WHARF

Established 1886

WHARF REAL ESTATE INVESTMENT COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1997

2018 Final Results Announcement

Robust Harbour City Underpins Growth Momentum & Dividend Sustainability

HIGHLIGHTS

- Harbour City accounted for 63% of Group revenue, 72% of operating profit and 72% of underlying net profit.
- Growth rates of 10%, 11% and 15% were achieved over 2017, respectively.
- With a valuation (including hotels) of HK$184 billion (or about HK$61 per share), it generated net cash inflow of over HK$7.5 billion (or about HK$2.5 per share).
- Full year retail sales increased by 24%, nearly 15 percentage points higher than total Hong Kong retail sales.
- Share of total Hong Kong retail sales accordingly rose to 7.7%.
- At over HK$37 billion for the year, that translated to average retail sales of over HK$100 million per day.
- Average sales per square foot per month of HK$2,700 (or nearly US$4,200 per square foot per year) would place Harbour City among the most productive malls in the world.

GROUP RESULTS

Group underlying net profit for the year increased by 6% to HK$10,053 million (2017: HK$9,500 million), equivalent to HK$3.31 (2017: HK$3.13) per share.

Group profit attributable to equity shareholders, including investment property revaluation surplus and other accounting gains/losses, increased by 5% to HK$18,027 million (2017: HK$17,218 million). Basic earnings per share were HK$5.94 (2017: HK$5.67).

DIVIDENDS

A first interim dividend of HK$1.05 per share was paid on 10 September 2018. In lieu of a final dividend, a second interim dividend of HK$1.05 per share will be paid on 23 April 2019 to Shareholders on record as at 6:00 p.m. on 3 April 2019. Total distribution for the year 2018 will amount to HK$6,376 million, representing 65% of realised underlying net profit from investment properties ("IP") and hotels in Hong Kong.

BUSINESS REVIEW

Above-market performance propelled retail sales at the Group's IP portfolio to a new high in 2018. The record HK$49 billion of tenant sales achieved accounted for over 10% of total Hong Kong retail sales during the year, with Harbour City witnessing a significant growth rate of 24%, outperforming the Hong Kong average (of 9%). Backed by continuous delivery of strong sales productivity and operating profit margin of 89%, Harbour City remained the key driver of the Group, contributing 63% of revenue and 72% of operating profit.

Harbour City

Total revenue (including hotels) increased by 10% to HK$11,871 million and operating profit by 12% to HK$9,678 million. Retail revenue, growing by a solid 14%, accounted for 73% of total revenue.

Ocean Terminal Extension ("OTE") attracted strong visitation from both locals and tourists as the new icon and must-see photographic hotspot of Hong Kong. The harbourfront attraction is the ultimate destination for enjoyment of breathtaking views of Victoria Harbour and the city skyline from all angles. The gradual opening of the delectable dining options at OTE also led to substantial patronage boost. This latest tourist attraction has successfully bolstered the prominence of Harbour City in just a year after its opening.

One block of Gateway Apartments is under conversion to give way to office and retail. The value-accretive initiative is targeted for completion in the third quarter of 2019.

Retail

Harbour City remains an international retail landmark and one of the most coveted addresses for the world's best brands. Its market-leading position is further strengthened by the strategically calibrated trade mix and constant value-creation initiatives.

Critical mass, showcase effect and unrivalled productivity form strong pillars to support rental growth. Revenue increased by 14% to HK$7,529 million, and operating profit by 14% to HK$6,712 million. Occupancy was 98% at year-end. Average passing rent grew by 12% to HK$483 per square foot per month.

Tenant sales at Harbour City posted an encouraging growth of 23.6% during the year, continuing its outperformance to the overall Hong Kong market. By achieving a record high HK$37 billion of retail sales, or HK$2,700 per square foot per month, Harbour City's status as one of the most productive malls in the world is further solidified. Tenants collectively turn over more than HK$100 million of daily sales on average.

Over 80 new brands were recruited during the year, diversifying the already comprehensive brand mix. Diving into the athleisure craze, a number of renowned activewear brands including *Adidas FTWR SUPPLY, CHAMPION, Evisukuro, Kenzo Sneaker concept, The North Face, Dance with Dragon*, *DESCENTE, ASICS, Jack Bunny!! By PEARLY GATES* and *Mammut* were introduced. The premium brand cluster was further enriched by a selection of Hong Kong or Kowloon debuts including *Céline Men, Billionaire, CLUSE, Ermanno Scervino, Fabiana Filippi, MARK NASON LOS ANGELES, MB&F M.A.D. Gallery, NOMOS, RENE CAOVILLA, Valextra, KENZO Kids* and *Young Versace*, while *Off White Concept Store* (with Café) will be launched in mid-2019. Other new commitments included *De Beers Jewellers, Anya Hindmarch* (pop-up), *HUGO BOSS, Hot Toys Rebel Base, Intimissimi* and *MLB.*

An impressive variety of dining experiences were introduced to please every palate. Boasting magnificent alfresco area and panoramic Victoria Harbour views, nine dining outlets at OTE have been opened and are trading with success. The latest addition included the Hong Kong debuts of the renowned *maze Grill by Gordon Ramsay* and *Artisan De La Truffe Paris.* New culinary options in other parts of Harbour City comprised the Hong Kong debuts of *Quan Alley, Hanlin Tea Room* and *Ten One Tea* as well as Kowloon debuts of *Reserva Ibérica* and *Ebisoba Ichigen.*

A series of unique and alluring marketing events further secured shoppers flow and spurred the success. A spate of one-of-a-kind events was held at Ocean Terminal Deck to fortify public awareness of the extension building. These included "BE@RBRICK SUMMER CHILL" Summer Party, *Kiehl's* "Made Better Sky Apothecary & Greenhouse", *Nike* Training Club's working out classes including mobility training and Yoga, *Louis Vuitton* Cruise 19 Trunk Show and *Tiffany* "The Holidays Made by Tiffany". "BOUNCE", the first interactive art installation in Hong Kong, was created in collaboration with the renowned New York design studio, SNARKITECTURE, with hundreds of enlarged white "bouncy ball" in the outdoor stadium driving media frenzy. Creation of a surreal world with dynamic Christmas-themed scenery in the world's largest video kaleidoscope, alongside the 60-feet outdoor LED Christmas tree and "Love Lock Bridge", successfully enthralled a huge crowd to Harbour City.

Office

Despite increasing competition from a fresh influx of prime office space in Kowloon, solid rents for new commitment were achieved on the back of stable demand and consistently low vacancies. The opening of the Hong Kong West Kowloon Station for High Speed Rail is set to further uplift office demand from Mainland corporations in the area.

Positive rental reversion drove revenue up by 6% to HK$2,634 million. Occupancy rate stood firm at 99% at year-end. Average spot rent for Canton Road offices and The Gateway offices grew by 12% and 6% to HK$45 and HK$59 per square foot per month, respectively.

Scheduled for completion by mid-2019, an additional 15 storeys (total GFA: 360,000 square feet) of office space will be provided upon the conversion of one block of Gateway Apartments, to cater for the underlying demand.

Gateway Apartments

Revenue amounted to HK$232 million during the year, on the back of full occupancy. In a bid to satisfy diverse consumer needs, multiple interior layout options were provided with constant upgrades in inventory provisions in the 256 furnished units. Exclusive access to Pacific Club further enhanced the distinctive living experiences. Gateway Apartments earned “The Best Serviced Apartments Award” in the “Best of the Best Awards 2018” by Squarefoot Magazine for eight consecutive years and “Service Awards 2018” in “Serviced Apartments” category from Capital Weekly Magazine for seven consecutive years, the testaments to its constant dedication to service excellence.

Hotel

The three hotels, Marco Polo Hongkong, Gateway and Prince, continued to deliver strong performances, as a result of robust visitor arrivals. Incremental values from the hotels’ continuous improvement programmes were gradually unlocked, contributing to enhanced business results and brand reputation. Total revenue increased by 12% to HK$1,292 million and operating profit by 32% to HK$442 million. Overall occupancy was 92.6% during the year.

Times Square

Revenue registered a modest increase of 1% to HK$2,841 million, amidst major re-tenanting exercises to strengthen the mall’s competitiveness in the longer run. Operating profit retreated by 2% to HK$2,479 million.

Retail

During the year, tenant sales delivered an above-market growth rate of 12%, on the back of solid foot traffic and value-accretive initiatives. Notwithstanding the ongoing major re-tenanting exercises, revenue was maintained at HK$2,100 million. Occupancy was 98% at year-end. Average retail passing rent slipped slightly to HK$297 per square foot per month.

Capitalising on the rising athleisure trend, the sports assortment has been augmented with the addition of multi-brand outdoor wear flagship *GO WILD, Nike Kicks Lounge, Reebok, FILA KIDS* and *CALVIN KLEIN PERFORMANCE*. The expansion of *Elegant Watch & Jewellery* with new brands of *Panerai* and *BVLGARI* watches further enriched the high zone trade mix. The lifestyle cluster was enhanced with the expanded *Watsons*’s combo store featuring beauty, health and baby care theme and the largest *Fortress*’s Hong Kong flagship with the first introduction of digital experiential zones and hi-tech automation technology. *Planet J Hong Kong* has also committed to launching its debut with digital game amusement centre. *Fivelements Yoga & Sacred Arts*, an award-winning yoga brand will also be opening its first store in the territory.

The introduction of Hong Kong or Island debuts including *Ariane Prette Monaco, HAPPIPLAYGROUND, MLB, MOTHERHOUSE, Niessing, POLA, Ray-Ban* and *Sekkisei* further refined tenant mix. Other new commitments included *Balenciaga, Rimowa, Y-3, Claudie Pierlot, Sisley Paris, Clinique, EVE LOM, 3CE, OROGOLD cosmetics, The Kooples PARIS, Piquadro ITALY, HEAVEN PLEASE+, Les Néréides PARIS, MARYLING, Bookazine, Partytime, Sweet World, Campo Marzio, City Chain millisecond* and *The Peninsula Boutique.*

Dining experiences were uplifted by the island debuts of *HEYTEA GO*, one of the most popular Chinese tea brands known for its cheese topped tea and fruit drinks, *Cafe Terceira*, a renowned Macanese restaurant, and *Du Hsiao Yueh*, a well-known traditional Tainan restaurant with over 100 years of history. Other new confectionary brands opened in 2018 included *Make it*, *Uji-En* and *zChocolat*.

Times Square continued to take centre stage with a memorable run of exclusive events in Hong Kong. It joined hands with Disney Pixar to launch the “Incredibles 2” Headquarter Exhibition, featuring four customised Game Zones with highlights on the 16 adorable Jack-Jack figures in the Jack-Jack Zone. “GUNDAM DOCKS AT HONG KONG III” was presented featuring the stunning six-meter tall RX-93 Nu Gundam VS MSN-04 Sazabi statue, the largest “MOBILE SUIT GUNDAM Char’s Counterattack” battle scene ever showcased. The Asia debut of a special “90 Years of Mickey Exhibition” was introduced in honour of Mickey Mouse’s 90th anniversary, displaying exclusive artifacts from the Walt Disney Archives. The Times Square Exquisite Christmas Exhibition displayed six street scenes recreated from Hong Kong in the 1980s during Christmas by two local miniature artists.

A spate of inspirational initiatives was also hosted to bolster cultural awareness in the community. These included “90 Years of Hong Kong Porcelain Art - Yuet Tung China Works”, “A Rendezvous with Hats and Headdress Pieces in Cantonese Opera - Chan Kwok Yuen’s 60 Years of Hat and Headdress Creations” and A 30-day Canton Pop Feast featuring 30 popular local singers.

Office

Leasing activities remained active in the area. Rental growth was underpinned by the tight vacancy environment and stable demand. On the back of positive rental reversion and stable rents for new commitments, revenue increased by 4% to HK$741 million. Average spot rent increased by 15% to HK$68 per square foot per month. Rental reversion rate was 11%. Occupancy rate reached 98% at year-end.

Central Portfolio

The Company’s premises at Wheelock House and Crawford House are both prime commercial properties in Central with a rare 999-year leasehold. Backed by their commanding presence in the heart of the bustling CBD, occupancies remained consistently high. Revenue at these properties were maintained at HK$469 million, and operating profit at HK$407 million during 2018.

Wheelock House achieved an average office spot rent growth of 15% to HK$103 per square foot per month. Average office spot rent at Crawford House increased by 15% to HK$71 per square foot per month.

The latest long-term strategic investment of the Group is The Murray, Hong Kong, a Niccolo Hotel, which opened in early 2018 upon the epic transformation from the iconic 1960s Murray Building. Renowned architect Foster + Partners was invited to take part in this significant part of the Government heritage preservation initiatives. The Niccolo hotel has rapidly earned international praise and emerged as an icon of the city for impeccable hospitality.

Prominently located at the bottom of Garden Road and Cotton Tree Drive, the sophisticated urban sanctuary boasts a seamless blend of the scenic views of the city’s Central Business District and the lush green oasis of Hong Kong Park. The minimalist décor with clean lines and modern fixtures characterises the 336 spacious rooms and suites in the 25-storey contemporary chic hotel. The wide array of dining options promise unforgettable elevated culinary experiences. The exceptional meeting and event spaces further establish The Murray, Hong Kong as the new epicenter for conferences, events and celebrations.

In 2018, The Murray, Hong Kong received multiple honourable global awards, 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.
The hotel became fully operational in August and achieved an average occupancy of 71.3% in the fourth quarter. Profitability in the early years will be hit by start-up losses including depreciation of land and building costs as well as interest cost.

Plaza Hollywood
Constant tenant mix optimisation to encompass brands across a diverse range of categories and popular eateries has established Plaza Hollywood as a lifestyle hub, poised to appeal to the wider catchment area from the emerging Kowloon East CBD. Strategically located atop Diamond Hill MTR station, the burgeoning middle class in the surrounding residential area and the future commissioning of the Shatin to Central MTR Link are set to further propel growth.

As one of the largest shopping malls in the district with 258 retail outlets, 30 restaurants, and a purpose-built stadium housing a six-screen cinema multiplex, the compelling offerings and innovative marketing strategies continued to drive performance. Revenue at Plaza Hollywood was HK$569 million and operating profit was HK$430 million. Occupancy rate was 98% at year-end.

Various exciting events were presented to drive foot traffic. Riding on the wave of the popular video game “PUTG”, an e-Sports Festival featuring a local tournament was organised at Plaza Hollywood in collaboration with Hong Kong Tourism Board. Two publicity programmes for K-Pop artists MONSTA X and RAIN were held, drawing numerous K-Pop fans and extensive media coverage. Other highlights included Indonesia 2018 Asian Para Games Promotion and the annual Hong Kong Golden Book Awards. Furthermore, the collaboration with Kai Tak Cruise Terminal with free shuttle service, ambassadors and incentive programmes successfully spur tourist visits and spending.

Star Ferry
Upon the expiry of the previous franchise on 31 March 2018, a new franchise for 15 years started on 1 April 2018.

FINANCIAL REVIEW

(I) Review of 2018 full year results

Group underlying net profit increased by 6% to HK$10,053 million (2017: HK$9,500 million). Underlying net profit from Investment Properties ("IP") increased by 12% to HK$9,704 million which accounted for 97% of Group total.

Profit attributable to shareholders increased by 5% to HK$18,027 million (2017: HK$17,218 million) upon inclusion of a net IP revaluation surplus of HK$7,974 million (2017: HK$7,982 million).

<u>Revenue and Operating Profit</u>

IP revenue and operating profit grew steadily by 7% to HK$14,304 million (2017: HK$13,334 million) and HK$12,545 million (2017: HK$11,698 million) respectively. In particular, Harbour City revenue and operating profit increased by 10% and 11%, respectively, reflecting higher gross rental income from retail and office.

Hotel revenue rose by 30% to HK$1,821 million (2017: HK$1,403 million), primarily attributable to the solid performances of the three Marco Polo Hotels at Harbour City and new contribution from The Murray, Hong Kong in Central. However, operating profit dropped by 24% to HK$255 million (2017: HK$337 million) upon absorption of an initial operating loss of The Murray, Hong Kong net of respective depreciation on land and building. Excluding The Murray, Hong Kong, operating profit for the three Marco Polo Hotels was up by 32% with the respective occupancy and average room rates increasing.

Total revenue for integrated Harbour City (including hotels) grew by 10% to HK$11,871 million (2017: HK$10,780 million) and total operating profit by 12% to HK$9,678 million (2017: HK$8,677 million), representing 72% of Group revenue and 76% of Group operating profit.

Development Properties ("DP") revenue decreased by 98% to HK$89 million (2017: HK$5,907 million), resulting in an operating loss of HK$60 million (2017: profit of HK$3,630 million) arising from a significant decrease in profit recognition for Suzhou Times City on a depletion of the project pipeline.

Investment and others revenue grew by 3% to HK$267 million (2017: HK$260 million) and operating profit by 156% to HK$123 million (2017: HK$48 million).

Consolidated revenue decreased by 21% to HK16,481 million (2017: HK$20,904 million) and operating profit by 18% to HK$12,724 million (2017: HK$15,442 million).

Fair Value Gain of IP

Book value of IP portfolio as at 31 December 2018 rose to HK$259 billion (2017: HK$253.8 billion) with HK$258.3 billion thereof stated at fair value based on independent valuations, which resulted in a revaluation gain of HK$8,065 million for the year (2017: HK$7,991 million). The attributable gain of HK$7,974 million (2017: HK$7,982 million), net of related non-controlling interests, was credited to the consolidated statement of profit or loss.

IP under development is carried at cost at HK$0.7 billion and will only be carried at fair value when its market value becomes reliably measurable or upon project completion, whichever is earlier.

Finance Costs

Net finance costs amounted to HK$815 million (2017: HK$1,029 million) upon interest capitalisation of HK$17 million (2017: HK$4 million) for DP projects. The effective borrowing rate for the year improved to 2.0% (2017: 3.2%).

Income Tax

Taxation charge for the year decreased to HK$1,994 million (2017: HK$4,267 million) principally on a reduction in Mainland DP taxable profit for the year.

Profit Attributable to Equity Shareholders

Group profit attributable to equity shareholders for the year amounted to HK$18,027 million (2017: HK$17,218 million), representing an increase of 5% from 2017. Basic earnings per share were HK$5.94, based on 3,036 million ordinary shares in issue (2017: HK$5.67 per share based on 3,036 million ordinary shares in issue).

Underlying net profit is a performance indicator of the Group's major business segments and arrived at after excluding the attributable net IP valuation gain and exchange gain/loss on borrowings.

Underlying net profit, excluding the net IP revaluation gain of HK$7,974 million and exchange loss on foreign currency borrowings in 2017, rose by 6% to HK$10,053 million (2017: HK$9,500 million). Underlying earnings per share were HK$3.31 (2017: HK$3.13).

(II) Liquidity, Financial Resources and Capital Commitments

Shareholders' and Total Equity

As at 31 December 2018, shareholders' equity increased by HK$11.5 billion to HK$218.8 billion (2017: HK$207.3 billion), equivalent to HK$72.06 per share based on 3,036 million ordinary shares in issue (2017: HK$68.29 per share based on 3,036 million ordinary shares in issue).

Total equity including non-controlling interests increased by HK$11.3 billion to HK$224.3 billion (2017: HK$213.0 billion).

Assets

Total assets as at 31 December 2018 rose to HK$280.3 billion (2017: HK$272.7 billion). Total business assets, excluding bank deposit and cash, equity investments, derivative financial assets and deferred tax assets, increased to HK$274.7 billion (2017: HK$266.5 billion).

Geographically, Hong Kong business assets, mainly comprising IP, amounted to HK$266.7 billion (2017: HK$258.4 billion), representing 97% (2017: 97%) of the Group total.

Investment properties

IP increased by 2% to HK$259.0 billion (2017: HK$253.8 billion), representing 94% of total business assets. Harbour City (excluding the three hotels which were stated at cost) was valued at HK$175.6 billion. Including the internal valuation of these hotels, Harbour City had a total valuation of HK184 billion, or about HK$61 per share. Times Square was valued at HK$58.8 billion, or about HK$20 per share.

DP / Interests in Associates and Joint Ventures

DP increased to HK$3.7 billion (2017: HK$144 million) which mainly arose from reclassification of a DP-related portion of IP to DP. On the other hand, DP undertaken through associates and joint ventures was reduced to HK$2.9 billion (2017: HK$3.3 billion).

Hotels

Hotel properties included The Murray, Hong Kong, three Marco Polo Hotels and Marco Polo Changzhou are stated at cost less depreciation at HK$8.1 billion (2017: HK$8.3 billion). Internal valuation of these hotels amounted to HK$16,115 million (2017: HK$15,908 million).

Debts and Gearing

Net debt as at 31 December 2018 fell to HK$39.4 billion (2017: HK$42.5 billion). It comprised debts of HK$42.1 billion and bank deposits and cash of HK$2.7 billion.

An analysis of net debt is depicted below:

Net debt/(cash)	**31 December 2018 HK$ Billion**	31 December 2017 HK$ Billion
Wharf REIC (excluding HCDL Group)	**39.0**	42.9
HCDL Group	**0.4**	(0.4)
Total net debt	**39.4**	42.5

As at 31 December 2018, the ratio of net debt to total equity dropped to 17.6% (2017: 19.9%).

Finance and Availability of Facilities

Total available loan facilities as at 31 December 2018 amounted to HK$47.6 billion, of which HK$42.1 billion was utilised. The breakdown is depicted below:

	31 December 2018		
	Available Facility HK$ Billion	**Total Debts HK$ Billion**	**Undrawn Facility HK$ Billion**
Committed and uncommitted bank facilities			
Wharf REIC (excluding HCDL Group)	41.8	39.3	2.5
HCDL Group	5.8	2.8	3.0
	47.6	42.1	5.5

Certain banking facilities were secured by mortgage over the Group's investment properties under development and properties under development carried at HK$4.4 billion (2017: HK$3.9 billion).

The debt portfolio was primarily denominated in Hong Kong dollars ("HKD"). The respective funds available were mainly utilised to finance the Group's IP and remaining DP investments.

The Group continued to adhere to a high level of financial discipline with a strong financial position. Ample surplus cash and undrawn committed facilities were available to facilitate business and investment activities. In addition, the Group also maintained a portfolio of liquid equity investments with an aggregate market value of HK$2.4 billion (2017: HK$2.7 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$12.9 billion principally comprising rental income (2017: HK$15.5 billion). Changes in working capital reduced the net cash inflow from operating activities to HK$9.5 billion (2017: HK$9.6 billion). For investing activities, the Group recorded a net cash outflow of HK$0.2 billion (2017: HK$12.6 billion).

Capital Commitments

As at 31 December 2018, major expenditures to be incurred in the coming years were estimated at HK$6.6 billion, of which HK$1.5 billion was committed. A breakdown (by segment) is as follows:

	As at 31 December 2018		
	Committed HK$ Million	**Uncommitted HK$ Million**	**Total HK$ Million**
Properties			
IP			
Hong Kong	111	891	1,002
Mainland China	142	278	420
	253	1,169	1,422
DP			
Mainland China	1,243	3,771	5,014
Properties total			
Hong Kong	111	891	1,002
Mainland China	1,385	4,049	5,434
	1,496	4,940	6,436
Hotels			
Hong Kong	5	5	10
Mainland China	-	114	114
	5	119	124
Group total	1,501	5,059	6,560

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

Included in the above are HCDL's expenditures totalled HK$5.6 billion, which will be funded by its own financial resources.

(III) Human Resources

The Group had approximately 2,900 employees as at 31 December 2018. Employees are remunerated according to their job responsibilities and market pay trend with a discretionary annual performance bonus as variable pay for rewarding individual performance and contributions to the Group's achievement and results.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2018

	Note	**2018 HK$ Million**	2017 HK$ Million
Revenue	2	**16,481**	20,904
Direct costs and operating expenses		**(2,885)**	(4,494)
Selling and marketing expenses		**(389)**	(361)
Administrative and corporate expenses		**(191)**	(463)
Operating profit before depreciation, amortisation, interest and tax		**13,016**	15,586
Depreciation and amortisation		**(292)**	(144)
Operating profit	2 & 3	**12,724**	15,442
Increase in fair value of investment properties		**8,065**	7,991
Other net income/(charge)		**46**	(311)
		20,835	23,122
Finance costs	4	**(815)**	(1,029)
Share of results after tax of:			
- An associate		**111**	82
- Joint ventures		**122**	(15)
Profit before taxation		**20,253**	22,160
Income tax	5	**(1,994)**	(4,267)
Profit for the year		**18,259**	17,893
Profit attributable to :			
Shareholders of the Company		**18,027**	17,218
Non-controlling interests		**232**	675
		18,259	17,893
Earnings per share	6		
Basic		**HK$5.94**	HK$5.67
Diluted		**HK$5.94**	HK$5.67

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018

	2018 HK$ Million	2017 HK$ Million
Profit for the year	**18,259**	17,893
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Fair value changes on equity investments at fair value through other comprehensive income (non-recycling)	**(312)**	451
Items that may be reclassified subsequently to profit or loss :		
Exchange difference on translation of foreign operations:		
- subsidiaries	**(268)**	318
- an associate and a joint venture	**-**	21
Share of reserves of joint ventures	**(112)**	-
Others	**(4)**	(139)
Other comprehensive income for the year	**(696)**	651
Total comprehensive income for the year	**17,563**	18,544
Total comprehensive income attributable to:		
Shareholders of the Company	**17,551**	17,613
Non-controlling interests	**12**	931
	17,563	18,544

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

	Note	**31 December 2018 HK$ Million**	31 December 2017 HK$ Million
Non-current assets			
Investment properties		**258,984**	253,827
Hotel and club properties, plant and equipment		**8,277**	8,549
Interest in an associate		**1,294**	1,599
Interest in joint ventures		**1,601**	1,694
Equity investments		**2,396**	2,708
Deferred tax assets		**336**	353
Derivative financial assets		**60**	-
Other non-current assets		**51**	54
		272,999	268,784
Current assets			
Properties for sale		**3,726**	144
Inventories		**13**	12
Trade and other receivables	8	**873**	635
Prepaid tax		**70**	24
Bank deposits and cash		**2,675**	3,076
		7,357	3,891
Total assets		**280,356**	272,675
Non-current liabilities			
Derivative financial liabilities		**(41)**	-
Deferred tax liabilities		**(2,278)**	(2,207)
Other deferred liabilities		**(331)**	(314)
Bank loans and other borrowings		**(39,027)**	(24,752)
		(41,677)	(27,273)
Current liabilities			
Trade and other payables	9	**(8,351)**	(8,805)
Pre-sale deposits and proceeds		**(660)**	(13)
Derivative financial liabilities		**(105)**	-
Taxation payable		**(2,161)**	(2,816)
Bank loans and other borrowings		**(3,070)**	(20,800)
		(14,347)	(32,434)
Total liabilities		**(56,024)**	(59,707)
NET ASSETS		**224,332**	212,968
Capital and reserves			
Share capital		**304**	304
Reserves		**218,493**	207,014
Equity attributable to the shareholders of the Company		**218,797**	207,318
Non-controlling interests		**5,535**	5,650
TOTAL EQUITY		**224,332**	212,968

NOTES TO THE FINANCIAL INFORMATION

1. PRINCIPAL ACCOUNTING POLICIES AND BASIS OF PREPARATION

This financial information has 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 disclosure requirements of the Companies Ordinance (Cap. 622 of the laws of Hong Kong). This financial information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies and methods of computation used in the preparation of the financial information are consistent with those used in the annual financial statements for the year ended 31 December 2017 except for the changes mentioned below.

The HKICPA has issued a number of new standards and amendments to Hong Kong Financial Reporting Standards ("HKFRSs") which are effective starting from 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
HK(IFRIC) 22	Foreign currency transactions and advance consideration

Except for HKFRS 9 which has been early adopted in the year ended 31 December 2016, none of these developments has had a significant impact on the Group's results and financial position for the current and prior periods previously 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 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 sales of development properties at 31 December 2017 is immaterial, there was no material impact on the Group's result and financial position.

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

(a) Timing of revenue recognition

The new revenue standard does not have any significant impact on how the Group recognises revenue arising from investment properties' and hotels' operations of the Group. However, recognition of revenue from the sale of development properties is affected. The Group's property development activities are carried out in Mainland China only. Upon assessing the contract terms, the Group's business practice and the legal and regulatory environment of the Mainland, the Group considers that its property sales contracts do not meet the criteria for recognising revenue over time and therefore revenue from property sales is recognised at a point in time.

Previously the Group recognised revenue from property sales upon completion of the property development, which was taken to be the point in time when the risks and rewards of ownership of the property have been transferred to the customer. Under the transfer-of-control approach in the current standard, revenue from property sales is recognised when 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 would result in revenue being recognised later than the time it was recognised under the previous standard.

(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.

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 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 is 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 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 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.

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

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

2. SEGMENT INFORMATION

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

Investment properties segment primarily includes property leasing operations. Currently, the Group's investment properties portfolio, which mainly consists of retail, office and serviced apartments, is primarily located in Hong Kong.

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

Hotels segment includes hotel operations in Hong Kong and Mainland China.

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

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

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

2. SEGMENT INFORMATION

a. Analysis of segment revenue and results

	Revenue HK$ Million	Operating profit HK$ Million	Increase in fair value of investment properties HK$ Million	Other net income/ (charge) HK$ Million	Finance costs HK$ Million	Share of results after tax of an Associate HK$ Million	Share of results after tax of joint ventures HK$ Million	Profit before taxation HK$ Million
For the year ended 31 December 2018								
Investment properties	**14,304**	**12,545**	**8,065**	**-**	**(774)**	**-**	**-**	**19,836**
Development properties	**89**	**(60)**	**-**	**21**	**(2)**	**111**	**122**	**192**
Hotels	**1,821**	**255**	**-**	**-**	**(39)**	**-**	**-**	**216**
Segment total	**16,214**	**12,740**	**8,065**	**21**	**(815)**	**111**	**122**	**20,244**
Investment and others	**267**	**123**	**-**	**25**	**-**	**-**	**-**	**148**
Corporate expenses	**-**	**(139)**	**-**	**-**	**-**	**-**	**-**	**(139)**
Group total	**16,481**	**12,724**	**8,065**	**46**	**(815)**	**111**	**122**	**20,253**
For the year ended 31 December 2017								
Investment properties	13,334	11,698	7,991	-	(1,008)	-	-	18,681
Development properties	5,907	3,630	-	2	(3)	82	(15)	3,696
Hotels	1,403	337	-	-	(3)	-	-	334
Segment total	20,644	15,665	7,991	2	(1,014)	82	(15)	22,711
Investment and others	260	48	-	(313)	(15)	-	-	(280)
Corporate expenses	-	(271)	-	-	-	-	-	(271)
Group total	20,904	15,442	7,991	(311)	(1,029)	82	(15)	22,160

2. SEGMENT INFORMATION

b. Disaggregation of revenue

	31 December 2018 HK$ Million	31 December 2017 HK$ Million
Revenue recognised under HKFRS 15		
Management and services income	**1,164**	1,100
Other rental related income	**240**	153
Revenue under investment properties segment	**1,404**	1,253
Hotel and club operations	**1,821**	1,403
Sale of development properties	**89**	5,907
	3,314	8,563
Revenue recognised under other accounting standards		
Rental income under investment properties segment	**12,900**	12,081
Investment and others	**267**	260
	13,167	12,341
Total revenue	**16,481**	20,904

c. Analysis of segment business assets

	31 December 2018 HK$ Million	31 December 2017 HK$ Million
Investment properties	**259,556**	254,295
Development properties	**6,739**	3,552
Hotels	**8,456**	8,659
Total segment business assets	**274,751**	266,506
Unallocated corporate assets	**5,605**	6,169
Total assets	**280,356**	272,675

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

2. SEGMENT INFORMATION
d. Geographical information

	Revenue Year ended 31 December		Operating Profit Year ended 31 December	
	2018	2017	**2018**	2017
	HK$ Million	HK$ Million	**HK$ Million**	HK$ Million
Hong Kong	**16,246**	14,843	**12,776**	11,756
Mainland China	**178**	6,016	**(109)**	3,641
Singapore	**57**	45	**57**	45
Group total	**16,481**	20,904	**12,724**	15,442

	Specified non-current assets As at 31 December		Total business assets As at 31 December	
	2018	2017	**2018**	2017
	HK$ Million	HK$ Million	**HK$ Million**	HK$ Million
Hong Kong	**265,997**	257,839	**266,745**	258,387
Mainland China	**4,159**	7,830	**8,006**	8,119
Group total	**270,156**	265,669	**274,751**	266,506

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

The geographical location of revenue and operating profit is analysed based on the location at which services are provided and in the case of equity investments, where they are listed. The geographical location of specified non-current assets and total business assets is based on the physical location of operations.

3. OPERATING PROFIT

Operating profit is arrived at:

	2018 HK$ Million	2017 HK$ Million
After charging/(crediting)		
Depreciation and amortisation on		
– hotel and club properties, plant and equipment	**285**	136
– leasehold land	**7**	8
Total depreciation and amortisation	**292**	144
Impairment of trade receivables	**-**	4
Staff costs (Note (i))	**1,004**	833
Auditors' remuneration		
- audit services	**8**	16
- non-audit services	**-**	2
Cost of trading properties for recognised sales	**131**	2,182
Gross amount of rental revenue from investment properties (Note (ii))	**(14,304)**	(13,334)
Direct operating expenses of investment properties	**1,652**	1,509
Interest income (Note (iii))	**(24)**	(44)
Dividend income from equity investments	**(82)**	(78)
Loss on disposal of plant and equipment	**3**	-

Notes:

(i) Staff costs included defined contribution pension schemes costs for the year ended 31 December 2018 of HK$50 million (2017: HK$41 million).

(ii) Gross amount of rental income includes contingent rentals for the year ended 31 December 2018 of HK$1,281 million (2017: HK$738 million).

(iii) Interest income for the year ended 31 December 2018 of HK$24 million (2017: HK$44 million) are generated in respect of financial assets (mainly comprising bank deposits) stated at amortised cost.

4. FINANCE COSTS

	2018 **HK$ Million**	2017 HK$ Million
Interest charged on:		
Bank loans and overdrafts	**582**	89
Other borrowings	**153**	-
Loans from fellow subsidiaries	**-**	848
Total interest charge	**735**	937
Other finance costs	**97**	96
Less : Amount capitalised	**(17)**	(4)
Total	**815**	1,029

5. INCOME TAX

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

	2018 **HK$ Million**	2017 HK$ Million
Current income tax		
Hong Kong		
– provision for the year	**1,904**	1,670
– under-provision in respect of prior years	**23**	2
Outside Hong Kong		
– provision for the year	**6**	939
– over-provision in respect of prior years	**(17)**	-
	1,916	2,611
Land appreciation tax (“LAT”)	**2**	1,568
Deferred tax		
Origination and reversal of temporary differences	**76**	88
Total	**1,994**	4,267

a. The provision for Hong Kong profits tax is based on the profit for the year as adjusted for tax purposes at the rate of 16.5% (2017: 16.5%).

b. Income tax on profits assessable outside Hong Kong is mainly China corporate income tax calculated at a rate of 25% (2017: 25%) and China withholding income tax at a rate of up to 10% for the year ended 31 December 2018 and 2017.

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

d. Tax attributable to associates and joint ventures for the year ended 31 December 2018 of HK$102 million (2017: HK$18 million) is included in the share of results of associates and joint ventures.

6. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders for the year of HK$18,027 million (2017: HK$17,218 million) and 3,036 million ordinary shares in issue during the year (2017: 3,036 million ordinary shares).

There are no potential dilutive ordinary shares in issue during the years ended 31 December 2018 and 2017.

7. 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	**1.05**	**3,188**	N/A	N/A
Second interim dividend declared after the end of the reporting period (Note b)	**1.05**	**3,188**	0.95	2,884
	2.10	**6,376**	0.95	2,884

a. The second interim dividend based on 3,036 million (2017: 3,036 million) issued ordinary shares declared after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

b. The second interim dividend of HK$2,884 million for 2017 was approved and paid in 2018.

8. TRADE AND OTHER RECEIVABLES

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

	31 December 2018 HK$ Million	31 December 2017 HK$ Million
Trade receivables		
0 - 30 days	**409**	254
31 – 60 days	**40**	27
61 – 90 days	**9**	3
Over 90 days	**10**	7
	468	291
Other receivables and prepayments	**405**	344
	873	635

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

9. TRADE AND OTHER PAYABLES

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

	31 December 2018 HK$ Million	31 December 2017 HK$ Million
Trade payables		
0 - 30 days	**128**	107
31 - 60 days	**19**	16
61 - 90 days	**7**	2
Over 90 days	**7**	5
	161	130
Rental and customer deposits	**3,579**	3,393
Construction costs payable	**1,005**	1,310
Amount due to joint ventures	**1,593**	1,514
Other payables	**2,013**	2,458
	8,351	8,805

10. REVIEW OF FINANCIAL RESULTS

The financial results for the year ended 31 December 2018 have been reviewed with no disagreement by the Audit Committee of the Company. The figures in respect of the announcement of the Group's results for the year ended 31 December 2018 have been agreed by the Company's Auditors to the amounts set out in the Group's consolidated financial statements for the year.

CORPORATE GOVERNANCE CODE

During the financial year ended 31 December 2018, all the code provisions set out in the Corporate Governance Code in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited were met by the Company, with one exception as regards Code Provision A.2.1 providing for the roles of the chairman and chief executive to be performed by different individuals.

Such deviation is deemed appropriate as it is considered to be more efficient to have one single person to be Chairman of the Company as well as to discharge the executive functions of a chief executive thereby enabling more effective planning and better execution of long-term strategies. The Board of Directors believes that the balance of power and authority is adequately ensured by the operations of the Board which comprises experienced and high calibre individuals, with half of them being Independent Non-executive Directors.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

RELEVANT DATES FOR SECOND INTERIM DIVIDEND AND ANNUAL GENERAL MEETING

<u>Second Interim Dividend</u>

Ex-entitlement date	2 April 2019 (Tue)
Latest time to lodge share transfer	4:30 p.m., 3 April 2019 (Wed)
Record date/ time	6:00 p.m., 3 April 2019 (Wed)
Payment date	23 April 2019 (Tue)

In order to qualify for the above-mentioned second interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Wednesday, 3 April 2019.

<u>Annual General Meeting ("AGM")</u>

Ex-entitlement date	29 April 2019 (Mon)
Latest time to lodge share transfer	4:30 p.m., 30 April 2019 (Tue)
Book closure period	2 May 2019 (Thu) to 7 May 2019 (Tue), both days inclusive
Record date	2 May 2019 (Thu)
AGM date/ time	11:15 a.m., 7 May 2019 (Tue)

In order to be eligible for attending and voting at the AGM, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Tuesday, 30 April 2019.

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

Hong Kong, 5 March 2019

As at the date of this announcement, the board of Directors of the Company comprises Mr. Stephen T. H. Ng, Ms. Doreen Y. F. Lee, Mr. Paul Y. C. Tsui, Ms. Y. T. Leng and Mr. K. H. Leung, together with five Independent Non-executive Directors, namely Mr. Alexander S. K. Au, Hon. Andrew K. Y. Leung, Mr. Andrew J. Seaton, Mr. R. Gareth Williams and Professor E. K. Yeoh.