koon Hoo LUK, *BBS, JP, Director* (Age: 68)
Mr Luk, *FHKIB*, has been appointed as an INED of the Company since 2018. He also serves as a member of the Audit Committee. He has over 30 years of comprehensive experience in accounting and financial management. He joined Hang Seng Bank in 1975, became the bank's director and deputy chief executive in 1994 and then became managing director and deputy chief executive of the bank in 1996 until his retirement in May 2005. Mr Luk is an INED of four companies publicly listed in Hong Kong, namely China Properties Group Limited, Computime Group Limited, Hung Hing Printing Group Limited and i-CABLE Communications Limited, and also an INED of Octopus Cards Limited. Mr Luk was formerly an INED of Wheelock Properties Limited (formerly a listed public company until it became a wholly-owned subsidiary of Wheelock in July 2010) from February 2008 to July 2010. He also serves as a council member of The Chinese University of Hong Kong, and a non-executive director (non-official) of Urban Renewal Authority. Mr Luk also served in the past on the Court and Council of Hong Kong Baptist University, the Advisory Committee on New Broad-based Taxes, the Personal Data (Privacy) Advisory Committee, the Central Policy Unit of the Hong Kong Government, the Statistics Advisory Board, the Broadcasting Authority, the Advisory Committee and the Investor Education Advisory Committee of the Securities and Futures Commission, the Barristers Disciplinary Tribunal Panel, the Operations Review Committee of ICAC and the Town Planning Board. He was an appointed member of the Hong Kong Legislative Council from 1992 to 1995, and also a member of the first Election Committee of the Legislative Council.

Mr Luk graduated with a Bachelor of Social Sciences Degree in Statistics from The University of Hong Kong and also holds a Master of Business Administration Degree granted by The Chinese University of Hong Kong. He is a fellow of The Hong Kong Institute of Bankers. He is also a Non-official Justice of the Peace and was awarded the honour of Bronze Bauhinia Star in 2004 in recognition of his contributions to public services.

Peter Zen Kwok PAO, *Director* (Age: 70)
Mr Pao has been appointed as a Director of the Company since 2018. He joined the Wheelock/Wharf group in 1993 and has been serving as a director of the non-listed subsidiaries of Wheelock, Wharf as well as Wharf REIC. He is currently a director of Wheelock's Investment Division and a director of the Wharf/Wharf REIC Group overseeing its Investor Relations Department. Furthermore, Mr Pao is a director of Modern Terminals Limited ("MTL"), being a fellow subsidiary of the Company. He is also a member of the Project *WeCan* Committee and a standing committee member of The Chinese General Chamber of Commerce.

Mr Pao was born in Shanghai and graduated with a Bachelor of Science in Industrial Management from Purdue University in the United States of America in 1974. Prior to joining the Wheelock/Wharf group, he worked extensively in the finance and shipping industries in Hong Kong and Tokyo.

Michael Tsai Ping SZE, *Director* (Age: 74)
Mr Sze, *FCA (Eng. & Wales), FCCA, FCPA*, has been an INED of the Company since 2007. He also serves as a member and chairman of the Audit Committee and Remuneration Committee as well as a member of the Nomination Committee. Mr Sze has over 30 years of experience in the financial and securities field. He graduated with a Master of Laws (LLM) Degree from The University of Hong Kong. He was a former member of The Securities and Futures Appeals Tribunal. He was also a former council member and member of the Main Board Listing Committee of Stock Exchange. Mr Sze is an INED of Greentown.

Brian See King TANG, *Director* (Age: 70)
Mr Tang has been an INED of the Company since 2008. He also serves as a member of the Audit Committee, Nomination Committee and Remuneration Committee. He has over 30 years of comprehensive experience in accounting and financial management. He graduated with a Bachelor Degree in Science from the California State University of Long Beach, USA. He was senior vice president of CITIC Ka Wah Bank Limited ("CKWB") for four years from 1997 with responsibilities covering treasury operations, remittance, bills operations, general services, property management, information technology and loan administration. He also served as a director of CKWB from 1998 to 2001. Before joining CKWB, he worked with various large organisations including 17-year service at Morgan Guaranty Trust Co as vice president and financial controller, and one-year service at Cheung Kong (Holdings) Limited as chief accountant.

Ivan Tien Li TING, *Director* (Age: 44)
Mr Ting has been appointed as an INED of the Company since 2018. He holds a Bachelor's Degree in International Politics and Economics from Middlebury College, Vermont. He is an executive director of a company publicly listed in Hong Kong, namely Kader Holdings Company Limited. Mr Ting was chairman of the Hong Kong Chapter of Entrepreneurs' Organization from 2006 to 2007 and its Global Board from 2016 to 2017. He was on the Hong Kong Toys Advisory Committee of the Hong Kong Trade Development Council from 2003 to 2007 and from 2010 to 2014. He is currently serving as an honorary chairman and a general committee member of the Hong Kong Exporters' Association and the chairman of the Hong Kong Toys Council. He is also a member of Jiangsu Provincial Committee of the Chinese People's Political Consultative Conference and chairman of Federation of Hong Kong Jiangsu Youth.

Frankie Chi Ming YICK, *SBS, JP, Director* (Age: 66)
Mr Yick, *MSc, BSc, CEng, FCILT, MIET*, has been a Director of the Company since July 2012. He has extensive industrial and management experience in the public transportation and logistics industry. He is a member of the Legislative Council of Hong Kong representing the Transport Functional Constituency and a member of Hong Kong Logistics Development Council. Mr Yick is a non-executive director of The "Star" Ferry Company, Limited and a director of MTL, both being fellow subsidiaries of the Company. He is also a director of Hong Kong Air Cargo Terminals Limited which is an associate of Wharf. Other than the private sector, Mr Yick has also been appointed as a board member of the Airport Authority Hong Kong since 1 June 2014, a member of The Hong Kong Maritime and Port Board since 1 April 2016 and a member of the Property Management Services Authority since 1 December 2016. He is a member of the National Committee of the 13th Chinese People's Political Consultative Conference and the 2nd Vice-Chairman of Hong Kong Repertory Theatre. Mr Yick is a chartered engineer. He holds a Bachelor's Degree in Industrial Engineering awarded by The University of Hong Kong and a Master's Degree in Industrial Management awarded by The University of Birmingham, UK.

Notes:

(1) Wheelock and Wharf REIC (of which (i) Mr Stephen T H Ng is director and has directorship with their respective subsidiaries and (ii) Mr Peter Z K Pao has directorship with their respective subsidiaries) have interests in the share capital of the Company discloseable to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(2) Mr Stephen T H Ng, Hon Frankie C M Yick and Mr Peter Z K Pao hold directorships in certain subsidiaries of the Company, and also in certain group companies of Wheelock and Wharf REIC.

(3) The Company confirms that it has received written confirmation from each of the INEDs confirming their independence pursuant to Rule 3.13 of the Listing Rules and considers them independent.

(ii) Senior Management

During the financial year, the senior management responsibilities of the Group were vested with Chairman in conjunction with the Group's Hotel Manager and the Group's Property Project Manager, both being wholly-owned subsidiaries of Wharf.

(B) DIRECTORS' INTERESTS IN SECURITIES

(i) Interests in Shares and Debt Securities

At 31 December 2019, Directors of the Company had the following beneficial interests, all being long positions, in the shares and/or debt securities of the Company, Wheelock (the ultimate holding company of the Company), Wharf REIC (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 respective numbers of shares in issue of the five companies are also set out below:

	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	1,259,445 (0.0415%)	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	2,009,445 (0.0659%)	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 of the Company as at 31 December 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 financial year ended 31 December 2019 to subscribe for ordinary shares of Wharf granted/exercisable under the share option scheme of Wharf:

Name of Director	Date of grant (Day/Month/Year)	No. of shares under option: As at 1 January 2019	No. of shares under option: Exercised during the year	No. of shares under option: As at 31 December 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**	**(500,000)**	**3,000,000** (0.10%)		

Note:

Except as disclosed above, no Wharf's share option held by Directors of the Company lapsed or was exercised or cancelled during the financial year and no Wharf's share option was granted to any Director of the Company during the financial year.

Except as disclosed above, as recorded in the register kept by the Company under section 352 of 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 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 31 December 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 31 December 2019.

(C) SUBSTANTIAL SHAREHOLDERS' INTERESTS

Given below are the names of all parties which were, directly or indirectly, interested in 5% or more of voting shares of the Company as at 31 December 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 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 31 December 2019, there were no short position interests recorded in the Register.

(D) RETIREMENT BENEFITS SCHEMES

The Group's principal retirement benefits schemes available to its Hong Kong employees are defined contribution schemes (including the Mandatory Provident Fund) which are administered by independent trustees. Both the Group and the employees contribute respectively to the schemes sums which represent certain percentage of the employees' salaries. The contributions by the Group are expensed as incurred and may be reduced by contribution forfeited for those employees who have left the schemes prior to full vesting of the relevant employee's contributions.

The employees of the Group's subsidiaries in Mainland China are members of the state-managed social insurance and housing funds operated by the Government of People's Republic of China. The Mainland China subsidiaries are required to contribute a certain percentage of payroll costs to the funds to fund the benefits. The only obligation of the Group with respect to the retirement benefits of Mainland China employees is to make the specified contributions.

(E) DIRECTORS' INTERESTS IN COMPETING BUSINESS

Set out below is information disclosed pursuant to Rule 8.10 of the Listing Rules.

Four Directors of the Company, namely Mr Stephen T H Ng, Hon Frankie C M Yick, Mr Peter Z K Pao and Mr Kevin C Y Hui (resigned on 1 January 2020), being also directors of Wharf, Wharf REIC and/or certain subsidiaries of Wharf and Wharf REIC, are considered as having an interest in Wharf and Wharf REIC under Rule 8.10(2) of the Listing Rules.

Ownership of hotels, and ownership of property for letting and for development in Hong Kong and Mainland China carried on by subsidiaries of Wharf and Wharf REIC constitute competing businesses to the Group. In view of Wharf group's expertise and very good track record in the management and operation of hotels throughout the Asia Pacific region, the Group has engaged Wharf Hotels Management Limited ("WHML", being a wholly-owned subsidiary of Wharf) to act as manager to operate, direct, manage and supervise The Murray, MP Hong Kong, MP Changzhou and Niccolo Suzhou. WHML is also responsible for the operation of the hotels of Wharf group in the Asia Pacific region.

The business of property development in Mainland China owned by Wharf group are also considered as competing with the Group's property development projects in Mainland China. In view of Wharf group's expertise in project management and sales and marketing of properties, the Group has engaged a wholly-owned subsidiary of Wharf as the project manager and sales and marketing agent for the construction, development, sales and marketing of the Group's property development projects.

For safeguarding the interests of the Group, the INEDs and the Audit Committee of the Company would on a regular basis review the business and operational results of the Group to ensure, *inter alia*, that the Group's hotel and property development businesses are and continue to be run on the basis that they are independent of, and at arm's length from, those of Wharf and Wharf REIC group.

(F) MAJOR CUSTOMERS AND SUPPLIERS

For the financial year ended 31 December 2019:

(i) the aggregate amount of purchases (not including the purchases of items which are of a capital nature) attributable to the Group's five largest suppliers represented less than 30% of the Group's total purchases; and

(ii) the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30% of the Group's total turnover.

(G) DEBENTURES, BANK LOANS AND OTHER BORROWINGS

Particulars of any and all debentures, bank loans and/or other borrowings of the Company and of the Group as at 31 December 2019 which are repayable on demand or within a period not exceeding one year and after a period of one year are set out in Note 18 to the Financial Statements on pages 85 to 86.

(H) PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained the prescribed public float under the Listing Rules throughout the financial year ended 31 December 2019.

(I) DISCLOSURE OF CONNECTED TRANSACTION

Set out below is information in relation to certain continuing connected transactions involving the Company and/or its subsidiaries, particulars of which were previously disclosed in the announcements of the Company dated 11 November 2016, 11 December 2017 and 13 December 2019 respectively and are required under the Listing Rules to be disclosed in the Annual Report and Financial Statements of the Company:

(i) Master Hotel Services Agreement

During the financial year, there existed certain individual hotel services agreements entered into between certain subsidiary(ies) of the Company and certain subsidiary(ies) of Wharf for the purpose of engaging Wharf group member(s) to provide, *inter alia*, services relating to management, marketing and technical services and/or any other services relating to the development and/or operations ("Hotel-related Services"), in respect of certain hotel properties of the Company in Hong Kong and Mainland China.

On 11 December 2017, a master hotel services agreement (the "Master Hotel Services Agreement") was entered into between the Company and Wharf, for the purpose of, *inter alia*, regulating various continuing connected transactions in respect of the provision of Hotel-related Services and/or any other services relating to operations of hotel and/or serviced apartments property(ies) by Wharf group to the Group, for a fixed term of two years from 1 January 2018 to 31 December 2019. The Master Hotel Services Agreement has provided for, *inter alia*, the annual cap amounts of remuneration payable by the Group to Wharf group in relation thereto, which are fixed at HK$80 million and HK$100 million for the financial years of 2018 and 2019 respectively.

The aggregate annual amounts of remuneration under the Master Hotel Services Agreement, which is subject to the relevant annual cap amount as abovementioned for the financial year ended 31 December 2019 amounted to HK$36 million.

On 13 December 2019, a new master hotel services agreement (the "New Master Hotel Services Agreement") was entered into by and amongst Wharf, Wharf REIC and the Company for the purpose of, *inter alia*, regulating the provision of Hotel-related Services by Wharf group to Wharf REIC group and the Group respectively, for a term of three years commencing on 1 January 2020 and expiring on 31 December 2022. The New Master Hotel Services Agreement has provided for, *inter alia*, the annual cap amounts of service fees payable by the Group to Wharf group member(s) in relation thereto, which are fixed at HK$55 million, HK$75 million and HK$75 million for the financial years of 2020, 2021 and 2022 respectively.

(ii) Master Property Services Agreement

During the financial year, there existed certain individual property services agreements entered into between certain subsidiary(ies) of the Company and certain subsidiary(ies) and associate(s) (as defined under the Listing Rules) of Wharf for the purpose of engaging Wharf group member(s) to provide, *inter alia*, property project management services, property sales and marketing services, property management services, leasing agency services and/or any other property related services ("Property Services") in respect of certain properties and/or property projects owned by the Group.

On 11 November 2016, a master property services agreement (the "Master Property Services Agreement") was entered into between the Company and Wharf, for the purpose of, *inter alia*, regulating various continuing connected transactions in respect of the provision of the Property Services by Wharf group to the Group, for a fixed term of three years from 1 January 2017 to 31 December 2019. The Master Property Services Agreement has provided for, *inter alia*, the annual cap amounts of remuneration payable by the Group to Wharf group in relation thereto, which are fixed at HK$170 million, HK$190 million and HK$200 million for the financial years of 2017, 2018 and 2019 respectively.

The aggregate annual amounts of remuneration under the Master Property Services Agreement, which is subject to the relevant annual cap amount as abovementioned for the financial year ended 31 December 2019 amounted to HK$31 million.

On 13 December 2019, a new master property services agreement (the "New Master Property Services Agreement") was entered into by and amongst Wheelock, Wharf, Wharf REIC and the Company for the purpose of, *inter alia*, regulating the provision of or engagement in Property Services by and amongst themselves, all being Wheelock group members, for a term of three years commencing on 1 January 2020 and expiring on 31 December 2022. The New Master Property Services Agreement has provided for, *inter alia*, the annual cap amounts of service fees payable by the Group to other Wheelock group member(s) in relation thereto, which are fixed at HK$75 million, HK$25 million and HK$26 million for the financial years of 2020, 2021 and 2022 respectively.

(iii) Leasing Framework Agreement

On 13 December 2019, a new leasing framework agreement (the "New Leasing Framework Agreement") was entered into by and amongst Wheelock, Wharf, Wharf REIC and the Company for the purpose of, *inter alia*, regulating the leasing and/or licensing of certain premises (including office premises, car parking spaces and building areas but excluding hotel premises) by and amongst themselves, all being Wheelock group members, for a term of three years commencing on 1 January 2020 and expiring on 31 December 2022. The New Leasing Framework Agreement has provided for, *inter alia*, the annual cap amounts of rental receivable by the Group from other Wheelock group member(s) in relation thereto, which are fixed at HK$10 million per annum for each of the financial years of 2020, 2021 and 2022.

With Wharf REIC being the Company's substantial shareholder, Wharf REIC group and its associates including *inter alia* Wheelock group (including Wharf group) are regarded as connected persons of the Company within the meaning under the Listing Rules and the transactions mentioned under Section (I)(i) to (iii) above constitute continuing connected transactions for the Company.

(iv) Confirmation from the Directors and the Auditors

(a) The Directors, including INEDs of the Company, have reviewed the continuing connected transactions mentioned under Section (I)(i) to (iii) above (the "Transactions") and have confirmed that the Transactions were entered into:

(1) by the Group in the ordinary and usual course of its business;

(2) on normal commercial terms or better; and

(3) according to the relevant agreements governing the Transactions on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

(b) In accordance with paragraph 14A.56 of the Listing Rules, the Board of Directors engaged the Company's auditors to perform procedures on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

The auditors of the Company have advised that nothing has come to their attention that causes them to believe that:

(1) the Transactions had not been approved by the Company's Board of Directors;

(2) in the event that there would be any transactions involving the provision of goods and services by the Group, the transactions were not, in all material respects, in accordance with the pricing policies of the Group;

(3) the Transactions were not entered into, in all material respects, in accordance with the relevant agreements governing the Transactions; and

(4) the relevant cap amounts, where applicable, have been exceeded during the financial year ended 31 December 2019.

(v) With regard to the Material Related Party Transactions as disclosed under Note 23 to the Financial Statements on page 96, the transactions stated under paragraphs (a) and (b) therein constitute connected transactions (as defined under the Listing Rules) of the Company, the one under paragraph (c) does not constitute a connected transaction under the Listing Rules, and those under paragraph (d) constitute a fully exempt connected transaction of the Company, for all of which the applicable requirements under the Listing Rules have been duly complied with.

(J) PRINCIPAL RISKS AND UNCERTAINTIES

The global and local economies are always facing a barrage of challenges. Slower and less balanced growth is observed, with moderation experienced in advanced economies. The local political tensions, ongoing Sino-US conflicts, post Brexit impact, the US presidential election and heightened financial volatility, altogether takes uncertainty to a new height. Furthermore, the arrival of the novel coronavirus outbreak since early 2020 has sharply put every economic sector at stake.

The following is a description of how our business segments interacting with the principal risks and uncertainties that are considered to be significant as it currently stands and with potential affecting the Group's businesses results of operations and financial conditions. However, this is non-exhaustive as there may be other risks and uncertainties arise resulting from changes in economic and other conditions over time. The Group employs a risk management and internal control framework to identify current and foreseeable risks at different levels of the organisation so as to take preventive actions to avoid or mitigate their adverse impact.

Risks pertaining to Hotel

The Group owns 4 hotels in Hong Kong and Mainland China. Hotel performance is usually subject to a high degree of fluctuations caused by both predictable and unpredictable factors including seasonality, social stability, epidemic diseases and changes in economic conditions. Each factor has varied the development pattern of the tourism and hospitality industry with heavy reliance on the growth of visitor arrivals from Mainland.

In this respect, Hotel segment closely assesses the impact of the geopolitical outlook and economic development of different countries for building its portfolios and exposures to match with the Group's risk appetite. It also takes continual reviews of competition, legal and political changes as well as market trends for setting its business strategies including marketing and pricing to protect and drive profitability.

Risks pertaining to IP

IP segment is the Group's core business with IP asset accounted for 29% of the Group's total business assets. With the majority of the properties locating in Hong Kong and Mainland China, the general economic climate, regulatory changes, government policies and the political conditions in both Hong Kong and Mainland China may have a significant impact on the Group's overall financial results and positions. The Group's rental income may experience more frequent adjustments resulting from competition arising from oversupply in retail and office areas. Furthermore, rental levels may also be impacted by external economic and market conditions including but not limited to the fluctuations in general supply and demand, performance in stock markets and financial volatility, which may indirectly affect the Group's IP performance.

IPs are stated at fair values in accordance with the Hong Kong Financial Reporting Standards in the consolidated statement of financial position at each reporting period. The fair values are provided by independent professional surveyors, using the income capitalisation approach which capitalised the net income of properties and takes into account the significant adjustments on term yield to account for the risk upon reversion and changes in fair value are recognised to the consolidated income statement. Given the size of the Group's IP portfolio, any significant change in the IP values may overwhelmingly affect the Group's results that may not be able to reflect the Group's operating and cash flow performance.

In this respect, the Group regularly assesses changes in economic environment and keeps alert to market needs and competitors' offensives in order to maintain competitiveness. Continuously maintaining the quality of the assets and building up a diversified and high-quality tenant-mix also help the Group to grow revenue and to resist in a sluggish economy. In addition, long-range planned and tactical promotions are seamlessly executed for maintaining the IPs' leading brands and value.

Risks pertaining to DP

DP segment in the Mainland China dominated the Group's financial performance between 2012 and 2017. As exit from this segment continues and the Group DP land bank has not been replenished, sharply lower revenue and profit from the depleted land bank were reported for the year and future contribution from China DP will become volatile in next few years. The segment will also continue to be subject to economic, political and legal developments in Mainland China as well as in the economies in the surrounding region.

Legal and Regulatory Compliance risk

Whilst the Group has a diversified portfolio of business operations across Hong Kong and various Mainland cities, any failure to anticipate the trend of regulatory changes or cope with relevant requirements may result in non-compliance of a local laws or regulation, leading to not only financial loss but also reputational damage to the Group. In mitigation of relevant risks, the Group actively assesses the effect of relevant developments and engages closely with regulatory authorities and external advisors on new laws and regulations and also trending legislations to ensure relevant requirements are properly complied with in an effective manner.

Financial risk

The Group is exposed to financial risks related to interest rate risks, foreign currency risks, equity price and credit in the normal course of the business. For further details of such risks and relevant management policies, please refer to Note 20 to the Financial Statements from pages 87 to 93.

(K) DIRECTORS OF SUBSIDIARIES

The names of all persons who, during the financial year and up to 28 February 2020 (the date of this report), served as directors of all those companies included as subsidiaries in the consolidated financial statements of the Company for the financial year ended 31 December 2019 are set out below:

CHAN Kwok Pong
CHAN Sik Wah
CHOW On Kiu
GUO Guang Hui
GUO Yong
HUI Chung Ying Kevin
LEE Yuk Fong Doreen
LI Lei
NG Tin Hoi Stephen
PAO Zen Kwok Peter
TSUI Yiu Cheung
WEI Qing Shan
WU Guan
ZHANG Yi
凌學風
徐斯偉

KPMG

To the members of Harbour Centre Development Limited
(incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of Harbour Centre Development Limited and its subsidiaries ("the Group") set out on pages 59 to 124, which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of completed investment properties ("IP")

Refer to accounting policy D(i) and note 8 to the consolidated financial statements

The key audit matter	How the matter was addressed in our audit
The Group holds a portfolio of completed IP (primarily retail properties) located in Hong Kong which accounted for 19% of the Group's total assets as at 31 December 2019. The fair values of the completed IP as at 31 December 2019 were assessed by the Group based on independent valuations prepared by a qualified external property valuer which took into account the net income of each property, allowing for reversionary potential and redevelopment potential, where appropriate. The net changes in fair value of completed IP recorded in the consolidated income statement amounting to HK$161 million for the year ended 31 December 2019. We identified valuation of completed IP as a key audit matter because these properties are significant to the Group's total assets and a small adjustment to or variances in the assumptions and data used to compute the valuation of individual properties, when aggregated, could have a significant impact on the Group's profit and because the valuation of completed IP is inherently subjective and requires significant judgement and estimation, particularly in determining market rents and capitalisation rates, which increases the risk of error or potential management bias.	Our audit procedures to assess the valuation of completed IP included the following: • obtaining and inspecting the valuation reports prepared by the external property valuer engaged by the Group; • meeting the external property valuer, to discuss and challenge the key estimates and assumptions adopted in the valuations, including the prevailing market rents and capitalisation rates, and to assess the independence, objectivity, qualifications and expertise of the external property valuer in the properties being valued; • with the assistance of our internal property valuation specialists, assessing the valuation methodology adopted by the external property valuer and comparing the key estimates and assumptions adopted in the valuation of each completed IP, including market rents and capitalisation rates, with available market data and government statistics; and • conducting site visits to the completed IP and comparing tenancy information, including market rents and occupancy rates adopted by the external property valuer with underlying contracts and related documentation, on a sample basis.

Assessing potential impairment of hotel properties *Refer to accounting policies D(ii), G(ii) and note 9 to the consolidated financial statements* **The key audit matter**	**How the matter was addressed in our audit**

As at 31 December 2019, the Group held a number of hotel properties located in Hong Kong and Mainland China which were stated at cost less accumulated depreciation and impairment losses at a total amount of HK$7,408 million.

At the financial reporting date, the Group reviewed the hotel properties to determine whether there were any indicators of impairment. When indicators of impairment are identified management assesses the recoverable amount of the hotel property. An impairment loss is recognised as an expense in the consolidated income statement if the carrying amount of the hotel property exceeds its recoverable amount.

The calculation of the recoverable amount of a hotel property is performed by the Group's external property valuer. The recoverable amount is determined based on the value in use of the hotel property by discounting the projected cash flows associated with the hotel property using a risk-adjusted discount rate. The preparation of discounted cash flow forecasts can be highly subjective and requires the exercise of significant management judgement and estimation, in particular in determining forecast occupancy rates, forecast revenue per available room, the growth rates and the discount rates applied.

As at 31 December 2019, the carrying amount of the Group's hotel in Mainland China exceeded its recoverable amount and impairment loss of HK$157 million was recognised during the year accordingly.

We identified assessing potential impairment of hotel properties as a key audit matter because of the significant management judgement and estimation required in making assumptions and estimations which are inherently uncertain and could be subject to management bias.

Our audit procedures to assess the potential impairment of hotel properties included the following:

- discussing with management whether there were any indicators of impairment of individual hotel properties as at 31 December 2019;
- where there were indicators of impairment, assessing whether the impairment assessment models were prepared in accordance with the requirements of the prevailing accounting standards;
- obtaining and inspecting the recoverable amount calculations prepared by the external property valuer engaged by the Group;
- assessing the qualifications, experience and expertise of the external property valuer in the properties being valued;
- with the assistance of our internal property valuation specialists, assessing the valuation methodology adopted by the property valuers and comparing the key estimates and assumptions adopted in the impairment assessment models for hotel properties, including forecast hotel room rates, forecast occupancy rates, growth rates and the discount rates, with available market data and government statistics;
- evaluating the historical accuracy of management's calculations of the recoverable amounts of hotel properties by comparing the forecasts at the end of the previous financial year for occupancy rates, revenue per available room and growth rates with the actual outcomes in the current year; and
- performing sensitivity analyses to determine the extent of change in those estimates that, either individually or collectively, would be required for the hotel properties to be materially misstated and considering the likelihood of such a movement in those key estimates arising and whether there was any evidence of management bias.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Lee Ka Nang.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

28 February 2020

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2019

	Note	**2019 HK$ Million**	2018 HK$ Million
Revenue	1	**1,395**	1,583
Direct costs and operating expenses		**(437)**	(777)
Selling and marketing expenses		**(121)**	(157)
Administrative and corporate expenses		**(90)**	(58)
Operating profit before depreciation, interest and tax		**747**	591
Depreciation		**(216)**	(206)
Operating profit	1 & 2	**531**	385
Changes in fair value of investment properties		**(161)**	319
Impairment for hotel properties	3	**(157)**	–
Other net income		**–**	34
		213	738
Finance costs	4	**(53)**	(55)
Share of results after tax of:			
Joint ventures	11	**–**	122
Associates	10	**76**	111
Profit before taxation		**236**	916
Income tax	5(a)	**(89)**	(89)
Profit for the year		**147**	827
Profit attributable to:			
Equity shareholders		**117**	831
Non-controlling interests		**30**	(4)
		147	827
Earnings per share	6		
Basic		**HK$0.17**	HK$1.17
Diluted		**HK$0.17**	HK$1.17

The notes and principal accounting policies on pages 65 to 124 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in Note 7.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019 HK$ Million	2018 HK$ Million
Profit for the year	**147**	827
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Fair value changes on equity investments	**10**	(312)
Items that may be reclassified subsequently to profit or loss:		
Exchange difference on translation of the operations		
– subsidiaries	**(130)**	(268)
Share of reserves of joint ventures	**(3)**	(112)
Others	**8**	(2)
Other comprehensive income for the year	**(115)**	(694)
Total comprehensive income for the year	**32**	133
Total comprehensive income attributable to:		
Equity shareholders	**21**	169
Non-controlling interests	**11**	(36)
	32	133

The notes and principal accounting policies on pages 65 to 124 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Note	**2019 HK$ Million**	2018 HK$ Million
Non-current assets			
Investment properties	8	**6,480**	6,396
Hotel properties, plant and equipment	9	**7,558**	7,867
Interest in associates	10	**1,249**	1,294
Interest in joint ventures	11	**1,604**	1,601
Equity investments	12	**4,065**	2,396
Deferred tax assets	19	**374**	336
Other non-current assets		**29**	27
		21,359	19,917
Current assets			
Properties for sale	13	**4,777**	3,726
Inventories		**7**	4
Trade and other receivables	14	**310**	263
Prepaid tax	5(f) & (g)	**22**	70
Bank deposits and cash	15	**1,910**	2,428
		7,026	6,491
Total assets		**28,385**	26,408
Non-current liabilities			
Deferred tax liabilities	19	**(329)**	(372)
Bank loans	18	**(1,835)**	(2,743)
		(2,164)	(3,115)
Current liabilities			
Trade and other payables	16	**(2,722)**	(3,133)
Pre-sale deposits and proceeds	17	**(3,172)**	(660)
Taxation payable	5(f)	**(1,060)**	(1,541)
Bank loans	18	**(1,800)**	(70)
		(8,754)	(5,404)
Total liabilities		**(10,918)**	(8,519)
NET ASSETS		**17,467**	17,889
Capital and reserves			
Share capital	21(a)	**3,641**	3,641
Reserves		**13,443**	13,635
Shareholders' equity		**17,084**	17,276
Non-controlling interests		**383**	613
TOTAL EQUITY		**17,467**	17,889

The notes and principal accounting policies on pages 65 to 124 form part of these financial statements.

Stephen T H Ng
Chairman

Peter Z K Pao
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	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 2018	3,641	853	593	12,467	17,554	649	18,203
Changes in equity for 2018:							
Profit for the year	–	–	–	831	831	(4)	827
Other comprehensive income	–	(312)	(348)	(2)	(662)	(32)	(694)
Total comprehensive income	–	(312)	(348)	829	169	(36)	133
2017 second interim dividend paid	–	–	–	(397)	(397)	–	(397)
2018 first interim dividend paid	–	–	–	(50)	(50)	–	(50)
At 31 December 2018 and 1 January 2019	**3,641**	**541**	**245**	**12,849**	**17,276**	**613**	**17,889**
Changes in equity for 2019:							
Profit for the year	**–**	**–**	**–**	**117**	**117**	**30**	**147**
Other comprehensive income	**–**	**10**	**(114)**	**8**	**(96)**	**(19)**	**(115)**
Total comprehensive income	**–**	**10**	**(114)**	**125**	**21**	**11**	**32**
Transfer to revenue reserves upon de-recognition of equity investments	**–**	**(91)**	**–**	**91**	**–**	**–**	**–**
2018 second interim dividend paid	**–**	**–**	**–**	**(163)**	**(163)**	**–**	**(163)**
2019 first interim dividend paid	**–**	**–**	**–**	**(50)**	**(50)**	**–**	**(50)**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**(241)**	**(241)**
At 31 December 2019	**3,641**	**460**	**131**	**12,852**	**17,084**	**383**	**17,467**

The notes and principal accounting policies on pages 65 to 124 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Note	2019 HK$ Million	2018 HK$ Million
Operating cash inflow	(a)	**598**	486
Changes in working capital	(a)	**924**	(354)
Cash generated from operations	(a)	**1,522**	132
Net interest paid		**(56)**	(50)
Interest received		**32**	23
Interest paid on bank loans		**(88)**	(73)
Dividend income from equity investments		**117**	82
Dividend income from joint venture/associate		**–**	102
Hong Kong profits tax paid		**(20)**	(84)
PRC taxation paid		**(556)**	(689)
Net cash generated from/(used in) operating activities		**1,007**	(507)
Investing activities			
Additions of investment properties and hotel properties, plant and equipment		**(298)**	(85)
Net decrease in interest in associates		**99**	375
Purchase of equity investments		**(2,030)**	–
Proceeds from disposal of equity investments		**371**	–
Net cash (used in)/generated from investing activities		**(1,858)**	290
Financing activities			
Drawdown of bank loans	(b)	**1,630**	1,641
Repayment of bank loans	(b)	**(794)**	(1,130)
Dividends paid to equity shareholders		**(213)**	(447)
Dividends paid to non-controlling interests		**(241)**	–
Net cash generated from financing activities		**382**	64
Decrease in cash and cash equivalents		**(469)**	(153)
Cash and cash equivalents at 1 January		**2,428**	2,699
Effect on exchange rate changes		**(49)**	(118)
Cash and cash equivalents at 31 December		**1,910**	2,428

Cash and cash equivalents represent bank deposits and cash.

The notes and principal accounting policies on pages 65 to 124 form part of these financial statements.

NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of operating profit to cash generated from operations

	2019 HK$ Million	2018 HK$ Million
Operating profit	531	385
Depreciation	216	206
Dividend income from equity investments	(117)	(82)
Interest income	(32)	(23)
Operating cash inflow	598	486
Increase in properties for sale	(1,482)	(662)
Increase in inventories	(3)	–
Decrease in trade and other receivables	5	27
Decrease in trade and other payables	(40)	(311)
Increase in pre-sale deposits and proceeds	2,527	648
Decrease in amounts due to fellow subsidiaries (net)	(83)	(56)
Changes in working capital	924	(354)
Cash generated from operations	1,522	132

(b) Reconciliation of liabilities arising from financing activities

	Bank loans 2019 HK$ Million	2018 HK$ Million
At 1 January	2,813	2,302
Changes from financing cash flows:		
Drawdown of bank loans	1,630	1,641
Repayment of bank loans	(794)	(1,130)
Total changes from financing cash flows	836	511
Exchange adjustments	(14)	–
At 31 December	3,635	2,813

1. 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

	Revenue HK$ Million	Operating profit/(loss) HK$ Million	Changes in fair value of investment properties HK$ Million	Other net income and impairment HK$ Million	Finance costs HK$ Million	Joint ventures HK$ Million	Associates HK$ Million	Profit/(loss) before taxation HK$ Million
2019								
Hotel	**835**	**(76)**	**–**	**(157)**	**(46)**	**–**	**–**	**(279)**
Investment property	**373**	**341**	**(161)**	**–**	**(7)**	**–**	**–**	**173**
Development property	**38**	**131**	**–**	**–**	**–**	**–**	**76**	**207**
Segment total	**1,246**	**396**	**(161)**	**(157)**	**(53)**	**–**	**76**	**101**
Investment and others	**149**	**149**	**–**	**–**	**–**	**–**	**–**	**149**
Corporate expenses	**–**	**(14)**	**–**	**–**	**–**	**–**	**–**	**(14)**
Group total	**1,395**	**531**	**(161)**	**(157)**	**(53)**	**–**	**76**	**236**
2018								
Hotel	978	10	–	–	(39)	–	–	(29)
Investment property	411	383	319	–	(14)	–	–	688
Development property	89	(60)	–	21	(2)	122	111	192
Segment total	1,478	333	319	21	(55)	122	111	851
Investment and others	105	105	–	13	–	–	–	118
Corporate expenses	–	(53)	–	–	–	–	–	(53)
Group total	1,583	385	319	34	(55)	122	111	916

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

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

(b) Analysis of segment business assets

	2019 HK$ Million	2018 HK$ Million
Hotel	**7,683**	8,040
Investment property	**6,509**	6,469
Development property	**7,844**	6,739
Total segment business assets	**22,036**	21,248
Unallocated corporate assets	**6,349**	5,160
Total assets	**28,385**	26,408

(i) Hotels are stated at cost less accumulated depreciation and impairment losses. Should the completed hotel properties be stated based on the valuation as at 31 December 2019 of HK$11,473 million (2018: HK$12,165 million), the total segment business assets would be increased to HK$26,101 million (2018: HK$25,695 million).

(ii) Unallocated corporate assets mainly comprise equity investments, deferred tax assets and bank deposits and cash.

(c) Geographical information

	Revenue		Operating profit/(loss)	
	2019 HK$ Million	2018 HK$ Million	2019 HK$ Million	2018 HK$ Million
Hong Kong	**1,207**	1,348	**338**	437
Mainland China	**125**	178	**130**	(109)
Others	**63**	57	**63**	57
Group total	**1,395**	1,583	**531**	385

	Specified non-current assets		Total business assets	
	2019 HK$ Million	2018 HK$ Million	2019 HK$ Million	2018 HK$ Million
Hong Kong	**12,675**	12,999	**12,824**	13,242
Mainland China	**4,216**	4,159	**9,212**	8,006
Group total	**16,891**	17,158	**22,036**	21,248

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

Geographically, HK$12,824 million (2018: HK$13,242 million) or 58% (2018: 62%) of the Group's total business assets, based on book cost, were located in Hong Kong.

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 instruments, where they are listed. The geographical location of specified non-current assets and total business assets is based on the physical location of operations.

(d) Disaggregation of revenue

	2019 HK$ Million	2018 HK$ Million
Revenue recognised under HKFRS 15		
Hotel	**835**	978
Management and services income and other rental related income	**41**	39
Sale of development properties	**38**	89
	914	1,106
Revenue recognised under other accounting standards		
Rental income under investment properties segment		
– Fixed	**241**	240
– Variable	**91**	132
Investment and others	**149**	105
	481	477
Total revenue	**1,395**	1,583

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.

2. OPERATING PROFIT

(a) Operating profit is arrived at:

	2019 HK$ Million	2018 HK$ Million
After charging/(crediting):		
Depreciation	**216**	206
Staff costs (Note)	**357**	378
Auditors' remuneration	**3**	2
Cost of trading properties for recognised sales	**(134)**	131
Gross rental revenue from investment properties	**(373)**	(411)
Direct operating expenses of investment properties	**21**	18
Interest income	**(32)**	(23)
Dividend income from equity investments	**(117)**	(82)

Note: Staff costs included defined contribution pension schemes costs HK$15 million (2018: HK$16 million).

(b) Directors' emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Contributions to pension scheme HK$'000	2019 Total HK$'000	2018 Total HK$'000
Executive Director						
Stephen T H Ng	**70**	**1,080**	–	–	**1,150**	1,140
Non-executive Directors						
Peter Z K Pao (iv)	**70**	–	–	–	**70**	35
Frankie C M Yick	**70**	–	–	–	**70**	60
Kevin C Y Hui (viii)	**70**	–	–	–	**70**	60
Independent Non-executive Directors						
David T C Lie-A-Cheong (vii)	**70**	–	–	–	**70**	5
Ivan T L Ting (vii)	**70**	–	–	–	**70**	5
Roger K H Luk (ii & v)	**100**	–	–	–	**100**	40
Michael T P Sze (ii)	**100**	–	–	–	**100**	85
Brian S K Tang (ii)	**100**	–	–	–	**100**	85
Joseph M K Chow (ii & vi)	–	–	–	–	–	67
Andrew K Y Leung (iii)	–	–	–	–	–	20
	720	**1,080**	–	–	**1,800**	1,602
Total for 2018	522	1,080	–	–	–	1,602

Notes:

(i) There was no compensation for loss of office and/or inducement for joining the Group paid/payable to the Company's Directors in respect of the years ended 31 December 2019 and 2018.

(ii) Includes Audit Committee Member's fee received by each of relevant Directors of HK$30,000 per annum for the year ended 31 December 2019 (2018: HK$25,000 per annum).

(iii) Hon Andrew K Y Leung ceased to be a Director of the Company with effect from 4 May 2018.

(iv) Mr Peter Z K Pao has been appointed as a Director of the Company with effect from 1 June 2018.

(v) Mr Roger K H Luk has been appointed as a Director and Audit Committee Member of the Company with effect from 1 June 2018 and 15 October 2018, respectively.

(vi) Dr Joseph M K Chow passed away on 13 October 2018.

(vii) Mr David T C Lie-A-Cheong and Mr Ivan T L Ting have been appointed as Directors of the Company with effect from 1 December 2018.

(viii) Mr Kevin C Y Hui ceased to be a Director of the Company with effect from 1 January 2020.

(c) Emoluments of the highest paid employees

For the year ended 31 December 2019, information regarding emoluments of 5 (2018: 5) employees of the Group who, not being Directors of the Company, were among the top five highest paid individuals (including Directors of the Company and other employees of the Group) employed by the Group has been set out below:

Aggregate emoluments	**2019 HK$ Million**	2018 HK$ Million
Salaries, allowances and benefits in kind	**10**	10
Discretionary bonuses and/or performance related bonuses	**1**	1
Total	**11**	11

Bands (in HK$)	**2019 Number**	2018 Number
$1,500,001 – $2,000,000	**–**	2
$2,000,001 – $2,500,000	**5**	2
$2,500,001 – $3,000,000	**–**	1

3. IMPAIRMENT FOR HOTEL PROPERTIES

During the year, the Group conducted an impairment review of hotel properties and determined that the MP Changzhou in Mainland China was impaired. Impairment provision of HK$157 million (2018: HK$Nil) was recognised during this year (Note 9(c)).

4. FINANCE COSTS

	2019 HK$ Million	2018 HK$ Million
Interest on bank borrowings	**85**	61
Other finance costs	**9**	11
	94	72
Less: Amount capitalised	**(41)**	(17)
Total	**53**	55

(a) Interest was capitalised at an average annual rate of approximately 3.7% (2018: 4.6%).

(b) All interest costs are in respect of interest bearing borrowings that are stated at amortised cost.

5. INCOME TAX

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

	2019 HK$ Million	2018 HK$ Million
Current income tax		
Hong Kong		
– provision for the year	**70**	95
– underprovision in respect of prior years	**–**	3
Mainland China		
– provision for the year	**102**	6
– overprovision in respect of prior years	**–**	(17)
	172	87
Land appreciation tax ("LAT") (Note (d))	**1**	2
Deferred tax		
Origination and reversal of temporary differences	**(84)**	–
Total	**89**	89

(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 year.

(c) Income tax on profits 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. For the year ended 31 December 2019, the Group has provided HK$5 million (2018: written back HK$3 million) for withholding tax on accumulated earnings generated by its Mainland China subsidiaries which is related to dividend distribution to their immediate holding companies outside Mainland China in the foreseeable future.

(f) The prepaid tax/taxation payable in the consolidated statement of financial position is expected to be recovered/settled within one year.

(g) Prepaid tax represents advance LAT and corporate income tax paid in respect of pre-sale proceeds received from sale of properties in Mainland China.

(h) Tax attributable to joint ventures and associates for the year ended 31 December 2019 of HK$21 million (2018: HK$102 million) is included in the share of results of joint ventures and associates.

(i) Reconciliation between the actual total tax charge and accounting profit at applicable tax rates:

	2019 HK$ Million	2018 HK$ Million
Profit before taxation	**236**	916
Notional tax on profit before taxation calculated at applicable tax rates	**44**	154
Tax effect of non-deductible expenses	**5**	32
Tax effect of non-deductible/(non-taxable) changes in fair value of investment properties	**27**	(53)
Tax effect of non-taxable income	**(39)**	(73)
Tax effect of tax losses not recognised	**168**	102
Tax effect of temporary differences not recognised	**(89)**	–
Tax effect of utilisation of tax losses and other temporary differences	**(33)**	(58)
Overprovision in respect of prior years	**–**	(14)
LAT on trading properties	**1**	2
Withholding tax on distributed/undistributed earnings	**5**	(3)
Actual total tax charge	**89**	89

6. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the profit attributable to equity shareholders for the year of HK$117 million (2018: HK$831 million) and 708.8 million ordinary shares (2018: 708.8 million shares) in issue during the year.

The diluted earnings per share is the same as the basic earnings per share as there are no potential dilutive ordinary shares in existence during the years ended 31 December 2019 and 2018.

7. DIVIDENDS ATTRIBUTABLE TO EQUITY SHAREHOLDERS

	2019 HK$ Per share	**2019 HK$ Million**	2018 HK$ Per share	2018 HK$ Million
First interim dividend declared and paid	**0.07**	**50**	0.07	50
Second interim dividend declared after the end of the reporting period	**0.15**	**106**	0.23	163
	0.22	**156**	0.30	213

(a) The second interim dividend based on 708.8 million issued ordinary shares (2018: 708.8 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. INVESTMENT PROPERTIES

	Completed HK$ Million	**Under development HK$ Million**	**Total HK$ Million**
(a) Cost or valuation			
At 1 January 2018	5,374	3,926	9,300
Exchange adjustment	–	(180)	(180)
Additions	–	556	556
Transfer	–	(3,599)	(3,599)
Revaluation surpluses	319	–	319
At 31 December 2018 and 1 January 2019	**5,693**	**703**	**6,396**
Exchange adjustment	**–**	**(15)**	**(15)**
Additions	**–**	**260**	**260**
Revaluation deficits	**(161)**	**–**	**(161)**
At 31 December 2019	**5,532**	**948**	**6,480**

	Completed HK$ Million	Under development HK$ Million	Total HK$ Million
(b) The analysis of cost or valuation of the above assets is as follows:			
2019 valuation	**5,532**	**–**	**5,532**
At cost	**–**	**948**	**948**
	5,532	**948**	**6,480**
2018 valuation	5,693	–	5,693
At cost	–	703	703
	5,693	703	6,396
(c) Tenure of title to properties:			
At 31 December 2019			
Held in Hong Kong			
Long term leases	**5,532**	**–**	**5,532**
Held outside Hong Kong			
Long term leases	**–**	**948**	**948**
	5,532	**948**	**6,480**
At 31 December 2018			
Held in Hong Kong			
Long term leases	5,693	–	5,693
Held outside Hong Kong			
Long term leases	–	703	703
	5,693	703	6,396

The Group holds investment properties to lease out under operating leases. The Group is the registered owner of the property interests of these investment properties. There are no ongoing payments to be made under the terms of the land lease, other than payments based on rateable values set by the relevant government authorities. These payments vary from time to time and are payable to the relevant government authorities.

(d) Investment properties revaluation

The Group's investment properties under development are stated at fair value at the earlier of when the fair value first becomes reliably measurable and the date of completion of the property.

The investment properties stated at fair value as at 31 December 2019 were revalued by Knight Frank Petty Limited ("Knight Frank"), an independent firm of professional surveyors who have among their staff Fellows of the Hong Kong Institute of Surveyors with extensive experience in valuing properties in Hong Kong and Mainland China. Knight Frank has valued the investment properties on a market value basis and has taken into account the net income of the respective properties, allowing for reversionary potential and the redevelopment potential of the properties where appropriate.

The revaluation differences arising on revaluation on investment properties is recognised in the line item "Changes in fair value of investment properties" on the face of the consolidated income statement.

Investment properties are measured at fair value at the end of the reporting period across the three levels of the inputs to the revaluation methodologies in accordance with HKFRS 13, Fair value measurement ("HKFRS 13"). 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.

The Group's completed investment properties measured at HK$5,532 million (2018: HK$5,693 million) mainly represent the retail properties located in Hong Kong, were classified as Level 3 under the fair value hierarchy in accordance with HKFRS 13.

None of the Group's investment properties measured at fair value are categorised as Level 1 and Level 2 input.

During the years ended 31 December 2019 and 2018, there were no transfers among Level 1, Level 2, or transfers into or out of Level 3.

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

Valuation processes

The Group reviews the valuations performed by the independent valuers for financial reporting purposes by verifying all major inputs and assessing the reasonableness of property valuations. A valuation report with an analysis of changes in fair value measurement is prepared at each interim and annual reporting date, and is reviewed and approved by the senior management.

Valuation methodologies

The valuation of completed retail properties in Hong Kong were based on income capitalisation approach which capitalised the net income of the properties and taking into account the significant adjustment on term yield to account for the risk upon reversion and the estimation in vacancy rate after expiry of current lease.

Level 3 valuation methodologies

The significant unobservable inputs was capitalisation rate at 5.0% (2018: 5.0%). The fair value measurement of investment properties is negatively correlated to the capitalisation rate.

(e) The Group leases out its investment properties under operating leases, which generally run for an initial period of two to ten years. Lease payments may be varied periodically to reflect market rentals and may contain variable lease payment which is based on various percentages of tenants' sales receipts.

(f) The Group's total future undiscounted lease income receivable under non-cancellable operating leases as follows:

	2019 HK$ Million	2018 HK$ Million
Within 1 year	**266**	272
After 1 year but within 2 years	**98**	250
After 2 years but within 3 years	**33**	91
After 3 years but within 4 years	**31**	31
After 4 years but within 5 years	**30**	31
After 5 years	**14**	45
	472	720

9. HOTEL PROPERTIES, PLANT AND EQUIPMENT

	Hotel properties HK$ Million	Others HK$ Million	Total HK$ Million
(a) Cost			
At 1 January 2018	8,710	500	9,210
Exchange adjustment	(53)	(1)	(54)
Additions/(reversal)	(63)	74	11
Disposals	–	(1)	(1)
At 31 December 2018 and 1 January 2019	**8,594**	**572**	**9,166**
Exchange adjustment	**(24)**	**(1)**	**(25)**
Additions	**45**	**28**	**73**
Disposals	**–**	**(3)**	**(3)**
Reclassification	**(50)**	**50**	**–**
At 31 December 2019	**8,565**	**646**	**9,211**
Accumulated depreciation and impairment			
At 1 January 2018	682	440	1,122
Exchange adjustment	(27)	(1)	(28)
Charge for the year	181	25	206
Written back on disposals	–	(1)	(1)
At 31 December 2018 and 1 January 2019	**836**	**463**	**1,299**
Exchange adjustment	**(15)**	**(1)**	**(16)**
Charge for the year	**179**	**37**	**216**
Impairment	**157**	**–**	**157**
Written back on disposals	**–**	**(3)**	**(3)**
At 31 December 2019	**1,157**	**496**	**1,653**
Net book value			
At 31 December 2019	**7,408**	**150**	**7,558**
At 31 December 2018	7,758	109	7,867

(b) Tenure of title to properties:

	Hotel properties HK$ Million
At 31 December 2019	
Held in Hong Kong	
Long term leases	**22**
Medium term leases	**6,973**
Held outside Hong Kong	
Medium term leases	**413**
	7,408
At 31 December 2018	
Held in Hong Kong	
Long term leases	22
Medium term leases	7,182
Held outside Hong Kong	
Medium term leases	554
	7,758

(c) Impairment of hotel properties, plant and equipment

The value of hotel properties, plant and equipment is assessed at the end of each reporting period for indications of impairment with reference to valuations undertaken by external valuer and internally. Such valuations assess the recoverable amount of each asset being the higher of its value in use or its fair value less costs of disposal. During the year, impairment for hotel properties of HK$157 million (2018: HK$Nil) was made for MP Changzhou in Mainland China.

(d) Hotels properties under development

As at 31 December 2019, there were no hotel properties under development was subject to depreciation (2018: HK$39 million was not subject to depreciation).

10. INTEREST IN ASSOCIATES

	2019 HK$ Million	2018 HK$ Million
Share of net assets	**935**	880
Amount due from an associate	**314**	414
	1,249	1,294

Details of the associate at 31 December 2019 are shown on page 124.

(a) Interest in associates at 31 December 2019 and 2018 mainly represents the Group's 27%-interest in a limited liability company, 上海萬九綠合置業有限公司, established for development property in Shanghai in Mainland China.

(b) Amount due from an associate is unsecured, interest free, has no fixed terms of repayment and not expected to be recoverable within twelve months from the end of the reporting period. The amount is neither past due nor impaired.

(c) The associates are unlisted corporate entities whose quoted market price is not available. All of the associates are accounted for using the equity method in the consolidated financial statements.

Summarised financial information of 上海萬九綠合置業有限公司, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	2019 HK$ Million	2018 HK$ Million
Summarised statement of financial position		
Cash and cash equivalents	**228**	269
Other current assets	**5,831**	5,922
Total current assets	**6,059**	6,191
Trade and other payables	**(1,647)**	(1,486)
Other current liabilities	**(949)**	(1,447)
Total current liabilities	**(2,596)**	(2,933)
Net assets	**3,463**	3,258
Summarised statement of comprehensive income		
Revenue	**779**	1,978
Interest income	**1**	2
Profit from continuing operations	**358**	716
Income tax expense	**(77)**	(305)
Post-tax profit from continuing operations	**281**	411
Other comprehensive income	**(76)**	(152)
Total comprehensive income	**205**	259

	2019 HK$ Million	2018 HK$ Million
Reconciled to the Group's interest in the associate		
Gross amounts of net assets of the associate	**3,463**	3,258
Group's effective interest	**27%**	27%
Group's share of net assets of the associate	**935**	880
Carrying amount in the consolidated financial statement	**935**	880

11. INTEREST IN JOINT VENTURES

	2019 HK$ Million	2018 HK$ Million
Share of net assets	**1,604**	1,601

Details of principal joint ventures at 31 December 2019 are shown on page 124.

(a) The Group's interest in joint ventures at 31 December 2019 and 2018 mainly represents its 55%-interest in a limited liability company, Speedy Champ Investments Limited ("Speedy Champ"), which holds 100% interest in a limited liability company, 重慶豐盈房地產開發有限公司, established for development property in Chongqing in Mainland China. Notwithstanding the Group's contribution of 55% of the registered capital, as the Group and the joint venture partner contractually agree to share control of Speedy Champ and have rights to the net assets of Speedy Champ, the Group accounts for its investment as a joint venture.

(b) The joint ventures are unlisted corporate entities whose quoted market price is not available. All of the joint ventures are accounted for using the equity method in the consolidated financial statements.

Summarised financial information of Speedy Champ, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	2019 HK$ Million	2018 HK$ Million
Summarised statement of financial position		
Cash and cash equivalents	**46**	56
Other current assets	**2,941**	2,951
Total current assets	**2,987**	3,007
Trade and other payables	**(59)**	(79)
Other current liabilities	**(12)**	(17)
Total current liabilities	**(71)**	(96)
Net assets	**2,916**	2,911
Summarised statement of comprehensive income		
Revenue	**–**	329
Interest income	**–**	2
Profit from continuing operations	**–**	257
Income tax expense	**–**	(36)
Post-tax profit from continuing operations	**–**	221
Other comprehensive income	**5**	–
Total comprehensive income	**5**	221
Dividends received from joint venture	**–**	102

	2019 HK$ Million	2018 HK$ Million
Reconciled to the Group's interest in the joint venture		
Gross amounts of net assets of the joint venture	**2,916**	2,911
Group's effective interest	**55%**	55%
Group's share of net assets of the joint venture	**1,604**	1,601
Carrying amount in the consolidated financial statement	**1,604**	1,601

12. EQUITY INVESTMENTS

	2019 HK$ Million	2018 HK$ Million
Listed investments stated at market value		
– in Hong Kong	**2,792**	596
– outside Hong Kong	**1,273**	1,800
	4,065	2,396

All of the equity instruments have been designed to be measured at fair value through other comprehensive income which mainly represent a portfolio of blue chips held for long term growth potential with reasonable dividend return that is in line with market.

13. PROPERTIES FOR SALE

	2019 HK$ Million	2018 HK$ Million
Properties under development for sale	**4,753**	3,697
Completed properties for sale	**24**	29
	4,777	3,726

(a) At 31 December 2019, included in the properties under development for sale are HK$1,194 million (2018: HK$1,591 million) expected to be completed after more than one year.

(b) As 31 December 2019, the carrying value of leasehold land included in properties under development for sale and completed properties for sale is summarised as follows:

	2019 HK$ Million	2018 HK$ Million
Held outside Hong Kong		
Medium term leases	**214**	218
Long term leases	**141**	138
	355	356

14. TRADE AND OTHER RECEIVABLES

(a) Ageing analysis

Included in this item are trade receivables (net of loss allowance) with an ageing analysis based on invoice date as at 31 December 2019 as follows:

	2019 HK$ Million	2018 HK$ Million
Trade receivables		
0 – 30 days	**27**	97
31 – 60 days	**1**	6
Over 60 days	**9**	6
	37	109
Prepayments	**74**	68
Other receivables	**12**	13
Amount due from a non-controlling shareholder	**54**	–
Amounts due from fellow subsidiaries	**133**	73
	310	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. The amounts due from fellow subsidiaries are unsecured, interest free and recoverable on demand. All the trade and other receivables are expected to be recoverable within one year.

The amount of the Group's prepayments expected to be recognised as expense after more than one year is HK$12 million (2018: HK$11 million).

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account based on expected credit losses. Given the Group has not experienced any significant credit losses in the past and holds sufficient rental deposits from tenants to cover the potential exposure to credit risk, the allowance for expected credit losses is therefore insignificant.

15. BANK DEPOSITS AND CASH

Bank deposits and cash as at 31 December 2019 include HK$1,011 million equivalent (2018: HK$2,265 million) placed with banks in Mainland China, the remittance of which are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

At 31 December 2019, bank deposits and cash included bank deposits of RMB16 million (equivalent to HK$18 million) (2018: RMB18 million equivalent to HK$20 million) which are solely for certain designated development property projects in Mainland China.

The effective interest rate on bank deposit was 1.5% (2018: 0.9%) per annum.

Bank deposits and cash are denominated in the following currencies:

	2019 HK$ Million	2018 HK$ Million
HKD	**818**	164
United States dollar ("USD")	**85**	25
RMB	**1,007**	2,239
	1,910	2,428

16. TRADE AND OTHER PAYABLES

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

	2019 HK$ Million	2018 HK$ Million
Trade payables		
0 – 30 days	**26**	31
31 – 60 days	**1**	6
61 – 90 days	**–**	2
Over 90 days	**1**	2
	28	41
Other payables and provisions	**552**	549
Construction costs payable	**548**	921
Amounts due to fellow subsidiaries	**5**	29
Amounts due to joint ventures	**1,589**	1,593
	2,722	3,133

The amounts due to fellow subsidiaries and joint ventures are unsecured, interest free and repayable on demand.

Included in the above other payables and provisions and construction costs payable, are amounts of HK$68 million (2018: HK$70 million) which are expected to be settled after one year. The Group considers the effect of discounting these would be immaterial. All of the other trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

In addition, included in the above other payables and provisions, amounts of HK$26 million (2018: HK$22 million) represents non-refundable guest deposits and recognised as contract liability. The balance is expected to be recognised within 1 year.

17. PRE-SALE DEPOSITS AND PROCEEDS

The Group receives contract value as a deposit from customers when they sign the sale and purchase agreement. This deposit is recognised as a contract liability as "Pre-sale Deposits and Proceeds" until the properties are completed and legally assigned to or accepted by the customer. The rest of the consideration is typically paid when legal assignment is completed.

Movements in pre-sale deposits and proceeds:

	2019 HK$ Million	2018 HK$ Million
At 1 January	**660**	13
Exchange adjustment	**(15)**	(1)
Decrease in pre-sale deposits and proceeds as a result of recognising revenue during the year	**(35)**	(9)
Increase in pre-sale deposits and proceeds as a result of receiving sales deposits	**2,562**	657
At 31 December	**3,172**	660

Pre-sale deposits and proceeds received in respect of Mainland China based properties in the amount of HK$176 million (2018: HK$Nil) are expected to be recognised as revenue in the consolidated income statement after more than one year.

Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date.

As at 31 December 2019, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts is HK$3,441 million (2018: HK$1,077 million). This amount represents revenue expected to be recognised in the future from pre-completion sales contracts for properties under development entered into by the customers with the Group. This amount includes the interest component of pre-completion properties sales contracts under which the Group obtains significant financing benefits from the customers. The Group will recognise the expected revenue in future when the properties are assigned to the customers, which is expected to occur over the next 12 to 24 months.

18. BANK LOANS

	2019 HK$ Million	2018 HK$ Million
Bank loans (secured)		
Due after more than 2 years but not exceeding 5 years	**335**	643
Bank loans (unsecured)		
Due within 1 year or on demand	**1,800**	70
Due after more than 1 year but not exceeding 2 years	**500**	850
Due after more than 2 years but not exceeding 5 years	**1,000**	1,250
	3,300	2,170
Total	**3,635**	2,813

Analysis of maturities of the above borrowings:

	2019 HK$ Million	2018 HK$ Million
Current borrowings		
Due within 1 year or on demand	**1,800**	70
Non-current borrowings		
Due after more than 1 year but not exceeding 2 years	**500**	850
Due after more than 2 years but not exceeding 5 years	**1,335**	1,893
	1,835	2,743
Total	**3,635**	2,813

(a) The Group's borrowings are considered by the management to be denominated in the following currencies:

	2019 HK$ Million	2018 HK$ Million
HKD	**3,300**	2,170
RMB	**335**	643
	3,635	2,813

(b) All the interest bearing borrowings are carried at amortised cost. None of the non-current interest bearing borrowings is expected to be settled within one year.

(c) As at 31 December 2019, banking facilities of the Group in the amount of HK$1,492 million (2018: HK$1,826 million) are secured by mortgages over properties under development with an aggregate carrying value of HK$5,701 million (2018: HK$4,364 million).

(d) Certain of the above borrowings are attached with financial covenants which require that at any time, the Group's consolidated tangible net worth is not less than and the ratio of borrowings to consolidated tangible net worth is not more than certain required levels. During the year under review, all these covenants have been complied with by the Group.

19. DEFERRED TAXATION

(a) Net deferred tax (assets)/liabilities recognised in the consolidated statement of financial position:

	2019 HK$ Million	2018 HK$ Million
Deferred tax liabilities	**329**	372
Deferred tax assets	**(374)**	(336)
Net deferred tax (assets)/liabilities	**(45)**	36

The components of net deferred tax (assets)/liabilities and the movements during the year are as follows:

	Depreciation allowances in excess of the related depreciation HK$ Million	Withholding tax in relation to dividend distribution HK$ Million	Deferred tax on unpaid tax HK$ Million	Future benefit of tax losses HK$ Million	Others HK$ Million	Total HK$ Million
At 1 January 2018	16	361	(353)	–	–	24
(Credited)/charged to the consolidated income statement	61	(3)	–	(58)	–	–
Exchange adjustment	–	(5)	17	–	–	12
At 31 December 2018 and 1 January 2019	**77**	**353**	**(336)**	**(58)**	**–**	**36**
(Credited)/charged to the consolidated income statement	**9**	**(43)**	**(46)**	**(7)**	**3**	**(84)**
Exchange adjustment	**–**	**(5)**	**8**	**–**	**–**	**3**
At 31 December 2019	**86**	**305**	**(374)**	**(65)**	**3**	**(45)**

(b) Deferred tax assets not recognised

Deferred tax assets have not been recognised in respect of the following items:

	2019 Deductible temporary differences/ tax losses HK$ Million	2019 Deferred tax assets HK$ Million	2018 Deductible temporary differences/ tax losses HK$ Million	2018 Deferred tax assets HK$ Million
Deductible temporary differences	**631**	**158**	487	122
Future benefit of tax losses				
– Hong Kong	**378**	**62**	334	55
– Mainland China	**146**	**37**	126	31
	524	**99**	460	86
	1,155	**257**	947	208

(c) The Group has not recognised the deferred tax assets attributable to the future benefit of tax losses sustained in the operations of certain subsidiaries as the availability of future taxable profits against which the assets can be utilised is uncertain at 31 December 2019. The tax losses arising from Hong Kong operations do not expire under current tax legislation. The tax losses arising from Mainland China operations can be carried forward to offset against taxable profits of subsequent years for up to five years from the year in which they arose.

20. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

The Group is exposed to financial risks related to interest rate, foreign currency, equity price, liquidity and credit in the normal course of business. To manage some of these risks, the Group Finance Committee develops, maintains and monitors the Group's financial policies designed to facilitate cost efficient funding to the Group and to mitigate the impact of fluctuations in interest rates and exchange rates. The financial management policies are implemented by the Group's Treasury department, which operates as a centralised service unit in close co-operation with the Group's operating units for managing the day-to-day treasury functions and financial risks and for providing cost efficient funding to the Group.

The Group uses derivatives, principally forward foreign exchange contracts, as deemed appropriate, for financing and hedging transactions and for managing risks associated with the Group's assets and liabilities. It is the Group's policy not to enter into derivative transactions and invest in financial products with significant underlying leverage which are commercially speculative.

(a) Interest rate risk

The Group's main exposure to interest rate risk relates principally to the Group's borrowings. Borrowings at variable rates expose the Group to cash flow interest rate risk. The Group manages its interest rate risk exposures in accordance with defined policies and reviews this exposure with a focus on reducing the Group's overall cost of funding as well as maintaining the floating/fixed rate mix appropriate to its current business portfolio.

As at 31 December 2019, all the Group's borrowings were at floating rate and the interest rate was approximately 3.3% (2018: 2.9%) per annum.

Based on a sensitivity analysis performed on 31 December 2019, it was estimated that a general increase/decrease of 1% (2018: 1%) in interest rates, with all other variables held constant, would have decreased/increased the Group's post-tax profit and total equity by approximately HK$20 million (2018: increased/decreased by HK$Nil). This takes into account the effect of interest bearing bank deposits.

The sensitivity analysis above indicates the instantaneous change in the Group's post-tax profit and total equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period and is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2018.

(b) Foreign currency risk

The Group owns assets and conducts its businesses both in Hong Kong and Mainland China, with its cash flows denominated substantially in HKD and RMB which exposes the Group to foreign currency risk with respect to RMB related to its property development in Mainland China. Anticipated foreign exchange payments relate primarily to RMB capital expenditure.

Where appropriate or available in a cost-efficient manner, the Group may enter into forward foreign exchange contracts to manage its foreign currency risk arising from the anticipated transactions denominated in currencies other than its entities' functional currencies.

The Group's borrowings are predominantly denominated in the functional currency of the entity taking out the borrowings. In the case of group companies whose functional currencies are in HKD, their borrowings will be either in HKD or USD. For managing the overall financing costs of existing and future capital requirements for the projects in Mainland China and Hong Kong, the Group has adopted a diversified funding approach and has entered into certain forward foreign exchange contracts. Based on prevailing accounting standards, the forward foreign exchange contracts are marked to market with the valuation movement recognised in the consolidated income statement.

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets/(liabilities) denominated in a currency other than the functional currency of the Group's entities to which they relate. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency and exposure arising from inter-company balances which are considered to be in the nature of investment in a subsidiary are excluded.

	USD Million	RMB Million
At 31 December 2019		
Equity investments	**163**	**–**
Bank deposits and cash	**11**	**–**
Inter-company balances	**–**	**66**
Gross exposure arising from recognised assets and liabilities/ Overall net exposure	**174**	**66**
At 31 December 2018		
Equity investments	231	–
Bank deposits and cash	3	–
Inter-company balances	–	66
Gross exposure arising from recognised assets and liabilities/ Overall net exposure	234	66

In addition, at 31 December 2019, the PRC subsidiaries of the Group with RMB as their functional currency are exposed to foreign currency risk with respect to HKD/USD by holding HKD/USD denominated bank deposits and cash in the amount of HK$4 million (2018: HK$26 million).

Based on the sensitivity analysis performed on 31 December 2019, it was estimated that the impact on the Group's post-tax profit and total equity would not be material in response to possible changes in the foreign exchange rates of foreign currencies to which the Group is exposed.

It is further analysed that the sensitivity on the translation of the Mainland operations from 1% increase/ decrease of exchange rate of RMB against HKD, the Group's total equity would have increased/decreased by HK$29 million (2018: HK$42 million).

(c) Equity price risk

The Group is exposed to equity price changes arising from equity investments.

Listed investments have been chosen for their long term growth potential and returns and are monitored regularly for performance. Given that the volatility of the stock markets may not have a direct correlation with the Group's investment portfolio, it is impractical to determine the impact that the changes in stock market indices would have on the Group's portfolio of equity investments.

Based on the sensitivity analysis performed on 31 December 2019, it is estimated that a 5% (2018: 5%) increase/decrease in the market value of the Group's equity investments, with all other variables held constant, would not have affected the Group's post-tax profit but would have increased/decreased the Group's total equity by HK$203 million (2018: HK$120 million). The analysis is performed on the same basis as for 2018.

(d) Liquidity risk

The Group adopts a prudent liquidity risk management policy, maintaining sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding with staggered maturities to reduce refinancing risk in any year from major financial institutions and to maintain flexibility for meeting its liquidity requirements in the short and longer term. The Group's cash management is substantially centralised within the Group Treasury department, which regularly monitors the current and expected liquidity requirements and its compliance with lending covenants.

The following tables detail the remaining contractual maturities at the end of the reporting period of the Group's derivative and non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates at the end of the reporting period and carried at exchange rate prevailing at the end of the reporting period) and the earliest date the Group can be required to pay:

		Contractual undiscounted cash flow				
	Carrying amount HK$ Million	Total HK$ Million	Within 1 year or on demand HK$ Million	More than 1 year but less than 2 years HK$ Million	More than 2 years but less than 5 years HK$ Million	More than 5 years HK$ Million
At 31 December 2019						
Bank loans	**(3,635)**	**(3,884)**	**(1,906)**	**(561)**	**(1,417)**	**–**
Trade and other payables	**(2,722)**	**(2,722)**	**(2,654)**	**(60)**	**–**	**(8)**
	(6,357)	**(6,606)**	**(4,560)**	**(621)**	**(1,417)**	**(8)**
At 31 December 2018						
Bank loans	(2,813)	(3,164)	(176)	(942)	(2,046)	–
Trade and other payables	(3,133)	(3,133)	(3,063)	(4)	(58)	(8)
	(5,946)	(6,297)	(3,239)	(946)	(2,104)	(8)

The Company is exposed to liquidity risk that arises from financial guarantees given by the Company on behalf of subsidiaries. The guarantees are callable if the respective subsidiary is unable to meet its obligation and the maximum amount callable as at 31 December 2019 was HK$3,450 million (2018: HK$3,950 million).

(e) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to rental, trade and other receivables, cash and cash equivalents and over-the-counter derivative financial instruments. The exposures to these credit risks are closely monitored on an ongoing basis by established credit policies and procedures in each of the Group's core businesses. In respect of rental receivables, sufficient rental deposits from tenants are held to cover potential exposure to credit risk. Further, evaluations are made for the customers with reference to their repayment history and financial strength, as well as the economic environment in which the customer operates.

The Group measures loss allowance for trade receivables from customers in accordance with accounting policy (G)(i). The allowance for expected credit losses is insignificant.

Cash at bank, deposits placed with financial institutions, and investments and transactions involving derivative financial instruments are with counter parties with sound credit ratings to minimise credit risk exposure.

The Group has no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position. Except for the financial guarantees given by the Company as set out in Note 24, the Group does not provide any other guarantee which would expose the Group or the Company to material credit risk.

(f) Fair values of assets and liabilities

(i) 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. 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 as defined in Note 8(d).

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 31 December 2019	
Assets	
Equity investments:	
– Listed investments	**4,065**
At 31 December 2018	
Assets	
Equity investments:	
– Listed investments	2,396

During the years ended 31 December 2019 and 2018, there were no transfers of instruments between Level 1 and Level 2, or transfer into or out of Level 3.

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.

Equity investments in Level 1 are stated at quoted market prices.

The fair value of bank loans and other borrowings is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

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

The fair values of receivables, bank balances and other current assets, payables and accruals, current borrowings, and provisions are assumed to approximate their carrying amounts due to the short-term maturities of these assets and liabilities.

All financial instruments carried at cost or amortised cost is carried at amounts not materially different from their fair values as at 31 December 2019 and 2018. Amounts due from/(to) fellow subsidiaries and related parties are unsecured, interest free and have no fixed repayment terms. Given these terms it is not meaningful to disclose fair values.

(g) Capital management

The Group's primary objective when managing capital is to safeguard the Group's ability to continue as a going concern, to meet its financial obligations and continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders' returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in the Group's business portfolio and economic conditions.

The Group monitors its capital structure by reviewing its net debt-to-equity ratio and cash flow requirements, taking into account its future financial obligations and commitments. For this purpose, the Group defines net debt as total loans less bank deposits and cash. Shareholders' equity comprises issued share capital and reserves attributable to equity shareholders of the Company. Total equity comprises shareholders' equity and non-controlling interests.

The net debt-to-equity ratio as at 31 December 2019 and 2018 were as follows:

	2019 HK$ Million	2018 HK$ Million
Bank loans (Note 18)	**3,635**	2,813
Less: Bank deposits and cash (Note 15)	**(1,910)**	(2,428)
Net debt	**1,725**	385
Shareholders' equity	**17,084**	17,276
Total equity	**17,467**	17,889
Net debt-to-shareholders' equity ratio	**10.1%**	2.2%
Net debt-to-total equity ratio	**9.9%**	2.2%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements, except for the requirement to comply with the financial covenants attached to the Group's borrowing as disclosed in Note 18(d).

21. CAPITAL AND RESERVES

(a) Share capital

	2019 No. of shares Million	2018 No. of shares Million	2019 HK$ Million	2018 HK$ Million
Issued and fully paid ordinary shares				
At 1 January	**709**	709	**3,641**	3,641
At 31 December	**709**	709	**3,641**	3,641

In accordance with section 135 of the Companies Ordinance, the ordinary shares of the Company do not have a par value. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(b) The Group's equity, apart from share capital and other statutory capital reserves, includes investments revaluation reserves for dealing with movement on revaluation of equity investments and the exchange reserve mainly comprises exchange differences arising from the translation of the financial statements of foreign operations in accordance with the accounting policy Note (M).

The revenue reserves for the Group at 31 December 2019 included HK$286 million (2018: HK$356 million) in respect of statutory reserves of the subsidiaries in Mainland China.

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity.

The Company's equity and the details of the changes in the individual components between the beginning and the end of the year are set out below:

	Share capital HK$ Million	Revenue reserve HK$ Million	Total equity HK$ Million
The Company			
At 1 January 2018	3,641	1,844	5,485
Profit and total comprehensive income	–	305	305
2017 second interim dividend paid	–	(397)	(397)
2018 first interim dividend paid	–	(50)	(50)
At 31 December 2018 and 1 January 2019	**3,641**	**1,702**	**5,343**
Profit and total comprehensive income	**–**	**170**	**170**
2018 second interim dividend paid	**–**	**(163)**	**(163)**
2019 first interim dividend paid	**–**	**(50)**	**(50)**
At 31 December 2019	**3,641**	**1,659**	**5,300**

(c) Reserves of the Company available for distribution to equity shareholders at 31 December 2019 amounted to HK$1,659 million (2018: HK$1,702 million).

(d) After the end of the reporting period, the directors declared a second interim dividend of 15 HK cents per share (2018: second interim dividend of 23 HK cents per share) amounting to HK$106 million based on 709 million issued ordinary shares (2018: HK$163 million based on 709 million issued ordinary shares). This dividend has not been recognised as a liability at the end of the reporting period.

22. COMPANY STATEMENT OF FINANCIAL POSITION

	Note	2019 HK$ Million	2018 HK$ Million
Non-current asset			
Interest in subsidiaries		**9,451**	9,019
Total assets		**9,451**	9,019
Current liabilities			
Trade and other payables		**(2)**	(2)
Amounts due to subsidiaries		**(4,149)**	(3,674)
		(4,151)	(3,676)
Total liabilities		**(4,151)**	(3,676)
NET ASSETS		**5,300**	5,343
Capital and reserves			
Share capital	21(a)	**3,641**	3,641
Reserves		**1,659**	1,702
TOTAL EQUITY		**5,300**	5,343

Stephen T H Ng
Chairman

Peter Z K Pao
Director

23. MATERIAL RELATED PARTY TRANSACTIONS

Material transactions between the Group and other related parties during the year ended 31 December 2019 are set out below:

(a) There were in existence agreements with a subsidiary of 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 year amounted to HK$36 million (2018: HK$57 million). Such transaction constitutes a connected transaction as defined under the Listing Rules. The disclosure required by Chapter 14A of the Listing Rules are provided in Section (I) of the Directors' Report.

(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 year amounted to HK$31 million (2018: HK$19 million). Such transaction constitutes a connected transaction as defined under the Listing Rules. The disclosure required by Chapter 14A of the Listing Rules are provided in Section (I) of the Directors' Report.

(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 year, including contingent rental income, amounted to HK$283 million (2018: HK$324 million). Such a transaction does not constitute a connected transaction under the Listing Rules.

(d) Remuneration for key management personnel of the Group, including amounts paid to the Directors of the Company is disclosed in Note 2(b).

In addition to the above transactions, details of the Group's amounts due from and to related parties are disclosed in Notes 10, 14 and 16 respectively.

24. CONTINGENT LIABILITIES

As at 31 December 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 (2018: HK$3,980 million).

As at 31 December 2019, there were guarantees of HK$546 million (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 also mortgage loan guarantees of HK$58 million (2018: HK$Nil) 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$Nil (2018: HK$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.

25. COMMITMENTS

The Group's outstanding commitments as at 31 December 2019 are detailed as below:

	31 December 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
Mainland China	82	153	235	142	278	420
	82	153	235	154	278	432
Hotel						
Hong Kong	11	6	17	5	5	10
Mainland China	–	104	104	–	114	114
	11	110	121	5	119	124
Development Property						
Mainland China	968	3,371	4,339	1,243	3,771	5,014
	968	3,371	4,339	1,243	3,771	5,014
Total						
Hong Kong	11	6	17	17	5	22
Mainland China	1,050	3,628	4,678	1,385	4,163	5,548
	1,061	3,634	4,695	1,402	4,168	5,570

The expenditure for development properties included attributable amounts for developments undertaken by joint ventures and associates of HK$2,025 million (2018: HK$2,169 million) in Mainland China.

26. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting year of the Group. Of these, the following developments are relevant to the Group's financial statements:

HKFRS 16	Leases
HK(IFRIC) 23	Uncertainty over income tax treatments
Amendments to HKAS 28	Investments in associates and 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 adopted any new standard or interpretation that is not yet effective for the current accounting period.

27. FUTURE CHANGES IN ACCOUNTING POLICIES

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, Definition of a business	1 January 2020
Amendments to HKAS 1 and HKAS 8, Definition of material	1 January 2020

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far the Group has concluded that the adoption of them is unlikely to have a significant impact on the Group's consolidated financial statements.

28. EVENTS AFTER THE REPORTING PERIOD

After the end of the reporting period the Directors declared a second interim dividend. Further details are disclosed in Note 7.

29. PARENT AND ULTIMATE HOLDING COMPANY

At 31 December 2019, the Directors consider the parent company to be Wharf Real Estate Investment Company Limited (incorporated in the Cayman Islands) and the ultimate holding company to be Wheelock and Company Limited (incorporated in Hong Kong), both listed in Hong Kong. Both Wharf Real Estate Investment Company Limited and Wheelock and Company Limited produce financial statements available for public use.

30. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Directors on 28 February 2020.

(A) STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with all applicable HKFRSs, which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA, accounting principles generally accepted in Hong Kong and the requirements of the Companies Ordinance. These 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. Significant accounting policies adopted by the Group are set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 26 to the financial statements provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(B) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2019 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and joint ventures.

The measurement basis used in the preparation of the financial statements is the historical cost basis except where stated otherwise in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note (U).

(C) BASIS OF CONSOLIDATION

(i) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interest's proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with Note (F) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note (F)) or, when appropriate, the cost on initial recognition of an investment in an associate or a joint venture (see Note (C)(ii)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note (G)(ii)).

(ii) Associates and joint ventures

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Notes (C)(iii) and (G)(ii)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investee's other comprehensive income is recognised in the consolidated statement of comprehensive income. Adjustments are made on consolidation to the financial information of associates and joint ventures where necessary to ensure consistency with the accounting policies adopted by the Group.

When the Group's share of losses exceeds its interest in the associates or joint ventures, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest in the associates or joint ventures is the carrying amount of the investment under the equity method together with the Group's long-term interests that, in substance, form part of the Group's net investment in the associates or joint ventures (after applying the ECL model to such other long-term interests where applicable (see Note (G) (i)).

Unrealised profits and losses resulting from transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated income statement.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note (F)).

In the Company's statement of financial position, investments in associates and joint ventures are stated at cost less impairment losses (see Note (G)(ii)).

(iii) Goodwill

Goodwill represents the excess of:

(a) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(b) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (b) is greater than (a), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note (G)(ii)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(D) INVESTMENT PROPERTIES AND HOTEL PROPERTIES, PLANT AND EQUIPMENT

(i) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see Note (H)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and properties that are being constructed or developed for future use as investment properties.

Investment properties are stated in the statement of financial position at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably measured at that time. Investment properties under development are stated at cost less impairment (see Note (G)(ii)) if the fair value cannot be measured reliably. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in the consolidated income statement. Rental income from investment properties is accounted for as described in Note (N)(ii).

In the comparable period, when the Group held a property interest under an operating lease and use the property to earn rental income and/or for capital appreciation, the Group could elect on a property-by-property basis to classify and account for such interest as an investment property. Any such property interest which had been classified as an investment property was accounted for as if it was held under a finance lease (see Note (H)), and the same accounting policies were applied to that interest as were applied to other investment properties leased under finance leases. Lease payments were accounted for as described in Note (H).

(ii) Hotel properties

Hotel properties are stated at cost less accumulated depreciation and impairment losses (see Note (G)(ii)). Hotel properties under development is stated at cost less impairment losses (see Note (G)(ii)).

(iii) Other property, plant and equipment held for own use

Other property, plant and equipment held for own use is stated at cost less accumulated depreciation and impairment losses (see Note (G)(ii)).

(iv) Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement on the date of retirement or disposal.

(E) DEPRECIATION OF HOTEL PROPERTIES, PLANT AND EQUIPMENT

Depreciation is calculated to write-off the cost of items of hotel properties, plant and equipment, less their estimated residual value, if any, using a straight line method over their estimated useful lives as follows:

(i) Investment properties

No depreciation is provided on investment properties.

(ii) Hotel properties

Depreciation is provided on the cost of the leasehold land of hotel properties over the unexpired period of the lease. Costs of buildings thereon are depreciated on a straight line basis over their estimated useful lives of not more than 50 years.

Depreciation on hotel properties under development commences when they are available for use.

(iii) Other property, plant and equipment held for own use

Depreciation is provided on a straight line basis over their estimated useful lives of these assets which vary from 5 to 10 years.

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(F) FINANCIAL INSTRUMENTS

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are recognised in the consolidated statement of financial position when a Group entity becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(i) Classification and measurement of financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVTOCI) — debt investment; FVTOCI — equity investment; or fair value through profit or loss (FVTPL).

Financial assets are not reclassified subsequent to their initial recognition, except if and in the period the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

(a) A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(b) On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income ("OCI"). This election is made on an investment-by-investment basis.

(c) All financial assets not classified as measured at amortised cost or FVTOCI as described above are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVTOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Investment in equity securities (other than investments in subsidiaries, associates and joint ventures)

The 'equity investments' caption in the consolidated statement of financial position includes:

- Equity investment securities mandatorily measured at FVTPL or designated as at FVTPL; these are at fair value with changes recognised immediately in the consolidated income statement; and

- Equity investment securities designated as at FVTOCI.

Investments in equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets.

The Group has designated all investments in equity instruments (listed or unlisted) that are not held for trading as at FVTOCI since the application of HKFRS 9.

Financial assets: Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

– the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;

– how the performance of the portfolio is evaluated and reported to the Group's management;

– the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

– how managers of the business are compensated — e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

– the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets: Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

– contingent events that would change the amount or timing of cash flows;

– terms that may adjust the contractual coupon rate, including variable rate features;

– prepayment and extension features; and

– terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets: Subsequent measurement and gains and losses

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in the consolidated income statement.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in the consolidated income statement. Any gain or loss on derecognition is recognised in the consolidated income statement.
Equity investments at FVTOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in the consolidated income statement unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses and impairment are recognised in OCI and are never reclassified to the consolidated income statement.

(ii) Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In such cases, the transferred assets are not derecognised.

In the case of equity investments, cumulative gains and losses recognised in OCI are never reclassified to the consolidated income statement but transferred to retained earnings on disposal of an investment.

(iii) Classification and measurement of financial liabilities

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in the consolidated income statement. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in the consolidated income statement. Any gain or loss on derecognition is also recognised in the consolidated income statement.

(iv) Derecognition of financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) with modified terms is recognised in the consolidated income statement.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under HKFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

(G) IMPAIRMENT OF ASSETS

(i) Impairment of financial assets

The Group recognises loss allowances for expected credit loss ("ECL") on financial assets measured at amortised cost.

The Group measures loss allowances at an amount equal to lifetime ECL. For trade receivables, the Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

In all cases, the maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

Credit-impaired financial assets

At each reporting date, the Group assesses on a forward looking basis whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

– significant financial difficulty of the borrower or issuer;

– a breach of contract such as a default or past due event;

– the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;

– it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the consolidated statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

(ii) Impairment of non-financial assets (including right-of-use assets)

The carrying amounts of non-financial assets other than properties carried at revalued amounts (including investments in subsidiaries in the Company's statement of financial position, investments in associates and joint ventures accounted for under the equity method (see Note (C)(ii))) and deferred tax assets, are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount is estimated.

– **Calculation of recoverable amount**

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– **Recognition of impairment losses**

An impairment loss is recognised as an expense in the consolidated income statement if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds the recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use, if determinable.

– **Reversal of impairment losses**

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed (including those provided during the interim financial reporting).

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the consolidated income statement in the year in which the reversals are recognised.

– **Interim financial reporting and impairment**

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see Notes (G)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(H) LEASED ASSETS

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. 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.

(i) As a lessee

(a) Policy applicable from 1 January 2019

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation (see Note (E) for each type of underlying asset) and impairment losses (see Note (G)(ii)), except for the following types of right-of-use asset:

– right-of-use assets that meet the definition of investment property are carried at fair value in accordance with Note (D)(i); and

– right-of-use assets related to interests in leasehold land where the interest in the land is held as inventory are carried at the lower of cost and net realisable value in accordance with Note (I).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group includes right-of-use assets that do not meet the definition of investment property and properties for sale in "Hotel properties, plant and equipment" in the consolidated statement of financial position.

(b) Policy applicable prior to 1 January 2019

In the comparative period, as a lessee the Group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the Group. Leases which did not transfer substantially all the risks and rewards of ownership to the Group were classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property was classified as investment property on a property-by-property basis and, if classified as investment property, was accounted for as if held under a finance lease (see Note (D)(i)); and

– land held for own use under an operating lease, the fair value of which could not be measured separately from the fair value of a building situated thereon at the inception of the lease, was accounted for as being held under a finance lease, unless the building was also clearly held under an operating lease. For these purposes, the inception of the lease was the time that the lease was first entered into by the Group, or taken over from the previous lessee.

Where the Group acquired the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets were recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, were recorded as obligations under finance leases. Depreciation was provided at rates which wrote off the cost or valuation of the assets over the term of the relevant lease or, where it was likely the Group would obtain ownership of the asset, the life of the asset, as set out in Note (E). Impairment losses were accounted for in accordance with the accounting policy as set out in Note (G)(ii). Finance charges implicit in the lease payments were charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

Where the Group had the use of assets held under operating leases, payments made under the leases were charged to consolidated statement or profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis was more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received were recognised in consolidated statement of profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

(ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with Note (N)(ii).

When the Group is an intermediate lessor, the sub-leases are classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the exemption for short-term leases that have a lease term of 12 months or less and leases of low-value assets, then the Group classifies the sub-lease as an operating lease.

(I) INVENTORIES

(i) Completed properties for sale

Completed properties for sale are stated at lower of cost and net realisable value. Cost is determined by apportionment of the total development costs, including borrowing costs capitalised (see Note (O)), attributable to unsold units. Net realisable value is estimated by the management, based on prevailing market conditions which represents the estimated selling price less costs to be incurred in selling the property. Cost of completed properties held for sale comprise all costs of purchase, costs of conversion and costs incurred in bringing the inventories to their present location and condition.

The amount of any write down of or provision for properties held for sale is recognised as an expense in the period the write down or loss occurs. The amount of any reversal of any write down or provision arising from an increase in net realisable value is recognised in the consolidated income statement in the period in which the reversal occurs.

(ii) Properties under development for sale

Properties under development for sale are classified as current assets and stated at lower of cost and net realisable value. Cost includes identified costs including the acquisition cost of interests in freehold and leasehold land, aggregate cost of development, borrowing costs capitalised (see Note (O)), materials and supplies, wages, other direct expenses and an appropriate proportion of overheads. Net realisable value is estimated by the management, taking into account the expected price that can ultimately be achieved, based on prevailing market conditions and the anticipated costs to completion and costs to be incurred in selling the property.

The amount of any write down of or provision for properties under development for sale is recognised as an expense in the period the write down or loss occurs. The amount of any reversal of any write down or provision arising from an increase in net realisable value is recognised in the consolidated income statement in the period in which the reversal occurs.

(iii) Hotel consumables

Inventories comprise hotel consumables and are stated at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price in the ordinary course of business less direct selling costs.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(J) DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period, the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in the consolidated income statement, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

(K) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

(L) CONTRACT ASSETS AND CONTRACT LIABILITIES

A contract asset is recognised when the Group recognises revenue (see Note (N)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in Note (G) and are reclassified to receivables when the right to the consideration has become unconditional.

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see Note (N)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see Note (N)).

(M) FOREIGN CURRENCIES

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary foreign currency balances and the statements of financial position of foreign operations are translated into Hong Kong dollars at the exchange rates ruling at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured. The transaction date is the date on which the Group initially recognises such non-monetary assets or liabilities.

The results of foreign operations are translated into Hong Kong dollars at the monthly weighted average exchange rates for the year. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. Differences arising from the translation of the financial statements of foreign operations are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve and those arising from the financing of properties under development by foreign currency borrowings are capitalised as part of the development costs. All other exchange differences are dealt with in the consolidated income statement.

On disposal of a foreign operation, the cumulative amount of the exchange differences which relate to that foreign operation is reclassified from equity to the consolidated income statement and is included in the calculation of the profit or loss on disposal.

(N) RECOGNITION OF REVENUE

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group’s assets under leases in the ordinary course of the Group’s business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

(i) Income from hotel operations is recognised at the time when the services are rendered.

(ii) Rental income under operating leases is recognised in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased assets. Lease incentives granted are recognised as an integral part of the aggregate net lease payments receivable. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are earned.

(iii) Revenue arising from the sale of properties developed for sale in the ordinary course of business is recognised when legal assignment is completed or the property is accepted by the customer, which is the point in time when the customer has the ability to direct the use of the property and obtain substantially all of the remaining benefits of the property. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the statement of financial position under contract liabilities as "Pre-sale Deposits and Proceeds".

When residential properties are marketed by the Group while the property is still under construction, the Group may offer a discount compared to the listed sales price, provided the customer agrees to pay the balance of the consideration early. In such cases, if the advance payments are regarded as providing a significant financing benefit to the group, interest expense arising from the adjustment of time value of money will be accrued by the Group during the period between the payment date and the completion date of legal assignment or the date when the property is accepted by the customer. This accrual increases the balance of "Pre-sale Deposits and Proceeds" during the period of construction, and therefore increases the amount of revenue recognised when control of the completed property is transferred to the customer. The interest is expensed as accrued unless it is eligible to be capitalised under HKAS 23, Borrowing costs (see Note (O)).

(iv) Interest income is recognised as it accrues using the effective interest method.

(v) Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(O) BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(P) INCOME TAX

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the consolidated income statement except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the difference between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may be capable to support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided that they are not part of a business combination).

Where investment properties are carried at their fair value in accordance with the accounting policy set out in Note (D)(i), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the end of the reporting period unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when related dividends are likely to be payable in the foreseeable future.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if, and only if, the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(Q) EMPLOYEE BENEFITS

Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, leave passage, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(R) SEGMENT REPORTING

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's top management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(S) FINANCIAL GUARANTEES ISSUED, PROVISIONS AND CONTINGENT LIABILITIES

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in the consolidated income statement on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in the consolidated income statement over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised accordance with Note (S)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee, i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(T) RELATED PARTIES

(i) A person, or a close member of that person's family, is related to the Group if that person:

- **(a)** has control or joint control over the Group;
- **(b)** has significant influence over the Group; or
- **(c)** is a member of the key management personnel of the Group or the Group's parent.

(ii) An entity is related to the Group if any of the following conditions applies:

- **(a)** The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- **(b)** One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member).
- **(c)** Both entities are joint ventures of the same third party.
- **(d)** One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- **(e)** The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- **(f)** The entity is controlled or jointly controlled by a person identified in (i).

(g) A person identified in (i)(a) had significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(h) The entity, or any member of a Group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

(U) SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Key sources of estimation uncertainty

Note 20 contain information about the assumptions and their risk relating to financial instruments. Other key sources of estimation uncertainty are as follows:

– **Assessment of provision for properties held under development and for sale**

Management determines the net realisable value of properties held for sale by using (1) prevailing market data such as most recent sale transactions and market survey reports available from independent property valuers; and (2) internal estimates of costs based on quotes by suppliers.

Management's assessment of the net realisable value of properties under development for sale requires the application of a risk-adjusted discount rate to estimate future discounted cash flows to be derived from the properties under development and for sale. These estimates require judgement as to the anticipated sale prices by reference to recent sale transactions in nearby locations, rates of new property sales, marketing costs (including price discounts required to stimulate sales) and the expected costs to completion of properties, the legal and regulatory framework and general market conditions. The Group's estimates may be inaccurate and estimates may need to be adjusted in later periods.

– **Valuation of investment properties**

Investment properties are included in the consolidated statement of financial position at their market value unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably determined at that time. The market value of investment properties is assessed annually by independent qualified valuers, after taking into consideration the net income allowing for reversionary potential of the properties.

The assumptions adopted in the property valuations are based on the market conditions existing at the end of the reporting period, with reference to current market selling prices and the appropriate capitalisation rate.

– **Assessment of impairment of non-current assets**

Management assesses the recoverable amount of each asset based on its value in use (using relevant rates) or on its net selling price (by reference to market prices), depending upon the anticipated future plans for the asset. Estimating the value in use of an asset involves estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and applying the appropriate discount rate to these future cash flows. Cash flow projections for the remaining useful life of the asset and the most recent financial budgets/forecasts are approved by management.

– **Assessment of the useful economic lives for depreciation of hotel properties, plant and equipment**

In assessing the estimated useful lives of hotel properties, plant and equipment, management takes into account factors such as the expected usage of the asset by the Group based on past experience, the expected physical wear and tear (which depends on operational factors), technical obsolescence arising from changes or improvements in production or from a change in the market demand for the product or service output of the asset. The estimation of the useful life is a matter of judgement based on the experience of the Group.

Management reviews the useful lives of hotel properties, plant and equipment annually, and if expectations are significantly different from previous estimates of useful economic lives, the useful lives and, therefore, the depreciation rate for the future periods will be adjusted accordingly.

– **Recognition of deferred tax assets**

The recognition of deferred tax assets requires formal assessment by the Group of the future profitability of related operations. In making this judgement, the Group evaluates, amongst other factors, the forecast financial performance, changes in technology and operational and financing cash flows.

– **Income taxes**

Significant judgement is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that we initially recorded, such difference will impact the income tax and deferred tax provision in the period in which such determination is made.

The Group is subject to land appreciation taxes and withholding tax in relation to dividend distribution and capital gains in Mainland China. Significant judgement is required in determining the amount of the land appreciation, withholding tax in relation to dividend distribution and capital gains, based on management's best estimates according to the understanding of the tax rules. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the income tax and deferred income tax provision in the periods in which such taxes have been finalised with local authorities.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

– **Distinction between investment properties and owner-occupied properties**

The Group determines whether a property qualifies as investment property. In making its judgement, the Group considers whether the property generates cash flows largely independently of the other assets. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production of supply process.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions can be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgement.

PRINCIPAL SUBSIDIARIES, ASSOCIATE AND JOINT VENTURES

As 31 December 2019

Subsidiaries	Place of incorporation/ operation	Issued share capital/ registered and paid up capital	Percentage of equity attributable to shareholders	Principal activities
*# Harbour Centre (Hong Kong) Limited	British Virgin Islands	500 US$1 shares	100%	Holding company
HCDL Finance Limited	Hong Kong	HK$5,000,000 divided into 5,000,000 shares	100%	Finance
Manniworth Company Limited	Hong Kong	HK$10,000 divided into 10,000 shares	100%	Property
The Hongkong Hotel Limited	Hong Kong	HK$100,000 divided into 100,000 shares	100%	Hotel and property
# HCDL Investments Limited	Hong Kong	HK$1 divided into 1 share	100%	Holding company
* Silver Voyage (0051) Limited	British Virgin Islands	500 US$1 shares	100%	Holding company
* Superior Skills Limited	British Virgin Islands	500 US$1 shares	100%	Holding company
* Algebra Assets Limited	British Virgin Islands/ International	500 US$1 shares	100%	Investment
* Horizon Vibrant Limited	British Virgin Islands	500 US$1 shares	100%	Investment
* Victor Horizon (0051) Limited	British Virgin Islands	500 US$1 shares	100%	Investment
HCDL Investments Finance Limited	Hong Kong	HK$1 divided into 1 share	100%	Finance
The Murray Limited	Hong Kong	HK$1 divided into 1 share	100%	Hotel
# Wealthy Flow Company Limited	Hong Kong	HK$1 divided into 1 share	100%	Bank deposits
* HCDL China Development Limited	British Virgin Islands	500 US$1 shares	100%	Holding company

As 31 December 2019

Subsidiaries	Place of incorporation/ operation	Issued share capital/ registered and paid up capital	Percentage of equity attributable to shareholders	Principal activities
HCDL China Finance Limited	Hong Kong	HK$1 divided into 1 share	100%	Finance
Cheer Sky Investment Limited	Hong Kong	HK$1 divided into 1 share	100%	Holding company
Free Boost Investments Limited	Hong Kong	HK$1 divided into 1 share	100%	Holding company
High Sea Investments Limited	Hong Kong	HK$2 divided into 2 shares	100%	Holding company
Joinhill Investments Limited	Hong Kong	HK$1 divided into 1 share	100%	Holding company
Market Favour Investments Limited	Hong Kong	HK$1 divided into 1 share	100%	Holding company
九龍倉(常州)置業有限公司 (Note (ii))	The People's Republic of China	US$144,950,000	100%	Property
蘇州高龍房產發展有限公司 (Note (i))	The People's Republic of China	RMB1,500,000,000	80%	Property
南京聚龍房地產開發有限公司(Note (ii))	The People's Republic of China	US$1,000,000	100%	Holding company
常州馬哥孛羅酒店有限公司 (Note (ii))	The People's Republic of China	US$7,000,000	100%	Hotel
廣州秀達企業管理有限公司 (Note (ii))	The People's Republic of China	HK$2,000,000	100%	Holding company
廣州譽港企業管理有限公司 (Note (iii))	The People's Republic of China	RMB5,000,000	100%	Holding company
廣州港捷企業管理有限公司 (Note (iii))	The People's Republic of China	RMB10,000,000	100%	Holding company

As 31 December 2019

Associate	Place of incorporation/ operation	Class of shares	Percentage of equity attributable to shareholders	Principal activities
上海萬九綠合置業有限公司	The People's Republic of China	Registered	27%	Property

Joint Ventures	Place of incorporation/ operation	Class of shares	Percentage of equity attributable to shareholders	Principal activities
Speedy Champ Investments Limited	Hong Kong	Ordinary	55%	Holding company
重慶豐盈房地產開發有限公司	The People's Republic of China	Registered	55%	Property

Subsidiaries held directly.

* Registered in Hong Kong under Part 16 of the Companies Ordinance (Cap 622 of the laws of Hong Kong) as a registered non-Hong Kong company.

(i) The entity is registered as a sino-foreign joint venture company under PRC law.

(ii) This entity is registered as a wholly foreign owned enterprise under PRC law.

(iii) This entity is registered as a wholly domestic owned enterprise under PRC law.

Notes:

(a) *All the subsidiaries listed above were, as at 31 December 2019, indirectly held by the Company except where marked #.*

(b) *The above list gives the principal subsidiaries, associate and joint ventures of the Group which, in the opinion of the Directors, principally affect the profit and assets of the Group.*

SCHEDULE OF PRINCIPAL PROPERTIES

As 31 December 2019

Address	Approximate Gross Floor Areas (sq.ft.) Total	Office	Retail	Residential	Others	Remarks	Site Area (sq.ft.)	Lot Number	Lease Expiry	Year of Completion/ Expected Completion	Stage of Completion	Effective Equity Interest to the Company
HONG KONG												
Investment Properties												
Marco Polo Hongkong Hotel (Commercial Section), Harbour City, Tsimshatsui	190,000	18,000	172,000	–	–	Note (a)	(a)	KML 91 S.A. & KML 10 S.B.	2863	1969	N/A	100%
Units at Star House, 3 Salisbury Road, Kowloon	50,800	–	50,800	–	–		N/A	KML 10 S.A.	2863	1966	N/A	100%
	240,800	18,000	222,800	–	–							
Hotel Properties												
Marco Polo Hongkong Hotel, Harbour City, Tsimshatsui	547,000	–	–	–	547,000	(A 655-room hotel)	58,814	KML 91 S.A. & KML 10 S.B.	2863	1969	N/A	100%
The Murray, Cotton Tree Drive, Central	336,000	–	–	–	336,000	(A 336-room hotel)	68,136	IL 9036	2063	2017	N/A	100%
	883,000	–	–	–	883,000							
HONG KONG TOTAL	**1,123,800**	**18,000**	**222,800**	**–**	**883,000**							
MAINLAND CHINA												
Investment Property												
Suzhou International Finance Square Xing Hu Jie, Suzhou Industrial Park, Suzhou	598,000	–	–	–	598,000	(A 230-room hotel)	229,069	N/A	2077	2021	Superstructure in progress	80%
Hotel Property												
Marco Polo Changzhou 88 Hehai East Road, Xinbei District, Changzhou	474,000	–	–	131,000	343,000	(A 271-room hotel and The Mansion)	842,531	N/A	2048	2014	N/A	100%
Development Properties												
Suzhou Times City Xiandai Da Dao, Suzhou Industrial Park, Suzhou	8,000	–	–	8,000	–		5,425,454	N/A	2077	2017	N/A	80%
Suzhou International Finance Square Xing Hu Jie, Suzhou Industrial Park, Suzhou	2,614,000	1,632,000	14,000	968,000	–		229,069	N/A	2047/77	2021	Superstructure in progress	80%
	2,622,000	1,632,000	14,000	976,000	–							
Development Properties (undertaken by joint venture/associate) — Note (b)												
The U World Zone B of Jiangbei City, Jiang Bei District, Chongqing	4,000	–	–	4,000	–		1,002,408	N/A	2057	2016	N/A	55%
Shanghai South Station Caohejing Area Lot 278a-05/278b-02/278b-04, South Station Business Zone, Xuhui District, Shanghai	1,011,000	828,000	183,000	–	–		1,156,979	N/A	2052/62	2022	Superstructure in progress	27%
	1,015,000	828,000	183,000	4,000	–							
MAINLAND CHINA TOTAL	**4,709,000**	**2,460,000**	**197,000**	**1,111,000**	**941,000**							
GROUP TOTAL	**5,832,800**	**2,478,000**	**419,800**	**1,111,000**	**1,824,000**							

Notes:

(a) *Part of Marco Polo Hongkong Hotel building.*

(b) *The floor area of property held through joint venture and associate is shown on an attributable basis.*

(c) *Total Mainland China development properties area included 1,166,000 sq. ft. pre-sold areas which have not yet been recognised in the financial statements.*

TEN-YEAR FINANCIAL SUMMARY

HK$ Million	**2019**	2018	2017	2016	2015	2014	2013	2012	2011	2010
Consolidated Income Statement										
Revenue	**1,395**	1,583	6,997	3,558	5,048	5,646	5,758	6,261	1,297	667
Underlying net profit (Note a)	**435**	512	1,290	762	1,194	851	1,464	1,937	336	226
Profit attributable to shareholders	**117**	831	1,320	692	1,231	1,082	1,276	3,058	1,096	1,015
Dividends attributable to shareholders	**156**	213	496	354	496	425	553	680	170	142
Consolidated Statement of Financial Position										
Investment properties	**6,480**	6,396	9,300	8,277	7,876	7,253	6,435	5,566	4,290	3,352
Hotel properties, plant and equipment	**7,558**	7,867	8,088	6,529	5,677	5,429	4,764	650	359	116
Interest in associates	**1,249**	1,294	1,599	1,417	1,608	2,059	1,925	–	–	–
Interest in joint ventures	**1,604**	1,601	1,694	1,808	2,039	2,127	2,162	2,082	1,769	1,757
Equity investments/available-for-sale investments	**4,065**	2,396	2,708	2,301	2,450	1,550	1,340	1,541	1,119	1,744
Properties under development/for sale	**4,777**	3,726	144	1,957	2,699	4,979	7,376	7,822	8,717	7,335
Bank deposits and cash	**1,910**	2,428	2,699	5,154	6,447	5,185	5,825	7,731	5,842	3,522
Other assets	**742**	700	664	671	855	960	1,249	1,390	959	441
Total assets	**28,385**	26,408	26,896	28,114	29,651	29,542	31,076	26,782	23,055	18,267
Bank loans	**(3,635)**	(2,813)	(2,302)	(3,250)	(4,800)	(4,418)	(6,238)	(3,150)	(3,141)	(3,350)
Other liabilities	**(7,283)**	(5,706)	(6,391)	(8,318)	(7,521)	(7,878)	(8,391)	(8,069)	(7,635)	(3,477)
Net assets	**17,467**	17,889	18,203	16,546	17,330	17,246	16,447	15,563	12,279	11,440
Share capital	**3,641**	3,641	3,641	3,641	3,641	3,641	3,641	3,641	3,641	3,641
Reserves	**13,443**	13,635	13,913	12,188	12,544	12,564	11,740	10,950	7,822	7,033
Shareholders' equity	**17,084**	17,276	17,554	15,829	16,185	16,205	15,381	14,591	11,463	10,674
Non-controlling interests	**383**	613	649	717	1,145	1,041	1,066	972	816	766
Total equity	**17,467**	17,889	18,203	16,546	17,330	17,246	16,447	15,563	12,279	11,440
Net debt/(cash)	**1,725**	385	(397)	(1,904)	(1,647)	(767)	413	(4,581)	(2,701)	(172)
Financial Data										
Per share data										
Earnings per share (HK$)										
– Underlying net profit (Note a)	**0.61**	0.72	1.82	1.08	1.68	1.20	2.07	2.73	0.47	0.32
– Reported profit	**0.17**	1.17	1.86	0.98	1.74	1.53	1.80	4.31	1.55	1.43
Net assets value per share (HK$)	**24.10**	24.38	24.77	22.33	22.84	22.86	21.70	20.59	16.17	15.06
Dividends per share (HK cents)	**22.00**	30.00	70.00	50.00	70.00	60.00	78.00	96.00	24.00	20.00
Financial ratios										
Net debt to total equity (%)	**9.9%**	2.2%	N/A	N/A	N/A	N/A	2.5%	N/A	N/A	N/A
Return on shareholders' equity (%) (Note b)	**0.7%**	4.8%	7.9%	4.3%	7.6%	6.9%	8.5%	23.5%	9.9%	10.2%
Dividend cover (Times)										
– Underlying net profit (Note a)	**2.8**	2.4	2.6	2.2	2.4	2.0	2.6	2.8	2.0	1.6
– Reported profit	**0.8**	3.9	2.7	2.0	2.5	2.6	2.3	4.5	6.4	7.2
Interest cover (Times) (Note c)	**7.9**	8.2	101.4	14.3	18.5	7.3	17.4	52.2	20.1	11.0

Notes:

(a) Underlying net profit excludes changes in investment property revaluation and impairment provision for hotel properties/hotel properties under development.

(b) Return on shareholders' equity is based on profit attributable to shareholders over average shareholders' equity during the year.

(c) Interest cover is based on EBITDA over finance costs (before capitalisation, fair value gain/loss and impairment loss).

(d) Certain figures have been reclassified or restated to comply with the prevailing HKFRSs.