



WHARF

Established 1886

THE WHARF (HOLDINGS) LIMITED

STOCK CODE : 0004

ANNUAL REPORT 2018



Corporate Profile

Founded in 1886 with Hong Kong as its base, The Wharf (Holdings) Limited (Stock code: 0004) is the 17th company incorporated in Hong Kong and a premier company with a long history. As one of the 30 constituent stocks in the original Hang Seng Index since more than 50 years ago, Wharf is among the top local blue chips that is most actively traded and widely held. Backed by a long standing mission of “Building for Tomorrow” and a proven track record in management and execution, the Group has produced consistent and productive performance over the years.

Subsequent to the separate listing of Wharf Real Estate Investment Company Limited in November 2017 which focuses on its Hong Kong investment properties portfolio, The Wharf (Holdings) Limited is principally engaged in properties in Hong Kong and Mainland China, logistics in Southern China through Wharf Logistics, hotel operation in Asia through Wharf Hotels, and a strategic initiative in new economy infrastructure through Wharf CME2.

Wharf’s Peak Portfolio redefines the concept of luxury living with a collection of the rare and most prestigious residences, epitomising a unique and exclusive lifestyle at the most sought-after addresses in town. Besides the highly-acclaimed Mount Nicholson, other properties under development include 1 Plantation Road, 11 Plantation Road and 77 Peak Road.

Kowloon East Waterfront Portfolio in the vibrant CBD2 under the Government’s “Energising Kowloon East” initiative forms a major part of the Hong Kong properties portfolio which showcases a rare collection of premier developments that span a 500-metre coastline and enjoys a spectacular harbour view.

The land bank was replenished with addition of a prominent luxury residential site in Kowloon Tong to fill a supply gap of luxury and ultra-exclusive residences in the traditional luxury residential area in Kowloon.

In the Mainland, Wharf spearheads its investment properties with the International Finance Square (IFS) series at the very heart of CBD or new CBD in high potential cities including Changsha, Chengdu, Chongqing, Suzhou and Wuxi. IFS developments are positioned as trendsetting landmarks with unrivalled locations, superior planning and design, retailer and shopper critical mass, as well as top-notch retail management. Changsha IFS, 2018’s newest to the collection, and Chengdu IFS opened in 2014 are comparable to Harbour City in Hong Kong in scale and prominence. The boutique Chongqing IFS, featuring the largest cluster of first-tier brands in Chongqing, was opened in 2017.

The Group continues to adopt a selective land acquisition policy with strategic focus on key Tier 1 or 2 cities in order to secure high quality land bank with returns. The development property landbank at year-end amounted to 3.7 million square metres.

Wharf Hotels manages an expanding portfolio of 17 hotels in Asia, spearheaded by a prominent Niccolo brand in recent years. The Wharf Hotels owns four contemporary, urban, chic Niccolo hotels (including The Murray, Hong Kong and the newly opened Niccolo Changsha) and manages 13 Marco Polo hotels in Hong Kong, Mainland China and the Philippines. Niccolo Suzhou is the newest addition under development and is scheduled to open in 2020.

The Group also owns and operates Modern Terminals and Hong Kong Air Cargo Terminals, key components in Hong Kong's success as a hub for international trade and international transportation for decades.

CME2 is the Group's long-term investment, representing a strategic initiative of reinvesting capital and profit released from the CME1 exit in Hong Kong in a progressive new economy infrastructure CME2 arena that covers much larger markets with greater growth potential.

"Building for Tomorrow" also extends to Wharf's "Business-in-Community" ("BIC") pursuit. With the flagship school improvement programme "Project WeCan" growing from strength to strength, the Group supports a series of BIC initiatives including Wu Zhi Qiao (Bridge to China) Charitable Foundation, Shanghai International Tower-running Grand Prix and Operation Panda with an aim of promoting BIC and to bring benefits to different segments of society in Hong Kong and the Mainland.

In 2018, the Group has received a host of awards for various business achievements and contributions to the community. The Group ranked 4th on Guandian's Top 100 China Commercial Real Estate Business Performance Award and it was named the Responsible Brand in 7th China Charity Festival.

Contents

1	Corporate Profile	7	Chairman's Statement
4	Corporate Information	12	Financial Highlights
5	Shareholder Information	14	Business Review
6	Group Business Structure		

16	22	28	38	42
HONG KONG PROPERTIES	CHINA DEVELOPMENT PROPERTIES	CHINA INVESTMENT PROPERTIES	WHARF HOTELS	LOGISTICS & OTHER INVESTMENTS

46	Awards & Recognitions	108	Consolidated Statement of Financial Position
48	Corporate Social Responsibility	109	Consolidated Statement of Changes in Equity
52	Financial Review	110	Consolidated Statement of Cash Flows
61	Corporate Governance Report	112	Notes to the Financial Statements
79	Directors' Report	156	Principal Accounting Policies
100	Independent Auditor's Report	176	Principal Subsidiaries, Associates and Joint Ventures
106	Consolidated Income Statement	184	Schedule of Principal Properties
107	Consolidated Statement of Comprehensive Income	194	Ten-year Financial Summary

Corporate Information

Board of Directors

Mr Stephen T H Ng, *Chairman and Managing Director*
Mr Andrew O K Chow, *Deputy Chairman and Executive Director*
Ms Doreen Y F Lee, *Vice Chairman and Executive Director*
Mr Paul Y C Tsui, *Vice Chairman, Executive Director and Group Chief Financial Officer*
Mr Kevin K P Chan

Independent Non-Executive Directors

Professor Edward K Y Chen, *GBS, CBE, JP*
Mr Vincent K Fang, *GBS, JP*
Mr Hans Michael Jebsen, *BBS*
Ms Elizabeth Law, *MH, JP*
Mr David Muir Turnbull

Company Secretary

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

Auditors

KPMG, Certified Public Accountants

Principal Banker

The Hongkong and Shanghai Banking Corporation Limited

Registrars

Tricor Tengis Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Registered Office

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

Shareholder Information

Listing

Ordinary Shares
 The Stock Exchange of Hong Kong Limited
 Stock Code: 4

As at 31 December 2018	
Number of issued shares	3,047,127,327

Financial Calendar

Record Date and Time for 2018 2nd Interim Dividend	6:00 p.m., 3 April 2019
Payment Date of 2018 2nd Interim Dividend	23 April 2019
Closure of Register of Members (Shareholders' right to attend and vote at Annual General Meeting)	6 May 2019 to 9 May 2019 (both days inclusive)
Annual General Meeting (at Centenary Room, Ground Floor The Marco Polo Hongkong Hotel 3 Canton Road, Kowloon, Hong Kong)	11:15 a.m., 9 May 2019

Contacts

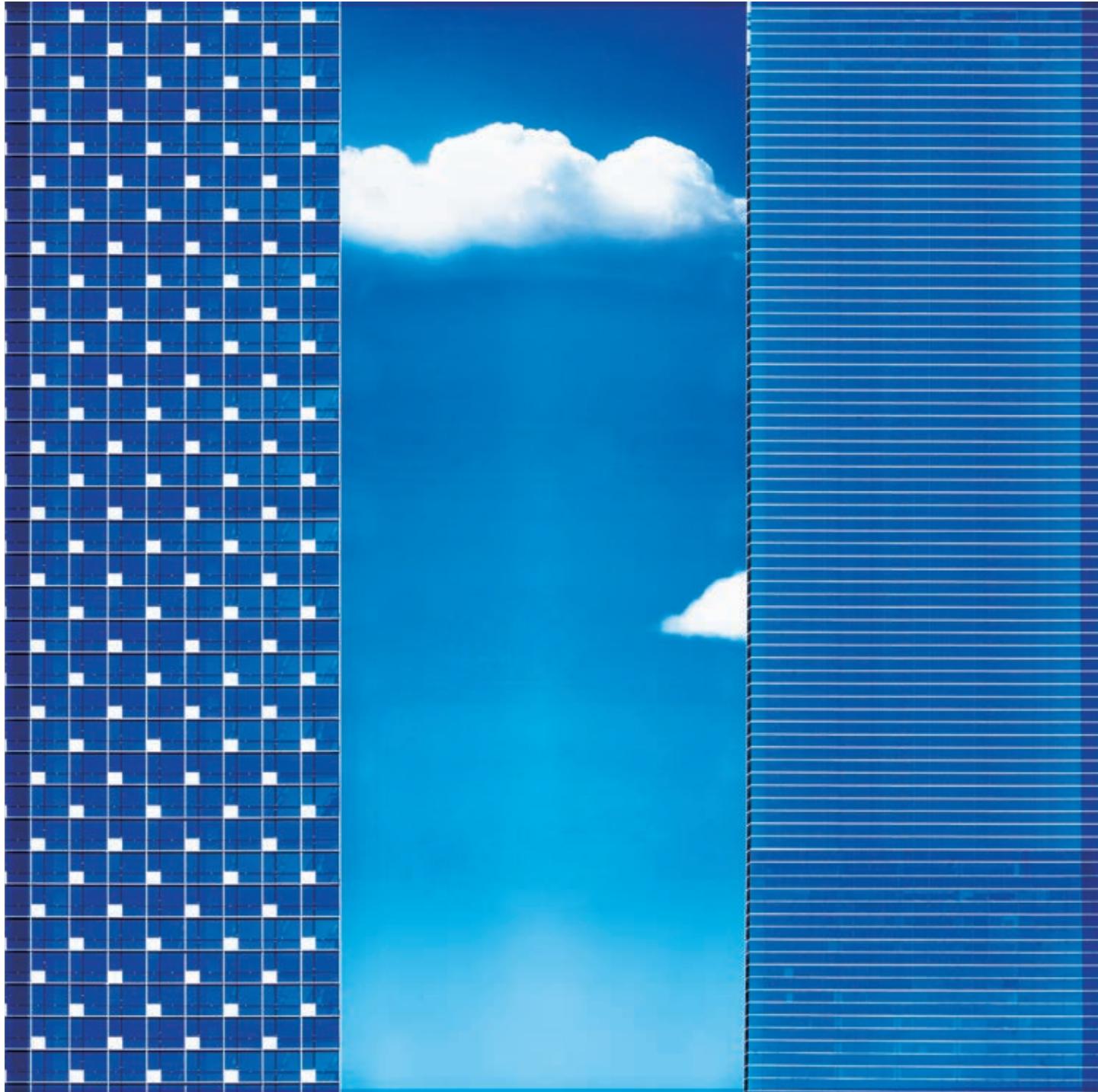
Shareholder enquiries: sh@wharfholdings.com
 Investor enquiries: ir@wharfholdings.com
 Media enquiries: pr@wharfholdings.com

Group Business Structure



*Attributable

Chairman's Statement



Chairman's Statement

Dear Shareholders,

2018 marked a year of uncertainties and volatilities, clouded by complex and inter-connected challenges from the elevated geo-political and geo-economic tensions.

The Group persistently adheres to the long standing mission of "Building for Tomorrow" amidst the challenging environment. With a sharp focus on properties, the combined book value of properties in Hong Kong and Mainland China amounted to about HK\$165 billion, representing nearly 80% of total non-cash assets while accounting for nearly 80% of Group revenue, 90% of operating profit and 90% of underlying net profit.

The other assets of the Group also include logistics in China South held through Wharf Logistics, hotel operation in Asia through Wharf Hotels, and a strategic initiative in new economy infrastructure through Wharf CME2.

As of 31 December 2018, the Group's total assets (excluding cash) amounted to HK\$210 billion with Properties, Logistics, CME2 and other assets accounting for around 80%, 8%, 8% and 4%, respectively.

General Economy

Internationally, economic and monetary policy adjustments in the US and uncertainties in Europe cast a long shadow over the major economies. In Asia, concerns about China's economic growth pestered over to its neighbours and beyond.

Hong Kong was inevitably affected by volatilities and sentiments. GDP growth slowed to 3%. Despite the continued adjustments in volume and price in the mass property market, demand for luxury home market held up well, against very limited supply.

In the Mainland, market cooling measures started to stabilise home prices, thereby creating a more sustainable and healthier outlook. The adoption of more flexible policies will facilitate the essential long-term stability in the property market in the years ahead.

On the consumption front, China saw an ongoing increase in domestic demand, thanks to the expanding middle class and its increasing affluence. Online retailing reported exceptional growth but offline winners also benefited. The Group's retail and lifestyle destinations are all set to seize the opportunities in the new retail landscape in one of the world's largest e-commerce markets, joining hands with our best-in-class tenants to achieve win-win collaboration in the new era.

Business Performance

In Hong Kong, Mount Nicholson, our prestigious residences on the Peak, chalked again record-breaking transactions. During the year, two houses and three apartments were sold for combined proceeds of HK\$3.8 billion or an average of HK\$125,000 per square foot. The land bank was replenished with addition of a prominent luxury residential site in Kowloon Tong to fill a supply gap of luxury and ultra-exclusive residences in the Kowloon Peninsula.

With proven execution capability, China Development Properties (“DP”) reported another year of good earnings with margin increase. Inclusive of joint ventures and associates on an attributable basis, revenue from recognition in the year decreased by 21% to HK\$22.2 billion for 0.8 million square metres of GFA. However, operating profit increased by 19% to HK\$7.9 billion, with margin increasing by 12 percentage points to 36%. Net order book at year-end increased to RMB21.8 billion for 0.7 million square metres.

Leadership in developing and operating large mixed-use projects anchored by landmark retail malls was again validated by the impressive performance of the Investment Properties (“IP”) business, in particular the International Finance Square (“IFS”) series in recent years. During the year, the IFS portfolio reported firm retail sales and hotel performances. In parallel, gradual and steady take-up was also achieved for offices.

The opening of the highly-acclaimed Changsha IFS in May 2018 achieved impressive market acceptance with mall occupancy reaching 98% by the year-end, demonstrating the trading success experienced by retail tenants and outstanding satisfaction by shoppers drawn from the city and far beyond. The complex is injecting new impetus in the central China region with its unrivalled “retailtainment” offerings and wide array of large-scale exhibitions and events.

Momentum in retail sales continued at Chengdu IFS with a growth rate of 20% to RMB6 billion, one of the highest in western China. The three premium Grade A office towers were 77% leased with rental rates standing among the highest in the city.

Featuring the largest cluster of first-tier brands in the city, Chongqing IFS offers one-stop lifestyle experiences at Jiangbeizui CBD, an emerging financial hub for south-western China.

The award-winning Niccolo Chengdu continues to lead the city’s hotel market in room yield. Its impeccable hospitality and operational success was matched (and sometimes exceeded) by Niccolo Chongqing and Niccolo Changsha which opened in September 2017 and October 2018, respectively.

Modern Terminals (“MTL”) and Hong Kong Air Cargo Terminals remained the best-of-class logistics operators in the world. However, performance of seaport business declined in the midst of Hong Kong’s loss of competitiveness to other ports in the region. MTL will be seeking to reverse that trend through a Joint Operating Agreement entered into in January 2019 with three other terminal operators to form Hong Kong Seaport Alliance with a common goal of maximising efficiencies for customers and the industry at large.

Chairman's Statement

Financial Results

Group underlying net profit decreased by 11% to HK\$6,511 million after adjusting out the demerged Wharf Real Estate Investment Company Limited ("Wharf REIC") in 2017 for a more meaningful perspective. Taking into account the net surplus from IP revaluation and other exceptional items, profit attributable to shareholders was HK\$6,623 million and earnings per share HK\$2.18. Total assets amounted to HK\$227.3 billion. Book net asset value was HK\$138.8 billion (or HK\$44.45 per share). The Group maintains a healthy balance sheet with a gearing ratio of 18.5%.

In lieu of a final dividend, a second interim dividend of HK\$0.40 per share (2017: HK\$0.95 per share to include Wharf REIC up to the demerger date) has been declared, bringing the total dividend for the year to HK\$0.65 per share.

Business-In-Community

The Group continues to engage sustainable development strategies for our businesses to bring positive impact to the community in Hong Kong and Mainland China.

We have a long history of giving back and caring for society through donations, venue sponsorship and logistics support, and staff volunteering. The Group has been proactively participating in a series of "Business-in-Community" initiatives, including the multi-faceted school improvement programme, Project WeCan, and Wu Zhi Qiao (Bridge to China) Charitable Foundation.

Meanwhile, we are dedicated to alleviating the environmental impacts that may arise from our operations, with a number of our properties recognised by LEED (Leadership in Energy and Environmental Design), and EarthCheck, the world's leading scientific benchmarking, certification and advisory group for travel and tourism.

In early 2019, the Group supported green financing by raising its first Green Loan facility in the amount of HK\$2 billion, partially used for refinancing Chengdu IFS.

In recognition of our continuous efforts in community investment, we are currently a Hang Seng Corporate Sustainability Index Series member. The Group and Modern Terminals Limited have also been awarded the 5 Years Plus Caring Company Logo and the 10 Years Plus Caring Company Logo respectively.

Outlook

Macroeconomic risks move into sharper focus as global growth appears to lose momentum in the advanced economies. Sino-US trade tension further dampened confidence in investment and economic development.

Industrial production and new export orders have moderated in China. In view of the slowdown in economic growth, Central Government is implementing policy measures, including further cuts to the bank reserve requirement ratio, tax cuts and infrastructure spending, with the aim of stabilising economic momentum and supporting domestic consumption.

In the meantime, China continues to shine on the world stage with bold plans such as the Belt and Road Initiative and Greater Bay Area Development. With its well-established position as a superb international business and service platform, Hong Kong is poised to benefit. Following the newly-added major cross-border transport infrastructure, which constitutes increasing social and economic ties with the rest of southern China, massive capital inflow and domestic demand may continue to foster a growth path in the long run.

Leveraging the Group's solid foundation and track record in successfully navigating cycles in the past, our professional team will continue to demonstrate proven management and execution capabilities. We remain confident in seizing the opportunities amidst the challenging climate.

On behalf of Shareholders and the Board, I wish to express my sincere appreciation to all customers and business partners for their tremendous support, and also to all staff for their commitment and contribution.

Stephen T H Ng
Chairman and Managing Director

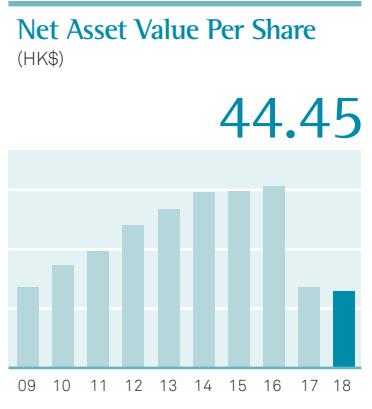
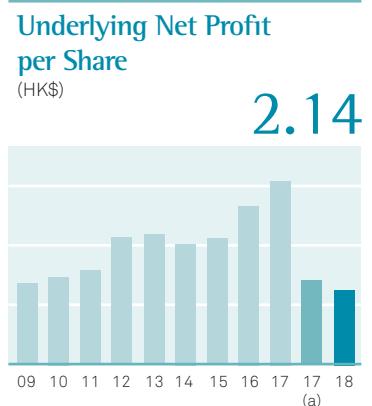
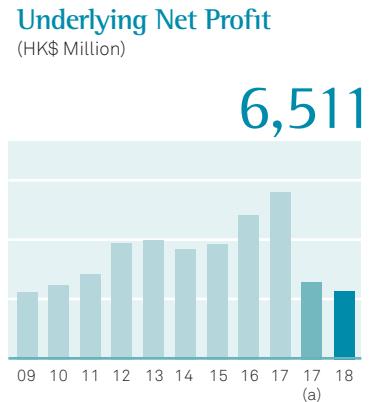
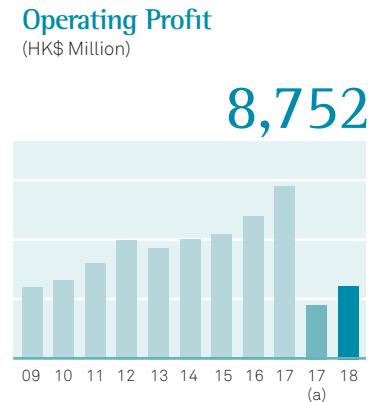
Hong Kong, 7 March 2019

Financial Highlights

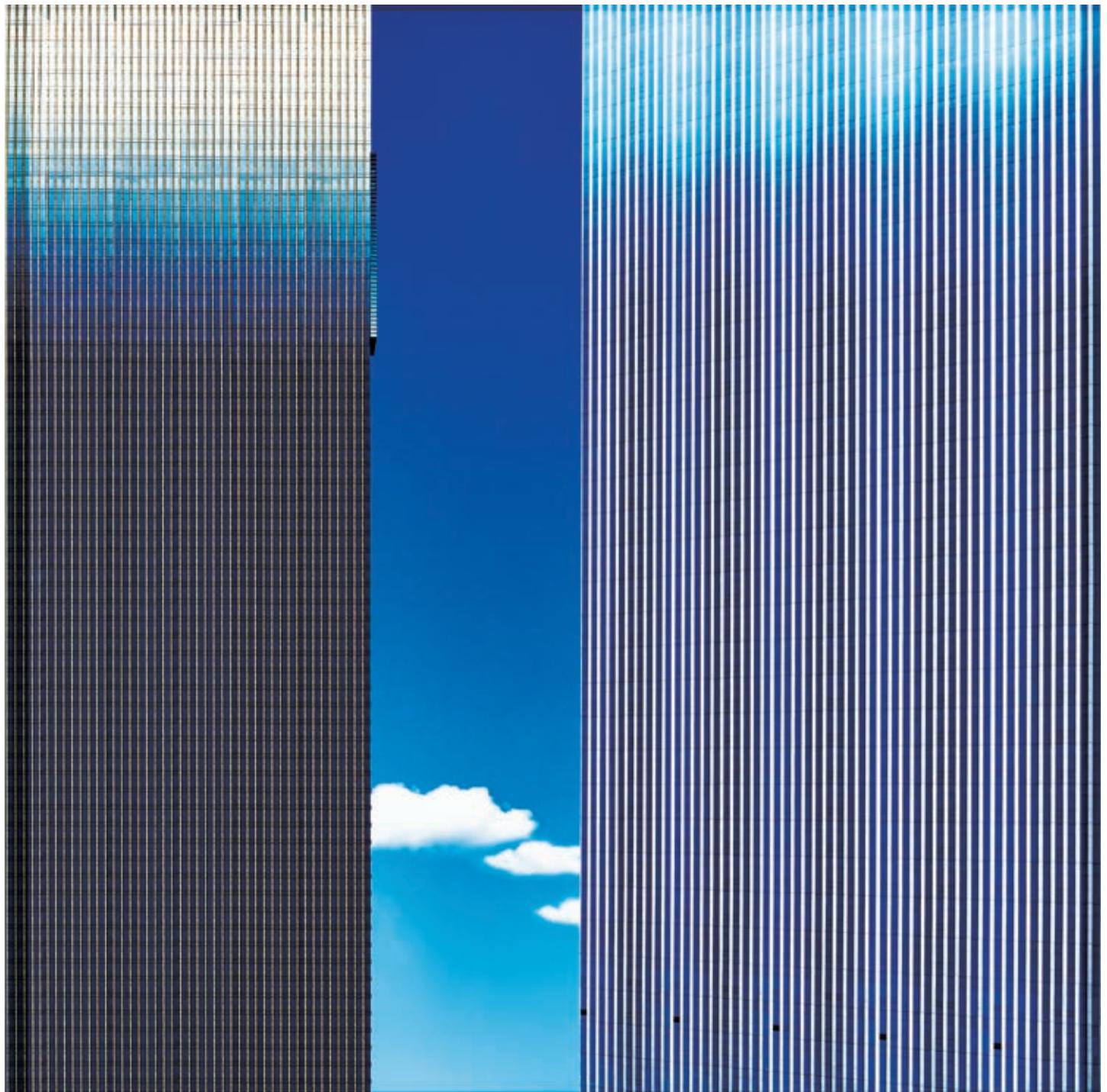
	2018 HK\$ Million	2017 HK\$ Million	Change %
Results (note a)			
Revenue	21,055	24,321	-13%
Operating profit	8,752	6,458	-36%
Underlying net profit (note b)	6,511	7,328	-11%
Profit before property revaluation surplus	6,158	11,858	-48%
Profit attributable to equity shareholders	6,623	13,119	-50%
Total cash dividend for the year	1,981	N/A	N/A
Earnings per share			
Underlying net profit	HK\$2.14	HK\$2.42	-12%
Before property revaluation surplus	HK\$2.02	HK\$3.91	-48%
Attributable to equity shareholders	HK\$2.18	HK\$4.32	-50%
Cash dividend per share			
First interim	HK\$0.25	N/A	N/A
Second interim	HK\$0.40	N/A	N/A
Total for the year	HK\$0.65	N/A	N/A
Financial Position			
Total assets	227,349	222,647	2%
Total business assets (note c)	180,987	161,684	12%
Investment properties	74,738	82,128	-9%
Net (debt)/ cash	(25,638)	9,288	-376%
Shareholders' equity	135,424	141,974	-5%
Total equity	138,760	145,471	-5%
Number of issued shares (in millions)	3,047	3,037	0%
Net asset value per share	HK\$44.45	HK\$46.75	-5%
Net debt to total equity	18.5%	N/A	N/A

Notes:

- (a) The demerger of Wharf Real Estate Investment Company Limited ("Wharf REIC") in November 2017 renders direct comparison of the Group's financials to 2017 less relevant. Accordingly, these 2017 profit and loss items have been restated by excluding Wharf REIC for meaningful comparison.
- (b) Underlying net profit primarily excludes investment property revaluation surplus, mark-to-market changes on financial instruments and nonrecurring items (including the gain from disposal of investment properties in 2017).
- (c) Business assets exclude unallocated corporate assets mainly comprising financial investments, deferred tax assets and bank deposits and cash.



Business Review



16

HONG KONG
PROPERTIES

22

CHINA
DEVELOPMENT
PROPERTIES

28

CHINA
INVESTMENT
PROPERTIES

38

WHARF
HOTELS

42

LOGISTICS
& OTHER
INVESTMENTS

Reporting for the first year without the demerged Wharf REIC, 2017 comparatives in the Business Review have been adjusted to make comparison meaningful.

Hong Kong Properties



Mount Nicholson



Business Review

Hong Kong Properties

The Group's portfolio mainly comprises prime projects on the Peak, Kowloon Tong and the new CBD2 in Kowloon East. Mount Nicholson was the dominant contributor to revenue and profitability during the year. Due to lower recognition, revenue decreased to HK\$1,667 million and operating profit to HK\$1,067 million on an attributable basis.

Business Assets

As at 31 December	2018 HK\$ Million	2017 HK\$ Million	Change %
Properties	20,366	19,659	+4%
Interest in Associates/Joint Ventures	5,640	5,055	+12%
Property Inventory and Development	12,814	5	N/A
Other Assets	76	2,522	-97%
Total Business Assets	38,896	27,241	+43%

287,000 sq ft
Attributable GFA

The Peak Portfolio

The Peak Portfolio

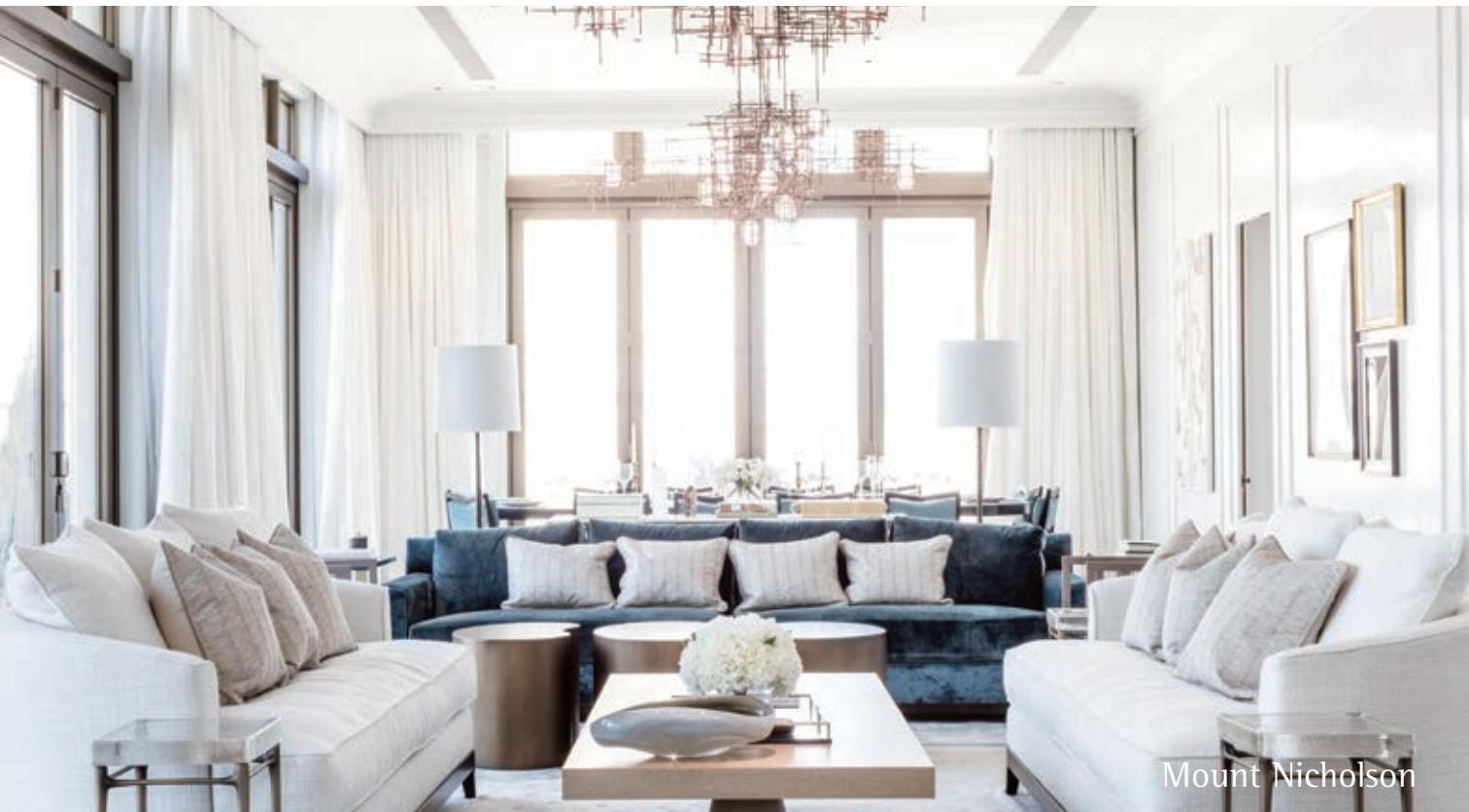
The Group's Peak Portfolio redefines the concept of luxury living with a collection of the rarest and most prestigious residences, epitomising a unique and exclusive lifestyle at the most sought-after addresses in town.

Mount Nicholson, a 50:50 joint venture development, offers coveted residences with an enchanting and

uninterrupted view over Victoria Harbour. This collection of 19 ultra-luxury houses and 48 apartments nestled on the Peak has been highly-acclaimed since its launch in early 2016. In 2018, two houses and three apartments were sold for combined proceeds of HK\$3.8 billion or an average of HK\$125,000 per square foot.

Superstructure works for the re-development of 11 Plantation Road and 77 Peak Road were completed in 2017. These superb developments are set to provide seven houses (total GFA: 46,000 square feet) and eight houses (total GFA: 42,000 square feet) respectively. The re-development of 1 Plantation Road is well under way and will feature 20 houses (total GFA: 91,000 square feet).

Meanwhile, Chelsea Court and Strawberry Hill have been leasing well.



Mount Nicholson

The Peak Portfolio Landbank

52,000 sq ft

Attributable GFA
(Net of Recognised Sales)

Mount Nicholson

91,000 sq ft

1 Plantation Road

46,000 sq ft

11 Plantation Road

42,000 sq ft

77 Peak Road

43,000 sq ft

Chelsea Court

13,000 sq ft

Strawberry Hill

Business Review Hong Kong Properties

1,686,000 sq ft

Attributable GFA

Kowloon East Waterfront Portfolio

436,000 sq ft

Attributable GFA

Kowloon Tong Residential Project



Kowloon Godown

Kowloon East Waterfront

The Government's visionary "Energising Kowloon East" initiative is gaining momentum with the injection of new developments, vibrancy and diversity into the Kowloon East area. With the driving force of office decentralisation in the city, this is gradually emerging as another core business district. This vibrant transformation is providing a vast potential for the Group's Kowloon East Waterfront Portfolio, represented by the Kowloon Godown and 15%-owned Yau Tong Bay joint-venture project.

Literally right on the waterfront with a spectacular Victoria Harbour view, Kowloon Godown comprises a warehouse and an open yard with an existing operating GFA of one million square feet. Different re-development options are under evaluation following the Group's highly successful redevelopment and sale of a commercial property nearby known as 8 Bay East.

General building plans for a revitalisation scheme for the warehouse was approved in June 2018. In addition, applications for lease modification for a commercial scheme at the open yard and warehouse sites were submitted in 2017.

Yau Tong Bay is a harbourfront residential project with a compelling panoramic view of Victoria Harbour.

Spanning a total GFA of four million square feet within accessible walking distance to the MTR station, the project is set to provide 6,300 residential units in Kowloon East.

General building plans have been approved. Lease modification is under way.



Kowloon Tong Residential Project

This 436,000-square-foot (total developable GFA) residential land parcel site stands at the junction of Lion Rock Tunnel Road and Lung Cheung Road. Strategically located adjacent to the traditional luxury residential cluster of Beacon Hill, this exclusive location enjoys a spectacular Kowloon Peninsula view.

With a proven track record in ultra-luxury residences development, the Group is set to raise the bar of luxury and ultra-exclusive residences in the Kowloon Peninsula. Approval has been granted to build four blocks of 13-storey residential buildings.

Kowloon East Waterfront Portfolio	Attributable GFA (sq ft)
Kowloon Godown	1,032,000
Yau Tong Bay (15% - Joint Venture)	611,000
Peninsula East	43,000
Kowloon Tong	
Kowloon Tong Residential Project	436,000
Non-Core	
Cable TV Tower Units	566,000

China Development Properties



Huangpujiang Project, Pudong



Business Review

China Development Properties

The Group reported another year of good earnings with margin improvement. General cooling measures have done relatively little to dampen the underlying demand for quality properties, especially in the first- and second-tier cities.

Inclusive of joint ventures and associates on an attributable basis, revenue recognised in 2018 decreased by 21% to HK\$22,236 million but operating profit increased by 19% to HK\$7,949 million and operating profit margin increased by 12 percentage points to 36%. 778,000 square metres of GFA were completed and recognised in 2018 (2017: 973,000 square metres).

3,700,000 sq m
Landbank

12
Land Parcels
Acquired in 2018

The timing of sales launch continued to be dictated by local government's approval to sell at full or close to full market price. Nevertheless, against the backdrop of a more flexible policy environment towards the end of the year, new launches increased and sales momentum was regained in December. Full year attributable contracted sales of RMB22.8 billion exceeded target by 4%. The net order book increased to RMB21.8 billion for 0.7 million square metres at year-end.

During the year, 12 sites in Suzhou, Hangzhou, Foshan and Guangzhou were acquired for RMB18.1 billion on an attributable basis (GFA: 0.81 million square metres). The development properties land bank at year-end amounted to 3.7 million square metres.





One LiangMa, Beijing

Business Review

China Development Properties

Major Regional Development Properties

Eastern China

		Attributable GFA (sq m)
Hangzhou	Qinglong (#84 & 92)	111,000
	Guiyu Chaoyang	96,000
	Junting	93,000
	Qinglong (#28)	52,000
Shanghai	Jingan Garden	71,000
	Pudong Huangpujiang Project	25,000
Suzhou	Suzhou Yangcheng Lake Lot #27 Project	203,000
	Suzhou Huayuan Road Lot #78 Project	165,000
	Suzhou Xiangcheng Yuan He Street Lot #77 Project	121,000
	Suzhou Yuanhe Road Project	91,000
	Villa One	60,000
	Suzhou Huangpu Street Lot #82 Project	52,000
	River Pitti	66,000

Western China

Chengdu	Times Town	380,000
	Chengdu ICC	313,000
	Chengdu Times City	116,000
Chongqing	International Community	174,000
	The Throne	139,000

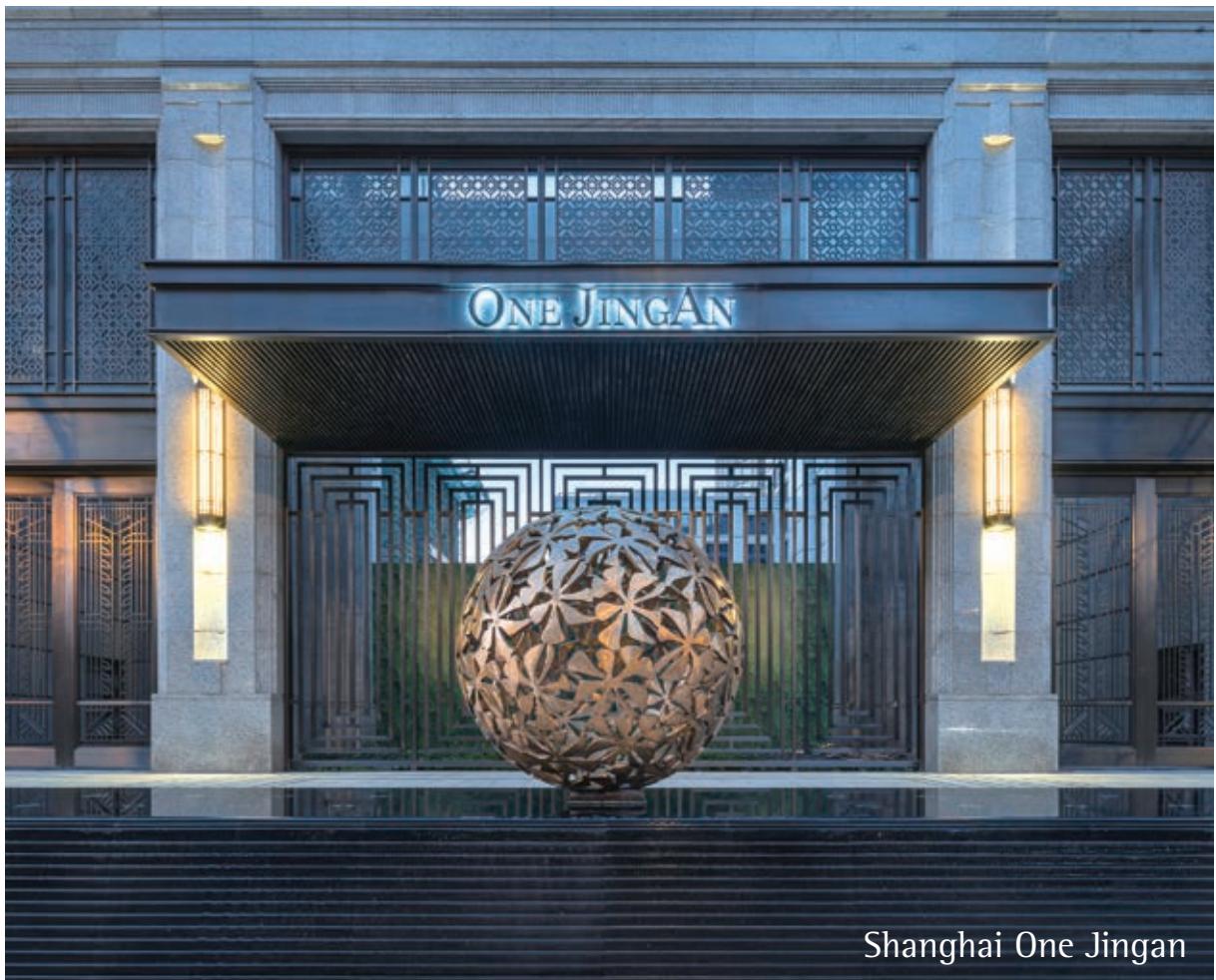
Southern China

Foshan	Rosy Mansion	113,000
	Glory Garden	111,000
	Sunrise Coast	66,000

Other Regions

Beijing	West Manor (formerly Beijing Fengtai District XiJu Project)	101,000
	One LiangMa (formerly Chaoyang Qu Jiu Xian Qiao Liang Ma K Project)	50,000
	Garden Valley	50,000

For further details, please refer to Schedule of Principal Properties on pages 184 to 193.



Shanghai One Jingan



Huangpujiang Project, Pudong

China Investment Properties



Changsha IFS



Chengdu IFS



Chongqing IFS



Wuxi IFS

Business Review

China Investment Properties

Location, product, critical mass and value-add management continued to drive this segment's performance. Its unrivalled leadership in retail management is further solidified with the successful opening of Changsha International Finance Square ("IFS") in May 2018. Resounding performance of the trend-setting and award-winning IFS series promises to fuel further growth in the years to come. During the year, revenue increased by 30% to HK\$3,429 million and operating profit by 28% to HK\$1,872 million.

Changsha IFS

Located at the heart of the city, Changsha IFS enjoys a premier address in Furong District's entertainment and business hub with underground linkage to the busy Wuyi Plaza Station (the interchange station for Metro Lines 1 and 2) and directly opposite to one of the busiest pedestrian streets – Huangxing Road, ensuring high connectivity and footfalls.

Retail

Impressive performance has been achieved since opening in early May 2018. Occupancy reached 98% and opening rate 96% by year-end, demonstrating retailers' confidence in the mall's success. Soon after business began monthly retail sales surpassed RMB 300 million, exceeding expectation.



Tower
CSIFS
1
Tallest in Hunan

370+ Brands
246,000 sq.m.
Retail Space

The enormous 246,000-square-metre retail podium houses more than 370 brands with over 70 debuts for Hunan Province, including Balenciaga, Bulgari, Dior, Hermès, Saint Laurent Paris, Tiffany and Valentino; over 30 split-gender duplex flagships, including Louis Vuitton, Bottega Veneta, Burberry, Dolce & Gabbana, Gucci, Moncler and Prada; and over 100 brands which have made a foray into collaborating with Wharf in the Mainland, including Parkson Beauty, Tesla; as well as a league of premium internationalised local designers' labels. Strategically calibrated trade mix helps create critical mass in well-defined zones covering high-end luxury, affordable luxury, high street, internationalised Chinese designers' labels, fast fashion, sportswear, kids, entertainment and F&B.

Changsha IFS is injecting new impetus in the Central China region as it emerges as the community hub for the city, bringing a vast array of exhibitions, cultural activities, festivals, and art collaborations with famous artists such as KAWS, Steven Harrington and Tom

Claassen. "The Magical Maze" by German architect Ben Busche became a new interactive check point for Changsha media and locals.

Exciting line up of promotion and events included National Holiday promotions, and an O2O promotion on 11 November Singles Day targeting online customers and youngsters. The New Year's Eve countdown party attracted unprecedented footfall, with Hunan TV's 8-hour live broadcast on TV, online news and APP platforms, covering over 30 million audiences nationwide.

Office and Hotel

Two top-notch office towers include the 452-metre towering city icon, the tallest building in Hunan province. With the most-coveted address in the heart of the Wuyi CBD along lively Jiefang West Road, the office complexes are set to raise the bar of Grade A workplace for financial institutions and major corporations.

Soft-opened in late October 2018, Niccolo Changsha is Central China's tallest hotel, ushering in a new era of impeccable hospitality and effortless luxury. Niccolo Changsha houses 243 contemporary, urban, chic rooms and spectacular suites, offering sophisticated, international standards of hospitality for global travellers and local and regional residents.



Business Review

China Investment Properties

Chengdu IFS

This iconic landmark in the Western China metropolis continues its growth momentum during the year. Overall revenue grew by 27% to HK\$1,568 million and operating profit by 59% to HK\$783 million.

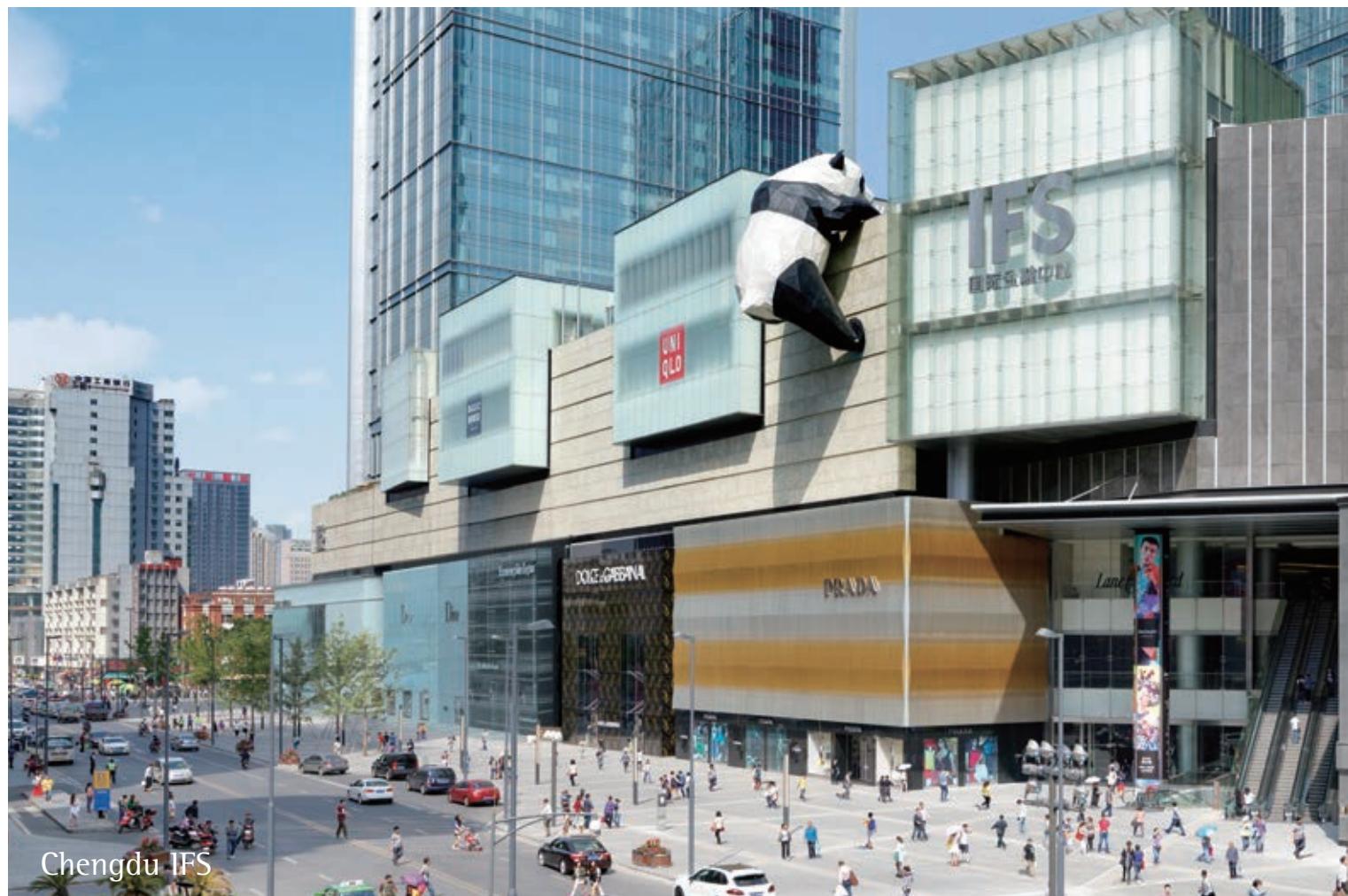
Retail

Offering exhilarating one-stop “retailtainment” and upscale experiences, Chengdu IFS continued to stand out from the Western region in sales productivity. The extensive 204,000-square-metre flagship shopping mall reported full occupancy. Tenant sales witnessed a robust growth of 20% while foot traffic grew by 18%.

Chengdu IFS showcases an extensive collection of over 600 top-tier international brands, with over 100 debuts in China.

Tenant mix refinement is an ongoing initiative to provide a captivating experience for all shoppers. New additions included 7 For All Mankind, adidas Originals, Chaumet, Goyard, Heytea Black, Mr & Mrs Italy and Sunglass Hut. In addition to compelling entertainment offerings including an IMAX movie theatre and an ice skating rink, the 7,700-square-metre Sculpture Garden is the urban public space landmark that enriches the city's cultural life with a host of diverse art exhibitions and cultural activities.

Exciting and innovative events and promotion are in place throughout the year to surprise consumers, including “MAGIC WONDERLAND” with installation of 3D Holographic Projection Technology and Christmas market themed desserts pop up, Chengdu International Fashion



Week 2018, “Midnight in Paris” VIP Christmas Ball and Nature Connects Art with LEGO Bricks.

Office, Hotel and IFS Residences

Commitment rate at the three premium Grade A office towers climbed to 77% with rental rates standing among the highest in the city. Selective tenant portfolio includes multinationals, financial institutions and major corporations in China West.

Niccolo Chengdu remained the city's market leader in room yield with room occupancy increasing to 85% and revenue per available room (“RevPAR”) growing by 28%. Meanwhile, IFS Residences has been recognised as the “2018 Most Influential Serviced Apartment” by Chengdu Daily.



"I Am Here" Lawrence Argent

6 Billion RMB
in Retail Sales

600+
Top-tier
International Brands

204,000 sq.m.
Retail Space

1 in Chengdu by
Office Rental Rates

Business Review

China Investment Properties

Chongqing IFS

Officially opened in September 2017, Chongqing IFS is located at Jiangbeizui CBD, an emerging financial hub for south-western China. Standing on top of the 109,000-square-metre world class retail podium, the iconic 300-metre towering landmark comprises Grade A offices and Niccolo Chongqing with spectacular view of riverbanks of the Yangtze River and Jialing River.

Featuring the largest cluster of first-tier brands in Chongqing, the IFS mall is home to over 170 brands, of which nearly 30 brands are exclusive or debuts in the city. One-stop lifestyle experiences also include delectable international cuisines, a real-ice skating rink and a luxury cinema. Occupancy reached 98% at year end.

Successfully positioning itself as a prestigious luxury brand in the city, Niccolo Chongqing has ranked among the city's top hotels in room yield since its soft opening in September 2017 and exceeded all expectations to report an impressive gross operating profit in its first full year of operation.

In addition to the direct linkage to the interchange station (Jiangbei Town Station) for metro Line 6 and Line 9 (under construction), various infrastructures have been commenced to enhance the connectivity of the surrounding areas. A bridge between Chongqing IFS and Jiangbeizui Financial Center was opened in mid-December of 2018, providing an additional option of vehicle traffic to the complex.



170+ Brands

109,000 sq.m.
Retail Space

1 in Chongqing by
First-Tier Brands
Cluster Size



"LOVE.FOUND." Simone Carena and Yihong Hsu



Business Review China Investment Properties



Shanghai Wheelock Square



Shanghai Wheelock Square

The iconic skyscraper in the heart of Puxi, a compelling office address for multinationals and major corporations, maintained a high occupancy rate of 95% with lease renewal retention rate stood firm at 90%.

Times Outlets Chengdu

Times Outlets Chengdu witnessed a solid growth for retail sales of 11% and ranked among the most visited outlet destinations nationwide.

Shanghai Times Square

With a prestigious location in the heart of Huaihai Zhong Road, a shopping, entertainment and business hub, Shanghai Times Square is a prominent retail destination and an ideal office choice for multinational enterprises. Retail space maintained at full occupancy. Offices were 93% leased. Times Square Apartments overall commitment rate was 90%.

Wharf Hotels



Bar 62, Niccolo Chongqing



Business Review

Wharf Hotels

Currently, the Group manages 17 hotels (with a total of 5,750 rooms) in the Asia Pacific region under the Marco Polo flag and the luxury Niccolo flag, a collection of contemporary, urban, chic hotels with the most desirable, highly prized addresses. During the year, Niccolo Hotels celebrated the opening of its third and fourth properties, respectively The Murray, Hong Kong and Niccolo Changsha.

The Murray, Hong Kong has rapidly garnered multiple notable accolades since inauguration in January 2018, including “World’s Greatest Places 2018” – Places to Stay by TIME Magazine, “The Hot List” – The Best New Hotels in the World 2018 and “Readers’ Choice Awards 2018” – Top Hotels in China by Condé Nast Traveler, “Big Sleep Awards 2018” – City Slicker by National Geographic Traveller, “The Best New Business Hotel in Asia 2018” by Bloomberg and “The Luxe List 2018” – Best New Hotels in the Asia-Pacific Region by DestinAsian Magazine.

Niccolo Changsha ushers in a new era of hospitality, following the footsteps of its sister hotels, The Murray, Hong Kong, and Niccolo hotels in Chengdu and Chongqing. Commanding scenic views of the Changsha skyline and Xiang River, Niccolo Changsha offers 243 contemporary chic rooms and spectacular suites, and three sky-high dining and social destinations: Niccolo Kitchen, the Tea Lounge and BAR 93.

Niccolo Suzhou is the newest addition under development and is scheduled to open in the first quarter of 2020.

The long-established Marco Polo brand has been widely recognised in the region with Marco Polo Ortigas, Manila, for the second consecutive year, named as Forbes Travel Guide Five-Star Hotel.



Niccolo Chongqing



The Murray, Hong Kong

Operating
Hotels in Asia
17

Rooms
5,750
+11%

Revenue
HK\$ **2.87** Billion
+22%

Staff
~ **6,600**
+21%



Niccolo

The Murray, Hong Kong • Niccolo Changsha • Niccolo Chengdu • Niccolo Chongqing • Niccolo Suzhou (2020)

Marco Polo

Hong Kong : Marco Polo Hongkong Hotel • Gateway Hotel • Prince Hotel

Mainland China : Marco Polo Parkside, Beijing • Marco Polo Changzhou • Marco Polo Lingnan Tiandi, Foshan
Marco Polo Jinjiang • Marco Polo Shenzhen • Marco Polo Wuhan • Marco Polo Xiamen

The Philippines : Marco Polo Plaza, Cebu • Marco Polo Davao • Marco Polo Ortigas, Manila

Logistics & Other Investments



Modern Terminals



Business Review

Logistics & Other Investments

Modern Terminals Business Assets

As at 31 December	2018 HK\$ Million	2017 HK\$ Million	Change %
Fixed assets	10,951	11,505	-5%
Interest in Associates/Joint Ventures	3,740	3,742	-0%
Goodwill	297	297	+0%
Other Assets	299	321	-7%
Total Business Assets	15,287	15,865	-4%



The logistics industry is facing headwinds from growing global protectionism, economic slowdown and geopolitical uncertainties. During the year, segment revenue from Modern Terminals (“MTL”) and Hong Kong Air Cargo Terminals (“HACTL”) decreased by 4% to HK\$2,616 million and operating profit by 9% to HK\$597 million.

Modern Terminals

Intensifying regional competition is challenging Hong Kong's role as a major hub and gateway to the world. South China's container throughput was consistent with last year, with Shenzhen's throughput increasing by 3% and Kwai Tsing's decreasing by 5%. Market shares of Shenzhen and Kwai Tsing were 62% and 38% respectively.

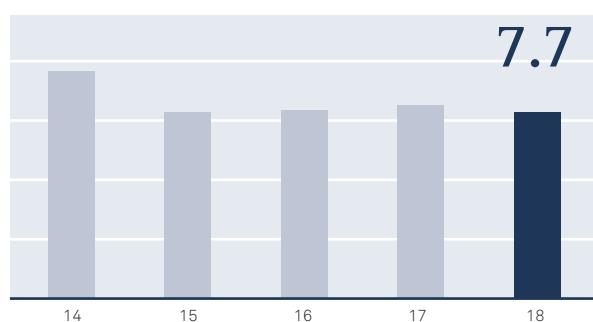
Throughput handled by MTL in Hong Kong recorded a mild growth rate of 2% to 5.3 million TEUs. In Shenzhen, throughput at DaChan Bay Terminals (MTL's stake: 65%) was down by 7% to 1.2 million TEUs, at Shekou Container Terminals (MTL's stake: 20%) rose by 7% to 5.6 million TEUs and at Chiwan Container Terminal (MTL's stake: 8%) increased to 2.4 million TEUs.

Driven by continued change in throughput trend with more barge and transshipment in the volume mix, consolidated revenue decreased to HK\$2,606 million (2017: HK\$2,703 million). Operating profit decreased to HK\$587 million (2017: HK\$649 million).

The uncertainties and volatilities from trade tensions and regional competition continued to squeeze Hong Kong's port industry. In response to the fast changing industry dynamics and growing competition from other ports in the region, MTL is proactively taking all necessary actions to rebuild the competitiveness of Hong Kong's port business. In January 2019, MTL entered into a Joint Operating Agreement with three other terminal operators to form Hong Kong Seaport Alliance with an aim of jointly operating 23 berths in the Kwai Tsing Container Terminals to achieve higher efficiency and provide a higher standard of service to customers.

Throughput

(Attributable Total) (Million TEUS)



Hong Kong Air Cargo Terminals

HACTL, a leading air cargo terminal operator in Hong Kong with four decades of operational experience, is 20.8% owned by the Group. Total cargo handled in 2018 dropped slightly to 1.65 million tonnes.

Other Investments

CME2

CME2 is the Group's long-term investment, representing a strategic initiative in new economy infrastructure to reinvest the capital and profit released from the earlier exit from CME1 in Hong Kong in a progressive CME2 arena that covers much larger markets with greater growth potential.

With a combined book value of HK\$16 billion, CME2 is still at a formative stage. Additions to the position during the year were insignificant and no disposal was reported.

Awards & Recognitions

Corporate

- Ranked 4th on Guodian's Top 100 China Commercial Real Estate Business Performance Award
- Responsible Brand in 7th China Charity Festival

Chengdu IFS

“All IN Here”

- The International Business Awards - 2018 Gold Stevie Award
- Brand Experience of the Year - Consumer
- 2018 Asia-Pacific Stevie Awards - Grand Stevie Award
(Highest-Rated Nomination from China in the 2018 Competition)

“We’re all Smurfs”

- The International Business Awards - 2018 Gold Stevie Award
- Marketing Campaign of the Year – Retail

“Nature Connects”

- 2018 Asia - Pacific Shopping Center Awards - Gold Award for Marketing Excellence - Public Relations and Events



Changsha IFS

- International Property Awards - Mixed-use Development
(in association with Forbes)
- Jinding Award - New First-tier City Commercial Landmark
by winshang.com
- Creative Marketing Award - Tiger Roar Award China

Chongqing IFS

- Award in Design & Creative Use in Retail Space by Asia Design Management
- Chongqing Cultural and Tourism Award Recognition as City's New Landmark by Chongqing Cultural and Tourism Bureau and CQNews.Net
- Tencent's Creative Marketing Promotional Award in 2018

Shanghai Wheelock Square

- Integrity Commitment Grade AAA Enterprises of Shanghai Property Management Industry by Shanghai Property Management Association
- Excellence Service Team, Alliance Luxury Attitude Award and Model Company of China Service by Golden Keys International Alliance

Wharf Hotels

The Murray, Hong Kong

- “World’s Greatest Places 2018” Places to Stay by Time Magazine
- Condé Nast Traveler’s “Readers’ Choice Awards 2018” Top Hotels in China : 1st in Hong Kong and 3rd in China

Niccolo Chengdu

- Best Business Hotel Gold List 2018 by Condé Nast Traveller

Niccolo Chongqing

- Best Cutting-edge Design Award by The Bund Media Shanghai

Marco Polo Hongkong Hotel

- Best 10 Hotels & Resorts in Hong Kong – DestinAsian 2018 Readers’ Choice Awards



One LiangMa, Beijing

- 2018 Leading Residential Project in the Region
- Annual Classic Luxury Residences

Modern Terminals

- The Best Companies to Work for in Asia by HR Asia
- Merit Awards in the categories of Safety Promotion Award and OSH Annual Report Award of the 17th Hong Kong Occupational Safety & Health Award by Occupational Safety & Health Council
- Sustainable Consumption Enterprise Award - Certificate of Excellence by the Business Environment Council

Hong Kong Air Cargo Terminals

- World Air Cargo Awards - Air Cargo Handling Agent of the Year
- Hong Kong International Airport Environmental Management Recognition Scheme’s Grand Award
- Pride of Ground Handling Awards - Best Station

Corporate Social Responsibility



Sustainability Approach

Backed by a long standing mission of “Building for Tomorrow”, the Group endeavours to consider and minimise the environmental and social impacts of our business operations, and sustain our consistent and productive performance.

performance of the Group and enables knowledge exchange among our business units. The CSR governance bodies at each business unit identify operation-specific CSR risks and opportunities and develop plans and programmes to address the issues. The Community Affairs Department consolidates the CSR progress from different business units and reports to the CSR Steering Committee.

CSR Structure

A clearly defined CSR governance structure was established to manage the environmental, social and governance issues in our operations. Chaired by the Group’s Chairman, the group-level CSR Steering Committee formulates the overall CSR strategy in line with the Group’s goals and commitments. The Cross-Business Unit CSR Group oversees the CSR

Business Development

Our business builds on high standards of ethics and integrity, strong executive leadership, and a robust governance structure and control system. Discussion on these topics can be found in Corporate Governance Report on pages 61 to 78.



Business-in-Community

The Group extends our care for the community beyond direct economic contribution. The Group mobilises financial and manpower resources to support youth development, art promotion and social welfare. Employees are also encouraged to join our volunteer team and help those in need.

Over the years, the Group supports various community investment programmes, including the Group's Business-in-Community initiative, Project WeCan ("WeCan") which was first initiated by Wharf in 2011. WeCan aims at providing secondary school students who are disadvantaged in learning with opportunities and care to empower them to pursue further studies and future career. In 2018, 23 new schools joined WeCan, taking the number of beneficiary schools to 76 covering over 66,000 students and supported by 68 partner organisations.

Protecting Our Environment

The Group has formulated environmental guidelines since 2016, with reference to the environmental legislation in Hong Kong¹ and the Environmental Protection Law of the People's Republic of China. The guidelines stipulate our expectations regarding pollution prevention, waste management, sustainable use of resources, carbon emissions reduction, environmental protection, bio-diversity conservation and the restoration of natural habitats in our business operations. The guidelines are communicated and executed at business unit level.

Our efforts are recognised by LEED, one of the reputable green building rating systems in the world. Shanghai Wheelock Square was awarded LEED Gold for existing building, Wuxi IFS was awarded LEED Gold for core and shell, and Chengdu IFS was awarded LEED Platinum for existing building.

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).

Corporate Social Responsibility



Nurturing Our People

The Group grows with our talented and loyal employees. The Group hires talents with fairness and transparency. Employees are compensated with reasonable welfare packages with reference to their qualifications and experience. Training and succession opportunities are offered to further employees professional development. To create a safe workplace, the Group observes and complies to occupational safety and health related legislation, including the Occupational Safety and Health Ordinance (Cap 509 of the laws of Hong Kong) and the Labour Law of the People's Republic of China for our mainland operations. The Group actively adopts rigorous occupational safety and health management systems tailored to different business units. Investigations are conducted to correct any

mistakes and prevent similar incidents in the future. Our employment policies and practices in Hong Kong and the Mainland comply with the respective local statutory requirements, including the Employment Ordinance (Cap 57 of the laws of Hong Kong) and Labour Law of the People's Republic of China. There were no non-compliance cases in the reporting year.

Responsible Products and Services

To deliver exquisite products and services to our customers, the Group implemented a set of comprehensive measures. Guidelines and trainings are provided to equip our employees with the right knowledge and skills. Customer satisfaction information are collected and used to monitor our product and service quality. The Group complies with the local statutory requirements² on project

² Law of the People's Republic of China on the Administration of the Urban Real Estate, Anti-Unfair Competition Law, Regulation on Telecommunications, The People's Republic of China; Trade Descriptions Ordinance (Cap 362 of the laws of Hong Kong); consumer rights protection legislation and logo guidelines



Hang Seng Corporate
Sustainability Index
Series Member 2018-2019



development and operations management and provide accurate, fair and transparent information to our customers. The Group also adheres to the Personal Data (Privacy) Ordinance (Cap 486 of the laws of Hong Kong) and the Law of Protection of Consumer Rights and Interests of the People's Republic of China to handle customers' personal information with stringent procedures. Only authorised personnel can access the personal data collected. Such data are appropriately disposed of after a specified time. There were no complaints received concerning breaches of customer privacy during the reporting year. To avoid any disruptions to our business, the Group manages our supply chain with rigorous vendor management systems to evaluate suppliers' environmental protection, social inclusion and technical capabilities.

Sustainability Reporting

More information on the Group's environmental, social and governance policies and initiatives can be found in the Group's standalone Sustainability Report, available for download on the Group's corporate website (www.wharfholdings.com). The standalone Sustainability Report is prepared in accordance with the "Core" option of the Global Reporting Initiative Sustainability Reporting Standards ("GRI Standards") and to fulfill the requirements of the Environmental, Social and Governance Reporting Guide (Appendix 27) issued by The Stock Exchange of Hong Kong Limited.

Financial Review

(I) REVIEW OF 2018 RESULTS

(A) Comparison Excluding Wharf REIC from 2017 Results

The demerger of Wharf Real Estate Investment Company Limited (“Wharf REIC”) in November 2017 (the “Demerger”) renders direct comparison of the Group’s financials to 2017 less relevant. Accordingly, 2017 financial results have been adjusted by excluding Wharf REIC for meaningful comparison as follows.

Revenue and Operating profit (“OP”)

Group revenue decreased by 13% to HK\$21,055 million (2017: HK\$24,321 million), reflecting 28% growth for IP, but 24% drop for DP and exit from CME1.

OP increased by 36% to HK\$8,752 million (2017: HK\$6,458 million), mainly resulting from 26% growth for IP, 33% for DP and exit from CME1.

IP revenue increased by 28% to HK\$3,586 million (2017: HK\$2,796 million) and OP by 26% to HK\$1,984 million (2017: HK\$1,571 million). Driven by maturing Chengdu International Finance Square (“IFS”) and the newly-opened Changsha IFS, Mainland IP revenue increased by 30% and OP by 28%.

DP subsidiaries recognised 24% lower revenue of HK\$12,914 million (2017: HK\$16,887 million), but OP increased by 33% to HK\$5,603 million (2017: HK\$4,203 million) benefitting from completion of higher margin projects. DP joint ventures are equity accounted with share of their results included in associates/joint ventures.

Hotel revenue increased by 64% to HK\$463 million (2017: HK\$283 million) and OP doubled to HK\$90 million (2017: HK\$43 million) resulting from the growth in hotel management fees and improved performance of Niccolo Chengdu.

Logistics revenue decreased by 4% to HK\$2,616 million (2017: HK\$2,711 million) and OP fell by 9% to HK\$597 million (2017: HK\$657 million) resulting from a shift in container terminal throughput mix handled by Modern Terminals in Hong Kong to lower yield cargo.

Exit from CME1 was completed in September 2017 after distribution of all i-CABLE shares in specie to the Company’s shareholders, which discontinued the Group’s CME1 revenue and operating loss.

Investment and others revenue increased by 59% to HK\$1,476 million (2017: HK\$926 million) and OP by 91% to HK\$1,016 million (2017: HK\$532 million), mainly due to increase in dividend income from the Group’s enlarged investment portfolio.

DP Sales and Net Order Book

Total DP contracted sales, inclusive of joint venture projects on an attributable basis, decreased by 16% to HK\$27,958 million (2017: HK\$33,379 million).

Mainland contracted sales fell by 5% to RMB22,815 million (2017: RMB23,946 million). Revenue recognition decreased by 21% to HK\$22,236 million (2017: HK\$27,971 million) yet OP grew by 19% to HK\$7,949 million (2017: HK\$6,656 million) with improved overall profit margin. Net order book rose to RMB21,766 million (December 2017: RMB19,196 million).

Hong Kong contracted sales were mainly from the Mount Nicholson project which, on an attributable basis, amounted to HK\$1,919 million (2017: HK\$4,733 million). Sales recognition decreased to HK\$1,667 million (2017: HK\$5,279 million), which contributed an OP of HK\$1,062 million (2017: HK\$2,907 million). Attributable sales recognition of HK\$260 million was deferred under the new accounting standard that requires recognition at the time of assignment instead of signing of formal agreement.

Fair Value Gain of Investment Properties

Total value of the Group's IP portfolio as at 31 December 2018 was HK\$74.7 billion (2017: HK\$82.1 billion) with substantially of it all stated at fair value based on independent valuation (2017: HK\$65.5 billion). The attributable net revaluation gain of HK\$465 million (2017: HK\$1,261 million), after related deferred tax and non-controlling interests, was credited to the consolidated income statement.

Other Net (Charge)/Income

Other net charge of HK\$770 million primarily included net foreign exchange loss, while 2017 (income HK\$4,672 million) included a gain of HK\$4,499 million arising from disposal of 8 Bay East.

Finance Costs

Finance costs amounted to HK\$512 million (2017: HK\$87 million) which included an unrealised mark-to-market gain of HK\$375 million (2017: HK\$292 million) on cross currency and interest rate swaps for hedging in accordance with prevailing accounting standards.

Excluding the unrealised mark-to-market gain, finance costs after capitalisation were HK\$887 million, representing a 134% increase as affected by the financing rearrangement for the Demerger.

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

Associates' attributable profit decreased by 4% to HK\$1,279 million (2017: HK\$1,326 million) mainly due to lower profit contributions from Mainland DP.

Joint ventures attributable profit decreased by 63% to HK\$1,103 million (2017: HK\$2,972 million) due to lower recognition from various DP projects and deferral of profit recognition for Mount Nicholson.

Income Tax

Taxation charge for the year increased by 5% to HK\$4,126 million (2017: HK\$3,934 million), which included deferred taxation of HK\$522 million (2017: HK\$572 million) provided for the current year's revaluation gain attributable to investment properties in the Mainland.

Excluding the above deferred taxation, the tax charge increased by 7% to HK\$3,604 million (2017: HK\$3,362 million), which was mainly attributable to the higher profits from IP and Mainland DP segments coupled with increase in land appreciation tax on certain Mainland DP projects sold at relatively high profit margins.

Profit to Shareholders

Group underlying net profit (a performance indicator of the Group's major business segments and arrived at after excluding the attributable net IP revaluation gain, mark-to-market and exchange gain/loss on certain financial instruments and exceptional items) decreased by 11% to HK\$6,511 million (2017: HK\$7,328 million) with IP increasing by 43%, DP decreasing by 26% and Logistics decreasing by 12% to account for 16% (2017: 10%), 71% (2017: 85%) and 7% (2017: 7%) of Group total, respectively.

Including the net IP revaluation gain of HK\$465 million (2017: HK\$1,261 million) and other non-core items, Group profit attributable to equity shareholders decreased by 50% to HK\$6,623 million (2017: HK\$13,119 million). Basic earnings per share were HK\$2.18, based on weighted average of 3,045 million shares (2017: HK\$4.32 based on 3,034 million shares).

Financial Review

Results Summary by Excluding Wharf REIC from 2017 as follows:

	Excluding Wharf REIC		Excluding Wharf REIC	
	2018	2017	2018	2017
	(HK\$'Million)	(HK\$'Million)	(HK\$'Million)	(HK\$'Million)
Revenue	21,055	24,321		
IP	3,586	2,796	IP	1,984
DP	12,914	16,887	DP	5,603
Hotels	463	283	Hotels	90
Logistics	2,616	2,711	Logistics	597
CME1	—	874	CME1	—
Investments and others	1,476	770	Investments and others	478
			Increase in fair value of IP	985
			Other net (charges)/income	(770)
			Finance costs	(512)
			Associates/Joint ventures	2,382
			Income tax	(4,126)
			Non-controlling interests	(88)
			Profit to shareholders	6,623
			Underlying net profit	6,511
			IP	1,067
			DP	4,648
			Hotels	76
			Logistics	462
			CME1	—
			Investments and others	258

(B) Comparison Including Wharf REIC in 2017 Results

Group revenue decreased by 51% to HK\$21,055 million (2017: HK\$43,273 million) and OP by 58% to HK\$8,752 million (2017: HK\$20,622 million).

IP revenue decreased by 75% to HK\$3,586 million (2017: HK\$14,599 million) and OP by 84% to HK\$1,984 million (2017: HK\$12,029 million).

DP revenue decreased by 43% to HK\$12,914 million (2017: HK\$22,608 million) and OP by 28% to HK\$5,603 million (2017: HK\$7,753 million).

Hotel revenue declined by 69% to HK\$463 million (2017: HK\$1,487 million) and OP by 73% to HK\$90 million (2017: HK\$328 million).

Logistics revenue decreased by 7% to HK\$2,616 million (2017: HK\$2,817 million) and OP by 10% to HK\$597 million (2017: HK\$667 million). Exit from the CME1 segment discontinued the Group's CME1 revenue and operating loss. Investment and others revenue increased by 41% to HK\$1,476 million (2017: HK\$1,044 million) and OP by 75% to HK\$1,016 million (2017: HK\$579 million).

Finance Costs

Finance costs amounted to HK\$512 million (2017: HK\$1,013 million) which included an unrealised mark-to-market gain of HK\$375 million (2017: HK\$292 million) on cross currency and interest rate swaps in accordance with prevailing accounting standards.

The effective borrowing rate for 2018 was 3.5% (2017: same). Excluding the unrealised mark-to-market gain, finance costs before capitalisation were HK\$1,436 million (2017: HK\$1,674 million), representing a 14% decrease. Finance costs after capitalisation were HK\$887 million (2017: HK\$1,305 million), fell by 32% with higher interest capitalised on DP projects.

Income Tax

Taxation charge for the year decreased by 48% to HK\$4,126 million (2017: HK\$7,967 million). Excluding the deferred taxation provided for the current year's revaluation gain attributable to investment properties in the Mainland, the tax charge decreased by 51% to HK\$3,604 million (2017: HK\$7,395 million).

Non-controlling interests

Group profit attributable to non-controlling interests decreased to HK\$88 million (2017: HK\$727 million).

Profit to Shareholders

Group underlying net profit decreased by 59% to HK\$6,511 million (2017: HK\$15,924 million).

Group profit attributable to shareholders decreased by 70% to HK\$6,623 million (2017: HK\$21,876 million).

Basic earnings per share were HK\$2.18, based on weighted average of 3,045 million shares (2017: HK\$7.21 based on 3,034 million shares).

Financial Review

(II) LIQUIDITY, FINANCIAL RESOURCES AND COMMITMENTS

Shareholders' and Total Equity

As at 31 December 2018, shareholders' equity stood at HK\$135.5 billion (2017: HK\$142.0 billion), equivalent to HK\$44.45 per share based on 3,047 million issued shares (2017: HK\$46.75 per share based on 3,037 million issued shares), which has been impacted by a net exchange deficit of HK\$4.2 billion arising from translation of Renminbi ("RMB") net assets and an investment revaluation deficit of HK\$5.6 billion for the year.

Total equity including non-controlling interests of HK\$3.3 billion (2017: HK\$3.5 billion) increased to HK\$138.8 billion (2017: HK\$145.5 billion).

Assets

Total assets excluding bank deposit and cash increased to HK\$209.9 billion (2017: HK\$177.0 billion) following the increase in DP and other long term investments with Properties, Logistics, CME2 and other assets accounting for around 80%, 8%, 8% and 4% of the Group, respectively.

Total business assets, excluding bank deposit and cash, financial and deferred tax assets, amounted to HK\$181.0 billion (2017: HK\$161.7 billion). Geographically, Mainland business assets, mainly comprising properties and terminals, amounted to HK\$135.3 billion (2017: HK\$127.5 billion), representing 75% (2017: 79%) of total business assets.

Investment properties

Included in total assets is the IP portfolio of HK\$74.7 billion (2017: HK\$82.1 billion), representing 41% (2017: 51%) of total business assets. This portfolio comprised Mainland IP at valuation of HK\$54.4 billion (2017: HK\$45.8 billion).

Properties for sale

DP assets increased significantly to HK\$46.0 billion (2017: HK\$25.2 billion), reflecting the acquisition of Lung Cheung Road site in Hong Kong at HK\$12.5 billion and construction cost incurred for China DP.

Interests in associates and joint ventures

Interests in associates and joint ventures amounted to HK\$41.9 billion (2017: HK\$30.5 billion), mainly representing DP projects in Hong Kong and the Mainland.

Other long term investments

Other long term investments amounted to HK\$30.5 billion (2017: HK\$19.1 billion), including mainly the Group's strategic investment in Greentown China Holdings Limited ("Greentown") of HK\$3.2 billion and a portfolio of blue chips of HK\$27.3 billion held for long term growth with reasonable dividend return. The portfolio performed overall in line with the market and each investment within which is individually not material to the Group's total assets. The revaluation of portfolio produced a net deficit of HK\$5.6 billion (2017: surplus HK\$2.7 billion) as reflected in the other comprehensive income. The revaluation deficit excluding Greentown was more than fully recovered subsequent to the year-end 2018.

Deposits from sale of properties

Deposits from sale of properties amounted to HK\$9.3 billion (2017: HK\$9.1 billion) pending for recognition in the coming years.

Net Debt/(Cash) and Gearing

Net debt as at 31 December 2018 amounted to HK\$25.6 billion, compared to net cash of HK\$9.3 billion at 2017 year end, mainly resulting from re-investment in DP in Hong Kong and the Mainland as well as in other long term investments. Net debt comprised of HK\$17.5 billion in bank deposits and cash and HK\$43.1 billion in debts. It includes Modern Terminals' net debt of HK\$6.3 billion (2017: HK\$6.8 billion), which is non-recourse to the Company and its other subsidiaries. Excluding non-recourse debts, the Group's net debt was HK\$19.3 billion (2017: net cash HK\$16.1 billion). At 31 December 2018, the ratio of net debt to total equity is 18.5%.

Finance and Availability of Facilities

Total available loan facilities and issued debt securities as at 31 December 2018 amounting to HK\$66.6 billion, of which HK\$43.1 billion utilised, are analysed as below:

	31 December 2018		
	Available Facility HK\$ Billion	Total Debts HK\$ Billion	Undrawn Facility HK\$ Billion
Company/wholly-owned subsidiaries			
Committed and uncommitted bank facilities	32.6	12.3	20.3
Debt securities	23.4	23.4	-
	56.0	35.7	20.3
Non-wholly-owned subsidiaries			
Committed and uncommitted – Modern Terminals	10.6	7.4	3.2
	66.6	43.1	23.5

Of the above debts, HK\$7.4 billion (2017: HK\$4.8 billion) was secured by mortgages over certain IP, DP and other properties, plant and equipment with total carrying value of HK\$26.5 billion (2017: HK\$18.6 billion).

The Group's debt portfolio comprised primarily United States dollar ("USD"), Hong Kong dollar ("HKD") and Renminbi. Funds sourced from such debt portfolio were mainly used to finance IP, DP and port investments.

The use of derivative financial instruments is strictly monitored and controlled. The majority of the derivative financial instruments entered into are primarily used for management of interest rate and currency exposures.

The Group continued to maintain a strong financial position with ample surplus cash and undrawn committed facilities to facilitate business and investment activities. In addition, the Group also maintained a portfolio of liquid listed investments with an aggregate market value of HK\$29.2 billion (2017: HK\$19.1 billion), which is available for use if necessary.

Cash Flows for the Group's Operating and Investing Activities

For the year under review, the Group recorded net cash inflows before changes in working capital of HK\$8.4 billion (2017: HK\$21.0 billion). The changes in working capital led to a net cash used in operating activities to HK\$8.1 billion (2017: net inflow of HK\$5.2 billion) mainly as a result of increase in DP. For investing activities, the Group recorded a net outflow of HK\$22.6 billion (2017: net inflow of HK\$36.7 billion), mainly for increase in associates and other long term investments during the year.

Financial Review

Major Capital and Development Expenditures

Major expenditures incurred in 2018 are analysed as follows:

	Hong Kong HK\$ Million	Mainland China HK\$ Million	Total HK\$ Million
Properties			
IP	289	4,607	4,896
DP	12,540	27,687	40,227
	12,829	32,294	45,123
Others	208	11	219
Group total	13,037	32,305	45,342

- i. IP expenditure was mainly for construction costs of the IFS projects in Mainland.
- ii. DP and IP expenditures included HK\$12.8 billion for property projects undertaken by associates and joint ventures.
- iii. Other expenditure was mainly related to terminal equipment.

Commitment

As at 31 December 2018, major expenditure to be incurred in the coming years was estimated at HK\$27.2 billion, of which HK\$13.8 billion was committed. They are analysed by segment as below:

	As at 31 December 2018		
	Committed HK\$ Million	Uncommitted HK\$ Million	Total HK\$ Million
IP			
Hong Kong	894	–	894
Mainland China	54	267	321
	948	267	1,215
DP			
Hong Kong	81	–	81
Mainland China	9,163	13,041	22,204
	9,244	13,041	22,285
Others	3,612	70	3,682
Group total	13,804	13,378	27,182

Properties commitments are mainly for land cost and construction cost, inclusive of attributable commitments to associates and joint ventures, to be incurred by stages.

These expenditures will be funded by internal financial resources including surplus cash, cash flows from operations, as well as bank and other borrowings and pre-sale proceeds. Other available resources include listed equity investments available for sale.

(III) DIVIDEND POLICY

Apart from compliance with the applicable legal requirements, the Company would adopt a dividend policy which targets to provide shareholders with reasonably stable and consistent dividends and intend to pay no less than 30% of the underlying net profit of the Group. The actual dividend payout from year to year will be subject to upward or downward adjustments as decided by 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 for change 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 8,700 employees as at 31 December 2018, including about 2,300 employed by managed operations. 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 respective group's achievement and results.

(V) BUSINESS MODEL

Following the demerger in November 2017, the Group is principally engaged in Hong Kong and Mainland properties, with interests in hotels and logistics as well. In addition, CME2 is an infrastructure play in the new economy and represents a strategic investment with a long term perspective.

DP accounted for 71% of Group underlying net profit in 2018. On an attributable basis, combined DP sales in Hong Kong and the Mainland achieved HK\$28 billion and revenue recognition exceeded HK\$24 billion.

Total current land bank amounts to 3.0 million square feet in Hong Kong and 3.7 million square metres in the Mainland.

Flagship project in Hong Kong is Mount Nicholson, a record-setting luxury residential joint venture, to head the valuable Peak portfolio which includes non-DP properties. Other projects include redevelopment projects in Kowloon East and Lung Cheung Road site in Kowloon Tong.

On the Mainland, sharpening of DP focus to half a dozen key cities has benefitted the business unit across the board. A number of projects are undertaken through joint ventures to pool resources.

IP on the Mainland accounted for another 16% of Group underlying net profit in 2018. Recent additions include mixed-use International Finance Square (IFS) in Changsha. In particular, Chengdu IFS and Changsha IFS are comparable to Harbour City, Hong Kong, in critical mass and dominance in their respective markets.

Financial Review

(VI) BUSINESS STRATEGY

The Group endeavours to continuously enhance its competitiveness and drive sustainable growth through:

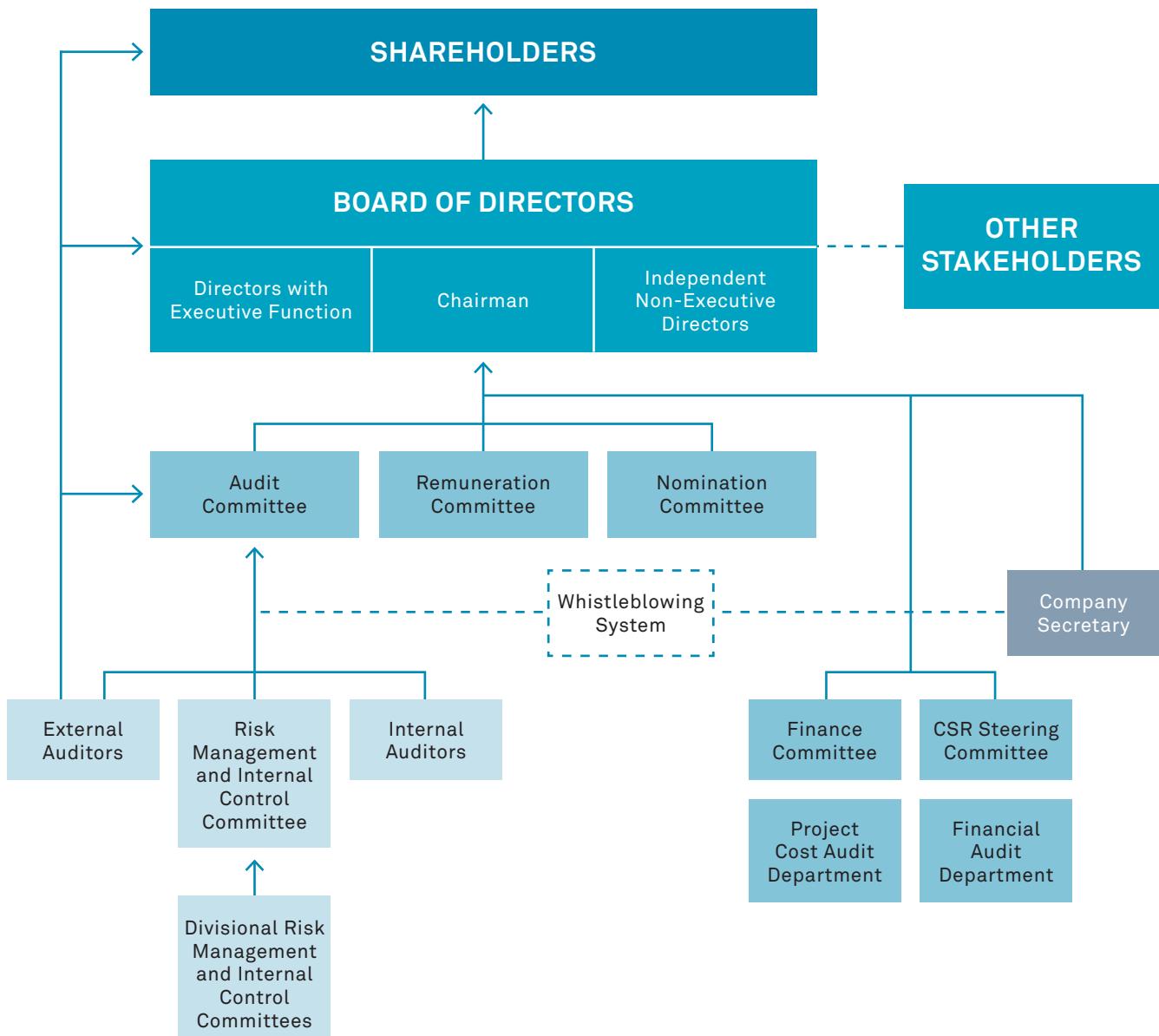
1. For DP, applying core competencies in site selection and acquisition, product planning and design, construction management, premium branding and marketing to achieve premium sales results and profit margin to achieve capital turnover velocity;
2. For IP, replicating the leadership in management and strong professional relationship with key tenants to operate market leading complexes in the Mainland to create new value and present long-term growth potential;
3. Exploring new investments in the new economy both for direct return as well as to enhance the performance of “old economy” assets;
4. Continuous development of sustainable and localised organisations with local market know-how and international standards and execution expertise; and
5. Exercising prudent and disciplined financial management to ensure sustainability at all times.

Corporate Governance Report

CORPORATE GOVERNANCE PRINCIPLES AND STRUCTURE

The Group endeavours to maintain high standards of corporate governance as we believe good corporate governance is essential for sustainable development of the Group.

The Board of Directors (the “Board”) is the core of our corporate governance structure embracing supports across the Group-wide spectrum on foundation of an efficient and accountable framework with commitments to promote the Group’s sustainability in discharge of its duties of safeguarding the interests of the Group, its shareholders as well as all other stakeholders, including investing public, regulators, banks, bondholders, creditors, customers and employees. The Group’s corporate governance structure can be visualised as below:



Corporate Governance Report

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Throughout the financial year ended 31 December 2018, the Company has complied with all the code provisions of the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), with one exception as follows:

Code Provision A.2.1 (Separation of the roles of Chairman and Chief Executive)

Mr Stephen T H Ng serves as the Chairman as well as the Managing Director of the Company. 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 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 half of them being Independent Non-Executive Directors (the “INEDs”).

The Company is committed to maintain high standards of corporate governance to exceed the Listing Rules requirements and code provisions and adopts, where appropriate, the recommended best practices, which are to be elaborated further in this corporate governance report.

BOARD OF DIRECTORS

Roles and Responsibilities

The overall management of the Company’s business is vested in the Board and the Directors of the Company (the “Directors”) are collectively responsible for promoting the success of the Company. The Board directly, and indirectly through the Board Committees, provides effective oversight and strategic guidance on the Group’s strategies and affairs, leading the achievement of strategic plans to enhance shareholders’ value.

Governance and Social Responsibility

- Set goals and commitments for Corporate Social Responsibilities
- Develop the corporate governance policies and oversight on relevant compliance

Strategic Planning

- Evaluate Business Strategy
- Review of latest developments on macro operating environment
- Evaluate major expenditure plans

Risk Management

- Review of principal risks and uncertainties
- Carry overall responsibility on the Risk Management and Internal Control System

Performance Review

- Annual, interim and quarterly results
- Monthly management reports
- Quarterly business review

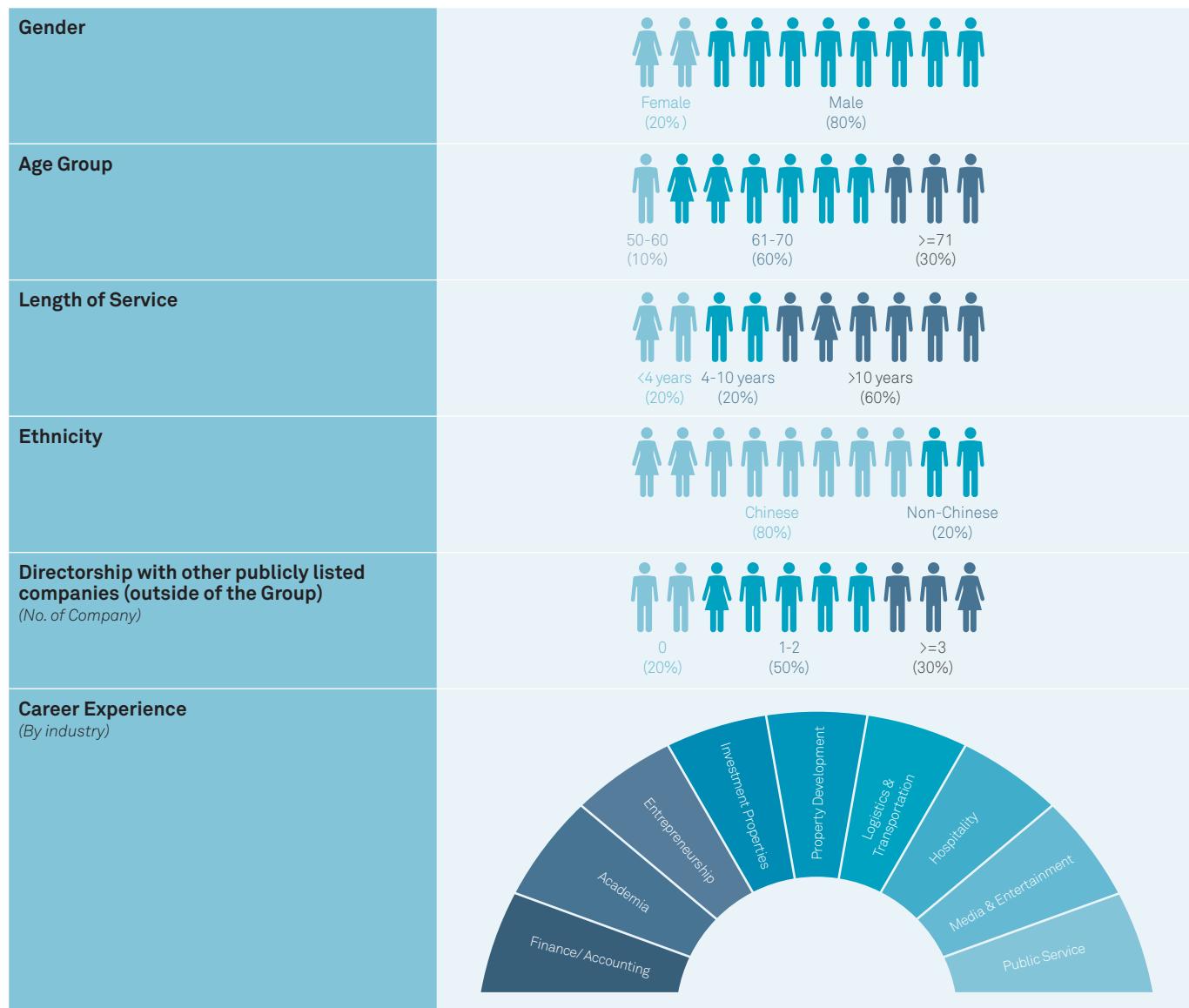
Board Composition and Diversity Policy

As of the date of this report, the Board consists of a total of ten members, including five Directors with executive functions and five INEDs.

The Directors' biographical details are set out in "A Biographical Details of Directors and Senior Management" on pages 82 to 86. A list setting out the names of the Directors and their roles and functions is posted on the respective websites of the Company and the Stock Exchange. All Directors, including INEDs, are also identified as such in all corporate communications that disclose the names of Directors.

According to the Board Diversity Policy adopted by the Board, the Company recognises and embraces the benefits of having a diverse Board towards enhancement of its overall performance. With a vision of achieving a sustainable and balanced development, the Company regards increasing diversity at the Board level as an essential element of its strategic goals. Appointments of Directors are made on merits having due regard for a range of diversity objectives, including but not limited to gender, age, cultural and educational backgrounds, length of service, knowledge of the Group's business and a board range of individual attributes, interests and values. The Board considers the current Board composition has provided the Company with a good balance and diversity of skills and experience appropriate to the requirements of its business.

The following chart shows the diversity profile of the Board as at 31 December 2018:



Corporate Governance Report

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 (the "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 below) which sets out the approach in identifying, assessing and nominating suitable candidates to the Company's board of directors.

Mr Stephen T H Ng, Ms Doreen Y F Lee, Mr Hans Michael Jebsen and Mr David M Turnbull will retire at the AGM to be held on 9 May 2019. 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/her role as required. The election of each candidate will be done through a separate resolution and there is no cumulative voting in Director elections. Details with respect to the candidates standing for election as Directors are set out in the AGM circular to Shareholders.

Independent Directors

Five out of ten 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 INEDs have their respective terms of appointment coming to an end normally three years after their appointment to the Board or their last re-election as Directors. The re-election of any INEDs who has served on the Board for more than nine years is subject to (1) a separate resolution to be approved by the Shareholders; and (2) further information to be set out in the circular to the Shareholders on the reasons why the Board believes the relevant INED is still independent and should be re-elected.

Professor Edward K Y Chen, Mr Vincent K Fang and Mr Hans Michael Jebsen 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. All 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.

Nomination Policy

The Company has adopted a formal Nomination Policy with effect from January 2019 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.

Remuneration of Directors and Senior Management

The remuneration payable to Directors and Senior Management of the Company is determined with reference to calibres, experiences, job responsibilities, performance and profitability of the Group, and the remuneration benchmarks normally paid by listed companies in Hong Kong and overseas for ensuring a fair and competitive remuneration package in the market. The annual fees payable to the Board during the financial year ended 31 December 2018 is as follows:

Fee payable to:	At the rate of HK\$'000 per annum
The Chairman of the Board	250
Director (other than Chairman)	200
Member of the Audit Committee	100
Member of the Remuneration Committee	50

Proposed resolutions for the revisions of annual fees payable to Directors with retroactive effect from 1 January 2019 will be voted by Shareholders in the forthcoming AGM as detailed in the annual general meeting notice and circular.

In respect of the remuneration payable to the Directors and Senior Management of the Company, the details have been set out in Notes 2(b) and 2(c) to the financial statements on pages 118 and 119 respectively.

Directors' Trainings

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.

Corporate Governance Report

The Company has also arranged for Directors to attend training sessions and forums which place emphasis on the roles, functions and duties as a director of a listed company, as well as the development of regulatory updates and issues. All Directors have been required to provide training records undertaken which are maintained by the Company Secretary.

All the current Directors have, during the financial year under review, pursued continuous professional development and the details are set out below:

Directors	Types of Trainings (See Remarks)
Executive Directors	
Mr Stephen T H Ng, <i>Chairman and Managing Director</i>	A, B
Mr Andrew O K Chow, <i>Deputy Chairman and Executive Director</i>	A, B
Ms Doreen Y F Lee, <i>Vice Chairman and Executive Director</i>	A, B
Mr Paul Y C Tsui, <i>Vice Chairman, Executive Director and Group Chief Financial Officer</i>	A, B
Director	
Mr Kevin K P Chan	A, B
Independent Non-executive Directors	
Professor Edward K Y Chen	B
Mr Vincent K Fang	A, B
Mr Hans Michael Jebsen	A, B
Ms Elizabeth Law	A, B
Mr David Muir Turnbull	A, B

Remarks:

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

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

Directors' Securities Transactions

The Company adopts 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 in Appendix 10 of the Listing Rules. Indeed, the Company's Code has a higher standard than the Model Code in the extent that the absolute prohibitions under paragraphs A.1 and A.3 of the Model Code, viz. forbidding Directors from securities dealings at any time in possession of inside information and during the relevant blackout periods preceding publication of financial results, shall apply not only to the listed securities of the Company itself but also of its subsidiaries and associates.

The Company has made specific enquiry of all Directors and all Directors have complied with the required standard set out in the Model Code and/or the Company's Code during the financial year.

BOARD EFFECTIVENESS

Division of Responsibilities

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.

CHAIRMAN AND MANAGING DIRECTOR

Mr Stephen T H Ng

- be responsible for the Group strategies and Board issues
- lead the Board and manage the affairs of the Board to ensure its effective functioning
- facilitate and encourage active engagement of Directors, fully drawing on their skills, experience and knowledge
- ensure cohesive working relationship among members of the Board and the Management
- assume overall responsibility on corporate governance practices and procedures
- undertake executive responsibility directly in certain major business and corporate units of the Group in his capacity as Managing Director

DIRECTORS WITH EXECUTIVE FUNCTIONS

China Development Properties

Mr Andrew O K Chow (*Deputy Chairman and Executive Director*)

Mr Kevin K P Chan

China Investment Properties

Ms Doreen Y F Lee (*Vice Chairman and Executive Director*)

Group Finance

Mr Paul Y C Tsui (*Vice Chairman, Executive Director and Group Chief Financial Officer*)

- carry full executive responsibilities over business directions and operational efficiency of the business and corporate units under their respective management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Professor Edward K Y Chen

Mr Vincent K Fang

Mr Hans Michael Jebsen

Ms Elizabeth Law

Mr David Muir Turnbull

- contribute diversified views and exercise independent judgment in the Board's decision making process
- act as check-and-balance, particularly in situations where potential conflicts of interests may arise

Corporate Governance Report

Company Secretary

The Company Secretary, Mr Kevin C Y Hui, is a seasoned employee of the Company and is very familiar with the Company's state of affairs. He reports to the Chairman and the Board of Directors directly. The main responsibility of the Company Secretary is supervision of the Company's compliances with laws and regulations, for instances, the Listing Rules, the Securities and Futures Ordinance (Cap 571 of the laws of Hong Kong), the Companies Ordinance (Cap 622 of the laws of Hong Kong) and the Codes on Takeovers and Mergers and Share Buy-back.

All Directors have access to the advices and services of the Company Secretary to ensure that Board procedures, and all applicable law, rules and regulations, are obligated. The Company Secretary has also played the role of coordinator for arranging Directors' participant in the training sessions organised by the external auditors.

The Company Secretary confirmed that he had taken no less than 15 hours of relevant professional training during the financial year.

Directors' Meeting Attendance in 2018

Individual attendance records of our Directors at Board meetings, Board Committees meetings and Annual General Meeting during the financial year ended 31 December 2018 are set out below:

	2018 Meetings Attended/Held			
	Board	Audit Committee	Remuneration Committee	Annual General Meeting
Executive Directors				
Mr Stephen T H Ng, <i>Chairman and Managing Director</i>	4/4	N/A	3/3	1/1
Mr Andrew O K Chow, <i>Deputy Chairman and Executive Director</i>	4/4	N/A	N/A	1/1
Ms Doreen Y F Lee, <i>Vice Chairman and Executive Director</i>	4/4	N/A	N/A	1/1
Mr Paul Y C Tsui, <i>Vice Chairman, Executive Director and Group Chief Financial Officer</i>	4/4	N/A	N/A	1/1
Directors				
Mr Kevin K P Chan	4/4	N/A	N/A	1/1
Independent Non-executive Directors				
Professor Edward K Y Chen	3/4	N/A	N/A	1/1
Mr Vincent K Fang	3/4	3/4	N/A	1/1
Mr Hans Michael Jebsen	2/4	2/4	3/3	1/1
Ms Elizabeth Law	4/4	4/4	N/A	1/1
Mr David Muir Turnbull	4/4	4/4	3/3	1/1
Total Number of Meetings	4	4	3	1

Board Process

Key Features of Board Process in 2018

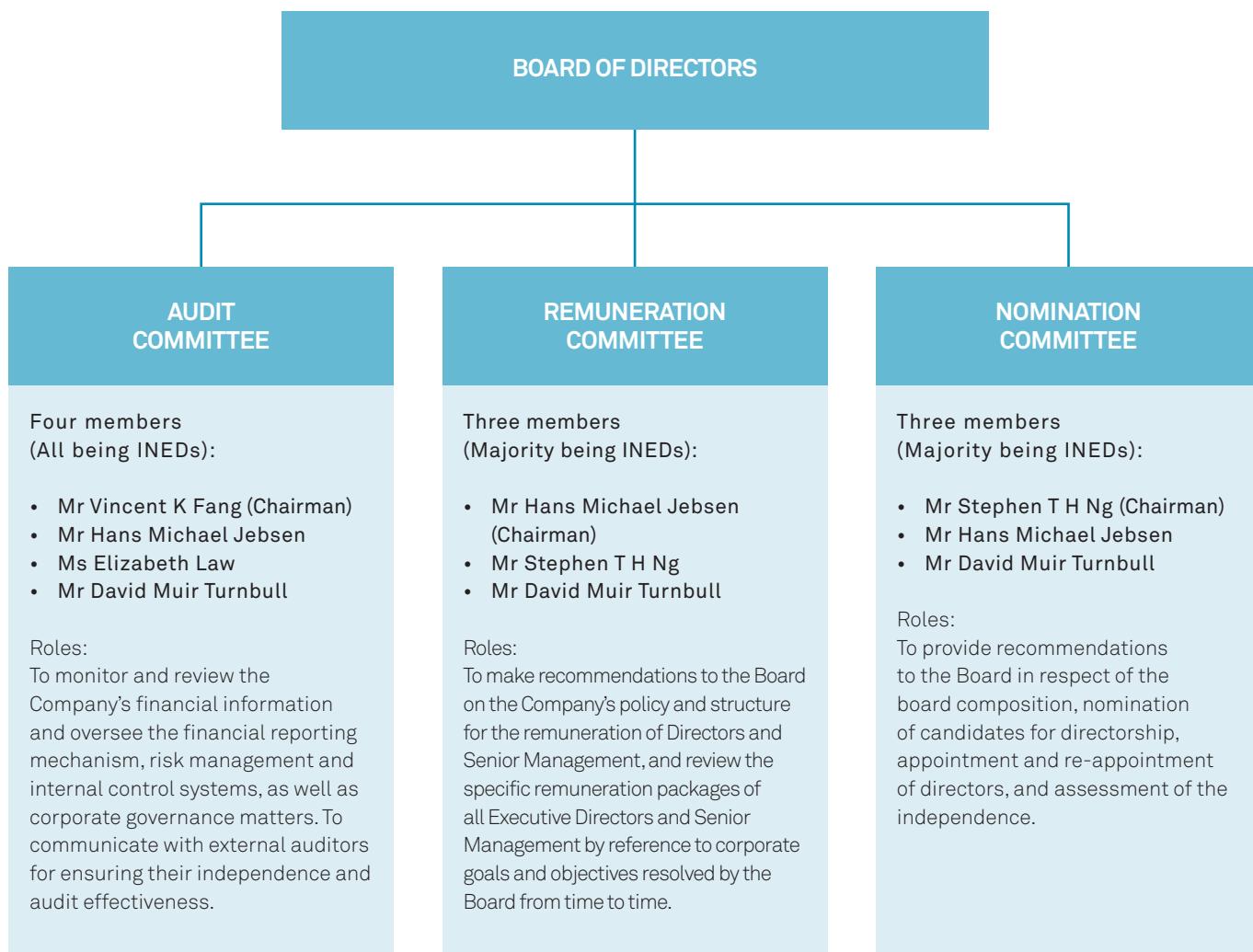
Regular Meetings	<ul style="list-style-type: none"> The Board held four regular meetings in 2018. Directors' attendance record for 2018 is disclosed on page 68 of this report. Directors may attend meetings in person, by phone or through other means of electronic communication in accordance with the Company's Articles of Association.
Meeting Notice	<ul style="list-style-type: none"> One-month formal notice would be given before each regular meeting and reasonable notices are given for all other ad hoc meetings.
Meeting Agenda	<ul style="list-style-type: none"> All Directors are consulted as to whether they may want to include any matter in the agenda for each Board meeting. Board papers are circulated not less than three days before Board meetings to enable the Directors to make informed decisions on matters to be raised at Board meetings.
Important Decisions	<ul style="list-style-type: none"> Important matters are decided by Directors at Directors' meetings, or on some exceptional occasions, dealt with by way of written resolutions so that all Directors (including INEDs) can note and comment, as appropriate, the matters before approval is granted.
Board and Board Committee Minutes/Written Resolutions	<ul style="list-style-type: none"> The Company Secretary prepares minutes and written resolutions and records matters discussed and decisions resolved by the Board and Board Committees. Board and Board Committee meeting minutes are sent to all Directors and Board Committee members respectively for comments and record, and final version thereof are put on record within a reasonable time after each Board and Board Committee meeting. Board and Board Committee minutes and resolutions are available for inspection by all Directors/Board Committee members. Minutes record in sufficient detail of the matters considered by the Board/Board Committees and decisions reached.
Supply of and Access to Information	<ul style="list-style-type: none"> The Company Secretary and the Group Chief Financial Officer attend all regular Board meetings to advise on corporate governance, statutory compliance, and accounting and financial matters, as appropriate. Communications between Directors on the one hand, and the Company Secretary, who acts as co-ordinator for the business units of the Group on the other, is a dynamic and interactive process to ensure that queries raised and clarification sought by the Directors are dealt with and that further supporting information is provided if appropriate.
Independent Professional Advice	<ul style="list-style-type: none"> The Company Secretary can arrange independent professional advice at the expense of the Company should such advice be considered necessary by any Director.
Conflicts of Interests	<ul style="list-style-type: none"> Directors are required to declare their direct/indirect interests, if any, in any proposed transaction, arrangement or contract to be considered by the Board pursuant to the Companies Ordinance (Cap 622 of the laws of Hong Kong) and the Company's Articles of Associations and, where appropriate, Directors who are interested are required to abstain from voting on the proposed transaction, arrangement or contract.
Indemnification and Insurance	<ul style="list-style-type: none"> The Company has arranged appropriate insurance cover of Directors' and Officers' liability.

Corporate Governance Report

Board Committees

The Company has established three Board Committees, namely Audit Committee, Remuneration Committee and Nomination Committee. The terms of reference of our Board Committees are reviewed and updated regularly to ensure that they are aligned with prevailing governance practices. The terms of reference and membership of all our Board Committees are disclosed in full on the respective websites of the Company and the Stock Exchange.

Board Committees report to the Board of their decisions and recommendations on specific area under their respective delegated responsibilities.



The roles, authorities and procedures of the Board Committees are set out in their respective terms of reference which are available at the websites of the Company and the Stock Exchange.

Summary of Works Performed by the Board Committees in 2018

Audit Committee

- Four Audit Committee meetings were held in 2018 with attendance records as disclosed on page 68 of this report
- Review of the annual audit plan of External Auditors
- Approval of the remuneration and terms of engagement of External Auditors
- Review of the External Auditors' independence and objectivity and the effectiveness of audit process in accordance with applicable standards
- Review of the quarterly, interim and annual financial statements before submission to the Board, with particular consideration of the duties of the Audit Committee
- Review of the audit programme of and work done by the Internal Auditors
- Review on the effectiveness of the Group's financial controls, risk management and internal control systems with the support of Risk Management and Internal Control Committee and Internal Auditors
- Meeting with the External Auditors without presence of executive Board members or the management
- Review of the whistleblowing cases and relevant investigation results
- Review of the corporate governance matters and the relevant reports of the Group
- Review and monitor the Group's compliance with legal and regulatory requirements
- Recommendation to the Board for the reappointment of External Auditors

Remuneration Committee

- Three Remuneration Committee meetings were held in 2018 with attendance as disclosed on page 68 of this report
- Remuneration Committee has the following delegated authorities and responsibilities:
- Review of the Company's policy and structure for all remuneration of Directors and Senior Management
- Consideration and approval of the emoluments for all Directors and Senior Management
- Review of the level of fees for Directors and Board Committee members
- Review of the list of emoluments for Directors to be disclosed in annual report

Nomination Committee

- No Nomination Committee meeting was held in 2018
- Recommendation of the new Nomination Policy to the Board for adoption with effect from January 2019 by the Company by way of resolution in writing

Corporate Governance Report

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board acknowledges its responsibilities for overseeing the preparation of financial statements for the financial year, which shall give a true and fair view of the financial position of the Group and of the Group's financial performance and cash flows for the relevant periods, and in compliance with all the relevant statutory requirements, the Listing Rules requirements and applicable accounting standards. The Board is committed to present a clear, balanced and understandable assessment of the Group's performance and financial positions in all its financial reporting and to ensure relevant publications in a timely manner.

Below principles are strictly observed in preparation of the financial statements of the Group:

- appropriate accounting policies are selected, applied consistently and in accordance with the Hong Kong Financial Reporting Standards;
- appropriate and reasonable judgments and estimates are made; and
- reasons for any significant departure from applicable accounting standards, if any, is clearly stated.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern as referred in C.1.3 of the Corporate Governance Code.

The Directors are satisfied with the Group's performance on the basis that the Company generates or preserves value over the longer term and delivers the Company's objectives through its business model as discussed under Financial Review on page 59.

External Auditors

The Company has engaged KPMG as its Auditors for the financial year. The Audit Committee reviews and monitors the Auditors' independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards. KPMG has confirmed its independence as the Company's Auditors having regard to its policies, professional rules and relevant statutory requirements.

Meeting between the Audit Committee and the Auditors was held for reviewing the audit plan whereby the nature and scope of audit and reporting obligations were discussed with and approved by the Audit Committee before commencing the audit works for the financial year.

Under the engagement letter of the financial year, KPMG provided the following services:

1. Audit services of the Company and its subsidiaries (both incorporated in Hong Kong and other jurisdictions);
2. Checking the accuracy of extraction of the financial information in the preliminary announcement of annual results;
3. Attendance of 2019 AGM; and
4. Reporting on continuing connected transactions.

The remuneration paid/payable to the Auditors of the Company in respect of audit services and non-audit services for the financial year ended 31 December 2018 are set out below:

Type of Services:	Fee paid/payable (HK\$ Million)	
	2018	2017
Audit services	18	20
Non-audit services	5	1
Total	23	21

The Audit Committee was satisfied with KPMG's work and recommended to the Board that, subject to Shareholders' approval at the forthcoming AGM, KPMG be re-appointed as the Company's Auditors for 2019.

The statement by the Auditors regarding its reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 100 to 105.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

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 the main purpose of providing 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 of ongoing monitoring and evaluation of the effectiveness of the relevant systems, with assistance of the Risk Management and Internal Control Committee.

Risk Management and Internal Control Committee ("RMICC")

RMICC plays a central role in the on-going management of the Group's risk management and internal control systems, with the following features:

Objective	Assist the Audit Committee in discharge of its oversight responsibility over risk management and internal control system of the Group
Composition	<p>Chaired by the Vice Chairman, Executive Director and Group Chief Financial Officer</p> <p>Three other members comprising two Directors with executive functions and the Company Secretary</p>
Structure	<p>Accountable to the Audit Committee on all matters relating to risk management and internal control</p> <p>Supervision on Divisional Risk Management and Internal Control Committees ("DRMICCs") which in turn are responsible for the identification and reporting of functional risks, and the ongoing supervision and monitoring of the risk management and internal control systems of all the respective business and corporate units of the Group</p>
Scope and Duties	<p>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 certification procedure as further explained below</p> <p>Report to the Audit Committee on identified risks, relevant evaluations and risk management strategy</p> <p>Direct and monitor the proper functioning of DRMICCs and report to the Audit Committee on any major internal control issues from time to time</p> <p>Assume an advisory role on objective settings, formulation of internal control framework, policies and procedures</p>

Corporate Governance Report

Internal Control Functions

Internal control functions are inbuilt at every level of the Group's organisation to entrench safeguards against material errors and deficiencies. Below sets the major constituents with control functions monitoring key operations across the Group:

DRMICCs	<ul style="list-style-type: none"> set up at the level of business and corporate units as divisional advisory bodies with composition of the respective key management staff together with those charged with the internal control functions be responsible for the identification and reporting of functional risk, and the ongoing supervision and monitoring of the risk management and internal control systems be entrusted with implementation of the Group's control policies and on-going assessment of control activities in the relevant business units
Finance Committee	establish financing strategies and policies with reference to risk assessment formulate externally and internally and cash flow placing as well as the centralised treasury functions
Internal Audit Department	monitor the compliance with group policies and standards, and review of the effectiveness of internal control measures of business and corporate units
Financial Audit Department	scrutinise the leasing activities and expenditure proposals
Project Cost Audit Department	audit the tendering and contracts relating to construction works
CSR Steering Committee	ensure the alignment of business development with Corporate Social Responsibility goals and commitments

Practices and Processes

As a conglomerate 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 processes but dynamic and integrated operations embedded in the day-to-day routines with the primary ownership vested on the respective business and corporate 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.

Whistleblowing System

The Group has adopted the recommended best practice of establishing a whistleblowing system as an open channel which enable employees and those who deal with the Company (e.g. customers and suppliers) to raise concerns, in confidence without fear of retribution, about any suspect misconduct or malpractice within the Group. The Whistleblowing Policy and Procedures are available for download under the Corporate Governance section of the Company's corporate website. Well-defined procedures are put in place for independent investigations and follow-up actions. With delegated authority and responsibility, the Audit Committee conducts periodical review on reports of whistleblowing cases submitted from the Internal Audit Department.

Periodical Reviews

Under the leadership of RMICC, system reviews in a comprehensive approach on the basis of COSO (Committee of Sponsoring Organizations 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.



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.

Annual Confirmation

During the financial year ended 31 December 2018, the Audit Committee, with assistance of RMICC and DRMICCs, has conducted a review of the effectiveness of the Group's risk management and internal control systems 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, internal audit and financial reporting function. Confirmations 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 2018, 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 Corporate Governance 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 95 to 97 in the Directors' Report.

Corporate Governance Report

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) and the Listing Rules, and such policy has been communicated to the relevant senior executives of the Group. The 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

COMMUNICATION WITH SHAREHOLDERS

The Board recognises the importance of constructive and transparent communication with the Shareholders and investors and believes that Shareholders' value can be enhanced by continuous and effective dialogue with its stakeholders. The Company is committed to a fair and timely disclosure of key information of the Group to facilitate Shareholders and investment community to make investment decisions.

Corporate information including but not limited to annual and interim reports, announcements, presentation materials and press releases are available on the websites of the Stock Exchange and/or the Company.

A Shareholders Communication Policy has been adopted by the Company to ensure balanced and understandable information about the Company (including its financial performance, strategic goals and plans, material developments, governance and risk profile) are readily available to Shareholders.



2018 Annual General Meeting

The 2018 AGM was held on 10 May 2018 in the Centenary Room, Ground Floor, The Marco Polo Hongkong Hotel, 3 Canton Road, Kowloon, Hong Kong, with attendance by all the Directors, details of which are set out on the table of Directors' meeting attendance on page 68. The Auditors of the Company, Messrs KPMG, attended the 2018 AGM, during which its representative was available to answer questions raised by the Shareholders. Details of voting results were disclosed in the announcement of the Company dated 10 May 2018 posted on the websites of the Stock Exchange and the Company.

2019 Annual General Meeting

The forthcoming AGM will be held on 9 May 2019. All Shareholders are encouraged to attend and to vote on all resolutions to be proposed at the AGM. Details of resolutions to be proposed at the 2019 AGM are set out in the circular which will be dispatched together with this annual report. Relevant notice of AGM and proxy form will be available on the websites of the Stock Exchange and the Company.

Voting

The Company has the following procedures to Shareholders to vote by poll:

- (a) All resolutions put to the Shareholders in general meetings are voted by a poll demanded by the Chairman at the beginning of the meetings. The circulars and notices of the general meetings express the Chairman's intention to call for voting by poll.
- (b) The Chairman or the Company Secretary explains the procedures for voting by poll to Shareholders and answers any questions from the Shareholders before a poll is required to be conducted at the meetings.
- (c) The Company ensures that votes cast are properly counted and recorded. Independent scrutineer, the Company's Share Registrar, is appointed to count the number of votes cast at general meetings.
- (d) Poll results are announced on the same day and also published on the Company's website not later than the business day following the general meetings.

Shareholders' Rights

(a) *Convene an Extraordinary General Meeting*

Pursuant to Section 566 of the Companies Ordinance (Cap 622 of the laws of Hong Kong) (the "CO"), on written requisition by the Shareholders representing at least 5% of the total voting rights of all Shareholders having a right to vote at general meetings, the Directors must convene an extraordinary general meeting.

(b) *Send Enquiries to the Board*

Shareholders may at any time address their enquiries to Board through the Company's email address (for enquiry purpose only), postal address, fax number and telephone number, which are set out on pages 4 to 5 of this annual report and the Company's corporate website (www.wharfholdings.com).

Corporate Governance Report

(c) *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 procedure for proposing resolution(s) to be moved at the Company's AGM(s) are as follows:

Pursuant to Section 615 of the CO, the Shareholder(s) can submit a written requisition to move a resolution at the Company's AGM(s) if they represent:

- at least 2.5% of the total voting rights of all Shareholders who have a right to vote at the AGM to which the requests relate; or
- at least 50 members who have a right to vote on the resolution at the AGM 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 Shareholder(s) making it; and
- (c) be received by the Company not later than 6 weeks before the relevant AGM to which the requests relate, or if later, the time at which notice is given of that meeting.

Any written requisitions from the Shareholders to the Company pursuant to Sections 566 and 615 of the CO must be deposited at the Company's registered office at 16th Floor, Ocean Centre, Harbour City, Canton Road, Kowloon, Hong Kong.

Constitutional Documents

Shareholders' rights are also set out in the Articles of Association of the Company which is available on the Company's website. There is no significant change in the Company's Articles of Association during the financial year ended 31 December 2018.

Dividend Policy

A Dividend Policy, as set out in financial review on page 59, was adopted by the Company pursuant to Code Provision E.1.5 of the CG Code.

Directors' Report

The Board of Directors has pleasure in submitting their Report and the Audited Financial Statements for the financial year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and those of its principal subsidiaries are set out on pages 176 to 183.

The principal activities of the Group are investment properties (“IP”) and development properties (“DP”) in Hong Kong and the Mainland, hotels and management, and logistics.

BUSINESS REVIEW

Discussion and analysis of the Group’s business in accordance with Schedule 5 of the Companies Ordinance (Cap 622 of the Laws of Hong Kong) are covered in different sections of this Annual Report as set out below, which shall form an integral part of this Directors’ Report:

- Corporate Profile (pages 1 to 2)
- Chairman’s Statement (pages 7 to 11)
- Business Review (pages 14 to 45)
- Financial Highlights (pages 12 to 13) and Financial Review (pages 52 to 60)
- Principal Risks and Uncertainties (pages 95 to 97)
- Financial Risk Management and Fair Values – Note 23 to the Financial Statements (pages 142 to 148)
- Contingent Liabilities – Note 27 to the Financial Statements (page 151)
- Events after the reporting period – Note 31 to the Financial Statements (page 155)

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 the sub-section headed “(L) Environmental, Social and Governance” on pages 97 to 98.

RESULTS, APPROPRIATIONS AND RESERVES

The results of the Group for the financial year ended 31 December 2018 are set out in the Consolidated Income Statement and Consolidated Statement of Comprehensive Income on pages 106 to 107.

Appropriations of profits and movements in reserves of the Group and of the Company during the financial year are set out in the Consolidated Statement of Changes in Equity on page 109 and Note 24 to the Financial Statements on pages 148 to 149.

DIVIDENDS

A first interim dividend of HK\$0.25 per share was paid on 12 September 2018. In lieu of a final dividend, a second interim dividend of HK\$0.40 per share will be paid on 23 April 2019 to Shareholders on record as at 6:00 p.m., 3 April 2019. Total distribution for the year 2018 will amount to HK\$0.65 per share (2017: total cash dividend of HK\$1.59 per share and special interim dividends equivalent to HK\$65.33 per share by way of distribution in specie of all shares held by the Group in i-CABLE Communications Limited (“i-CABLE”) and Wharf Real Estate Investment Company Limited (“Wharf REIC”)).

Directors' Report

DONATIONS

The Group made donations during the financial year totalling HK\$7 million.

SHARE CAPITAL

During the financial year, as a result of exercises of the share options previously granted under the Company's share option scheme (the "Scheme"), a total of 10,500,000 ordinary shares of the Company, credited as fully paid, were allotted and issued for a total consideration of HK\$239 million.

Details of movement in share capital of the Company during the financial year are set out in Note 24 to the Financial Statements on pages 148 to 149.

EQUITY-LINKED AGREEMENT

No equity-linked agreement which may result in the Company issuing shares was entered into or existed during the financial year, save for the Scheme as disclosed on pages 91 to 92 and any outstanding options granted thereunder.

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 Andrew O K Chow, Ms Doreen Y F Lee, Mr Paul Y C Tsui, Mr Kevin K P Chan, Professor Edward K Y Chen, Mr Vincent K Fang, Mr Hans Michael Jebsen, Ms Elizabeth Law and Mr David Muir Turnbull.

Messrs. Stephen T H Ng, Hans Michael Jebsen, David Muir Turnbull and Ms Doreen Y F Lee are due to retire by rotation from the Board in accordance with Article 106(A) of the Company's Articles of Association at the forthcoming Annual General Meeting. The retiring Directors, being eligible, offer themselves for re-election. None of the retiring Directors proposed for re-election at the forthcoming Annual General Meeting 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 "(M) Directors of Subsidiaries" on page 99.

INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transaction, arrangement and contract of significance in relation to the Company's business to which the Company, any subsidiary of the Company, the ultimate holding company of the Company or any subsidiary of such ultimate holding company was a party and in which a Director of the Company or any entities connected with a Director 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

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 ultimate holding company or any subsidiary of such ultimate holding company 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 Company and of Wheelock and Company Limited ("Wheelock"), granted under the Scheme and Wheelock's share option scheme respectively to certain employees/directors of companies in the Group, some of whom were Directors of the Company during the financial year.

Under the respective rules of the two schemes (such rules being subject to the relevant laws and provisions applicable from time to time), shares of the Company and/or Wheelock 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 boards of directors of the Company and/or Wheelock respectively.

During the financial year, a total of 7,750,000 ordinary shares of the Company were allotted and issued to Mr Stephen T H Ng, Mr Andrew O K Chow, Ms Doreen Y F Lee, Mr Paul Y C Tsui and Mr Kevin K P Chan (all being Directors of the Company) on their exercise of options under the Scheme. Further information of the share option schemes of the Company and Wheelock is set out on pages 91 to 92.

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/she may sustain or incur in or about the execution and discharge of the duties of his/her office, to the extent as permitted by laws.

The Company has, together with its holding company (Wheelock) and two listed fellow subsidiaries (Wharf REIC and Harbour Centre Development Limited ("HCDL")), 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.

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 82 to 99.

By Order of the Board

Kevin C Y Hui

Company Secretary

Hong Kong, 7 March 2019

Directors' Report

OTHER CORPORATE INFORMATION

(A) Biographical Details of Directors and Senior Management

(i) Directors

Mr Stephen Tin Hoi Ng, Chairman and Managing Director (Age: 66)

Mr Ng joined the Group in 1981. He has been Managing Director of the Company since 1989 and became Chairman in 2015. He also serves as chairman of the Nomination Committee and a member of the Remuneration Committee.

Mr Ng is deputy chairman of Wheelock, publicly listed holding company of the Company, chairman and managing director of Wharf REIC and chairman of HCDL, both are publicly listed fellow subsidiaries of the Company. He is also non-executive chairman of publicly listed Joyce Boutique Holdings Limited ("JBHL") and chairman of Wheelock Properties (Singapore) Limited ("WPSL") (a subsidiary of Wheelock and publicly listed in Singapore until October 2018). He formerly served as chairman and chief executive officer of publicly listed i-CABLE 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 WPSL) 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), vice chairman of the Employers' Federation of Hong Kong ("EFHK") and a council member of The Hong Kong General Chamber of Commerce.

Under the existing service contract between the Group and Mr Ng, his basic salary and various allowances for the year 2019, calculated on an annualised basis, would be approximately HK\$5.19 million (2018: HK\$5.04 million) per annum.

Mr Andrew On Kiu Chow, Deputy Chairman and Executive Director (Age: 68)

Mr Chow has been a Director of the Company since July 2011 and became Deputy Chairman in May 2015. Among various other subsidiaries of the Company of which he serves as a director, he is chairman of Wharf China Development Limited with responsibility to oversee the Group's development property business in Mainland China. He joined the Group in 2006.

Mr Chow is also an Independent Non-executive Director of Hong Kong Economic Times Holdings Limited (being publicly listed in Hong Kong). Mr Chow has extensive experience in the finance and property sectors in Hong Kong and Mainland China, and formerly held senior executive positions in Tian An China Investments Company Limited and Next Digital Limited. He is a graduate of The University of Hong Kong where he obtained his bachelor's degree in Social Science.

Under the existing service contract between the Group and Mr Chow, his basic salary and various allowances for the year 2019, calculated on an annualised basis, would be approximately HK\$5.69 million (2018: HK\$5.67 million) per annum.

Ms Doreen Yuk Fong Lee, Vice Chairman and Executive Director (Age: 62)

Ms Lee has been a Director of the Company since 2003 and became a Vice Chairman in May 2015. Among various other subsidiaries of the Company of which she serves as a director, she is chairman and senior managing director of Wharf China Estates Limited with primary responsibility for overseeing the Group's portfolio of investment properties in Mainland China. She is also vice chairman and executive director of Wharf REIC, chairman and senior managing director of Wharf Estates Limited, and a non-executive director of JBHL. Ms Lee was formerly a non-executive director of HCDL from July 2010 to July 2012.

Ms Lee is a graduate of The University of Hong Kong where she obtained a bachelor's degree in Arts (Hon).

Under the existing service contract between the Group and Ms Lee, her basic salary and various allowances for the year 2019, calculated on an annualised basis, would be approximately HK\$1.66 million (2018: HK\$1.6 million) per annum.

Mr Paul Yiu Cheung Tsui, Vice Chairman, Executive Director and Group Chief Financial Officer (Age: 72)

Mr Tsui, FCCA, FCPA, FCMA, CGMA, CPA, CGA, is a Vice Chairman, Executive Director and Group Chief Financial Officer of the Company and is also an executive director and group chief financial officer of Wheelock. He joined the Wheelock/Wharf group in 1996 and became a director of Wheelock in 1998.

Furthermore, Mr Tsui is a vice chairman and executive director of Wharf REIC, a non-executive director of JBHL and a vice chairman of Wheelock Properties Limited, a wholly-owned subsidiary of Wheelock. He formerly served as a director of HCDL and WPSL until his resignations in August 2015. He was also formerly a non-executive director of i-CABLE until his resignation in September 2017.

Mr Tsui is currently a general committee member of EFHK and chairman of EFHK's "Property & Construction" functional group.

Under the existing service contract between the Group and Mr Tsui, his basic salary and various allowances for the year 2019, calculated on an annualised basis, would be approximately HK\$2.26 million (2018: HK\$3.1 million) per annum.

Mr Kevin Kwok Pong Chan, Director (Age: 58)

Mr Chan joined the Group in 1993 and has been a Director of the Company since May 2015. He has been involved in various property development projects of the Group in both China and Hong Kong. Among various other subsidiaries of the Company of which he serves as a director, he is an executive director of Wharf China Development Limited and Wharf China Estates Limited with responsibility to work on the Group's China Development Property strategy as well as to oversee the Group's massive China Investment Property construction projects. He was formerly a non-executive director of HCDL from April 2013 to May 2015.

Mr Chan graduated from The Hong Kong Polytechnic University with Associateship in Civil & Structural Engineering. He is a member of the Hong Kong Institution of Engineers as well as the Institution of Civil Engineers, UK and also a chartered engineer of the Engineering Council UK.

Under the existing service contract between the Group and Mr Chan, his basic salary and various allowances for the year 2019, calculated on an annualised basis, would be approximately HK\$3.75 million (2018: HK\$3.63 million) per annum.

Directors' Report

Professor Edward Kwan Yiu Chen, GBS, CBE, JP, Director (Age: 74)

Professor Chen has been an Independent Non-executive Director of the Company since 2002.

Professor Chen is an honorary professor of the Open University of Hong Kong and a distinguished fellow of the Hong Kong Institute for the Humanities and Social Sciences at The University of Hong Kong. He is now chairman of HKU SPACE, a member of the board of directors of the Hong Kong Institute for Monetary Research of the Hong Kong Monetary Authority and a non-official member of the Human Resources Planning Commission. He was the president of Lingnan University in Hong Kong from September 1995 to August 2007. He was also a member of the Legislative Council of Hong Kong from 1991 to 1992, and a member of the Executive Council of Hong Kong from 1992 to 1997.

Professor Chen is also an Independent Non-executive Director of First Pacific Company Limited (publicly listed in Hong Kong), Hang Seng Qianhai Fund Management Company Limited and Delta Asia Financial Group. He was formerly an Independent Non-executive Director of publicly listed Asia Satellite Telecommunications Holdings Limited.

Professor Chen was educated at The University of Hong Kong (Bachelor of Arts and Master of Social Sciences) and Oxford University (Doctor of Philosophy). He was appointed a Justice of the Peace in 1993 and awarded a CBE in 1995. In 2003, he was awarded the Gold Bauhinia Star by the Hong Kong SAR Government.

Mr Vincent Kang Fang, GBS, JP, Director (Age: 75)

Mr Fang has been an Independent Non-executive Director of the Company since 1993. He also serves as chairman of the Audit Committee. He is chief executive officer of Toppy Company (Hong Kong) Limited and managing director of Fantastic Garments Limited.

Mr Fang is currently Honorary Chairman of the Liberal Party and a director of The Federation of Hong Kong Garment Manufacturers. He was formerly a non-official member of the Commission on Strategic Development of the Hong Kong SAR Central Policy Unit and of the Commercial Properties Committee of Housing Department. He served as a member of Legislative Council representing Wholesale and Retail in Functional Constituency since 2004 until his retirement in September 2016. He also served as chairman of the Hospital Governing Committee of Princess Margaret Hospital and Kwai Chung Hospital, advisor of the Quality Tourism Services Association, a functional constituency representative for retail and wholesale of the Hong Kong Retail Management Association and a member of the Airport Authority of Hong Kong, the Hong Kong Tourism Board, the Hospital Authority and the Operations Review Committee of the Independent Commission Against Corruption.

Mr Fang is a graduate of North Carolina State University where he obtained both his bachelor's and master's degrees in Science of Textiles Engineering. He was awarded the Silver Bauhinia Star in 2008 and the Gold Bauhinia Star in 2016 by the Hong Kong SAR Government. He is also a Justice of the Peace.

Mr Hans Michael Jebsen, BBS, Director (Age: 62)

Mr Jebsen has been an Independent Non-executive Director of the Company since 2001. He also serves as a member of the Audit Committee and Nomination Committee and chairman of Remuneration Committee.

Mr Jebsen is chairman of Jebsen and Company Limited. He currently holds a number of public offices, namely, chairman and board member of the Asian Cultural Council Hong Kong, chairman of the Advisory Council of the Business School of the Hong Kong University of Science and Technology, a trustee of World Wide Fund for Nature Hong Kong and a member of Board of Trustees of Asia Society Hong Kong Center, Hong Kong-Europe Business Council of the Hong Kong Trade Development Council as well as Advisory Board of the Hong Kong Red Cross. Since 2015, he has also been a member of the Operations Review Committee of the Independent Commission Against Corruption. Since 2017, Mr Jebsen co-founded and has served as executive council member of the Asian Academy of International Law. Mr Jebsen is also a non-executive director of publicly listed Hysan Development Company Limited.

After schooling in Germany and Denmark, Mr Jebsen received a two-year banking education in Germany and the UK and studied Business Administration at the University of St. Gallen in Switzerland from 1978 to 1981.

Mr Jebsen was awarded the Bronze Bauhinia Star by the Hong Kong SAR Government in 2001, made a Knight of the Dannebrog by receiving the Silver Cross of the Order of Dannebrog by H. M. The Queen of Denmark in 2006, was awarded the Merit Cross of the Order of the Merit of the Federal Republic of Germany in 2008 and received the title "Hofjægermester" by H. M. The Queen of Denmark in January 2011. In 2014, Mr Jebsen was awarded the Knight of 1st Class of the Order of Dannebrog, Denmark. In 2015, he was awarded Doctor of Business Administration honoris causa of the Hong Kong University of Science and Technology. In 2018, Mr Jebsen was awarded the Blanchette Hooker Rockefeller Award.

Ms Elizabeth Law, MH, JP, Director (Age: 64)

Ms Law has been an Independent Non-executive Director of the Company since August 2017. She also serves as a member of the Audit Committee.

Ms Law graduated from McGill University, Canada in 1976. She is currently a managing director of Law & Partners CPA Limited, and the proprietor of Stephen Law & Company. Ms Law is a Certified Public Accountants (Practising) in Hong Kong, a member of the Chartered Professional Accountants Canada, a fellow member of The Institute of Chartered Accountants in England & Wales, a fellow member of Certified Public Accountants Australia, and a certified tax adviser in Hong Kong.

Ms Law is also a member of the Protection of Wages on Insolvency Fund Board and the Equal Opportunities Commission. She is the honourary founding president of Association of Women Accountants (Hong Kong) Limited. She was appointed a Justice of the Peace in 2009.

Ms Law is currently an Independent Non-executive Director of Clifford Modern Living Holdings Limited and Sunwah Kingsway Capital Holdings Limited (both being publicly listed in Hong Kong). She also serves as an Independent Non-executive Director of Sunwah International Limited (being publicly listed on the Toronto Stock Exchange).

Ms Law served as President of The Society of Chinese Accountants and Auditors and a council member of Hong Kong Institute of Certified Public Accountants. She had been an Independent Non-executive Director of China Vanke Company Limited (being publicly listed in Hong Kong) since 2012 until her retirement in June 2017.

Directors' Report

Mr David Muir Turnbull, Director (Age: 63)

Mr Turnbull has been an Independent Non-executive Director of the Company since November 2013. He also serves as a member of the Audit Committee, Nomination Committee and Remuneration Committee.

Mr Turnbull is currently chairman and executive director of Pacific Basin Shipping Limited (being publicly listed in Hong Kong).

Mr Turnbull graduated from Cambridge University in 1976 with a Bachelor of Arts degree in Economics and subsequently earned a Master of Arts degree. He joined the Swire group upon graduation and held various senior management positions with international responsibilities covering aviation, shipping and property during his 30 years' service thereof. He was appointed as a director of Cathay Pacific Airways Limited in 1994 and took up the positions of deputy managing director in 1994, managing director in 1996 and deputy chairman and chief executive in 1998 before his appointment as chairman in 2005. He is also the former chairman of Swire Pacific Limited from January 2005 to January 2006, and of Hong Kong Aircraft Engineering Company Limited from March 1995 to August 2006. He was formerly an Independent Non-executive Director of Sands China Ltd. from October 2009 to March 2016, a non-executive director of Greka Drilling Limited from February 2011 to October 2017 and a non-executive director of G3 Exploration Limited from 2006 to July 2018.

Notes:

- (1) *Wheelock (of which Mr Stephen T H Ng and Mr Paul Y C Tsui are directors) has 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 Securities and Futures Ordinance (the "SFO").*
- (2) *All of Mr Stephen T H Ng, Mr Andrew O K Chow, Ms Doreen Y F Lee, Mr Paul Y C Tsui and Mr Kevin K P Chan are currently directors of certain subsidiaries of the Group.*

(ii) Senior Management

Various businesses of the Group are respectively under the direct responsibility of the first five Directors named under (A)(i) above, led by the Chairman and Managing Director. Only those five Directors are regarded as members of the Group's senior management.

(B) Directors' Interests in Securities

(i) Interests in Shares and Debentures

At 31 December 2018, Directors of the Company had the following beneficial interests, all being long positions, in the shares and/or debentures of the Company, Wheelock (which is the Company's parent company), one fellow subsidiary of the Company, namely, Wharf REIC, one subsidiary of the Company, namely, Modern Terminals Limited ("Modern Terminals"), and one associated corporation of the Company (of which the Company is interested in more than 20% of its issued shares), namely, Greentown China Holdings Limited ("Greentown"). The percentages (where applicable) which the relevant shares represented to the number of shares in issue of the five companies respectively are also set out below:

	Quantity held (percentage, where applicable)	Nature of Interest
The Company		
Stephen T H Ng	1,509,445 (0.0495%)	Personal Interest
Andrew O K Chow	742,000 (0.0244%)	Personal Interest
Doreen Y F Lee	600,000 (0.0197%)	Personal Interest
Kevin K P Chan	900,000 (0.0295%)	Personal Interest
Vincent K Fang	100,000 (0.0033%)	Personal Interest
Wheelock		
Stephen T H Ng	176,000 (0.0086%)	Personal Interest
Paul Y C Tsui	300,000 (0.0146%)	Personal Interest
Wharf REIC		
Stephen T H Ng	1,009,445 (0.0332%)	Personal Interest
Kevin K P Chan	100,000 (0.0033%)	Personal Interest
Vincent K Fang	100,000 (0.0033%)	Personal Interest
Modern Terminals		
Hans Michael Jebsen	3,787 (5.40%)	Corporate Interest
Greentown		
Andrew O K Chow	300,000 (0.01%)	Personal Interest

Notes:

- (1) The interests in shares disclosed above do not include interests in share options of the Company and/or associated corporation(s) held by Directors as at 31 December 2018. Details of such interests in share options are separately set out below under the sub-sections headed "(ii) Interests in Share Options of the Company" and "(iii) Interests in Share Options of Wheelock".
- (2) The shareholdings classified as "Corporate Interest" in which the Director concerned was taken to be interested as stated above were interests of corporation(s) at general meetings of which the relevant Director was either entitled to exercise (or taken under Part XV of the SFO to be able to exercise) or control the exercise of one-third or more of the voting power in general meetings of such corporation(s).

Directors' Report

(ii) Interests in Share Options of the Company

Set out below are particulars of all interests (all being personal interests) in options held during the financial year ended 31 December 2018 by Directors (and/or their respective associates(s)) of the Company to subscribe for ordinary shares of the Company granted/exercisable under the share option scheme of the Company:

Name of Director	Date of grant (Day/Month/Year)	No. of shares under option			Subscription price per share (HK\$)	Vesting/Exercise Period (Day/Month/Year)
		As at 1 January 2018	Exercised during the year	As at 31 December 2018 (percentage based on no. of shares in issue)		
Stephen T H Ng	05/06/2013	200,000	(200,000) ⁽¹⁾	-	23.83	06/06/2015 – 05/06/2018
		400,000	(400,000) ⁽¹⁾	-		06/06/2016 – 05/06/2018
		400,000	(400,000) ⁽¹⁾	-		06/06/2017 – 05/06/2018
	Sub-total	1,000,000	(1,000,000) ⁽¹⁾	-		
	07/07/2016	1,000,000	(500,000) ⁽¹⁾	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
	Sub-total	4,000,000	(500,000) ⁽¹⁾	3,500,000		
	Total	5,000,000	(1,500,000) ⁽¹⁾	3,500,000 (0.11%)		
Andrew O K Chow	05/06/2013	400,000	(400,000) ⁽²⁾	-	23.83	06/06/2014 – 05/06/2018
		400,000	(400,000) ⁽²⁾	-		06/06/2015 – 05/06/2018
		400,000	(400,000) ⁽²⁾	-		06/06/2016 – 05/06/2018
		400,000	(400,000) ⁽²⁾	-		06/06/2017 – 05/06/2018
	Sub-total	1,600,000	(1,600,000) ⁽²⁾	-		
	07/07/2016	600,000	(300,000) ⁽²⁾	300,000	15.92	08/07/2017 – 07/07/2021
		600,000	-	600,000		08/07/2018 – 07/07/2021
		600,000	-	600,000		08/07/2019 – 07/07/2021
		600,000	-	600,000		08/07/2020 – 07/07/2021
	Sub-total	2,400,000	(300,000) ⁽²⁾	2,100,000		
	Total	4,000,000	(1,900,000) ⁽²⁾	2,100,000 (0.07%)		
Doreen Y F Lee	05/06/2013	400,000	(400,000) ⁽³⁾	-	23.83	06/06/2013 – 05/06/2018
		400,000	(400,000) ⁽³⁾	-		06/06/2014 – 05/06/2018
		400,000	(400,000) ⁽³⁾	-		06/06/2015 – 05/06/2018
		400,000	(400,000) ⁽³⁾	-		06/06/2016 – 05/06/2018
		400,000	(400,000) ⁽³⁾	-		06/06/2017 – 05/06/2018
	Sub-total	2,000,000	(2,000,000) ⁽³⁾	-		
	07/07/2016	600,000	(600,000) ⁽³⁾	-	15.92	08/07/2018 – 07/07/2021
		600,000	-	600,000		08/07/2019 – 07/07/2021
		600,000	-	600,000		08/07/2020 – 07/07/2021
	Sub-total	1,800,000	(600,000) ⁽³⁾	1,200,000		
	Total	3,800,000	(2,600,000) ⁽³⁾	1,200,000 (0.04%)		

Name of Director	Date of grant (Day/Month/Year)	No. of shares under option			Subscription price per share (HK\$)	Vesting/Exercise Period (Day/Month/Year)
		As at 1 January 2018	Exercised during the year	As at 31 December 2018 (percentage based on no. of shares in issue)		
Paul Y C Tsui	05/06/2013	200,000	(200,000) ⁽⁴⁾	-	23.83	06/06/2013 – 05/06/2018
		200,000	(200,000) ⁽⁴⁾	-		06/06/2014 – 05/06/2018
		200,000	(200,000) ⁽⁴⁾	-		06/06/2015 – 05/06/2018
		200,000	(200,000) ⁽⁴⁾	-		06/06/2016 – 05/06/2018
		200,000	(200,000) ⁽⁴⁾	-		06/06/2017 – 05/06/2018
	Sub-total	1,000,000	(1,000,000) ⁽⁴⁾	-		
		300,000	-	300,000	15.92	08/07/2018 – 07/07/2021
		300,000	-	300,000		08/07/2019 – 07/07/2021
	Sub-total	300,000	-	300,000		08/07/2020 – 07/07/2021
		900,000	-	900,000		
	Total	1,900,000	(1,000,000) ⁽⁴⁾	900,000 (0.03%)		
Kevin K P Chan	05/06/2013	150,000	(150,000) ⁽⁵⁾	-	23.83	06/06/2013 – 05/06/2018
		150,000	(150,000) ⁽⁵⁾	-		06/06/2014 – 05/06/2018
		150,000	(150,000) ⁽⁵⁾	-		06/06/2015 – 05/06/2018
		150,000	(150,000) ⁽⁵⁾	-		06/06/2016 – 05/06/2018
		150,000	(150,000) ⁽⁵⁾	-		06/06/2017 – 05/06/2018
	Sub-total	750,000	(750,000) ⁽⁵⁾	-		
		200,000	-	200,000	15.92	08/07/2018 – 07/07/2021
		200,000	-	200,000		08/07/2019 – 07/07/2021
	Sub-total	200,000	-	200,000		08/07/2020 – 07/07/2021
		600,000	-	600,000		
	Total	1,350,000	(750,000) ⁽⁵⁾	600,000 (0.02%)		
	Grand Total	16,050,000	(7,750,000)	8,300,000		

Notes:

- (1) The weighted average closing price of the Company's shares immediately before the date(s) of exercise(s) of options by Mr Stephen T H Ng during the year was HK\$27.72 per share.
- (2) The weighted average closing price of the Company's shares immediately before the date(s) of exercise(s) of options by Mr Andrew O K Chow during the year was HK\$26.16 per share.
- (3) The weighted average closing price of the Company's shares immediately before the date(s) of exercise(s) of options by Ms Doreen Y F Lee during the year was HK\$26.95 per share.
- (4) The closing price of the Company's shares immediately before the date(s) of exercise(s) of options (all exercised on the same day) by Mr Paul Y C Tsui during the year was HK\$29.20 per share.
- (5) The weighted average closing price of the Company's shares immediately before the date(s) of exercise(s) of options by Mr Kevin K P Chan during the year was HK\$29.57 per share.
- (6) Except as disclosed above, no option of the Company held by Directors (and/or their associate(s)) lapsed or was exercised or cancelled during the financial year, and no option of the Company was granted to any Director (and/or their associate(s)) during the financial year.

Directors' Report

(iii) Interests in Share Options of Wheelock

Set out below are particulars of all interests (all being personal interests) in options held during the financial year ended 31 December 2018 by Directors (and/or their respective associate(s)) of the Company to subscribe for ordinary shares of Wheelock granted/exercisable under the share option scheme of Wheelock:

Name of Director	Date of grant (Day/Month/Year)	No. of Wheelock's shares under option			Subscription price per share (HK\$)	Vesting/Exercise period (Day/Month/Year)
		As at 1 January 2018	Exercised during the year	As at 31 December 2018 (percentage based on no. of shares in issue)		
Paul Y C Tsui	07/07/2016	300,000	-	300,000	36.60	08/07/2018 – 07/07/2021
		300,000	-	300,000		08/07/2019 – 07/07/2021
		300,000	-	300,000		08/07/2020 – 07/07/2021
Total		900,000	-	900,000 (0.04%)		

Note:

- (1) Except as disclosed above, no share option of Wheelock held by Directors of the Company (and/or their associate(s)) lapsed or was exercised or cancelled during the financial year and no share option of Wheelock was granted to any Director of the Company (and/or their associate(s)) 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 2018 by any of the 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 2018.

(C) Substantial Shareholders' Interests

Given below are the names of all parties, other than person(s) who is/are Director(s), who/which were, directly or indirectly, interested in 5% or more of any class of voting shares of the Company as at 31 December 2018, and 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	(percentage based on number of shares in issue)	No. of ordinary shares
(i) Wheelock and Company Limited		1,950,378,608 (64.01%)
(ii) HSBC Trustee (C.I.) Limited		1,950,378,608 (64.01%)

Notes:

- (1) For the avoidance of doubt and double counting, it should be noted that the shareholdings stated against parties (i) and (ii) represented the same block of shares.
- (2) Wheelock's deemed shareholding interests stated above included interests held through its wholly-owned subsidiaries, namely, Lynchpin Limited ("LL"), WF Investment Partners Limited ("WIPL"), High Fame Investments Limited ("HFIL") and Wheelock Investments Limited ("WIL"), with 265,226,072 shares (8.70%) being the deemed interests held by LL, 1,377,327,536 shares (45.20%) being the deemed interests held by WIPL, 307,825,000 shares (10.10%) being the deemed interests held by HFIL and 1,950,378,608 shares (64.01%) being the deemed interests held by WIL.

All the interests stated above represented long positions. As at 31 December 2018, there were no short position interests recorded in the Register.

(D) Share Option Scheme

(I) Summary of the Scheme

- (a) Purpose of the Scheme:
To provide directors and/or employees with the opportunity of acquiring an equity interest in the Company, to continue to provide them with the motivation and incentive to give their best contribution towards the Group's continued growth and success.
- (b) Eligibility:
Eligible participants include any person(s) who is/are full-time and/or part-time employee(s) and/or Director(s) of the Company, any of its subsidiary(ies), and/or any of its associate(s). "Associates" include jointly-controlled entities and subsidiary(ies) of associates and of jointly-controlled entity(ies).
- (c)
 - (i) Total number of ordinary shares in the capital of the Company (the "Shares") available for issue under the Scheme as at the date of this annual report:
276,144,732
 - (ii) Percentage of the issued share capital that it represents as at the date of this annual report:
9.06%
- (d) Maximum entitlement of each eligible participant under the Scheme:
Not to exceed 1% of the Shares in issue in any 12-month period unless approved by Shareholders of the Company
- (e) Period within which the Shares must be taken up under an option:
Within 10 years from the date on which the option is offered or such shorter period as the Directors may determine
- (f) Minimum period for which an option must be held before it can be exercised:
No minimum period unless otherwise determined by the Board
- (g)
 - (i) Price payable on application or acceptance of the option:
HK\$10.00
 - (ii) The period within which payments or calls must or may be made:
28 days after the offer date of an option or such shorter period as the Directors may determine
 - (iii) The period within which loans for the purposes of the payments or calls must be repaid:
Not applicable
- (h)
 - Basis of determining the subscription price:
The subscription price shall be determined by the Directors at the time of offer but shall not be less than whichever is the highest of:
 - (i) the indicative price per Share for subscription of Shares under the option as specified in the written offer containing the offer of the grant of the option to an eligible participant;
 - (ii) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date of grant of an option, which must be a Stock Exchange trading day;
 - (iii) the average closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five Stock Exchange trading days immediately preceding the date of grant of an option; and
 - (iv) the nominal value of a Share (not applicable due to the abolition of par value upon implementation of the Companies Ordinance, Cap 622 of the laws of Hong Kong).
 - (i) The remaining life of the Scheme:
Approximately 2 years (expiring on 8 June 2021)

Directors' Report

(II) Details of Share Options Granted

Details of the Company's share options granted to Directors of the Company and the relevant movement(s) during the financial year are set out in the sub-section headed "(ii) Interests in Share Options of the Company".

Set out below are particulars and movement(s), if any, during the financial year of all of the Company's outstanding share options which were granted to certain employees (five of them being present Directors of the Company), all working under employment contracts that are regarded as "continuous contracts" for the purposes of the Employment Ordinance and are participants with options not exceeding the respective individual limits:

Date of grant (Day/Month/Year)	No. of shares under option			Subscription price per share (HK\$)
	As at 1 January 2018	Exercised during the year	As at 31 December 2018	
05/06/2013	1,300,000	(1,300,000)	–	06/06/2013 – 05/06/2018
	1,700,000	(1,700,000)	–	06/06/2014 – 05/06/2018
	1,900,000	(1,900,000)	–	06/06/2015 – 05/06/2018
	2,100,000	(2,100,000)	–	06/06/2016 – 05/06/2018
	2,100,000	(2,100,000)	–	06/06/2017 – 05/06/2018
	9,100,000	(9,100,000)	–	
07/07/2016	1,600,000	(800,000)	800,000	08/07/2017 – 07/07/2021
	2,900,000	(600,000)	2,300,000	08/07/2018 – 07/07/2021
	2,900,000	–	2,900,000	08/07/2019 – 07/07/2021
	2,900,000	–	2,900,000	08/07/2020 – 07/07/2021
	10,300,000	(1,400,000)	8,900,000	
Total:	19,400,000	(10,500,000)	8,900,000	

Notes:

- (1) The weighted average closing price of the shares of the Company immediately before the date(s) of exercise(s) of the share option during the financial year was HK\$27.96 per share.
- (2) Except as disclosed above, no share option of the Company lapsed or was granted, exercised or cancelled during the financial year.

(E) 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 a 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 contribution.

The employees of the Group's subsidiaries in the People's Republic of China ("PRC") are members of the state-managed social insurance and housing funds operated by the Government of PRC. The PRC 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 PRC employees is to make the specified contributions.

(F) Directors' Interests in Competing Business

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

Five Directors of the Company, namely, Messrs Stephen T H Ng, Andrew O K Chow, Paul Y C Tsui, Kevin K P Chan and Ms Doreen Y F Lee, being directors of Wheelock, Wharf REIC, and/or certain subsidiary(ies) and/or associate(s) of Wheelock and/or Wharf REIC, are considered as having an interest in Wheelock and/or Wharf REIC under Rule 8.10(2) of the Listing Rules of the Hong Kong Stock Exchange.

The development and/or investment in property assets and hotel businesses by Wheelock and Wharf REIC are considered as competing businesses for the Group. However, given the Group itself has adequate experience in property and hotel businesses, it is capable of carrying on independently of Wheelock and Wharf REIC.

For safeguarding the interests of the Group, the Independent Non-executive Directors 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 (i) development of properties for sale and/or investment; (ii) property leasing businesses; and (iii) hotel businesses are and continue to be run at arm's length from those of Wheelock and Wharf REIC.

(G) Major Customers and Suppliers

For the financial year ended 31 December 2018:

- (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.

(H) Debentures, Bank Loans, Overdrafts and other Borrowings

Particulars of any and all debentures, bank loans, overdrafts and/or other borrowings of the Company and of the Group as at 31 December 2018 which are repayable on demand or within a period not exceeding one year and those which would fall due for repayment after a period of one year are both set out in Note 20 to the Financial Statements on pages 137 and 138.

(I) 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 2018.

Directors' Report

(J) Disclosure of Connected Transactions

Set out below is information in relation to continuing connected transactions of the Group, particulars of which were previously disclosed in announcement of the Company dated 8 November 2017 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

On 8 November 2017, the Master Hotel Services Agreement (the "MHSA") was entered into between the Company and Wharf REIC commencing on 23 November 2017 (being the date of completion of the spin-off and separate listing of Wharf REIC ("Demerger Date")), and expiring on 31 December 2019. The MHSA is for the purpose of, *inter alia*, regulating the provision of hotel management services comprising management, marketing and technical services and/or any other services relating to the development and/or operation of hotels and/or serviced apartment property(ies) ("Hotel Services") by the Group to Wharf REIC Group from time to time in respect of the hotels owned by Wharf REIC Group, and stipulating, *inter alia*, the annual cap amount of remuneration receivable by the Group from Wharf REIC Group in relation thereto at HK\$30 million, HK\$135 million and HK\$160 million for the two months ended 31 December 2017 and the two financial years ended/ending 31 December 2018 and 2019 respectively.

The aggregate amount of remuneration receivable by the Group under the MHSA, which is subject to the relevant annual cap amount as abovementioned for the year ended 31 December 2018 amounted to HK\$107 million.

(ii) Wharf Leasing Framework Agreement

On 8 November 2017, the Wharf Leasing Framework Agreement (the "WLFA") was entered into between the Company and Wharf REIC commencing on 23 November 2017, the Demerger Date, and expiring on 31 December 2019. The WLFA is for the purpose of, *inter alia*, regulating the provision of rental services (i.e. leases, tenancies or licenses) ("Rental Services") provided by Wharf REIC Group to the Group from time to time in respect of the premises (including office premises, car parking spaces and building areas but excluding hotel premises) owned by Wharf REIC Group and stipulating, *inter alia*, the annual cap on the amounts payable by the Group to Wharf REIC Group in relation thereto at HK\$8 million, HK\$44 million and HK\$44 million for the two months ended 31 December 2017 and the two financial years ended/ending 31 December 2018 and 2019 respectively.

The aggregate amount payable by the Group under the WLFA, which is subject to the relevant annual cap amount as abovementioned for the year ended 31 December 2018 amounted to HK\$41 million.

(iii) Confirmation from the Directors and the Auditors

- (a) The Directors, including the Independent Non-executive Directors, of the Company have reviewed the continuing connected transactions mentioned under section (J)(i) to (J)(ii) 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 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) the Transactions were not, in all material respects, entered into in accordance with the terms of the related agreements governing the Transactions;
 - (3) the relevant cap amounts, where applicable, have been exceeded during the financial year ended 31 December 2018; and
 - (4) 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.
- (iv) With regard to the Material Related Parties Transactions as disclosed under Note 26 to the Financial Statements on page 151, the transactions stated under paragraphs (a)(ii), (b) and (c) therein constitute connected transactions (as defined under the Listing Rules) of the Company and the one under paragraph (c) 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.

(K) Principal Risks and Uncertainties

The following is a list of principal risks and uncertainties that are considered to be of significance and have potential to affect 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 impacts.

Risks pertaining to DP

DP segment is the Group's major business, particularly in Mainland China. Accordingly, the DP segment is subject to economic, political and legal developments in Mainland China as well as in the economies in the surrounding region. In recent years, the DP market movements in Mainland China have been concurrently affected by the economic trend and government policies including but not limited to the adoption of category-based regulatory measures and the bilateral regulatory measures for the real estate market, policy changes affecting the issue of pre-sale licenses and permitted selling price, mortgage levels and ownership, interest rate changes, supply and demand conditions as well as the overall economic volatility in Mainland China. The Group's DP segment is expected to continue exposing to these risks, which may affect the Group's investment strategy and business model as well as the performance in DP.

In this respect, the Group actively assesses the overall economic, political and legal developments as well as the property markets both in Hong Kong and other provinces in Mainland China for deciding viable acquisitions and selling strategies. For each potential project, detailed feasibility studies and stress tests with regard to all aspects will be carried out before an acquisition to minimize the commercial and legal risks.

Directors' Report

Risks pertaining to IP

IP segment is another Group's core business with IP assets accounted for 33% of the Group's total. With the majority of the properties located in Mainland China, the general economic climate, regulatory changes, government policies and the political conditions in Mainland China may have a significant impact on the Group's overall financial results and condition. 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 their fair values in accordance with the Hong Kong Financial Reporting Standards in the 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 the changes in fair value are recognised in 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 the 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 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 Logistic Segment

The Group operates container terminals both in Hong Kong and Mainland China. Macroeconomic risks moved into sharper focus as global growth appears to lose momentum in the advanced economies. Sino-US trade tension further dampened confidence in investment and economic development.

Despite of the moderation of Industrial production and new export orders in China, Modern Terminals will remain focused on improving operational performance and delivering on customer requirements to maximise cash flow and strengthen the company's balance sheet. We have already implemented our multi-year programme to increase our operational efficiency and infrastructure capability, the benefits of which will flow through in 2019.

Risks pertaining to Hotel Segment

The Group operates 17 hotels in the Asia Pacific region, four of which are owned by the Group. 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. The global economy is facing a barrage of challenges. A slower and less balanced growth is observed with moderation experienced in advanced economies. The ongoing Sino-US conflicts, inconclusive Brexit negotiation, prolonged political turbulence in Washington and heightened financial volatility, altogether takes uncertainty to a new height. Global growth concerns are further complicated by fresh political chaos in Europe including the "yellow vest" movement in France. Each factor has varied the development pattern of the tourism and hospitality industry.

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 CME2 Segment

The Group set to capture opportunities in the new economy that covers much larger markets with greater growth potential and holds a portfolio of long-term investments, which accounted for about 8% of the Group's total assets (excluding cash). This diversified portfolio is held for long term growth potential with reasonable return that in line with the general market, consisting of mainly blue chips listed investments and investments in technology and new economy with each investment individually immaterial to the Group's total asset. Given that the volatility of the stock market, the portfolio is subject to market fluctuation and may affect the net asset value of the Group yet impacts on Group's results should be insignificant. The performance of the portfolio is assessed and monitored by top management regularly.

Legal and Regulatory Compliance risks

Whilst the Group has a portfolio of business operations across Hong Kong, various Mainland cities and Asia Pacific regions, any failure to anticipate the trend of regulatory changes or cope with relevant requirements may result in non-compliance of 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 risks

The Group is exposed to financial risks related to interest rate risks, foreign currency risks, equity price and credit in the normal course of its business. For further details of such risks and relevant management policies, please refer to Note 23 to the financial statements from pages 142 to 148.

(L) Environmental, Social and Governance

The Group endeavours to consider and minimise the environmental and social impacts of our business operations. A clearly defined CSR governance structure was established to manage the environmental, social and governance issues in our operations. Chaired by the Group's Chairman, the group-level CSR Steering Committee formulates the overall CSR strategy in line with the Group's goals and commitments. The Cross-Business Unit CSR Group oversees the CSR performance of the Group and enables knowledge exchange among our business units. The CSR governance bodies at each business unit identify operation-specific CSR risks and opportunities and develop plans and programmes to address the issues. CSR progress from different business units are consolidated and reported to the CSR Steering Committee on a regular basis.

In 2016, the Group has formulated environmental guidelines with reference to the environmental legislation in Hong Kong⁽¹⁾ and the Environmental Protection Law of the People's Republic of China. The guidelines stipulate our expectations regarding pollution prevention, waste management, sustainable use of resources, carbon emissions reduction, environmental protection, biodiversity conservation and the restoration of natural habitats in our business operations. The guidelines are communicated and executed at business unit level. The Group also monitors the implementation and reviews the guidelines to meet any changes in the law and our business operations. In 2018, there were no recorded incidents of non-compliance resulting in a fine or penalty.

The Group strives to maintain an ethical business environment and has zero tolerance towards bribery and corruption. Adhering to the Prevention of Bribery Ordinance (Cap 201 of the laws of Hong Kong), the Group maintains the Statement of Business Integrity and Code of Conduct, and communicates the requirement of ethical behaviour to our employees and stakeholders. Whistleblowing Policy and Procedures are implemented to provide a confidential channel for our employees and business partners to report any misconduct and malpractice. The Group also observes and complies 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⁽²⁾. The Group encourages a level-playing market competition with our peer companies and does not participate in any anti-competitive behaviours. Guidelines and trainings are provided to employees to prevent them from engaging in anti-competitive behaviours.

Directors' Report

To deliver exquisite products and services to our customers, guidelines and trainings are provided to equip our employees with the right knowledge and skills. Customer satisfaction information are collected and used to monitor our product and service quality. The Group observes and follows the local statutory requirements⁽³⁾ on project development and operations management and provide accurate, fair and transparent information to our customers. The Group also adheres to the Personal Data (Privacy) Ordinance (Cap 486 of the laws of Hong Kong) and the Law of Protection of Consumer Rights and Interests of the People's Republic of China to handle customers' personal information with stringent procedures. Only authorised personnel can access the personal data collected. Such data are appropriately disposed of after a specified time. There were no complaints received concerning breaches of customer privacy during the reporting year. To avoid any disruptions to our business, the Group manages our supply chain with rigorous vendor management systems to evaluate suppliers' environmental protection, social inclusion and technical capabilities.

The Group grows with our talented and loyal employees. Recruitment process is fair and transparent. Our employment policies and practices comply with the local statutory requirements⁽⁴⁾. Employees are compensated with reasonable welfare packages with reference to their qualifications and experience. Training and succession opportunities are offered for our employees' professional development. To create a safe workplace, the Group actively adopts rigorous occupational safety and health management systems tailored to different business units. Investigations are conducted to correct any mistakes and prevent similar incidents in the future.

The Group extends our care for the community beyond direct economic contribution. The Group mobilises financial and manpower resources to support youth development, art promotion and social welfare.

More information on the Group's environmental, social and governance policies and initiatives are contained on pages 48 to 51 of this Annual Report. Further details can be found in the Group's standalone Sustainability Report. It is made available for download on the Group's corporate website (www.wharfholdings.com).

Notes:

- (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).*
- (2) *At present, the Merger Rule only applies to mergers involving carrier licence holders within the meaning of the Telecommunications Ordinance (Cap 106).*
- (3) *Law of the People's Republic of China on the Administration of the Urban Real Estate, Anti-Unfair Competition Law, Regulation on Telecommunications, The People's Republic of China; Trade Descriptions Ordinance (Cap 362 of the laws of Hong Kong); consumer rights protection legislation and logo guidelines.*
- (4) *Employment Ordinance (Cap 57 of the laws of Hong Kong) and Labour Law of the People's Republic of China.*

(M) Directors of Subsidiaries

The names of all persons who, during the financial year and up to 7 March 2019 (the date of the Directors' Report of the Company), 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 2018 are set out below:

CHAK Hoi Kit Jacques	LI Yubin	WU Guan
CHAN Kwok Pong Kevin	LING Miu Ngan	YICK Chi Ming Frankie
CHAN Sik Wah	LO Wai Man	YIM Kong
CHAN Wing Sang Wilson	NG Tin Hoi Stephen	YOUNG Stephen Ying Yuen
Chavalit Uttasart	NGAN Chiu Long Sunny	ZHANG Lu*
CHEUNG Mark Quintin	OON Hock Neo	ZHANG Vicky Yuanyuan
CHOW On Kiu	PAO Zen Kwok Peter	王佳宏
FU Wai Hung	SIU Wing Koon	王玲*
HAU Shun	SIU Yau Chung Joseph	周建罡
HENNIG Hans Helmuth	SUN Ligan	郭志成
HUI Chung Ying Kevin	TAN Bee Kim	陳小平
LEE Yuk Fong Doreen	TSO Hok Chiu Vivian	陳信霖
LENG Yen Thean	TSUI Yiu Cheung Paul	劉鳴
LEVESQUE Peter Jon	WEI Qing Shan	聶煥新
LI Jun	WONG Kwong Yiu	唐雷明
LI Lei	WONG Yee Lut Eliot	符冰力
LI Qingshan	WOO Chun Kuen Douglas	

* ceased to be a director of the Group's subsidiaries on or before 7 March 2019.

INDEPENDENT AUDITOR'S REPORT



TO THE MEMBERS OF THE WHARF (HOLDINGS) LIMITED
(incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of The Wharf (Holdings) Limited ("the Company") and its subsidiaries ("the Group") set out on pages 106 to 183, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018 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”) and investment properties under development (“IPUD”)

Refer to accounting policy d and note 8 to the consolidated financial statements

The Key Audit Matter

The Group holds a portfolio of IP and IPUD located in Hong Kong and in major cities across Mainland China which accounted for 33% of the Group’s total assets as at 31 December 2018.

The fair values of the IP and IPUD as at 31 December 2018 were assessed by the Group based on independent valuations prepared by a qualified external property valuer.

The net changes in fair value of IP and IPUD recorded in the consolidated income statement represented 9% of the Group’s profit before taxation for the year ended 31 December 2018.

We identified the valuation of IP and IPUD as a key audit matter because 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 IP and IPUD involves significant judgement and estimation, particularly in selecting appropriate valuation methodology, and for IP, in selecting market rents and capitalisation rates while, for IPUD, an estimation of costs to complete each IPUD, which increases the risk of error or potential management bias.

How the matter was addressed in our audit

Our audit procedures to assess the valuation of IP and IPUD 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 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 IP, including market rents and capitalisation rates, with available market data and/or government statistics; and
- conducting site visits to IP and comparing tenancy information used in the valuation models, including committed rents and occupancy rates adopted by the external property valuer with underlying contracts and related documentation, on a sample basis.

For IPUD our audit procedures also included the following:

- evaluating the design, implementation and operating effectiveness of key internal controls over the preparation, monitoring and management of the budgeted construction and other costs for each IPUD;
- performing a retrospective review for all IPUD by comparing the actual construction costs incurred during the current year with those included in the prior year’s forecasts in order to assess the accuracy of the Group’s budgeting process; and
- conducting site visits to IPUD on a sample basis, discussing with management the progress of each IPUD and comparing the observed progress with the latest development budgets provided by management with reference to quantity surveyors’ reports for the construction costs incurred.

INDEPENDENT AUDITOR'S REPORT

Assessing the net realisable value of properties for sale in Mainland China

Refer to accounting policy 1 and note 14 to the consolidated financial statements

The Key Audit Matter

The Group had a number of property development projects located in major cities across Mainland China which were stated at the lower of cost and net realisable value at an aggregate amount of HK\$46 billion as at 31 December 2018.

The calculation of the net realisable value of each property for sale, including both completed properties for sale and properties under development for sale ("PUD"), at the financial reporting date is performed by the Group's internal property valuers.

The calculation of net realisable value of properties for sale involves significant management judgement and estimation in preparing and updating project feasibility studies and estimations of the costs to complete each PUD as well as in assessing the expected selling prices for each property for sale.

Changes in government policies, which affect interest rates, the required reserve ratio for banks and/or mortgage requirements for second-home buyers, could lead to volatility in property prices in these cities.

We identified the assessment of net realisable value of properties for sale in Mainland China as a key audit matter because of the inherent risks involved in estimating the costs to complete each PUD and the future selling prices for each property for sale, particularly in light of the current economic circumstances in Mainland China and because of the risk of management bias in the judgement and estimates used in the calculation of the net realisable value.

How the matter was addressed in our audit

Our audit procedures to assess the net realisable value of properties for sale in Mainland China included the following:

- evaluating the design, implementation and operating effectiveness of key internal controls over the preparation, monitoring and management of the budgeted construction and other costs for each PUD;
- conducting site visits to properties for sale on a sample basis, discussing the progress with the Group's internal property valuers and comparing the observed progress with the latest development budgets for PUD provided by management with reference to quantity surveyors' reports;
- assessing the internal property valuers' qualifications, experience and expertise in the properties being valued;
- evaluating the internal property valuers' valuation methodology and assessing the key estimates, data inputs and assumptions adopted in the valuations, which included comparing expected future average selling prices with available market data such as recently transacted prices for similar properties located in the nearby vicinity of each property for sale and comparing costs to complete each PUD with publicly available construction cost information for similar properties (taking into account both property type and location);
- re-performing the calculations made by the internal property valuers in arriving at the year end assessments of net realisable value of each property for sale, on a sample basis, and comparing the estimated costs to complete each PUD with the Group's latest budgets; and
- performing sensitivity analyses to determine the extent of change in those estimates that, either individually or collectively, would be required for properties for sale 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.

Revenue recognition for investment properties (“IP”) and development properties (“DP”)

Refer to accounting policy p and note 1 to the consolidated financial statements

The Key Audit Matter

Revenue from the IP and DP segments accounted for 78% of the Group’s revenue for the year ended 31 December 2018.

Deposits from sale of properties at 31 December 2018 totalled HK\$9.3 billion.

Revenue from IP is recognised in equal instalments over the accounting periods covered by the lease term and includes contingent rental which is determined based on the turnover of certain retail outlets.

Revenue from DP is recognised at a point in time when control of the property has been transferred to the customer. It is considered control of the property has been transferred when the property is accepted by the customer.

We identified the revenue recognition for IP and DP as a key audit matter because of its significance to the Group and because small errors in the recognition of revenue, either individually or in aggregate, for each property development project could have a material impact on the Group’s profit for the year.

How the matter was addressed in our audit

Our audit procedures to assess the revenue recognition for IP and DP included the following:

- evaluating the design, implementation of operating effectiveness of key internal controls over the recording of revenue for the IP and DP segments;
- comparing fixed rental revenue received and receivable with underlying tenancy information, including monthly rents and rental periods as set out in the signed rental agreements, on a sample basis, and assessing whether fixed rental revenue had been recorded in the appropriate accounting period;
- re-performing the calculation of contingent rental received and receivable with reference to turnover reports submitted by the relevant retail outlets, on a sample basis, and assessing whether the contingent rental had been recorded and accounted for in the appropriate accounting period; and
- inspecting, on a sample basis, documents which evidenced that the properties were accepted by customers and assessing whether the related revenue should be recorded in the current accounting period.

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 identified above 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.

INDEPENDENT AUDITOR'S REPORT

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of 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 has 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 for 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 Cheung Wing Han, Ivy.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
7 March 2019

CONSOLIDATED INCOME STATEMENT

For The Year Ended 31 December 2018

	Note	2018 HK\$ Million	2017 HK\$ Million
Revenue			
Direct costs and operating expenses	1	21,055 (9,691)	43,273 (19,403)
Selling and marketing expenses		(613)	(929)
Administrative and corporate expenses		(1,356)	(1,381)
Operating profit before depreciation, amortisation, interest and tax		9,395	21,560
Depreciation and amortisation	2	(643)	(938)
Operating profit	2	8,752	20,622
Increase in fair value of investment properties		985	2,310
Other net (charge)/income	3	(770)	4,362
Finance costs	4	8,967 (512)	27,294 (1,013)
Share of results after tax of:			
Associates	10	1,279	1,331
Joint ventures	11	1,103	2,958
Profit before taxation		10,837	30,570
Income tax	5	(4,126)	(7,967)
Profit for the year		6,711	22,603
Profit attributable to:			
Equity shareholders		6,623	21,876
Non-controlling interests		88	727
		6,711	22,603
Earnings per share	7		
Basic		HK\$2.18	HK\$7.21
Diluted		HK\$2.17	HK\$7.21

The notes and principal accounting policies on pages 112 to 183 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 6.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For The Year Ended 31 December 2018

	2018 HK\$ Million	2017 HK\$ Million
Profit for the year	6,711	22,603
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Fair value changes on equity investments	(5,605)	2,660
Revaluation on reclassification of other properties	-	1,427
	(5,605)	4,087
Items that may be reclassified subsequently to profit or loss:		
Exchange difference on translation of foreign operations	(3,420)	4,290
Share of other comprehensive income of associates/joint ventures	(892)	1,054
Others	6	(1)
Other comprehensive income for the year	(9,911)	9,430
Total comprehensive income for the year	(3,200)	32,033
Total comprehensive income attributable to:		
Equity shareholders	(3,152)	30,896
Non-controlling interests	(48)	1,137
	(3,200)	32,033

The notes and principal accounting policies on pages 112 to 183 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Note	31 December 2018 HK\$ Million	31 December 2017 HK\$ Million
Non-current assets			
Investment properties	8	74,738	82,128
Property, plant and equipment	9	13,670	13,201
Interest in associates	10	20,092	16,608
Interest in joint ventures	11	21,767	13,837
Other long term investments	12	30,544	19,109
Goodwill and other intangible assets	13	298	298
Deferred tax assets	22	737	954
Derivative financial assets	16	200	180
Other non-current assets		20	134
		162,066	146,449
Current assets			
Properties for sale	14	45,954	25,200
Trade and other receivables	15	1,722	5,192
Derivative financial assets	16	159	109
Bank deposits and cash	17	17,448	45,697
		65,283	76,198
Total assets		227,349	222,647
Non-current liabilities			
Derivative financial liabilities	16	(440)	(578)
Deferred tax liabilities	22	(11,637)	(11,252)
Bank loans and other borrowings	20	(31,847)	(26,267)
		(43,924)	(38,097)
Current liabilities			
Trade and other payables	18	(20,427)	(16,982)
Deposits from sale of properties	19	(9,263)	(9,083)
Derivative financial liabilities	16	(268)	(343)
Taxation payable	5(d)	(3,468)	(2,529)
Bank loans and other borrowings	20	(11,239)	(10,142)
		(44,665)	(39,079)
Total liabilities		(88,589)	(77,176)
NET ASSETS		138,760	145,471
Capital and reserves			
Share capital	24	30,173	29,760
Reserves		105,251	112,214
Shareholders' equity		135,424	141,974
Non-controlling interests		3,336	3,497
TOTAL EQUITY		138,760	145,471

The notes and principal accounting policies on pages 112 to 183 form part of these financial statements.

Stephen T H Ng
Chairman & Managing Director

Paul Y C Tsui
Vice Chairman, Executive Director & Group Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For The Year Ended 31 December 2018

	Attributable to equity shareholders of the Company						
	Investments revaluation and other reserves		Exchange reserves	Revenue reserves	Total shareholders' equity	Non-controlling interests	Total equity
	Share capital HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million
At 1 January 2017	29,497	(2,024)	(3,531)	292,852	316,794	8,612	325,406
Changes in equity for 2017:							
Profit	–	–	–	21,876	21,876	727	22,603
Other comprehensive income	–	3,952	5,064	4	9,020	410	9,430
Total comprehensive income	–	3,952	5,064	21,880	30,896	1,137	32,033
Shares issued under the share option scheme	263	(38)	–	–	225	–	225
Transfer to revenue reserves upon de-recognition of equity investments	–	(14)	–	14	–	–	–
Equity settled share-based payments	–	40	–	–	40	–	40
Disposal of subsidiaries	–	(590)	(345)	–	(935)	(5,618)	(6,553)
2016 second interim dividend paid	–	–	–	(4,762)	(4,762)	–	(4,762)
2017 first interim dividend paid	–	–	–	(1,943)	(1,943)	–	(1,943)
Net capital repatriation to non-controlling interests of subsidiaries	–	–	–	–	–	(344)	(344)
Dividends paid to non-controlling interests	–	–	–	–	–	(290)	(290)
Dividend by way of distribution in specie	–	–	–	(198,341)	(198,341)	–	(198,341)
At 31 December 2017 and 1 January 2018	29,760	1,326	1,188	109,700	141,974	3,497	145,471
Changes in equity for 2018:							
Profit	–	–	–	6,623	6,623	88	6,711
Other comprehensive income	–	(5,605)	(4,170)	–	(9,775)	(136)	(9,911)
Total comprehensive income	–	(5,605)	(4,170)	6,623	(3,152)	(48)	(3,200)
Shares issued under the share option scheme	413	(174)	–	–	239	–	239
Transfer to revenue reserves upon de-recognition of equity investments	–	25	–	(25)	–	–	–
Equity settled share-based payments	–	18	–	–	18	–	18
2017 second interim dividend paid	–	–	–	(2,893)	(2,893)	–	(2,893)
2018 first interim dividend paid	–	–	–	(762)	(762)	–	(762)
Dividends paid to non-controlling interests	–	–	–	–	–	(113)	(113)
At 31 December 2018	30,173	(4,410)	(2,982)	112,643	135,424	3,336	138,760

The notes and principal accounting policies on pages 112 to 183 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For The Year Ended 31 December 2018

	Note	2018 HK\$ Million	2017 HK\$ Million
Operating cash inflow	(a)	8,439	20,968
Changes in working capital	(a)	(15,121)	(12,754)
Cash (used in)/generated from operations	(a)	(6,682)	8,214
Net interest paid		(897)	(1,245)
Interest paid		(1,406)	(1,702)
Interest received		509	457
Dividends received from associates/joint ventures		909	1,140
Dividends received from other long term investments		517	151
Hong Kong profits tax paid		(112)	(1,774)
Overseas tax paid		(1,826)	(1,278)
Net cash (used in)/generated from operating activities		(8,091)	5,208
Investing activities			
Additions to investment properties		(2,132)	(3,720)
Additions to property, plant and equipment		(372)	(1,576)
Additions to programming library		–	(72)
Net increase in interest in associates		(4,738)	(3,524)
Net decrease in interest in joint ventures		1,016	5,994
Net proceeds from disposal of property, plant and equipment		–	2
Purchase of other long term investments		(17,954)	(13,775)
Acquisition of interest in subsidiaries		–	(50)
Net proceeds from disposal of subsidiaries		–	824
Proceeds from disposal of an associate		–	850
Proceeds from disposal of investment properties		–	5,525
Net receipt of inter-group balance settlement upon spin-off		–	41,953
Proceeds from disposal of other long term investments		914	514
Net decrease in bank deposits with maturity greater than three months		702	3,725
Net cash (used in)/generated from investing activities		(22,564)	36,670
Financing activities			
Proceeds from the issue of shares under the share option scheme		239	225
Drawdown of bank loans and other borrowings	(c)	20,943	4,748
Repayment of bank loans and other borrowings	(c)	(13,677)	(28,449)
Net capital repatriation to non-controlling interests of subsidiaries		–	(344)
Dividends paid to equity shareholders		(3,655)	(6,705)
Dividends paid to non-controlling interests		(113)	(290)
Net cash generated from/(used in) financing activities		3,737	(30,815)
(Decrease)/increase in cash and cash equivalents		(26,918)	11,063
Cash and cash equivalents at 1 January		44,995	32,530
Effect of exchange rate changes		(629)	1,402
Cash and cash equivalents at 31 December		17,448	44,995
Analysis of the balance of cash and cash equivalents			
Bank deposits and cash	(b)	17,448	44,995

The notes and principal accounting policies on pages 112 to 183 form part of these financial statements.

NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

a. Reconciliation of operating profit to cash (used in)/generated from operations

	2018 HK\$ Million	2017 HK\$ Million
Operating profit	8,752	20,622
Adjustments for:		
Interest income	(450)	(489)
Dividends receivable from other long term investments	(525)	(151)
Depreciation and amortisation	643	938
Loss on disposal of property, plant and equipment	1	8
Equity settled share-based payment expenses	18	40
Operating cash inflow	8,439	20,968
Increase in properties under development for sale	(27,391)	(16,891)
Decrease in completed properties for sale	7,206	13,422
Decrease in inventories	–	3
Decrease/(increase) in trade and other receivables	3,474	(611)
Increase in trade and other payables	1,396	2,009
Increase/(decrease) in deposits from sale of properties	180	(9,854)
Decrease in derivative financial instruments	–	(858)
Other non-cash items	14	26
Changes in working capital	(15,121)	(12,754)
Cash (used in)/generated from operations	(6,682)	8,214

b. Cash and cash equivalents

	2018 HK\$ Million	2017 HK\$ Million
Bank deposits and cash in the consolidated statement of financial position (Note 17)	17,448	45,697
Less: Bank deposits with maturity greater than three months	–	(702)
Cash and cash equivalents in the consolidated statement of cash flows	17,448	44,995

c. Reconciliation of liabilities arising from financing activities

	Bank loans and other borrowings 2018 HK\$ Million	2017 HK\$ Million
At 1 January	36,409	60,794
Changes from financing cash flows:		
Drawdown of bank loans and other borrowings	20,943	4,748
Repayment of bank loans and other borrowings	(13,677)	(28,449)
Total changes from financing activities	7,266	(23,701)
Exchange adjustments	(520)	1,055
Other changes:		
Disposal of subsidiaries	–	(1,945)
Fair value (gain)/loss	(69)	206
At 31 December	43,086	36,409

NOTES TO THE FINANCIAL STATEMENTS

1. SEGMENT INFORMATION

The Group manages its diversified businesses according to the nature of services and products provided. Management has determined four reportable operating segments for measuring performance and allocating resources. The segments are investment property (“IP”), development property (“DP”), hotels and logistics. The Group completed the exit from communications and media and entertainment (“CME1”) in September 2017 on distribution of i-CABLE Communications Limited (“i-CABLE”)'s shares in specie to the Company's shareholders. No operating segments have been aggregated to form the reportable segments.

In November 2017, six Hong Kong prime investment properties including Harbour City, Times Square, Plaza Hollywood, Wheelock House, Crawford House and The Murray, Hong Kong were spun off through the distribution and separate listing of Wharf Real Estate Investment Company Limited (“Wharf REIC”).

Investment property segment primarily includes property leasing operations. After Wharf REIC's spinoff, the Group's properties portfolio, which mainly consists of retail, office and serviced apartments is primarily located in Mainland China.

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

Hotels segment includes hotel operations in the Asia Pacific region. After Wharf REIC's spinoff, the Group operates 17 hotels (five of which are owned by Wharf REIC) in the Asia Pacific region, four of which owned by the Group.

Logistics segment mainly includes the container terminal operations in Hong Kong and Mainland China undertaken by Modern Terminals Limited (“Modern Terminals”), and Hong Kong Air Cargo Terminals Limited (“Hactl”).

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

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

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

a. Analysis of segment revenue and results

For the year ended 31 December 2018			Increase in fair value of investment properties	Other net (charge)/ income	Finance costs	Share of results after tax of associates	Share of results after tax of joint ventures	Profit before taxation
	Revenue HK\$ Million	Operating profit HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million
Investment property	3,586	1,984	985	23	(246)	–	95	2,841
Hong Kong	157	112	417	–	(33)	–	–	496
Mainland China	3,429	1,872	568	23	(213)	–	95	2,345
Development property	12,914	5,603	–	78	(226)	1,006	991	7,452
Hong Kong	–	(5)	–	–	(86)	–	892	801
Mainland China	12,914	5,608	–	78	(140)	1,006	99	6,651
Hotels	463	90	–	8	–	–	7	105
Logistics	2,616	597	–	(50)	(191)	272	10	638
Terminals	2,606	587	–	(9)	(191)	176	10	573
Others	10	10	–	(41)	–	96	–	65
Segment total	19,579	8,274	985	59	(663)	1,278	1,103	11,036
Investment and others	1,476	1,016	–	(829)	151	1	–	339
Corporate expenses	–	(538)	–	–	–	–	–	(538)
Group total	21,055	8,752	985	(770)	(512)	1,279	1,103	10,837
For the year ended 31 December 2017								
Investment property	14,599	12,029	2,310	(10)	(1,104)	–	–	13,225
Hong Kong	11,964	10,571	1,199	–	(944)	–	–	10,826
Mainland China	2,635	1,458	1,111	(10)	(160)	–	–	2,399
Development property	22,608	7,753	–	602	(25)	1,053	2,948	12,331
Hong Kong	18	9	–	–	–	2	2,389	2,400
Mainland China	22,590	7,744	–	602	(25)	1,051	559	9,931
Hotels	1,487	328	–	–	(3)	–	–	325
Logistics	2,817	667	–	104	(184)	278	12	877
Terminals	2,703	649	–	145	(184)	170	12	792
Others	114	18	–	(41)	–	108	–	85
CME1	874	(294)	–	86	(7)	–	–	(215)
Inter-segment revenue	(156)	–	–	–	–	–	–	–
Segment total	42,229	20,483	2,310	782	(1,323)	1,331	2,960	26,543
Investment and others	1,044	579	–	3,580	310	–	(2)	4,467
Corporate expenses	–	(440)	–	–	–	–	–	(440)
Group total	43,273	20,622	2,310	4,362	(1,013)	1,331	2,958	30,570

NOTES TO THE FINANCIAL STATEMENTS

b. Analysis of inter-segment revenue

	2018			2017		
	Total Revenue HK\$ Million	Inter- segment revenue HK\$ Million	Group Revenue HK\$ Million	Total Revenue HK\$ Million	Inter- segment revenue HK\$ Million	Group Revenue HK\$ Million
Investment property	3,586	–	3,586	14,599	(126)	14,473
Development property	12,914	–	12,914	22,608	–	22,608
Hotels	463	–	463	1,487	–	1,487
Logistics	2,616	–	2,616	2,817	–	2,817
CME1	–	–	–	874	(2)	872
Investment and others	1,476	–	1,476	1,044	(28)	1,016
	21,055	–	21,055	43,429	(156)	43,273

c. Disaggregation of revenue

Revenue from contracts with customers recognised in accordance with the accounting standard HKFRS 15 amounted to HK\$16,445 million (2017: HK\$28,142 million), which included revenue from development property, hotels, logistics and property management fee HK\$452 million (2017: HK\$1,230 million) as included in investment property segment.

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to revenue from hotels, logistics and property management fee under investment property such that the above information does not include information about revenue that the group will be entitled to when it satisfies the remaining performance obligations under the contracts with customers that had an original expected duration of one year or less.

d. Analysis of segment business assets

	2018 HK\$ Million	2017 HK\$ Million
Investment property	75,454	86,613
Hong Kong	20,410	22,165
Mainland China	55,044	64,448
Development property	86,875	56,810
Hong Kong	18,486	5,076
Mainland China	68,389	51,734
Hotels	2,482	1,458
Logistics	16,176	16,803
Terminals	15,287	15,865
Others	889	938
Total segment business assets	180,987	161,684
Unallocated corporate assets	46,362	60,963
Total assets	227,349	222,647

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

Segment assets held through associates and joint ventures included in above are:

	2018 HK\$ Million	2017 HK\$ Million
Development property	37,231	25,764
Logistics	4,628	4,681
Group total	41,859	30,445

e. Other segment information

	Capital expenditure		Increase in interests in associates and joint ventures		Depreciation and amortisation	
	2018 HK\$ Million	2017 HK\$ Million	2018 HK\$ Million	2017 HK\$ Million	2018 HK\$ Million	2017 HK\$ Million
	4,896	4,231	–	–	156	117
Investment property	289	1,716	–	–	5	22
Hong Kong	4,607	2,515	–	–	151	95
Mainland China	–	–	9,868	6,332	–	–
Development property	–	–	7	4	–	–
Hong Kong	–	–	9,861	6,328	–	–
Mainland China	–	–	–	–	–	–
Hotels	1	994	–	–	3	140
Logistics	218	406	–	1	484	456
Terminals	218	406	–	1	484	454
Others	–	–	–	–	–	2
CME1	–	135	–	–	–	225
Group total	5,115	5,766	9,868	6,333	643	938

In 2017, the CME1 segment incurred HK\$74 million for its programming library. The Group had no significant non-cash expenses other than i) provision of HK\$17 million (2017: write-back of provision HK\$1,104 million) made for certain development projects and assets, and ii) depreciation and amortisation.

NOTES TO THE FINANCIAL STATEMENTS

f. Geographical information

	Revenue		Operating Profit	
	2018 HK\$ Million	2017 HK\$ Million	2018 HK\$ Million	2017 HK\$ Million
Hong Kong	3,368	16,685	1,288	11,447
Mainland China	17,657	26,537	7,436	9,124
Others	30	51	28	51
Group total	21,055	43,273	8,752	20,622

	Specified non-current assets		Total business assets	
	2018 HK\$ Million	2017 HK\$ Million	2018 HK\$ Million	2017 HK\$ Million
Hong Kong	32,547	31,569	45,662	34,221
Mainland China	98,018	94,618	135,325	127,463
Group total	130,565	126,187	180,987	161,684

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

2. OPERATING PROFIT

a. Operating profit is arrived at:

	2018 HK\$ Million	2017 HK\$ Million
After charging/(crediting):		
Depreciation and amortisation on		
– assets held for use under operating leases	168	167
– property, plant and equipment	413	627
– leasehold land	62	63
– programming library	–	81
Total depreciation and amortisation	643	938
Reversal of impairment of trade receivables	(4)	–
Staff costs (Note (i))	1,922	2,797
Auditors' remuneration		
– audit services	18	20
– other services	5	1
Cost of trading properties for recognised sales	6,976	14,203
Gross rental revenue from investment properties (Note (ii))	(3,586)	(14,599)
Direct operating expenses of investment properties	1,592	2,268
Rental income under operating leases in respect of owned plant and equipment	(8)	(28)
Interest income (Note (iii))	(450)	(489)
Dividend income from other long term investments	(525)	(151)
Loss on disposal of property, plant and equipment	1	8

Notes:

- i. Staff costs include contributions to defined contribution pension schemes of HK\$221 million (2017: HK\$259 million), which included equity-settled share-based payment expenses of HK\$18 million (2017: HK\$40 million).
- ii. Rental income includes contingent rentals of HK\$727 million (2017: HK\$1,148 million).
- iii. Interest income of HK\$450 million (2017: HK\$489 million) was in respect of financial assets, mainly comprising bank deposits, that are stated at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS

b. Directors' emoluments

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

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonuses HK\$'000	Contributions to pension schemes HK\$'000	2018 Total emoluments HK\$'000	2017 Total emoluments HK\$'000
Board of Directors						
Stephen T H Ng (Note iii, vi and vii)	300	5,040	23,772	–	29,112	92,133
Andrew O K Chow (Note vii)	200	5,674	43,206	–	49,080	13,868
Doreen Y F Lee (Note vi and vii)	200	1,600	15,293	5	17,098	13,876
Paul Y C Tsui (Note vi and vii)	200	3,098	15,630	–	18,928	11,954
Kevin K P Chan (Note vii)	200	3,634	12,485	540	16,859	8,209
Y T Leng (Note iv)	–	–	–	–	–	10,117
Independent Non-executive Directors						
Edward K Y Chen	200	–	–	–	200	200
Vincent K Fang (Note ii)	300	–	–	–	300	300
Hans Michael Jebsen (Note ii and iii)	350	–	–	–	350	350
Elizabeth Law (Note ii and v)	300	–	–	–	300	94
David M Turnbull (Note ii and iii)	350	–	–	–	350	261
E K Yeoh (Note ii and iv)	–	–	–	–	–	268
Alexander S K Au (Note ii and iv)	–	–	–	–	–	268
	2,600	19,046	110,386	545	132,577	151,898
Total for 2017	3,020	31,376	116,600	902	–	151,898

- i. There was no compensation for loss of office and/or inducement for joining the Group paid/payable to the Directors of the Company in respect of the years ended 31 December 2018 and 2017.
- ii. Includes Audit Committee Member's fee for the year ended 31 December 2018 of HK\$100,000 (2017: HK\$100,000) received/receivable by each of relevant Directors.
- iii. Includes Remuneration Committee Member's fee for the year ended 31 December 2018 of HK\$50,000 (2017: HK\$50,000) received/receivable by each of relevant Directors.
- iv. Ms. Y T Leng, Mr. Alexander S K Au and Prof. E K Yeoh resigned as Directors of the Company with effect from 23 November 2017.
- v. Ms. Elizabeth Law was appointed as a Director of the Company with effect from 1 August 2017.
- vi. The above emoluments of Mr. Stephen T H Ng, Ms. Doreen Y F Lee and Mr. Paul Y C Tsui excluded amounts borne by Wharf REIC calculated on a pre-determined percentage of the basic remuneration for being executive directors and employees of the Company and Wharf REIC pursuant to a framework agreement entered into between the Company and Wharf REIC.

- vii. Included in discretionary bonuses are special payments of HK\$11.8 million, HK\$32.2 million, HK\$6.3 million, HK\$8.4 million and HK\$6.5 million to Mr. Stephen T H Ng, Mr. Andrew O K Chow, Ms. Doreen Y F Lee, Mr. Paul Y C Tsui and Mr. Kevin K P Chan, respectively, in consideration of the impairment in value of the share options exercised by them during the year under the Company's Share Option Scheme (granted before the demerger of Wharf REIC as a separately listed entity in November 2017 but exercised after the demerger).
- viii. In addition to the above emoluments, certain directors and employees of the Company or its subsidiaries were granted share options under the share option schemes adopted by the Company. Details of the share options granted by the Company to the individuals are disclosed in Note 21(d).

c. Emoluments of the highest paid employees

For the years ended 31 December 2018, information regarding emoluments of one (2017: two) 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	2018 HK\$ Million	2017 HK\$ Million
Salaries, allowances and benefits in kind	5	13
Equity settled share-based payment expenses (Note)	–	2
Contributions to pension scheme and retirement benefit costs	–	1
Discretionary bonuses	16	20
Total	21	36

Note: Equity settled share-based payment expenses represent the fair value of the options issued under the share option schemes charged to the consolidated income statement during the year.

Bands (in HK\$)	2018 Number	2017 Number
\$16,500,001 – \$17,000,000	–	1
\$18,500,001 – \$19,000,000	–	1
\$29,500,000 – \$30,000,000	1	–
	1	2

3. OTHER NET (CHARGE)/INCOME

Other net charge for the year which amounted to HK\$770 million (2017: income HK\$4,362 million) mainly comprises:

- a. Net foreign exchange loss of HK\$727 million (2017: HK\$706 million) which included a fair value gain on forward foreign exchange contracts of HK\$14 million (2017: loss of HK\$345 million).
- b. 2017 included write-back of impairment provision of HK\$1,104 million on certain development projects and assets.
- c. 2017 included a gain of HK\$4,499 million arising from disposal of an investment property.

NOTES TO THE FINANCIAL STATEMENTS

4. FINANCE COSTS

	2018 HK\$ Million	2017 HK\$ Million
Interest charged on:		
Bank loans and overdrafts	561	907
Other borrowings	836	635
Total interest charge	1,397	1,542
Other finance costs	39	132
Less: Amount capitalised	(549)	(369)
	887	1,305
Fair value (gain)/loss:		
Cross currency interest rate swaps	(242)	(433)
Interest rate swaps	(133)	141
	(375)	(292)
Total	512	1,013

- a. Interest was capitalised at an average annual rate of approximately 1.7% (2017: 2.3%).
- b. Included in the total interest charge are amounts totalling HK\$1,023 million (2017: HK\$1,167 million) in respect of interest bearing borrowings that are stated at amortised cost.
- c. The above interest charge has taken into account the interest paid/received in respect of interest rate swaps and cross currency interest rate swaps.

5. INCOME TAX

Taxation charged to the consolidated income statement includes:

	2018 HK\$ Million	2017 HK\$ Million
Current income tax		
Hong Kong		
– provision for the year	170	1,676
– over-provision in respect of prior years	(13)	(10)
Outside Hong Kong		
– provision for the year	1,374	2,608
– under/(over)-provision in respect of prior years	9	(36)
	1,540	4,238
Land appreciation tax (“LAT”) (Note c)	1,537	2,431
Deferred tax		
Change in fair value of investment properties	522	572
Origination and reversal of temporary differences	527	726
	1,049	1,298
Total	4,126	7,967

- a. The provision for Hong Kong profits tax is based on the profit for the year as adjusted for tax purposes at a rate of 16.5% (2017: 16.5%).
- b. Income tax on assessable profits outside Hong Kong is mainly China corporate income tax calculated at a rate of 25% (2017: 25%) and China withholding tax at a rate of up to 10%.
- c. Under the Provisional Regulations on LAT, all gains arising from transfer of real estate property in Mainland China are subject to LAT at progressive rates ranging from 30% to 60% on the appreciation of the land value, being the proceeds on sales of properties less deductible expenditure including cost of land use rights, borrowing costs and all property development expenditure.
- d. Taxation payable in the consolidated statement of financial position is expected to be settled within one year.
- e. Tax attributable to associates and joint ventures for the year ended 31 December 2018 of HK\$1,145 million (2017: HK\$1,420 million) is included in the share of results of associates and joint ventures.
- f. The China tax law imposes a withholding tax at 10%, unless reduced by a treaty or agreement, for dividends distributed by a PRC-resident enterprise to its immediate holding company outside Mainland China for earnings generated since 1 January 2008. Undistributed earnings generated prior to 1 January 2008 are exempt from such withholding tax. For the year ended 31 December 2018, the Group has provided HK\$317 million (2017: HK\$1,387 million) for withholding taxes on accumulated earnings generated by its Mainland China subsidiaries which have been/will be distributed to their immediate holding companies outside Mainland China in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

g. Reconciliation between the actual total tax charge and profit before taxation at applicable tax rates:

	2018 HK\$ Million	2017 HK\$ Million
Profit before taxation	10,837	30,570
Notional tax on profit before taxation calculated at applicable tax rates	2,355	5,309
Tax effect of non-deductible expenses	459	428
Tax effect of non-taxable income	(763)	(1,690)
Tax effect of non-taxable fair value gain on investment properties	(69)	(198)
Net over-provision in respect of prior years	(4)	(46)
Tax effect of tax losses not recognised	152	171
Tax effect of previously unrecognised tax losses utilised	(102)	(68)
Tax effect on temporary difference not recognised	(138)	(52)
LAT on trading properties	1,537	2,431
Deferred LAT on change in fair value of investment properties	382	295
Withholding tax on distributed/undistributed earnings	317	1,387
Actual total tax charge	4,126	7,967

6. DIVIDENDS ATTRIBUTABLE TO EQUITY SHAREHOLDERS

	2018 HK\$ per share	2018 HK\$ Million	2017 HK\$ per share	2017 HK\$ Million
First interim dividend declared and paid	0.25	762	0.64	1,943
Second interim dividend declared after the end of the reporting period (note b)	0.40	1,219	0.95	2,893
	0.65	1,981	1.59	4,836
Distribution in specie in the form of shares in i-CABLE	–	–	0.19	562
Distribution in specie in the form of shares in Wharf REIC	–	–	65.14	197,779
	–	–	65.33	198,341
Total	0.65	1,981	66.92	203,177

a. The second interim dividend based on 3,047 million issued ordinary shares (2017: 3,039 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\$2,893 million for 2017 was approved and paid in 2018.

7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders for the year of HK\$6,623 million (2017: HK\$21,876 million) and the weighted average of 3,045 million ordinary shares in issue during the year (2017: 3,034 million ordinary shares).

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders for the year of HK\$6,623 million (2017: HK\$21,876 million) and the weighted average of 3,048 million ordinary shares (2017: 3,036 million ordinary shares) which is the weighted average number of ordinary shares in issue during the year after adjusting for the effect of deemed issue of shares under the Company's share option scheme.

8. INVESTMENT PROPERTIES

	Completed HK\$ Million	Under development HK\$ Million	Total HK\$ Million
a. Cost or valuation			
At 1 January 2017	289,041	30,257	319,298
Exchange adjustment	2,895	1,091	3,986
Additions	366	3,723	4,089
Disposal	–	(3,293)	(3,293)
Disposal of subsidiaries	(242,282)	(3,519)	(245,801)
Transfer	1,539	–	1,539
Revaluation surpluses	1,711	599	2,310
At 31 December 2017 and 1 January 2018	53,270	28,858	82,128
Exchange adjustment	(2,077)	(745)	(2,822)
Additions	4	4,781	4,785
Transfer	17,028	(27,366)	(10,338)
Revaluation surpluses	963	22	985
At 31 December 2018	69,188	5,550	74,738
b. The analysis of cost or valuation of the above assets is as follows:			
2018 valuation	69,188	5,526	74,714
At cost	–	24	24
	69,188	5,550	74,738
2017 valuation	53,270	12,187	65,457
At cost	–	16,671	16,671
	53,270	28,858	82,128

During the year, additions to investment properties under development which are stated at cost amounted to HK\$4,507 million (2017: HK\$2,398 million).

NOTES TO THE FINANCIAL STATEMENTS

	Completed HK\$ Million	Under development HK\$ Million	Total HK\$ Million
c. Tenure of title to properties:			
At 31 December 2018			
Held in Hong Kong			
Medium term leases	14,816	5,550	20,366
	14,816	5,550	20,366
Held outside Hong Kong			
Medium term leases	54,372	–	54,372
	54,372	–	54,372
	69,188	5,550	74,738
At 31 December 2017			
Held in Hong Kong			
Medium term leases	7,449	12,210	19,659
	7,449	12,210	19,659
Held outside Hong Kong			
Medium term leases	45,821	16,648	62,469
	45,821	16,648	62,469
	53,270	28,858	82,128

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 2018 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 surplus or deficit arising on revaluation on investment properties is recognised in the line item "Increase in fair value of investment properties" on the consolidated income statement.

The following table presents the investment properties which 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 is not available.

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

None of the Group's investment properties measured at fair value are categorised as Level 1 and Level 2 input. The Group's investment properties which are at Level 3 valuation are analysed as below:

	Retail	Office	Residential	Others	Total
	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million
Recurring fair value measurements					
At 31 December 2018					
Hong Kong	305	–	15,296	4,741	20,342
Mainland China	29,988	20,412	3,972	–	54,372
	30,293	20,412	19,268	4,741	74,714
At 31 December 2017					
Hong Kong	305	–	14,686	4,645	19,636
Mainland China	20,305	21,438	4,078	–	45,821
	20,610	21,438	18,764	4,645	65,457

The movements during the year in the balance of Level 3 fair value measurements are as follows:

	Completed HK\$ Million	Under development HK\$ Million	Total HK\$ Million
At 1 January 2017	289,041	13,556	302,597
Exchange adjustment	2,895	–	2,895
Additions	366	1,325	1,691
Disposal	–	(3,293)	(3,293)
Disposal of subsidiaries	(242,282)	–	(242,282)
Transfer	1,539	–	1,539
Revaluation surplus	1,711	599	2,310
At 31 December 2017 and 1 January 2018	53,270	12,187	65,457
Exchange adjustment	(2,077)	–	(2,077)
Additions	4	274	278
Transfer	17,028	(6,957)	10,071
Revaluation surplus	963	22	985
At 31 December 2018	69,188	5,526	74,714

During the years ended 31 December 2017 and 2018, there were no transfers between Level 1 and 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 the 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.

NOTES TO THE FINANCIAL STATEMENTS

Valuation methodologies

The valuations of completed office and retail properties in Hong Kong and Mainland China were based on the income capitalisation approach which capitalised the net income of the properties and takes into account the significant adjustments on term yield to account for the risk upon reversion.

For properties in Hong Kong which are still under development/redevelopment, the valuations were based on the redevelopment basis by taking into account the fair value of properties under development/redevelopment assuming they had been completed as at the date of valuation and then deducting from that amount the estimated costs to complete construction, financing costs and profit and margin for risk.

Level 3 valuation methodologies

Completed investment properties

Set out below is a table which presents the significant unobservable inputs:

	Capitalisation rate		Weighted average		
			2018	2017	
	2018	2017	Market rent	2018	2017
Hong Kong			HK\$ psf		HK\$ psf
– Retail	5.0%	5.0%	33		40
– Residential	1.5%	1.8%	82		60
Mainland China			RMB psm		RMB psm
– Retail	6.3%	7.0%	347		350
– Office	6.6%	6.5%	177		180
– Residential	4.3%	4.3%	149		144

The fair value measurement of completed investment properties is negatively correlated to the capitalisation rate and positively correlated to the market rent.

For investment properties under development that are stated at fair value, estimated costs to complete construction and profit and margin for risk required are estimated by valuers based on market conditions at the end of the reporting period. The estimates are largely consistent with the development budgets prepared by the Group based on management's experience and knowledge of market conditions. The fair value of investment properties under development is negatively correlated to the costs and the margins.

- e. The Group leases out properties under operating leases, which generally run for a period of two to twelve years. Lease payments may be varied periodically to reflect market rentals and may contain a contingent rental element which is based on various percentages of tenants' sales receipts.
- f. The Group's total future minimum lease income under non-cancellable operating leases is receivable as follows:

	2018 HK\$ Million	2017 HK\$ Million
Within 1 year	2,647	2,506
After 1 year but within 5 years	5,684	4,755
After 5 years	456	135
	8,787	7,396

9. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land HK\$ Million	Hotel HK\$ Million	Properties under redeve- lopment HK\$ Million	Other property, plant and equipment HK\$ Million	CME equipment HK\$ Million	Total HK\$ Million
a. Cost						
At 1 January 2017	3,985	9,458	1,947	14,684	6,166	36,240
Exchange adjustment	169	166	131	236	–	702
Additions	–	974	12	561	130	1,677
Disposals	–	–	–	(449)	(107)	(556)
Disposal of subsidiaries	(235)	(8,888)	–	(2,386)	(6,189)	(17,698)
Revaluation surplus transfer to reserves	–	–	–	1,427	–	1,427
Reclassification	–	–	(480)	(1,206)	–	(1,686)
At 31 December 2017 and 1 January 2018	3,919	1,710	1,610	12,867	–	20,106
Exchange adjustment	(117)	(79)	(71)	(191)	–	(458)
Additions	–	–	11	320	–	331
Disposals	–	–	–	(31)	–	(31)
Reclassification	–	1,140	(7)	4	–	1,137
At 31 December 2018	3,802	2,771	1,543	12,969	–	21,085
Accumulated depreciation and impairment losses						
At 1 January 2017	954	1,528	–	7,669	5,354	15,505
Exchange adjustment	24	48	–	77	–	149
Charge for the year	63	83	–	580	131	857
Written back on disposals	–	–	–	(439)	(107)	(546)
Disposal of a subsidiary	(80)	(1,331)	–	(2,115)	(5,378)	(8,904)
Reclassification	–	–	–	(156)	–	(156)
At 31 December 2017 and 1 January 2018	961	328	–	5,616	–	6,905
Exchange adjustment	(19)	(17)	–	(64)	–	(100)
Charge for the year	62	54	–	527	–	643
Written back on disposals	–	–	–	(30)	–	(30)
Reclassification	–	–	–	(3)	–	(3)
At 31 December 2018	1,004	365	–	6,046	–	7,415
Net book value						
At 31 December 2018	2,798	2,406	1,543	6,923	–	13,670
At 31 December 2017	2,958	1,382	1,610	7,251	–	13,201

NOTES TO THE FINANCIAL STATEMENTS

	Leasehold land HK\$ Million	Hotel HK\$ Million	Properties under redeve- lopment HK\$ Million	Other property, plant and equipment HK\$ Million	CME equipment HK\$ Million	Total HK\$ Million
b. Tenure of title to properties:						
At 31 December 2018						
Held in Hong Kong						
Medium term leases	766	-	-	2,593	-	3,359
Held outside Hong Kong						
Medium term leases	2,032	2,406	1,543	1,789	-	7,770
	2,798	2,406	1,543	4,382	-	11,129
At 31 December 2017						
Held in Hong Kong						
Medium term leases	792	-	-	2,651	-	3,443
Held outside Hong Kong						
Medium term leases	2,166	1,382	1,610	1,917	-	7,075
	2,958	1,382	1,610	4,568	-	10,518

10. INTEREST IN ASSOCIATES

	2018 HK\$ Million	2017 HK\$ Million
Share of net assets	7,948	7,396
Goodwill	1,853	1,853
Amounts due from associates	9,801	9,249
	10,291	7,359
	20,092	16,608
Amounts due to associates (Note 18)	(2,709)	(2,933)
	17,383	13,675

- a. Details of principal associates at 31 December 2018 are shown on page 181.
- b. All of the above associates are accounted for using the equity method in the consolidated financial statements.
- c. Included in amounts due from associates are advances totalling HK\$371 million (2017: HK\$371 million) which are unsecured and interest bearing at market rate. Amounts due from associates are unsecured and have no fixed terms of repayment and not expected to be recoverable within twelve months from the end of the reporting period. The amounts are neither past due nor impaired.
Amounts due to associates are unsecured, interest free and have no fixed terms of repayment.
- d. Included in interest in associates is goodwill of HK\$1,853 million (2017: HK\$1,853 million) relating to the acquisition of Mega Shekou Container Terminals Limited by Modern Terminals Limited, a 67.6%-owned subsidiary of the Group, under an agreement for rationalisation of the interests in Shekou Container Terminals Phases I, II and III in 2007.

- e. At 31 December 2018, no associate is considered to be individually material to the Group.

Aggregate information of associates that are not individually material is summarised below:

	2018 HK\$ Million	2017 HK\$ Million
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	9,801	9,249
Aggregate amounts of the Group's share of those associates		
Profit from continuing operations	1,279	1,331
Other comprehensive income	(550)	507
Total comprehensive income	729	1,838

11. INTEREST IN JOINT VENTURES

	2018 HK\$ Million	2017 HK\$ Million
Share of net assets	11,439	8,970
Amounts due from joint ventures	10,328	4,867
	21,767	13,837
Amounts due to joint ventures (Note 18)	(3,070)	(592)
	18,697	13,245

- a. Details of principal joint ventures at 31 December 2018 are shown on page 182.
- b. The Group's interest in the principal joint ventures are accounted for using the equity method in the consolidated financial statements.
- c. In 2017, included in amounts due from joint ventures are advances totalling HK\$315 million which are interest bearing.

The amounts due from joint ventures are unsecured and have no fixed terms of repayment. They are not expected to be recovered within the next twelve months. The amounts are neither past due nor impaired.

Amounts due to joint ventures are unsecured, interest free and have no fixed terms of repayment.

- d. At 31 December 2018, no joint venture is considered to be individually material to the Group. Aggregate information of joint ventures that are not individually material is summarised below:

	2018 HK\$ Million	2017 HK\$ Million
Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements	11,439	8,970
Aggregate amounts of the Group's share of those joint ventures		
Profit from continuing operations	1,103	2,958
Other comprehensive income	(342)	547
Total comprehensive income	761	3,505

NOTES TO THE FINANCIAL STATEMENTS

12. OTHER LONG TERM INVESTMENTS

	2018 HK\$ Million	2017 HK\$ Million
Equity investments		
– listed in Hong Kong	18,524	14,763
– listed outside Hong Kong	10,674	4,262
	29,198	19,025
Other financial investments		
– Unlisted investments	1,346	84
	30,544	19,109

Analysed by industry sectors as follows:

	2018 HK\$ Million	2017 HK\$ Million
– Property	10,821	10,262
– Technology and new economy	15,928	7,958
– Others	3,795	889
	30,544	19,109

Equity investments are designated as financial assets at fair value through other comprehensive income which mainly represent a portfolio of blue chips including property counters and investments in technology and new economy held for long term growth potential with reasonable dividend return that in line with market and each investment within the portfolio is individually immaterial to the Group's total assets. Other financial investments are classified as financial assets through profit or loss.

13. GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill HK\$ Million	Other intangible assets HK\$ Million	Total HK\$ Million
Cost			
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	298	12	310
Accumulated amortisation			
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	–	12	12
Net carrying value			
At 31 December 2018	298	–	298
At 31 December 2017	298	–	298

Goodwill mainly relates to the Group's terminals business. As at 31 December 2018, an impairment test was performed by comparing the attributable carrying amount of the business with the recoverable amount. The recoverable amount of the terminals business is based on its value in use. No impairment was recorded.

14. PROPERTIES FOR SALE

	2018 HK\$ Million	2017 HK\$ Million
Properties under development for sale	35,786	19,210
Completed properties for sale	10,168	5,990
	45,954	25,200

- a. At 31 December 2018, properties under development for sale of HK\$30,734 million (2017: HK\$15,660 million) are expected to be completed after more than one year.
- b. At 31 December 2017, included in properties under development for sale are deposits HK\$11,867 million paid for the acquisition of certain land sites/properties located in Mainland China.
- c. Properties under development for sale and completed properties for sale are stated at the lower of cost and net realisable value. The total carrying value of properties stated at net realisable value at 31 December 2018 was HK\$687 million (2017: HK\$583 million).
- d. At 31 December 2018, the carrying value of leasehold land and land deposits included in properties under development for sale and completed properties for sale is summarised as follows:

	2018 HK\$ Million	2017 HK\$ Million
Held in Hong Kong		
Medium term leases	12,451	1
	12,451	1
Held outside Hong Kong		
Long term leases	24,152	19,294
Medium term leases	216	215
	36,819	19,510

NOTES TO THE FINANCIAL STATEMENTS

15. TRADE AND OTHER RECEIVABLES

a. Ageing analysis

Included in this item are trade receivables (net of allowance for bad and doubtful debts) with an ageing analysis based on the invoice date as at 31 December 2018 as follows:

	2018 HK\$ Million	2017 HK\$ Million
Trade receivables		
0 – 30 days	203	177
31 – 60 days	46	37
61 – 90 days	19	14
Over 90 days	90	108
	358	336
Other receivables and prepayments	1,364	4,856
	1,722	5,192

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 the proceeds from which are receivable pursuant to the terms of the agreements. All the receivables are expected to be recoverable within one year.

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.

The movement in the allowance account for the bad and doubtful debts during the year, including both specific and collective loss components, is as follows:

	2018 HK\$ Million	2017 HK\$ Million
At 1 January	14	23
Reversal of impairment loss recognised	(4)	–
Disposal of subsidiaries	–	(9)
At 31 December	10	14

c. Trade receivables that are not impaired

As at 31 December 2018, 99% (2017: 98%) of the Group's trade receivables was not impaired, of which 74% (2017: 66%) was either not past due or less than two months past due.

Based on historical and forward looking elements of the Group, it is determined that no impairment allowance is necessary in respect of past due balances as there has not been a significant change in credit quality of the customers and the balances are still considered to be fully recoverable. The Group does not hold any collateral over these balances.

16. DERIVATIVE FINANCIAL INSTRUMENTS

	2018		2017	
	Assets HK\$ Million	Liabilities HK\$ Million	Assets HK\$ Million	Liabilities HK\$ Million
At fair value through profit or loss				
Fixed-to-floating interest rate swaps	126	32	132	39
Floating-to-fixed interest rate swaps	–	67	–	176
Cross currency interest rate swaps	119	594	80	706
Forward foreign exchange contracts	114	15	77	–
Total	359	708	289	921
Analysis				
Current	159	268	109	343
Non-current	200	440	180	578
Total	359	708	289	921

An analysis of the remaining maturities at the end of the reporting period of the above derivative financial instruments is as follows:

	2018		2017	
	Assets HK\$ Million	Liabilities HK\$ Million	Assets HK\$ Million	Liabilities HK\$ Million
Fixed-to-floating interest rate swaps				
Expiring within 1 year	21	–	1	7
Expiring after more than 1 year but not exceeding 5 years	80	8	46	3
Expiring after 5 years	25	24	85	29
	126	32	132	39
Floating-to-fixed interest rate swaps				
Expiring within 1 year	–	7	–	26
Expiring after more than 1 year but not exceeding 5 years	–	17	–	78
Expiring after 5 years	–	43	–	72
	–	67	–	176
Cross currency interest rate swaps				
Expiring within 1 year	20	189	12	207
Expiring after more than 1 year but not exceeding 5 years	69	319	49	362
Expiring after 5 years	30	86	19	137
	119	594	80	706
Forward foreign exchange contracts				
Expiring within 1 year	73	–	21	–
Expiring after more than 1 year but not exceeding 5 years	40	–	56	–
Expiring after 5 years	1	15	–	–
	114	15	77	–
Total	359	708	289	921

NOTES TO THE FINANCIAL STATEMENTS

- a. The notional principal amounts of derivative financial instruments outstanding at the end of the reporting period were as follows:

	2018 HK\$ Million	2017 HK\$ Million
Fixed-to-floating interest rate swaps	11,502	10,151
Floating-to-fixed interest rate swaps	5,730	8,230
Cross currency interest rate swaps	18,548	24,343
Forward foreign exchange contracts	14,591	13,848

- b. Derivative financial assets represent the amounts the Group would receive whilst derivative financial liabilities represent the amounts the Group would pay if the positions were closed at the end of the reporting period. Derivative financial instruments do not qualify for hedge accounting and their corresponding changes in fair values have been recognised in the consolidated income statement.
- c. During the year, a gain of HK\$14 million (2017: loss of HK\$345 million) in respect of forward foreign exchange contracts was recognised in the consolidated income statement.
- d. During the year, fair value gain on cross currency interest rate swaps in the amounts of HK\$242 million (2017: HK\$433 million) and gain on interest rate swaps in the amounts of HK\$133 million (2017: loss of HK\$141 million) have been included within finance costs in the consolidated income statement.
- e. The Group enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master agreements providing offsetting mechanisms under certain circumstances. At 31 December 2018, the Group did not offset any of the financial instruments as no parties have exercised their rights to offset the recognised amounts in the consolidated financial statements.

17. BANK DEPOSITS AND CASH

	2018 HK\$ Million	2017 HK\$ Million
Bank deposits and cash	17,448	45,697

At 31 December 2018, bank deposits and cash included:

- a. HK\$12,757 million equivalent (2017: HK\$13,473 million equivalent) placed with banks in Mainland China, the remittance of which is subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.
- b. RMB772 million equivalent to HK\$881 million (2017: RMB1,735 million equivalent to HK\$2,076 million) which is solely for certain designated property development projects in Mainland China.

The effective annual interest rate on bank deposits was 1.4% (2017: 1.4%).

Bank deposits and cash are denominated in the following currencies:

	2018 HK\$ Million	2017 HK\$ Million
RMB	12,884	13,674
HKD	4,269	31,159
USD	280	851
SGD	14	11
Other currencies	1	2
	17,448	45,697

18. TRADE AND OTHER PAYABLES

Included in this item are trade payables with an ageing analysis based on the invoice date as at 31 December 2018 as follows:

	2018 HK\$ Million	2017 HK\$ Million
Trade payables		
0 – 30 days	440	313
31 – 60 days	206	187
61 – 90 days	16	33
Over 90 days	65	108
	727	641
Rental and customer deposits	1,033	1,017
Construction costs payable	8,744	7,113
Amounts due to associates (Note 10)	2,709	2,933
Amounts due to joint ventures (Note 11)	3,070	592
Other payables	4,144	4,686
	20,427	16,982

The amount of trade and other payables that is expected to be settled after more than one year is HK\$1,261 million (2017: HK\$1,978 million), which is mainly for rental and customer deposits. The Group considers the effect of discounting these items 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 payable on demand.

NOTES TO THE FINANCIAL STATEMENTS

19. DEPOSITS FROM SALE OF PROPERTIES

Movement in deposits from sale of properties	HK\$ Million
Balance at 1 January 2018	9,083
Exchange difference	64
Decrease in deposits from sale of properties as a result of recognising revenue during the year	(13,669)
Increase in deposits from sale of properties as a result of receiving sales deposits	13,785
Balance at 31 December 2018	9,263

Deposits from sale of properties in the amount of HK\$4,138 million (2017: HK\$1,180 million) are expected to be recognised as revenue in the consolidated income statement after more than one year.

Deposits from sale of properties as at 31 December 2018 are recognised as contract liabilities in accordance with HKFRS 15 (see Note 29).

Deposits from sale of properties as at 31 December 2017 were regarded as contract liabilities as at 1 January 2018 upon the adoption of HKFRS 15 (see Note 29).

The Group receives contract value as deposits from customers when they sign the sale and purchase agreement. These deposits are recognised as a contract liability as “Deposits from sale of properties” until the properties are completed and legally assigned to/accepted by the customers.

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

As at 31 December 2018, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group’s existing contracts is \$9,418 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. The Group will recognise the expected revenue in future at the completion date of legal assignment or, in the case of the properties under development for sale, when the properties are accepted by the customers, which is expected to occur over the next 36 months.

20. BANK LOANS AND OTHER BORROWINGS

	2018 HK\$ Million	2017 HK\$ Million
Bonds and notes (unsecured)		
Due within 1 year	8,862	4,289
Due after more than 1 year but not exceeding 2 years	5,790	9,168
Due after more than 2 years but not exceeding 5 years	5,472	6,070
Due after more than 5 years	3,252	3,680
	23,376	23,207
Bank loans (secured)		
Due within 1 year	121	3,494
Due after more than 1 year but not exceeding 2 years	307	195
Due after more than 2 years but not exceeding 5 years	6,295	818
Due after more than 5 years	651	335
	7,374	4,842
Bank loans (unsecured)		
Due within 1 year	2,256	2,359
Due after more than 1 year but not exceeding 2 years	3,728	712
Due after more than 2 years but not exceeding 5 years	6,352	5,289
	12,336	8,360
Total bank loans and other borrowings	43,086	36,409
Analysis of maturities of the above borrowings:		
Current borrowings		
Due within 1 year	11,239	10,142
Non-current borrowings		
Due after more than 1 year but not exceeding 5 years	27,944	22,252
Due after more than 5 years	3,903	4,015
	31,847	26,267
Total bank loans and other borrowings	43,086	36,409

- a. The Group's borrowings are considered by the management to be denominated in the following currencies (after the effects of cross currency interest rate swaps and forward foreign exchange contracts arrangements as detailed in Note 23(b)):

	2018 HK\$ Million	2017 HK\$ Million
HKD	37,148	26,109
RMB	5,938	10,300
	43,086	36,409

NOTES TO THE FINANCIAL STATEMENTS

- b. The interest rate profile of the Group's borrowings (after the effects of interest rate swaps and cross currency interest rate swaps as detailed in Notes 23(a)) were as follows:

	2018		2017	
	Effective interest rate %	HK\$ Million	Effective interest rate %	HK\$ Million
Fixed rate borrowings				
Bonds and notes	3.5	7,348	3.1	5,270
Bank loans	2.7	5,730	2.6	8,831
		13,078		14,101
Floating rate borrowings				
Bonds and notes	4.5	16,028	3.2	17,937
Bank loans	3.4	13,980	3.4	4,371
		30,008		22,308
Total borrowings		43,086		36,409

- c. All the interest bearing borrowings are carried at amortised cost except for loans in an amount of HK\$12,369 million (2017: HK\$12,138 million) which are carried at their fair values. None of the non-current interest bearing borrowings are expected to be settled within one year.
- d. Included in the Group's total borrowings are bank loans totalling HK\$7,616 million (2017: HK\$8,151 million) borrowed by certain subsidiaries in Mainland China and Modern Terminals. The loans are without recourse to the Company and its other subsidiaries.
- e. As at 31 December 2018, certain banking facilities of the Group are secured by mortgages over certain properties under development, investment properties and property, plant and equipment with an aggregate carrying value of HK\$26,502 million (2017: HK\$18,601 million).
- f. Certain of the above borrowings are attached with financial covenants which require that at any time, the 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 of the relevant groups. During the year under review, all these covenants have been complied with by the Group.

21. EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Company has a share option scheme which was adopted in June 2011 whereby the directors of the Company are authorised, at their discretion, to invite eligible participants to take up options at a consideration of HK\$10 to subscribe for shares of the Company ("Shares"). The exercise price of the options must be not less than whichever is the highest of (i) the indicative price per share for subscription of Shares under the option as specified in the written offer containing the offer of the grant of the option to eligible participants; (ii) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (iii) the average closing price of the Shares as stated in the Stock Exchange daily quotations sheets for the five business days immediately preceding the date of grant; and (iv) the nominal value of a Share (not applicable since the abolition of par value upon implementation of the new Companies Ordinance, Cap 622 of the Laws of Hong Kong on 3 March 2014). The granted option is divided into five tranches, of which the first tranche vests immediately after the date of grant and the remaining four tranches vest between one year and four years after the date of grant.

a. The terms and conditions of the grants are as follows:

	Number of options	Contractual life of options
Options granted to directors:		
– on 4 July 2011 (lapsed in 2016)	9,000,000	
– on 5 June 2013 (lapsed in 2018)	11,750,000	5 years after the date of grant
– on 7 July 2016	14,500,000	
Options granted to employees:		
– on 4 July 2011 (lapsed in 2016)	3,100,000	5 years after the date of grant
– on 5 June 2013 (lapsed in 2018)	1,500,000	
Total share options granted	39,850,000	

b. Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted date using the Binomial Model, taking into account the terms and conditions upon which the options were granted. During the year ended 31 December 2018, no new share options were granted.

c. Movements of the share options and the weighted average exercise prices of share options are as follows:

For 2018	Date of grant	Exercise price (HK\$)	Exercise period	Number of share options				
				At 1 January 2018	Exercised during the year	At 31 December 2018	Exercisable at 31 December 2018	Remaining contractual life
	5 June 2013	23.83	6 June 2013 – 5 June 2018	9,100,000	(9,100,000)	–	–	–
	7 July 2016	15.92	8 July 2016 – 7 July 2021	10,300,000	(1,400,000)	8,900,000	3,100,000	2.5 years
				19,400,000	(10,500,000)	8,900,000	3,100,000	
Weighted average exercise price (HK\$)				19.63	22.78	15.92	15.92	

NOTES TO THE FINANCIAL STATEMENTS

For 2017 before adjustment	Date of grant	Exercise price (HK\$)	Exercise period	Number of share options		
				At 1 January 2017	Exercised during the period	At 29 November 2017
	5 June 2013	70.20	6 June 2013 – 5 June 2018	10,500,000	(1,000,000)	9,500,000
	7 July 2016	46.90	8 July 2016 – 7 July 2021	13,400,000	(3,100,000)	10,300,000
				23,900,000	(4,100,000)	19,800,000
Weighted average exercise price (HK\$)				57.14	52.58	58.08

As a result of Wharf REIC spin-off of, the exercise price applicable to 19,800,000 share options outstanding on 20 November 2017 (on the record date of distribution of Wharf REIC) has been adjusted with effect from 30 November 2017.

For 2017 after adjustment	Date of grant	Exercise price (HK\$)	Exercise period	Number of share options			
				At 30 November 2017	Exercised during the period	At 31 December 2017	Exercisable at 31 December 2017
	5 June 2013	23.83	6 June 2013 – 5 June 2018	9,500,000	(400,000)	9,100,000	9,100,000
	7 July 2016	15.92	8 July 2016 – 7 July 2021	10,300,000	–	10,300,000	1,600,000
				19,800,000	(400,000)	19,400,000	10,700,000
Weighted average exercise price (HK\$)				19.72	23.83	19.63	22.65

The weighted average share price at the date of exercise for shares options exercised during the year was HK\$27.84 (2017: HK\$65.24).

- d. In respect of share options of the Company granted to the directors of the Company, the related charge recognised in the consolidated income statement for the years ended 31 December 2017 and 2018, estimated in accordance with the Group's accounting policy in note (v)(i), was as follows:

	2018 HK\$'000	2017 HK\$'000
Stephen T H Ng	6,249	12,657
Andrew O K Chow	3,750	8,205
Doreen Y F Lee	3,750	8,205
Paul Y C Tsui	1,874	4,102
Kevin K P Chan	1,250	2,799
Y T Leng (resigned on 23 November 2017)	–	2,500
	16,873	38,468

22. DEFERRED TAXATION

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

	2018 HK\$ Million	2017 HK\$ Million
Deferred tax liabilities	11,637	11,252
Deferred tax assets	(737)	(954)
Net deferred tax liabilities	10,900	10,298

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

	Depreciation allowances in excess of the related depreciation HK\$ Million	Surplus on investment properties HK\$ Million	Others HK\$ Million	Future benefit of tax losses HK\$ Million	Total HK\$ Million
At 1 January 2017	3,297	7,075	(40)	(353)	9,979
Charged to the consolidated income statement	313	572	416	(3)	1,298
Disposal of subsidiaries	(1,885)	–	(15)	356	(1,544)
Exchange adjustment	66	515	(16)	–	565
At 31 December 2017 and 1 January 2018	1,791	8,162	345	–	10,298
Charged to the consolidated income statement	260	522	267	–	1,049
Exchange adjustment	(61)	(393)	7	–	(447)
At 31 December 2018	1,990	8,291	619	–	10,900

- b. Deferred tax assets not recognised

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

	2018 Deductible temporary differences/ tax losses HK\$ Million	2018 Deferred tax assets HK\$ Million	2017 Deductible temporary differences/ tax losses HK\$ Million	2017 Deferred tax assets HK\$ Million
Future benefit of tax losses				
– Hong Kong	1,211	200	1,307	216
– Outside Hong Kong	3,366	841	3,413	853
	4,577	1,041	4,720	1,069

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 2018. The tax losses arising from Hong Kong operations do not expire under current tax legislation. The tax losses arising from operations in Mainland China can be carried forward to offset against taxable profits of subsequent years for up to five years from the year in which they arose.

NOTES TO THE FINANCIAL STATEMENTS

23. 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 management 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 currency contracts and interest rate and cross currency interest rate swaps, 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

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

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 whilst borrowings at fixed rate expose the Group to fair value interest rate risk. The Group manages its interest rate risk exposure 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 to the floating/fixed rate mix appropriate to its current business portfolio.

In line with the Group's prevailing strategy, the Group has entered into a number of interest rate swaps ("IRS") and cross currency interest rate swaps ("CCS") which have the economic effect of converting certain fixed rate interest bearing notes with notional amounts totalling HK\$10,778 million (2017: HK\$9,529 million) into floating rate borrowings. For each of the IRS and CCS entered into by the Group, the tenor and timing of the IRS and CCS cash flows matches those of the notes.

To ensure the certainty of a proportion of funding costs in the forthcoming years, the Group has entered into various floating-to-fixed IRS with notional amounts totalling HK\$5,730 million with maturities of 10 to 15 years together with another HK\$5,730 million fixed-to-floating IRS with a maturity of 2 years. Effectively, this arrangement has locked in fixed interest rates ranging from 2.4% to 3.6% per annum for a certain portion of the Group's floating rate loan portfolio for a period of 8 to 13 years from 2011 to 2012 onwards.

As at 31 December 2018, after taking into account of IRS and CCS, approximately 70% (2017: 61%) of the Group's borrowings were at floating rates and the remaining 30% (2017: 39%) were at fixed rates (see Note 20(b)).

Based on a sensitivity analysis performed as at 31 December 2018, it was estimated that a general increase/decrease of 1% (2017: 1%) in interest rates, with all other variables held constant, would have increased/decreased the Group's post-tax profit and total equity by approximately HK\$30 million (2017: decreased/increased by HK\$245 million). 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 have arisen assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's post-tax profit and total equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis has been performed on the same basis as for 2017.

b. Foreign currency risk

The Group owns assets and conducts its businesses primarily in Hong Kong and secondarily in 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 and port-related operations and investments in Mainland China.

The Group is also exposed to foreign currency risk in respect of its borrowings denominated in USD, JPY and SGD. Anticipated foreign exchange payments relate primarily to interest expense payments, repayment of principal and capital expenditure. Where appropriate or available in a cost-efficient manner, the Group may enter into forward foreign exchange and swap contracts to manage its foreign currency risk arising from above 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 HKD, their borrowings are mostly denominated in HKD or USD. For managing the overall financing costs of existing and future capital requirements for the projects in Mainland China, the Group has adopted a diversified funding approach and has entered into certain cross currency interest rate swaps and forward foreign exchange contracts. Based on the prevailing accounting standards, the swaps and 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.

	2018					2017				
	USD Million	RMB Million	JPY Million	SGD Million	AUD Million	USD Million	RMB Million	JPY Million	SGD Million	AUD Million
The Group										
Bank deposits and cash	32	156	6	1	-	89	304	-	1	-
Other long term investments	1,535	-	-	-	-	-	-	-	-	-
Trade and other receivables	8	-	-	-	-	-	-	-	-	-
Trade and other payables	(7)	(7)	-	(1)	(2)	(8)	-	(3)	-	(2)
Bank loans and other borrowings	(540)	(7,215)	(17,466)	(260)	(110)	(617)	(5,800)	(11,962)	(260)	(110)
Inter-company balances	25	239	-	-	-	25	4,259	-	(250)	-
Gross exposure arising from recognised assets and liabilities	1,053	(6,827)	(17,460)	(260)	(112)	(511)	(1,237)	(11,965)	(509)	(112)
Notional amount of forward foreign exchange contracts										
- at fair value through profit or loss	1,225	4,000	7,000	-	-	1,670	-	7,000	-	-
Notional amount of cross currency IRS	(686)	1,215	10,500	260	110	(1,008)	1,800	5,000	510	110
Overall net exposure	1,592	(1,612)	40	-	(2)	151	563	35	1	(2)

In addition, at 31 December 2018, 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, trade and other payables, bank loans and inter-company borrowings in the amount of HK\$38 million, HK\$4 million, HK\$Nil and HK\$338 million respectively (2017: HK\$163 million, HK\$6 million, HK\$524 million and HK\$342 million respectively).

NOTES TO THE FINANCIAL STATEMENTS

Based on the sensitivity analysis performed on 31 December 2018, 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% (2017: 1%) increase/decrease of exchange rate against RMB and HKD, the Group's total equity would have increased/decreased by HK\$1,034 million (2017: HK\$970 million).

c. Equity price risk

The Group is exposed to equity price changes arising from equity investments held for long-term investment purpose.

Listed investments held in the investment portfolio 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 a sensitivity analysis performed as at 31 December 2018, it is estimated that an increase/decrease of 10% in the market value of the Group's listed 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\$2,920 million (2017: HK\$1,903 million). The analysis has been performed on the same basis as for 2017.

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.

Certain non-wholly-owned subsidiaries are responsible for their own cash management, including the short term investment of cash surpluses with creditworthy financial institutions and the raising of loans to cover expected cash demands, in accordance with the established policies and strategies with the concurrence of the Company.

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 the exchange rates prevailing at the end of the reporting period) and the earliest date the Group can be required to pay:

	Carrying amount	Contractual undiscounted cash flow				
		Total	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million
At 31 December 2018						
Bank loans and other borrowings	(43,086)	(47,457)	(13,514)	(10,518)	(18,911)	(4,514)
Trade and other payables	(20,427)	(20,427)	(19,166)	(1,101)	(149)	(11)
Forward foreign exchange contracts	99	99	73	15	25	(14)
Cross currency interest rate swaps	(475)	(396)	(125)	(50)	(135)	(86)
Interest rate swaps	27	32	34	10	4	(16)
	(63,862)	(68,149)	(32,698)	(11,644)	(19,166)	(4,641)
At 31 December 2017						
Bank loans and other borrowings	(36,409)	(40,136)	(9,424)	(12,196)	(13,783)	(4,733)
Trade and other payables	(16,982)	(16,982)	(15,004)	(1,154)	(794)	(30)
Forward foreign exchange contracts	77	77	21	20	29	7
Cross currency interest rate swaps	(626)	(527)	(148)	(162)	(140)	(77)
Interest rate swaps	(83)	(68)	(73)	(1)	26	(20)
	(54,023)	(57,636)	(24,628)	(13,493)	(14,662)	(4,853)

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 obligations and the maximum amount callable as at 31 December 2018 was HK\$36.4 billion (2017: HK\$29.3 billion).

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 policies (k). 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 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 27, the Group does not provide any other guarantee which would expose the Group or the Company to material credit risk.

NOTES TO THE FINANCIAL STATEMENTS

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:

	Fair value measurements as at 31 December 2018 categorised into		
	Level 1 HK\$ Million	Level 2 HK\$ Million	Total HK\$ Million
Assets			
Other long term investments:			
– Equity investments	29,198	–	29,198
– Unlisted investments	–	1,346	1,346
Derivative financial instruments:			
– Forward foreign exchange contracts	–	114	114
– Interest rate swaps	–	126	126
– Cross currency interest rate swaps	–	119	119
	29,198	1,705	30,903
Liabilities			
Derivative financial instruments:			
– Interest rate swaps	–	99	99
– Cross currency interest rate swaps	–	594	594
– Forward exchange contract	–	15	15
Bank loans and other borrowings:			
– Bonds and notes	–	11,834	11,834
– Bank loans	–	535	535
	–	13,077	13,077

	Fair value measurements as at 31 December 2017 categorised into		
	Level 1 HK\$ Million	Level 2 HK\$ Million	Total HK\$ Million
Assets			
Other long term investments:			
– Equity investments	19,025	–	19,025
– Unlisted investments	–	84	84
Derivative financial instruments:			
– Forward foreign exchange contracts	–	77	77
– Interest rate swaps	–	132	132
– Cross currency interest rate swaps	–	80	80
	19,025	373	19,398
Liabilities			
Derivative financial instruments:			
– Interest rate swaps	–	215	215
– Cross currency interest rate swaps	–	706	706
Bank loans and other borrowings:			
– Bonds and notes	–	12,138	12,138
	–	13,059	13,059

During the years ended 31 December 2018 and 2017, there were no transfers of instruments between Level 1 and Level 2 or transfers 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 the reporting period in which they occur.

Valuation techniques and inputs used in Level 2 fair value measurements:

The fair value of forward foreign exchange contracts in Level 2 is determined by using the forward exchange rates at the end of the reporting period and comparing them to the contractual rates.

The fair value of interest rate swaps and cross currency interest rate swaps in Level 2 is determined based on the amount that the Group would receive or pay to terminate the swaps at the end of the reporting period taking into account current interest rates and current creditworthiness of the swap counter-parties.

The fair values of bank loans and other borrowings in Level 2 is determined based on cash flows discounted using the Group's current incremental borrowing rates for similar types of borrowings with maturities consistent with those remaining for the debt being valued.

ii. Assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial assets and liabilities carried at cost or amortised cost are not materially different from their fair values as at 31 December 2018 and 2017.

NOTES TO THE FINANCIAL STATEMENTS

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 the 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 ratios and cash flow requirements, taking into account of 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 ratios as at 31 December 2018 and 2017 were as follows:

	2018 HK\$ Million	2017 HK\$ Million
Bank loans and other borrowings (Note 20)	43,086	36,409
Less: Bank deposits and cash (Note 17)	(17,448)	(45,697)
Net debt/(cash)	25,638	(9,288)
Shareholders' equity	135,424	141,974
Total equity	138,760	145,471
Net debt-to-shareholders' equity ratio	18.9%	N/A
Net debt-to-total equity ratio	18.5%	N/A

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

24. SHARE CAPITAL AND RESERVES

a. Share capital

	2018 No. of shares Million	2017 No. of shares Million	2018 HK\$ Million	2017 HK\$ Million
Issued and fully paid ordinary shares				
At 1 January	3,037	3,032	29,760	29,497
Shares issued under the share option scheme	10	5	413	263
At 31 December	3,047	3,037	30,173	29,760

In accordance with section 135 of the Hong Kong 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 the movements on revaluation of equity investments, other capital reserves for dealing with the grant date fair value of the granted unexercised share options in accordance with accounting policy note (v)(i), property revaluation reserve for dealing with the revaluation of properties held for own use in accordance with the accounting policy note (d)(iii) and the exchange reserves mainly for dealing with the exchange differences arising from the translation of the financial statements of foreign operations in accordance with the accounting policy note (o).

The revenue reserves of the Group at 31 December 2018 included HK\$2,249 million (2017: HK\$2,088 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	Other capital reserves HK\$ Million	Revenue reserves HK\$ Million	Total HK\$ Million
The Company				
At 1 January 2017	29,497	207	62,190	91,894
Profit	–	–	13,054	13,054
Shares issued under the share option scheme	263	(38)	–	225
Equity settled share-based payments	–	40	–	40
2016 second interim dividend paid	–	–	(4,762)	(4,762)
2017 first interim dividend paid	–	–	(1,943)	(1,943)
Dividend by way of distribution in specie	–	–	(1,562)	(1,562)
At 31 December 2017 and 1 January 2018	29,760	209	66,977	96,946
Profit	–	–	3,000	3,000
Shares issued under the share option scheme	413	(174)	–	239
Equity settled share-based payments	–	18	–	18
2017 second interim dividend paid	–	–	(2,893)	(2,893)
2018 first interim dividend paid	–	–	(762)	(762)
At 31 December 2018	30,173	53	66,322	96,548

- c.** Reserves of the Company available for distribution to equity shareholders of the Company as at 31 December 2018 amounted to HK\$66,322 million (2017: HK\$66,977 million).
- d.** After the end of the reporting period, the Directors declared a second interim cash dividend of HK\$0.40 per share (2017: second interim cash dividend of HK\$0.95 per share) amounting to HK\$1,219 million based on 3,047 million issued ordinary shares (2017: HK\$2,893 million based on 3,039 million issued ordinary shares). This dividend has not been recognised as a liability at the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

25. COMPANY LEVEL – STATEMENT OF FINANCIAL POSITION

	Note	2018 HK\$ Million	2017 HK\$ Million
Non-current assets			
Interest in subsidiaries		115,857	119,681
Loan to a subsidiary		6,848	4,785
Amount due from an associate		371	371
		123,076	124,837
Current assets			
Receivables		23	22
Bank deposits and cash		4	34
		27	56
Total assets		123,103	124,893
Non-current liabilities			
Bank loans and other borrowings		(2,283)	(4,785)
		(2,283)	(4,785)
Current liabilities			
Payables		(116)	(98)
Amounts due to subsidiaries		(19,058)	(22,531)
Amount due to an associate		(533)	(533)
Bank loans and other borrowings		(4,565)	–
		(24,272)	(23,162)
Total liabilities		(26,555)	(27,947)
NET ASSETS		96,548	96,946
Capital and reserves			
Share capital	24	30,173	29,760
Reserves		66,375	67,186
TOTAL EQUITY		96,548	96,946

Stephen T H Ng
Chairman & Managing Director

Paul Y C Tsui
Vice Chairman, Executive Director and Group Chief Financial Officer

26. MATERIAL RELATED PARTIES TRANSACTIONS

Material transactions between the Group and other related parties during the year ended 31 December 2018 are as follows:

- a. In respect of the year ended 31 December 2018, the Group earned rental income which included the following:
 - (i) there was HK\$154 million (2017: HK\$937 million) received from various tenants which are wholly or partly owned by companies which in turn are wholly-owned by the family interests of close family members of, or by a trust the settlor of which is a close family member of, the chairman of the Company's ultimate holding company.
 - (ii) in 2017, there was HK\$73 million received from various tenants which are subsidiaries of the Company's ultimate holding company, which also constitute connected transactions as defined under the Listing Rules.
- b. There were in existence agreements with subsidiaries of Wharf REIC for the management, marketing, project management and technical services on Wharf REIC's hotel operations. Total fees receivable under this arrangement during the current period amounted to HK\$107 million. Such transaction also constitutes a connected transaction as defined under Listing Rules.
- c. Remuneration for key management personnel of the Group, including amounts paid to the Directors of the Company and the five highest paid employees are disclosed in Notes 2(b) and 2(c).

In addition to the above transactions, details of the Group's amounts due from and to related parties are disclosed in Notes 10 and 11.

27. CONTINGENT LIABILITIES

As at 31 December 2018, there were contingent liabilities in respect of guarantees given by the Company on behalf of subsidiaries relating to overdrafts, short term loans and credit facilities, bonds and notes of up to HK\$57,166 million (2017: HK\$35,324 million). There were also contingent liabilities in respect of guarantees given by the Company on behalf of joint ventures and associates of HK\$1,998 million (2017: HK\$2,664 million) of which HK\$1,034 million (2017: HK\$892 million) had been drawn.

As at 31 December 2018, there were guarantees of HK\$3,273 million (2017: HK\$5,285 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\$1,780 million (2017: HK\$3,468 million) 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

28. COMMITMENTS

The Group's outstanding commitments as at 31 December 2018 are detailed as below:

a. Planned expenditure

	2018			2017		
	Committed HK\$ Million	Uncommitted HK\$ Million	Total HK\$ Million	Committed HK\$ Million	Uncommitted HK\$ Million	Total HK\$ Million
(I) Properties						
Investment properties						
Hong Kong	894	–	894	748	–	748
Mainland China	54	267	321	2,512	5,409	7,921
	948	267	1,215	3,260	5,409	8,669
Development properties						
Hong Kong	81	–	81	–	–	–
Mainland China	9,163	13,041	22,204	4,641	12,517	17,158
	9,244	13,041	22,285	4,641	12,517	17,158
Properties total						
Hong Kong	975	–	975	748	–	748
Mainland China	9,217	13,308	22,525	7,153	17,926	25,079
	10,192	13,308	23,500	7,901	17,926	25,827
(II) Others						
	3,612	70	3,682	113	26	139
	3,612	70	3,682	113	26	139
Total	13,804	13,378	27,182	8,014	17,952	25,966

- i. Properties commitments are mainly for construction costs to be incurred in the forthcoming years including HK\$1.3 billion (2017: HK\$2.0 billion) attributable land costs.
 - ii. The expenditure for development properties included attributable amounts for developments undertaken by joint ventures and associates of HK\$10,443 million (2017: HK\$7,211 million) in Mainland China.
- b. The Group leases a number of properties under operating leases. The leases typically run for an initial period of three years, with an option to renew each lease upon expiry when all terms are renegotiated. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals. Total operating leases commitments are detailed as below:

	2018 HK\$ Million	2017 HK\$ Million
Expenditure for operating leases		
Within one year	31	23
After one year but within five years	47	5
	78	28

29. CHANGES IN ACCOUNTING POLICIES

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new standards 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 15	Revenue from contracts with customers
Amendments to HKFRS 2	Share-based payment: Classification and measurement of share-based payment transactions
HK(IFRIC) 22	Foreign currency transactions and advance consideration
Amendment to HKAS40	Investment property: Transfers of investment property

HKFRS 9 has been early adopted in the year ended 31 December 2016, and the other of the above developments has had no significant impact on the Group's results and financial position for the current or prior periods have been prepared or presented.

HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 replaces Hong Kong Accounting Standard ("HKAS") 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specified the accounting for construction contracts.

The Group has elected to use the cumulative effect transition method for the adoption of HKFRS 15. As allowed by HKFRS 15, the Group applied the new requirements only to contracts that were not completed before 1 January 2018. Since the number of "open" contracts for sale of development properties at 31 December 2017 was immaterial, there was no material impact for the Group's results and financial position.

Further details of the nature and the changes on previous accounting policies are set out below:

(a) Timing of revenue recognition

HKFRS 15 does not have significant impact on how the Group recognises revenue from logistics and hotels operations. However, the timing of revenue recognition for sale of development properties is affected. The Group's property development activities are carried out in Hong Kong and Mainland China. Taking into account the contract terms, the Group's business practice and the respective local legal and regulatory environment of Hong Kong and Mainland China, the Group has assessed that its property sales contracts in Hong Kong and Mainland China do not meet the criteria for recognising revenue over time and therefore revenue from property sales in Hong Kong and Mainland China continues to be recognised at a point in time.

Previously the Group recognised revenue from property sales upon the later of the signing of the sale and purchase agreement and the issue of occupation permit/completion certificate by the relevant government authorities, which was taken to be the point in time when the risks and rewards of ownership of the property had been transferred to the customers. Under the transfer-of-control approach of HKFRS 15, revenue from sale of development properties in Hong Kong and Mainland China are generally 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. This resulted in the Group's revenue from sale of development properties being recognised later than the time it was recognised under the previous accounting policy.

(b) Significant financing component

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance or in arrears. Previously, the Group did not apply such a policy when payments were received in advance.

NOTES TO THE FINANCIAL STATEMENTS

Payments received in advance of revenue recognition are common in the Group's arrangements with its customers in its development property segment, when residential properties are marketed by the Group while the property is still under construction. In some situations, the customers agree to pay the balance of the consideration early while construction is still ongoing, rather than when legal assignment is completed or the property is accepted by the customer.

In assessing whether such advance payments schemes include a significant financing component, the Group has considered the length of time between the payment date and the completion date of legal assignment based on typical arrangements entered into with customers.

Where such advance payment schemes include a significant financing component, the transaction price will need to be adjusted to separately account for this component. Such adjustment will result in interest expense being accrued by the Group to reflect the effect of the financing benefits obtained from the customers during the period between the payment date and either the completion date of legal assignment or the date when the property is accepted by the customer, with a corresponding increase in revenue recognised from the sale of properties when control of the completed property is transferred to the customer.

(c) Presentation of contract assets and liabilities

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue (see accounting policy note (p)) before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. 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 (see accounting policy note (j)).

Previously, contract liabilities relating to sale of properties were presented in the statement of financial position as deposits from sale of properties. These deposits are regarded as contract liabilities upon the adoption of HKFRS 15.

Except for the foregoing, the Group has not adopted any new standard or interpretation that is not yet effective for the current accounting period.

The "principal accounting policies" set out on pages 156 to 175 summarise the accounting policies of the Group after the adoption of these policies to the extent that they are relevant to the Group.

30. FUTURE CHANGES IN ACCOUNTING POLICIES

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2018 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
HKFRS 16, Leases	1 January 2019
HK(IFRIC) 23, Uncertainty over income tax treatments	1 January 2019
Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019
Amendments to HKAS 28, Long-term interest in associates and joint ventures	1 January 2019
Amendments to HKFRS 10 and HKAS 28, Sale or contribution of assets between an investor and its associate or joint venture	A date to be determined by HKICPA

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 16, the actual impacts upon the initial adoption of the standard may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ended 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

HKFRS 16, Leases

As disclosed in principal accounting policies (i), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the consolidated income statement over the period of the lease.

Given the Group does not have material operating lease as a lessee, the Group considered that it is unlikely to have a significant financial impact on the consolidated financial statement of the Group upon the adoption of HKFRS 16.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019.

31. 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 6.

32. PARENT AND ULTIMATE HOLDING COMPANY

The Directors consider the parent and ultimate holding company at 31 December 2018 to be Wheelock and Company Limited, which is incorporated and listed in Hong Kong. Wheelock and Company Limited produces financial statements available for public use.

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Directors on 7 March 2019.

PRINCIPAL ACCOUNTING POLICIES

a. STATEMENT OF COMPLIANCE

These financial statements 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. 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 detailed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for the current accounting period of the Group and the Company. Note 29 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 2018 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 (w).

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 and 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 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 (k)(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 (k)(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 investees' 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 an associate or a joint venture, 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 associate or joint venture 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 associate or joint venture.

PRINCIPAL ACCOUNTING POLICIES

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 individual Company's statement of financial position, investments in associates and joint ventures are stated at cost less impairment losses (see note (k)(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 (k)(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 PROPERTY, PLANT AND EQUIPMENT

i. Investment properties

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

Investment properties are stated in the consolidated 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 (k)(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 (p)(i).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note (i)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note (i).

If the property was previously held for own use, then it is accounted for as property, plant and equipment up to the date of the change in use. Any difference at the date of the change in use between the carrying amount of the property and its fair value is recognised as a revaluation of property, plant and equipment in accordance with note (d)(iii) below, even if the property was previously measured at cost. Any existing or arising revaluation surplus previously recognised in other comprehensive income is not transferred to consolidated income statement at the date of transfer or on subsequent disposal of the investment property. However, on subsequent disposal, any existing revaluation surplus that was recognised when revaluation model was applied to the property may be transferred to revenue reserves.

ii. Hotel and club properties

Hotel and club properties are stated at cost less accumulated depreciation and impairment losses (see note (k)(ii)). Hotel properties under development are stated at cost less impairment losses (see note (k)(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 (k)(ii)) or fair value.

Changes arising on the revaluation of properties held for own use under fair value model are generally dealt with in other comprehensive income and are accumulated separately in equity in the property revaluation reserve. The only exceptions are as follows:

- when a deficit arises on revaluation, it will be charged to consolidated income statement to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and
- when a surplus arises on revaluation, it will be credited to consolidated income statement to the extent that a deficit on revaluation in respect of that same asset had previously been charged to consolidated income statement.

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. Any related revaluation surplus is transferred from the revaluation reserve to retained profits and is not reclassified to profit or loss.

PRINCIPAL ACCOUNTING POLICIES

e. DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

Depreciation is calculated to write-off the cost of items of property, 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 and club properties

Depreciation is provided on the cost of the leasehold land of hotel and club 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 40 years.

Depreciation of 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 the cost of the leasehold land of all other properties held for own use over the unexpired period of the lease. Costs of the buildings thereon are depreciated on a straight line basis over their unexpired period of leases or estimated useful live whichever is shorter.

Depreciation is provided on a straight line basis over their estimated useful lives of these assets of 3 to 25 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

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. Financial assets and financial liabilities are initially measured at fair value.

A financial asset or financial liability (unless it is a trade receivable without a significant financing component) 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 (FVOCI) – debt investment; FVOCI – 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.

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.

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.

All financial assets not classified and measured at amortised cost or FVOCI 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 FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are as follows:

The other long term investment 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 profit or loss; and
- equity investment securities designated as at FVOCI.

The Group elects to present in OCI changes in the fair value of investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

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

PRINCIPAL ACCOUNTING POLICIES

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 significant 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 profit or loss.
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 profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

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

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 investment, 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 profit or loss. 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 profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

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 new financial liability with modified terms is recognised in profit or loss.

PRINCIPAL ACCOUNTING POLICIES

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.

g. 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 profit or loss, 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 (note (h)).

At inception of designated hedging relationships, the Group documents the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

h. HEDGING

i. Fair value hedge

A fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the consolidated income statement. The gain or loss from remeasuring the hedging instrument at fair value together with the gain or loss on the hedged item attributable to the hedged risk are recorded in the consolidated income statement.

ii. Cash flow hedge

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gain or loss on remeasurement of the derivative financial instrument to fair value is recognised directly in other comprehensive income and accumulated separately in equity. The ineffective portion of any gain or loss is recognised immediately in the profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is reclassified from equity to be included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is reclassified from equity to the consolidated income statement in the same period or periods during which the asset acquired or liability assumed affects the consolidated income statement (such as when interest income or expense is recognised).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated gain or loss is reclassified from equity to the consolidated income statement in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss is reclassified from equity to the consolidated income statement immediately.

iii. Hedge of net investment in a foreign operation

The portion of the gain or loss on remeasurement to fair value of an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised directly in other comprehensive income and accumulated separately in equity in the exchange reserve until the disposal of the foreign operation, at which time the cumulative gain or loss is reclassified from equity to the consolidated income statement. The ineffective portion is recognised immediately in profit or loss. The amount recognised in other comprehensive income is reclassified to profit or loss as a reclassification adjustment on disposal of the foreign operation.

i. LEASED ASSETS

An arrangement comprising a transaction or a series of transactions is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

i. Classification of leased assets

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

- property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as an investment property, is 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 cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

ii. Assets held under operating leases

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss 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 leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note (d)(i)) or is held for development for sale (see note (l)).

PRINCIPAL ACCOUNTING POLICIES

iii. Assets held under finance leases

Where the Group acquires 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 are included in recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note (e). Impairment losses are accounted for in accordance with the accounting policy as set out in note (k)(ii). Finance charges implicit in the lease payments are 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 are charged to profit or loss in the accounting period in which they are incurred.

j. CONTRACT ASSETS AND LIABILITIES

A contract asset is recognised when the Group recognises revenue (see note (p)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses 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 (p)). 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.

k. 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

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. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– 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).

PRINCIPAL ACCOUNTING POLICIES

- *Recognition of impairment losses*

An impairment loss is recognised in profit or loss 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).

- *Reversals 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 an impairment loss 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 profit or loss 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.

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.

I. PROPERTIES FOR SALE

i. Completed properties for sale

Completed properties for sale are stated at the lower of cost and net realisable value. Cost is determined by apportionment of the total development costs, including borrowing costs capitalised (see note (q)), 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 for sale comprises 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 the lower of cost and net realisable value. Cost includes identified costs including the acquisition cost of land, aggregate cost of development, borrowing costs capitalised (see note (q)), material and supplies, wages, other direct expenses and an appropriate proportion of overheads. Net realisable value is estimated by management, taking into account the expected price that can ultimately be achieved, based on prevailing market conditions and the anticipated costs of 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.

m. INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is estimated by the management, based on the expected selling price in the ordinary course of business less the anticipated costs of completion and the estimated costs necessary to make the sale.

n. 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.

o. 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 recognised in equity 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.

PRINCIPAL ACCOUNTING POLICIES

p. 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. 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 asset. Lease incentives granted are recognised as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised in the accounting period in which they are earned.
- ii. Revenue arising from the sale of properties developed for sale in the ordinary course of business is recognised when legal assignment is completed or when the property is accepted by 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 as contract liabilities in the statement of financial position under "Deposits from sale of properties".

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 either the completion date of legal assignment or the date when the property is accepted by the customer. This accrual increases the balance of "Deposits from sale of properties" 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 (q)).

In the comparative period, revenue from sales of properties was recognised upon the later of the signing of the sale and purchase agreement and the completion of the properties, which was taken to be the point in time when the risks and rewards of ownership of the property had passed to the buyer. Deposits and instalments received on properties sold prior to the date of revenue recognition were included in the consolidated statement of financial position and no interest expense was accrued.

- iii. 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.
- iv. Interest income is recognised as it accrues using the effective interest method.
- v. Income received in advance attributable to long term service contracts is deferred and recognised over the contract period on a straight line basis.

q. 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 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.

r. 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 between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases respectively. 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 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 each of 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 will probably arise from the distribution of dividends are recognised when the related dividends are likely to be payable in the foreseeable future.

PRINCIPAL ACCOUNTING POLICIES

- 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.

s. 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 a 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) has 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.

t. 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 profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note (t)(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.

u. 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.

PRINCIPAL ACCOUNTING POLICIES

v. EMPLOYEE BENEFITS

i. Shared based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using Binomial Model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the consolidated income statement for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the other statutory capital reserves) or the option expires (when it is released directly to revenue reserves).

ii. Employee benefits and contributions to defined contribution retirement plans

Short-term employee benefits, including 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.

w. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Note 23 contain information about the assumptions and their risk relating to financial instruments. Other key sources of estimation uncertainty are as follows:

- **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 and redevelopment 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 sales prices and the appropriate capitalisation rate.

- **Assessment of the useful economic lives for depreciation of property, plant and equipment**

In assessing the estimated useful lives of property, 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 property, 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.

- **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 provision for properties for sale**

Management determines the net realisable value of properties for sale by using (i) prevailing market data such as most recent sale transactions and market survey reports available from independent property valuers; and (ii) 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 for sale. These estimates require judgement as to the anticipated sale prices by reference to recent sale transactions in nearby locations, rate 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.

- **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 cashflows.

PRINCIPAL SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

At 31 December 2018

Subsidiaries	Place of incorporation/ operation	Issued ordinary share capital/registered and paid up capital	Percentage of equity attributable to shareholders	Principal activities
Properties				
# Wharf Development Limited	Hong Kong	HK\$7,000,000,000 divided into 7,000,000,000 shares	100	Holding company
Wharf Peak Properties Limited	Hong Kong	HK\$30,000,000 divided into 3,000,000 shares	100	Property
New Tech Centre Limited	Hong Kong	HK\$10,000 divided into 10,000 shares	100	Property
Alpha Pioneer Limited	Hong Kong	HK\$1 divided into 1 share	100	Property
Horizon Moon Limited	Hong Kong	HK\$1 divided into 1 share	100	Property
Vision Charm Limited	Hong Kong	HK\$1 divided into 1 share	100	Property
Wealthy Bay Limited	Hong Kong	HK\$1 divided into 1 share	100	Property
# Wharf China Holdings (0004) Limited	British Virgin Islands	5,129,000,000 US\$1 shares	100	Holding company
Wharf China Estates (0004) Limited	British Virgin Islands	1,000,000 US\$1 shares	100	Holding company
Broader Link Investments Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Bucksfull Company Limited	Hong Kong	HK\$158 divided into 158 shares	100	Holding company
Cardell Company Limited	Hong Kong	HK\$2 divided into 2 shares	100	Holding company
Cheerwill Properties Limited	British Virgin Islands	500 US\$1 shares	100	Holding company
Chengdu IFC Development Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Genius View International Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Harriman China Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Holmwood Limited	Hong Kong	HK\$2 divided into 2 shares	100	Ownership of trade marks
Malaga Company Limited	Hong Kong	HK\$2 divided into 2 shares	100	Holding company
Merry Bond (0004) Limited	British Virgin Islands	500 US\$1 shares	100	Holding company
Radiant Lead Global Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Rising Chain International Limited	British Virgin Islands	500 US\$1 shares	100	Holding company
Sharp Hero Holdings Limited	British Virgin Islands	1 US\$1 share	100	Holding company
Singford International Limited	British Virgin Islands	500 US\$1 shares	100	Holding company
Strong Field International Limited	Hong Kong	HK\$1 divided into 1 share	100	Ownership of trade marks
Topusko Limited	Hong Kong	HK\$20 divided into 2 shares	100	Holding company
Treasure Board (0004) Limited	British Virgin Islands	1 US\$1 share	100	Holding company
Wharf Beijing Limited	Hong Kong	HK\$2 divided into 2 shares	100	Holding company
Wharf China Estates Limited	Hong Kong	HK\$1 divided into 1 share	100	Management services
Wharf Chongqing Limited	Hong Kong	HK\$2 divided into 2 shares	100	Holding company
Wharf Dalian Limited	Hong Kong	HK\$2 divided into 2 shares	100	Holding company
Wharf Estates China Limited	Hong Kong	HK\$2 divided into 2 shares	100	Holding company
Wharf Shanghai Estates Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Wise Noble Investments Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
ii Shanghai Long Xing Property Development Company Limited	The People's Republic of China	US\$45,000,000	100	Property
ii Dalian Times Square Development Company Limited	The People's Republic of China	RMB200,000,000	100	Property
ii Long Qing Property Development (Chongqing) Company Limited	The People's Republic of China	RMB223,533,440	100	Property
i Shanghai Wheelock Square Development Limited	The People's Republic of China	US\$144,000,000	98	Property
i 上海夏利文物業管理有限公司	The People's Republic of China	US\$500,000	100	Property management
i 大連時代豪庭物業管理有限公司	The People's Republic of China	RMB1,000,000	100	Property management

Subsidiaries	Place of incorporation/ operation	Issued ordinary share capital/registered and paid up capital	Percentage of equity attributable to shareholders	Principal activities
i 重慶時代廣場物業管理有限公司	The People's Republic of China	US\$70,000	100	Property management
ii 龍昌綜合開發(成都)有限公司	The People's Republic of China	HK\$221,000,000	100	Property
ii 龍錦綜合開發(成都)有限公司	The People's Republic of China	US\$1,786,000,000	100	Property
ii 成都時代奧特萊斯商業有限公司	The People's Republic of China	HK\$170,000,000	100	Property
i 成都夏利文物業管理有限公司	The People's Republic of China	RMB5,000,000	100	Property management
ii 長沙時代奧特萊斯商業有限公司	The People's Republic of China	US\$40,000,000	100	Property
ii 九龍倉(長沙)置業有限公司	The People's Republic of China	US\$1,292,000,000	100	Property
iv 龍潤房地產開發(成都)有限公司	The People's Republic of China	RMB20,000,000	100	Property
ii 九龍倉(北京)企業管理有限公司	The People's Republic of China	US\$2,000,000	100	Holding company
iv 致昌(北京)企業管理有限公司	The People's Republic of China	RMB10,000,000	100	Holding company
iv 大連德高企業管理有限公司	The People's Republic of China	RMB5,000,000	100	Holding company
iv 大連盈致企業管理有限公司	The People's Republic of China	RMB10,000,000	100	Holding company
Wharf China Development (0004) Limited	British Virgin Islands	1,000,000 US\$1 shares	100	Holding company
Advance Trend Holdings Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
All Delight Investments Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
All Genius Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Amicable Creation Company Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Apex Mind Holdings Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Bright Wave Group Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Booming Era Company Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Concept Plus Holdings Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Corning Holdings Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Creative City Investments Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Dragon Legacy Holdings Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Eventful Decade Company Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Fantastic Gain Company Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Fame Treasure International (0004) Limited	British Virgin Islands	500 US\$1 shares	100	Holding company
Famous Master International Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Favour Year Holdings Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Fine Noble Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Fine Super Holdings Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Flying Will Company Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Greatworth Investments Limited	Hong Kong	HK\$2 divided into 2 shares	100	Holding company
Global Bloom Investments Limited	Hong Kong	HK\$100,000,000 divided into 100,000,000 shares	100	Holding company
Go Triumph Company Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Great Venturer Company Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Harvest Moment Company Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Idea Treasure Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Joyful Honour Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Key Advance Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Lion Voice Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Main Light Holdings Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Master Joy Investments Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Max Speed International Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Mega Full Holdings Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Merit Joy Investments Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Merit Perfection Investments Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Noble Key Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company

PRINCIPAL SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

At 31 December 2018

Subsidiaries	Place of incorporation/ operation	Issued ordinary share capital/registered and paid up capital	Percentage of equity attributable to shareholders	Principal activities
One Victory Company Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Onyee Properties Limited	British Virgin Islands	500 US\$1 shares	100	Holding company
Perfect Joy Holdings Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Pilot Focus International Limited	British Virgin Islands	500 US\$1 shares	100	Holding company
Power Shine Investments Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Power Unicorn Holdings Limited	British Virgin Islands	1 US\$1 share	100	Holding company
Promise Well Investments Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Radiant South (0004) Limited	British Virgin Islands	500 US\$1 shares	100	Holding company
Real Sky Investments Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Rumba Company Limited	Hong Kong	HK\$10,000 divided into 10,000 shares	82	Holding company
Show All Limited	Hong Kong	HK\$2 divided into 2 shares	100	Holding company
Silver Zone International Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Simply Thrive Holdings Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Sino Season Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Sky Join Investments Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Sky Step (0004) Limited	British Virgin Islands	1 US\$1 shares	100	Holding company
Smart Bloom Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Smartworth Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Smooth Flow Investments Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
South Honest (0004) Limited	British Virgin Islands	500 US\$1 shares	100	Holding company
Star Apex International Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Star Colour (0004) Limited	British Virgin Islands	500 US\$1 shares	100	Holding company
Star Rank Investments Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Step Line Investments Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Sunny Point Holdings Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Total Up International Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Trade Right Investments Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Trendy Win Holdings Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Utmost Success Limited	Hong Kong	HK\$2 divided into 2 shares	100	Holding company
Walsham Holdings Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Wharf China Development Limited	Hong Kong	HK\$1 divided into 1 share	100	Management services
Wharf China Holdings Limited	Hong Kong	HK\$1 divided into 1 share	100	Management services
Wharf China Limited	British Virgin Islands	500 US\$1 shares	100	Holding company
Wharf CIM Limited	Hong Kong	HK\$2 divided into 2 shares	100	Holding company
Wharf Chengdu Limited	Hong Kong	HK\$2 divided into 2 shares	100	Holding company
Wharf (Jingan) Limited	Hong Kong	HK\$2 divided into 2 shares	100	Holding company
Wharf Ningbo Limited	Hong Kong	HK\$2 divided into 2 shares	100	Holding company
Wharf Shanghai Limited	Hong Kong	HK\$10,000,000 divided into 10,000,000 shares	100	Holding company
Wharf Wuhan Limited	Hong Kong	HK\$2 divided into 2 shares	100	Holding company
Wharf Properties China (0004) Limited	British Virgin Islands	500 US\$1 shares	100	Holding company
Wharf Properties China Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Wiser Global Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
ⁱⁱ 漢龍實業綜合開發(武漢)有限公司	The People's Republic of China	US\$33,100,000	100	Property
ⁱⁱ 九龍倉(武漢)置業有限公司	The People's Republic of China	US\$46,000,000	100	Property
ⁱ 武漢時代廣場物業管理有限公司	The People's Republic of China	US\$550,000	100	Property management
ⁱ 上海龍申房地產發展有限公司	The People's Republic of China	US\$22,330,000	55	Property

Subsidiaries	Place of incorporation/ operation	Issued ordinary share capital/registered and paid up capital	Percentage of equity attributable to shareholders	Principal activities
ii 上海莉源房地產開發有限公司	The People's Republic of China	US\$388,000,000	100	Property
ii 上海萊源房地產開發有限公司	The People's Republic of China	US\$35,000,000	100	Property
ii 上海清源房地產開發有限公司	The People's Republic of China	US\$70,000,000	100	Property
i 九龍倉(上海)企業管理有限公司	The People's Republic of China	US\$2,000,000	100	Management services
i 大上海時代廣場物業管理(上海)有限公司	The People's Republic of China	US\$500,000	100	Property management
ii 龍茂房地產開發(成都)有限公司	The People's Republic of China	HK\$26,000,000	100	Property
ii 龍悅房地產開發(成都)有限公司	The People's Republic of China	US\$3,000,000	100	Property
ii 龍嘉房地產開發(成都)有限公司	The People's Republic of China	HK\$275,500,000	100	Property
ii 蘇州蘇龍地產發展有限公司	The People's Republic of China	US\$6,800,000	100	Property
ii 蘇州瑞龍地產發展有限公司	The People's Republic of China	US\$63,000,000	100	Property
ii 蘇州銀龍地產發展有限公司	The People's Republic of China	US\$200,000,000	100	Property
iv 蘇州耀龍投資管理有限公司	The People's Republic of China	RMB5,000,000	100	Holding company
iv 蘇州祥龍地產發展有限公司	The People's Republic of China	RMB817,150,000	100	Holding company
iv 蘇州兆龍地產發展有限公司	The People's Republic of China	RMB2,289,110,000	100	Holding company
iv 楊州堡華房地產開發有限公司	The People's Republic of China	RMB500,000,000	100	Property
蘇州昌龍地產發展有限公司	The People's Republic of China	RMB2,181,500,000	100	Holding company
蘇州昇龍地產發展有限公司	The People's Republic of China	RMB2,855,000,000	100	Holding company
ii 九龍倉(無錫)置業有限公司	The People's Republic of China	US\$257,580,000	100	Property
i 無錫九龍倉物業管理有限公司	The People's Republic of China	US\$1,000,000	100	Property management
ii 無錫港龍置業有限公司	The People's Republic of China	US\$62,900,000	100	Property
ii 無錫河畔置業有限公司	The People's Republic of China	US\$20,400,000	100	Property
ii 無錫都會置業有限公司	The People's Republic of China	US\$50,600,000	100	Property
ii 港盈房地產(杭州)有限公司	The People's Republic of China	US\$16,990,000	100	Property
ii 九龍倉(杭州)置業有限公司	The People's Republic of China	US\$20,000,000	100	Property
ii 堡盈房地產(杭州)有限公司	The People's Republic of China	US\$20,000,000	100	Property
ii 錦興房地產開發(杭州)有限公司	The People's Republic of China	US\$126,000,000	100	Property
ii 洋立房地產(杭州)有限公司	The People's Republic of China	HK\$418,000,000	100	Property
ii 望華房地產(杭州)有限公司	The People's Republic of China	HK\$820,000,000	100	Property
ii 會盈房地產(杭州)有限公司	The People's Republic of China	US\$4,930,000	100	Holding company
ii 杭州杭龍置業管理有限公司	The People's Republic of China	US\$5,160,000	100	Holding company
ii 富景房地產開發(富陽)有限公司	The People's Republic of China	US\$16,000,000	100	Property
龍鼎房地產(杭州)有限公司	The People's Republic of China	HK\$1,996,959,479	100	Property
寰華房地產(杭州)有限公司	The People's Republic of China	HK\$3,442,577,644	100	Property
ii 寧波立成置業有限公司	The People's Republic of China	US\$42,000,000	100	Property
ii 九龍倉置業(廣州)有限公司	The People's Republic of China	HK\$1,000,000	100	Holding company
i 九龍倉置業(重慶)有限公司	The People's Republic of China	US\$300,000	100	Property
i 九龍倉(中國)物業管理有限公司	The People's Republic of China	HK\$60,000,000	100	Property management
i 九龍倉(中國)投資有限公司	The People's Republic of China	US\$30,000,007	100	Holding company
iv 大連時代廣場商業有限公司	The People's Republic of China	US\$4,500,000	100	Property
iv 杭州堡龍投資管理有限公司	The People's Republic of China	US\$15,000,000	100	Property management
Logistics				
Modern Terminals Limited	Hong Kong	HK\$82,049,200 divided into 70,116 shares	68	Container terminal
i Shenzhen Dachan Bay Modern Port Development Company, Limited	The People's Republic of China	RMB4,558,994,049	44	Container terminal

PRINCIPAL SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

At 31 December 2018

Subsidiaries	Place of incorporation/ operation	Issued ordinary share capital/registered and paid up capital	Percentage of equity attributable to shareholders	Principal activities
Hotels				
# Wharf Hotels Limited	British Virgin Islands	500 US\$1 shares	100	Holding company
Chengdu Niccolo Holdings (Hong Kong) Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Extra Talent Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Primal Talent Holdings Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Wharf China Hotels Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
Wharf Hotels Management Limited	Hong Kong	HK\$20 divided into 2 shares	100	Hotel
ii 武漢馬哥孛羅酒店有限公司	The People's Republic of China	US\$3,850,000	100	Hotel
ii 成都馬哥孛羅酒店有限公司	The People's Republic of China	US\$8,000,000	100	Hotel
ii 長沙尼依格羅酒店有限公司	The People's Republic of China	US\$8,000,000	100	Hotel
Investment and others				
Wharf CME2 Limited	British Virgin Islands/Hong Kong	500 US\$1 shares	100	Investment
Wharf Limited	Hong Kong	HK\$20 divided into 2 shares	100	Management services
Wharf Finance Limited	Hong Kong	HK\$2 divided into 2 shares	100	Finance
Wharf Finance (BVI) Limited	British Virgin Islands/Hong Kong	500 US\$1 shares	100	Finance
# Wharf Hong Kong Limited	Cayman Islands	500,000,000 US\$1 shares	100	Holding company
Wharf China Finance Limited	Hong Kong	HK\$5,000,000 divided into 5,000,000 shares	100	Finance
Wharf Finance (No.1) Limited	Hong Kong	HK\$2 divided into 2 shares	100	Finance
Wharf Finance (BVI) No. 1 Limited	British Virgin Islands/Hong Kong	500 US\$1 shares	100	Finance
Wharf Finance (HK) Limited	British Virgin Islands/Hong Kong	10 US\$1 shares	100	Finance
Wharf MTN (Singapore) Pte. Ltd	Singapore	2 SG\$1 shares	100	Finance
Every Success Holdings Limited	Hong Kong	HK\$1 divided into 1 share	100	Finance
Proper Run Limited	Hong Kong	HK\$1 divided into 1 share	100	Finance
Wobble Company Limited	Hong Kong	HK\$1 divided into 1 share	100	Finance
# Classic Partner Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company
# Spring Day Holdings Limited	Hong Kong	HK\$1 divided into 1 share	100	Holding company

Associates	Place of incorporation/ operation	Class of shares	Percentage of equity attributable to shareholders	Principal activities
Properties				
Cheerful Age Company Limited	Hong Kong	Ordinary	50	Holding company
Harpen Company Limited	Hong Kong	Ordinary	50	Holding company
Magic Delight Limited	Hong Kong	Ordinary	50	Holding company
Start Treasure Limited	Hong Kong	Ordinary	15	Property
Victor Choice Investments Limited	Hong Kong	Ordinary	49	Holding company
蘇州茂龍地產發展有限公司	The People's Republic of China	Registered	49	Property
蘇州雙湖房地產有限公司	The People's Republic of China	Registered	50	Property
天津港威房地產開發有限公司	The People's Republic of China	Registered	50	Property
天津雍景灣房地產開發有限公司	The People's Republic of China	Registered	50	Property
佛山招商九龍倉房地產有限公司	The People's Republic of China	Registered	50	Property
佛山依雲房地產有限公司	The People's Republic of China	Registered	50	Property
佛山依雲上園房地產有限公司	The People's Republic of China	Registered	50	Property
佛山依雲觀園房地產有限公司	The People's Republic of China	Registered	40	Property
佛山招商果嶺房地產有限公司	The People's Republic of China	Registered	40	Property
佛山信捷房地產有限公司	The People's Republic of China	Registered	50	Property
佛山依雲孝德房地產有限公司	The People's Republic of China	Registered	50	Property
佛山招商光華房地產有限公司	The People's Republic of China	Registered	50	Property
佛山招商中環房地產有限公司	The People's Republic of China	Registered	50	Property
廣州市萬尚房地產有限公司	The People's Republic of China	Registered	33	Property
北京廣盈房地產開發有限公司	The People's Republic of China	Registered	33	Property
北京亞林東房地產開發有限公司	The People's Republic of China	Registered	25	Property
北京亞林西房地產開發有限公司	The People's Republic of China	Registered	25	Property
北京亮馬置業有限公司	The People's Republic of China	Registered	40	Property
杭州築家房地產開發有限公司	The People's Republic of China	Registered	50	Property
蘇州孚元置業有限公司	The People's Republic of China	Registered	33	Property
杭州龍孜投資管理有限公司	The People's Republic of China	Registered	26	Property
蘇州工業園區圓嶽捷建設發展有限公司	The People's Republic of China	Registered	30	Property
杭州綠城九龍倉置業有限公司	The People's Republic of China	Registered	50	Property
浙江綠九置業有限公司	The People's Republic of China	Registered	50	Property
杭州綠九濱閑置業有限公司	The People's Republic of China	Registered	50	Property
杭州龍昊房地產開發有限公司	The People's Republic of China	Registered	22.5	Property
杭州綠九啟奧置業有限公司	The People's Republic of China	Registered	35	Property
杭州致謙投資有限公司	The People's Republic of China	Registered	50	Property
杭州綠城朝陽置業有限公司	The People's Republic of China	Registered	50	Property
杭州臻祿投資有限公司	The People's Republic of China	Registered	7	Holding company
杭州綠城桂溪房地產開發有限公司	The People's Republic of China	Registered	7	Property
龍景房地產(杭州)有限公司	The People's Republic of China	Registered	50	Property
Logistics				
Hong Kong Air Cargo Terminals Limited	Hong Kong	Ordinary	21	Air cargo terminal
Mega Shekou Container Terminals Limited	British Virgin Islands	Ordinary	14	Holding company

PRINCIPAL SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

At 31 December 2018

Joint ventures	Place of incorporation/ operation	Class of shares	Percentage of equity attributable to shareholders	Principal activities
Properties				
Market Prospect Limited	Hong Kong	Ordinary	50	Property
Elite Mind International Limited	Hong Kong	Ordinary	40	Holding company
Empire Land Investments Limited	Hong Kong	Ordinary	50	Holding company
Green Magic Investments Limited	Hong Kong	Ordinary	60	Holding company
Long Global Investment Limited	Hong Kong	Ordinary	30	Holding company
Tower Beyond Limited	Hong Kong	Ordinary	50	Holding company
Vanguard Insight Limited	Hong Kong	Ordinary	50	Holding company
Tartar Investments Limited	British Virgin Islands	Ordinary	30	Holding company
重慶嘉江房地產開發有限公司	The People's Republic of China	Registered	40	Property
重慶嘉益房地產開發有限公司	The People's Republic of China	Registered	50	Property
重慶尼依格羅酒店有限公司	The People's Republic of China	Registered	50	Hotel
浙江金盈置業有限公司	The People's Republic of China	Registered	50	Property
祥寶投資(成都)有限公司	The People's Republic of China	Registered	30	Property
天津贏超房地產開發有限公司	The People's Republic of China	Registered	50	Property
寧波姚景房地產開發有限公司	The People's Republic of China	Registered	50	Property
寧波瑞峰置業有限公司	The People's Republic of China	Registered	50	Property
蘇州皓龍地產發展有限公司	The People's Republic of China	Registered	60	Property
大連九龍倉綠城置業有限公司	The People's Republic of China	Registered	60	Property
上海龍驤房地產開發有限公司	The People's Republic of China	Registered	50	Property
深圳前晉置業有限公司	The People's Republic of China	Registered	50	Property
北京西局置業有限公司	The People's Republic of China	Registered	80	Property
廣州建融房地產開發有限公司	The People's Republic of China	Registered	18	Holding company
廣州建穗房地產開發有限公司	The People's Republic of China	Registered	18	Property
廣州安合房地產開發有限公司	The People's Republic of China	Registered	10	Property

Subsidiaries held directly

i This 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 foreign owned enterprise under PRC law

iv 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 2018, indirect subsidiaries of the Company except where marked #.
- b) The above list gives the principal subsidiaries, associates and joint ventures of the Group which, in the opinion of the Directors, principally affect the profit and assets of the Group.

c) Set out below is details of debt securities issued by the Company and wholly-owned subsidiaries of and guaranteed by the Company:

Name of subsidiary/Borrower	Description of debt securities	Outstanding principal amount
Wharf Finance (BVI) Limited	HK\$ Guaranteed Fixed Rate Notes due 2020 HK\$ Guaranteed Fixed Rate Notes due 2021 HK\$ Guaranteed Fixed Rate Notes due 2021 RMB Guaranteed Fixed Rate Notes due 2021 HK\$ Guaranteed Fixed Rate Notes due 2022 HK\$ Guaranteed Fixed Rate Notes due 2023	HK\$250 Million HK\$370 Million HK\$480 Million HK\$500 Million HK\$100 Million HK\$280 Million RMB215 Million HK\$200 Million HK\$300 Million
Wharf Finance Limited	US\$ Guaranteed Fixed Rate Notes due 2019 AUD Guaranteed Fixed Rate Notes due 2019 AUD Guaranteed Fixed Rate Notes due 2019 AUD Guaranteed Floating Rate Notes due 2019 US\$ Guaranteed Floating Rate Notes due 2019 US\$ Guaranteed Floating Rate Notes due 2020 US\$ Guaranteed Fixed Rate Notes due 2021 HK\$ Guaranteed Fixed Rate Notes due 2021 HK\$ Guaranteed Fixed Rate Notes due 2022 HK\$ Guaranteed Fixed Rate Notes due 2022 HK\$ Guaranteed Fixed Rate Notes due 2022 HK\$ Guaranteed Fixed Rate Notes due 2022 US\$ Guaranteed Fixed Rate Notes due 2022 HK\$ Guaranteed Fixed Rate Notes due 2023 HK\$ Guaranteed Fixed Rate Notes due 2023 HK\$ Guaranteed Fixed Rate Notes due 2024 HK\$ Guaranteed Fixed Rate Notes due 2025 HK\$ Guaranteed Fixed Rate Notes due 2027 HK\$ Guaranteed Fixed Rate Notes due 2040	US\$400 Million AUD70 Million AUD25 Million AUD15 Million US\$10 Million US\$20 Million US\$50 Million HK\$345 Million HK\$424 Million HK\$60 Million HK\$312 Million HK\$382 Million US\$60 Million HK\$100 Million HK\$100 Million HK\$500 Million HK\$200 Million HK\$195 Million HK\$185 Million HK\$177 Million HK\$800 Million HK\$230 Million HK\$250 Million
Wharf Finance (No. 1) Limited	RMB Guaranteed Fixed Rate Notes due 2019 HK\$ Guaranteed Fixed Rate Notes due 2019 HK\$ Guaranteed Fixed Rate Notes due 2020 HK\$ Guaranteed Fixed Rate Notes due 2020 HK\$ Guaranteed Fixed Rate Notes due 2020 HK\$ Guaranteed Fixed Rate Notes due 2020 RMB Guaranteed Fixed Rate Notes due 2020 RMB Guaranteed Fixed Rate Notes due 2020 RMB Guaranteed Fixed Rate Notes due 2020 SG\$ Guaranteed Fixed Rate Notes due 2021 RMB Guaranteed Fixed Rate Notes due 2023 JPY Guaranteed Fixed Rate Notes due 2026	RMB200 Million HK\$240 Million HK\$550 Million HK\$180 Million HK\$200 Million HK\$100 Million RMB100 Million RMB200 Million RMB300 Million SG\$260 Million RMB200 Million JPY10,000 Million
The Wharf (Holdings) Limited	RMB Fixed Rate Notes due 2019 RMB Fixed Rate Notes due 2020	RMB4,000 Million RMB2,000 Million

SCHEDULE OF PRINCIPAL PROPERTIES

As at 31 December 2018

APPROXIMATE GROSS FLOOR AREAS (sq.ft.)

Address	Total	Office	Retail	Residential	Others
HONG KONG					
Properties – Investment					
Units at Cable TV Tower, Hoi Shing Road, Tsuen Wan	566,000	–	–	–	566,000
Units at Strawberry Hill, 8 Plunkett's Road & 32 Plantation Road, The Peak	13,000	–	–	13,000	–
Chelsea Court, 63 Mount Kellett Road, The Peak	43,000	–	–	43,000	–
11 Plantation Road, The Peak	46,300	–	–	46,300	–
1 Plantation Road, The Peak	91,000	–	–	91,000	–
77 Peak Road, The Peak	42,200	–	–	42,200	–
Kowloon Godown, 1-5 Kai Hing Road, Kowloon Bay	1,032,000	–	–	–	1,032,000
	1,833,500	–	–	235,500	1,598,000
Total Hong Kong Property – Investment	1,833,500	–	–	235,500	1,598,000
Property – Development					
Kowloon Tong Residential Project, Lung Cheung Road, Kowloon	436,400	–	–	436,400	–
One Midtown, 11 Hoi Shing Road, Tsuen Wan	1,900	–	–	–	1,900
Peninsula East, 5 Tung Yuen Street, Yau Tong	42,600	–	42,600	–	–
	480,900	–	42,600	436,400	1,900
Associates/joint ventures (Attributable – Note g)					
Various Lots at Yau Tong Bay, Yau Tong	611,400	–	13,700	597,700	–
Mount Nicholson, 8 Mount Nicholson Road, The Peak	52,100	–	–	52,100	–
	663,500	–	13,700	649,800	–
Total Hong Kong Property – Development	1,144,400	–	56,300	1,086,200	1,900
HONG KONG TOTAL	2,977,900	–	56,300	1,321,700	1,599,900

(Remarks)	Site Area (sq.ft.)	Lot Number	Lease Expiry	Year of Completion/ Expected Completion	Stage of Completion	Effective Equity Interest to the Company
(Industrial)	N/A	TWTL 218	2047	1992	N/A	100%
	N/A	RBL 512 & 1004	2027/28	1974/77	N/A	100%
	29,640	RBL 556 S.A.R.P. & S.B.	2035	2001	N/A	100%
	32,145	RBL 522, 639, 661	2027	2017	Fitout works in progress	100%
	97,670	RBL 534 S.E., S.F. & R.P.	2028	2021	Superstructure in progress	100%
	76,726	RBL 836	2029	2017	Fitout works in progress	100%
(Industrial)	165,809	NKIL 5805, 5806 & 5982	2047	1984	Planning for redevelopment	100%
	121,224	NKIL 6579	2068	2023	Foundation under preparation	100%
	66,000	TWIL 36	2047	2012	N/A	100%
	42,625	YTIL 40 RP	2062	2016	N/A	100%
	816,872	R.P. of YTML 22 & ext., YTML 28 & ext., YTML 29 & ext., and YTML 12, 32 and 33 together with adjoining lots at Yau Tong Bay	2047	N/A	Planning stage	15%
	250,930	IL9007	2060	2016	N/A	50%

SCHEDULE OF PRINCIPAL PROPERTIES

As at 31 December 2018

Address	APPROXIMATE GROSS FLOOR AREAS (sq.ft.)				
	Total	Office	Retail	Residential	Others
MAINLAND CHINA					
Property – Investment					
Completed Investment Properties					
Shanghai Times Square 93-111 Huai Hai Zhong Road, Shanghai	973,000	331,000	447,000	195,000	–
Chongqing Times Square 100 Zou Rong Road, Yuzhong District, Chongqing	591,800	13,800	578,000	–	–
Wuhan Times Square 160 Yan Jiang Da Dao, Jiangan District, Wuhan	8,000	–	8,000	–	–
Dalian Times Square 50 Ren Min Road, Zhongshan District, Dalian	188,000	–	188,000	–	–
Times Outlets Chengdu No. 99 Shuangnan Avenue (Middle Section) Shuangliu County, Chengdu	680,000	–	680,000	–	–
Chengdu International Finance Square Junction of Hongxing Road and Da Ci Si Road, Jinjiang District	6,042,000	3,092,000	2,195,000	755,000	–
Wuxi International Finance Square Taihu Plaza, Nanchang District, Wuxi	2,036,000	2,036,000	–	–	–
Chongqing International Finance Square Zones A of Jiangbei City, Jiang Bei District, Chongqing (Attributable – Note g)	1,654,000	1,066,000	588,000	–	–
Shanghai Wheelock Square 1717 Nan Jing Xi Road, Jing'an District, Shanghai	1,199,000	1,149,000	50,000	–	–
Changsha International Finance Square Furong District, Changsha	2,644,000	–	2,644,000	–	–
Times Outlets Changsha 168 Ou Zhou Bei Lu, Jinzhou New District Industrial Concentration Zone Changsha, Hunan China	772,000	–	772,000	–	–
	<u>16,787,800</u>	<u>7,687,800</u>	<u>8,150,000</u>	<u>950,000</u>	<u>–</u>
Investment Properties Under Development					
Shenzhen Qianhai Apartment Project Site no. T102-0262, Qianhai, Nanshan District, Shenzhen (Attributable – Note g)	274,000	–	43,000	226,000	5,000
	<u>274,000</u>	<u>–</u>	<u>43,000</u>	<u>226,000</u>	<u>5,000</u>
Marco Polo Wuhan 160 Yan Jiang Da Dao, Jiangan District, Wuhan	405,000	–	–	–	405,000
Niccolo Chengdu Tower 3, IFS, No. 1, Section 3, Hongxing Road Jinjiang District, Chengdu, Sichuan 610021, China	448,000	–	–	–	448,000
Niccolo Changsha Tower 1, Changsha IFS, 188 Jiefang West Road, Furong District, Changsha, Hunan 410005, China	442,000	–	–	–	442,000
Niccolo Chongqing Tower 1, Chongqing IFS, 38 North Avenue Jiangbeicheng, Jiangbei District, Chongqing 400023, China (Attributable – Note g)	219,000	–	–	–	219,000
	<u>1,514,000</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,514,000</u>
Total Mainland China Property – Investment	<u>18,575,800</u>	<u>7,687,800</u>	<u>8,193,000</u>	<u>1,176,000</u>	<u>1,519,000</u>

(Remarks)	Site Area (sq.ft.)	Lot Number	Lease Expiry	Year of Completion/ Expected Completion	Stage of Completion	Effective Equity Interest to the Company
	148,703	N/A	2043	1999	N/A	100%
	95,799	N/A	2050	2004	N/A	100%
	(a)	N/A	2053	2008	N/A	100%
	(b)	N/A	2039	2008	N/A	100%
	(c)	N/A	2047	2009	N/A	100%
	(d)	N/A	2047/79	2013/14/16	N/A	100%
	313,867	N/A	2047/57	2014	N/A	100%
	(e)	N/A	2051	2017	N/A	50%
	136,432	N/A	2049	2010	N/A	98%
	(f)	N/A	2051	2018	N/A	100%
	1,299,000	N/A	2055	2016	N/A	100%
	80,000	N/A	2057	2021	Foundation in progress	50%
(A 356-room hotel)	(a)	N/A	2053	2008	N/A	100%
(A 230-room hotel)	(d)	N/A	2049	2015	N/A	100%
(A 243-room hotel)	(f)	N/A	2051	2018	N/A	100%
(A 252-room hotel on 100% ownership)	(e)	N/A	2051	2017	N/A	50%

SCHEDULE OF PRINCIPAL PROPERTIES

As at 31 December 2018

Address	APPROXIMATE GROSS FLOOR AREAS (sq.ft.)				
	Total	Office	Retail	Residential	Others
Property – Development					
Hangzhou Palazzo Pitti	1,000	–	–	1,000	–
Hangzhou Hangyimian Lot C/D					
Gongshu District Gongchen Bridge West, Hangzhou					
Hangzhou Royal Seal	44,000	–	–	44,000	–
Lot#FG05 of Wenhui Road, Hangzhou					
Hangzhou Imperial Park	324,000	–	–	324,000	–
Lot#XC0502-R21-40, Santang Unit, Xiacheng District, Hangzhou					
Shi Ji Hua Fu	78,000	–	76,000	2,000	–
Yingbin North Road/Fengshou Road, Fuchun District, Fuyang, Hangzhou					
Junting	1,006,000	–	–	1,006,000	–
Hangzhou Qianjiang Economic Development Area					
09 Provincial Road/Kangxin Road, Yuhang District, Hangzhou					
Longxi	456,000	–	–	456,000	–
Site GS05-R21-14, Shenhua Unit, Gongshu District, Hangzhou					
Longxi	5,000	–	–	5,000	–
Site GS05-R21-A01, Shenhua Unit, Gongshu District, Hangzhou					
Qinglong #84	748,000	–	–	748,000	–
Site FG01-R21-07, Qinglong Unit, Gongshu District, Hangzhou					
Qinglong #92	452,000	–	–	452,000	–
Site FG01-R21-05, Qinglong Unit, Gongshu District, Hangzhou					
Shanghai Pudong Huangpujiang	274,000	–	–	274,000	–
Site #E18 of Pudong Huangpujiang Riverside, Shanghai					
Jingan Garden	763,000	–	–	763,000	–
398 Wanhangdu Road, Jingan District, Shanghai					
Shanghai Pudong Zhoupu	59,000	–	–	59,000	–
Site #08, lot 06-05 of Zhoupu Town, Pudong District, Shanghai					
Bellagio	320,000	–	–	320,000	–
Wang Wu Lu, Guo Sin Lu, Wu Chong New District, Suzhou					
Suzhou Wuzhong Lot #24	320,000	–	–	320,000	–
East of Ying Chun Lu, Guo Xin Qu, Wu Zhong District, Suzhou					
Suzhou Xiangcheng Yangcheng Lake Lot #27	2,185,000	–	12,000	2,173,000	–
South of Yang Cheng Hu Zhen Xiang Zhou Road, East of Shun Xian Road, Xiangcheng District, Suzhou					
Suzhou Xiangcheng Yuan He Street Lot #77	1,306,000	–	–	1,306,000	–
South of Yuan He Street An Yuan Road, East of Wen Ling Road, Xiangcheng District, Suzhou					
Suzhou Huayuan Road Lot #78	1,781,000	–	–	1,781,000	–
North of HuangQiao Street HuaYuan Road, East of TongHu Road, Xiangcheng District, Suzhou					
Wuxi Glory of Time	221,000	–	111,000	110,000	–
Nanchang District and abutting on Jinhang Canal, Wuxi					
Wuxi Times City	61,000	–	–	61,000	–
Taihu Plaza, Nanchang District, Wuxi					
Wuxi Xiyuan	119,000	–	–	119,000	–
Nanchang District and abutting on Jinhang Canal, Wuxi					
River Pitti	712,000	–	–	712,000	–
Nanchang District and abutting on Jinhang Canal, Wuxi					
The Orion	50,000	–	–	50,000	–
Bounded by Dongdajie south, Jinhua Nan Lu east and Datiankan Jie north, Jinjiang District, Chengdu					
Tian Fu Times Square	28,000	–	28,000	–	–
Junction of Dong Da Jie & Fu He, Jinjiang District, Chengdu					

(Remarks)	Site Area (sq.ft.)	Lot Number	Lease Expiry	Year of Completion/ Expected Completion	Stage of Completion	Effective Equity Interest to the Company
	914,000	N/A	2080	2016	N/A	100%
	258,358	N/A	2080	2017	N/A	100%
	115,648	N/A	2087	2021	Foundation in progress	100%
	553,442	N/A	2051/81	2015	N/A	100%
	1,315,296	N/A	2081	2020	Superstructure in progress	100%
	211,685	N/A	2086	2019	Superstructure in progress	100%
	198,596	N/A	2085	2017	N/A	100%
	356,321	N/A	2088	2022	Planning stage	100%
	180,824	N/A	2088	2022	Foundation in progress	100%
	585,723	N/A	2081	2017	N/A	100%
	170,825	N/A	2043/63	2020	Superstructure in progress	55%
	526,905	N/A	2083	2016	N/A	100%
	2,501,747	N/A	2081	2020	Superstructure in progress	100%
	181,643	N/A	2087	2021	Planning stage	100%
	1,112,825	N/A	2057/87	2020	Superstructure in progress	100%
	533,173	N/A	2058/88	2020	Planning stage	100%
	1,013,022	N/A	2088	2020	Planning stage	100%
	1,276,142	N/A	2078	2018	N/A	100%
	3,314,418	N/A	2078	2018	N/A	100%
	1,416,822	N/A	2078	2020	Superstructure in progress	100%
	2,121,662	N/A	2048/78	2019	Superstructure in progress	100%
	160,000	N/A	2079	2013	N/A	100%
	761,520	N/A	2045/75	2013	N/A	100%

SCHEDULE OF PRINCIPAL PROPERTIES

As at 31 December 2018

Address	APPROXIMATE GROSS FLOOR AREAS (sq.ft.)				
	Total	Office	Retail	Residential	Others
Times Town, Shuangliu Development Zone Junction of Shuang Nan Avenue and Guang Hua Avenue, Shuangliu County, Chengdu	4,088,000	2,348,000	962,000	778,000	–
Chengdu Times City Shuangliu Huayang Street, Qinghe Community Group 8 and Gongxing Street Outang Village Group 5, Chengdu	1,249,000	–	88,000	1,161,000	–
Le Palais Lot No. 8 along Section 3 of the 2nd Ring Road East, Chenghua District, Chengdu	43,000	–	41,000	2,000	–
Changsha International Finance Square Furong District, Changsha	4,447,000	3,264,000	–	753,000	430,000
Dalian Times Square 50 Ren Min Road, Zhongshan District, Dalian	10,000	–	–	10,000	–
	21,150,000	5,612,000	1,318,000	13,790,000	430,000
Associates/joint ventures (Attributable – Note g)					
Evian Kingbay North of Jihua Bridge, Chancheng District, Foshan	58,000	–	–	58,000	–
Evian Capital Beihu Yi Road, Luocun, Shishan, Nanhai District, Foshan	38,000	–	36,000	2,000	–
Unique Garden East of Wenhua Lu, Chancheng District, Foshan	78,000	–	11,000	67,000	–
Sunrise Coast South of Jinchang South Lu, Chencunzhen, Shunde District, Foshan	709,000	–	34,000	675,000	–
Rosy Mansion West of Shalong Lu, Jiujiangzhen, Nanhai District, Foshan	1,219,000	–	30,000	1,189,000	–
Glory Garden West of Jiansheyi Lu, Southwest Street, Sanshui District, Foshan	1,192,000	–	10,000	1,182,000	–
Donghui City Guangzhou Development Zone KXCD-D1-2 Project	2,000	–	–	2,000	–
Guangzhou Central Manor Guangzhou Baiyun District Shijing Town Shitan Road No. 444	235,000	–	4,000	231,000	–
Guangzhou Baiyun Shucai Yanjiu Suo Guangzhou Baiyun District Guanghuayi Road East	83,000	–	–	83,000	–
Unique Garden Laiguangying Central Street, Chaoyang District, Beijing	13,000	–	11,000	2,000	–
The Pearl on the Crown South 2nd Ring, Fengtai District, Beijing	168,000	–	–	58,000	110,000
Crown Land South 2nd Ring, Fengtai District, Beijing	290,000	–	–	290,000	–
One LiangMa North to Jiu Xianqiao South Street, East to Jiangtai East Road, South to Liangmahe North Road, West to planning road, Chaoyang District, Beijing	535,000	–	60,000	385,000	90,000
West Manor Near to Lize Bridge NW corner, Beijing	1,083,000	–	–	856,000	227,000
Scenery Bay Intersection of Hedong Road and Kunlun Road, Hedong District, Tianjin	42,000	–	39,000	3,000	–
Willow Breeze Hangzhou Binjiang District Site R21-6,7	408,000	–	–	408,000	–
Hangzhou Osmanthus Grace Hangzhou Xiaoshan Xingyi Road #18 Site	269,000	–	1,000	268,000	–
Tian Ju Mansion Hangzhou Xiaoshan Boxue Road #16 Site	339,000	–	1,000	338,000	–

(Remarks)	Site Area (sq.ft.)	Lot Number	Lease Expiry	Year of Completion/ Expected Completion	Stage of Completion	Effective Equity Interest to the Company
	(c)	N/A	2047/77	2022	Superstructure in progress	100%
	800,882	N/A	2053/83	2021	Superstructure in progress	100%
	1,130,000	N/A	2050/80	2016	N/A	100%
(A 200-room hotel)	(f)	N/A	2051	2020	Superstructure in progress	100%
	(b)	N/A	2069	2009	N/A	100%
	639,000	N/A	2083	2017	N/A	50%
	1,069,000	N/A	2083	2018	N/A	50%
	305,722	N/A	2055/85	2018	N/A	40%
	740,000	N/A	2056/86	2019	Superstructure in progress	40%
	876,000	N/A	2057/87	2021	Superstructure in progress	50%
	759,000	N/A	2057/87	2021	Superstructure in progress	50%
	1,181,000	N/A	2081	2016	N/A	33%
	395,000	N/A	2087	2021	Superstructure in progress	18%
	308,000	N/A	2087	2021	Foundation in progress	10%
	783,000	N/A	2082	2017	N/A	33%
	582,000	N/A	2085	2018	N/A	25%
	680,000	N/A	2085	2019	Superstructure in progress	25%
	605,000	N/A	2086	2020	Superstructure in progress	40%
	395,000	N/A	2087	2021	Foundation in progress	80%
	902,000	N/A	2083	2018	N/A	50%
	207,772	N/A	2055/85	2019	Superstructure in progress	50%
	289,476	N/A	2057/87	2020	Superstructure in progress	35%
	1,506,379	N/A	2057/87	2020	Superstructure in progress	22.5%

SCHEDULE OF PRINCIPAL PROPERTIES

As at 31 December 2018

Address	Total	APPROXIMATE GROSS FLOOR AREAS (sq.ft.)			
		Office	Retail	Residential	Others
Hangzhou Guiyu Chaoyang Hangzhou Xiaoshan Shixin Road (next to Chaoyang MTR Station)	1,029,000	–	20,000	1,009,000	–
Longfor Jade Mansion Hangzhou Jianggan Yao Xiang Road/Kai Chuang Jie Junction	318,000	–	–	318,000	–
Qinglong #28 Site FG01-R21-06, Qinglong Unit, Gongshu District, Hangzhou	563,000	–	2,000	561,000	–
Suzhou Yuanhe Road Suzhou Xiang Cheng District Yuanhe Road	976,000	–	–	976,000	–
Villa One The Junction between Hua Yuan Road and Tong Hu Road, Hu Qiu Wetland Park, Xiang Cheng District, Suzhou	642,000	–	–	642,000	–
Suzhou Huangpu Street Lot #82 East & West of ShiShan Street, South of ZhuYuan Road, Suzhou New District, Suzhou	560,000	–	–	560,000	–
Suzhou Xingtangjie East Site Suzhou Xingtang Street East & Chaoyang Road South	385,000	–	–	385,000	–
The Berylville Site E-4#, 7#, 8#, 12# & 13#, Shuixianglinli Eastern New Town, Ningbo	4,000	–	–	4,000	–
Garden Valley Taoyuan Area, Jiefang Road, Zhongshan District, Dalian	537,000	–	–	537,000	–
Chengdu ICC South of Shuanggui Road, North of Niusha Road East of Erhuan Road, West of Shahe, Jinjiang District, Chengdu	3,367,200	1,182,000	404,300	1,671,000	109,900
The Throne Zones C of Jiangbei City, Jiang Bei District, Chongqing	1,501,000	–	69,000	1,432,000	–
International Community Zone C of Danzishi, Nanan District, Chongqing	1,870,000	–	830,000	1,040,000	–
Total Mainland China Property – Development	18,513,200	1,182,000	1,562,300	15,232,000	536,900
MAINLAND CHINA TOTAL	39,663,200	6,794,000	2,880,300	29,022,000	966,900
GROUP PROPERTY – INVESTMENT	20,409,300	7,687,800	8,193,000	1,411,500	3,117,000
GROUP PROPERTY – DEVELOPMENT	40,807,600	6,794,000	2,936,600	30,108,200	968,800
GROUP TOTAL (Note i)	61,216,900	14,481,800	11,129,600	31,519,700	4,085,800

Notes:

- (a) This property forms part of Wuhan Times Square which has a total site area of 188,090 sq. ft.
- (b) This property forms part of Dalian Times Square which has a total site area of 171,356 sq. ft.
- (c) This property forms part of Chengdu Shuangliu Development Zone which has a total site area of 3,900,589 sq. ft.
- (d) This property forms part of Chengdu International Finance Square which has a total site area of 590,481 sq. ft.
- (e) This property forms part of Chongqing International Finance Square which has a total site area of 516,021 sq. ft.
- (f) This property forms part of Changsha International Finance Square which has a total site area of 800,452 sq. ft.
- (g) The floor areas of properties held through joint ventures and associates are shown on an attributable basis.
- (h) Total Mainland development properties area included 7,605,000 sq. ft. pre-sold areas which have not yet been recognised in the financial statements.
- (i) In addition to the above floor areas, the Group has total attributable carpark areas of approximately 22 million sq. ft. mainly in Mainland China.
- (j) In January 2019, the Group acquired one site in Suzhou for RMB628 million (GFA: 23,700 square metres) on an attributable basis.

(Remarks)	Site Area (sq.ft.)	Lot Number	Lease Expiry	Year of Completion/ Expected Completion	Stage of Completion	Effective Equity Interest to the Company
	754,869	N/A	2058/88	2021	Superstructure in progress	50%
	562,451	N/A	2058/88	2021	Superstructure in progress	26%
	606,185	N/A	2088	2022	Planning stage	50%
	1,206,849	N/A	2087	2021	Superstructure in progress	33%
	724,116	N/A	2087	2020	Superstructure in progress	60%
	582,332	N/A	2088	2019	Superstructure in progress	49%
	770,261	N/A	2088	2021	Foundation in progress	30%
	708,142	N/A	2080	2018	N/A	50%
	922,475	N/A	2083	2019	Superstructure in progress	60%
	2,212,128	N/A	2048/78	2014 and beyond	Superstructure in progress	30%
	2,335,535	N/A	2050/60	2019	Superstructure in progress	50%
	6,080,656	N/A	2047/57	2020	Superstructure in progress	40%

TEN-YEAR FINANCIAL SUMMARY

Year ended 31 December	2018 HK\$ Million	2017 HK\$ Million	2016 HK\$ Million	2015 HK\$ Million	2014 HK\$ Million
Consolidated Income Statement					
Revenue	21,055	43,273	46,627	40,875	38,136
Operating profit	8,752	20,622	17,065	14,853	14,283
Underlying net profit (Note a)	6,511	15,924	13,754	10,969	10,474
Profit before property revaluation surplus	6,158	20,143	20,534	9,793	8,247
Profit attributable to equity shareholders	6,623	21,876	21,440	16,024	35,930
Dividends attributable to shareholders (Note d)	1,981	4,836	6,520	5,759	5,486
Consolidated Statement of Financial Position					
Investment properties	74,738	82,128	319,298	310,177	301,890
Property, plant and equipment	13,670	13,201	20,735	22,779	25,027
Interest in associates/joint ventures	41,859	30,445	31,147	35,397	41,479
Other long term investments	30,544	19,109	5,723	8,102	3,740
Properties for sale	45,954	25,200	23,874	37,768	47,543
Bank deposits and cash	17,448	45,697	36,957	23,510	18,725
Other assets	3,136	6,867	6,093	6,183	6,254
Total assets	227,349	222,647	443,827	443,916	444,658
Bank loans and other borrowings	(43,086)	(36,409)	(60,794)	(70,707)	(77,984)
Other liabilities	(45,503)	(40,767)	(57,627)	(56,029)	(52,563)
Net assets	138,760	145,471	325,406	317,180	314,111
Share capital and other statutory capital reserves	30,173	29,760	29,497	29,441	29,376
Reserves	105,251	112,214	287,297	278,287	276,119
Shareholders' equity	135,424	141,974	316,794	307,728	305,495
Non-controlling interests	3,336	3,497	8,612	9,452	8,616
Total equity	138,760	145,471	325,406	317,180	314,111
Net debt/(cash)	25,638	(9,288)	23,837	47,197	59,259
Financial Data					
<i>Per share data</i>					
Earnings per share (HK\$)					
– Underlying net profit	2.14	5.25	4.54	3.62	3.46
– Before property revaluation surplus	2.02	6.64	6.77	3.23	2.72
– Attributable to equity shareholders	2.18	7.21	7.07	5.29	11.86
Net asset value per share (HK\$)	44.45	46.75	104.48	101.53	100.82
Cash dividends per share (HK\$ Cents) (Note d)	65.00	159.00	215.00	190.00	181.00
<i>Financial ratios</i>					
Net debt to shareholders' equity (%)	18.9%	N/A	7.5%	15.3%	19.4%
Net debt to total equity (%)	18.5%	N/A	7.3%	14.9%	18.9%
Interest cover (Times) (Note c)	6.5	12.9	8.5	7.6	6.1
Return on shareholders' equity (%) (Note b)	4.8%	9.5%	6.9%	5.2%	12.4%
Dividend payout (%)					
– Underlying net profit	30.4%	30.4%	47.4%	52.5%	52.4%
– Attributable to equity shareholders	29.9%	22.1%	30.4%	35.9%	15.3%

Notes:

- (a) Underlying net profit primarily excludes investment property revaluation surplus, mark-to-market changes on financial instruments and non-recurring items including the gain of HK\$4,499 million from disposal of investment properties in 2017, the gain of HK\$7,260 million from disposal of Wharf T&T in 2016, the loss of HK\$1,620 million from the deemed disposal of Greentown interest on reclassification as financial investment and the attributable gain of HK\$613 million from disposal of 50% interest in Taicang in 2015, the accounting gain from the acquisition of interests in Greentown of HK\$2,233 million in 2012, revaluation of Hactl interest/tax write-back of HK\$1,246 million in 2010 and profit on disposal of Beijing Capital Times Square of HK\$1,393 million in 2009.
- (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 and fair value gain/loss).

Year ended 31 December	2013 HK\$ Million	2012 HK\$ Million	2011 HK\$ Million	2010 HK\$ Million	2009 HK\$ Million
Consolidated Income Statement					
Revenue	31,887	30,856	24,004	19,380	17,553
Operating profit	13,280	14,170	11,388	9,372	8,554
Underlying net profit (Note a)	11,298	11,040	8,083	7,088	6,420
Profit before property revaluation surplus	12,206	13,927	6,727	7,905	7,817
Profit attributable to equity shareholders	29,380	47,263	30,568	35,750	19,256
Dividends attributable to shareholders (Note d)	5,151	4,998	3,211	2,930	2,754
Consolidated Statement of Financial Position					
Investment properties	261,097	231,522	184,057	148,241	115,492
Property, plant and equipment	24,161	19,870	18,984	18,397	18,510
Interest in associates/joint ventures	38,790	36,203	27,132	20,860	11,789
Other long term investments	3,744	3,868	2,703	3,362	1,331
Properties for sale	53,764	48,915	47,511	29,732	17,797
Bank deposits and cash	24,515	18,795	32,528	16,900	18,412
Other assets	8,981	9,825	5,058	5,276	7,130
Total assets	415,052	368,998	317,973	242,768	190,461
Bank loans and other borrowings	(82,587)	(74,420)	(75,993)	(49,589)	(39,844)
Other liabilities	(48,210)	(37,672)	(31,106)	(22,530)	(15,029)
Net assets	284,255	256,906	210,874	170,649	135,588
Share capital and other statutory capital reserves	29,376	29,314	29,314	19,327	19,327
Reserves	246,181	219,187	173,943	143,762	109,219
Shareholders' equity	275,557	248,501	203,257	163,089	128,546
Non-controlling interests	8,698	8,405	7,617	7,560	7,042
Total equity	284,255	256,906	210,874	170,649	135,588
Net debt/(cash)	58,072	55,625	43,465	32,689	21,432
Financial Data					
<i>Per share data</i>					
Earnings per share (HK\$)					
– Underlying net profit	3.73	3.64	2.70	2.51	2.33
– Before property revaluation surplus	4.03	4.60	2.25	2.79	2.84
– Attributable to equity shareholders	9.70	15.60	10.22	12.64	6.99
Net asset value per share (HK\$)	90.94	82.04	67.10	59.22	46.68
Cash dividends per share (HK\$ Cents) (Note d)	170.00	165.00	106.00	100.00	100.00
<i>Financial ratios</i>					
Net debt to shareholders' equity (%)	21.1%	22.4%	21.4%	20.0%	16.7%
Net debt to total equity (%)	20.4%	21.7%	20.6%	19.2%	15.8%
Interest cover (Times) (Note c)	5.8	7.4	7.9	12.9	16.5
Return on shareholders' equity (%) (Note b)	11.2%	20.9%	16.7%	24.5%	16.1%
Dividend payout (%)					
– Underlying net profit	45.6%	45.3%	39.7%	41.3%	42.9%
– Attributable to equity shareholders	17.5%	10.6%	10.5%	8.2%	14.3%

Notes (continued):

- (d) Distribution in specie in the form of shares in i-CABLE and in Wharf REIC of HK\$562 million (equivalent to HK\$0.19 per share) and HK\$197,779 million (equivalent to HK\$65.14 per share), respectively, was made during 2017 in addition to the above cash dividend distribution.
- (e) Certain figures have been reclassified or restated to comply with the prevailing HKFRSs.

ART PIECE CREDIT:

Lee Soon, *Frame City #013*, p.7
Lee Soon, *Frame City #001*, p.14

A Chinese version of this Annual Report is available from the Company upon request.
如有需要，可向本公司索取本年報之中文版本。





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