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HARBOUR CENTRE DEVELOPMENT LIMITED

(Incorporated in Hong Kong with limited liability)

Stock Code: 51

2019 Final Results Announcement

Crises End Uncertain

HIGHLIGHTS

- Hotel & Retail sectors among the worst hit since mid-2019
- A very mediocre 2019 has given way to a surprise disaster in early 2020 and a complex outlook going forward
- 2019 revenue decreased by 12% & underlying profit by 15%
- Attributable profit decreased by 86% due to asset valuation deficits
- Full year dividend reduced by 27%

GROUP RESULTS

Group revenue decreased by 12% to HK\$1,395 million (2018: HK\$1,583 million), operating profit increased by 38% to HK\$531 million (2018: HK\$385 million), underlying profit decreased by 15% to HK\$435 million (2018: HK\$512 million), and profit attributable to equity shareholders, including investment property revaluation changes, decreased by 86% to HK\$117 million (2018: HK\$831 million).

Underlying earnings per share decreased to HK\$0.61 (2018: HK\$0.72). Total earnings per share decreased to HK\$0.17 (2018: HK\$1.17).

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.

BUSINESS REVIEW

Hong Kong

Investment Properties (“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 led by the continual social activities dealt a heavy blow to the hotel industry. Occupancy rates suffered a dramatic drop and room rates in town have been slashed for market share, suppressing the segmental performance of the Group’s hotels. Segmental revenue decreased by 15%. The segment recorded operating loss during the year, mainly due to the depreciation of The Murray and increased costs.

Marco Polo Hongkong Hotel (“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. However, in view of its age, different options are being studied to maintain its competitiveness. Substantial capital expenditure and business disruption will be required for that.

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 Development Properties (“DP”) segment has been underway. Attributable land bank (net of recognised sales) was approximately 0.4 million square metres at year-end. Lower revenue and profit were reported as a result of land bank depletion. The net order book stood as RMB3.5 billion for 108,000 square metres as at 31 December 2019.

Hotel

Constrained business activities amidst the Sino-US trade tension, coupled with increased supply, have undermined Marco Polo Changzhou’s (“MP Changzhou”) revenue and a loss was reported.

OUTLOOK

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 the Mainland.

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 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 about how long and how much harder this winter could be.

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 amid the upheaval market conditions in the second half of 2019. In addition, DP also contributed lower profit in absence of project completion.

Including IP revaluation deficits and impairment provision for 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) as adversely impacted by the social unrest situation in the second half of 2019. 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. 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 deficits 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 deficits 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 deficits 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"). Restating these hotel properties based on independent valuation as at 31 December 2019 would give rise to an additional revaluation surplus totalling HK\$4,065 million and increase the Group's shareholders' equity as at 31 December 2019 to HK\$21,149 million, equivalent to HK\$29.84 per share.

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 exceed 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.

CONSOLIDATED INCOME STATEMENT
For The Year Ended 31 December 2019

	Note	2019	2018
		HK\$ Million	HK\$ Million
Revenue	2	1,395	1,583
Direct costs and operating expenses		(437)	(777)
Selling and marketing expenses		(121)	(157)
Administrative and corporate expenses		(90)	(58)
		<hr/>	<hr/>
Operating profit before depreciation, interest and tax		747	591
Depreciation		(216)	(206)
		<hr/>	<hr/>
Operating profit	2 & 3	531	385
Changes in fair value of investment properties		(161)	319
Impairment for hotel properties	4	(157)	-
Other net income		-	34
		<hr/>	<hr/>
		213	738
Finance costs	5	(53)	(55)
Share of results after tax of:			
Joint ventures		-	122
Associates		76	111
		<hr/>	<hr/>
Profit before taxation		236	916
Income tax	6 (a)	(89)	(89)
		<hr/>	<hr/>
Profit for the year		147	827
		<hr/>	<hr/>
Profit attributable to:			
Equity shareholders		117	831
Non-controlling interests		30	(4)
		<hr/>	<hr/>
		147	827
		<hr/>	<hr/>
Earnings per share	7		
Basic		HK\$0.17	HK\$1.17
Diluted		HK\$0.17	HK\$1.17
		<hr/>	<hr/>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For The Year Ended 31 December 2019

	2019	2018
	HK\$ Million	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 of the year	32	133
Total comprehensive income attributable to:		
Equity shareholders	21	169
Non-controlling interests	11	(36)
	32	133

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2019

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

NOTES TO THE FINANCIAL INFORMATION

1. PRINCIPAL ACCOUNTING POLICIES AND BASIS OF PREPARATION

This financial information have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance (Cap. 622 of the laws of Hong Kong). This financial information also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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

The HKICPA has issued a number of new standards and amendments to HKFRSs which 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	

HKFRS 16, Leases

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

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

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

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

(a) New definition of a lease

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

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

(b) Leasehold investment property

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

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

The financial information relating to the financial years ended 31 December 2019 and 2018 included in this announcement of annual results does not constitute the Company's statutory annual consolidated financial statements for those financial years but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 31 December 2018 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the financial statements for the year ended 31 December 2019 in due course. The Company's auditor has reported on those financial statements for both years. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under section 406(2), 407(2) or (3) of the Companies Ordinance.

2. SEGMENT INFORMATION

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

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

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

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

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

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

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

(a) Analysis of segment revenue and results

	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	2018
	HK\$ Million	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	2018	2019	2018
	HK\$ Million	HK\$ Million	HK\$ Million	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	2018	2019	2018
	HK\$ Million	HK\$ Million	HK\$ Million	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.

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	2018
	HK\$ Million	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.

3. OPERATING PROFIT

Operating profit is arrived at:

	2019	2018
	HK\$ Million	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).

4. IMPAIRMENT FOR HOTEL PROPERTIES

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

5. FINANCE COSTS

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

6. INCOME TAX

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

	2019	2018
	HK\$ Million	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) 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.

7. 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 year ended 31 December 2019 and 2018.

8. DIVIDENDS ATTRIBUTABLE TO EQUITY SHAREHOLDERS

	2019	2019	2018	2018
	HK\$	HK\$	HK\$	HK\$
	Per share	Million	Per share	Million
First interim dividend declared and paid	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.

9. TRADE AND OTHER RECEIVABLES

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	2018
	HK\$ Million	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 business. 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.

10. 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	2018
	HK\$ Million	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

11. REVIEW OF RESULTS

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

CORPORATE GOVERNANCE CODE

During the financial year ended 31 December 2019, all the code provisions in the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited were met by the Company, with one exception as regards Code Provision A.2.1 providing for the roles of 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 the Chairman of the Company as well as to discharge the executive functions of a chief executive. The Board of Directors believes that the balance of power and authority is adequately ensured by the operations of the Board which comprises experienced and high calibre individuals, with more than half of them being Independent Non-executive Directors.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

RELEVANT DATES FOR SECOND INTERIM DIVIDEND AND ANNUAL GENERAL MEETING

Second Interim Dividend

Ex-entitlement date	1 April 2020 (Wed)
Latest time to lodge share transfer	4:30 p.m., 2 April 2020 (Thu)
Record date/time	6:00 p.m., 2 April 2020 (Thu)
Payment date	21 April 2020 (Tue)

In order to qualify for the second interim dividend, all transfer, accompanied by the relevant share certificates, must be lodged with the Company's Registrars, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Thursday, 2 April 2020.

Annual General Meeting ("AGM")

Ex-entitlement date	24 April 2020 (Fri)
Latest time to lodge share transfer	4:30 p.m., 27 April 2020 (Mon)
Book closure period	28 April 2020 (Tue) to 5 May 2020 (Tue), both days inclusive
Record date	28 April 2020 (Tue)
AGM date/time	11:15 a.m., 5 May 2020 (Tue)

In order to be eligible for attending and voting at the AGM, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Registrars, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Monday, 27 April 2020.

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

Hong Kong, 28 February 2020

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