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恒基兆業地產有限公司
HENDERSON LAND DEVELOPMENT COMPANY LIMITED
Incorporated in Hong Kong with limited liability
(Stock Code : 12)

2018 FINAL RESULTS ANNOUNCEMENT

CHAIRMAN'S STATEMENT

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The Group's reported profit attributable to equity shareholders for the year ended 31 December 2018 amounted to HK$31,157 million, representing an increase of HK$348 million or 1% over HK$30,809 million (restated) for the previous year. Reported earnings per share were HK$7.08 (2017: HK$7.00 restated and as adjusted for the bonus issue in 2018).

Excluding the fair value change (net of non-controlling interests and tax) of investment properties and investment properties under development, the Group's underlying profit attributable to equity shareholders for the year ended 31 December 2018 was HK$19,765 million, representing an increase of HK$249 million or 1% over HK$19,516 million (restated) for the previous year. Underlying earnings per share were HK$4.49 (2017: HK$4.43 restated and as adjusted for the bonus issue in 2018).

DIVIDENDS

The Board recommends the payment of a final dividend of HK$1.30 per share to shareholders whose names appear on the Register of Members of the Company on Wednesday, 5 June 2019, and such final dividend will not be subject to any withholding tax in Hong Kong. Including the interim dividend of HK$0.50 per share already paid, the total dividend for the year ended 31 December 2018 will amount to HK$1.80 per share (2017: HK$1.71 per share).

The proposed final dividend will be payable in cash and is expected to be distributed to shareholders on Monday, 17 June 2019.

ISSUE OF BONUS SHARES

The Board proposes to make a bonus issue of one new share for every ten shares held (2017: one bonus share for every ten shares held) to shareholders whose names appear on the Register of Members of the Company on Wednesday, 5 June 2019. The relevant resolution will be proposed at the forthcoming annual general meeting, and if passed and upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of and permission to deal in such new shares, share certificates for the bonus shares will be posted on Monday, 17 June 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group's underlying profit attributable to equity shareholders for the year ended 31 December 2018 was up by 1% year-on-year to HK$19,765 million, mainly attributable to:

(1) the increase of 4% to HK$6,709 million in the attributable share of pre-tax profit contribution from property sales (comprising the attributable share of contributions from subsidiaries, associates and joint ventures), which included profit of HK$2,780 million arising from the transfer of equity interest in the company holding the entire residential development project at Kwun Chui Road, Tuen Mun;

(2) the increase of 6% to HK$7,025 million in the attributable share of pre-tax net rental income (comprising the attributable share of contributions from subsidiaries, associates and joint ventures); and

(3) a total attributable share of pre-tax underlying profit contribution of HK$6,334 million arising from the disposal of investment properties, which included the gain of HK$5,609 million attributable to the Group's underlying profit from the disposal of equity interest in the company holding the office tower at 18 King Wah Road, North Point.

Hong Kong

Property Sale

During the year under review, mortgage interest rates in Hong Kong remained relatively low despite interest rate hikes in the US. Coupled with the solid housing demand from the end-users, Hong Kong's property market found support. However, the uncertain economic outlook driven by the mounting Sino-US trade tensions led to a relatively cautious overall market sentiment by the year end.

Residential developments which were launched during the year, including "South Walk • Aura" in Aberdeen, "Cetus • Square Mile" in Mong Kok, as well as "Reach Summit – Sereno Verde Phase 5" in Yuen Long, drew encouraging market responses. Current projects such as "Eden Manor" adjacent to the Hong Kong Golf Club in Fanling, "Double Cove" (Phases 1-5) in Ma On Shan as well as the urban redevelopment boutique residences, "The H Collection", were also well received. For the year ended 31 December 2018, the Group sold an attributable total amount of HK$12,866 million of Hong Kong residences.

During the year under review, the Group also transferred the equity interests in the companies holding two investment properties, namely, "18 King Wah Road" in North Point and "8 Observatory Road" in Tsim Sha Tsui, for the respective consideration of about HK$9,950 million and HK$4,100 million. For the 330,000-square-foot Grade-A office development at 18 King Wah Road, this represents an average selling price of over HK$30,000 per square foot of gross floor area, a record high in that area. The transaction was completed within this financial year under review. Meanwhile, the 160,000-square-foot commercial property at 8 Observatory Road was 50% owned by the Group and the transaction was scheduled for completion in March 2019. Together with the disposal of certain shop units such as those located at "NOVUM WEST" at Sai Ying Pun, as well as some other industrial and commercial properties and car parks, attributable proceeds arising from these disposals totaled HK$13,083 million. Including the aforesaid residential sales revenue, the Group sold HK$25,949 million worth of Hong Kong properties in attributable terms during the year under review, another record high and an increase of 7% as compared with HK$24,172 million for the previous year.

Property Development

During the year under review, the Group acquired interests in two residential land lots adjacent to each other in Kai Tak Development Area at the total consideration of approximately HK$15,958 million. They will in aggregate provide a gross floor area of about 1.1 million square feet. A joint venture formed by the Group and various developers also won the tender for a residential land lot at New Kowloon Inland Lot No. 6574 in Kai Tak Development Area at a consideration of HK$8,333 million, of which 29.3% or about 168,000 square feet in gross floor area is attributable to the Group. Meanwhile, the Group won the tender from the Urban Renewal Authority for the development of Castle Peak Road/Un Chau Street development project in Sham Shui Po at the consideration of about HK$1,368 million. It will provide attributable residential gross floor area of about 120,000 square feet.

As regards urban redevelopment projects, other than a total of approximately 0.2 million square feet in attributable gross floor areas that has been earmarked for sales launch in 2019, at 31 December 2018, projects with 80% to 100% ownerships acquired still increased from 4.0 million square feet at the end of 2017 to about 4.4 million square feet in total attributable gross floor area.

The Group has made use of multiple channels to expand its development land bank in Hong Kong. There will be abundant supply of saleable areas for the Group's property sales, except for a few projects earmarked for rental purposes, in the coming years as follows:

Below is a summary of properties under development and major completed stock:

				Attributable saleable/gross floor area (million sq. ft.) (Note 1)	Remarks
(A)	**Area available for sale in 2019:**				
1.	Unsold units from major development projects offered for sale	(Table 1)		1.0	Of which 160 units were completed with occupation permits
2.	Projects pending sale in 2019	(Table 2)		0.4	
			Sub-total:	**1.4**	
(B)	**Projects in Urban Areas:**				
3.	Existing urban redevelopment projects	(Table 3)		1.1	Dates of sales launch are not yet fixed and one of them is pending finalisation of land premium with the Government
4.	Newly-acquired Urban Redevelopment Projects				
	4.1 with ownership fully consolidated	(Table 4)		2.3	Most of them are expected to be available for sale or lease in 2020-2021
	4.2 with 80% or above ownership secured	(Table 4)		2.1	Most of them are expected to be available for sale in 2021-2023
	4.3 with over 20% but less than 80% ownership secured	(Table 5)		0.8	Redevelopments of these projects are subject to acquisition of full ownerships

5.	15 Middle Road Tsim Sha Tsui (acquired through public tender)	0.3	To be held for rental purposes upon completion of development
6.	Murray Road Central (acquired through public tender)	0.5	To be held for rental purposes upon completion of development
7.	Kai Tak Development Area (one project was acquired through public tender)	1.2	Expected to be available for sale in 2020-2021
8.	Castle Peak Road/Un Chau Street project, Sham Shui Po (acquired through public tender)	0.1	Expected to be available for sale in 2021
	Sub-total:	**8.4**	
	Total for the above categories (A) and (B) development projects:	**9.8**	

(C) Major development projects in the New Territories:

– Fanling North	3.5	(Note 2)
– Wo Shang Wai	0.9	(Note 2)
– Fanling Sheung Shui Town Lot No. 262 Fanling North	0.6	
– Fanling Sheung Shui Town Lot No. 263 Kwu Tung	0.3	
– Others	0.3	
Sub-total:	**5.6**	
Total for categories (A) to (C):	**15.4**	

Note 1: Gross floor area is calculated on the basis of the Buildings Department's approved plans or the Government's latest town planning parameters, as well as the Company's development plans. For certain projects, these details may be subject to change depending on the actual needs in future.

Note 2: Developable area is subject to finalisation of land premium.

(Table 1) Unsold units from the major development projects offered for sale

There are 19 major development projects available for sale:

				At 31 December 2018			
	Project name and location	**Gross floor area (sq. ft.)**	**Type of development**	**No. of residential units remaining unsold**	**Saleable area remaining unsold (sq. ft.)**	**Group's interest (%)**	**Attributable saleable area remained unsold (sq.ft.)**
1.	Eden Manor 88 Castle Peak Road Kwu Tung	555,399	Residential	298	344,468	100.00	344,468
2.	Double Cove – Phases 1-5 8 Wu Kai Sha Road Ma On Shan	2,950,640	Commercial/ Residential	85	159,009	59.00	93,815
3.	Reach Summit – Sereno Verde Phase 5 99A Tai Tong Road Yuen Long	171,266	Residential	375	114,735	79.03	90,675
4.	NOVUM EAST 856 King's Road Quarry Bay	177,814	Commercial/ Residential	172	48,730	100.00	48,730
5.	Wellesley 23 Robinson Road Mid-Levels	156,900 (Note 1)	Residential	28	47,203	50.00 (Note 1)	23,602
6.	NOVUM WEST 460 Queen's Road West Sai Ying Pun	272,462	Commercial/ Residential	94	28,917	100.00	28,917
7.	Cetus • Square Mile 18 Ka Shin Street Mong Kok	176,422	Commercial/ Residential	98	27,812	100.00	27,812
8.	Hill Paramount 18 Hin Tai Street Shatin	358,048	Residential	4	11,742	100.00	11,742
9.	Seven Victory Avenue 7 Victory Avenue Ho Man Tin	83,245	Commercial/ Residential	28	10,772	100.00	10,772
10.	South Walk • Aura 12 Tin Wan Street Aberdeen	37,550	Commercial/ Residential	28	6,675	100.00	6,675

11.	Green Lodge 23 Ma Fung Ling Road Yuen Long	78,781	Residential	2	6,617	100.00	6,617
12.	The Reach 11 Shap Pat Heung Road Yuen Long	1,299,744	Residential	3	4,125	79.03	3,260
13.	H • Bonaire 68 Main Street Ap Lei Chau	65,761	Commercial/ Residential	5	3,062	100.00	3,062
14.	PARKER33 33 Shing On Street Shau Kei Wan	80,090	Commercial/ Residential	2	1,134	100.00	1,134
15.	Jones Hive 8 Jones Street Causeway Bay	65,267	Residential	3	999	79.762	797
16.	Global Gateway Tower 61A-61E and 63 Wing Hong Street Cheung Sha Wan	336,052	Industrial	Not applicable	77,777 (Note 2)	100.00	77,777 (Note 2)
17.	The Globe 79 Wing Hong Street Cheung Sha Wan	172,113	Office	Not applicable	64,557 (Note 2)	100.00	64,557 (Note 2)
18.	E-Trade Plaza 24 Lee Chung Street Chai Wan	173,850	Office	Not applicable	60,359 (Note 2)	100.00	60,359 (Note 2)
19.	Mega Cube 8 Wang Kwong Road Kowloon Bay	171,194	Office	Not applicable	48,622 (Note 2)	100.00	48,622 (Note 2)
			Total:	**1,225** (Note 3)	**1,067,315**		**953,393**

Note 1: The Group's interest represents 25.07% of the development and after the allocation of the residential units to the relevant developers, the Group holds jointly with one developer a 50/50 interest in the residential units so allocated.

Note 2: Representing the office, industrial or shop area.

Note 3: Out of the above 1,225 unsold units, 160 units were completed with occupation permits.

(Table 2) Projects pending sale in 2019

In the absence of unforeseen delays, the following 7 projects will be available for sale in 2019:

	Project name and location	Gross floor area (sq. ft.)	Type of development	No. of residential units	Residential gross floor area (sq. ft.)	Group's interest (%)	Attributable residential gross floor area (sq.ft.)
1.	The Vantage 63 Ma Tau Wai Road Hung Hom (launched for sale in March 2019)	207,257	Commercial/ Residential	551	150,148 (Note 1)	100.00	150,148 (Note 1)
2.	2 Tak Shing Street, Tsim Sha Tsui	89,553	Commercial/ Residential	172	79,603	100.00	79,603
3.	342-356 Un Chau Street Cheung Sha Wan	79,895	Commercial/ Residential	200	65,668	100.00	65,668
4.	62C Robinson Road Mid-Levels	33,684	Commercial/ Residential	90	32,494	100.00	32,494
5.	Lot No. 1752 in DD No. 122 Tong Yan San Tsuen Yuen Long	27,868	Residential	16	27,868	100.00	27,868
6	74 Waterloo Road Ho Man Tin	94,973	Commercial/ Residential	240	84,421	49.00	41,366
7.	Phase 1, Tuen Mun Town Lot No. 547 (Castle Peak Road, Castle Peak Bay, Area 48, Tuen Mun, New Territories) (Note 2)	663,062 (Note 3)	Residential	583	232,328	16.71	38,822
			Total:	**1,852**	**672,530**		**435,969**

Note 1: Representing the residential saleable area.
Note 2: Pending the issue of pre-sale consent.
Note 3: Representing the total gross floor area for the whole project.

(Table 3) Existing urban redevelopment projects

The Group has a total of 3 existing projects under redevelopment or land-use conversion and the dates of their sales launch are not yet fixed. As outlined below, they are expected to provide about 1.1 million square feet in attributable gross floor area in the urban areas based on the Buildings Department's approved plans or the Government's latest town planning:

	Project name and location	Site area (sq. ft.)	Expected gross floor area upon redevelopment (sq. ft.)	Group's interest (%)	Expected attributable gross floor area upon redevelopment (sq. ft.)
1.	Yau Tong Bay Kowloon (Note 1)	810,454	3,992,604	22.80	910,314
2.	218 Electric Road North Point, Hong Kong (Note 2)	9,600	144,000	100.00	144,000
3.	29A Lugard Road The Peak, Hong Kong	23,653	11,709	100.00	11,709
	Total:	**843,707**	**4,148,313**		**1,066,023**

Note 1: The modified master layout plan was approved in February 2015 and is pending finalisation of land premium with the Government.

Note 2: Investment property.

(Table 4) Newly-acquired Urban Redevelopment Projects – with 80% to 100% ownership secured

There are 30 newly-acquired urban redevelopment projects with 80% to 100% ownerships secured. Their expected attributable gross floor areas, based on the Buildings Department's approved plans or the Government's latest town planning, are as follows:

		With 100% ownership secured		with over 80% but less than 100% ownership secured*		
	Project name and location	**Site area (sq. ft.)**	**Expected attributable gross floor area upon redevelopment (sq. ft.)**	**Site area (sq. ft.)**	**Expected attributable gross floor area upon redevelopment (sq. ft.)**	**Total attributable gross floor area (sq. ft.)**
Hong Kong						
1.	4A-4P Seymour Road, Mid-Levels (65% stake held by the Group)	52,466	306,921			306,921
2.	73-73E Caine Road, Mid-Levels	6,781	64,130			64,130
3.	1-4 Ladder Street Terrace, Mid-Levels	2,859	13,907			13,907
4.	94-100 Robinson Road, Mid-Levels	5,798	28,990	6,362	31,810	60,800
5.	88 Robinson Road, Mid-Levels			10,361	51,805	51,805
6.	105 Robinson Road, Mid-Levels			27,530	126,638	126,638
7.	33-47 Elgin Street, Mid-Levels			11,775	93,594	93,594
8.	1-19 Chung Ching Street, Sai Ying Pun	7,858	90,033			90,033
9.	206-212 Johnston Road, Wanchai (Note 1)	4,328	64,918			64,918
10.	13-21 Wood Road and 22-30 Wing Cheung Street, Wanchai	6,392	57,076	2,208	19,722	76,798
11.	2 Tai Cheong Street, Sai Wan Ho	13,713	134,993			134,993
12.	9-13 Sun Chun Street Tai Hang			2,019	18,171	18,171
13.	17-25 Sun Chun Street Tai Hang			4,497	40,473	40,473
14.	983-987A King's Road and 16-22 and 24-94 Pan Hoi Street, Quarry Bay (50% stake held by the Group)			43,882	176,760	176,760
15.	83-95 Shek Pai Wan Road and 2 Tin Wan Street, Aberdeen	4,950	47,025	1,128	10,716	57,741
16.	4-6 Tin Wan Street, Aberdeen			1,740	14,790	14,790
17.	65-71 Main Street, Ap Lei Chau	4,800	40,015			40,015
	Sub-total:	**109,945**	**848,008**	**111,502**	**584,479**	**1,432,487**

Project name and location	With 100% ownership secured Site area (sq. ft.)	 Expected attributable gross floor area upon redevelopment (sq. ft.)	with over 80% but less than 100% ownership secured* Site area (sq. ft.)	 Expected attributable gross floor area upon redevelopment (sq. ft.)	Total attributable gross floor area (sq. ft.)
Kowloon and New Territories					
18. 38 Fuk Chak Street Tai Kok Tsui	20,114	181,019			181,019
19. 25-29 Kok Cheung Street, Tai Kok Tsui	26,953	242,512			242,512
20. 1 Ka Shin Street, 39-53 Tai Kok Tsui Road and 2 Pok Man Street, Tai Kok Tsui			9,642	86,772	86,772
21. 173-199 Tai Kok Tsui Road, Tai Kok Tsui			15,745	141,705	141,705
22. 16-30 Man On Street, Tai Kok Tsui			6,418	57,762	57,762
23. 456-466 Sai Yeung Choi Street North and 50-56 Wong Chuk Street, Sham Shui Po (Note 2)	22,889	203,962			203,962
24. 1-27 Berwick Street, 202-220 Nam Cheong Street and 1-14 Yiu Tung Street, Shek Kip Mei	35,326	317,934	10,200	91,800	409,734
25. 11-19 Wing Lung Street, Cheung Sha Wan (Note 2)	6,510	58,300			58,300
26. Various projects spanning Gillies Avenue South, Baker Street, Whampoa Street and Bulkeley Street, Hung Hom	36,650	329,820	75,400	678,593	1,008,413
27. 68-76B To Kwa Wan Road, 58-76 Lok Shan Road, 14-20 Ha Heung Road, 1-7 Lai Wa Street and 1-9 and 2-8 Mei Wa Street, To Kwa Wan			42,506	374,355	374,355
28. 67-83 Fuk Lo Tsun Road, Kowloon City (Note 2)	10,954	96,696			96,696
29. 4-22 Nam Kok Road, Kowloon City	2,817	23,945	7,360	62,560	86,505
30. 3 Mei Sun Lane, Tai Po			6,487	37,041	37,041
Sub-total:	**162,213**	**1,454,188**	**173,758**	**1,530,588**	**2,984,776**
Total:	**272,158**	**2,302,196**	**285,260**	**2,115,067**	**4,417,263**

* their ownership will be consolidated by proceeding to court for compulsory sale under the "Land (Compulsory Sale for Redevelopment) Ordinance". In the event that no court order is granted, the Group may not be able to complete the consolidation of the ownership for development.

Note 1: To be held for rental purposes upon completion of development.

Note 2: Developable area may be subject to payment of land premium.

(Table 5) Newly-acquired Urban Redevelopment Projects – with over 20% but less than 80% ownership secured

The Group has other acquisitions in progress, involving 30 projects located in prime urban areas in Hong Kong and Kowloon. Currently, ownership ranging from more than 20% to less than 80% of each project has been achieved. The attributable land areas of these projects total about 210,000 square feet. If and when their ownerships are successfully consolidated, based on the Government's latest town planning, the total estimated attributable gross floor area would be about 1,910,000 square feet upon completion of redevelopment. Based on the respective ownership currently secured by the Group for each project, the total pro-rata attributable gross floor area is about 770,000 square feet.

Successful acquisitions of the above projects bear uncertainty. The Group may not be able to consolidate ownerships of all projects. Redevelopments can only be implemented upon acquisition of the full ownership of the relevant projects.

Land Bank

During the year under review, the Group acquired interests in the two residential land lots adjacent to each other in Kai Tak Development Area at the total consideration of approximately HK$15,958 million. A joint venture formed by the Group and various developers also won the tender for a residential land lot at New Kowloon Inland Lot No. 6574 in Kai Tak Development Area at a consideration of HK$8,333 million, of which 29.3% is attributable to the Group. Meanwhile, the Group won the tender from the Urban Renewal Authority for the development of Castle Peak Road/Un Chau Street development project in Sham Shui Po at the consideration of about HK$1,368 million. Details of the additions are summarised as follows:

Location	Lease Expiry	Site area (sq. ft.)	Group's interest (%)	Estimated attributable gross floor area (sq. ft.)
1. New Kowloon Inland Lot No. 6562, Kai Tak	2066	94,755	100.00	397,965
2. New Kowloon Inland Lot No. 6565, Kai Tak	2066	121,224	100.00	654,602
3. New Kowloon Inland Lot No. 6574, Kai Tak	2066	104,475	29.3	168,362
4. Castle Peak Road/Un Chau Street Development Project, Sham Shui Po	2069	17,750	100.00	124,000*
			Total:	**1,344,929**

** the Group is only entitled to the residential portion of this project.*

As regards urban redevelopment projects, other than a total of approximately 0.2 million square feet in attributable gross floor areas that has been earmarked for sales launch in 2019, at 31 December 2018, projects with 80% to 100% ownerships acquired still increased by 0.4 million square feet in total attributable gross floor area as compared with the end of 2017.

The Group currently has a land bank in Hong Kong comprising a total attributable gross floor area of approximately 24.7 million square feet, made up as follows:

	Attributable gross floor area (million sq. ft.)
Properties under development (Note)	14.4
Unsold units from major launched projects	1.0
Sub-total:	**15.4**
Completed properties (including hotels) for rental	9.3
Total:	**24.7**

Note: Including the total attributable developable area of about 4.4 million square feet from the projects in Fanling North and Wo Shang Wai, which are subject to finalisation of land premium.

Land in Urban Areas

In addition to those already in the sales pipeline as mentioned above, the Group has urban redevelopment projects of old tenement buildings with entire or over 80% ownership acquired, representing a total attributable gross floor area of about 4.4 million square feet, which are expected to be available for sale or lease in 2020 or beyond. The total land cost of such projects is estimated to be about HK$37,455 million (including the pricey street shops and the project at the prestigious Seymour Road in Mid-Levels), translating into a land cost of approximately HK$8,500 per square foot of gross floor area.

By acquiring old tenement buildings for urban redevelopment, owners of the dilapidated properties can upgrade to homes with much better living conditions, whilst the old districts will be revitalized. During the year under review, the sites for various existing projects were enlarged following the Group's acquisition of the adjacent buildings. The redevelopment in West Kowloon adjacent to the Olympic MTR station is a manifest example. The Group's various projects spanning Ka Shin Street, Li Tak Street, Kok Cheung Street, Fuk Chak Street, Pok Man Street, Man On Street and Tai Kok Tsui Road are now jointly being developed under the "Square Mile" brand, providing an aggregate gross floor area of over 1.0 million square feet. With a diverse flat mix of housing units and a chic shopping mall, "Square Mile" is complemented by an open-air piazza for cultural and leisure activities, resulting in the previously rundown district being revitalized into a vibrant neighbourhood. The first two phases of its development (namely, "Eltanin • Square Mile" and "Cetus • Square Mile"), which boast a total gross floor area of about 350,000 square feet, have been launched and about 90% of their total residential units were sold.

By making reference to the approach of "Square Mile", the Group is now conducting comprehensive planning in Hung Hom. Various projects spanning Gillies Avenue South, Baker Street, Whampoa Street and Bulkeley Street will be jointly developed into another 1,000,000-square-foot revitalized community, improving the vibrancy and living convenience for its residents. In addition, the Group's 22.80%-owned residential-cum-commercial project at Yau Tong Bay is in the process of application for land exchange. This large-scale development, with residences that enjoy stunning views of Victoria Harbour, is poised to feature as another iconic landmark upon its completion.

New Territories land

During the year under review, the Group acquired further New Territories land lots of about 0.7 million square feet. The Group's New Territories land reserves were thus increased to approximately 45.6 million square feet at the end of December 2018, representing the largest holding among all property developers in Hong Kong.

Of the Group's land holding of 2.4 million square feet in Fanling North New Development Area, a total land area of roughly over 800,000 square feet is assessed to be eligible for in-situ land exchange and the Government may resume the other parts of its lands for public use by payment of cash compensation. The Group has previously applied for in-situ land exchange for five separate land lots in Fanling North and Kwu Tung North. Two of these were finalized with their land premium settled in December 2017, whereas the remaining three have been accepted by the Government for further review. These three land lots in Fanling North are expected to provide an aggregate commercial gross floor area of approximately 440,000 square feet and residential gross floor area of approximately 3.0 million square feet, against their respective site areas of 228,000 square feet, 241,000 square feet and 240,000 square feet. Developable areas for these sites are subject to finalisation of land premium.

According to the aforementioned "North East New Territories New Development Areas Planning and Engineering Study", the region at Ping Che/Ta Kwu Ling will be re-planned in response to the "2013 Policy Address" which proposed an initiative to review the development potential of New Territories North, including new opportunities brought about by the new railway infrastructure. In January 2014, the Government commenced its "Preliminary Feasibility Study on Developing the New Territories North" on an area of about 5,300 hectares. In September 2014, the Government announced the "Railway Development Strategy", including its long-term plan to further extend the railway line to Kwu Tung and Ping Che. In order to increase land supply for housing, the Government formulated the Preliminary Outline Development Plan for "Planning and Engineering Study for Housing Sites in Yuen Long South – Investigation" and launched its Stage 2 Community Engagement. It also released the "Land Use Review for Kam Tin South and Pat Heung". The Group holds certain pieces of land in these areas.

As for the "Hung Shui Kiu New Development Area Planning and Engineering Study", the area concerned covers an area of about 714 hectares. The Group holds a total land area of approximately 6.47 million square feet in this location. Under the draft Hung Shui Kiu and Ha Tsuen Outline Zoning Plan, it is proposed to accommodate a new town with a population of about 215,000 people and 60,000 additional flats, of which about 50% are private developments. Impacts to the Group arising from these proposals are to be assessed. The Group will continue to work in line with the Government's development policies and will follow up closely on its development plans.

Besides, the project comprising the development of houses-cum-wetland restoration in Wo Shang Wai, Yuen Long has been approved by the Town Planning Board. With a site area of approximately 2.23 million square feet, this project will comprise about 400 houses, providing a total residential floor area of approximately 890,000 square feet. Negotiation of the land premium is now underway. Project implementation is subject to the finalisation of the land premium amount with the Government.

The Pilot Scheme for Arbitration on Land Premium was introduced by the Government in October 2014 for a trial period of two years, aimed at facilitating the early conclusion of land premium negotiations and expediting land supply for housing and other uses. The Pilot Scheme has been extended to October 2020. The Group will thus consider requesting for arbitration on its land exchange or lease modification cases when necessary.

In order to increase and expedite land supply, the Government announced that the Lands Department would establish a centralised Land Supply Section for speeding up "big ticket" lease modification and land exchange cases and further centralisation of premium assessments, so as to streamline and expedite the development process. The Group will actively work in line with these Government initiatives.

The Government announced that it had fully accepted the recommendations tendered by the Task Force on Land Supply regarding land supply strategy and eight land supply options worthy of priority studies and implementation, which included "Tapping into Private Agricultural Land Reserve in the New Territories". The Government is in the process of drawing up more specific criteria and other details of the implementation framework for its Land Sharing Pilot Scheme, with a view to inviting applications in the second half of 2019 after seeking the endorsement of the Chief Executive-in-Council. The Group will look into the matter thoroughly when more details are disclosed.

Investment Properties

During the year under review, the Group's attributable share of gross rental income in Hong Kong (including the attributable share of contributions from subsidiaries, associates and joint ventures) increased by 6% to HK$7,141 million. The attributable share of pre-tax net rental income (including the attributable contributions from subsidiaries, associates and joint ventures) was HK$5,587 million, representing a growth of 5% over the previous year. Included therein is attributable gross rental income of HK$2,100 million (2017: HK$1,985 million) contributed from the Group's attributable 40.77% interest in The International Finance Centre ("ifc") project. At the end of December 2018, the average leasing rate for the Group's major rental properties was 98%. Besides, the Group held about 7,800 car parking bays, providing additional rental income.

The Group's completed investment property portfolio in Hong Kong as at 31 December 2018 amounted to 8.8 million square feet in attributable terms with its breakdown as follows:

By type:	**Attributable gross floor area (million sq. ft.)**	**Percentage (%)**
Shopping arcade or retail	4.7	53
Office	3.3	37
Industrial	0.4	5
Residential and hotel apartment	0.4	5
Total:	**8.8**	**100**

By geographical area:	**Attributable gross floor area (million sq. ft.)**	**Percentage (%)**
Hong Kong Island	2.2	25
Kowloon	2.8	32
New Territories	3.8	43
Total:	**8.8**	**100**

Retail portfolio

At the end of December 2018, all the Group's major shopping malls (except those under renovation or undergoing a realignment of tenant mix) recorded nearly full occupancy with steady rental growth. Such satisfactory results were mainly due to the Group's various initiatives to enhance the appeal of its malls so as to maintain their competitive edge. For instance, the cluster of commercial premises at "Sunshine City", Ma On Shan, were re-branded as "MOSTown" and "MOSTown Street" during the year under review to underscore the malls' new identity, following their recently completed reconfiguration and renovation. Meanwhile, a customer loyalty programme (namely, MOST Club) and certain mobile applications were introduced to foster interaction between shoppers and tenants. Together with their launch of "Emperor Cup 2018", which was the largest offline e-sports tournament involving players in Hong Kong, Macau and Taiwan, as well as some other innovative brand building activities, this mall has been shaped into one of the most trendy shopping malls in town.

Situated above an MTR station, which is just one stop from the newly-opened Express Rail Link West Kowloon Station, "H Zentre" at 15 Middle Road, Tsim Sha Tsui, is a commercial development comprising medical, dining, retail and car parking facilities. This 340,000-square-foot development is scheduled for completion in mid-2019 and the preliminary leasing responses have been satisfactory, with renowned medical service providers being secured as its tenants.

The Group's 20%-owned "Citygate" in Tung Chung will be further enlarged by extension. The extension, which comprises a total retail gross floor area of about 340,000 square feet in seven storeys and a 130,000-square-foot hotel seamlessly connected to the existing "Citygate", is scheduled to open in the first half of 2019. Upon full completion, the combined 800,000-square-foot shopping mall is set to reinforce its position as Hong Kong's leading outlet shopping destination on the back of its unique location in close proximity to both the airport and Hong Kong-Zhuhai-Macao Bridge.

Office portfolio

In Hong Kong, demand for office space remained resilient due to limited new supply. During the year under review, the Group's premium office buildings in the core areas, such as "ifc" in Central, "AIA Tower" in North Point and "FWD Financial Centre" in Sheung Wan, recorded consistently high occupancy with positive rental reversions. The Group's portfolio of office and industrial/office premises in Kowloon East, including "Manulife Financial Centre", "AIA Financial Centre", "78 Hung To Road" and "52 Hung To Road", also performed well with steady rental growth.

The 144,000-square-foot redevelopment project at Electric Road, North Point, is scheduled for completion by the end of 2019 and its pre-leasing responses have been satisfactory. With the commissioning of the Central-Wanchai Bypass in early 2019, it only takes about five minutes to travel from Central to Island Eastern Corridor at North Point. As such, this development will appeal to tenants that favour transportation ease and sustainability.

The above-mentioned "H Zentre" in Tsim Sha Tsui, the "Citygate" extension in Tung Chung, and the redevelopment project at Electric Road, North Point, are all scheduled for completion in 2019. Together with the impending development of a 465,000-square-foot Grade-A office tower at Murray Road, Central, and the redevelopment project at Johnston Road, Wanchai, the Group's rental portfolio in Hong Kong is poised to be further enhanced.

Construction

The Group has always been committed to building excellence in all its property developments. During the year under review, the Grade-A office building at 18 King Wah Road, North Point, achieved the top honour of Grand Award Winner in the Hong Kong Non-Residential (New Building – Non-Government, Institution or Community) Category of the Quality Building Award. These biennial awards are strictly accredited by a panel of judges drawn from nine professional organisations, giving the honours unrivalled credibility and prestige. The Group's "H Zentre" in Tsim Sha Tsui, as well as the residential projects at Sai Yeung Choi Street North, Sham Shui Po and "Park One" in Cheung Sha Wan, were also accredited as winners in the Asia Pacific region in the globally regarded International Property Awards. "H Zentre", in particular, was named the "2018-2019 Best International Commercial High-rise Development" among all the regions. In addition to receiving the Gold Award in "The 2nd APIGBA Awards Competition – Design Category", the office redevelopment at Electric Road, North Point, was also awarded a top 3-Star China Green Building Design Label (GBDL) rating for its superior environmental standards and green building specifications.

In order to enhance the quality of the Group's developments, the latest technology and devices are constantly applied. For instance, the Construction Department has adopted aluminum system formwork and semi-precast reinforced concrete slabs in the typical floor construction of small to medium-sized housing units so as to meet the rigorous craftsmanship and quality requirements. The use of pre-fabricated building components has expedited the construction process, while minimising disruption to the immediate neighbourhoods. Moreover, given escalating material costs and a shortage of construction workers, these measures help improve quality and cost efficiency by reducing manpower and construction waste.

The following development projects in Hong Kong were completed during the year under review:

	Project name and location	Site area (sq. ft.)	Gross floor area (sq. ft.)	Type of development	Group's interest (%)	Attributable gross floor area (sq. ft.)
1.	Seven Victory Avenue 7 Victory Avenue Ho Man Tin	9,865	83,245	Commercial/ Residential	100.00	83,245
2.	Wellesley 23 Robinson Road Mid-Levels	31,380	156,900	Residential	25.07	39,335
3.	H Code 45 Pottinger Street Central, Hong Kong	9,067	135,995	Commercial	19.10	25,975
4.	Harbour Park 208 Tung Chau Street Cheung Sha Wan	6,527	55,077	Commercial/ Residential	33.41	18,401
					Total:	**166,956**

Property Management

The Group's property management companies, namely, Hang Yick Properties Management Limited, Well Born Real Estate Management Limited and Goodwill Management Limited, manage in total over 80,000 apartments and industrial/commercial units, 10 million square feet of shopping and office space, as well as 20,000 car parking spaces in Hong Kong.

These management companies adhere to the principle of ever improving service quality. Their professional accreditations, such as ISO 9001 Quality Management System Certification, ISO 10002 Complaints Handling Management System Certification, ISO 14001 Environmental Management System Certification, OHSAS 18001 Occupational Health and Safety Management System Certification and Hong Kong Q-Mark Service Scheme Certification, all reflect their commitment to service excellence and customer satisfaction. For instance, "H-Privilege Limited", a subsidiary of Hang Yick Properties Management Limited, was highly praised for its attentive home services (such as a special patrol service for registered units when residents are away, as well as organising wine tasting and other lifestyle activities) for the Group's urban boutique residences under "The H Collection" brand.

In respect of community services, the property management subsidiaries continued to support the holistic development of the young generation during this "Year of Youth". For instance, the management companies' volunteer team shared their home maintenance skills with the young people of low-income families, with the aim of enabling them to improve their living conditions. In recognition of the Group's care for the public at large, a multitude of commendations were received during the year, including being named champions in both "2016-2018 Best Corporate Volunteer Service Project Competition" as well as the "Highest Service Hour Award (Private Organisations – Category I)".

Mainland China

In 2018, the Central Government reiterated that "housing should be for living in, not for speculation", and vigorously supervised the financial credits of the real estate sector. Meanwhile, the local governments continued to implement differentiated regulatory policies to curb the rise in property prices. As a result, an upsurge in housing prices was reined in and homebuyers became more cautious. Starting from the third quarter of the year, price corrections appeared in certain cities. In the last quarter of the year, some cities relaxed price restrictions and lowered mortgage interest rates.

The following development projects were completed during the year under review:

	Project name	Usage	Group's interest (%)	Attributable gross floor area (million sq. ft.)
1.	Phases 2 and 3, Henderson • CIFI City Suzhou	Residential	50	1.01
2.	Towers 5 and 6, Site B, The Arch, Chengdu ICC, Chengdu	Residential and commercial	30	0.28
3.	Phase 2, Henderson • Country Garden Jin Shi Tan Project, Dalian	Residential and clubhouse	50	0.20
4.	Phase 3B, The Arch of Triumph, Changsha	Residential	70	1.44
5.	Phase 3, Palatial Crest, Xian	School	100	0.02
6.	Phases 2R5-9A, 3R2, 2P1 and 4M1, La Botanica, Xian	Residential and commercial	50	1.64
7.	Phase 3, Emerald Valley, Nanjing	Community facilities	100	0.05
8.	Phase 3, F1 and F2, Riverside Park Suzhou	Residential and commercial	70	0.76
			Total:	**5.40**

In response to the fundamental changes in market conditions, the Group has refined its Mainland China strategy as follows:

Property Investment: The Group focused on the development of Grade-A office buildings. It has been pressing ahead with the development of the 3,000,000-square-foot "Lumina Shanghai" at Xuhui Riverside Development in Shanghai, and the 1,800,000-square-foot "Lumina Guangzhou" at Yuexiu District in Guangzhou. The Group also actively looked for land sites with good prospects at reasonable costs in other prime locations of major cities.

Property Development: The Group kept monitoring investment opportunities in the Greater Bay Area, and continued to strengthen its co-operation with mainland property developers in the joint development of residential projects. The Group's reputation, management expertise and financial strength, coupled with local developers' market intelligence, construction efficiency and cost advantages, have enhanced the returns of its development projects.

In line with the above strategies, the Group added the following development projects to its land bank during the year under review:

(1) The Group partnered with the subsidiaries of C&D International Investment Group Limited (a property developer listed in Hong Kong) and The Wharf (Holdings) Limited (a property developer listed in Hong Kong) to jointly develop a residential site in Baiyun District, Guangzhou. The Group has an 18% equity interest in this project. The land lot with a site area of approximately 390,000 square feet, which was purchased at a consideration of about RMB4,022 million, will provide a total gross floor area of over 1,440,000 square feet.

(2) The Group acquired a 50% stake in an urban redevelopment project in Nanshan District, Shenzhen, from Beijing Hongkun Group at a consideration of about RMB425 million. This project will provide a developable gross floor area of over 420,000 square feet on a site of about 70,000 square feet.

(3) The Group co-operated with the subsidiaries of Jiangsu Zhongnan Construction Group Company Limited (a property developer listed in the mainland) and CIFI Holdings (Group) Co. Limited. ("CIFI", a property developer listed in Hong Kong) to jointly develop a residential site in Gaoxin District, Suzhou. The Group has an approximately 35% equity interest in this project. The land lot with a site area of approximately 870,000 square feet, which was acquired at a consideration of about RMB2,311 million, will provide a total gross floor area of over 1,820,000 square feet.

(4) The Group joined forces with the subsidiaries of COFCO Property (Group) Co. Limited (a property developer listed in the mainland), Beijing Tian Heng Real Estate Group Company Limited and CIFI to jointly develop a commercial-cum-residential site in Shunyi District, Beijing. The Group has an approximately 24.5% equity interest in this project. The land lot with a site area of approximately 710,000 square feet, which was acquired at a consideration of about RMB4,950 million, will provide a total gross floor area of over 1,290,000 square feet.

(5) The Group teamed up with the subsidiaries of China Resources Land Limited (a property developer listed in Hong Kong), Beijing Capital Land Limited (a property developer listed in Hong Kong), China Overseas Land & Investment Limited (a property developer listed in Hong Kong), Poly Developments and Holdings Group Co., Ltd. (a property developer listed on the mainland) and CIFI to jointly develop a residential site in Zengcheng District, Guangzhou. The Group has a 10% equity interest in this project. The land lot with a site area of approximately 920,000 square feet, which was acquired at a consideration of about RMB3,218 million, will provide a total gross floor area of over 2,760,000 square feet.

In addition to the holding of approximately 0.4 million square feet in attributable gross floor area of completed property stock, the Group held a development land bank in 13 cities at 31 December 2018 with a total attributable gross floor area of about 32.04 million square feet. Around 71% of this total is planned for residential development:

Land bank under development or held for future development

		Group's share of developable gross floor area* (million sq. ft.)
Prime cities		
Beijing		0.32
Shanghai		3.57
Guangzhou		2.31
Shenzhen		0.21
	Sub-total:	**6.41**
Second-tier cities		
Changsha		5.07
Chengdu		3.28
Dalian		0.06
Nanjing		0.05
Shenyang		4.45
Suzhou		1.86
Xian		7.62
Xuzhou		0.62
Yixing		2.62
	Sub-total:	**25.63**
	Total:	**32.04**

** Excluding basement areas and car parks.*

Usage of development land bank

	Estimated developable gross floor area (million sq. ft.)	Percentage (%)
Residential	22.67	71
Office	5.05	16
Commercial	3.64	11
Others (including clubhouses, schools and community facilities)	0.68	2
Total:	**32.04**	**100**

Property Sales

During the year under review, the Group achieved attributable contracted sales of approximately HK$5,403 million in value with a corresponding attributable gross floor area of 3.8 million square feet from various development projects. “La Botanica” in Xian, “Grand Lakeview” in Yixing, “Riverside Park” in Suzhou, “Lakeside Mansion” in Beijing and “The Landscape” in Changsha were the main sales projects.

Investment Properties

At 31 December 2018, the Group had about 6.4 million square feet of completed investment properties in mainland China. During the year under review, the Group’s attributable gross rental income increased by 7% to HK$1,833 million, whilst its attributable pre-tax net rental income also increased by 7% to HK$1,438 million.

In Beijing, “World Financial Centre’’, an International Grade-A office complex in the Chaoyang Central Business District, was virtually fully let at the end of December 2018 and gross rental income increased by 15% over the previous year. Many renowned corporations such as “Sinopec” and “Mundipharma” were newly introduced as tenants. During the year under review, numerous accolades were received in recognition of its commitment to excellence. These included “Outstanding Facility Management Team Award for the Year” from the Royal Institution of Chartered Surveyors, the designation as “Six-star Premium Grade-A Building” from the Chaoyang District Government, and “Excellent Grade-A Office Project (Green Building)” from Hong Kong Institute of Certified Property Managers.

In Shanghai, “Henderson Metropolitan” near the Bund recorded steady rental growth with a leasing rate exceeding 95%, whilst “Henderson 688” on the bustling Nanjing Road West also performed well on the back of its positive rental reversion. The growing concerns among business corporations about costs prompted some tenants in the CBD to relocate to fringe areas for cost savings. Benefitting from this trend of office decentralization, both “Greentech Tower” and “Centro” enjoyed a consistently high occupancy with the aggregate rental income increasing by 9% over the previous year. During the year under review, “Grand Gateway II’’ atop the Xujiahui subway station attracted many leading multinational corporations such as “Lululemon” and “Align Technology” as its tenants, resulting in a high occupancy rate of over 90% by the end of 2018. In appreciation for the Group’s efforts in securing quality tenants as taxpayers in that district, Xuhui District Government granted the Group a tax rebate as reward.

In Guangzhou, “Hengbao Plaza” in Liwan District has been undergoing phased renovation work. During the year under review, its rental income slipped as lettable space reduced. The renovation works are expected to be fully completed in 2019 and with a newly refined tenant mix and refreshing shopping experience, “Hengbao Plaza” will attract the patronage of more shoppers.

In addition, the Group’s rental portfolio in the mainland will be further bolstered by the following two sizeable wholly-owned landmark developments in the pipeline:

In Shanghai, “Lumina Shanghai” encompassing two office/commercial sites in the Xu Hui Riverside Development Area is an integrated development, which consists of about 2,660,000 square feet of Grade-A offices and about 310,000 square feet of retail spaces. This iconic development will be completed in two phases from 2020 to 2021.

In the Yuexiu District of Guangzhou, sitting on the banks of Pearl River with direct connection to two subway lines, “Lumina Guangzhou” will include an experience-based shopping mall and two Grade- A office towers, providing a total gross floor area of about 1,800,000 square feet. It is scheduled for completion in the second half of 2019. Besides, an additional underground space of about 400,000 square feet will be available for commercial use. Commercial space will then extend from the shopping mall to the underground piazza, providing a multifarious experience of shopping, leisure and entertainment.

Henderson Investment Limited ("HIL")

HIL's profit attributable to equity shareholders for the year ended 31 December 2018 amounted to HK$97 million. Profit attributable to equity shareholders for the previous year, which included a one-off net gain of HK$33 million arising from the completion of the winding-up proceedings for an infrastructure operation in mainland China, was HK$111 million. Excluding the financial effects of this one-off item, the adjusted profit attributable to equity shareholders for the previous year amounted to HK$78 million. HIL's profit attributable to equity shareholders of HK$97 million for the year ended 31 December 2018 represented an increase of HK$19 million, or 24%, over the adjusted profit attributable to equity shareholders for the previous year.

HIL focuses on department store operations in Hong Kong. In order to strengthen HIL's position in the local retailing industry and to expand its store coverage, HIL in May 2018 acquired UNY (HK) Co., Limited (now re-named as "Unicorn Stores (HK) Limited", hereinafter referred to as "UNY HK") at the consideration of approximately HK$300 million. UNY HK is recognised as a popular brand in Hong Kong for its over 30 years of retail experience, particularly with regard to the sale of fresh Japanese produce and food products. By the end of the financial year under review, UNY HK operated three general merchandise stores-cum-supermarkets in the following densely-populated residential districts which were easily accessible by public transport:

	Location
APITA	Cityplaza, Taikoo Shing, Hong Kong Island
UNY	Lok Fu Place, Lok Fu, Kowloon
PIAGO*	Telford Plaza, Kowloon Bay, Kowloon

** the loss-making PIAGO will be closed by the end of March 2019 as planned in the course of acquisition negotiations, as well as the post-acquisition integration assessment.*

The above department stores and Japanese supermarkets were mainly aimed at middle class, affluent spending households, which was a similar strategy adopted by Citistore. Besides, the acquisition will provide HIL with potential synergies and cost saving opportunities for merchandising and back office functions, by taking advantage of UNY HK's valuable merchandise sourcing experience.

Completion of the acquisition took place on 31 May 2018. In order to offer the same premium service and shopping experience to their customers, both Citistore and UNY HK continued to operate under their own brand names after the acquisition:

(I) Citistore

There are six department stores under the name "Citistore" in Hong Kong, of which five are located in the New Territories (in Tsuen Wan, Yuen Long, Ma On Shan, Tuen Mun and Tseung Kwan O) and the remaining one is located in Tai Kok Tsui, Kowloon.

During the year under review, Citistore continued to launch various promotional sales campaigns, whilst its co-operation with suppliers was also strengthened so as to improve the overall operational performance. For instance, with the support of some leading local brand merchants, Citistore initiated "Hong Kong Brands Fair" in mid-2018 so as to enhance customers' knowledge about these home-grown signature products. As a result of these measures, Citistore recorded a year-on-year increase of 6% in total sales proceeds derived from the sales of own goods, as well as concessionaire and consignment goods, for the year ended 31 December 2018.

During the year under review, Citistore's sales of own goods increased by 6% to HK$433 million and its gross margin remained steady at 34%. The Household and Toys category made up approximately 52% of the sales, the Apparels category contributed approximately 31% and the balance of approximately 17% came from the categories of Foods and Cosmetics.

Citistore's concessionaire sales are conducted by licensing portions of shop spaces to its concessionaires for setting up their own concession counters to sell their products, whilst consignment sales comprise the sales of consignors' own products on or in designated shelves, areas or spaces. Citistore charges these concessionaire and consignment counters on the basis of revenue sharing or basic commission (if any), whichever is higher, as its commission income. During the year under review, the total commission income derived from these concessionaire and consignment counters grew by 5% year-on-year to HK$436 million, reflecting the increase in the sales proceeds generated from both counters.

As compared with the year-on-year increase of 6% in its total sales proceeds, Citistore's operating expenses during the year under review increased by less than 1% to HK$434 million, demonstrating its relentless efforts in improving efficiency and controlling operating costs. Citistore's profit after taxation for the year under review amounted to HK$89 million, representing an increase of HK$15 million or 20% over that of HK$74 million for the previous year.

(II) UNY HK

As the acquisition of UNY HK was completed on 31 May 2018, only its turnover for the seven months from 1 June 2018 to 31 December 2018 was recognised in the financial statements of HIL during the year under review.

During this seven-month period, UNY HK generated gross profit (after netting the cost of inventories sold) of HK$169 million against a total sales of own goods of HK$565 million, resulting in a gross margin of 30%. Meanwhile, UNY HK's sales proceeds from consignment counters, as well as their resultant commission income, amounted to HK$226 million and HK$50 million respectively. After deducting the operating expenses, a profit after taxation of HK$4 million was recorded.

Aggregating the above-mentioned operating results of Citistore and UNY HK, the total after-tax profit contribution from HIL's department store operation amounted to HK$93 million for the year ended 31 December 2018. After taking into account the interest income, dividend income and the overhead expenditures of its head office (including one-off professional fees in relation to the aforesaid acquisition), HIL's profit attributable to equity shareholders for the year under review amounted to HK$97 million, representing an increase of HK$19 million or 24% over that of HK$78 million (after excluding the above-mentioned one-off gain) in the previous year.

After scrutinising the performances of its stores, HIL will strategically adjust and optimise the structure of its store network. Both Citistore Tai Kok Tsui store at Metro Harbour Plaza and UNY at Lok Fu Place will be downsized in the second quarter of 2019, whilst PIAGO at Telford Plaza will be closed by the end of March 2019. Efforts will then be focused on improving customer experience and operational efficiency. For instance, UNY at Lok Fu Place will carry out a phased renovation in the second half of 2019, with the aim to offer a refreshing and comfortable shopping environment for customers. HIL will also continue to step up its promotional efforts and cost controls, thereby enabling sustainable business growth.

Associated Companies

The Hong Kong and China Gas Company Limited ("Hong Kong and China Gas")

Profit after taxation attributable to shareholders of Hong Kong and China Gas for the year amounted to HK$9,313 million, an increase of HK$1,088 million, up by 13.2%, compared to 2017. Exclusive of its share of a revaluation surplus from the International Finance Centre complex, Hong Kong and China Gas's profit after taxation for the year was HK$7,283 million, an increase of HK$275 million, up by approximately 4% compared to 2017. During the year under review, Hong Kong and China Gas invested HK$6,746 million in production facilities, pipelines, plants and other fixed assets for the sustainable development of its various existing and new businesses in Hong Kong and mainland China.

TOWN GAS BUSINESS IN HONG KONG

Benefitting from a rise in residential, commercial and industrial gas sales, total volume of gas sales in Hong Kong for 2018 reached 29,550 million MJ, an increase of 1.7% compared to 2017, whilst total number of appliances sold in 2018 was over 283,000 units, an increase of 3% compared to 2017. At the end of 2018, the number of customers was 1,908,511, an increase of 25,104 compared to 2017, up slightly by 1.3%.

UTILITY BUSINESSES IN MAINLAND CHINA

At the end of December 2018, Hong Kong and China Gas held approximately 67.45% of the total issued shares of Towngas China Company Limited ("Towngas China"; stock code: 1083). Towngas China's profit after taxation attributable to its shareholders for the year amounted to HK$1,224 million, a decrease of approximately 10% compared to 2017. Exclusive of the one-off profit of HK$209 million for Towngas China resulting from the listing of Foshan Gas Group Co., Ltd. in 2017, profit after taxation attributable to shareholders increased by approximately 6% compared to 2017. In respect of project development, 11 new projects were added to Towngas China's portfolio in 2018, including a city-gas project in Liujiang district, Liuzhou city, Guangxi Zhuang Autonomous Region; a midstream natural gas pipeline network and city gate station project in Chiping county, Liaocheng city, Shandong province; Towngas Natural Gas Sales Co., Ltd.; and eight distributed energy projects located in Jiawang district, Xuzhou city, Jiangsu province; in Xuzhou Biomedical Industrial Park, Jiangsu province; in Jimo Chuangzhi new district, Qingdao city, Shandong province; in Yangxin Economic and Technological Development Zone and Boxing Economic Development Zone, both in Binzhou city, Shandong province; in Changchun city, Jilin province; in Chengnan Economic Development Zone, Tangshan city, Hebei province; and in Guilin city, Guangxi Zhuang Autonomous Region respectively.

At the end of 2018, inclusive of Towngas China, Hong Kong and China Gas had a total of 131 city-gas projects in mainland cities spread across 23 provinces, autonomous regions and municipalities. The total volume of gas sales for these projects in 2018 was approximately 23,000 million cubic metres, an increase of 18% over 2017. At the end of 2018, Hong Kong and China Gas's mainland gas customers stood at approximately 27.54 million, an increase of 9% over 2017.

Construction of Hong Kong and China Gas's natural gas storage facility in underground salt caverns in Jintan district, Changzhou city, Jiangsu province, is progressing in phases. This project is the first of its kind built by a city-gas enterprise on the mainland. Phase one involves the construction of 10 wells, with storage capacity of approximately 460 million standard cubic metres; the first three wells were commissioned at the end of October 2018. Phase two, wholly-owned by Hong Kong and China Gas, involves the construction of 12 wells with storage capacity of 560 million standard cubic metres. Upon completion, total storage capacity of the whole facility will be over 1 billion standard cubic metres.

Hong Kong and China Gas has been in the mainland water market, under the brand name "Hua Yan Water", for over 13 years and currently invests in, and operates, seven water projects. These include water supply joint venture projects in Wujiang district, Suzhou city, Jiangsu province and in Wuhu city, Anhui province; wholly-owned water supply projects in Zhengpugang Xin Qu, Maanshan city and in Jiangbei Xin Qu, Wuhu city, both in Anhui province; an integrated water supply and wastewater treatment joint venture project, together with an integrated wastewater treatment joint venture project for a special industry, both in Suzhou Industrial Park, Suzhou city, Jiangsu province; and a new water services joint venture project in Foshan city, Guangdong province added in the fourth quarter of 2018 through investment in Foshan Water Environmental Protection Co., Ltd. The major businesses of this company encompass tap water supply, wastewater treatment and municipal engineering. This is Hong Kong and China Gas's first water services project located in the Guangdong-Hong Kong-Macao Greater Bay Area. In addition, Hong Kong and China Gas has constructed a plant in Suzhou Industrial Park to handle 500 tonnes daily of food waste, green waste and landfill leachate for conversion into natural gas, oil products, solid fuel and fertilizers under the "Hua Yan Water" brand; trial production formally commenced in mid-February 2019 and is Hong Kong and China Gas's first project converting waste into valuable products.

Overall, inclusive of projects of Towngas China, Hong Kong and China Gas had 254 projects on the mainland, at the end of 2018, nine more than at the end of 2017, spread across 26 provinces, autonomous regions and municipalities. These projects encompass upstream, midstream and downstream natural gas sectors, water sectors, efficient energy applications and exploration and utilisation of emerging environmentally-friendly energy, as well as telecommunications.

EMERGING ENVIRONMENTALLY-FRIENDLY ENERGY BUSINESSES

Hong Kong and China Gas's development of emerging environmentally-friendly energy businesses in mainland China through its wholly-owned subsidiary ECO Environmental Investments Limited and the latter's subsidiaries (collectively known as "ECO") is progressing steadily. Benefiting from international oil prices maintained at a relatively good level during the first three quarters of 2018, ECO recorded stable profit growth during the year.

ECO's major businesses in Hong Kong – an aviation fuel facility, dedicated liquefied petroleum gas ("LPG") vehicular refilling stations and landfill gas utilisation projects – are all operating well. With a total turnover of approximately 6.76 million tonnes of aviation fuel in 2018, ECO's aviation fuel facility provided a safe and reliable fuel supply to Hong Kong International Airport. ECO's five dedicated LPG vehicular refilling stations also operated smoothly in 2018. In addition to the facility in the North East New Territories, which has been operating for several years, a second landfill gas utilisation project in the South East New Territories has now been in operation for one year and is further helping to raise the proportion of landfill gas used by Hong Kong and China Gas.

ECO's coalbed methane liquefaction facility, located in Jincheng city, Shanxi province, is operating smoothly. However, due to tight upstream gas sources in 2018, output from the project decreased during the year compared to 2017.

ECO has successfully put into trial operation for one year, using its self-developed technology, an integrated processing project located in Zhangjiagang city, Jiangsu province, to process inedible bio-grease feedstock into hydro-treated vegetable oil (HVO). A total of approximately 7,000 tonnes of HVO, which has gained "International Sustainability and Carbon Certification" (ISCC), was produced and exported to European markets last year. On this basis, ECO has commenced phase two of this project to enhance production capacity to 180,000 tonnes per annum.

ECO has commenced construction of a pilot project in Tangshan city, Hebei province, to apply self-developed hydrolysis technology to break down agricultural straw into hemicellulose, cellulose and lignin to yield furfural and paper pulp. This pilot project is expected to be commissioned in late 2019.

The operating environment of ECO's clean coal chemical project in Ordos city, Inner Mongolia Autonomous Region, remained positive during 2018. Additionally, trial production of a facility to convert a portion of the project's syngas into 120,000 tonnes of ethylene glycol annually was started in 2018, and has successfully produced high-quality ethylene glycol.

ECO's scientific research, focusing on the extraction of high-quality carbon materials from the pitch portion of high-temperature coal tar oil, has achieved promising results, successfully producing high-quality activated carbon and hydrogenated pitch. ECO's first pilot project of this kind in Ordos city, Inner Mongolia Autonomous Region, is now at the preparatory stage; construction work is expected to commence within 2019.

TELECOMMUNICATIONS BUSINESSES

Hong Kong and China Gas's development of telecommunications businesses in Hong Kong and mainland China, including provision of connectivity, data centres and cloud computing services for international and local internet service providers, telecommunications operators as well as large corporations, is progressing steadily.

FINANCING PROGRAMMES

Hong Kong and China Gas established a medium term note programme in 2009. Medium term notes totalling HK$1,027 million, with a maturity ranging from 3 to 30 years, were issued during 2018. At 31 December 2018, the amount of medium term notes issued had reached HK$14,400 million with tenors ranging from 3 to 40 years, mainly at fixed interest rate with an average of 3.5% per annum and with an average tenor of 15 years. In January 2014, Hong Kong and China Gas issued its first perpetual subordinated guaranteed capital securities (the "Perpetual Securities"), amounting to US$300 million. These Perpetual Securities were redeemed in January 2019. Hong Kong and China Gas issued new Perpetual Securities again in February 2019 and the proceeds are mainly used to refinance the redeemed US$300 million Perpetual Securities. The newly issued US$300 million Perpetual Securities will keep a coupon interest rate of 4.75% per annum for the first five years. The Perpetual Securities are redeemable, at the option of Hong Kong and China Gas, in February 2024 or thereafter every six months on the coupon payment date. This issuance of the Perpetual Securities, rated A3 and A- by international rating agencies Moody's Investors Service and Standard and Poor's Rating Services respectively.

***Hong Kong Ferry (Holdings) Company Limited* (*"Hong Kong Ferry"*)**

Hong Kong Ferry's consolidated profit after taxation for the year ended 31 December 2018 amounted to approximately HK$345 million, an increase of 11% as compared with the profit after taxation of HK$311 million (restated) last year.

During the year under review, profit for Hong Kong Ferry was mainly derived from the sale of the residential units of Harbour Park. During 2018, its profit arising from the sale of the residential units of Harbour Park, Green Code, The Spectacle and Metro6 and car parking spaces of Shining Heights amounted to HK$238 million. All residential units of Harbour Park had been sold at the year end of 2018.

The gross rental income arising from the commercial arcades of Hong Kong Ferry amounted to approximately HK$99 million. The commercial arcades of Shining Heights, The Spectacle and Metro6 were fully let at the end of 2018. The occupancy rate of commercial arcades of Metro Harbour View and Green Code Plaza were 99% and 91% respectively.

In June 2018, Hong Kong Ferry was awarded the rights to develop the piece of land located at Kweilin Street/Tung Chau Street in Sham Shui Po, Kowloon, situated at New Kowloon Inland Lot No. 6559 from Urban Renewal Authority at a consideration of HK$1,029.2 million. The land covers an area of about 16,038 square feet and will be developed to a total gross floor area of about 144,345 square feet and Hong Kong Ferry will be entitled to the residential gross floor area of about 97,845 square feet. Foundation works commenced in November 2018 and will be completed in the fourth quarter of 2019. The project is expected to be completed in late 2022.

The construction of Hong Kong Ferry's 50%/50% joint venture project with Empire Development Hong Kong Limited located at Castle Peak Road, Castle Peak Bay, Area 48, Tuen Mun, New Territories (Tuen Mun Town Lot No. 547) has been in good progress. The project under construction consists of six residential towers providing about 1,635 units with sea view or landscape view. The gross floor area of the project is about 663,000 square feet and is expected to be completed in 2022. The site formation and foundation works commenced in the third quarter of 2017 and will be completed in the third quarter of this year. The superstructure works will start immediately thereafter.

During the year under review, the Ferry, Shipyard and Related Operations recorded a profit of HK$8.4 million, showing a 72% decrease as compared with last year. The decrease was mainly due to the fact that there were more emergency repair businesses in 2017.

During the year, a profit of HK$17 million in Securities Investment was recorded, showing a decrease of 81% as compared with last year mainly due to the fact that most of its securities have been disposed of during the year ended 31 December 2017.

Following the disposal of all the residential units of Harbour Park and the other projects in 2018, Hong Kong Ferry is now focusing on the development of the two projects in Tuen Mun and Kweilin Street. It is expected that the sale of the Tuen Mun project will commence by phases at year end. As all the completed residential properties had been sold, the rental income from the commercial arcades will be the main source of income of Hong Kong Ferry in 2019. Barring any unforeseen circumstances, the profit of Hong Kong Ferry this year is expected to be less than that of 2018.

Miramar Hotel and Investment Company, Limited ("Miramar")

Miramar's revenue for the year ended 31 December 2018 amounted to HK$3,199 million, representing an increase of 0.4% compared to last year. Profit attributable to shareholders increased by 6.9% to HK$1,624 million. This growth is mainly attributable to the satisfactory performance of both the property rental segment and hotels and serviced apartments segment, with additional contribution from revaluation gain of investment properties. Excluding the net increase of HK$783 million in the fair value of its investment properties and net gain from non-core businesses, the basic underlying profit attributable to shareholders increased by 8.4% to approximately HK$828 million.

During the year, revenue for hotels and serviced apartments business has increased by 7.3% to HK$710 million compared to last year while EBITDA (earnings before interest, taxes, depreciation and amortisation) amounted to HK$265 million, representing an increase of approximately 6.9%. Average occupancy rates of both The Mira Hong Kong and Mira Moon stayed at high levels and RevPAR (revenue per available room) registered satisfactory growth.

Property Rental business recorded revenue of HK$914 million and EBITDA of HK$807 million, rising by 6.5% and 7.1% respectively compared to last year. Mira Place (Mira Place Tower A, Mira Place 1 and Mira Place 2) is a landmark strategically located in the golden shopping hub in Tsim Sha Tsui. During the year, Miramar continued to optimise the tenant mix of its office and retail space. Occupancy rate maintained at a high level and rental income grew steadily. The synergetic effect in the continuous upgrade of the shopping mall and offices has enabled stable appreciation of the total value of its properties. During the year, Mira Place has upgraded its mobile application software to strengthen customer services and promote interactions, and successfully launched Hong Kong's first smart parking solution, "e-PARKING" as well as a number of popular promotional activities. These events have driven up Mira Place's average yearly footfall by 18% and boosted tenants' sales revenue by 4%. Due to the continuous increase in rental revenue from Mira Place, Miramar's investment property portfolio recorded a net increase in fair value of HK$783 million, amounting to HK$14,900 million as at 31 December 2018.

The food and beverage business recorded revenue of HK$319 million and EBITDA of HK$13 million, which dropped by 19.2% and 44.1% respectively, due to a strategic revamp through which the management closed certain shops that lacked operational efficiency. Its Chinese restaurants (Cuisine Cuisine and Tsui Hang Village) have achieved good performance. Average check per head and profitability both recorded steady growth. Besides maintaining good product quality and brand reputation, it also featured seasonal promotions, which were highly commended by diners. The business of the Western restaurants (The French Window, and Assaggio) was stable.

Revenue from travel segment at HK$1,256 million was level with that in the prior year but EBITDA improved substantially to HK$60 million, registering an increase of 108%.

CORPORATE FINANCE

The Group has always adhered to prudent financial management principles. At 31 December 2018, net debt (including shareholder's loans totalling HK$1,100 million (2017: HK$1,754 million)) amounted to HK$70,123 million (2017: HK$55,631 million) giving rise to a financial gearing ratio of 22.4% (2017: 19.0%).

Since 2018, the Group issued medium term notes carrying tenors from 2 years to 12 years for a total amount of HK$7,678 million so as to diversify the sources of funding and to extend the debt maturity profile. In addition to two seven-year Japanese Yen term loans for a total amount of JPY30,000 million, the Group has also secured a substantial amount of committed banking facilities. As such, after full prepayment and cancellation of HK$13,800 million 4-year and 5-year syndicated term loan/revolving credit facilities before their respective due dates in 2018 and 2019, as well as scheduled full prepayment of another HK$9,000 million 5-year syndicated term loan facility respectively on 29 March 2019 and 8 April 2019 before original due date in March 2020, the Group's internal funding remained ample.

In light of the low interest rate levels resulting from quantitative easing measures adopted by major economies around the world over the past years, the Group entered into interest rate swap contracts for certain medium and long-term periods and converted part of the Group's borrowings from floating interest rates into fixed interest rates for the purpose of reducing impact from interest rate fluctuation.

PROSPECTS

Recently, market sentiment has shown signs of improvement as China and the United States have worked closely to resolve their trade disputes, and the Federal Reserve has also taken a cautious approach towards raising interest rates. Meanwhile, as set out in the "Outline Development Plan for Guangdong-Hong Kong-Macao Greater Bay Area", the Central Government clearly supports the development of Hong Kong as an international metropolis with enhanced competitiveness. It enables Hong Kong to grow from strength to strength amid its integration into the overall development of the country. In addition, the current low mortgage rate environment in Hong Kong should be conducive to sustainable development of the local property market.

During the year under review, the Group made use of multiple channels to replenish its development land bank in Hong Kong and encouraging progress was achieved: (1) Three residential sites in Kai Tak Development Area and a development project in Sham Shui Po were secured, adding an aggregate gross floor area of over 1.3 million square feet in attributable terms to its land bank; (2) As regards urban redevelopment projects, other than a total of approximately 0.2 million square feet in attributable gross floor areas has been earmarked for sales launch in 2019, at 31 December 2018, projects with 80% to 100% ownerships acquired still managed to increase by 0.4 million square feet to 4.4 million square feet in total attributable gross floor area; (3) The Group acquired further New Territories land lots of about 0.7 million square feet, increasing its land reserves in the New Territories to approximately 45.6 million square feet, which represents the largest holding among all property developers in Hong Kong. With the diversified means of land bank replenishment, the Group has managed to secure a stable supply of land resources for property development over the long term, enabling the sustainable growth of its property sales business.

As regards "**property sales**", following the successful launch of "The Vantage" in Hung Hom in this month, the Group plans to embark on the sale launches of six development projects in 2019. Together with unsold stocks, a total of over 3,000 residential units and over 250,000 square feet of quality industrial/office space in Hong Kong will be available for sale in 2019. As at the end of December 2018, cumulative proceeds from the sales of Hong Kong properties, but not yet accounted for, amounted to approximately HK$19,000 million in attributable terms.

Turning to mainland China, the Central Government's directive that "housing should be for living in, not for speculation" is expected to remain unchanged. However, each city will be obligated to initiate appropriate modifications to its controlling policies according to local property market conditions so as to meet people's demand for home-ownership and improved living conditions. The Group will continue to look for investment projects in the first-tier cities, as well as second-tier cities with high growth potential. Meanwhile, it will closely monitor the opportunities in the Greater Bay Area, and will strengthen co-operation with local property developers, as the focus of activities to advance its property development business.

As regards "**rental business**", the Group's portfolio of completed investment properties comprised an attributable gross floor area of 8.8 million square feet in Hong Kong and 6.4 million square feet in mainland China, providing the Group with a steady rental income stream. The new development at 15 Middle Road, the "Citygate" extension and the office redevelopment project at Electric Road, all in Hong Kong, as well as "Lumina Guangzhou" at Haizhu Square in mainland China are scheduled for completion in 2019. Together with other landmark projects in the pipeline, namely, the office development at Murray Road in Hong Kong as well as "Lumina Shanghai" at Xu Hui Riverside Area in mainland China, the Group's rental income is poised to increase further following the continually expanding and optimised rental portfolio.

The "**associates**", namely, Hong Kong and China Gas, Miramar and Hong Kong Ferry, serve as another steady recurrent income stream to the Group. Hong Kong and China Gas, in particular, has a total of nearly 30 million piped-gas customers in both Hong Kong and mainland China, and such number is expected to rise further. This sizeable customer base provides a promising platform for its expansion into new businesses.

With the Group's ample financial resources and astute management of three major businesses (namely, "**property sales**", "**rental business**" and "**associates**") by its seasoned professional team, it is well-placed to pursue sustainable growth, thereby creating ever improving value for the shareholders. Barring unforeseen circumstances, the Group's results for the coming financial year are expected to be satisfactory.

TRIBUTE

Mr. Leung Hay Man, an independent non-executive director of the Company, passed away during the year under review. Mr. Leung had given invaluable contributions to the Company during his long service to the Board over the past 37 years. The Board deeply regrets his passing.

APPRECIATION

I would like to express a warm welcome to Mr. Au Siu Kee, Alexander for rejoining the Board as an Independent Non-executive Director with effect from 13 December 2018.

Lastly, I would like to take this opportunity to extend my appreciation to my fellow directors for their wise counsel, and to thank all our staff for their commitment and hard work throughout the year.

CONSIDERATION TO STEP DOWN AS CHAIRMAN

I, being advanced in age, am considering to step down from the position of Chairman and Managing Director after the conclusion of the forthcoming annual general meeting and to propose to the Board to appoint Dr Lee Ka Kit and Mr Lee Ka Shing as Joint Chairmen and Managing Directors, and I shall remain as a Director of the Company to continue my service. Details of my decision and future arrangements will be announced on the date of the annual general meeting, 28 May 2019.

I would like to express my heart-felt gratitude to our shareholders for their confidence and unfailing support to me as Chairman over the past decades.

Lee Shau Kee
Chairman

Hong Kong, 20 March 2019

BUSINESS RESULTS

Consolidated Statement of Profit or Loss

for the year ended 31 December 2018

	Note	***2018*** **HK$ million**	*2017 (restated)* HK$ million
Revenue	3	**21,982**	27,960
Direct costs		**(9,987)**	(15,344)
		11,995	12,616
Other net income	4	**1,520**	5,017
Selling and marketing expenses		**(666)**	(1,322)
Administrative expenses		**(1,881)**	(1,969)
Profit from operations before changes in fair value of investment properties and investment properties under development		**10,968**	14,342
Increase in fair value of investment properties and investment properties under development	5	**10,465**	9,911
Profit from operations after changes in fair value of investment properties and investment properties under development		**21,433**	24,253
Finance costs	6(a)	**(810)**	(837)
Bank interest income		**660**	633
Net finance costs		**(150)**	(204)
Share of profits less losses of associates		**5,265**	4,955
Share of profits less losses of joint ventures		**6,947**	4,378
Profit before taxation	6	**33,495**	33,382
Income tax	7	**(2,123)**	(2,217)
Profit for the year		**31,372**	31,165

Consolidated Statement of Profit or Loss

for the year ended 31 December 2018 (continued)

	Note	***2018*** **HK$ million**	*2017 (restated)* HK$ million
Attributable to:			
Equity shareholders of the Company		**31,157**	30,809
Non-controlling interests		**215**	356
Profit for the year		**31,372**	31,165
Earnings per share based on profit attributable to equity shareholders of the Company (reported earnings per share)			
Basic and diluted	*9(a)*	***HK$7.08***	*HK$7.00**
Earnings per share excluding the effects of changes in fair value of investment properties and investment properties under development (net of deferred tax) (underlying earnings per share)			
Basic and diluted	*9(b)*	***HK$4.49***	*HK$4.43**

** Adjusted for the bonus issue effected in 2018.*

Details of dividends payable to equity shareholders of the Company are set out in note 8.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2018

	2018	*2017 (restated)*
	HK$ million	HK$ million
Profit for the year	**31,372**	31,165
Other comprehensive income for the year (after tax and reclassification adjustments):		
Items that will not be reclassified to profit or loss:		
- Investments in equity securities designated as financial assets at fair value through other comprehensive income: net movement in the fair value reserve (non-recycling)	**36**	-
- Share of other comprehensive income of associates and joint ventures	**(67)**	53
Items that may be reclassified subsequently to profit or loss:		
- Exchange differences: net movement in the exchange reserve	**(2,484)**	3,221
- Cash flow hedges: net movement in the hedging reserve	**422**	156
- Available-for-sale securities: net movement in the fair value reserve (recycling)	**-**	245
- Share of other comprehensive income of associates and joint ventures	**(1,542)**	1,524
Other comprehensive income for the year	**(3,635)**	5,199
Total comprehensive income for the year	**27,737**	36,364
Attributable to:		
Equity shareholders of the Company	**27,533**	36,003
Non-controlling interests	**204**	361
Total comprehensive income for the year	**27,737**	36,364

Consolidated Statement of Financial Position

at 31 December 2018

	Note	***At 31 December 2018***	*At 31 December 2017 (restated)*	*At 1 January 2017 (restated)*
		HK$ million	HK$ million	HK$ million
Non-current assets				
Investment properties		**176,717**	173,494	131,860
Other property, plant and equipment		**370**	350	1,419
Goodwill		**262**	-	-
Interest in associates		**62,059**	59,491	53,933
Interest in joint ventures		**53,011**	44,865	38,728
Derivative financial instruments		**42**	111	358
Other financial assets		**13,825**	11,937	10,854
Deferred tax assets		**641**	424	377
		306,927	290,672	237,529
Current assets				
Deposits for acquisition of properties	11	**1,310**	1,666	4,608
Inventories	12	**97,177**	74,219	78,476
Trade and other receivables	13	**15,239**	17,435	9,973
Cash held by stakeholders		**2,158**	2,333	1,289
Cash and bank balances		**16,507**	24,673	22,966
		132,391	120,326	117,312
Assets of the disposal group classified as held for sale		**1,788**	-	3,220
		134,179	120,326	120,532
Current liabilities				
Trade and other payables	14	**27,113**	23,525	24,996
Bank loans		**27,834**	23,506	14,392
Guaranteed notes		**5,187**	1,169	5,760
Tax payable		**2,180**	1,862	857
		62,314	50,062	46,005
Liabilities associated with assets of the disposal group classified as held for sale		**-**	-	32
		62,314	50,062	46,037
Net current assets		**71,865**	70,264	74,495
Total assets less current liabilities		**378,792**	360,936	312,024

Consolidated Statement of Financial Position

at 31 December 2018 (continued)

	Note	***At 31 December 2018***	*At 31 December 2017 (restated)*	*At 1 January 2017 (restated)*
		HK$ million	HK$ million	HK$ million
Non-current liabilities				
Bank loans		**44,621**	45,671	28,086
Guaranteed notes		**7,888**	8,204	7,846
Amount due to a fellow subsidiary		**1,100**	1,754	316
Derivative financial instruments		**376**	746	906
Provisions for reinstatement costs		**13**	-	-
Deferred tax liabilities		**6,802**	6,618	6,582
		60,800	62,993	43,736
NET ASSETS		**317,992**	297,943	268,288
CAPITAL AND RESERVES				
Share capital		**52,345**	52,345	52,345
Other reserves		**260,808**	240,229	210,262
Total equity attributable to equity shareholders of the Company		**313,153**	292,574	262,607
Non-controlling interests		**4,839**	5,369	5,681
TOTAL EQUITY		**317,992**	297,943	268,288

Notes:

1 Basis of preparation

The financial information relating to the years ended 31 December 2018 and 2017 included in this preliminary announcement of annual results 2018 do not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to those statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622) and will deliver the financial statements for the year ended 31 December 2018 in due course.

The Company's auditor has reported on the financial statements of the Group for both years. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis of matter without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622).

The statutory 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"), and accounting principles generally accepted in Hong Kong. The statutory financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance (Cap. 622). The statutory 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.

The measurement basis used in the preparation of the statutory financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value:

- investments designated as financial assets at fair value through other comprehensive income;
- investments measured as financial assets at fair value through profit or loss;
- derivative financial instruments; and
- investment properties and certain investment properties under development.

Non-current assets held for sale and disposal groups are stated at the lower of carrying amount and fair value less costs to sell.

2 Changes in accounting policies

The HKICPA has issued the following new standards and amendments that are first effective for the current accounting period of the Group and the Company, which are relevant to the Group's consolidated financial statements for the current accounting period:

HKFRS 9, Financial instruments

The adoption of HKFRS 9 has resulted in the following changes in accounting policies for investments in securities:

In prior years, investments in securities were classified as available-for-sale securities and changes in fair value were recognised in other comprehensive income.

Upon the adoption of HKFRS 9, investments in securities are classified as either investments designated as financial assets at fair value through other comprehensive income ("FVOCI") or investments measured as financial assets at fair value through profit or loss ("FVPL"), depending on the nature and characteristics of the securities and changes in fair value are recognised in other comprehensive income and profit or loss respectively.

The above changes in accounting policies have been applied retrospectively and the comparative figures are not restated in accordance with the transitional provisions of HKFRS 9. The following table summarises the impact of transition to HKFRS 9 on retained profits and fair value reserve attributable to equity shareholders of the Company at 1 January 2018.

	HK$ million
Retained profits	
Transferred from fair value reserve (recycling) relating to financial assets now measured at FVPL	736
Transferred to fair value reserve (non-recycling) relating to equity securities now measured at FVOCI which, under the retrospective application of HKFRS 9, would not require impairment assessments on available-for-sale securities in prior years	41
Share of increase in retained profits of associates	56
Total increase in retained profits at 1 January 2018	833
Fair value reserve (recycling)	
Transferred to retained profits relating to financial assets now measured at FVPL	(736)
Transferred to fair value reserve (non-recycling) relating to equity securities now measured at FVOCI	(49)
Total decrease in fair value reserve (recycling) at 1 January 2018	(785)

2 Changes in accounting policies (continued)

HKFRS 9, Financial instruments (continued)

	HK$ million
Fair value reserve (non-recycling)	
Transferred from fair value reserve (recycling) relating to equity securities now measured at FVOCI	49
Recognition of additional fair value reserve (non-recycling) relating to unlisted equity securities classified as available-for-sale securities and measured at cost less impairment losses in prior years, but now designated as financial assets at FVOCI, which is attributable to the Group	77
Transferred from retained profits relating to equity securities now measured at FVOCI which, under the retrospective application of HKFRS 9, would not require impairment assessments on available-for-sale securities in prior years	(41)
Share of increase in fair value reserve (non-recycling) of associates	50
Total increase in fair value reserve (non-recycling) at 1 January 2018	135
Non-controlling interests	
Recognition of additional fair value reserve (non-recycling) relating to unlisted equity securities classified as available-for-sale securities and measured at cost less impairment losses in prior years, but now designated as financial assets at FVOCI, which is attributable to non-controlling interests	2

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and, on initial recognition of the investment, the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained profits. It is not recycled through profit or loss. Dividend income from an investment in equity securities, irrespective of whether classified at FVPL or FVOCI (non-recycling), are recognised as revenue in profit or loss.

The following table shows the original measurement categories for available-for-sale securities under HKAS 39, *Financial instruments: recognition and measurement* and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9:

2 Changes in accounting policies (continued)

HKFRS 9, Financial instruments (continued)

Original measurement category	HKAS 39 Carrying amount at 31 December 2017	Reclassification	Re-measurement	HKFRS 9 Carrying amount at 1 January 2018
	HK$ million	HK$ million	HK$ million	HK$ million
Investment in equity securities measured at FVOCI (non-recycling)	-	1,624	79	1,703
Investment in other securities measured at FVPL	-	1,425	-	1,425
Available-for-sale securities	3,049	(3,049)	-	-

The Group elected for the accounting policy choice to continue with the adoption of HKAS 39 on hedge accounting. Impairment based on the expected credit loss model on the Group's rental, instalments and trade receivables have no significant financial impact on the Group's consolidated statement of profit or loss for the current accounting period.

HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced HKAS 18, *Revenue*, HKAS 11, *Construction contracts* and related interpretations.

The Group has adopted HKFRS 15 using the full retrospective method, and recognised the cumulative effect of applying the standard at the start of the earliest comparative period. Accordingly, the information presented for 2017 has been restated.

Under the requirements of HKFRS 15, revenue from sale of goods and provision of services by the Group will be recognised when the customer obtains control of the promised goods or services in the contract. The Group has assessed that the adoption of HKFRS 15 would be relevant to the recognition of revenue relating to the Group's sale of properties held for sale, under which the revenue from the sale of properties held for sale and the gain on disposal of investment properties during the accounting period is recognised in the Group's consolidated statement of profit or loss on the basis that control over the ownership of the property has been passed to the customer during the current accounting period. Taking into account the contract terms, the Group's business practice and the legal and regulatory environment of Hong Kong and mainland China, the property sales contracts do not meet the criteria for recognising revenue over time and therefore revenue from property sales continues to be recognised at a point in time. Previously, the revenue from the sale of properties held for sale and the gain on disposal of investment properties was recognised 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 passed to the customer.

2 Changes in accounting policies (continued)

HKFRS 15, Revenue from contracts with customers (continued)

This change in accounting policy has been applied retrospectively by restating the opening balances at 1 January 2017 and 1 January 2018, with consequential adjustments to comparatives for the corresponding year ended 31 December 2017. This has resulted in the following adjustments to certain items in the Group's consolidated statement of profit or loss for the corresponding year ended 31 December 2017, and in the Group's consolidated statements of financial position at 1 January 2017 and 31 December 2017.

	As previously reported HK$ million	Effect of adoption of HKFRS 15 HK$ million	As restated HK$ million
Consolidated statement of profit or loss for the corresponding year ended 31 December 2017:			
Revenue	**24,453**	**3,507**	**27,960**
Direct costs	**(12,726)**	**(2,618)**	**(15,344)**
Other net income	**5,204**	**(187)**	**5,017**
Selling and marketing expenses	**(1,077)**	**(245)**	**(1,322)**
Share of profits less losses of associates	**4,966**	**(11)**	**4,955**
Income tax	**(2,115)**	**(102)**	**(2,217)**
Reported profit for the year	**30,821**	**344**	**31,165**
Attributable to:			
Equity shareholders of the Company	**30,433**	**376**	**30,809**
Non-controlling interests	**388**	**(32)**	**356**
Underlying profit for the year	**20,351**	**(240)**	**20,111**
Attributable to:			
Equity shareholders of the Company	**19,557**	**(41)**	**19,516**
Non-controlling interests	**794**	**(199)**	**595**
Reported earnings per share – Basic and diluted	**HK$6.92**(*)		**HK$7.00**(*)
Underlying earnings per share – Basic and diluted	**HK$4.44**(*)		**HK$4.43**(*)

(*) Based on the weighted average number of 4,401 million ordinary shares during the corresponding year ended 31 December 2017 (see note 9(a)).

Consolidated cash flow statement for the corresponding year ended 31 December 2017:			
Adjustment for net gain on disposal of investment properties	**(1,211)**	**187**	**(1,024)**
Adjustment for share of profits less losses of associates	**(4,966)**	**11**	**(4,955)**
Increase in instalments and loans receivable	**(2,647)**	**917**	**(1,730)**
Increase in inventories (other than through acquisitions and transfers of subsidiaries and transfers to/from investment properties)	**(3,685)**	**2,618**	**(1,067)**
Increase in debtors, prepayments and deposits	**(2,636)**	**422**	**(2,214)**
Increase in creditors and accrued expenses	**264**	**(143)**	**121**
Increase/(decrease) in forward sales deposits received	**1,303**	**(3,461)**	**(2,158)**
Proceeds from disposal of investment properties and other property, plant and equipment	**3,427**	**(997)**	**2,430**

2 Changes in accounting policies (continued)

HKFRS 15, Revenue from contracts with customers (continued)

	As previously reported HK$ million	Effect of adoption of HKFRS 15 HK$ million	As restated HK$ million
Consolidated statement of financial position at 31 December 2017:			
Investment properties	**172,673**	**821**	**173,494**
Interest in associates	**59,506**	**(15)**	**59,491**
Inventories	**73,602**	**617**	**74,219**
Trade and other receivables	**19,452**	**(2,017)**	**17,435**
Trade and other payables	**(23,355)**	**(170)**	**(23,525)**
Tax payable	**(1,968)**	**106**	**(1,862)**
Deferred tax liabilities	**(6,607)**	**(11)**	**(6,618)**
Retained profits	**236,838**	**(551)**	**236,287**
Non-controlling interests	**5,487**	**(118)**	**5,369**
Consolidated statement of financial position at 1 January 2017:			
Investment properties	**131,850**	**10**	**131,860**
Interest in associates	**53,936**	**(3)**	**53,933**
Inventories	**75,242**	**3,234**	**78,476**
Trade and other receivables	**10,651**	**(678)**	**9,973**
Trade and other payables	**(21,223)**	**(3,773)**	**(24,996)**
Tax payable	**(1,054)**	**197**	**(857)**
Retained profits	**212,345**	**(927)**	**211,418**
Non-controlling interests	**5,767**	**(86)**	**5,681**

The Group currently offers different payment schemes to customers, in relation to which the transaction price and the amount of revenue from the sale of property will be adjusted when significant financing component exists in that contract.

The excess of cumulative revenue recognised in profit or loss over the cumulative payments made by customers at the end of the reporting period is recognised as a contract asset (see note 13) under “Trade and other receivables” in the statement of financial position. The excess of cumulative payments made by customers over the cumulative revenue recognised in profit or loss at the end of the reporting period is recognised as a contract liability (see note 14) under “Trade and other payables” in the statement of financial position.

2 Changes in accounting policies (continued)

Amendments to HKAS 40, Investment property

The amendments to HKAS 40, *Investment property* requires, inter alia, that an entity shall transfer a property to or from an investment property when, and only when, there is a change in use which shall occur when (i) the property meets or ceases to meet the definition of an investment property; and (ii) there is evidence of the change in use other than a change in the intention of the entity's management over the use of the property. Compliance of such amendments by the Group or any of its subsidiaries does not have any financial impact on the Group's consolidated financial statements for the current accounting period.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. These include the following which may be relevant to the Group:

HKFRS 16, Leases

Under HKFRS 16, a lessee is required to recognise, at the earlier of the inception of a lease or the adoption of HKFRS 16, a right-of-use asset and a lease liability in the statement of financial position, and the related depreciation charge on the right-of-use asset and the related interest expenses on the lease liability in the statement of profit or loss. Management has initially assessed the impact of the adoption of HKFRS 16, and it is expected that the adoption of HKFRS 16 would result in (i) the retrospective adjustment to the Group's retained profits (after tax) at 1 January 2019 for a cumulative decrease of HK$16 million; (ii) the recognition of right-of-use assets and lease liabilities of HK$952 million and HK$1,012 million respectively in the Group's consolidated statement of financial position at 1 January 2019; and (iii) as illustrative reference, the net excess of the aggregate amount of depreciation charge and finance costs over and above the operating lease payment of HK$6 million (after tax) in the Group's consolidated statement of profit or loss for the financial year ended 31 December 2018.

3 Revenue

Revenue of the Group represents revenue from the sale of properties, rental income, department store operation and management, and other businesses mainly including income from construction, provision of finance, investment holding, project management, property management, agency services, cleaning and security guard services, as well as the trading of building materials and disposal of leasehold land.

The major items are analysed as follows:

	2018	*2017*
		(restated)
	HK$ million	HK$ million
Sale of properties (2017-restated)	**13,335**	20,029
Rental income	**6,020**	5,678
Department store operation (note)	**1,496**	834
Other businesses	**1,131**	1,419
Total (note 10(b))	**21,982**	27,960

Note:
Including commission income earned from consignment and concessionary counters of the department store operation in the aggregate amount of HK$486 million for the year (2017: HK$417 million).

At 31 December 2018, the cumulative aggregate amount of revenue expected to be recognised in the consolidated statement of profit or loss in the future from pre-completion sales contracts entered into in relation to the Group's properties under development and completed properties for sale pending assignment in Hong Kong and mainland China amounted to HK$18,984 million, which will be recognised when the pre-sold properties are assigned to the customers.

4 Other net income

	2018	*2017 (restated)*
	HK$ million	HK$ million
Net gain on transfers of subsidiaries regarding (note (i))		
- Investment properties (note (i)(a))	**846**	159
- Properties held for development (note (i)(b))	**598**	1,490
- Hotel properties (note (i)(c))	**-**	2,188
	1,444	3,837
Net gain on disposal of investment properties (2017-restated)	**234**	1,024
	1,678	4,861
Net gain on winding-up of subsidiaries	**-**	33
Net fair value loss on investments measured as financial assets at FVPL	**(93)**	-
Net fair value gain/(loss) on derivative financial instruments:		
- Interest rate swap contracts and cross currency swap contracts	**91**	21
- Other derivatives	**13**	(35)
Cash flow hedges: reclassified from hedging reserve to profit or loss (note (ii))	**(519)**	(371)
Net gain on disposal of available-for-sale securities	**-**	336
Reversal of impairment loss on trade debtors, net (note 10(c))	**25**	2
(Provision)/reversal of provision on inventories, net	**(90)**	25
Net foreign exchange gain (note 6(d))	**89**	79
Others	**326**	66
	1,520	5,017

4 Other net income (continued)

Notes:

(i) The net gain on transfers of subsidiaries includes:

(a) A gain of HK$846 million in relation to the transfer of subsidiaries which own an investment property at No. 18 King Wah Road, North Point, Hong Kong during the year ended 31 December 2018 (2017: a gain of HK$160 million in relation to the transfer of subsidiaries which own Beijing Henderson Centre, Beijing, mainland China and a loss of HK$1 million in relation to the transfer of subsidiaries which together own certain commercial shops at Fairview Height, Mid-levels, Hong Kong);

(b) a net gain of HK$598 million in relation to the transfer by the Group of the entire issued shares of the Group's two wholly-owned subsidiaries to a joint venture in which the Group has a 50% interest (2017: a gain of HK$1,146 million in relation to the transfer of subsidiaries which own a land site in Fangcun, Guangzhou, mainland China and a gain of HK$344 million in relation to the transfer of subsidiaries which altogether own certain property development projects located in Anshan, Dalian, Guangzhou, Tieling and Shenyang, mainland China during the year ended 31 December 2017); and

(c) a gain of HK$697 million in relation to the transfer of subsidiaries which own the property occupied by Newton Inn, North Point to a deemed connected person and a gain of HK$1,491 million in relation to the transfer of a subsidiary which owns the property occupied by Newton Place Hotel, Kwun Tong during the year ended 31 December 2017.

(ii) The amount comprises (1) the net cumulative loss (before tax) of HK$519 million which was reclassified from equity to profit or loss upon the revocation of the hedge relationship between certain bank loans of the Company's wholly-owned subsidiaries (as hedged items) and their underlying interest rate swap contracts (as hedging instruments) during the year ended 31 December 2018 (2017: the net cumulative loss (before tax) of HK$351 million which was reclassified from equity to profit or loss upon the revocation of the hedge relationship between certain bank loans of the Company's wholly-owned subsidiaries (as hedged items) and their underlying interest rate swap contracts (as hedging instruments)); and (2) other reclassification from equity to profit or loss of HK$Nil (2017:HK$20 million).

5 Increase in fair value of investment properties and investment properties under development

The Group's investment properties and investment properties under development were revalued at 31 December 2018 by Cushman & Wakefield Limited, an independent firm of professional surveyors who have among their staff Members of The Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued, on a market value basis.

The Group's management has reviewed the valuation results performed by the independent surveyors for financial reporting purposes by verifying all major inputs and assumptions, and assessing the reasonableness of property valuation. Such valuation is performed at each interim and annual reporting date and is reviewed and approved by senior management.

The valuations of completed investment properties in Hong Kong and mainland China were based on income capitalisation approach which capitalised the net income of the properties and taking into account the reversionary potential of the properties after expiry of the current lease.

For certain investment properties in Hong Kong and mainland China which are still under development, the valuations were determined on redevelopment basis and by taking into account the fair value of the completed investment property and then deducting from that amount the estimated costs to complete the construction, financing costs and a reasonable profit margin.

As a result, a net fair value gain on investment properties and investment properties under development in Hong Kong and mainland China in the aggregate amount of HK$10,465 million (2017: HK$9,911 million) and deferred tax charge in respect of the fair value change on investment properties in mainland China of HK$200 million (2017: HK$238 million) have been recognised in the consolidated statement of profit or loss for the year (see note 9(b)).

In aggregate, the Group's attributable share of the net fair value gains on investment properties and investment properties under development held by subsidiaries, associates and joint ventures for the year ended 31 December 2018 amounted to HK$16,815 million (2017: HK$13,501 million) (net of deferred tax).

5 Increase in fair value of investment properties and investment properties under development (continued)

A reconciliation of the abovementioned figures is as follows:-

For the year ended 31 December 2018

	Hong Kong	Mainland China	Total
	HK$ million	HK$ million	HK$ million
Fair value gain on investment properties and investment properties under development held by			
- subsidiaries (before deducting non-controlling interests' attributable share and deferred tax) (note 9(b))	**9,736**	**729**	**10,465**
Less :			
Deferred tax (note 9(b))	**-**	**(200)**	**(200)**
Non-controlling interests' attributable share of the fair value gain (net of deferred tax)	**(13)**	**-**	**(13)**
(after deducting non-controlling interests' attributable share and deferred tax)	**9,723**	**529**	**10,252**
- associates (Group's attributable share) (note 9(b))	**1,267**	**-**	**1,267**
- joint ventures (Group's attributable share) (note 9(b))	**5,198**	**98**	**5,296**
	16,188	**627**	**16,815**

5 Increase in fair value of investment properties and investment properties under development (continued)

For the year ended 31 December 2017

	Hong Kong	Mainland China	Total
	HK$ million	HK$ million	HK$ million
Fair value gain on investment properties and investment properties under development held by			
- subsidiaries (before deducting non-controlling interests' attributable share and deferred tax) (note 9(b))	8,775	1,136	9,911
Less :			
Deferred tax (note 9(b))	-	(238)	(238)
Non-controlling interests' attributable share of the fair value gain (net of deferred tax)	(51)	-	(51)
(after deducting non-controlling interests' attributable share and deferred tax)	8,724	898	9,622
- associates (Group's attributable share) (note 9(b))	950	-	950
- joint ventures (Group's attributable share) (note 9(b))	2,890	39	2,929
	12,564	937	13,501

6 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

		2018	*2017*
		HK$ million	HK$ million
(a)	**Finance costs:**		
	Bank loans interest	**1,320**	841
	Interest on loans wholly repayable within five years	**620**	511
	Interest on loans repayable after five years	**94**	22
	Other borrowing costs	**144**	160
		2,178	1,534
	Less: Amount capitalised (note)	**(1,368)**	(697)
	Finance costs	**810**	837
(b)	**Directors' emoluments**	**183**	177
(c)	**Staff costs (other than directors' emoluments):**		
	Salaries, wages and other benefits	**2,164**	2,048
	Contributions to defined contribution retirement plans	**92**	87
		2,256	2,135

Note: The borrowing costs have been capitalised at weighted average interest rates (based on the principal amounts of the Group's bank loans, guaranteed notes and amount due to a fellow subsidiary during the period under which interest capitalisation is applicable) ranging from 2.08% to 4.35% (2017: 2.18% to 4.91%) per annum.

6 Profit before taxation (continued)

Profit before taxation is arrived at after charging/(crediting): (continued)

		2018	2017 *(restated)*
		HK$ million	*HK$ million*
(d)	**Other items:**		
	Net foreign exchange (gain)/loss	**(32)**	416
	Cash flow hedges: net foreign exchange gain reclassified from equity	**(57)**	(495)
		(89)	(79)
	Cost of sales		
	- properties for sale (2017-restated)	**6,935**	12,955
	- trading stocks	**718**	281
	Auditors' remuneration		
	- audit services	**20**	18
	- non-audit services	**16**	11
	Depreciation (note 10(c))	**68**	94
	Operating lease charges: minimum lease payments in respect of leasing of building facilities	**351**	235
	Rentals receivable from investment properties less direct outgoings of HK$1,494 million (2017: HK$1,378 million) (note (i))	**(4,349)**	(4,140)
	Dividend income from investments designated as financial assets at FVOCI and investments measured as financial assets at FVPL (2017: investments in available-for-sale securities) (note (ii))		
	- listed	**(101)**	(206)
	- unlisted	**(16)**	(8)

Notes:

(i) The rental income from investment properties included contingent rental income of HK$38 million (2017: HK$32 million).

(ii) During the year ended 31 December 2018, dividend income of HK$23 million related to investments designated as financial assets at FVOCI disposed of during the year and HK$22 million related to investments designated as financial assets at FVOCI held at 31 December 2018.

7 Income tax

Income tax in the consolidated statement of profit or loss represents:

	2018	*2017*
		(restated)
	HK$ million	HK$ million
Current tax – Provision for Hong Kong Profits Tax		
Provision for the year (2017-restated)	**570**	1,028
Under/(over)-provision in respect of prior years	**98**	(2)
	668	1,026
Current tax – Provision for taxation outside Hong Kong		
Provision for the year	**726**	1,166
Under/(over)-provision in respect of prior years	**8**	(43)
	734	1,123
Current tax – Provision for Land Appreciation Tax		
Provision for the year	**627**	389
Under-provision in respect of prior years	**-**	5
	627	394
Deferred tax		
Origination and reversal of temporary differences (2017-restated)	**94**	(326)
	94	(326)
	2,123	2,217

Provision for Hong Kong Profits Tax has been made at 16.5% (2017: 16.5%) on the estimated assessable profits for the year, taking into account a one-off reduction of 75% of the tax payable for the year of assessment 2017/18 subject to a ceiling of HK$30,000 (2016/17: HK$20,000) for each business allowed by the Hong Kong Special Administrative Region Government.

Provision for taxation outside Hong Kong is provided for at the applicable rates of taxation for the year on the estimated assessable profits arising in the relevant foreign tax jurisdictions during the year.

Land Appreciation Tax is levied on properties in mainland China developed by the Group for sale, at progressive rates ranging from 30% to 60% on the appreciation of land value, which under the applicable regulations is calculated based on the revenue from sale of properties less deductible expenditure including lease charges of land use rights, borrowing costs and property development expenditure.

8 Dividends

(a) Dividends payable to equity shareholders of the Company attributable to profit for the year

	2018	*2017*
	HK$ million	HK$ million
Interim dividend declared and paid of HK$0.50 (2017: HK$0.48) per share	**2,201**	1,921
Final dividend proposed after the end of the reporting period of HK$1.30 (2017: HK$1.23) per share	**5,722**	4,921
	7,923	6,842

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(b) Dividends payable to equity shareholders of the Company attributable to profit for the previous financial year, approved and paid during the year

	2018	*2017*
	HK$ million	HK$ million
Final dividend in respect of the previous financial year, approved and paid during the year of HK$1.23 (2017: HK$1.13) per share	**4,921**	4,110

9 Earnings per share

(a) Reported earnings per share

The calculation of basic earnings per share is based on the consolidated profit attributable to equity shareholders of the Company of HK$31,157 million (2017 (restated): HK$30,809 million) and the weighted average number of 4,401 million ordinary shares in issue during the year (2017: 4,401 million ordinary shares*), calculated as follows:

	2018	*2017*
	million	million
Number of issued ordinary shares at 1 January	**4,001**	3,637
Weighted average number of ordinary shares issued in respect of the bonus issue in 2017	**-**	364
Weighted average number of ordinary shares issued in respect of the bonus issue in 2018	**400**	400
Weighted average number of ordinary shares for the year (2017: as adjusted)	**4,401**	4,401

Diluted earnings per share were the same as the basic earnings per share for the year and the corresponding year ended 31 December 2017 as there were no dilutive potential ordinary shares in existence during both years.

** Adjusted for the bonus issue effected in 2018.*

9 Earnings per share (continued)

(b) Underlying earnings per share

For the purpose of assessing the underlying performance of the Group, basic and diluted earnings per share are additionally calculated based on the profit attributable to equity shareholders of the Company after excluding the effects of changes in fair value of investment properties and investment properties under development ("Underlying Profit") of HK$19,765 million (2017 (restated): HK$19,516 million). A reconciliation of profit is as follows:

	2018	*2017 (restated)*
	HK$ million	HK$ million
Profit attributable to equity shareholders of the Company (2017-restated)	**31,157**	30,809
Changes in fair value of investment properties and investment properties under development during the year (note 5)	**(10,465)**	(9,911)
Effect of deferred tax on changes in fair value of investment properties and investment properties under development during the year (note 5)	**200**	238
Share of changes in fair value of investment properties (net of deferred tax) during the year:		
– associates (note 5)	**(1,267)**	(950)
– joint ventures (note 5)	**(5,296)**	(2,929)
Cumulative fair value change of investment properties and investment properties under development disposed of during the year, net of tax (note):		
– subsidiaries (2017-restated)	**5,704**	2,438
– associates and joint ventures	**-**	28
Effect of share of non-controlling interests (2017-restated)	**(268)**	(207)
Underlying Profit (2017-restated)	**19,765**	19,516
Underlying earnings per share, based on the weighted average number of ordinary shares for the year (note 9(a)) (2017-restated)	**HK$4.49**	HK$4.43*

** Adjusted for the bonus issue effected in 2018.*

Note: In order to fully exclude the aforesaid effects of changes in fair value from the Underlying Profit, the Group's attributable share of the cumulative fair value change (net of tax) of investment properties and investment properties under development disposed of during the year (which has been included in calculating the net gain on disposal of investment properties and investment properties under development and hence the profit attributable to equity shareholders of the Company during the year) of HK$5,423 million (2017 (restated): HK$2,208 million) was added back in arriving at the Underlying Profit.

10 Segment reporting

The Group manages its businesses by a mixture of business lines and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following reportable segments. No operating segments have been aggregated to form the following reportable segments.

Property development	:	Development and sale of properties
Property leasing	:	Leasing of properties
Department store operation	:	Department store operation and management
Other businesses	:	Hotel operation and management, construction, provision of finance, investment holding, project management, property management, agency services, cleaning and security guard services, as well as the trading of building materials and disposal of leasehold land
Utility and energy	:	Production, distribution and marketing of gas, water supply and emerging environmentally-friendly energy businesses

For the purposes of assessing segment performance and allocating resources between segments, the Group's most senior executive management monitors the results attributable to each reportable segment on the following bases.

Revenue and expenses are allocated to the reportable segments with reference to revenues generated by those segments and the expenses incurred by those segments. Segment results form the basis of measurement used for assessing segment performance and represent profit or loss before (provision)/reversal of provision on inventories, net, sales of property interests, fair value adjustment of investment properties and investment properties under development, net finance costs, income tax and items not specifically attributed to individual reportable segments, such as unallocated head office and corporate expenses, net.

(a) Results of reportable segments

Information regarding the Group's and its share of associates and joint ventures on reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2018 and 2017 is set out below:

10 Segment reporting (continued)

(a) Results of reportable segments (continued)

For the year ended 31 December 2018		Company and its subsidiaries (before deducting non-controlling interests)		Associates and joint ventures				Attributable to non-controlling interests		Attributable to equity shareholders of the Company	
		Revenue *(note (i))* HK$ million	Segment results HK$ million	Share of revenue HK$ million	Share of segment results HK$ million	Combined revenue HK$ million	Consolidated segment results HK$ million	Revenue HK$ million	Segment results HK$ million	Combined revenue HK$ million	Consolidated segment results HK$ million
Property development											
Hong Kong		9,765	3,618	288	97	10,053	3,715	(340)	(144)	9,713	3,571
Mainland China		3,570	1,655	3,038	1,485	6,608	3,140	(1)	(2)	6,607	3,138
		13,335	5,273	3,326	1,582	16,661	6,855	(341)	(146)	16,320	6,709
Property leasing											
Hong Kong		4,200	3,094	2,947	2,495	7,147	5,589	(6)	(2)	7,141	5,587
Mainland China		1,820	1,426	13	12	1,833	1,438	-	-	1,833	1,438
	(note (ii))	6,020	4,520	2,960	2,507	8,980	7,027	(6)	(2)	8,974	7,025
Department store operation		1,496	296		-		296		(34)		262
Other businesses		1,131	705		180		885		(31)		854
		21,982	10,794		4,269		15,063		(213)		14,850
Utility and energy		-	-		4,539		4,539		-		4,539
		21,982	10,794		8,808		19,602		(213)		19,389
(Provision)/reversal of provision on inventories, net			(90)		1		(89)		-		(89)
Sales of property interests *(note (iv))*	(note 4)		1,678		-		1,678		(48)		1,630
Unallocated head office and corporate income expenses, net	*(note (iii))*		(1,414)		(406)		(1,820)		6		(1,814)
Profit from operations			10,968		8,403		19,371		(255)		19,116
Increase in fair value of investment properties and investment properties under development			10,465		6,590		17,055		(13)		17,042
Finance costs			(810)		(797)		(1,607)		28		(1,579)
Bank interest income			660		155		815		(6)		809
Net finance costs			(150)		(642)		(792)		22		(770)
Profit before taxation			21,283		14,351		35,634		(246)		35,388
Income tax			(2,123)		(2,139)		(4,262)		31		(4,231)
Profit for the year			19,160		12,212		31,372		(215)		31,157

10 Segment reporting (continued)

(a) Results of reportable segments (continued)

In relation to the share of profits less losses of associates and joint ventures:

	Property development HK$ million	Property leasing HK$ million	Other businesses HK$ million	Subtotal HK$ million	Utility and energy HK$ million	Total HK$ million
For the year ended 31 December 2018						
Share of profits less losses of associates *(note (v))*						
- Listed associates						
The Hong Kong and China Gas Company Limited	**-**	**1,080**	**(305)**	**775**	**3,095**	**3,870**
Miramar Hotel and Investment Company, Limited	**-**	**705**	**55**	**760**	**-**	**760**
Hong Kong Ferry (Holdings) Company Limited	**63**	**35**	**16**	**114**	**-**	**114**
- Unlisted associates	**475**	**95**	**(49)**	**521**	**-**	**521**
	538	**1,915**	**(283)**	**2,170**	**3,095**	**5,265**
Share of profits less losses of joint ventures *(note (vi))*	**270**	**6,535**	**142**	**6,947**	**-**	**6,947**
	808	**8,450**	**(141)**	**9,117**	**3,095**	**12,212**

10 Segment reporting (continued)

(a) Results of reportable segments (continued)

	Company and its subsidiaries (before deducting non-controlling interests)		Associates and joint ventures				Attributable to non-controlling interests		Attributable to equity shareholders of the Company	
	Revenue *(note (i))*	Segment results	Share of revenue	Share of segment results	Combined revenue	Consolidated segment results	Revenue	Segment results	Combined revenue	Consolidated segment results
For the year ended 31 December 2017 (restated)	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million
Property development										
Hong Kong (restated)	13,062	4,017	392	129	13,454	4,146	(735)	(243)	12,719	3,903
Mainland China	6,967	1,442	3,442	1,097	10,409	2,539	-	(2)	10,409	2,537
	20,029	5,459	3,834	1,226	23,863	6,685	(735)	(245)	23,128	6,440
Property leasing										
Hong Kong	3,979	2,955	2,776	2,353	6,755	5,308	(9)	(3)	6,746	5,305
Mainland China	1,699	1,332	14	12	1,713	1,344	-	-	1,713	1,344
(note (ii))	5,678	4,287	2,790	2,365	8,468	6,652	(9)	(3)	8,459	6,649
Department store operation	834	265		-		265		(27)		238
Other businesses	1,419	1,004		462		1,466		-		1,466
	27,960	11,015		4,053		15,068		(275)		14,793
Utility and energy	-	-		3,782		3,782		-		3,782
	27,960	11,015		7,835		18,850		(275)		18,575
Reversal of provision/(provision) on inventories, net		25		(1)		24		-		24
Sales of property interests (restated) *(note (iv))*	(note 4)	4,861		15		4,876		(58)		4,818
Unallocated head office and corporate income expenses, net	*(note (iii))*	(1,559)		(239)		(1,798)		(7)		(1,805)
Profit from operations (restated)		14,342		7,610		21,952		(340)		21,612
Increase in fair value of investment properties and investment properties under development		9,911		3,893		13,804		(51)		13,753
Finance costs		(837)		(662)		(1,499)		12		(1,487)
Bank interest income		633		121		754		(5)		749
Net finance costs		(204)		(541)		(745)		7		(738)
Profit before taxation (restated)		24,049		10,962		35,011		(384)		34,627
Income tax (restated)		(2,217)		(1,629)		(3,846)		28		(3,818)
Profit for the year (restated)		21,832		9,333		31,165		(356)		30,809

10 Segment reporting (continued)

(a) Results of reportable segments (continued)

In relation to the share of profits less losses of associates and joint ventures:

	Property development HK$ million		Property leasing HK$ million	Other businesses HK$ million	Subtotal HK$ million	Utility and energy HK$ million	Total HK$ million
For the year ended 31 December 2017 (restated)							
Share of profits less losses of associates *(note (v))*							
- Listed associates							
The Hong Kong and China Gas Company Limited	-		744	(271)	473	2,942	3,415
Miramar Hotel and Investment Company, Limited	-		639	60	699	-	699
Hong Kong Ferry (Holdings) Company Limited	23	(restated)	39	38	100	-	100
- Unlisted associates	547		140	54	741	-	741
	570		1,562	(119)	2,013	2,942	4,955
Share of profits less losses of joint ventures *(note (vi))*	111		4,112	155	4,378	-	4,378
	681		5,674	36	6,391	2,942	9,333

10 Segment reporting (continued)

(a) Results of reportable segments (continued)

Notes:

(i) The revenue figures above are arrived at after the elimination of inter-segment revenues, in the amounts of HK$321 million (2017: HK$315 million) and HK$2,882 million (2017: HK$1,206 million) in relation to the reportable segments under property leasing and others, respectively.

(ii) Revenue for the property leasing segment comprises rental income of HK$5,432 million (2017: HK$5,125 million) and rental-related income of HK$588 million (2017: HK$553 million), which in aggregate amounted to HK$6,020 million for the year (2017: HK$5,678 million).

(iii) Unallocated head office and corporate expenses, net of HK$1,414 million for the year (2017: HK$1,559 million) is stated after taking into account the net fair value gain on interest rate swap contracts and cross currency swap contracts during the year of HK$91 million (2017: HK$21 million)(see note 4), and the loss of HK$519 million arising from the reclassification from hedging reserve to profit or loss upon the revocation of the hedge relationship between certain of the Group's bank loans and their underlying interest rate swap contracts during the year (2017: the loss of HK$371 million arising from the reclassification from hedging reserve to profit or loss upon the revocation of the hedge relationship between certain of the Group's bank loans and their underlying interest rate swap contracts during the year and other reclassification) (see note 4). Excluding the aforementioned gains/(losses), the Group's unallocated head office and corporate expenses, net for the year amounted to HK$986 million (2017: HK$1,209 million).

(iv) Included in the aggregate gain from the sales of property interests is an amount of HK$1,080 million (2017 (restated): HK$1,198 million) representing the aggregate amount of the Group's (1) net gain on transfers of subsidiaries holding investment properties of HK$846 million (2017: HK$159 million) (see note 4); (2) net gain on disposal of investment properties of HK$234 million (2017 (restated): HK$1,024 million) (see note 4)(before deducting the amount of net gain attributable to non-controlling interests); and (3) attributable share of gain on disposal of investment properties by an associate of HK$Nil (2017: HK$15 million). After deducting the amount of net gain attributable to non-controlling interests of HK$48 million (2017 (restated): HK$57 million), and adding back the Group's attributable share of cumulative fair value gains on the disposal of investment properties up to the time of disposals of HK$5,302 million (2017 (restated): HK$2,292 million), an aggregate gain of HK$6,334 million (2017 (restated): HK$3,433 million) contributing to the Group's underlying profit from the disposal of investment properties for the year ended 31 December 2018 was recognised.

10 Segment reporting (continued)

(a) Results of reportable segments (continued)

Notes: (continued)

(v) The Group's share of profits less losses of associates contributed from the property leasing segment during the year of HK$1,915 million (2017: HK$1,562 million) includes the increase in fair value of investment properties (net of deferred tax) during the year of HK$1,267 million (2017: HK$950 million).

The Group's share of losses less profits of associates contributed from other businesses segment during the year of HK$283 million (2017: HK$119 million) includes the Group's share of profit after tax contributed from hotel operation and management during the year of HK$107 million (2017: HK$93 million).

(vi) The Group's share of profits less losses of joint ventures contributed from the property leasing segment during the year of HK$6,535 million (2017: HK$4,112 million) includes the increase in fair value of investment properties (net of deferred tax) during the year of HK$5,296 million (2017: HK$2,929 million).

The Group's share of profits less losses of joint ventures contributed from other businesses segment during the year of HK$142 million (2017: HK$155 million) includes the Group's share of profit after tax contributed from hotel operation and management during the year of HK$143 million (2017: HK$138 million).

10 Segment reporting (continued)

(b) Geographical information

The following table sets out information about the geographical segment location of (i) the Group's revenue from external customers; and (ii) the Group's investment properties, other property, plant and equipment, goodwill, interests in associates and joint ventures (together, the "Specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods were delivered. The geographical location of the Specified non-current assets is based on the physical location of the asset in the case of investment properties and other property, plant and equipment, the location of the operation to which the cash-generating unit(s) is (are) allocated in the case of goodwill, and the location of operations in the case of interests in associates and joint ventures.

	Revenue from external customers		**Specified non-current assets**	
	For the year ended 31 December		**At 31 December**	
	2018	*2017 (restated)*	***2018***	*2017 (restated)*
	HK$ million	HK$ million	**HK$ million**	HK$ million
Hong Kong (2017-restated)	**16,568**	19,267	**239,009**	224,758
Mainland China	**5,414**	8,693	**53,410**	53,442
	21,982	27,960	**292,419**	278,200
	(note 3)	(note 3)		

(c) Other segment information

	Depreciation		**(Reversal of impairment loss)/impairment loss on trade debtors**	
	For the year ended 31 December		**For the year ended 31 December**	
	2018	*2017*	***2018***	*2017*
	HK$ million	HK$ million	**HK$ million**	HK$ million
Property development	**8**	7	**-**	-
Property leasing	**2**	4	**(2)**	2
Department store operation	**38**	33	**-**	-
Other businesses	**20**	50	**(23)**	(4)
	68	94	**(25)**	(2)
	(note 6(d))	(note 6(d))	**(note 4)**	(note 4)

11 Deposits for acquisition of properties

The Group's deposits for acquisition of properties mainly include HK$317 million (2017: HK$332 million) and HK$561 million (2017: HK$561 million) paid relating to the acquisition of certain pieces of land/properties located in mainland China and Macau, respectively.

In respect of the deposit paid relating to the land in Macau, the date for the fulfillment of the conditions precedent has been extended by the Group, but the conditions precedent for the acquisition have not yet been fulfilled at the end of the reporting period. If the acquisition shall not proceed, then the Group is entitled to recover the deposit paid.

12 Inventories

	2018	*2017 (restated)*
	HK$ million	HK$ million
Property development		
Leasehold land held for development for sale	**11,193**	10,577
Properties held for/under development for sale	**80,781**	57,124
Completed properties for sale (2017-restated)	**5,065**	6,437
	97,039	74,138
Other operations		
Trading stocks	**138**	81
	97,177	74,219

13 Trade and other receivables

	2018	*2017 (restated)*
	HK$ million	HK$ million
Instalments receivable (2017-restated)	**358**	319
Loans receivable	**501**	866
Debtors, prepayments and deposits (2017-restated)	**14,045**	16,020
Gross amount due from customers for contract work (^)	**52**	28
Financial assets measured at FVPL	**190**	-
Derivative financial instruments	**47**	67
Amounts due from associates	**32**	10
Amounts due from joint ventures	**14**	125
	15,239	17,435

(^) *This balance represents the excess of cumulative revenue recognised in profit or loss over the cumulative payments made by customers at the end of the reporting period, and is recognised as a contract asset (see note 2).*

Typical payment terms which impact on the amount of contract asset recognised are as follows :-

Gross amount due from customers for contract work

The Group's construction contracts include payment schedules which require staged payments over the construction period once certain milestones are reached as certified by architects' certificates. At 31 December 2018, the Group had one construction contract for an agreed retention period of six months for 5% of the contract value, which amount is included in contract asset until the end of the retention period as the Group's entitlement to this final payment is conditional on the Group's construction work satisfactorily passing inspection.

All of the trade and other receivables are expected to be recovered or recognised as expense within one year except for various deposits, prepayments and other receivables of HK$9,429 million (2017: HK$8,011 million) which are expected to be recovered after more than one year from the end of the reporting period.

At 31 December 2018, the Group's loans receivable comprised the following amounts:

	At 31 December		Interest rate	Settlement
	2018	*2017*	**per annum (%)**	**date**
	HK$ million	HK$ million		
(i) Secured loans				
	131	138	12%	30 June 2019
Sub-total:	**131**	138		
(ii) Unsecured loans				
	370	-	5.22%	Between 31 March 2019 and 14 June 2019
	-	310	6%	Wholly recovered on 5 May 2018
	-	146	6%	Wholly recovered on 12 May 2018
	-	272	4.35%	Repayment date was extended to 4 December 2020 and is classified as "Other financial assets" under non-current assets
Sub-total:	**370**	728		
Total:	**501**	866		

13 Trade and other receivables (continued)

The balances are expected to be recovered within one year from the end of the reporting period, and are neither past due nor impaired.

The amounts due from associates and joint ventures are unsecured and interest-free, have no fixed terms of repayment and are neither past due nor impaired.

At the end of the reporting period, the ageing analysis of trade debtors (which are included in trade and other receivables), based on the dates of invoices or demand notes and net of loss allowance is as follows:

	2018	*2017 (restated)*
	HK$ million	HK$ million
Current or up to 1 month overdue	**483**	421
More than 1 month overdue and up to 3 months overdue	**21**	23
More than 3 months overdue and up to 6 months overdue	**14**	12
More than 6 months overdue	**35**	33
	553	489

14 Trade and other payables

	2018	*2017 (restated)*
	HK$ million	HK$ million
Creditors and accrued expenses (2017-restated)	**6,217**	7,538
Gross amount due to customers for contract work[(#)]	**5**	9
Rental and other deposits	**1,630**	1,542
Forward sales deposits received (2017-restated)[(#)]	**16,290**	10,225
Derivative financial instruments	**295**	82
Amounts due to associates	**154**	2,878
Amounts due to joint ventures	**2,522**	1,251
	27,113	23,525

[(#)] These balances represent the excess of cumulative payments made by customers over the cumulative revenue recognised in profit or loss at the end of the reporting period, and are recognised as contract liabilities (see note 2).

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

Forward sales deposits received

The Group receives 5% to 10% of the amount of sale consideration as a deposit from customers when they sign the sale and purchase agreement relating to property sales. This deposit is recognised as a contract liability until the properties are completed and legally assigned to the customer. The rest of the sale consideration is typically paid when legal assignment is completed.

However, depending on market conditions, the Group may offer customers a discount compared to the listed sales price, provided that the customers agree to pay the balance of the sale consideration early while construction is still ongoing, rather than upon legal assignment. Such advance payment schemes result in contract liabilities being recognised throughout the remaining property construction period for the full amount of the sale consideration.

14 Trade and other payables (continued)

Movements in contract liability

	Forward sales deposits received HK$ million
At 1 January 2018	10,225
Exchange differences	(36)
Decrease in contract liability as a result of recognising revenue during the year that was included in the contract liability at the beginning of the year	(5,123)
Increase in contract liability as a result of forward sales deposits received from customers during the year in relation to property projects still under development and completed property projects pending assignment/completion at the end of the year	11,224
At 31 December 2018	**16,290**

(a) All of the Group's trade and other payables are expected to be settled within one year or are repayable on demand except for an amount of HK$973 million (2017: HK$924 million) which is expected to be settled after more than one year from the end of the reporting period.

(b) At the end of the reporting period, the ageing analysis of trade creditors (which are included in trade and other payables), based on the due dates for settlement, is as follows:

	2018 **HK$ million**	*2017* HK$ million
Due within 1 month or on demand	**2,187**	1,765
Due after 1 month but within 3 months	**288**	526
Due after 3 months but within 6 months	**152**	268
Due after 6 months	**1,281**	2,244
	3,908	4,803

(c) The amounts due to associates and joint ventures at 31 December 2018 and 2017 are unsecured, interest-free and have no fixed terms of repayment except for (i) an amount due to a joint venture HK$398 million (2017: HK$Nil) which is unsecured, interest-bearing at 4% per annum and wholly repayable on 2 May 2019; (ii) an amount due to a joint venture of HK$288 million (2017: HK$Nil) which is unsecured, interest-bearing at 3.48% per annum and wholly repayable on 6 September 2019; and (iii) an amount due to a joint venture of HK$233 million which is unsecured, interest-bearing at 4% per annum and wholly repayable on 31 October 2019 (2017: an amount due to a joint venture of HK$244 million which was unsecured, interest-bearing at 4% per annum and the repayment date of which was extended to 31 October 2019).

15 Non-adjusting events after the reporting period

After the end of the reporting period, the directors proposed a final dividend. Further details are disclosed in note 8.

16 Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation. Furthermore, certain comparative figures have been restated as a result of the adoption of HKFRS 15, *Revenue from contracts with customers* for the current accounting period, as referred to in note 2.

17 Review of 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 preliminary announcement of the Group's results for the year ended 31 December 2018 have been compared by the Company's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect was limited and did not constitute an audit, review or other assurance engagement and consequently no assurance has been expressed by KPMG on this announcement.

FINANCIAL REVIEW

Results of operations

The following discussions should be read in conjunction with the Company's audited consolidated financial statements for the year ended 31 December 2018.

Restatement under the adoption of new accounting standards

Hong Kong Financial Reporting Standard 9 ("HKFRS 9"), *Financial instruments*, became effective for the Group commencing on 1 January 2018, under which investments in securities are classified as either investments designated as financial assets at fair value through other comprehensive income or investments measured as financial assets at fair value through profit or loss, depending on the nature and characteristics of the securities and changes in fair value are recognised in other comprehensive income and profit or loss respectively. Such changes in accounting policies have been applied retrospectively but do not restate the comparative figures in accordance with the transitional provisions of HKFRS 9, except that the opening balances of the Group's fair value reserve (classified as "recycling" and "non-recycling" under HKFRS 9), retained profits and non-controlling interests at 1 January 2018 have been restated.

Hong Kong Financial Reporting Standard 15 ("HKFRS 15"), *Revenue from contracts with customers*, became effective for the Group commencing on 1 January 2018, which requires revenue from sale of goods and provision of services by the Group to be recognised when the customer obtains control of the promised goods or services in the contract. The Group has assessed that the adoption of HKFRS 15 would be relevant to the recognition of revenue relating to the Group's sale of properties held for sale and gain on disposal of investment properties, under which the revenue from the sale of properties held for sale and the gain on disposal of investment properties during the accounting period are recognised in the Group's consolidated statement of profit or loss on the basis that control over the ownership of the property has been passed to the buyer during the current accounting period. Previously, the revenue from the sale of properties held for sale and the gain on disposal of investment properties were recognised upon the later of the signing of the sale and purchase agreement and the issue of an occupation permit/a 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 passed to the buyer. The adoption of HKFRS 15 requires retrospective application by restating the opening balances of the Group's consolidated statements of financial position at 1 January 2017 and 1 January 2018, with consequential adjustments to comparatives for the period from 1 January 2017 to 31 December 2017. Accordingly, this has resulted in the restatement of the Group's consolidated statement of profit or loss for the corresponding year ended 31 December 2017, and of the Group's consolidated statements of financial position at 1 January 2017 and 31 December 2017.

Revenue and profit

	Revenue			***Profit contribution from operations***		
	Year ended 31 December			***Year ended 31 December***		
	2018	2017 *(Restated)*	*Increase / (Decrease)*	**2018**	2017 *(Restated)*	*Increase / (Decrease)*
	HK$ million	HK$ million	*%*	**HK$ million**	HK$ million	*%*
Reportable segments						
- Property development *(2017 – restated)*	**13,335**	20,029	*-33%*	**5,273**	5,459	*-3%*
- Property leasing	**6,020**	5,678	*+6%*	**4,520**	4,287	*+5%*
- Department store operation	**1,496**	834	*+79%*	**296**	265	*+12%*
- Other businesses	**1,131**	1,419	*-20%*	**705**	1,004	*-30%*
	21,982	27,960	*-21%*	**10,794**	11,015	*-2%*

	Year ended 31 December		
	2018	2017 *(restated)*	*Increase*
	HK$ million	HK$ million	*%*
Profit attributable to equity shareholders of the Company			
- including the Group's attributable share of changes in fair value of investment properties and investment properties under development (net of deferred taxation) held by the Group's subsidiaries, associates and joint ventures	**31,157**	30,809	***+1%***
- excluding the Group's attributable share of changes in fair value of investment properties and investment properties under development (net of deferred taxation) held by the Group's subsidiaries, associates and joint ventures ("Underlying Profit") *(Note 1)*	**19,765**	19,516	***+1%***

Note 1 :

Underlying profit attributable to equity shareholders of the Company ("Underlying Profit") excludes the Group's attributable share of fair value changes (net of deferred taxation) of the investment properties and investment properties under development held by subsidiaries, associates and joint ventures. In order to fully exclude the aforesaid effects of changes in fair value from the Underlying Profit, the Group's attributable share of the cumulative fair value change (net of tax) of investment properties and investment properties under development disposed of during the year (which has been included in calculating the net gain on disposal of investment properties and investment properties under development and hence the profit attributable to equity shareholders of the Company during the year) of HK$5,423 million (2017 (as restated for the effect of HKFRS 15) : HK$2,208 million) was added back in arriving at the Underlying Profit.

Excluding the effects of certain one-off income/expense items from the Underlying Profit for the years ended 31 December 2018 and 2017, the adjusted Underlying Profits for the two financial years are as follows :-

	Year ended 31 December			
	2018	2017		
		(restated)	*Increase /(Decrease)*	
	HK$ million	HK$ million	*HK$ million*	*%*
Underlying Profit *(2017 – restated)*	**19,765**	19,516	*249*	*+1%*
(Less)/Add :				
One-off (income)/expense items –				
Gain on disposal of investments in corporate bonds (2017: investments in certain available-for-sale securities, net of tax)	**(13)**	(316)	*303*	
Net fair value gain on derivative financial instruments relating to certain interest rate swap contracts and cross currency swap contracts (net of tax) for which there was no hedge accounting applied during the year (2017: net fair value gain on derivative financial instruments relating to certain interest rate swap contracts (net of tax) due to certain ineffective cash flow hedges during the year)	**(76)**	(18)	*(58)*	
Reclassification (net of tax) from hedging reserve to profit or loss upon the revocation of the hedge relationship between certain of the Group's bank loans and their underlying interest rate swap contracts during the year	**433**	293	*140*	
One-off loss on dilution in the Group's shareholding interest in Miramar Hotel and Investment Company, Limited ("Miramar", a listed associate of the Group) arising from the exercise of the subscription rights attached to the warrants of Miramar (which expired on 19 January 2018) by the holders thereof (other than the Group)	**36**	20	*16*	
The Group's attributable share of a one-off provision for assets of The Hong Kong and China Gas Company Limited ("HKCG", a listed associate of the Group)	**83**	-	*83*	
Adjusted Underlying Profit	**20,228**	19,495	*733*	*+4%*

Discussions on the major reportable segments are set out below.

Property development

The comparative figures for the corresponding financial year ended 31 December 2017 have been restated in accordance with the new accounting policy on revenue recognition under HKFRS 15, as referred to in the paragraph headed "Restatement under the adoption of new accounting standards" above. Therefore, the following performances on gross revenue and pre-tax profits of the Group's subsidiaries, associates and joint ventures engaged in property development are evaluated on a comparable basis.

Gross revenue - subsidiaries

The gross revenue from property sales during the years ended 31 December 2018 and 2017 generated by the Group's subsidiaries, and by geographical contribution, is as follows :-

	Year ended 31 December			
	2018	2017		
		(restated)	*Decrease*	
	HK$ million	HK$ million	*HK$ million*	*%*
By geographical contribution :				
Hong Kong *(2017 – restated)*	**9,765**	13,062	*(3,297)*	*-25%*
Mainland China	**3,570**	6,967	*(3,397)*	*-49%*
	13,335	20,029	*(6,694)*	*-33%*

During the year ended 31 December 2018, the Group's completed property development projects comprised "Wellesley" (held by a joint venture of the Group), "Harbour Park" (held by Hong Kong Ferry (Holdings) Company Limited, a listed associate of the Group) and "Seven Victory Avenue" (held by a wholly-owned subsidiary of the Group). In this regard, the sold units of "Wellesley" and "Seven Victory Avenue" cumulative up to 31 December 2018 are scheduled for delivery to the buyers after 31 December 2018. Accordingly, no revenue contribution was recognised from "Seven Victory Avenue" for the year ended 31 December 2018. As such, the gross revenue from property sales in Hong Kong during the year ended 31 December 2018 was mainly contributed as to (i) HK$6,600 million being the sale consideration received by the Group from the transfer of its interest in the entire issued share capital of, and the shareholder's loan to, a wholly-owned subsidiary which owns a project under development at Kwun Chui Road, Area 56, Tuen Mun Town Lot No. 500, the New Territories (the "Tuen Mun Transfer"), which transaction was completed on 5 January 2018; and (ii) HK$3,165 million from the other major completed projects. By comparison, the gross revenue from property sales in Hong Kong during the corresponding financial year ended 31 December 2017, as restated for the effect of HKFRS 15, was contributed as to HK$5,179 million from property development projects which were completed during that year, and as to HK$7,883 million from the other major completed projects.

The gross revenue from property sales in mainland China during the year ended 31 December 2018 was contributed as to HK$2,432 million in relation to Phase 3B of "The Arch of Triumph" in Changsha and Phase 3 of "Riverside Park Site F1F2" in Suzhou which were completed during the year ended 31 December 2018, and as to HK$1,138 million in relation to the other projects (comprising, in particular, "Grand Lakeview" in Yixing, "Island Palace" in Yixing, "Riverside Park" in Suzhou and Towers 1 and 2, Phase G3 of "Riverside Park" in Suzhou) which were completed prior to 1 January 2018. By comparison, the gross revenue from property sales in mainland China during the corresponding financial year ended 31 December 2017 was contributed as to HK$3,184 million in relation to the property development projects which were completed during that year, as to HK$2,447 million from the disposal of property development projects in Shenyang and Anshan, and as to HK$1,336 million in relation to the other projects which were completed prior to 1 January 2017.

Pre-tax profits – subsidiaries, associates and joint ventures

The Group's attributable share of pre-tax profits from property sales, by geographical contribution and from subsidiaries (after deducting non-controlling interests), associates and joint ventures during the years ended 31 December 2018 and 2017, are as follows :-

	Year ended 31 December			
	2018	2017 *(restated)*	*Increase / (Decrease)*	
	HK$ million	HK$ million	*HK$ million*	*%*
By geographical contribution :				
Hong Kong *(2017 – restated)*	**3,571**	3,903	*(332)*	*-9%*
Mainland China	**3,138**	2,537	*601*	*+24%*
	6,709	6,440	*269*	*+4%*

Despite the decrease of 25% in the Group's gross revenue from property sales in Hong Kong during the year ended 31 December 2018 as referred to above, the Group's share of pre-tax profits from property sales in Hong Kong during the year ended 31 December 2018 decreased by a lesser magnitude of HK$332 million, or 9%. This is because the pre-tax profit contribution of HK$2,780 million from the completion of the Tuen Mun Transfer has a relatively higher profit margin.

The increase in the Group's share of pre-tax profits from property sales in mainland China during the year ended 31 December 2018 of HK$601 million (or 24%) is mainly attributable to the aggregate pre-tax profit contribution of HK$605 million from the property sales of Phase 3B of "The Arch of Triumph" in Changsha and Phase 3 of "Riverside Park Site F1F2" in Suzhou, both being projects completed during the year ended 31 December 2018, as well as the year-on-year increase in the Group's attributable share of pre-tax profit contribution of HK$467 million from the property sales of "Henderson • CIFI City" in Suzhou (held by an associate of the Group), which were nevertheless partially offset by the year-on-year decrease in pre-tax profit contribution of HK$193 million from the property sales of "Grand Lakeview" in Yixing and the year-on-year decrease in the Group's attributable share of pre-tax profit contribution of HK$256 million from the property sales of "Henderson • CIFI Centre" in Shanghai (held by an associate of the Group).

	Year ended 31 December			
	2018	2017 *(restated)*	*Increase/ (Decrease)*	
	HK$ million	HK$ million	*HK$ million*	*%*
By contribution from subsidiaries (after deducting non-controlling interests), associates and joint ventures :				
Subsidiaries *(2017 - restated)*	**5,127**	5,214	*(87)*	*-2%*
Associates *(2017 - restated)*	**1,091**	922	*169*	*+18%*
Joint ventures	**491**	304	*187*	*+62%*
	6,709	6,440	*269*	*+4%*

The increase in the Group's share of pre-tax profit contribution from the property sales of associates of HK$169 million (or 18%) during the year ended 31 December 2018 is mainly attributable to (i) the Group's attributable share of pre-tax profit contributions of HK$53 million from the property sales of "Harbour Park" in Hong Kong (2017: Nil); and (ii) the increase in the Group's attributable share of pre-tax profit contribution of HK$467 million from the property sales of "Henderson • CIFI City" in Suzhou, mainland China, which were partially offset by the decrease in the Group's attributable share of pre-tax profit contributions of (iii) HK$76 million from "The Bohemian" in Hong Kong; and (iv) HK$256 million from the property sales of "Henderson • CIFI Centre" in Shanghai, mainland China.

The increase in the Group's share of pre-tax profit contribution from the property sales of joint ventures of HK$187 million (or 62%) during the year ended 31 December 2018 is mainly attributable to the increase in the Group's share of pre-tax profit contributions from the property sales of "Chengdu ICC" in Chengdu, "La Botanica" in Xian and "Henderson • Country Garden Jin Shi Tan Project" in Dalian, all of which are projects in mainland China, in the aggregate amount of HK$150 million.

Property leasing

Gross revenue - subsidiaries

The gross revenue from property leasing during the years ended 31 December 2018 and 2017 generated by the Group's subsidiaries, and by geographical contribution, is as follows :-

	Year ended 31 December			
	2018	2017	*Increase*	
	HK$ million	HK$ million	*HK$ million*	*%*
By geographical contribution :				
Hong Kong	**4,200**	3,979	*221*	*+6%*
Mainland China	**1,820**	1,699	*121*	*+7%*
	6,020	5,678	*342*	*+6%*

Pre-tax net rental income – subsidiaries, associates and joint ventures

The Group's attributable share of pre-tax net rental income, by geographical contribution and from subsidiaries (after deducting non-controlling interests), associates and joint ventures during the years ended 31 December 2018 and 2017, is as follows :-

	Year ended 31 December			
	2018	2017	*Increase*	
	HK$ million	HK$ million	*HK$ million*	*%*
By geographical contribution :				
Hong Kong	**5,587**	5,305	*282*	*+5%*
Mainland China	**1,438**	1,344	*94*	*+7%*
	7,025	6,649	*376*	*+6%*
By contribution from subsidiaries (after deducting non-controlling interests), associates and joint ventures :				
Subsidiaries	**4,518**	4,284	*234*	*+5%*
Associates	**842**	794	*48*	*+6%*
Joint ventures	**1,665**	1,571	*94*	*+6%*
	7,025	6,649	*376*	*+6%*

For Hong Kong, on an overall portfolio basis, the year-on-year increase of 6% in gross revenue for the year ended 31 December 2018 is attributable to the positive rental reversion from the Group's office investment properties which mainly include AIA Tower, FWD Financial Centre and AIA Financial Centre, the new tenancy leases of Manulife Financial Centre, as well as the increased rental income resulting from the procurement of new tenancy leases after the completion of renovation programs for the Group's commercial investment properties which mainly include Sunshine City Plaza and Fanling Centre. Accordingly, this resulted in a year-on-year increase of 5% in pre-tax net rental income.

For mainland China, on an overall portfolio basis, there was a year-on-year increase of 7% in rental revenue contribution and a year-on-year increase of 7% in pre-tax net rental income contribution for the year ended 31 December 2018. Despite the recent weakening of the Renminbi against Hong Kong dollar, the average exchange rate between Renminbi and Hong Kong dollar had nevertheless appreciated by approximately 3% during the year ended 31 December 2018 when compared with that for the corresponding financial year ended 31 December 2017 which contributed partially to the abovementioned year-on-year increases. Furthermore, the increase in rental revenue and pre-tax net rental income during the year ended 31 December 2018 was also mainly contributed from "World Financial Centre" in Beijing, whose rental revenue and pre-tax net rental income increased by 15% and 20% respectively during the year ended 31 December 2018. However, such increase was partially offset by the decreases of 23% and 50% in the rental revenue and pre-tax net rental income respectively from "Heng Bao Plaza" in Guangzhou which underwent renovation works during the year ended 31 December 2018. On an overall portfolio basis, the ratio of pre-tax net rental income to rental revenue for the year ended 31 December 2018 was 79% (2017: 79%).

Department store operation

Department store operation is carried out by Citistore (Hong Kong) Limited ("Citistore") and Unicorn Stores (HK) Limited (("UNY HK"), formerly known as UNY (HK) Co., Limited until 27 July 2018 on which date the current name was adopted), both being wholly-owned subsidiaries of Henderson Investment Limited ("HIL"), a listed subsidiary of the Company. UNY HK was acquired by HIL on 31 May 2018 and hence became a wholly-owned subsidiary of HIL during the period from 1 June 2018 to 31 December 2018.

For the year ended 31 December 2018, revenue contribution from the department store operation amounted to HK$1,496 million (2017: HK$834 million) which represents a year-on-year increase of HK$662 million or 79% over that for the corresponding financial year ended 31 December 2017. The increase in revenue is mainly attributable to (i) a year-on-year increase in revenue contribution from Citistore of HK$43 million during the year ended 31 December 2018 when compared with that for the corresponding financial year ended 31 December 2017, due to a remarkably colder weather during the months of January and February 2018 which resulted in an increase in the sales of winter merchandises as well as a generally improved retail market sentiment in Hong Kong during the year ended 31 December 2018; and (ii) the revenue contribution of HK$619 million (2017: Nil) generated from UNY HK for the period from 1 June 2018 to 31 December 2018 after the completion of HIL's acquisition of UNY HK on 31 May 2018.

Profit contribution (after the elimination of rental expenditure in respect of the stores which was payable by Citistore to the Group) for the year ended 31 December 2018 also increased by HK$31 million, or 12%, to HK$296 million (2017: HK$265 million). Such increase is mainly attributable to the year-on-year increase in profit contribution from Citistore of HK$26 million for the year ended 31 December 2018 for the reasons as mentioned in item (i) above.

Other businesses

Other businesses mainly comprise hotel operation, construction, provision of finance, investment holding, project management, property management, agency services, cleaning and security guard services, as well as the trading of building materials and disposal of leasehold land.

Revenue and profit contribution of other businesses for the year ended 31 December 2018 amounted to HK$1,131 million and HK$705 million respectively, representing decreases of HK$288 million (or 20%) from the revenue of HK$1,419 million and HK$299 million (or 30%) from the profit contribution of HK$1,004 million for the corresponding year ended 31 December 2017 respectively. This is mainly attributable to the followings :

(i) the decrease in revenue contribution from construction activities of HK$150 million mainly due to the completion of the construction contract for "Harbour Park";
(ii) the decrease in revenue contribution from the hotel operation of HK$69 million due to the cessation of the Group's "Newton" hotel business operation;
(iii) the decreases in revenue contribution and profit contribution relating to dividend income and interest income in the aggregate amounts of HK$146 million and HK$146 million respectively, due to the Group's disposal of its investments in certain listed and unlisted equity securities and corporate bonds during the year ended 31 December 2018;
(iv) the decreases in revenue contribution and pre-tax profit contribution from the disposal of leasehold land in the amounts of HK$36 million and HK$29 million respectively;

(v) the recognition of the fair value loss of HK$93 million in relation to the Group's investments in units of Sunlight Real Estate Investment Trust ("Sunlight REIT") for the year ended 31 December 2018, due to the classification of the Group's investments in units of Sunlight REIT as "Investments measured as financial assets at fair value through profit or loss" under HKFRS 9 and which requires such fair value changes on units of Sunlight REIT to be recognised in the statement of profit or loss (2017: Nil, for the reason that any fair value change on units of Sunlight REIT were recognised in the fair value reserve in equity); and

(vi) the non-recurrence of the Group's gain on disposal (before tax) of its investments in certain available-for-sale securities during the corresponding year ended 31 December 2017 in the amount of HK$336 million, due to the change in accounting treatment under the adoption of HKFRS 9 for the year ended 31 December 2018 as referred to in the paragraph headed "Material disposals" below,

which were partially offset by

(vii) the increases in revenue contribution and pre-tax profit contribution relating to the interest income received from the Group's advancement of first mortgage loans and second mortgage loans to property buyers and term loans to certain corporate borrowers in the amounts of HK$58 million and HK$220 million respectively; and

(viii) the increases in revenue contribution and pre-tax profit contribution generated from the security guard and cleaning services operations in the amounts of HK$69 million and HK$33 million respectively.

Associates

The performance on the Group's attributable share of post-tax profit contribution from associates engaged in property development is evaluated on a comparable basis, by restating the comparative figures for the corresponding financial year ended 31 December 2017 in accordance with the new accounting policy on revenue recognition under HKFRS 15, as referred to in the paragraph headed "Restatement under the adoption of new accounting standards" above.

The Group's attributable share of post-tax profits less losses of associates during the year ended 31 December 2018 amounted to HK$5,265 million (2017: HK$4,955 million (as restated for the effect of HKFRS 15)), representing an increase of HK$310 million, or 6%, over that for the corresponding financial year ended 31 December 2017. Excluding the Group's attributable share of changes in fair value of investment properties held by the associates (net of deferred taxation) during the year and adding back the Group's attributable share of the cumulative fair value change of an investment property disposed of by Miramar during the corresponding financial year ended 31 December 2017, the Group's attributable share of the underlying post-tax profits less losses of associates for the year ended 31 December 2018 amounted to HK$3,998 million (2017: HK$4,033 million (as restated for the effect of HKFRS 15)), representing a decrease of HK$35 million, or 1%, from that for the corresponding financial year ended 31 December 2017. Such year-on-year decrease in the underlying post-tax profits was mainly due to the decrease in the Group's attributable share of post-tax profit contribution of HK$171 million from the property sales of "Henderson • CIFI Centre" in Shanghai, mainland China, which offsets the increase the Group's attributable share of post-tax profit contribution of HK$126 million from HKCG mainly due to the increase in profit contributions from the utility gas operation in mainland China and the new energy operation.

Joint ventures

The Group's attributable share of post-tax profits less losses of joint ventures during the year ended 31 December 2018 amounted to HK$6,947 million (2017: HK$4,378 million), representing an increase of HK$2,569 million, or 59%, over that for the corresponding financial year ended 31 December 2017. Excluding the Group's attributable share of changes in fair value of investment properties held by the joint ventures (net of deferred taxation) during the year, the Group's attributable share of the underlying post-tax profits less losses of joint ventures for the year ended 31 December 2018 amounted to HK$1,651 million (2017: HK$1,449 million), representing an increase of HK$202 million, or 14%, over that for the corresponding financial year ended 31 December 2017. Such year-on-year increase in the underlying post-tax profits was mainly attributable to (i) the increase in the Group's attributable share of post-tax profit contributions from property sales of the joint ventures in mainland China in the net aggregate amount of HK$160 million ; and (ii) the increase in the Group's attributable share of post-tax profit contribution from the ifc complex in the amount of HK$47 million.

Finance costs

Finance costs (comprising interest expense and other borrowing costs) before interest capitalisation for the year ended 31 December 2018 amounted to HK$2,178 million (2017: HK$1,534 million). Finance costs after interest capitalisation for the year ended 31 December 2018 amounted to HK$810 million (2017: HK$837 million), and after set-off against the Group's bank interest income of HK$660 million for the year ended 31 December 2018 (2017: HK$633 million), net finance costs recognised as expenses in the Group's consolidated statement of profit or loss for the year ended 31 December 2018 amounted to HK$150 million (2017: HK$204 million).

Overall, as referred to in the paragraph headed "Maturity profile and interest cover" below, the entire amount of the Group's total debt of HK$86,630 million at 31 December 2018 (2017: HK$80,304 million) was represented by the Group's bank and other borrowings in Hong Kong at 31 December 2018 and 31 December 2017. During the year ended 31 December 2018, the Group's effective borrowing rate was approximately 2.33% per annum (2017: approximately 2.19% per annum).

Revaluation of investment properties and investment properties under development

The Group recognised an increase in fair value on its investment properties and investment properties under development (before deferred taxation and non-controlling interests) of HK$10,465 million in the consolidated statement of profit or loss for the year ended 31 December 2018 (2017: HK$9,911 million).

Financial resources and liquidity

Medium Term Note Programme

On 15 October 2018, the Company increased the maximum aggregate principal amount of notes to be guaranteed by the Company and outstanding at any one time under the Group's Medium Term Note Programme established on 30 August 2011 ("MTN Programme"), from US$3,000 million to US$5,000 million. At 31 December 2018, the aggregate carrying amount of notes guaranteed by the Company and issued under the MTN Programme which remained outstanding was HK$7,732 million (2017: HK$4,015 million), with tenures of between two years and twenty years (2017: between seven years and twenty years). The increase of HK$3,717 million in the carrying amount of the Group's guaranteed notes in issue during the year is mainly attributable to (i) the issuance of guaranteed notes denominated in Hong Kong dollars in the aggregate principal amount of HK$4,889 million during the year ended 31 December 2018 and which have maturity dates ranging from April 2020 to February 2030; less (ii) the repayment of guaranteed notes in the principal amount of S$200 million (equivalent to HK$1,169 million) in September 2018. Such increase in the amount of guaranteed notes issued by the Group serves to finance the Group's capital expenditure requirements as referred to in the paragraph headed "Capital commitments" below. These notes are included in the Group's bank and other borrowings at 31 December 2018 as referred to in the paragraph headed "Maturity profile and interest cover" below.

Maturity profile and interest cover

The maturity profile of the total debt, the cash and bank balances and the gearing ratio of the Group were as follows:

	At 31 December 2018 HK$ million	At 31 December 2017 HK$ million
Bank and other borrowings repayable:		
- Within 1 year	**33,021**	24,675
- After 1 year but within 2 years	**15,924**	20,841
- After 2 years but within 5 years	**20,064**	27,150
- After 5 years	**16,521**	5,884
Amount due to a fellow subsidiary	**1,100**	1,754
Total debt	**86,630**	80,304
Less:		
Cash and bank balances	**(16,507)**	(24,673)
Net debt	**70,123**	55,631
Shareholders' funds *(2017 – restated)*	**313,153**	292,574
Gearing ratio (%)	**22.4%**	19.0%

The total debt of HK$86,630 million at 31 December 2018 (2017: HK$80,304 million) was unsecured and comprised the Group's bank and other borrowings in Hong Kong. At 31 December 2018, after taking into account the effect of swap contracts, 22% (2017: 23%) of the Group's total debt carried fixed interest rates.

Gearing ratio is calculated based on the net debt and shareholders' funds of the Group at the end of the reporting period.

The interest cover of the Group is calculated as follows :

	Year ended 31 December	
	2018	2017
	HK$ million	HK$ million
Profit from operations (including bank interest income and the cumulative fair value change (net of tax) of investment properties disposed of during the year, but before changes in fair value of investment properties and investment properties under development for the year) plus the Group's share of the underlying profits less losses of associates and joint ventures *(2017 – restated)*	**22,981**	23,076
Interest expense (before interest capitalisation)	**2,034**	1,374
Interest cover (times) *(2017 – restated)*	**11**	17

With abundant banking facilities in place and the recurrent income generation from its operations, the Group has adequate financial resources in meeting the funding requirements for its ongoing operations as well as its future expansion.

Treasury and financial management

The Group is exposed to interest rate and foreign exchange risks. To efficiently and effectively manage these risks, the Group's financing and treasury activities are centrally co-ordinated at the corporate level. As a matter of policy, all transactions in derivative financial instruments are undertaken solely for risk management purposes and no derivative financial instruments were held by the Group at the end of the reporting period for speculative purposes.

The Group conducts its business primarily in Hong Kong with the related cash flows, assets and liabilities being denominated mainly in Hong Kong dollars. The Group's primary foreign exchange exposure arises from its property developments and investments in mainland China which are denominated in Renminbi ("RMB"), the guaranteed notes ("Notes") which are denominated in United States dollars ("US$"), Sterling ("£") and Japanese Yen ("¥"), the fixed coupon rate bond ("Bond") which is denominated in United States dollars and the bank borrowings which are denominated in Japanese Yen and Australian dollars ("AUD").

In respect of the Group's operations in mainland China, apart from its capital contributions and, in some cases, loan contributions to projects which are denominated in RMB and are not hedged, the Group endeavours to establish a natural hedge by maintaining an appropriate level of external borrowings in RMB. In respect of the Notes and the Bond in the aggregate principal amounts of US$629 million and £50 million at 31 December 2018 (2017: US$629 million, £50 million and S$200 million), cross currency interest rate swap contracts were entered into between the Group and certain counterparty banks for the purpose of hedging against interest rate risk and foreign currency risk during their tenure. Furthermore, (i) in respect of certain of the Group's bank loans denominated in Hong Kong dollars in the aggregate principal amount of HK$11,450 million at 31 December 2018 (2017: HK$11,450 million), interest rate swap contracts were entered into between the Group and certain counterparty banks for the purpose of hedging against interest rate risk during their tenure; and (ii) in respect of the Group's guaranteed notes and bank loans denominated in Japanese Yen and Australian dollars in the aggregate principal amount of ¥32,000 million and AUD 173 million at 31 December 2018 (2017: guaranteed notes in the principal amount of ¥2,000 million), cross currency swap contracts were entered into between the Group and certain counterparty banks for the purpose of hedging against foreign currency risk during their tenure.

Material acquisitions and disposals

Material acquisitions

On 12 February 2018, the Group acquired from (i) HKICIM Fund III, L.P., an independent third party, the entire issued share capital of and shareholder's loan to a company which through its wholly-owned subsidiary holds a land parcel registered in the Land Registry as New Kowloon Inland Lot No. 6562, for a total consideration of approximately HK$6,062 million; and (ii) HKICIM Fund II, L.P., an independent third party, the entire issued share capital of and shareholder's loan to a company which through its wholly-owned subsidiary holds a land parcel registered in the Land Registry as New Kowloon Inland Lot No. 6565, for a total consideration of approximately HK$9,896 million. Completion of the acquisition took place on 14 February 2018 and the Group paid an aggregate cash consideration of approximately HK$15,958 million for the acquisition, which was funded from the Group's bank and other borrowings.

On 7 November 2018, a joint venture in which the Group has 29.3% interest, was awarded a land site registered in the Land Registry as New Kowloon Inland Lot No. 6574 by way of public tender for a tender premium of HK$8,333 million. The Group's attributable share of the tender premium amounted to HK$2,442 million and was settled on 4 December 2018.

Material disposals

On 4 January 2018, the Group entered into an agreement with an independent third party pursuant to which the Group transferred its interest in the entire issued share capital of Trado Investment Limited ("Trado") and the shareholder's loans to Trado and its wholly-owned subsidiary, Glory United Development Limited ("Glory United"), together with the entire interest in Glory United which owns an investment property at No. 18 King Wah Road, North Point, Hong Kong, for a cash consideration of about HK$9,950 million. The transaction was completed on 28 February 2018. Proceeds of HK$9,744 million of the adjusted sale consideration were received by the Group. The Group recognised a gain attributable to the Group's reported profit and underlying profit for the year ended 31 December 2018 in the amount of HK$846 million and HK$5,609 million, respectively.

On 27 July 2018, the Group and Lai Sun Development Company Limited (collectively as the "Vendors") entered into a conditional agreement with an independent third party (the "Purchaser") pursuant to which, inter alia, the Vendors transferred their entire shareholdings in Best Value International Limited ("Best Value", being a joint venture of the Group) which together with its wholly-owned subsidiaries collectively own an investment property at No. 8 Observatory Road, Kowloon, Hong Kong, for a cash consideration of HK$4,100 million (subject to adjustment). The transfer was completed on 11 March 2019. Proceeds of HK$1,414 million, representing the Group's attributable share of the sale consideration after settlement of the outstanding debt of Best Value, plus an amount of HK$619 million representing the recovery of the outstanding balance of a loan advanced from the Group to Best Value, were received by the Group in the aggregate amount of HK$2,033 million. The Group's underlying profit arising from such transfer of interest in joint ventures amounted to HK$1,305 million.

During the year ended 31 December 2018, the Group disposed of its financial investments in certain listed and unlisted equity securities and corporate bonds for an aggregate consideration of HK$2,118 million (2017: the Group disposed of its financial investments in certain available-for-sale securities for an aggregate consideration of HK$1,833 million), and realised an aggregate net gain on disposal of HK$104 million of which (i) an amount of HK$91 million, representing the net aggregate cumulative fair value gains (based on the sale proceeds) of the equity securities disposed of, was transferred from the fair value reserve (non-recycling) to retained profits in equity due to the Group's adoption of the accounting policy choice of recognising its financial investments in equity securities as "Investments designated as financial assets at fair value through other comprehensive income" under HKFRS 9; and (ii) an amount of HK$13 million, representing the net aggregate gain on disposal of the financial investments in corporate bonds, was recognised in the consolidated statement of profit or loss due to the classification of the Group's financial investments in corporate bonds as "Financial assets measured at amortised cost" under HKFRS 9 (2017: the Group recognised an aggregate gain on disposal of certain available-for-sale securities (net of tax) of HK$316 million in the consolidated statement of profit or loss).

Save for the aforementioned, the Group did not undertake any other significant acquisitions or any other significant disposals of subsidiaries or assets during the year ended 31 December 2018.

Completion during the year ended 31 December 2018 of a significant transaction entered into during the previous year ended 31 December 2017

Reference is made to the agreement entered into by the Group with an independent third party on 28 November 2017 in relation to the Tuen Mun Transfer for a cash consideration of HK$6,600 million. The transaction was completed on 5 January 2018. Proceeds of HK$6,611 million representing the full sale consideration (as adjusted) were received by the Group. The Group recognised a gain attributable to the Group's reported profit and underlying profit for the year ended 31 December 2018 in the amount of HK$2,780 million.

Charge on assets

Except for a pledged bank deposit of HK$101,158 at 31 December 2018 (2017: Nil), assets of the Group's subsidiaries were not charged to any third parties at 31 December 2018 and 31 December 2017.

Capital commitments

At 31 December 2018, capital commitments of the Group amounted to HK$33,040 million (2017: HK$27,548 million). In addition, the Group's attributable share of capital commitments undertaken by joint ventures and certain associates at 31 December 2018 amounted to HK$7,128 million (2017: HK$6,222 million).

The Group plans to finance its capital expenditure requirements for the year ending 31 December 2019 by way of the Group's own internally generated cash flow, bank deposits, banking facilities and funds raised from the capital market during the year and in previous years.

Contingent liabilities

At 31 December 2018, the Group's contingent liabilities amounted to HK$2,232 million (2017: HK$2,115 million), which include :-

(i) an amount of HK$443 million (2017: HK$1,237 million) relating to performance bonds, guarantees and undertakings for the due and proper performance of the obligations of the Group's subsidiaries and projects, and the substantial decrease of which is mainly attributable to the gradual completion of the construction activities of "Eden Manor", a residential development project of the Group in Hong Kong, during the year ended 31 December 2018. The amount of HK$443 million at 31 December 2018 mainly comprises a guarantee by the Group to a bank in the amount of HK$425 million against a finance undertaking issued by such bank in favour of the HKSAR Government during the year ended 31 December 2018 for the completion of the Group's residential development project "Reach Summit - Sereno Verde Phase 5" in Hong Kong under the terms and conditions of the relevant land grant;

(ii) an amount of HK$1,458 million (2017: HK$837 million) relating to guarantees given by the Group to financial institutions on behalf of purchasers of property units in mainland China in relation to which the related Building Ownership Certificate (房產證) had not yet been issued at 31 December 2018 (and such guarantees will be released upon the issuance of the Building Ownership Certificate), and the substantial increase of which is mainly attributable to the mortgage loans granted to the buyers during the year ended 31 December 2018 in respect of the sold units of "Grand Lakeview" in Yixing and "Riverside Park" in Suzhou;

(iii) an amount of HK$320 million (2017: HK$30 million) relating to the Group's attributable and proportional share of contingent liabilities in respect of an irrevocable, unconditional and several guarantee to the lending bank in relation to the amount drawn down on a loan facility which was entered into between a joint venture, in which the Group has a 20% interest, and such lending bank on 2 May 2017; and

(iv) an irrevocable and unconditional guarantee issued by the Company in favour of the Urban Renewal Authority ("URA") in relation to the obligations of the Developer (as defined below) under the Development Agreement (as defined below) which includes the construction and delivery by the Developer, on or before certain prescribed dates, of certain properties whose ownership shall be retained by URA absolutely for such purposes and usages to be decided by URA at its sole discretion, in accordance with a development agreement dated 21 November 2018 ("Development Agreement") between the URA and a wholly-owned subsidiary of the Company (the "Developer") in relation to a land parcel registered in the Land Registry as New Kowloon Inland Lot No. 6585.

Employees and remuneration policy

At 31 December 2018, the Group had 8,954 (2017: 8,590) full-time employees. The increase in the Group's full-time employees headcount of 364 during the year ended 31 December 2018 is mainly due to the contribution of 459 full-time employees from UNY HK, following the completion of acquisition by HIL on 31 May 2018.

The remuneration of the employees is in line with the market and commensurate with the level of pay in the industry. Discretionary year-end bonuses are payable to the employees based on individual performance. Other benefits to the employees include medical insurance, retirement scheme, training programmes and education subsidies.

Total staff costs for the year ended 31 December 2018 amounted to HK$2,409 million (2017: HK$2,284 million), representing a year-on-year increase of HK$125 million, or 5%, which is in line with the increase in the Group's full-time employees headcount during the year ended 31 December 2018 as referred to above. Staff costs for the year ended 31 December 2018 comprised (i) staff costs included under directors' remuneration of HK$153 million (2017: HK$149 million); and (ii) staff costs (other than directors' remuneration) of HK$2,256 million (2017: HK$2,135 million).

OTHER INFORMATION

Closure of Register of Members

1. Book Close for determining the entitlement to attend and vote at the annual general meeting

   The Register of Members of the Company will be closed from Thursday, 23 May 2019 to Tuesday, 28 May 2019, both days inclusive, during which period no transfer of shares will be registered, for the purpose of determining shareholders who are entitled to attend and vote at the forthcoming annual general meeting. In order to be entitled for attending and voting at the forthcoming annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Wednesday, 22 May 2019.

2. Book Close for determining the qualification for the proposed final dividend and bonus shares

   The Register of Members of the Company will be closed from Monday, 3 June 2019 to Wednesday, 5 June 2019, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend and bonus shares, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar, Computershare Hong Kong Investor Services Limited at the aforementioned address not later than 4:30 p.m. on Friday, 31 May 2019.

Purchase, Sale or Redemption of the Company's Listed Securities

Except for the issue of bonus shares on 21 June 2018, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year.

Audit Committee

The Audit Committee met in March 2019 and reviewed the risk management and internal control systems, and the annual report for the year ended 31 December 2018.

Corporate Governance

During the year ended 31 December 2018, the Company complied with the applicable code provisions set out in the Corporate Governance Code (the "CG Code") as stated in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), with the exception that the roles of the chairman and the chief executive officer of the Company have not been segregated as required by code provision A.2.1 of the CG Code. The Board of Directors is of the view that it is in the best interest of the Company that Dr Lee Shau Kee, with his profound expertise in property business, shall continue in his dual capacity as the Chairman and Managing Director.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as the code for dealing in securities of the Company by the Directors (the "Model Code"). Having made specific enquiries, the Company confirmed that all Directors have complied with the required standards as set out in the Model Code.

Forward-Looking Statements

This announcement contains certain statements that are forward-looking or which use certain forward-looking terminologies. These forward-looking statements are based on the current beliefs, assumptions and expectations of the Board of Directors of the Company regarding the industry and markets in which it operates. These forward-looking statements are subject to risks, uncertainties and other factors beyond the Company's control which may cause actual results or performance to differ materially from those expressed or implied in such forward-looking statements.

By Order of the Board
Timon LIU Cheung Yuen
Company Secretary

Hong Kong, 20 March 2019

As at the date of this announcement, the Board comprises: (1) executive directors: Lee Shau Kee (Chairman), Lee Ka Kit, Lam Ko Yin, Colin, Lee Ka Shing, Yip Ying Chee, John, Suen Kwok Lam, Fung Lee Woon King, Lau Yum Chuen, Eddie, Kwok Ping Ho and Wong Ho Ming, Augustine; (2) non-executive directors: Lee Pui Ling, Angelina and Lee Tat Man; and (3) independent non-executive directors: Kwong Che Keung, Gordon, Ko Ping Keung, Wu King Cheong, Woo Ka Biu, Jackson, Poon Chung Kwong and Au Siu Kee, Alexander.