恒基兆業地產有限公司
HENDERSON LAND DEVELOPMENT COMPANY LIMITED

Stock Code: 12

ANNUAL REPORT 2018

Corporate Profile

Founded in 1976 by its Chairman, Dr The Honourable Lee Shau Kee, GBM, Henderson Land Development Company Limited is a leading property group with a focus on Hong Kong and mainland China. Its core businesses comprise property development and property investment. In addition, it has direct equity interests in a listed subsidiary, Henderson Investment Limited, and three listed associates, The Hong Kong and China Gas Company Limited (which in turn has equity stakes in a listed subsidiary, Towngas China Company Limited), Hong Kong Ferry (Holdings) Company Limited and Miramar Hotel and Investment Company, Limited.

Henderson Land has been listed in Hong Kong since 1981 where it is one of the largest property groups. As at 31 December 2018, Henderson Land had a market capitalisation of HK$172 billion and the combined market capitalisation of the Company, its listed subsidiary and its associates was about HK$453 billion.

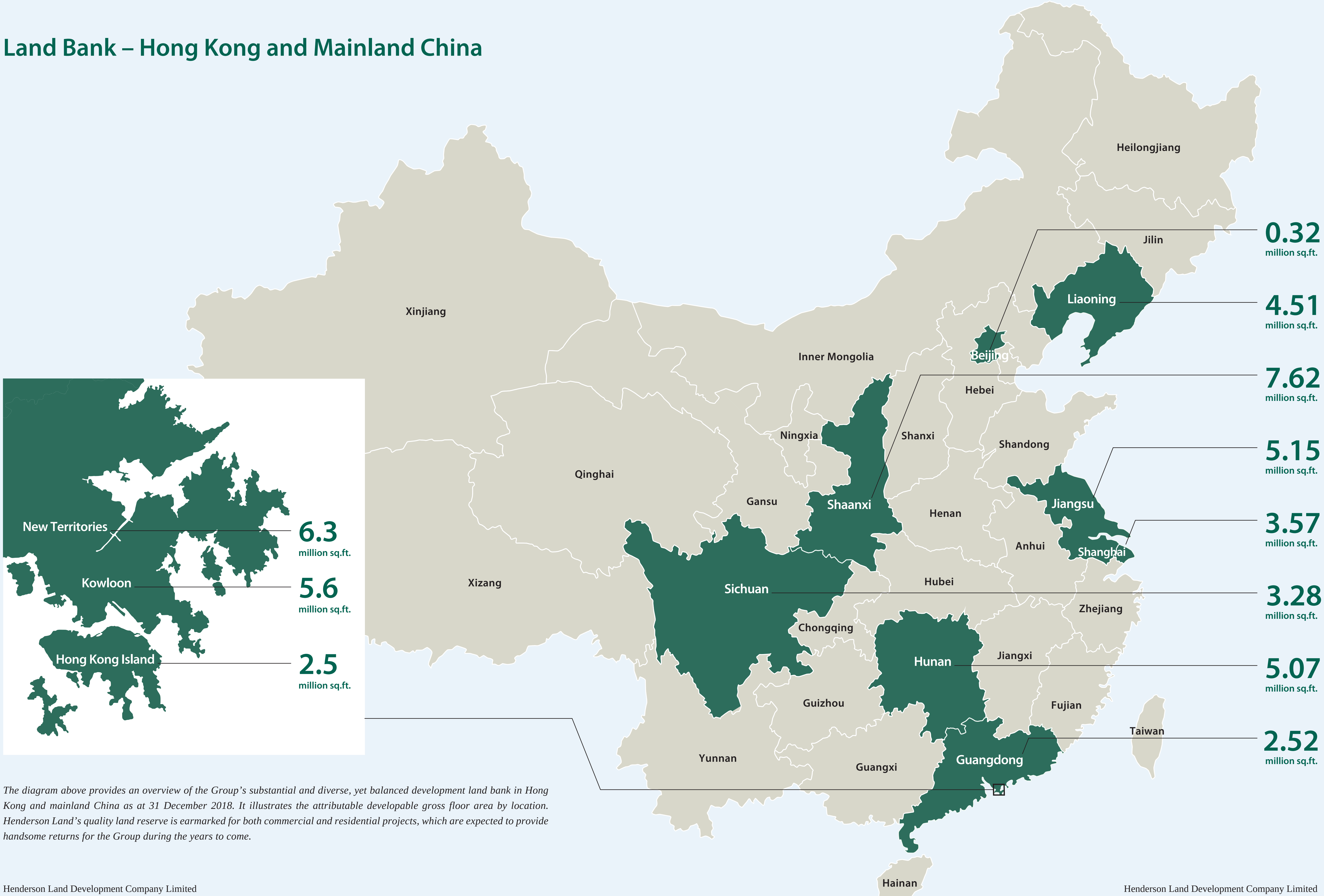
The Company is vertically integrated, with project management, construction, property management, and financial services supporting its core businesses. In all aspects of its operations, Henderson Land strives to add value for its shareholders, customers and the community through its commitment to excellence in product quality and service delivery as well as a continuous focus on sustainability and the environment.

Contents

FORWARD-LOOKING STATEMENTS

This annual report 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.

Land Bank – Hong Kong and Mainland China



The diagram above provides an overview of the Group's substantial and diverse, yet balanced development land bank in Hong Kong and mainland China as at 31 December 2018. It illustrates the attributable developable gross floor area by location. Henderson Land's quality land reserve is earmarked for both commercial and residential projects, which are expected to provide handsome returns for the Group during the years to come.

Awards & Accolades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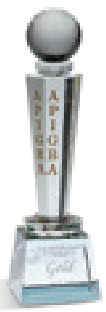
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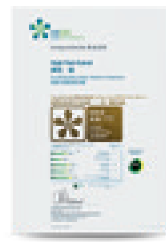
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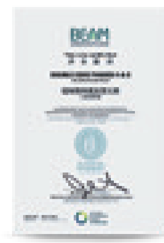
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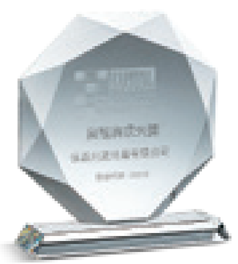
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Hang Seng Corporate Sustainability Index Series Member 2018-2019
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H Zentre

International Property Awards 2018-2019

Best International Commercial High-rise Development

Asia Pacific Property Awards 2018-2019

Best Commercial High-rise Development Asia Pacific

Best Commercial High-rise Development Hong Kong – 5-Star

Best Mixed-use Development Hong Kong – 5-Star

18 King Wah Road project*

Quality Building Award 2018

Grand Award – Hong Kong Non-Residential (New Building – Non-Government, Institution or Community) Category

HKIA Annual Awards 2017/18

Merit Award of Hong Kong – Commercial Building

Special Architectural Award – Architectural Sustainability

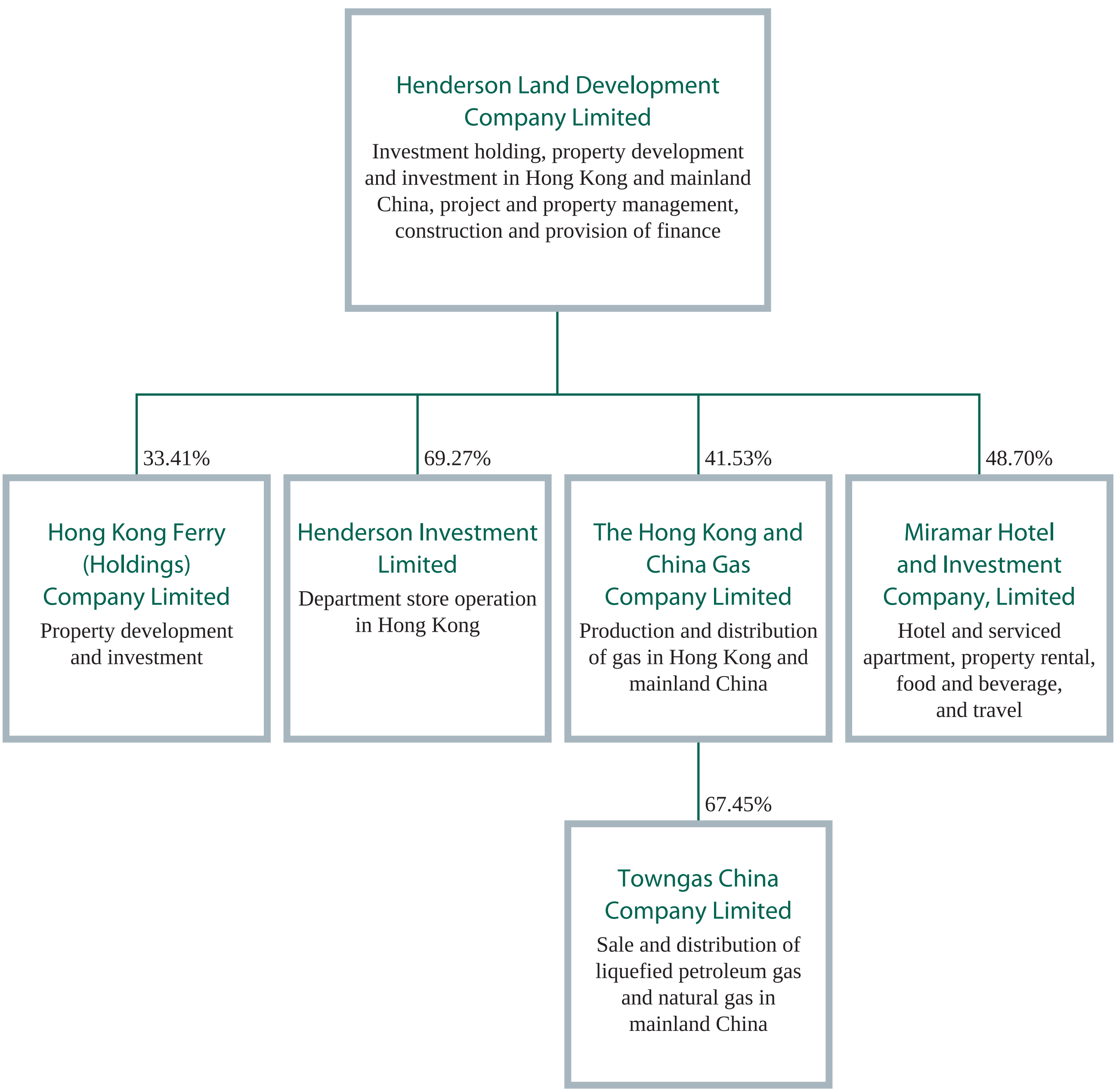
* *The transfer of the equity interests in the companies holding the office building at 18 King Wah Road, North Point, was completed in early 2018.*

1. **Asia Pacific Property Awards 2018 -2019**
   International Property Awards
   Mixed-use Development Hong Kong – Award Winner (Park One)
   Residential High-rise Development Hong Kong – Award Winner (456-462A Sai Yeung Choi Street North)
2. **The 2nd APIGBA Awards Competition**
   Asia Pacific Intelligent Green Building Alliance
   Gold Award (Design Category) (218 Electric Road)
3. **Best Landscape Award for Private Property Development 2018**
   Leisure and Cultural Services Department
   Small-scale Domestic Property (Properties below 6 years of age) – Merit (The Zutten)
   Small-scale Domestic Property (Properties below 6 years of age) – Merit (Parker 33)
4. **BEAM Plus (New Buildings)**
   Hong Kong Green Building Council
   Final Gold Rating (High Park Grand)
5. **Building Environmental Assessment Method (BEAM)**
   BEAM Society Limited
   Platinum Standard (Double Cove Phases 4 & 5)
6. **Green Building Design Label (GBDL)**
   China Green Building Council and China Green Building (Hong Kong) Council
   3-Star Rating (218 Electric Road)
7. **WELL Building Standard**
   International Well Building Institute
   Gold Level Pre-certification (218 Electric Road)
8. **The Listed Enterprise Excellence Awards 2018**
   CAPITAL WEEKLY
   Outstanding Corporate Results Performance Award
9. **BCI Asia Top 10 Awards 2018**
   BCI Asia
   Top 10 Developers Award
10. **International ARC Awards 2018**
    MerComm, Inc.
    Honors Award (Specialized A.R.: CSR – Corporate Social Responsibility Report)
    Honors Award (Cover Photo/ Design: Specialized A.R.: CSR – Corporate Social Responsibility Report)
    Honors Award (Infographics: Specialized A.R.: CSR – Corporate Social Responsibility Report)
11. **Caring Company 2018/19**
    Hong Kong Council of Social Service
    (Henderson Land, Hong Kong & China Gas, Hong Kong Ferry, Miramar, Miramar Travel, Hang Yick, Well Born, Goodwill and H-Privilege)
12. **Hang Seng Corporate Sustainability Index Series**
    Hang Seng Indexes Company Limited
    Constituent Company (Henderson Land, Hong Kong & China Gas and Towngas China)
13. **HKCA Safety Award 2017**
    Hong Kong Construction Association
    HKCA Proactive Safety Contractor Award (Heng Lai and Heng Shung)
    HKCA Safety Merit Award (E Man)
14. **AEE Regional Awards**
    Association of Energy Engineers
    Energy Project of the Year (Asia Pacific Rim Region) (Hong Kong & China Gas)
15. **BOCHK Corporate Environmental Leadership Awards 2017**
    Federation of Hong Kong Industries
    EcoChallenger (The Hong Kong Shipyard Limited)
    EcoPartner (The Hongkong & Yaumati Ferry Company Limited)
    5 Years + Eco Pioneer (The Hong Kong Shipyard Limited, The Hongkong & Yaumati Ferry Company Limited)
    3 Years + Eco Pioneer (19 awarded properties in total)
    Eco Partner (20 awarded properties in total)
16. **2017 International Customer Relationship Excellence Awards**
    Asia Pacific Customer Service Consortium
    Corporate Environmental Leadership of the Year 2017 (Property Management) (Hang Yick, Well Born and H-Privilege)
    Customer Relationship Marketing Service of the Year 2017 (Property Management) (Hang Yick, Well Born and H-Privilege)
    16 Consecutive Years of Participation (Well Born)
17. **Excellence in Facility Management Award 2018**
    The Hong Kong Institute of Facility Management
    Excellence Award (Retail) (Mira Place One)
    Excellence Award (Large-scale Residential) (Double Cove) (Well Born)
    Excellence Award (Medium-scale Residential) (The Beverly Hills) (Well Born)
    Excellence Award (Small-scale Residential) (Hill Paramount) (Well Born)
18. **Outstanding Model Property Management Projects 2018**
    The Trade Association of Shanghai Property Management
    Non-residential (Henderson Metropolitan)
19. **Outstanding Property Management Award**
    Hong Kong Institute of Certified Property Managers
    Outstanding Grade A Office Project (Green Building) (World Financial Centre)

Group Structure

Henderson Land Group Structure

Market capitalisation as at 31 December 2018
Henderson Land Development Company Limited: HK$172 billion
Six listed companies of Henderson Land Group: HK$453 billion



Note: All attributable interests shown above were figures as of 31 December 2018.

Highlights of 2018 Final Results

	Note	For the year ended 31 December 2018 HK$ million	 2017 HK$ million	Note 1	Change
Property sales					
– Revenue	2	**16,320**	23,128	(restated)	**-29%**
– Pre-tax profit contribution	2, 3	**6,709**	6,440	(restated)	**+4%**
Property leasing					
– Gross rental income	2	**8,974**	8,459		**+6%**
– Pre-tax net rental income	2	**7,025**	6,649		**+6%**
Profit attributable to equity shareholders					
– Underlying profit	4	**19,765**	19,516	(restated)	**+1%**
– Reported profit		**31,157**	30,809	(restated)	**+1%**
		HK$	HK$		
Earnings per share					
– Based on underlying profit	4, 5	**4.49**	4.43	(restated)	**+1%**
– Based on reported profit	5	**7.08**	7.00	(restated)	**+1%**
Dividends per share		**1.80**	1.71		**+5%**
Allotments of bonus shares		**1 share for every 10 shares held**	1 share for every 10 shares held		**No change**
		At 31 December 2018 HK$	At 31 December 2017 HK$		**Change**
Net asset value per share	5	**71.15**	66.48	(restated)	**+7%**
Net debt to shareholders' equity		**22.4%**	19.0%		**+3.4 percentage points**
		Million square feet	Million square feet		
Properties in Hong Kong					
Land bank (attributable floor area)					
– Properties under development	6	**14.4**	14.0		
– Unsold units from major launched projects		**1.0**	1.1		
Sub-total:		**15.4**	15.1		
– Completed properties (including hotels) for rental		**9.3**	9.4		
Total:		**24.7**	24.5		
New Territories land (attributable land area)		**45.6**	44.9		
Properties in Mainland China					
Land bank (attributable floor area)					
– Properties held for/under development		**32.0**	35.5		
– Completed stock for sale		**0.4**	1.0		
– Completed properties for rental		**6.4**	6.4		
		38.8	42.9		

Note 1: The comparative figures are restated under the adoption of Hong Kong Financial Reporting Standard 15 "Revenue from contracts with customers", which was effective on 1 January 2018.

Note 2: This amount includes the Group's attributable share of contributions from subsidiaries, associates and joint ventures ("JVs").

Note 3: If the fair value change of the related properties is excluded, the pre-tax underlying profit contribution for the year ended 31 December 2018 should be HK$6,830 million (2017: HK$6,538 million).

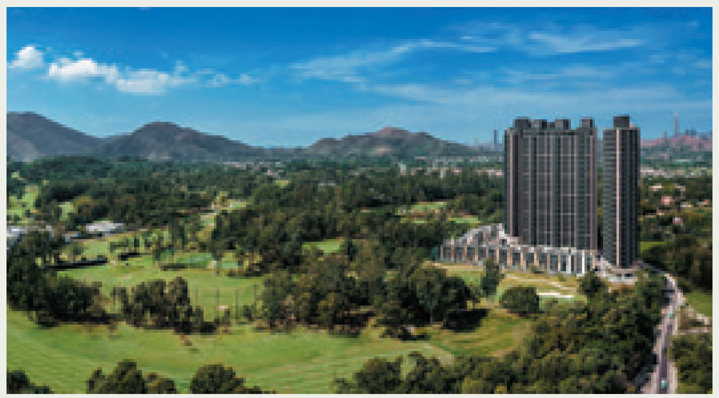
Note 4: Excluding the Group's attributable share of fair value change (net of tax) of the investment properties held by subsidiaries, associates and JVs.

Note 5: The earnings per share were calculated based on the weighted average number of shares as adjusted for the effect of the bonus issues under Hong Kong Accounting Standard 33, "Earnings per share". The net asset value per share at 31 December 2018 was calculated based on the number of issued shares outstanding at 31 December 2018, whilst the net asset value per share at 31 December 2017 was calculated based on the number of issued shares outstanding at 31 December 2017 and as adjusted for the bonus issue effected in 2018.

Note 6: 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.

EDEN MANOR

KWU TUNG, HONG KONG



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.

Dr The Honourable Lee Shau Kee, GBM
Chairman and Managing Director

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.

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.

Reach Summit – Sereno Verde Phase 5, Yuen Long, Hong Kong (artist's impression)

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:

	Project name and location	Gross floor area (sq. ft.)	Type of development	At 31 December 2018 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

Project name and location	Gross floor area (sq. ft.)	Type of development	At 31 December 2018 No. of residential units remaining unsold	Saleable area remaining unsold (sq. ft.)	Group's interest (%)	Attributable saleable area remained unsold (sq. ft.)
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	29.30	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 revitalised. 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 revitalised 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 revitalised 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 finalised 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**

MOSTown, Ma On Shan, Hong Kong

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.

H Zentre, Tsim Sha Tsui, Hong Kong (artist's impression)

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	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.

Lumina Guangzhou, Guangzhou (artist's impression)

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:

Citistore

(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.

Clean coal chemical plant in Ordos, Inner Mongolia

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. Benefitting 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.

Hong Kong Ferry's Harbour Cruise – Bauhinia

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%.

Mira Place, Tsim Sha Tsui, Hong Kong

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

SQUARE MILE

MONG KOK, HONG KONG

Progress of Major Development Projects

Status of property developments with anticipated completion during the period to the end of 2021

PARK REACH, Yuen Long, Hong Kong (artist's impression)

PARK REACH

33 Shap Pat Heung Road, Yuen Long

(79.03% owned)

Site area 6,131 square feet	**Gross floor area** 21,453 square feet
Residential units 63	**Completion** 11 March 2019

Situated adjacent to the Group's project "The Reach", "Park Reach" is a 8-storey residential-cum-commercial development.

Lot No. 1752 in DD No.122
Tong Yan San Tsuen, Yuen Long

(100% owned)

Site area 27,868 square feet	**Gross floor area** 27,868 square feet
Residential units 16	**Expected completion** Second quarter of 2019

Surrounded by lush greenery in a tranquil environment, the site will be developed into 16 three-storey residential houses. Superstructure works will soon be completed.

Lot No. 1752 in DD No. 122, Tong Yan San Tsuen, Yuen Long, Hong Kong (artist's impression)

Park One, Cheung Sha Wan, Hong Kong (artist's impression)

Park One

1, 3 Nam Cheong Street and 180 Tung Chau Street Cheung Sha Wan (100% owned)

Site area 8,559 square feet	**Gross floor area** 77,029 square feet
Residential units 129	**Expected completion** Second quarter of 2019

"Park One", a 38-storey residential-cum-commercial development, commands breathtaking views of Victoria Harbour and the surrounding Tung Chau Street and Nam Cheong parks. Metro Harbour Plaza, as well as another sizeable shopping mall under development, are both within walking distance, offering unrivalled living convenience to its residents. Only minutes from Nam Cheong MTR station, the transport nexus of West Rail and Tung Chung lines, "Park One" enjoys a comprehensive transportation network and close proximity to the newly-opened Express Rail Link West Kowloon station.

NOVUM EAST

856 King's Road, Quarry Bay (100% owned)

Site area 17,720 square feet	**Gross floor area** 177,814 square feet
Residential units 464	**Expected completion** Second quarter of 2019

Located close to the Quarry Bay MTR station, the interchange of Island Line and Tseung Kwan O Line, this 32-storey residential-cum-commercial development will allow upper floor residences to enjoy magnificent views of Victoria Harbour and the verdant greenery of Braemar Hill.

NOVUM EAST, Quarry Bay, Hong Kong (artist's impression)

South Walk • Aura, Aberdeen, Hong Kong (artist's impression)

South Walk • Aura

12 Tin Wan Street, Aberdeen (100% owned)

Site area 4,060 square feet	**Gross floor area** 37,550 square feet
Residential units 142	**Expected completion** Second quarter of 2019

Superstructure works are in progress and it will be developed into a 26-storey boutique apartment tower with some ground-level retail shops. Some of the residential units on the upper level of the building enjoy expansive sea views as far as Lamma Island. It was launched for presales in March 2018 with a positive response.

Cetus • Square Mile

18 Ka Shin Street, Mong Kok (100% owned)

Site area 19,610 square feet	**Gross floor area** 176,422 square feet
Residential units 514	**Expected completion** Third quarter of 2019

"Cetus • Square Mile" will be developed into a 26-storey apartment tower above a commercial and clubhouse podium. Only minutes from Olympic MTR station, this development enjoys fast and easy access to every part of Hong Kong. The exclusive residents' clubhouse, "Club Splash", is an example of the Group's thoughtful design planning for residents, serving the needs of both introverts and extroverts. Superstructure works are in progress. It was launched for presales in June 2018 with a satisfactory market response.

Cetus • Square Mile, Mong Kok, Hong Kong (artist's impression)

H Zentre, Tsim Sha Tsui, Hong Kong (artist's impression)

H Zentre

15 Middle Road, Tsim Sha Tsui (100% owned)

Site area	Gross floor area
28,309 square feet	339,711 square feet

Expected completion
Third quarter of 2019

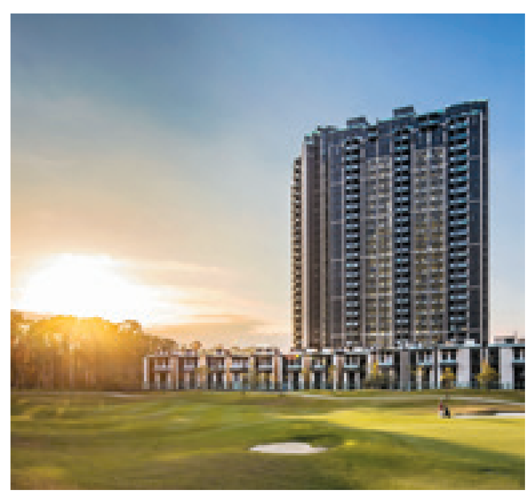
Atop East Tsim Sha Tsui MTR station, which is just one stop from the newly-opened Express Rail Link West Kowloon station, "H Zentre" at 15 Middle Road, Tsim Sha Tsui, is a commercial development comprising medical, dining, retail and car parking facilities. Its purpose-built medical floors, which are designed by a team of professional medical design consultants, will be equipped with various advanced facilities (such as air purification system and back-up power supply) so as to meet the various medical requirements. In addition, it features quality restaurants on its uppermost floors, providing customers with not only an unparalleled dining experience, but also impressive harbour views. This development of approximately 340,000 square feet is scheduled for completion in the third quarter of 2019 and the preliminary leasing responses have been satisfactory, with renowned medical service providers being secured as its tenants.

Eden Manor

88 Castle Peak Road, Kwu Tung (100% owned)

Site area	Gross floor area
154,280 square feet	555,399 square feet
Residential units	**Expected completion**
590	Third quarter of 2019

Located in a unique enclave with the Hong Kong Golf Club, Fanling Lodge and The Hong Kong Jockey Club – Beas River Country Club in its proximity, "Eden Manor" comprises 25 villas and eight residential towers. Thanks to the shimmering glass curtain walls that maximise light and visibility, residents can take in sprawling open views of lush greenery. Fitting out works are in progress.



Eden Manor, Kwu Tung, Hong Kong

NOVUM WEST, Sai Ying Pun, Hong Kong (artist's impression)

NOVUM WEST

460 Queen's Road West, Sai Ying Pun (100% owned)

Site area	Gross floor area
28,027 square feet	272,462 square feet
Residential units	**Expected completion**
645	Third quarter of 2019

Located right next to "HKU" MTR station in the proximity of the Western Harbour Tunnel, NOVUM WEST enjoys convenient access to every part of the city. With many prestigious schools just steps way, this 35-storey development is complemented by dual residential clubhouses and a chic shopping mall that offers a vibrant living environment. Superstructure works have been progressing well.

218 Electric Road, North Point

(100% owned)

Site area	Gross floor area
9,600 square feet	144,000 square feet
Expected completion	
Fourth quarter of 2019	

The redevelopment of the former "Newton Hotel Hong Kong" will consist of a 22-storey Grade-A office tower and two floors of shops, supported by a podium garden and a two-level underground car park. Superstructure works are under way and its pre-leasing responses have been satisfactory. With the opening of the Central-Wanchai Bypass in early 2019, it only takes about five minutes to travel from Central to the Island Eastern Corridor at North Point. In addition to receiving the Gold Award in "The 2nd APIGBA Awards Competition – Design Category", it was also awarded a top 3-Star China Green Building Design Label (GBDL) rating for its superior environmental standards and green building specifications. As such, this development will appeal to tenants that favour transportation ease and sustainability.

218 Electric Road, North Point, Hong Kong (artist's impression)

Reach Summit – Sereno Verde Phase 5, Yuen Long, Hong Kong (artist's impression)

Reach Summit – Sereno Verde Phase 5

99A Tai Tong Road, Yuen Long (formerly known as Project at Yuen Long Town Lot No. 524) (79.03% owned)

Site area
48,933 square feet

Gross floor area
171,266 square feet

Residential units
504

Expected completion
First quarter of 2020

This development, which consists of two 25-storey residential towers, was well received when it was launched for sales in November 2018. Superstructure works are now in progress.

206-212 Johnston Road, Wanchai

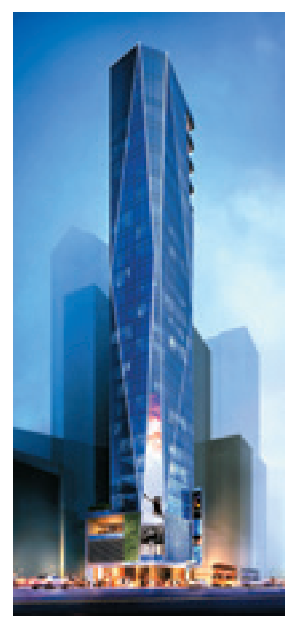
(100% owned)

Site area
4,328 square feet

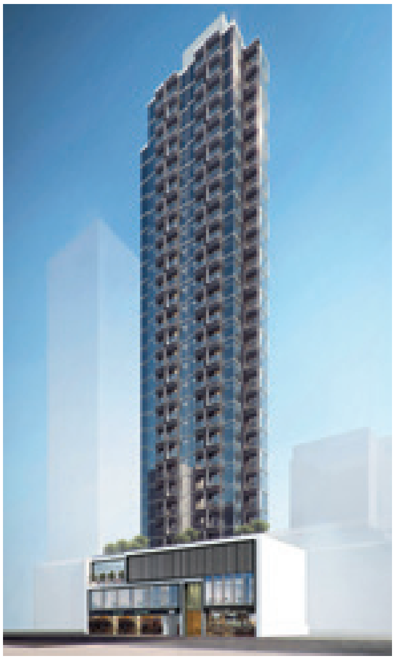
Gross floor area
64,918 square feet

Expected completion
Third quarter of 2020

Situated in a prime location close to an MTR station, and combining innovative design with high specifications, this office redevelopment project is poised to feature as a new benchmark in the business hub of Wanchai. Superstructure works are now in progress.



206-212 Johnston Road, Wanchai, Hong Kong (artist's impression)



342-356 Un Chau Street, Cheung Sha Wan, Hong Kong (artist's impression)

342-356 Un Chau Street, Cheung Sha Wan

(100% owned)

Site area 9,157 square feet	**Gross floor area** 79,895 square feet
Residential units 200	**Expected completion** First quarter of 2021

Adjacent to Cheung Sha Wan MTR station, this project enjoys an array of amenities (such as a museum, sports ground and shopping arcade) in its neighbourhood. Superstructure works have been progressing well and it will be developed into a quality residential-cum-commercial property.

The Vantage

63 Ma Tau Wai Road, Hung Hom (100% owned)

Site area 23,031 square feet	**Gross floor area** 207,257 square feet
Residential units 551	**Expected completion** First quarter of 2021

Located close to Ho Man Tin MTR station, "The Vantage" is a 29-storey residential-cum-commercial development. With an array of highly sought-after schools and amenities (such as Hoi Sham Park and Ko Shan Theatre) nearby, this development in the thriving district of Hung Hom is poised to meet the discerning tastes of urban dwellers. Superstructure works are in progress and upon completion, upper floor residences will enjoy fascinating views of the Victoria Harbour and lush greenery of Ho Man Tin.

The Vantage, Hung Hom, Hong Kong (artist's impression)

2 Tak Shing Street, Tsim Sha Tsui, Hong Kong (artist's impression)

2 Tak Shing Street, Tsim Sha Tsui

(100% owned)

Site area	Gross floor area
10,614 square feet	89,553 square feet
Residential units	**Expected completion**
172	First quarter of 2021

On a prime site close to Jordan MTR station, a premium residential-cum-commercial tower is now under construction. With the vibrant Tsim Sha Tsui shopping hub and Kowloon Park within walking distance, this development will offer unrivalled convenience to its residents.

1-19 Chung Ching Street, Sai Ying Pun

(100% owned)

Site area	Gross floor area
7,858 square feet	90,033 square feet
Residential units	**Expected completion**
264	First quarter of 2021

Located at "ARTLANE", a photogenic hotspot of unique mural arts created by street artists, this project will set a new standard for premium residential-cum-commercial development in Sai Ying Pun, providing stylish architecture and advanced clubhouse facilities upon completion. Work has proceeded to the superstructure stage.

1-19 Chung Ching Street, Sai Ying Pun, Hong Kong (artist's impression)

74 Waterloo Road, Ho Man Tin

(49% owned)

Site area 11,256 square feet	**Gross floor area** 94,973 square feet
Residential units 240	**Expected completion** First quarter of 2021

Adjacent to the upmarket residential neighbourhood of Ho Man Tin Hill and within easy reach of Yau Ma Tei MTR station, this residential-cum-commercial development offers residents both tranquility and modern lifestyle convenience.

62C Robinson Road, Mid-Levels

(100% owned)

Site area 3,855 square feet	**Gross floor area** 33,684 square feet
Residential units 90	**Expected completion** Third quarter of 2021

Situated at a prestigious Mid-Levels location, the site will be developed into a premier residential-cum-commercial property. Its foundation work is in progress.

62C Robinson Road, Mid-Levels, Hong Kong (artist's impression)

38 Fuk Chak Street, Tai Kok Tsui, Hong Kong (artist's impression)

38 Fuk Chak Street, Tai Kok Tsui

(100% owned)

Site area	Gross floor area
20,114 square feet	181,019 square feet
Residential units	**Expected completion**
488	Third quarter of 2021

Located next to the Group's "Eltanin • Square Mile" and "Cetus • Square Mile" in the proximity of Olympic MTR station, this commercial-cum-residential development is surrounded by a vibrant neighbourhood with various amenities and shopping arcades. Foundation works are in progress.

Location of Various Categories of Development Projects

Major Development Projects with Unsold Units Offered for Sale

1 Eden Manor
2 Double Cove – Phases 1-5
3 Reach Summit – Sereno Verde Phase 5
4 NOVUM EAST
5 Wellesley
6 NOVUM WEST
7 Cetus • Square Mile
8 Hill Paramount
9 Seven Victory Avenue
10 South Walk • Aura
11 Green Lodge
12 The Reach
13 H • Bonaire
14 PARKER33
15 Jones Hive
16 Global Gateway Tower
17 The Globe
18 E-Trade Plaza
19 Mega Cube

Projects Pending Sale in 2019

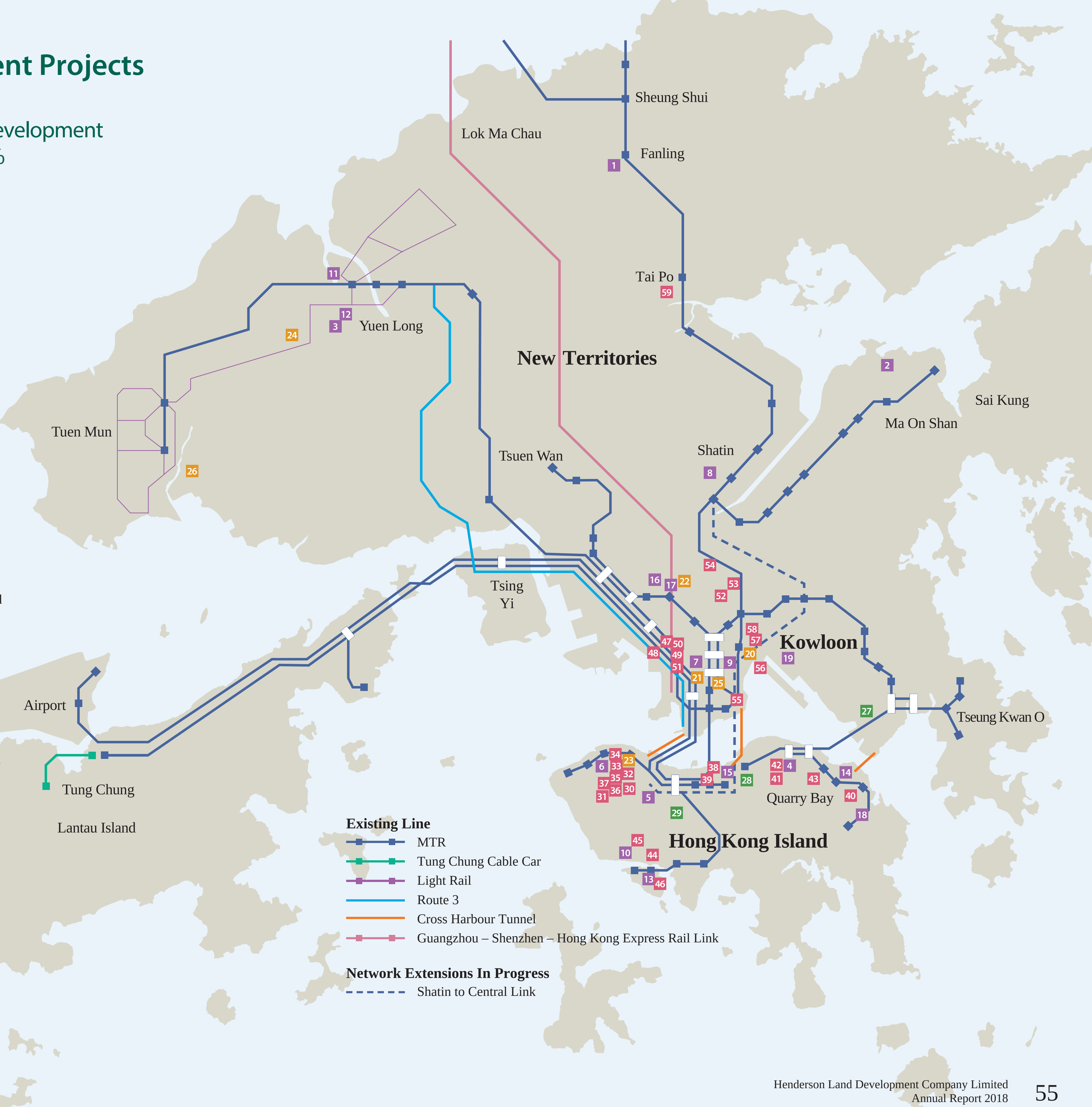
20 The Vantage
21 2 Tak Shing Street, Tsim Sha Tsui
22 342-356 Un Chau Street, Cheung Sha Wan
23 62C Robinson Road, Mid-Levels
24 Lot No. 1752 in DD No. 122 Tong Yan San Tsuen, Yuen Long
25 74 Waterloo Road, Ho Man Tin
26 Phase 1, Tuen Mun Town Lot No. 547 (Castle Peak Road, Castle Peak Bay, Area 48, Tuen Mun)

Existing Urban Redevelopment Projects

27 Yau Tong Bay
28 218 Electric Road, North Point
29 29A Lugard Road, The Peak

Newly-acquired Urban Redevelopment Projects – with 80% to 100% Ownership Secured

30 4A-4P Seymour Road, Mid-Levels
31 73-73E Caine Road, Mid-Levels
32 1-4 Ladder Street Terrace, Mid-Levels
33 94-100 Robinson Road, Mid-Levels
34 88 Robinson Road, Mid-Levels
35 105 Robinson Road, Mid-Levels
36 33-47 Elgin Street, Mid-Levels
37 1-19 Chung Ching Street, Sai Ying Pun
38 206-212 Johnston Road, Wanchai
39 13-21 Wood Road and 22-30 Wing Cheung Street, Wanchai
40 2 Tai Cheong Street, Sai Wan Ho
41 9-13 Sun Chun Street, Tai Hang
42 17-25 Sun Chun Street, Tai Hang
43 983-987A King's Road and 16-22 and 24-94 Pan Hoi Street, Quarry Bay
44 83-95 Shek Pai Wan Road and 2 Tin Wan Street, Aberdeen
45 4-6 Tin Wan Street, Aberdeen
46 65-71 Main Street, Ap Lei Chau
47 38 Fuk Chak Street, Tai Kok Tsui
48 25-29 Kok Cheung Street, Tai Kok Tsui
49 1 Ka Shin Street, 39-53 Tai Kok Tsui Road and 2 Pok Man Street, Tai Kok Tsui
50 173-199 Tai Kok Tsui Road, Tai Kok Tsui
51 16-30 Man On Street, Tai Kok Tsui
52 456-466 Sai Yeung Choi Street North and 50-56 Wong Chuk Street, Sham Shui Po
53 1-27 Berwick Street, 202-220 Nam Cheong Street and 1-14 Yiu Tung Street, Shek Kip Mei
54 11-19 Wing Lung Street, Cheung Sha Wan
55 Various projects spanning Gillies Avenue South, Baker Street, Whampoa Street and Bulkeley Street, Hung Hom
56 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
57 67-83 Fuk Lo Tsun Road, Kowloon City
58 4-22 Nam Kok Road, Kowloon City
59 3 Mei Sun Lane, Tai Po



Major Completed Investment Properties

				Attributable gross floor area (square feet)					
Name	Location	Lease expiry	Group's interest (%)	Residential/ Hotel Serviced Suite	Commercial	Office	Industrial/ Office	Total	Attributable no. of carpark
Hong Kong Island									
One International Finance Centre	1 Harbour View Street, Central	2047	40.77	–	53,465	319,833	–	**373,298**	71
Two International Finance Centre (excluding levels of 33 to 52, 55, 56 and 77 to 88)	8 Finance Street, Central	2047	40.77	–	207,474	451,857	–	**659,331**	189
Four Seasons Place	8 Finance Street, Central	2047	40.77	216,103	–	–	–	**216,103**	7
H Code	45 Pottinger Street, Central	2842	19.10	–	25,975	–	–	**25,975**	–
Eva Court	36 MacDonnell Road, Mid-Levels	2895	100.00	108,214	–	–	–	**108,214**	49
FWD Financial Centre	308-320 Des Voeux Road Central, Sheung Wan	2865	100.00	–	31,987	182,373	–	**214,360**	–
AIA Tower	183 Electric Road, North Point	2047	100.00	–	22,338	490,072	–	**512,410**	207
Mira Moon	388-390 Jaffe Road, Wanchai	2026	100.00	66,128	–	–	–	**66,128**	–
Kowloon									
Manulife Financial Centre	223-231 Wai Yip Street, Kwun Tong	2050	88.50	–	47,860	919,004	–	**966,864**	394
52 Hung To Road	52 Hung To Road, Kwun Tong	2047	100.00	–	–	–	125,114	**125,114**	–
78 Hung To Road	78 Hung To Road, Kwun Tong	2047	100.00	–	–	–	119,995	**119,995**	17
AIA Financial Centre	712 Prince Edward Road East, San Po Kong	2047	100.00	–	–	216,593	–	**216,593**	70
Well Tech Centre	9 Pat Tat Street, San Po Kong	2047	100.00	–	–	161,998	–	**161,998**	40
Winning Centre	29 Tai Yau Street, San Po Kong	2047	100.00	–	–	–	150,212	**150,212**	–
Hollywood Plaza	610 Nathan Road, Mong Kok	2047	33.33	–	33,511	64,422	–	**97,933**	–
Square Mile	11 Li Tak Street, Mong Kok	2870	100.00	–	41,939	–	–	**41,939**	–
Cité 33	33 Lai Chi Kok Road, Mong Kok	2026	100.00	–	13,620	–	–	**13,620**	–
Nathan Hill	38 Hillwood Road, Tsim Sha Tsui	2043	100.00	–	55,031	–	–	**55,031**	–
The Sparkle	500 Tung Chau Street, Cheung Sha Wan	2055	100.00	–	53,443	–	–	**53,443**	–
The Zutten	50 Ma Tau Kok Road	2050	100.00	–	17,078	–	–	**17,078**	–

Name	Location	Lease expiry	Group's interest (%)	Attributable gross floor area (square feet): Residential/ Hotel Serviced Suite	Commercial	Office	Industrial/ Office	Total	Attributable no. of carpark
New Territories									
KOLOUR • Tsuen Wan I	68 Chung On Street, Tsuen Wan	2047	74.96	–	138,555	156,981	–	**295,536**	100
KOLOUR • Tsuen Wan II	145-165 Castle Peak Road, Tsuen Wan	2047	100.00	–	155,022	–	–	**155,022**	85
Skyline Plaza	88 Tai Ho Road, Tsuen Wan	2047	100.00	–	154,259	–	–	**154,259**	104
Shatin Plaza	21-27 Shatin Centre Street, Sha Tin	2047	77.55	–	114,730	–	–	**114,730**	67
Shatin Centre	2-16 Wang Pok Street, Sha Tin	2047	100.00	–	100,029	–	–	**100,029**	408
MOSTown (formerly known as Sunshine City Plaza)	18 On Luk Street, Ma On Shan	2047	100.00	–	532,637	–	–	**532,637**	829
MOSTown (formerly known as Sunshine Bazaar)	628 Sai Sha Road, Ma On Shan	2047	100.00	–	79,642	–	–	**79,642**	224
MOSTown Street (formerly known as Blocks A & B, Sunshine City)	18 On Shing Street, Ma On Shan	2047	100.00	–	9,305	–	–	**9,305**	–
MOSTown Street (formerly known as Blocks C & D, Sunshine City)	22 On Shing Street, Ma On Shan	2047	100.00	–	10,236	–	–	**10,236**	–
MOSTown Street (formerly known as Blocks N, P, Q & R, Sunshine City)	8 On Shing Street, Ma On Shan	2047	100.00	–	58,881	–	–	**58,881**	186
Double Cove Place	8 Wu Kai Sha Road, Ma On Shan	2060	59.00	–	58,131	–	–	**58,131**	205
MCP Central	8 Yan King Road, Tseung Kwan O	2047	100.00	–	956,849	–	–	**956,849**	669
MCP Discovery	8 Mau Yip Road, Tseung Kwan O	2047	100.00	–	266,954	–	–	**266,954**	233
La Cité Noble Shopping Arcade	1 Ngan O Road, Tseung Kwan O	2047	100.00	–	35,186	–	–	**35,186**	–
KOLOUR • Yuen Long	1 Kau Yuk Road, Yuen Long	2047	100.00	–	140,341	–	–	**140,341**	51
Fanling Centre	33 San Wan Road, Fanling	2047	100.00	–	151,513	–	–	**151,513**	302
Flora Plaza	88 Pak Wo Road, Fanling	2047	60.00	–	94,657	–	–	**94,657**	130
Dawning Views Plaza	23 Yat Ming Road, Fanling	2047	100.00	–	87,766	–	–	**87,766**	–
Citygate	20 Tat Tung Road, Tung Chung, Lantau Island	2047	20.00	–	92,536	32,280	–	**124,816**	233
The Trend Plaza	Tuen Mun Heung Sze Wui Road	2047	100.00	–	195,280	–	–	**195,280**	78
The Sherwood	8 Fuk Hang Tsuen Road, Tuen Mun	2052	100.00	–	30,139	–	–	**30,139**	250
Marina Cove	Lot No. 526 in D.D. No. 210, Sai Kung	2047	40.00	–	9,566 *(Note)*	–	–	**9,566**	151
			Total:	**390,445**	**4,075,935**	**2,995,413**	**395,321**	**7,857,114**	**5,349**

Note: In addition there are 121 pontoons and 30 hardstand spaces attributable to the Group.

Major Completed Investment Properties

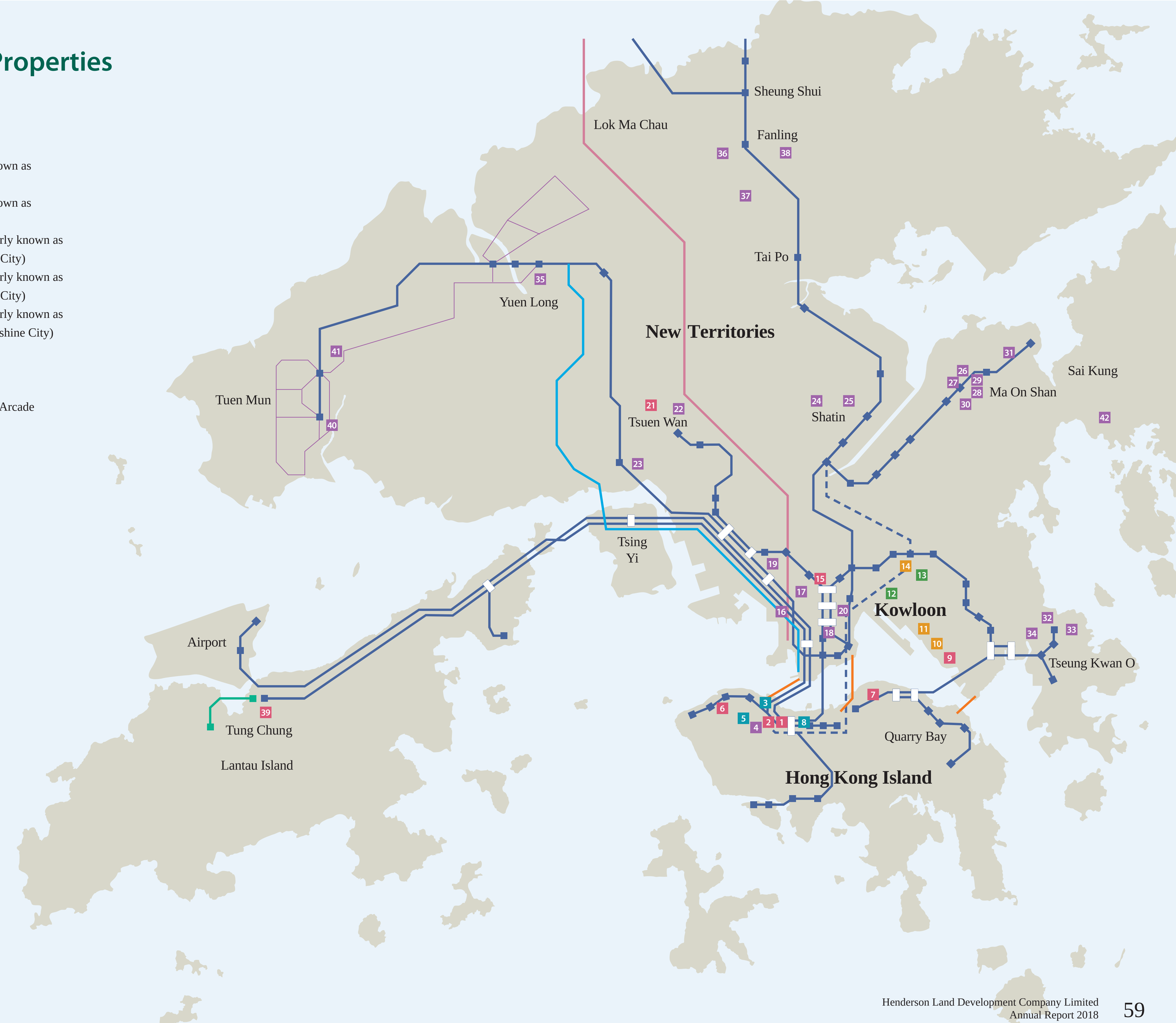
Major Completed Investment Properties

1 One International Finance Centre
2 Two International Finance Centre
3 Four Seasons Place
4 H Code
5 Eva Court
6 FWD Financial Centre
7 AIA Tower
8 Mira Moon
9 Manulife Financial Centre
10 52 Hung To Road
11 78 Hung To Road
12 AIA Financial Centre
13 Well Tech Centre
14 Winning Centre
15 Hollywood Plaza
16 Square Mile
17 Cité 33
18 Nathan Hill
19 The Sparkle
20 The Zutten
21 KOLOUR • Tsuen Wan I
22 KOLOUR • Tsuen Wan II
23 Skyline Plaza
24 Shatin Plaza
25 Shatin Centre
26 MOSTown (formerly known as Sunshine City Plaza)
27 MOSTown (formerly known as Sunshine Bazaar)
28 MOSTown Street (formerly known as Blocks A & B, Sunshine City)
29 MOSTown Street (formerly known as Blocks C & D, Sunshine City)
30 MOSTown Street (formerly known as Blocks N, P, Q & R, Sunshine City)
31 Double Cove Place
32 MCP Central
33 MCP Discovery
34 La Cité Noble Shopping Arcade
35 KOLOUR • Yuen Long
36 Fanling Centre
37 Flora Plaza
38 Dawning Views Plaza
39 Citygate
40 The Trend Plaza
41 The Sherwood
42 Marina Cove

Residential / Hotel Serviced Suites
Commercial
Office
Industrial / Office
Commercial & Office

Existing Line
MTR
Tung Chung Cable Car
Light Rail
Route 3
Cross Harbour Tunnel
Guangzhou – Shenzhen – Hong Kong Express Rail Link

Network Extensions In Progress
Shatin to Central Link



HENDERSON 688

SHANGHAI

Progress of Major Development Projects

Lakeside Mansion, Beijing (artist's impression)

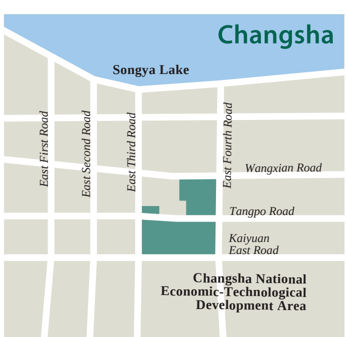
Beijing

Lakeside Mansion (24.5% owned)

Located in the central villa area of Houshayu town, Shunyi district, "Lakeside Mansion" is adjacent to the Luoma Lake wetland park and various educational and medical institutions. The site of about 700,000 square feet will be developed into low-rise country-yard townhouses and high-rise apartments, complemented by commercial and community facilities. Construction works have commenced and it is scheduled for completion in the third quarter of 2020, providing a total gross floor area of about 1,290,000 square feet for 979 households. The first batch was launched for sale in the third quarter of 2018.

Changsha

The Arch of Triumph (100% owned*)



The Arch of Triumph, Changsha

"The Arch of Triumph" is a community development with around 6,700,000 square feet of premium residential units to be built in three phases. Its 33-storey Arc de Triomphe-style building is a landmark development in this new town of Xingsha. Phases 1, 2A, 2B, 3A and 3B were completed and delivered to buyers already. A prestigious school in Changsha, namely Datong Xingsha Primary School, has also been built and become operational. The remaining phase will provide approximately 380,000 square feet of residential area, in addition to 40,000 square feet of commercial facilities upon completion in 2019.

*(*CIFI Holdings (Group) Co. Ltd. ("CIFI"), which participates in the development of Phases 3B and 3C, shares 30% of their costs and economic interests.)*

The Landscape, Changsha (artist's impression)

Changsha

The Landscape (50% owned)

Located in Kaifu District with convenient access, the 5,490,000-square-foot land lot will be built in five phases, offering luxury villas, high-rise apartments and commercial facilities with a total gross floor area of around 9,500,000 square feet for 6,280 households. Phase 1 with a total gross floor area of 1,080,000 square feet is under construction and is scheduled for completion at the end of 2019. The first batch of Phase 2 is also under construction and it will provide a total gross floor area of 1,040,000 square feet upon its scheduled completion in 2020. These two batches were launched for pre-sale at the end of 2018 with satisfactory market responses. A prestigious school, namely, Changsha Lushan Gaoling Experimental School, is also being built.

Chengdu ICC, Chengdu

Chengdu

Chengdu ICC (30% owned)

The 14-million-square-foot Chengdu ICC in a future business hub of Chengdu is an extensive integrated development above an interchange station of two subway lines. The project also provides convenient inter-city transport with its close proximity to the Chengdu East Rail Station, while the nearby Tazishan Park and Shahe River bring a refreshing and verdant touch to the project. Consisting of seven million square feet of premium residences, four million square feet of prime office space, 1.8 million square feet of quality retail space and a five-star hotel, the project is being developed into a complex equipped with resourceful education and entertainment facilities.

The 1,600,000-square-foot Phase 1, namely Sirius, was virtually sold out and handed over to buyers by 2016. The 700,000-square-foot Phase 2A, namely The Arch • Chengdu, was also virtually sold out, with buyers starting to take possession of their units beginning in May 2018. The quality of the residential units has been well received.

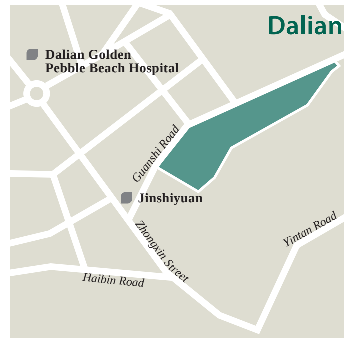
The two approximately 150-metre-tall residential towers of Phase 2B, namely The Arch Suites, will provide over 1,100 quality units totalling about one million square feet of gross floor area. Superstructure work for Phase 2B is progressing smoothly. Superstructure work for the 1.2-million-square-foot shopping mall in Phase 3 is progressing as planned. Scheduled to open by the end of 2020, the premium shopping mall will offer customers a unique and relaxing lifestyle experience.

Superstructure works for two high-rise office towers commenced at the end of 2018 and they will provide prime office space of approximately 2.3 million square feet upon their scheduled completion in 2021.

Henderson • Country Garden Jin Shi Tan Project, Dalian (artist's impression)

Dalian

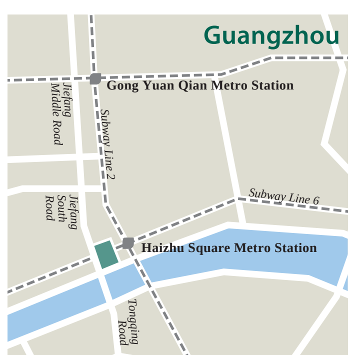
Henderson • Country Garden Jin Shi Tan Project (50% owned)



Located in the scenic area of Jin Shi Tan, in proximity to a light-rail station and Maple Leaf International School, a site of about 3,200,000 square feet will be developed in phases into a low-density luxury residential project. Complemented by a resident clubhouse and commercial facilities, it will provide an aggregate gross floor area of about 1,400,000 square feet for about 1,600 households. The final phase of the development, which comprises a total residential gross floor area of about 130,000 square feet, is scheduled for completion in 2019.

Guangzhou

Lumina Guangzhou (formerly known as "Haizhu Square Station Project") (100% owned)



Lumina Guangzhou, Guangzhou (artist's impression)

In the Yuexiu District, "Lumina Guangzhou" sits on the banks of Pearl River with direct connection to two subway lines and 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 at the end 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.

Central Manor, Guangzhou (artist's impression)

Guangzhou

Central Manor (18% owned)

Located in Shijing Town, Baiyun District, with Shijing River and the impending Shitan subway station in its proximity, a residential land lot of about 390,000 square feet will be developed in two phases into high-rise residences. Construction work for Phase 1 is in progress and it is scheduled for completion in mid-2020. Phase 2 is also under construction and is planned for completion at the end of 2020. They will provide an aggregate gross floor area of over 1,440,000 square feet.

Guangzhou

Zengcheng Project (10% owned)

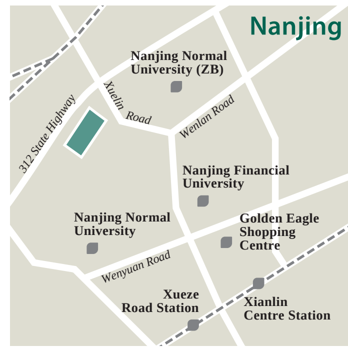
Zengcheng Project, Guangzhou (artist's impression)

Located in Sanlian village, Zengcheng District, in the proximity of Guangshan highway and Zhonggang station of the planned subway line 21, a land lot of 920,000 square feet will be developed into high-rise apartments, complemented by commercial and community facilities. The construction works will commence in early 2019 and provide a total gross floor area of around 2,750,000 square feet upon its scheduled completion in 2021.

Emerald Valley, Nanjing

Nanjing

Emerald Valley (100% owned)



Located in Xianlin New District, this land lot of approximately 1,600,000 square feet will be developed in three phases into a high-end residential project, complemented by a nursery, amenities and a community centre and other facilities, providing an aggregate gross floor area of about 1,100,000 square feet. With the relocation of universities and colleges to this district and the opening of Xianlin Centre subway station, this university town's community facilities and transportation network are being further enhanced. Phases 1 and 2 were completed already. The first block of Phase 3 development, comprising mainly the commercial and community facilities with an aggregate gross floor area of about 50,000 square feet, was also completed at the end of 2018. The remaining residential portion of phase 3 is under development.

Shanghai

Lumina Shanghai (formerly known as Xu Hui Riverside Commercial Project) (100% owned)

Lumina Shanghai, Shanghai (artist's impression)

Located in the bustling Xuhui Riverside District, "Lumina Shanghai" commands breathtaking views of Huangpu River. The entire project will be completed in two phases. Phase 1, which consists of a 280-metre-tall Grade-A office tower and a commercial podium with seamless connection to Longyao Road station of subway line No. 11, will provide about 1,800,000 square feet of office space and about 210,000 square feet of retail space upon its scheduled completion in 2020. Phase 2, which consists of 4 office towers, 5 commercial towers and a multi-functional event venue, will provide about 870,000 square feet of office space and about 100,000 square feet of retail space upon its scheduled completion in 2021.

Middle Huaihai Road Project, Shanghai (artist's impression)

Shanghai

Middle Huaihai Road Project (50% owned)

Its prime location close to both Madang Road and Xintiandi subway stations, together with its green features and intelligent facilities, make this office development a new benchmark in the Middle Huaihai Road business hub. Basement work is underway. The project, which comprises office and retail space with an aggregate gross floor area of about 280,000 square feet, is slated for completion in the fourth quarter of 2020.

Shanghai

Lin Gang Nanhui New Town Project (Lot NNW-C4A-02) (32% owned)

Lin Gang Nanhui New Town Project (Lot NNW-C4A-02), Shanghai (artist's impression)

This project is situated at Lin Gang New Town, Pudong. With a total gross floor area of about 793,000 square feet, the project will contain 819 units in a blend of houses and high-rise apartments. It is planned for a single-phased completion in the fourth quarter of 2020. The first batch will be launched for pre-sale in the first quarter of 2019.

Lin Gang Nanhui New Town Project (Lots NNW-C4D-08 and NNW-C4D-09), Shanghai (artist's impression)

Shanghai

Lin Gang Nanhui New Town Project (Lots NNW-C4D-08 and NNW-C4D-09)

(25% owned)

In Lin Gang New Town, Pudong, two adjoining land lots will be jointly developed into a low-density residential development, providing a total gross floor area of about 830,000 square feet against the total site areas of about 690,000 square feet. Offering nearly 900 apartment units, the project is complemented by ample greenery and a wide range of amenities. It is scheduled for a single-phased completion in the fourth quarter of 2020. The first batch will be launched for pre-sale in the first quarter of 2019.

Shenzhen

Nanshan Project (50% owned)

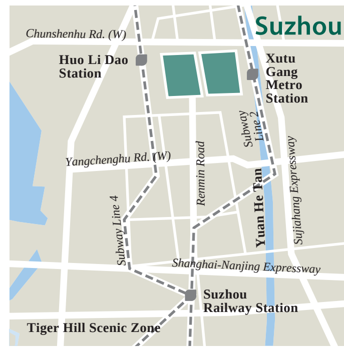
Nanshan Project, Shenzhen (artist's impression)

Located in Nanyou section of Nanshan District, with the impending subway stations of Lixiang and Nanyou in its proximity, a 70,000-square-foot land lot will be developed into an integrated complex with industrial R&D office space, dormitory, and commercial facilities. Construction works will commence in 2020 and it is scheduled for completion in 2023, providing a total gross floor area of around 420,000 square feet.

Riverside Park, Suzhou

Suzhou

Riverside Park (100% owned*)



Riverside Park, a community development project in Xiangcheng District, is supported by increasingly improved facilities. Benefitting from Suzhou's picturesque beauty and reputation as the "Venice of the East", the development nestles among scenic water themed surroundings. The entire project will comprise over 6,360,000 square feet of gross floor area to be completed in six phases. Phases 1 to 5, with a total gross floor area of about 5,150,000 square feet for 4,191 residences, have been completed already, whilst the remaining 1,090,000 square feet for 892 luxury residences under Phase 6 was also completed and delivered at the end of 2018. Adjacent to the residential community of Riverside Park, there is an integrated commercial project. Phase 1, which boasts a total gross floor area of about 990,000 square feet, was completed and delivered in 2017. Phase 2 with a total gross floor area of about 1,100,000 square feet is under planning and construction is estimated to commence in 2019.

*(*CIFI, which participates in the development of Phase 5 (Block Nos. 24 and 30), Phase 6 and the commercial project, shares 30% of their costs and economic interests.)*

Suzhou

Luzhi Project (50% owned)

Luzhi Project, Suzhou (artist's impression)

Located in Luzhi, Wuzhong District, this low-density residential development spans a site area of about 310,000 square feet, offering 340 apartment units with a total gross floor area of about 460,000 square feet. This project also boasts a sizeable central landscaped garden so as to provide a healthy and comfortable living environment. Superstructure work is in progress and it is scheduled for completion in the second quarter of 2019.

Xukou Project, Suzhou (artist's impression)

Suzhou

Xukou Project (50% owned)

Located in Wuzhong District of Western Suzhou, the 520,000-square-foot land lot in Xukou is being developed into 1,149 residential units with a total gross floor area of over 1,300,000 square feet. The transportation convenience will be further enhanced by its strategic location, which is right above a station linking the currently under-construction subway line No. 5. Superstructure work is underway and it is slated for completion in the third quarter of 2019.

Suzhou

Xuguan Project (35.037% owned)

Xuguan Project, Suzhou (artist's impression)

Located in Xushuguan Development Zone of Gaoxin District, an 870,000-square-foot land lot will be built as a community development with a total gross floor area of over 1,820,000 square feet for above 1,400 households, complemented by supporting facilities. The entire project will be completed in two phases. The construction works for Phase 1 with a total gross floor area of around 800,000 square feet have commenced with scheduled completion in the first quarter of 2020. The first batch of residential units was launched for pre-sale in the fourth quarter of 2018.

La Botanica, Xian (artist's impression)

Xian

La Botanica (50% owned)

Jointly developed by the Group and CapitaLand Limited, La Botanica is located within the scenic Chan Ba Ecological District with a subway line connecting it to the city centre. This community development will have a total gross floor area of about 32,850,000 square feet, providing homes for over 28,000 households upon full completion. Phases 1A, 1B, 2A, 3A, 2R6, 4R1, 2R2, 2R4 and 2R5 (first section), with a total gross floor area of 15,950,000 square feet, were completed and delivered to buyers. Phases 3R2 and 2R5 (second/third sections), which comprise about 2,160,000 and 1,900,000 square feet of gross floor areas respectively, are planned to be completed and delivered to buyers in the second quarter of 2019 and the third quarter of 2020 respectively. Phases 3R4 and 2R3, which were newly commenced in 2018, with total gross floor areas of 1,470,000 and 840,000 square feet respectively, are expected to be put up for sale in the second and third quarter of 2019 successively. The land use certificate for Plot 1 is expected to be obtained in the first quarter of 2019, and the development of this plot is planned to commence in the second quarter of the same year. By the end of 2018, 18,083 residential flats had been sold for the whole project. At site 4M1, the first phase development of an integrated shopping mall was completed in the fourth quarter of 2018 and is planned to open for business in mid-2019.

Palatial Crest, Xian

Xian

Palatial Crest (100% owned)

Adjacent to the Hujia Temple subway station, Palatial Crest is conveniently located at Jinhua North Road on the main artery of Second Ring Road East. The entire project has been completed in three phases, offering a total residential gross floor area of over 3,470,000 square feet for 2,744 households. Phases 1-3A, comprising an aggregate residential area of about 3,250,000 square feet, were completed. Phase 3B, comprising approximately 220,000 square feet of residential apartments, was also completed recently. They will be handed over to buyers in April 2019.

Xuzhou

Grand Paradise (100% owned)

Grand Paradise, Xuzhou

Catering to mid to high-end home buyers, Grand Paradise benefits from the beautiful natural landscape of Dalong Lake, convenient transportation and a comprehensive range of facilities. Premium residences with a total gross floor area of about 4,500,000 square feet were handed over to buyers. The project also boasts a commercial area of about 610,000 square feet, of which 225,000 square feet is slated for completion in 2019.

Grand Lakeview, Yixing

Yixing

Grand Lakeview (100% owned*)

Set amongst lush, tranquil surroundings in Dongjiu District, Grand Lakeview is just a five-minute drive away from the city centre. To be completed in six phases, this lakefront development offers luxury living in a mix of semi-detached and duplex houses, multi-storey and low-rise apartments, providing an aggregate gross floor area of about 9,000,000 square feet for over 6,800 households. Phases 1A/1B/1C/1D at Site F, as well as Phases 1A/1B/1C at Site B1, have both been completed providing a residential/commercial area of about 3,550,000 square feet in aggregate. Phases 2 and 3 at Site F, as well as Phases 2 and 3 at Site B1, will in aggregate provide a residential/commercial area of about 5,200,000 square feet for over 4,000 households. Construction has commenced on all of these phases except Phase 2B at Site F. Phase 2A at Site F is scheduled for completion in the second quarter of 2019. Phase 2 at Site B1 is slated for completion in the fourth quarter of 2019. Phase 3 at Site B1 is planned for completion in the fourth quarter of 2020. Phase 3 at Site F is scheduled for completion in the second quarter of 2021.

*(*CIFI, which participates in its development of Phases 2A, 2B and 3 at Site F and Phases 2 and 3 at Site B1, shares 50% of their costs and economic interests.)*

Major Completed Investment Properties

Name	Location	Lease expiry	Group's interest (%)	Attributable gross floor area (square feet) Commercial	Office	Total	Attributable no. of carpark
Beijing							
World Financial Centre	No. 1 East Third Ring Middle Road, Chaoyang District	2044	100.00	212,644	1,999,947	**2,212,591**	1,163
Shanghai							
Henderson Metropolitan	No. 300 Nanjing Road East, Huangpu District	2053	100.00	406,618	427,980	**834,598**	272
Henderson 688	No. 688 Nanjing Road West, Jingan District	2044	100.00	49,807	660,829	**710,636**	404
2 Grand Gateway	No. 3 Hong Qiao Road, Xuhui District	2043	100.00	–	687,981	**687,981**	–
Centro	No. 568 Heng Feng Road, Jingan District	2042	100.00	65,467	368,658	**434,125**	186
Greentech Tower	No. 436 Heng Feng Road, Jingan District	2042	100.00	52,922	355,882	**408,804**	163
Skycity	No. 547 Tian Mu Road West, Jingan District	2042	100.00	293,448	142,353	**435,801**	272
Guangzhou							
Heng Bao Plaza	No. 133 Bao Hua Road, Liwan District	2040	100.00	653,557	–	**653,557**	326
			Total:	**1,734,463**	**4,643,630**	**6,378,093**	**2,786**

Business Model and Strategic Direction

Business Model

Henderson Land has established a diversified business model which comprises "three pillars" namely, property investment, strategic investments and property development in both Hong Kong and mainland China. The property investment business and strategic investments provide a reliable and growing income source to the Group, while the property development business is a dynamic profit driver.

The Group's property development business in Hong Kong is vertically integrated, enabling the design, development, construction, sales and management of development projects to be executed in an efficient manner. In addition to actively participating in public tenders, the Group also applies a cost effective approach of land banking by acquiring old buildings for redevelopment in the urban areas and converting the land-use of New Territories land in order to obtain development land sites at a reasonable cost. For mainland China projects, the Group continues to co-operate with mainland property developers in jointly developing large-scale residential sites in the first-tier cities as well as the second-tier cities with high growth potential, which are characterised by a preponderance of middle class residents, whilst also expanding its premier portfolio of commercial investment properties in the first-tier cities.

In Hong Kong, the Group's substantial and diverse property investment portfolio mainly comprises offices and shopping arcades in core areas, as well as a number of large-scale shopping malls located in strategic locations above or adjacent to MTR stations. In mainland China, the Group owns exceptionally well designed and quality large-scale commercial complexes situated in prime locations for rental purposes.

As regards strategic investments, the Group is the largest shareholder of three listed companies, namely, The Hong Kong and China Gas Company Limited ("HKCG"), Miramar Hotel and Investment Company, Limited ("Miramar") and Hong Kong Ferry (Holdings) Company Limited ("HKF"). HKCG is engaged in the production and distribution of gas in Hong Kong and mainland China. Miramar is engaged in property investment, hotel operation and food and beverage operations. HKF is engaged in property development and investment. HKCG, being a public utility company, provides a very substantial income to the Group.

Strategic Direction

The Group is dedicated to maximising value for shareholders over the long term by executing the following strategies:

Building for a sustainable future with low land costs

The Group actively participates in public tenders. In addition, the Group also replenishes its land bank by acquiring old tenement buildings for redevelopment and applying for land-use conversion for its portfolio of New Territories land. Such dual approach to land banking has proven to be a reliable source of land supply with a reasonable acquisition cost, which is beneficial to the Group's development returns in the long term.

As a sustainable property developer, the Group is highly proactive in its commitment to environmental stewardship during the process of its development activities, and carefully anticipates the needs and concerns of society.

Locating prime sites for property investment with a stable income stream

The Group's property investment portfolio is well diversified with commercial properties situated in prime locations, generating a recurring and steady income stream. Furthermore, the department store business operated by the Group's listed subsidiary – Henderson Investment Limited, mainly at the Group's properties, serve to maximise the value and occupancy rate of the Group's investment properties.

Expanding the mainland China market

Property development and property investment in mainland China provide the Group with potential for territorial expansion. The Group will continue to look for development projects in the first-tier cities, as well as those second-tier cities with high growth potential, so as to expand its land bank. Co-operation with local property developers will be enhanced so as to push forward the property development business. In addition, in the central locations of major cities, the Group will actively seek to acquire prime sites for commercial/office developments for long-term investment holding. While the demand for quality office spaces on the mainland is acute, retail malls specifically are facing severe competition from online shopping. The Group will concentrate on the development of Grade-A office buildings. Retail malls will comprise a smaller percentage of the overall rental portfolio.

Holding of strategic investment for constant return

The investments in the three listed associates, HKCG, Miramar and HKF, provide stable and constant returns for the Group. The distinctive business nature of HKCG, in particular, is a supplement to the Group's core businesses of property development and property investment and allows Henderson Land to smooth out the cyclicality of the Group's property development business.

Conservative financial strategy

The Group employs a conservative funding and treasury strategy. It consistently keeps a low to moderate financial gearing ratio with abundant unutilised committed banking facilities in place that are of medium term in tenor. The Group maintains an excellent ongoing relationship with the major commercial banks while endeavouring to diversify its funding sources through debt issuance in different financial markets.

Financial Review

Management discussion and analysis

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** **HK$ million**	2017 *(restated)* HK$ million	*Increase/(Decrease)* *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 in Hong Kong 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 mainly 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 contribution 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 "Bohemian House" 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 attributable 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. 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 HK$ million	2017 HK$ million
Profit from operations (including bank interest income and the cumulative fair value change (before 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$"), Pound 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) and certain Notes denominated in Hong Kong dollars in the aggregate principal amount of HK$5,599 million at 31 December 2018 (2017: HK$1,200 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 Note and bank loans denominated in Japanese Yen in the aggregate principal amount of ¥32,000 million and certain bank loans denominated in Australian dollars in the aggregate principal amount of AUD173 million at 31 December 2018 (2017: the Note denominated in Japanese Yen 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 a subsidiary of 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 charged to profit or loss 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).

Five Year Financial Summary

		Year ended 31 December				
		2014	2015	2016	2017	2018
		(restated)			(restated)	
	Note	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million
Profit for the year	*1&3*	16,752	21,326	21,916	30,809	**31,157**
Underlying Profit for the year	*1,2&3*	9,818^	11,009	14,169	19,516	**19,765**
		HK$	HK$	HK$	HK$	HK$
Earnings per share	*1,3&5*	3.84	4.85	4.98	7.00	**7.08**
Underlying earnings per share	*1,2,3&5*	2.25^	2.50	3.22	4.43	**4.49**
Dividends per share	*1*	1.10	1.45	1.55	1.71	**1.80**

		At 31 December				
		2014	2015	2016	2017	2018
				(restated)	(restated)	
	Note	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million
Investment properties	*3*	117,836	128,597	131,860	173,494	**176,717**
Other property, plant and equipment		1,869	1,692	1,419	350	**370**
Interest in associates	*3*	50,146	51,953	53,933	59,491	**62,059**
Interest in joint ventures		32,365	35,619	38,728	44,865	**53,011**
Inventories	*3*	80,101	81,556	78,476	74,219	**97,177**
Net debt	*4*	37,420	40,317	33,434	55,631	**70,123**
Net asset value	*1&3*	238,150	251,247	262,607	292,574	**313,153**
Net debt to net asset value		15.7%	16.0%	12.7%	19.0%	**22.4%**
		HK$	HK$	HK$	HK$	HK$
Net asset value per share	*1,3&5*	54.22	57.09	59.67	66.48	**71.15**

^ *Restated as a result of change in the presentation basis of Underlying Profit and Underlying earnings per share as referred to in note 2 below.*

Notes:

1 *The profits, earnings, dividends and net asset values shown or referred to above were all attributable to equity shareholders of the Company.*

2 *Definitions of "Underlying Profit" and "Underlying earnings per share" are referred to in note 13(b) to the Company's audited consolidated financial statements for the year ended 31 December 2018 as contained in the Company's annual report for the year ended 31 December 2018.*

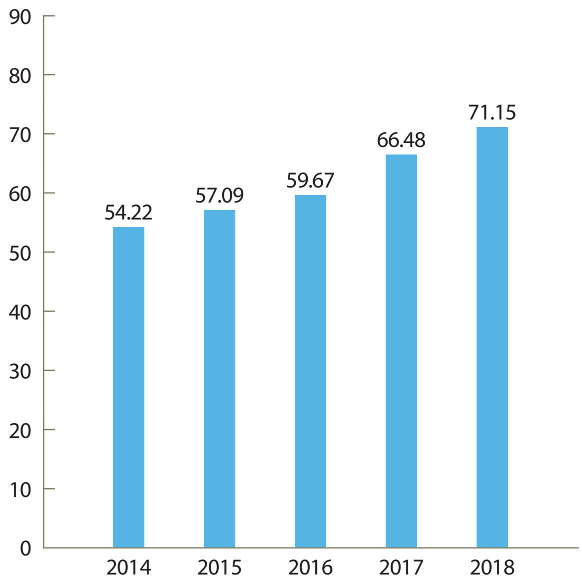
3 *For the year ended 31 December 2018, the Group has adopted Hong Kong Financial Reporting Standard 15 "Revenue from contracts with customers", which requires the Group's revenue from the sale of properties held for sale and the gain on disposal of investment properties during the accounting period to be recognised in the Group's consolidated statement of profit or loss on the basis that control over ownership of the property has been passed to the customer during the accounting period. This change in accounting policy has been applied retrospectively by restating the balances at 1 January 2017 and 1 January 2018, with consequential adjustments to comparatives for the year ended 31 December 2017.*

4 *Net debt represents the total of bank loans, guaranteed notes and the amount due to a fellow subsidiary minus cash and bank balances.*

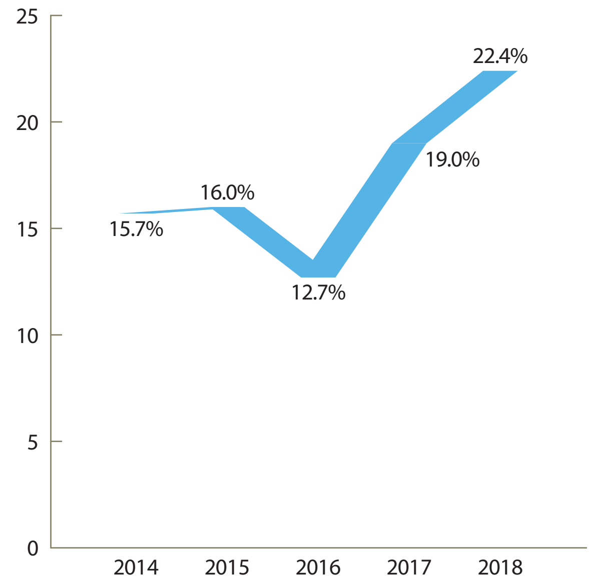
5 *The earnings per share and underlying earnings per share were calculated based on the weighted average number of shares as adjusted for the effect of the bonus issues under Hong Kong Accounting Standard 33 "Earnings per share".*

The net asset values per share were calculated based on the number of issued shares outstanding at the end of the respective reporting periods and adjusted for the effect of the bonus issues.

Net asset value per share (HK$)

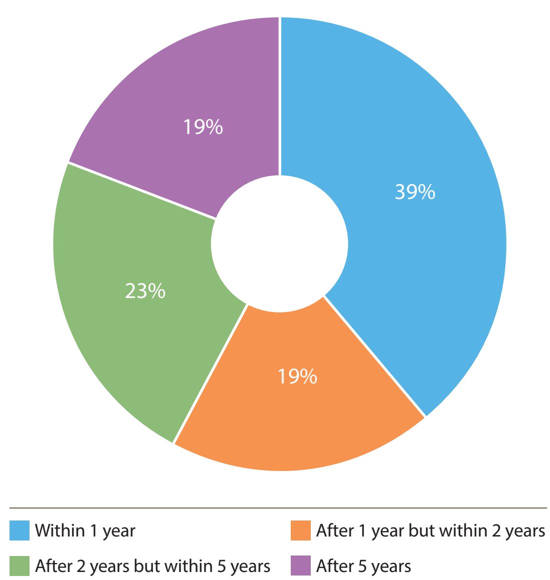


Net debt to net asset value (%)



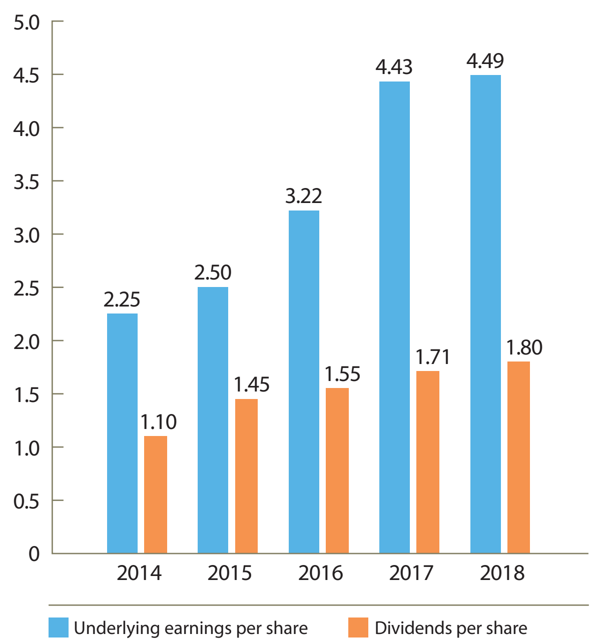
Maturity profile of the Group's bank and other borrowings repayable[note 1]

at 31 December 2018



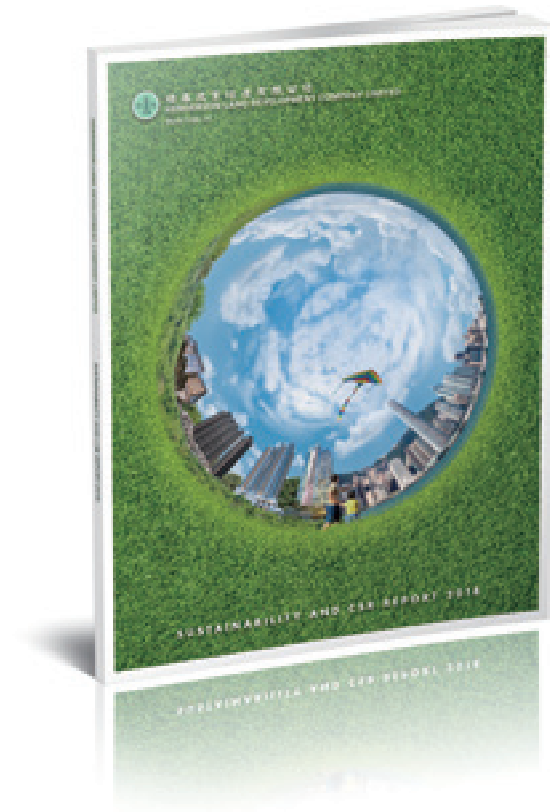
Note 1: Excluding the amount due to a fellow subsidiary.

Underlying earnings / dividends per share (HK$)



Sustainability and CSR

This section of the Report provides a summary of the Group's strategy and achievements with regard to sustainability. Henderson Land's fifth standalone Sustainability and CSR Report was published in April 2019 in accordance with Global Reporting Initiative ("GRI") Standards: Core option, together with GRI's sector guidance on the Construction and Real Estate Sector, and the Environmental, Social and Governance Reporting Guide ("ESG Guide") set out in Appendix 27 of the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited ("HKEX"). As in previous years, the Report explains the Group's evolving approach to sustainability and annual ESG performance.



During the year, Henderson Land's world-class, intelligent buildings again received international recognition. H Zentre, the Group's new state-of-the-art project in Tsim Sha Tsui, was declared Best International Commercial High-rise Development in the International Property Awards 2018-2019, one of the highest levels of achievement among all nominees drawn from across the global real estate sector. Designed specifically as a wellness and health hub, it integrates sustainable design, cutting-edge technology and innovation. Also, 18 King Wah Road project, the award-winning project of the Group's professional project management team, was bestowed with the Grand Award in the biennial Quality Building Award from a coalition of nine professional organisations in Hong Kong.

The Group is proud of its leadership role in promoting environmentally and user-considerate building design. To date, it has achieved 11 LEED, 19 BEAM, 27 BEAM Plus, 5 China Green Building Design Label and 3 WELL project accreditations. The Group is aiming for more of its projects to demonstrate excellence in sustainable building design.

Henderson Land aligns its commercial objectives with the sustainable growth, social prosperity and well-being of the communities in which it operates. In 2018, the Group mapped its material sustainability topics to the United Nations' Sustainable Development Goals ("SDGs") and is executing a wide range of projects and actions that align with the SDGs. The Group's Corporate Social Responsibility Committee also updated its CSR and Environmental Policies, as well as reaffirming its Sustainability Strategy. The strategy addresses the economic, social and environmental aspects that are most material to Henderson Land's business and its stakeholders.

The Group is committed to reducing environmental impact within its property portfolio as much as possible. Sustainability is carefully considered at all project development stages. This year, encouraging progress was made towards the Group's target set in 2017 of reducing energy consumption by 10% in the common areas of 14 of its commercial properties by 2025, as compared with the baseline year 2015.

Henderson Land adopts a technology-driven approach to improve operational efficiency, optimise the use of materials and reduce waste generally. This includes the use of Building Information Modelling (BIM) in construction; semi-prefabricated slab manufacturing technology; reusable aluminium formwork; and significantly reduced paper usage thanks to mobile technology for the property handover process. The Group signed various charters and pledges during the year such as Energy Saving Charter, 4Ts Charter and Environmental Protection Department's Green Event Pledge to demonstrate its commitment to environmental stewardship and encourage its stakeholders to take the same approach.

Henderson Land forges close partnerships with its stakeholders in the community. In 2018, more than 100 community programmes received the Group's support and participation. Notably these included the "Henderson Land Commendation Scheme for Elite Athletes", which supported and incentivised Hong Kong's athletes at the 2018 Asian Games and Asian Para Games, enabled by a HK$15 Million donation from the Group's Chairman, Dr Lee Shau Kee, through his charitable Lee Shau Kee Foundation.

The Group also provided an 8,000-square-feet demolished site in Sham Shui Po, which was planned for redevelopment, to Hong Kong's first "Modular Social Housing Scheme". The Group was able to do so by deliberately adjusting the redevelopment schedule of the project so that it can provide transitional housing for around 90 needy families for a period of two years. Additionally, the Group has provided over 190 temporary vacant units to various community housing schemes since 2017. In total, Henderson Land's contribution to these schemes is expected to benefit roughly 340 eligible families.

With its goal to be an employer of choice, Henderson Land is committed to providing its employees with competitive employment packages, training and education to support their career development, and a safe, healthy, non-discriminatory and fair working environment. During 2018, the Group's employees undertook approximately 160,000 hours of training to further expand their competence and knowledge. The Group complies with all local statutory requirements on employment and labour practices and with the code of practice issued by the Equal Opportunities Commission, introduced to legislate against discrimination and harassment in the workplace.

Occupational Health and Safety (OHS) is of utmost importance to the Group and its OHS approach covers its offices, construction sites and managed properties. In each of these operational units, a dedicated task group or department is in place to monitor potential health and safety risks, and to implement improvement plans where appropriate. Relevant training and courses are conducted on a timely basis for its employees and site workers, with a particular focus on its construction sites, to manage the risk of accidents. Overall, the Group reported an accident rate of 9.8 per 1,000 workers in 2018, compared to the projected industry average accident rate of 31.4 per 1,000 workers in 2018 by Hong Kong Housing Authority.

The Group follows policies and procedures to select suppliers and contractors who share its social, environmental and labour practice standards. Henderson Land strives to be a professional and trustworthy partner to its business associates so as to reach mutual corporate goals. The Group engages with its customers regularly through various channels to understand their needs and their views on its performance. During the year, an online survey was conducted with the Group's customers to collect their feedback and expectation on Henderson Land's sustainability performance. Their views and opinions were reflected in the Group's Sustainability and CSR Report 2018.

For further details on Henderson Land's sustainability and CSR performance and its relationship with customers, suppliers, employees, and other key stakeholders, please refer to the Sustainability and CSR Report 2018 on the Company's website www.hld.com.

Corporate Governance Report

The Board of Directors of the Company (the “Board”) is pleased to present the Corporate Governance Report of the Company for the year ended 31 December 2018.

1 Commitment to Corporate Governance

The Company acknowledges the importance of good corporate governance practices and procedures and regards a pre-eminent board of directors, sound internal controls and accountability to all shareholders as the core elements of its corporate governance principles. The Company endeavours to ensure that its businesses are conducted in accordance with rules and regulations, and applicable codes and standards.

2 Corporate Governance Code

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 Company 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.

3 Board of Directors

(a) Responsibilities of and Support for Directors

The Board has the responsibility for management of the Company, which includes formulating business strategies, and directing and supervising the Company’s affairs, approving interim reports and annual reports, announcements and press releases of interim and final results, considering dividend policy, approving the issue, allotment or disposal, or grant of options, in respect of securities or debentures of the Company and reviewing the effectiveness of the risk management and internal control systems which include reviewing the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company’s accounting and financial reporting function. The Board makes broad policy decisions and has delegated the responsibility for detailed considerations and implementation of the above matters to the standing committee of the Board (the “Standing Committee”).

The day-to-day management, administration and operation of the Company are delegated to the management team. The Board gives clear directions to the management as to their powers of management, and circumstances in which the management should report back.

Every Director ensures that he/she gives sufficient time and attention to the affairs of the Company. Each Director shall disclose to the Company at the time of his/her appointment the directorships held in listed companies or nature of offices held in public organisations and other significant commitment, with the identity of such listed companies or public organisations. The Company has also requested Directors to provide in a timely manner any change on such information. Each Director is also required to disclose to the Company his/her time commitment. The details of the Directors’ time commitment are disclosed under the sub-paragraph “Directors’ Time Commitment and Trainings” below.

All Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. The Directors will be notified of code provision amendment updates in respect of the CG Code so as to be kept abreast of latest code provision requirements and be assisted in fulfilling their responsibilities. The Directors are also provided with monthly updates which contain periodic financials with summaries of key events, outlook and business related matters of the Group. The monthly updates present a balanced and understandable assessment of the Company's performance and position. The Non-executive Directors and Independent Non-executive Directors may take independent professional advice at the Company's expense in carrying out their functions, after making a request to the Board.

(b) Corporate Governance Functions

The Corporate Governance Committee set up in 2012 has undertaken the corporate governance functions as required under the CG Code. Details of the Corporate Governance Committee are shown in paragraph 4(d) headed "Corporate Governance Committee" below.

(c) Board Composition

The Board currently comprises eighteen members, as detailed below:

Executive Directors	Non-executive Directors	Independent Non-executive Directors
Dr Lee Shau Kee *(Chairman and Managing Director)*	Lee Pui Ling, Angelina	Kwong Che Keung, Gordon
Dr Lee Ka Kit *(Vice Chairman)*	Lee Tat Man	Professor Ko Ping Keung
Dr Lam Ko Yin, Colin *(Vice Chairman)*		Wu King Cheong
Lee Ka Shing *(Vice Chairman)*		Woo Ka Biu, Jackson
Yip Ying Chee, John		Professor Poon Chung Kwong
Suen Kwok Lam		Au Siu Kee, Alexander *(appointed on 13 December 2018)*
Fung Lee Woon King		
Lau Yum Chuen, Eddie		
Kwok Ping Ho		
Wong Ho Ming, Augustine		

The biographical details of the Directors are set out on pages 129 to 133 of this Annual Report. Dr Lee Shau Kee is the father of Dr Lee Ka Kit and Mr Lee Ka Shing, the brother of Mr Lee Tat Man and Madam Fung Lee Woon King. Save as aforesaid, none of the members of the Board is related to one another. A List of Directors and their Role and Function is available on the Company's website.

The Board comprises male and female Directors with diverse backgrounds and/or extensive expertise in the Group's businesses. The Board also has a balanced composition of Executive and Non-executive Directors so that there is a strong independent element on the Board, which can effectively exercise independent judgement.

The term of office of all Non-executive Directors (including Independent Non-executive Directors) has been fixed for a specific term of not more than three years. All Directors are subject to retirement by rotation and re-election at the Company's Annual General Meeting ("AGM") in accordance with the Articles of Association of the Company ("Articles").

During the year ended 31 December 2018, the Board at all times met the requirements under Rule 3.10 of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors and with at least one Independent Non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company had met the requirement for Independent Non-executive Directors being at least one-third of the Board members under Rule 3.10A of the Listing Rules during the year under review, except for a short period from the passing of Mr Leung Hay Man on 11 October 2018 to the appointment of Mr Au Siu Kee, Alexander on 13 December 2018.

The Company has received confirmation in writing of independence from each of the Independent Non-executive Directors and considers them to be independent of the management and free of any relationship that could materially interfere with the exercise of their independent judgement. The Board considers that each of the Non-executive Directors and Independent Non-executive Directors brings his/her own relevant expertise to the Board.

(d) Appointment and Re-election of Directors

The Board is empowered under the Articles to appoint any person, as a Director, either to fill a casual vacancy on or to be an additional member of the Board. Only the most suitable candidates who are experienced and competent and able to fulfill the fiduciary duties and exercise reasonable care, skill and diligence would be recommended to the Board for selection. Appointments are first considered by the Nomination Committee in accordance with its terms of reference with due regard to the Company's Nomination Policy and Board Diversity Policy, and recommendations of the Nomination Committee are then put to the Board for decision.

In accordance with the Articles, new appointments to the Board are subject to re-election at the next following AGM. Furthermore, nearest one-third of the Directors, including those appointed for a specific term, shall retire from office by rotation but are eligible for re-election at the AGM and the Board will ensure that every Director is subject to retirement by rotation at least once every three years. Each Director was appointed by a letter of appointment setting out the key terms and conditions of his/her appointment.

The appointment of Independent Non-executive Directors adheres to the guidelines for assessing independence as set out in Rule 3.13 of the Listing Rules. The following Independent Non-executive Director has existing directorships falling within the independence guideline in Rule 3.13(7) of the Listing Rules, among the factors affecting independence:

(i) Mr Au Siu Kee, Alexander ("Mr Au") is currently the chairman and a non-executive director of Henderson Sunlight Asset Management Limited ("HSAM"), a subsidiary of the Company and the manager of the publicly-listed Sunlight Real Estate Investment Trust ("Sunlight REIT"). Sunlight REIT is regarded as a core connected person of the Company for the purpose of the Listing Rules. As Mr Au plays a non-executive role in HSAM, and Sunlight REIT is not a subsidiary of the Company, the Company considers that such non-executive role in HSAM has no bearing on Mr Au's independence.

(ii) Mr Au is currently also an independent non-executive director of Henderson Investment Limited, a subsidiary of the Company, and a non-executive director of Hong Kong Ferry (Holdings) Company Limited and Miramar Hotel and Investment Company, Limited, both of which are associated companies of the Company. As an independent non-executive director/a non-executive director, Mr Au does not/did not take part in the day-to-day management of and has no/had no executive role in such companies. The Company considers that Mr Au's role in such companies has no impact on his independence as an Independent Non-executive Director of the Company.

(e) Board Meetings

(i) Number of Meetings and Directors' Attendance

The Board meets from time to time and at least four times a year to discuss and exchange ideas on the affairs of the Company. During the year ended 31 December 2018, the Board held four meetings to approve interim/final results announcements and interim/annual reports, to determine the level of dividends, to discuss significant issues and the general operation of the Company and to approve matters and transactions specifically reserved to the Board for its decision. The attendance of the Directors is set out in the table on page 105.

During the year, the Non-executive Directors (including Independent Non-executive Directors) held a meeting among themselves. In addition, the Chairman held a meeting with the Non-executive Directors (including Independent Non-executive Directors) without the Executive Directors being present in accordance with the CG Code.

(ii) Practices and Conduct of Meetings

Notices of regular Board meetings are given to all Directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given. Meeting agenda and accompanying Board papers are sent to all Directors in a timely manner and at least three days before the Board/committee meetings.

The Company Secretary of the Company is responsible to take and keep minutes of all Board and committee meetings. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final signed version is open for Directors' inspection with copies sent to all Directors for their records.

(f) Conflict of Interest

If a Director has a material interest in a matter to be considered by the Board, a physical meeting will be held to discuss the matter instead of seeking Directors' written consent by way of circulation of written resolution. In accordance with the Articles, such Director who is considered to be materially interested in the matter shall abstain from voting and not be counted in the quorum.

(g) Director's and Officer's Liability Insurance

The Company has arranged director's and officer's liability insurance to indemnify the Directors and senior management against any potential liability arising from the Company's business activities which such Directors and senior management may be held liable.

The Company also keeps Directors indemnified against any claims to the fullest extent permitted by the applicable laws and regulations arising out of the Directors' proper discharge of duties except for those attributable to any gross negligence or wilful misconduct.

(h) Directors' Time Commitment and Trainings

The Company has received confirmation from each Director that he/she had given sufficient time and attention to the affairs of the Company for the year. Directors have disclosed to the Company the number and nature of offices held in Hong Kong or overseas listed public companies or organisations and other significant commitments, with the identity of the public companies and organisations and an indication of the time involved. Directors are encouraged to participate in professional, public and community organisations. They are also reminded to notify the Company of any change of such information in a timely manner. Other details of Directors, including their directorships held in listed public companies in the past three years, are set out in the biographical details of Directors on pages 129 to 133 of this Annual Report.

During the year, arrangements were made for speakers delivering talks and presentations to Directors of the Company on topics relating to business development and technology as well as significant rule amendments which are relevant to the Group's businesses. Legal and regulatory updates are provided from time to time to the Directors for their reading. Directors are also encouraged to attend outside talks and seminars to enrich their knowledge in discharging their duties as a director. On a regular basis, information on seminars organised by professional bodies are provided to the Directors, and the seminar enrolments are handled by the company secretarial department.

According to the training records provided by the Directors to the Company, they participated in continuous professional development in 2018 which comprised attending seminars and talks, and reading legal and regulatory updates and other reference materials. The seminars and talks involved topics on rule amendments, information technology, regional economic development, business strategy, etc. During the year, the trainings undertaken by the Directors are summarised as follows:

	Attending Seminars, Talks and Briefings	**Reading Legal and Regulatory Updates and other Reference Materials**
Executive Directors		
Lee Shau Kee *(Chairman and Managing Director)*	✓	✓
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	✓	✓
Wong Ho Ming, Augustine	✓	✓
Non-executive Directors		
Lee Pui Ling, Angelina	✓	✓
Lee Tat Man	✓	✓
Independent Non-executive Directors		
Kwong Che Keung, Gordon	✓	✓
Ko Ping Keung	✓	✓
Wu King Cheong	✓	✓
Woo Ka Biu, Jackson	✓	✓
Poon Chung Kwong	✓	✓
Au Siu Kee, Alexander	✓	✓

4 Board Committees

The Board has five Board Committees, namely, the Standing Committee, the Audit Committee, the Remuneration Committee, the Nomination Committee, and the Corporate Governance Committee for overseeing particular aspects of the Company's affairs. The Standing Committee of the Board operates as a general management committee with delegated authority from the Board.

The Board Committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

(a) Audit Committee

The Audit Committee was established in December 1998 and reports to the Board. The members of the Audit Committee are:

Independent Non-executive Directors

Kwong Che Keung, Gordon *(Chairman)*

Professor Ko Ping Keung

Wu King Cheong

Au Siu Kee, Alexander *(appointed on 13 December 2018)*

Both the Chairman and Mr Au Siu Kee, Alexander have the appropriate professional qualifications as required under the Listing Rules. None of the members of the Audit Committee was a former partner of the Company's existing external auditor within two years immediately prior to the dates of their respective appointments. All members have appropriate skills and experience in reviewing financial statements as well as addressing significant control and financial issues of public companies. The Board expects the Committee members to exercise independent judgement in conducting the business of the Committee.

The written terms of reference include the authority and duties of the Audit Committee and amongst its principal duties are the review and supervision of the Company's financial reporting process and risk management and internal control systems. The terms of reference of the Audit Committee are available on the Company's website.

The Audit Committee held four meetings during the year ended 31 December 2018. The major work performed by the Audit Committee in respect of the year ended 31 December 2018 included reviewing and recommending the re-appointment of external auditor, approving the terms of engagement (including the remuneration) of the external auditor and the audit plan, reviewing the unaudited interim report and interim results announcement for the six months ended 30 June 2018, reviewing the audited financial statements and final results announcement for the year ended 31 December 2017, reviewing the work of the Group's audit department and assessing the effectiveness of the Group's systems of risk management and internal control. The Audit Committee also discussed with the management to ensure that the Company is having adequate resources, qualified and experienced staff of the accounting and financial reporting function, training programmes and budget.

(b) Remuneration Committee

The Remuneration Committee which was established in January 2005 comprises:

Executive Directors	Independent Non-executive Directors
Dr Lee Shau Kee	Wu King Cheong *(Chairman)*
Dr Lam Ko Yin, Colin	Kwong Che Keung, Gordon
	Professor Ko Ping Keung

Each member is sufficiently experienced and is appropriately skilled in the issues of determining executive compensations in public companies. The Board expects the committee members to exercise independent judgement in conducting the business of the committee.

The written terms of reference include the specific duties of determining, with delegated responsibility, the remuneration package of the individual Executive Director and senior management and making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management. The terms of reference of the Remuneration Committee are available on the Company's website.

During the year ended 31 December 2018, the Remuneration Committee held a meeting to review the salary structure of the employees of the Company and the level of salary increments for 2019 as well as the remuneration of senior management staff and the Directors with reference to the remuneration level of directors of comparable listed companies.

Particulars of the Directors' emoluments disclosed pursuant to the Companies Ordinance (Cap. 622) and Appendix 16 of the Listing Rules are set out in note 8 to the financial statements on pages 195 to 197 while the analysis of the senior management's emoluments by band is set out in note 9 to the financial statements on page 198. The Director's fees are fixed at the rate of HK$150,000 per annum for each Executive Director/ Non-executive Director and HK$250,000 per annum for each Independent Non-executive Director. In the event that an Independent Non-executive Director serves on Board committees, he will be paid an additional fee of HK$250,000 per annum for acting as a member of the Audit Committee, and HK$100,000 per annum for acting as a member of each of the Nomination Committee, the Remuneration Committee and the Corporate Governance Committee. The above remuneration remains unchanged until the Company in general meetings otherwise determines. Other emoluments shall from time to time be determined by the Board with reference to the Directors' duties and responsibilities and subject to a review by the Remuneration Committee.

(c) Nomination Committee

The Nomination Committee which was established in December 2011 comprises:

Executive Directors	Independent Non-executive Directors
Dr Lee Shau Kee *(Chairman, in his absence, Professor Ko Ping Keung, acting as Chairman)*	Kwong Che Keung, Gordon
Dr Lam Ko Yin, Colin	Professor Ko Ping Keung
	Wu King Cheong

Each member is sufficiently experienced and is appropriately skilled in the issues of nomination of directors to the Board. The Company has provided the Nomination Committee with sufficient resources to perform its duties. The Nomination Committee may seek independent professional advice, at the Company's expense, to perform its responsibilities.

The written terms of reference include the specific duties of reviewing the structure, size and composition of the Board with due regard to the Board Diversity Policy and making recommendation on any proposed changes to the Board to complement the Company's corporate policy. Nominations will be made in accordance with the Nomination Policy and the ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The terms of reference of the Nomination Committee are available on the Company's website.

During the year ended 31 December 2018, the Nomination Committee held two meetings to assess the independence of Independent Non-executive Directors of the Company, make recommendation to the Board on the retiring Directors' eligibility for re-election at the AGM and approve the nomination of Mr Au Siu Kee, Alexander ("Mr Au") to the Board for appointment as an Independent Non-executive Director of the Company to fill the vacancy arising from Mr Leung Hay Man's death. It also reviewed the Nomination Policy, the size and composition of the Board and the Board Diversity Policy, and then endorsed the Nomination Policy and considered that the Board Diversity Policy was appropriate and effective.

In arriving the decision to nominate Mr Au to the Board for appointment as an Independent Non-executive Director, the Nomination Committee has (i) considered the structure, size and skill mix of the Board; (ii) taken measures to identify potential candidates, especially those senior executives who possess the experience and competence commensurate with the position of a director of a property developer; and (iii) considered the independence criteria of an independent non-executive director under Rule 3.13 of the Listing Rules and the independence confirmation provided by Mr Au. The relevant evaluation was based on merit and against objective criteria, with due regard to the diversity perspectives set out in the Board Diversity Policy.

The Nomination Committee has to follow the principles set out in the Nomination Policy and the Board Diversity Policy adopted by the Board which are more particularly described in the paragraph "Board Policies" below.

(d) Corporate Governance Committee

The Corporate Governance Committee which was established in October 2012 comprises:

Independent Non-executive Directors

Kwong Che Keung, Gordon *(Chairman)*

Professor Poon Chung Kwong

Au Siu Kee, Alexander *(appointed on 13 December 2018)*

Each member is sufficiently experienced and is appropriately skilled in the issues of corporate governance. The Company has provided the Corporate Governance Committee with sufficient resources to perform its duties.

The written terms of reference include the duties of developing and reviewing the Company's policies and practices on corporate governance and monitor such policies and practices on compliance with legal and regulatory requirements. The terms of reference of the Corporate Governance Committee are available on the Company's website.

During the year, the Corporate Governance Committee held a meeting to review the latest amendments to the CG Code and the relevant impacts on the Company's policies and practices on corporate governance, formulate the work plan for the 2018 Corporate Governance Report and review the training and continuous professional development of the Directors and senior management.

(e) Attendance Record at Board Meeting, Committees' Meeting and AGM

The attendance of the individual Director at the meetings of the Board, the Audit Committee, the Remuneration Committee, the Nomination Committee, the Corporate Governance Committee and the AGM during the year ended 31 December 2018 is set out in the following table:

	No. of meetings attended/No. of meetings held					
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Corporate Governance Committee	AGM
Executive Directors						
Lee Shau Kee *(Chairman and Managing Director)*	4/4	N/A	1/1	2/2	N/A	1/1
Lee Ka Kit	4/4	N/A	N/A	N/A	N/A	1/1
Lam Ko Yin, Colin	4/4	N/A	1/1	2/2	N/A	1/1
Lee Ka Shing	4/4	N/A	N/A	N/A	N/A	1/1
Yip Ying Chee, John	4/4	N/A	N/A	N/A	N/A	1/1
Suen Kwok Lam	4/4	N/A	N/A	N/A	N/A	1/1
Fung Lee Woon King	4/4	N/A	N/A	N/A	N/A	1/1
Lau Yum Chuen, Eddie	3/4	N/A	N/A	N/A	N/A	1/1
Kwok Ping Ho	4/4	N/A	N/A	N/A	N/A	1/1
Wong Ho Ming, Augustine	4/4	N/A	N/A	N/A	N/A	1/1
Non-executive Directors						
Lee Pui Ling, Angelina	3/4	N/A	N/A	N/A	N/A	1/1
Lee Tat Man	2/4	N/A	N/A	N/A	N/A	0/1
Independent Non-executive Directors						
Kwong Che Keung, Gordon	4/4	4/4	1/1	2/2	1/1	1/1
Ko Ping Keung	4/4	4/4	1/1	2/2	N/A	1/1
Wu King Cheong	4/4	4/4	1/1	2/2	N/A	1/1
Woo Ka Biu, Jackson	4/4	N/A	N/A	N/A	N/A	1/1
Leung Hay Man	0/3[1]	0/3[1]	N/A	N/A	N/A	0/1
Poon Chung Kwong	4/4	N/A	N/A	N/A	1/1	1/1
Au Siu Kee, Alexander	1/1[2]	1/1[2]	N/A	N/A	1/1	N/A

Remarks: 1. Antecedent to Mr Leung Hay Man's passing on 11 October 2018, there were three Board meetings and three Audit Committee meetings held.

2. Subsequent to the appointment of Mr Au Siu Kee, Alexander as an Independent Non-executive Director of the Company and a member of the Audit Committee on 13 December 2018, there were one Board meeting and one Audit Committee meeting held.

5 Directors' Responsibility for the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2018, which give a true and fair view of the state of affairs of the Company and of the Group at that date and of the Group's results and cash flows for the year then ended and are properly prepared on the going concern basis in accordance with the statutory requirements and applicable accounting standards.

The statement of the Auditor of the Company about their reporting responsibilities on the financial statements of the Company is set out in the Independent Auditor's Report on pages 138 to 142.

6 Auditor's Remuneration

For the year ended 31 December 2018, the Auditor(s) of the Company and its subsidiaries agreed to receive approximately HK$20 million for audit and audit related services (2017: HK$18 million) as well as approximately HK$16 million for non-audit services (2017: HK$11 million). The non-audit services rendered were tax services, corporate and advisory services and other reporting services, which are to be reviewed by the Audit Committee twice a year.

7 Model Code

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in the 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.

8 Continuing Connected Transactions

The Independent Non-executive Directors and the Auditor of the Company conducted reviews on the continuing connected transactions as disclosed in the Report of the Directors of this Annual Report (the "Continuing Connected Transactions"). The Audit Department of the Company has reviewed the Continuing Connected Transactions together with the relevant internal controls and confirmed to the Independent Non-executive Directors of the Company that the Continuing Connected Transactions were conducted in accordance with the pricing mechanism under the relevant agreements.

9 Board Policies

The following are the summaries of the major policies adopted by the Board:

(i) Inside Information Policy

The Board approved and adopted the Inside Information Policy in December 2012 which contains the guidelines to the directors, officers and all relevant employees (likely possessing the unpublished inside information) of the Group to ensure that the inside information of the Group is to be disseminated to public in equal and timely manner in accordance with the applicable laws and regulations.

(ii) Board Diversity Policy

The Board approved and adopted the Board Diversity Policy in June 2013 which provides that selection of candidates during nomination process will be based on a range of diversity perspectives. These perspectives include but not be limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

(iii) Nomination Policy

The Board approved and adopted the Nomination Policy in December 2018 which sets out the principles guiding the Nomination Committee to identify and evaluate a candidate for nomination to the Board for appointment or to the shareholders of the Company for election as a Director of the Company. The policy contains a number of factors to which the Nomination Committee has to adhere when considering nominations. These factors include the candidate's skills and experience, diversity perspectives set out in the Board Diversity Policy, the candidate's time commitment and integrity, and the independence criteria under Rule 3.13 of the Listing Rules if the candidate is proposed to be appointed as an Independent Non-executive Director. The policy also lays down the following nomination procedures: the Nomination Committee (a) will take appropriate measures to identify and evaluate a candidate; (b) may consider a candidate recommended or offered for nomination by a shareholder of the Company; and (c) will, on making the recommendation, submit the candidate's personal profile to the Board for consideration.

(iv) Dividend Policy

The Board approved and adopted the Dividend Policy in December 2018 which sets out the guidelines for the Board to determine whether to pay a dividend and the level of such dividend to be paid. In general, it is the policy of the Company to allow its shareholders to participate in the Company's profits whilst retaining adequate reserves for future growth. Normally, the Company pays dividends twice a year, which are the interim dividend and final dividend. The Board may also declare special dividends in addition to such dividends as it considers appropriate. The policy also contains a number of factors for which the Board has to consider in determining the frequency, amount and form of any dividend in any financial year/period. The Board may also consider the issuance of bonus shares on a basis as permitted by the applicable laws and regulations.

The full text of the above Board policies are available on the Company's website.

10 Corporate Social Responsibility

The Company is a founding constituent member of the Hang Seng Corporate Sustainability Index Series launched in July 2010.

A Corporate Social Responsibility Committee, chaired by a Vice Chairman with certain Directors and department heads as members, was formed in 2012 to assist the Board in reviewing the policy on corporate social responsibility and overseeing relevant issues including workplace quality, environmental protection, operating practices and community involvement.

During the year, the Corporate Social Responsibility Committee held a meeting to review the corporate social responsibility policy and environmental policy to incorporate the latest and updated sustainability practices as well as formulate a new sustainability strategy to set out the sustainability direction and strategy of the Group. A standalone Sustainability and CSR Report is to be published on the same date of this Annual Report and posted on the Company's website.

The above policies and strategy and the terms of reference of the Corporate Social Responsibility Committee have been adopted by the Board and posted on the Company's website.

11 Internal Audit, Risk Management and Internal Controls

Internal Audit

The Board is responsible for ensuring sound and effective risk management and internal control systems to safeguard the shareholders' interests and the Company's assets.

The Audit Department of the Company, which reports directly to the Audit Committee and is independent of the Company's daily operations, is responsible for conducting regular audits on the major activities of the Company. Its objective is to ensure that all material controls, including financial, operational and compliance controls and risk management functions are in place and functioning effectively. It is also considered that the resources, staff qualifications and experience and training programmes are adequate.

An email link has been set up in the webpage of the intranet of the Company for employees to express their opinions or concerns about the Group's operations directly to the Vice Chairman. In addition, the Company has provided a separate email link on its website, by which stakeholders can freely provide comments and suggestions on the operations of the Company so that proper actions can be taken to address issues being raised.

Risk Management and Internal Controls

The successful management of risks is essential for the long-term growth and sustainability of the Group's business. The Board is responsible for setting strategies, business objectives and risk appetite as well as ensuring a review of effectiveness of the risk management and internal control systems, and overseeing management in the design, implementation and monitoring of the risk management and internal control systems. Management staff of various departments of the Group have provided confirmations to the Board on the effectiveness of such systems.

Risk management is proactive to ensure that significant risks are:

- identified;
- assessed by considering the impacts and likelihoods of their occurrence; and
- effectively managed by identifying suitable controls and countermeasures, and assessing the cost effectiveness of the mitigating actions proposed.

(i) Approach to Risk Management

The risk management of the Group combines a top-down strategic view with a bottom-up operational process.

The Board, by the top-down approach, has a particular focus on determining the nature and extent of significant risks it is willing to take in achieving the strategic objectives of the Group.

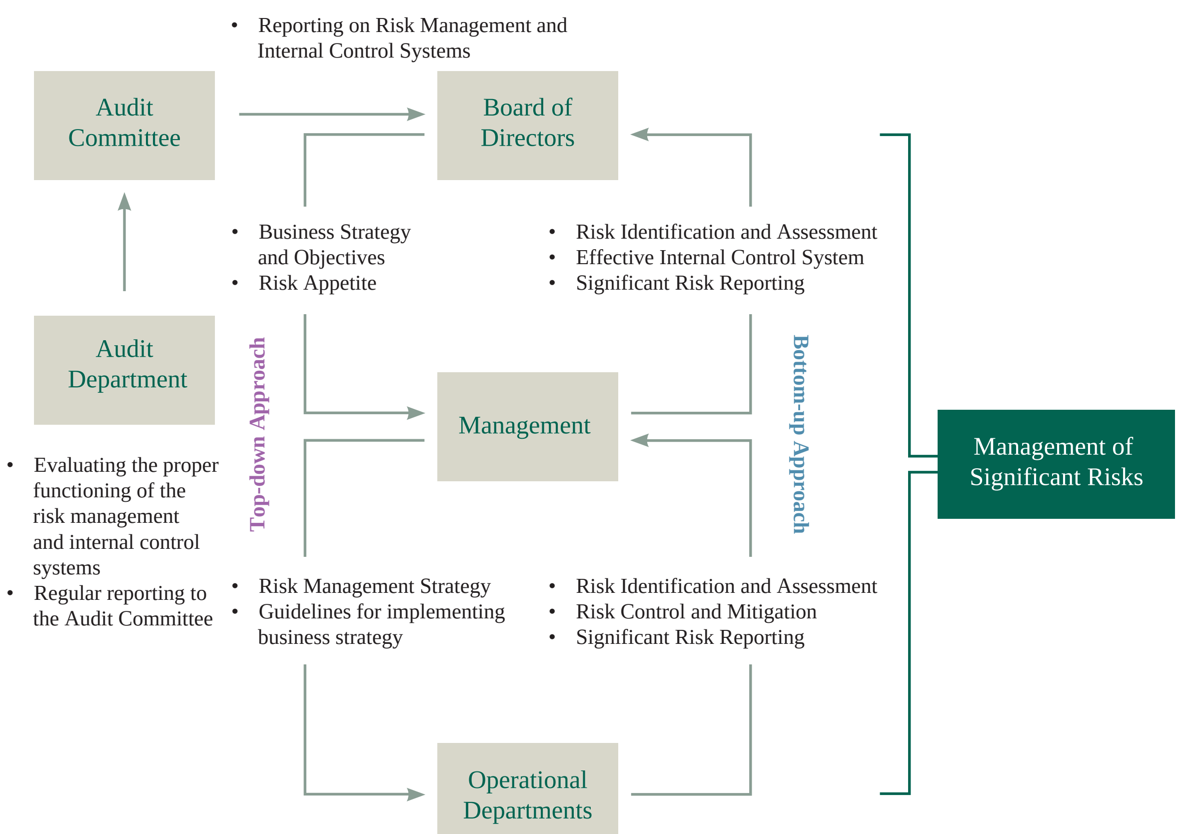
Each department of the Group is responsible for identifying its own risks and designing, implementing and monitoring the relevant risk management and internal control systems. The process involves the maintenance of risk register setting out the particulars of material risks together with the control measures as reported by significant departments of the Group. This bottom-up approach is embedded in the operations of the Group and complements the top-down strategic view by identifying the principal risks and ensuring the significant risks to be considered by the Board in determining the risk appetite.

The terms of reference of the Audit Committee include, among other things, the responsibility of reviewing the risk management and control systems. In addition, a risk management policy has been adopted to serve as a guideline for risk management and internal control systems and such policy is available on the Company's website.

(ii) Risk Management Reporting and Framework

The Audit Department performed audits to evaluate the proper functioning of the risk management and internal control systems for the financial year ended 31 December 2018. It is intended to carry out this evaluation process on an ongoing basis. The Audit Committee, after reviewing and considering the risk management findings submitted by the Audit Department, reported and confirmed to the Board that the risk management and internal control systems are effective and adequate.

The diagram below summarises the complementary top-down and bottom-up aspects of the integrated approach of the Group to risk management.



(iii) Significant Risks and Control/Mitigation

Certain significant risks have been identified through the process of risk identification and assessment. A summary on such significant risks of the Group together with the relevant internal control measures or mitigation in place is listed below:

(a) Regulatory and Compliance Risk

As a listed and a diversified property development and investment, construction and real estate developer company, the Group is exposed to and subject to extensive government policies and regulations of mainland China and Hong Kong. These include the Companies Ordinance, financial and tax legislations, Residential Properties (First-hand Sales) Ordinance, new property control measures by the central and/or local government authorities in the mainland China and construction legislations and regulations, as well as the Listing Rules in Hong Kong.

Any non-compliance with these policies and regulations may cause damage to the Group, delay its project development and affect its ability to deliver its primary objectives.

The Group is committed to complying with the relevant policies, regulations and guidelines applicable to its operations through developing internal guidelines, frequent staff trainings, sufficient time for review process, compliance handling by experienced and professional staff as well as by consultancy with external experts.

(b) Economic Risk

The Group is dependent on the regional economic conditions in which the Group is active. Global economic uncertainty, prospect of interest rates fluctuation, slowdown of mainland China's economic growth and possible sluggish economy of Hong Kong would adversely affect the Group's profitability.

The Group reviews and optimises its asset portfolio to ensure that it is sufficiently cost effective and efficient. The risk of adverse economic conditions is managed by ensuring proper monitoring of the business performance, and constant assessment of economic conditions and the appropriateness of the prevailing investment and business strategy.

(c) Market Risk

The Group operates in areas that are highly competitive, and failure to compete effectively in terms of price, product quality and specification or levels of service can have an adverse impact on the Group's results. The market demand and supply condition is also one of the significant factors impacting the Group's performance.

The Group manages market risks by keeping track of the property market conditions, strengthening its brand names and product quality, and setting sales strategies commensurate with the market demand.

(d) Financial Risk

An effective and sound financial management system is essential to the Group's operations. The Group may be exposed and impacted by factors such as shortage of fund flow, increase in costs of funding and currency fluctuation.

The Group's finance team is embedded within the Group to provide financial management support by monitoring the financial market conditions and setting an appropriate financial strategy. The Group maintains an open and proactive relationship with the banking community, arranges different terms of loan facilities from different sources with different tenures and ensures continuous assessment of counterparty risks.

(e) *Image/Reputation Risk*

The Group's reputation is one of its most valuable assets, playing a major part in the continued success of the business. The image of the Group may be affected by possible oppositions or protests during the property development process, delayed handover of residential units and quality issues.

The Group is committed to employing, training, developing and retaining a diverse and talented workforce to cope with potential complaints and ensuring proper quality delivery. The Group frequently organises brand name promotion events and maintains good public relations.

(f) *Sales, Leasing, Construction and Property Development Risk*

The Group continues to develop its well-planned property development and construction projects. Various measures have been well established to ensure that the development projects are built with high quality standards, on time and within budget.

Whilst the Group ensures that strong management controls are in place and monitoring systems are enforced, it has occasionally encountered increases in development and selling costs, delays in property development, contractors' incapability and contract disputes. Minimal risk has been encountered by Leasing operations.

(g) *Cyber Security Risk*

The Group continues to monitor and improve risk management in cyber security and information technology development. The Group manages the risks by employing experienced information technology personnel and/or engaging the services of external cyber security consultants to improve the system controls.

12 Company Secretary

The Company Secretary is to support the Board by ensuring that there is good information flow and the board policy and procedures are strictly followed. The Company Secretary is responsible for advising the Board on governance matters and also facilitating the induction and professional development of Directors.

During the year, the Company Secretary took no less than 15 hours of the relevant professional training.

13 Shareholder Rights and Investor Relations

The Board is committed to maintaining an ongoing dialogue with shareholders and providing timely disclosure of information concerning the Group's material developments to shareholders and investors.

The AGM of the Company provides a forum for communication between shareholders and the Board. The notice of the AGM is despatched to all shareholders at least 20 clear business days prior to such AGM. The Chairmen of all Board Committees are invited to attend the AGM. The Chairman of the Board and the Chairmen of all the Board Committees, or in their absence, other members of the respective Committees, are available to answer questions at the AGM. The Auditor is also invited to attend the AGM to answer questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor's independence. The Company's policy is to involve shareholders in the Company's affairs and to communicate with them about the activities and prospects face-to-face at the AGM.

Pursuant to the Listing Rules, any vote of shareholders at a general meeting will be taken by poll. Detailed procedures for conducting a poll will be explained to the shareholders at the general meeting to ensure that shareholders are familiar with such voting procedures. The poll results will be posted on the websites of The Stock Exchange of Hong Kong Limited and the Company on the day of the general meeting. Moreover, separate resolution will be proposed by the chairman of a general meeting in respect of each substantially separate issue.

Under Section 566 of the Companies Ordinance, shareholders representing at least 5% of the total voting rights of all the shareholders having a right to vote at general meetings are entitled to send a request to the Company to convene a general meeting. Such requisition must state the general nature of the business to be dealt with at the meeting and may include the text of a resolution that may properly be moved and is intended to be moved at the meeting. The request may be sent to the Company in hard copy form or in electronic form and must be authenticated by the shareholder(s) making it and deposited at the registered office of the Company or sent to the Company's email address at ir@hld.com. Besides, in relation to an annual general meeting which a company is required to hold, Sections 615 and 616 of the Companies Ordinance provide that shareholders representing at least 2.5% of the total voting rights of all shareholders of the company having a right to vote on the resolution at the annual general meeting or at least 50 shareholders having a right to vote on the resolution at the annual general meeting, may request the company to circulate a notice of the resolution for consideration at the annual general meeting, by sending a request, which must be authenticated by the shareholder(s) making it, in a hard copy form or in electronic form. Such request must be deposited at the registered office of the Company or sent to the Company's email address at ir@hld.com. The request made under Section 615 must also identify the resolution of which notice is to be given and be received by the Company not later than six weeks before the AGM to which the request relates, or if later, the time at which notice is given of the AGM.

The Company has maintained a Shareholders' Communication Policy which is available on the Company's website. Shareholders may make enquiries to the Board by contacting the Company either through the Company Investor Relations on telephone number (852) 2908 8392 or email at ir@hld.com or directly by raising questions at general meetings.

The Company continues to enhance communications and relationships with its investors. Designated senior management maintains regular communication and dialogue with shareholders, investors and analysts. A meeting with analysts will be held after the announcement of interim or annual results which strengthens the communication with investors. Enquiries from investors are dealt with in an informative and timely manner.

As a channel to further promote effective communication, the Group maintains a website at www.hld.com where the Company's announcements and press releases, business developments and operations, financial information, corporate governance report and other information are posted.

Report of the Directors

The Directors have pleasure in submitting to shareholders their annual report together with the audited financial statements for the year ended 31 December 2018.

Principal Activities

The Company is an investment holding company and the principal activities of its subsidiaries during the year were property development and investment, construction, hotel operation, finance, department store operation, project management, investment holding and property management.

An analysis of the Group's revenue and contribution from operations by business and geographical segments is set out in note 14 to the financial statements on pages 208 to 214.

Business Review

A review of the business of the Group during the year and a discussion on the Group's future business development are provided in the Chairman's Statement and Review of Operations on pages 10 to 75 of this Annual Report. Possible risks and uncertainties that the Group may be facing are set out in the Financial Review on pages 78 to 91 and the Corporate Governance Report on pages 96 to 112. Particulars of important events affecting the Group since the end of the financial year (if any) are provided in the Chairman's Statement on pages 10 to 41 and the Financial Statements on pages 143 to 263. An analysis of the Group's performance during the year using financial key performance indicators is provided in the Five Year Financial Summary on pages 92 and 93 of this Annual Report. An environmental policy of the Group has been put in place to give due consideration to environmental issues and minimise the impact of business operations of the Group on environment. In addition, discussions on the Group's environmental policy and relationships with employees, customers, suppliers and other stakeholders are contained in the Sustainability and CSR and the Corporate Governance Report on pages 94 and 95 and pages 96 to 112 of this Annual Report respectively as well as the standalone Sustainability and CSR Report. The Chairman's Statement, the Review of Operations, the Financial Review, the Sustainability and CSR and the Corporate Governance Report form part of this report.

The Residential Properties (First-hand Sales) Ordinance (Cap. 621) ("RPFSO") regulates the sales and marketing activities in relation to the first-hand residential properties in Hong Kong, with a view to enhancing the transparency, fairness and consumer protection of the sales of first-hand residential properties. The Group takes particular care to comply with the requirements of the RPFSO through established internal procedures, as well as by engaging external professional advisors including architects, surveyors and solicitors in the checking of the accuracy of the information contained in sales brochures and other relevant documents made available to the public in connection with such sales.

The Group is also committed to safeguarding the security and proper use of personal data. When collecting, processing and using such data in the course of leasing, sale and marketing of properties, the Group complies with the Personal Data (Privacy) Ordinance (Cap. 486) and the guidelines issued by the Office of the Privacy Commissioner for Personal Data from time to time, with a view to protecting the privacy of, amongst others, the purchasers of its properties, in relation to personal data under its management.

In addition, the Group observes the requirements of trademarks, copyrights and other intellectual properties by obtaining the trademark and copyright owners' consent before the use of their products and artworks for the sale promotion of residential units. For the proper use and the protection of the Group's interests, chosen prestige brand names and chosen property names are registered under the Trade Marks Ordinance (Cap. 559) in Hong Kong.

The Company has complied with the requirements under the Companies Ordinance (Cap. 622), the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Securities and Futures Ordinance (Cap. 571) for, among other things, the disclosure of information and corporate governance. The Company has also adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as the code of dealing in securities of the Company by the Directors.

Subsidiaries

Particulars of the principal subsidiaries of the Company as at 31 December 2018 are set out on pages 255 to 261.

Group Profit

The profit of the Group for the year ended 31 December 2018 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 143 to 263.

Dividends

An interim dividend of HK$0.50 per share was paid on 18 September 2018. The Directors have recommended 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.

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 of Directors 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.

Charitable Donations

Charitable donations made by the Group during the year amounted to HK$28,000,000 (2017: HK$25,000,000).

Investment Properties and Other Property, Plant and Equipment

Particulars of the movements in investment properties and other property, plant and equipment during the year are set out in note 15 to the financial statements on pages 215 to 221.

Bank Loans, Guaranteed Notes and Medium Term Note Programme

Particulars of bank loans, Guaranteed Notes and Medium Term Note Programme of the Company and the Group as at 31 December 2018 are set out in notes 28 and 29 to the financial statements on pages 239 to 241, respectively.

Interest Capitalised

The amount of interest capitalised by the Group during the year ended 31 December 2018 is set out in note 7(a) to the financial statements on page 193.

Reserves

Particulars of the movements in reserves of the Company during the year ended 31 December 2018 are set out in note 39(b) to the financial statements on page 252.

Shares Issued and Share Capital

During the year, the Company issued 400,114,628 bonus shares on the basis of one share for every ten shares held. The reason for the bonus shares issuance was to enable the shareholders to enjoy a pro-rata increase in the number of shares being held in the Company without incurring any costs.

Details of the Company's share capital are set out in note 39(c) to the financial statements on page 253.

Group Financial Summary

The results, assets and liabilities of the Group for the last five years ended 31 December 2018 are summarised on pages 92 and 93.

Development and Investment Properties

Particulars of development and investment properties of the Group are set out on pages 42 to 75.

Directors' Emoluments

Particulars of the Directors' emoluments disclosed pursuant to the Companies Ordinance (Cap. 622) and Appendix 16 of the Listing Rules are set out in note 8 to the financial statements on pages 195 to 197.

Directors

The Directors of the Company during the financial year and up to the date of this report were:

Executive Directors	Non-executive Directors	Independent Non-executive Directors
Dr Lee Shau Kee *(Chairman and Managing Director)*	Lee Pui Ling, Angelina	Kwong Che Keung, Gordon
Dr Lee Ka Kit *(Vice Chairman)*	Lee Tat Man	Professor Ko Ping Keung
Dr Lam Ko Yin, Colin *(Vice Chairman)*		Wu King Cheong
Lee Ka Shing *(Vice Chairman)*		Woo Ka Biu, Jackson
Yip Ying Chee, John		Leung Hay Man *(passed away on 11 October 2018)*
Suen Kwok Lam		Professor Poon Chung Kwong
Fung Lee Woon King		Au Siu Kee, Alexander *(appointed on 13 December 2018)*
Lau Yum Chuen, Eddie		
Kwok Ping Ho		
Wong Ho Ming, Augustine		

Mr Au Siu Kee, Alexander, who was appointed by the Board of Directors after the Company's 2018 annual general meeting, shall retire at the forthcoming annual general meeting in accordance with Article 99 of the Company's Articles of Association and, being eligible, has offered himself for re-election.

Mr Kwok Ping Ho, Mr Wong Ho Ming, Augustine, Mr Lee Tat Man, Mr Kwong Che Keung, Gordon, Professor Ko Ping Keung and Mr Wu King Cheong shall retire by rotation at the forthcoming annual general meeting in accordance with Article 116 of the Company's Articles of Association and the Corporate Governance Code and, being eligible, have offered themselves for re-election.

The list of directors of the subsidiaries of the Company during the financial year and up to the date of this report is kept at the Company's registered office and available for inspection by the Company's shareholders during office hours.

Disclosure of Interests

Directors' Interests in Shares

As at 31 December 2018, the interests and short positions of each Director of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the SFO or the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Ordinary Shares *(unless otherwise specified)*
Long Positions

Name of Company	Name of Director	Note	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	% Interest
Henderson Land Development Company Limited	Lee Shau Kee	1	14,135,152		3,190,711,619		3,204,846,771	72.82
	Lee Ka Kit	1				3,190,711,619	3,190,711,619	72.50
	Lee Ka Shing	1				3,190,711,619	3,190,711,619	72.50
	Lee Tat Man	2	200,272				200,272	0.00
	Lee Pui Ling, Angelina	3	58,686				58,686	0.00
	Fung Lee Woon King	4	2,266,490				2,266,490	0.05
	Woo Ka Biu, Jackson	5		3,542			3,542	0.00
Henderson Investment Limited	Lee Shau Kee	6			2,110,868,943		2,110,868,943	69.27
	Lee Ka Kit	6				2,110,868,943	2,110,868,943	69.27
	Lee Ka Shing	6				2,110,868,943	2,110,868,943	69.27
	Lee Tat Man	7	6,666				6,666	0.00
The Hong Kong and China Gas Company Limited	Lee Shau Kee	8			6,389,357,019		6,389,357,019	41.53
	Lee Ka Kit	8				6,389,357,019	6,389,357,019	41.53
	Lee Ka Shing	8				6,389,357,019	6,389,357,019	41.53
	Poon Chung Kwong	9				200,442	200,442	0.00
Hong Kong Ferry (Holdings) Company Limited	Lee Shau Kee	10	799,220		119,017,090		119,816,310	33.63
	Lee Ka Kit	10				119,017,090	119,017,090	33.41
	Lee Ka Shing	10				119,017,090	119,017,090	33.41
	Lam Ko Yin, Colin	11	150,000				150,000	0.04
	Fung Lee Woon King	12	465,100				465,100	0.13
Miramar Hotel and Investment Company, Limited	Lee Shau Kee	13			336,481,980		336,481,980	48.70
	Lee Ka Kit	13				336,481,980	336,481,980	48.70
	Lee Ka Shing	13				336,481,980	336,481,980	48.70
Towngas China Company Limited	Lee Shau Kee	14			1,895,264,270		1,895,264,270	67.45
	Lee Ka Kit	14				1,895,264,270	1,895,264,270	67.45
	Lee Ka Shing	14				1,895,264,270	1,895,264,270	67.45

***Ordinary Shares** (unless otherwise specified) (continued)*

Long Positions

Name of Company	Name of Director	Note	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	% Interest
Henderson Development Limited	Lee Shau Kee	15			8,190 (Ordinary A Shares)		8,190 (Ordinary A Shares)	100.00
	Lee Shau Kee	16			3,510 (Non-voting B Shares)		3,510 (Non-voting B Shares)	100.00
	Lee Shau Kee	17	35,000,000 (Non-voting Deferred Shares)		15,000,000 (Non-voting Deferred Shares)		50,000,000 (Non-voting Deferred Shares)	100.00
	Lee Ka Kit	15				8,190 (Ordinary A Shares)	8,190 (Ordinary A Shares)	100.00
	Lee Ka Kit	16				3,510 (Non-voting B Shares)	3,510 (Non-voting B Shares)	100.00
	Lee Ka Kit	17				15,000,000 (Non-voting Deferred Shares)	15,000,000 (Non-voting Deferred Shares)	30.00
	Lee Ka Shing	15				8,190 (Ordinary A Shares)	8,190 (Ordinary A Shares)	100.00
	Lee Ka Shing	16				3,510 (Non-voting B Shares)	3,510 (Non-voting B Shares)	100.00
	Lee Ka Shing	17				15,000,000 (Non-voting Deferred Shares)	15,000,000 (Non-voting Deferred Shares)	30.00
Best Homes Limited	Lee Shau Kee	18			26,000		26,000	100.00
	Lee Ka Kit	18				26,000	26,000	100.00
	Lee Ka Shing	18				26,000	26,000	100.00
Feswin Investment Limited	Lee Ka Kit	19			5,000	5,000	10,000	100.00

***Ordinary Shares** (unless otherwise specified) (continued)*

Long Positions

Name of Company	Name of Director	Note	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	% Interest
Fordley Investment Limited	Fung Lee Woon King	20	2,000				2,000	20.00
Furnline Limited	Lee Shau Kee	21			100 (A Shares)		100 (A Shares)	100.00
	Lee Shau Kee	22			1 (B Share)		1 (B Share)	100.00
	Lee Ka Kit	21				100 (A Shares)	100 (A Shares)	100.00
	Lee Ka Kit	22				1 (B Share)	1 (B Share)	100.00
	Lee Ka Shing	21				100 (A Shares)	100 (A Shares)	100.00
	Lee Ka Shing	22				1 (B Share)	1 (B Share)	100.00
Gain Base Development Limited	Fung Lee Woon King	23	50				50	5.00
Perfect Bright Properties Inc.	Lee Shau Kee	24			100 (A Shares)		100 (A Shares)	100.00
	Lee Shau Kee	25			1 (B Share)		1 (B Share)	100.00
	Lee Ka Kit	24				100 (A Shares)	100 (A Shares)	100.00
	Lee Ka Kit	25				1 (B Share)	1 (B Share)	100.00
	Lee Ka Shing	24				100 (A Shares)	100 (A Shares)	100.00
	Lee Ka Shing	25				1 (B Share)	1 (B Share)	100.00

Save as disclosed above, none of the Directors or the Chief Executive of the Company or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations as defined in the SFO.

Substantial Shareholders' and Others' Interests

As at 31 December 2018, the interests and short positions of every person, other than Directors of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Long Positions

	No. of shares in which interested	% Interest
Substantial Shareholders		
Rimmer (Cayman) Limited (Note 1)	3,190,711,619	72.50
Riddick (Cayman) Limited (Note 1)	3,190,711,619	72.50
Hopkins (Cayman) Limited (Note 1)	3,190,711,619	72.50
Henderson Development Limited (Note 1)	3,188,055,214	72.44
Yamina Investment Limited (Note 1)	1,436,609,062	32.64
Believegood Limited (Note 1)	725,352,667	16.48
South Base Limited (Note 1)	725,352,667	16.48
Persons other than Substantial Shareholders		
Cameron Enterprise Inc. (Note 1)	337,404,922	7.67
Richbond Investment Limited (Note 1)	432,547,181	9.83

Notes:

1. *Of these shares, Dr Lee Shau Kee was the beneficial owner of 14,135,152 shares, and for the remaining 3,190,711,619 shares, (i) 1,318,898,971 shares were owned by Henderson Development Limited ("HD"); (ii) 432,547,181 shares were owned by Richbond Investment Limited which was a wholly-owned subsidiary of HD; (iii) 337,404,922 shares were owned by Cameron Enterprise Inc.; 725,352,667 shares were owned by Believegood Limited which was wholly-owned by South Base Limited; 138,997,867 shares were owned by Prosglass Investment Limited which was wholly-owned by Jayasia Investments Limited; 127,901,783 shares were owned by Fancy Eye Limited which was wholly-owned by Mei Yu Ltd.; 106,951,823 shares were owned by Spreadral Limited which was wholly-owned by World Crest Ltd.; and Cameron Enterprise Inc., South Base Limited, Jayasia Investments Limited, Mei Yu Ltd. and World Crest Ltd. were wholly-owned subsidiaries of Yamina Investment Limited which in turn was 100% held by HD; and (iv) 2,656,405 shares were owned by Fu Sang Company Limited ("Fu Sang"). Hopkins (Cayman) Limited ("Hopkins") as trustee of a unit trust (the "Unit Trust") owned all the issued ordinary shares of HD and Fu Sang. Rimmer (Cayman) Limited ("Rimmer") and Riddick (Cayman) Limited ("Riddick"), as trustees of respective discretionary trusts, held units in the Unit Trust. The entire issued share capital of Hopkins, Rimmer and Riddick were owned by Dr Lee Shau Kee. Dr Lee Shau Kee was taken to be interested in these shares by virtue of the SFO. As Directors of the Company and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Dr Lee Ka Kit and Mr Lee Ka Shing were taken to be interested in these shares by virtue of the SFO.*

2. *Mr Lee Tat Man was the beneficial owner of these shares.*

3. *Mrs Lee Pui Ling, Angelina was the beneficial owner of these shares.*

4. *Madam Fung Lee Woon King was the beneficial owner of these shares.*

5. *These shares were owned by the wife of Mr Woo Ka Biu, Jackson.*

6. *Of these shares, 843,249,284 shares, 602,398,418 shares, 363,328,900 shares, 217,250,000 shares and 84,642,341 shares were respectively owned by Banshing Investment Limited, Markshing Investment Limited, Covite Investment Limited, Gainwise Investment Limited and Darnman Investment Limited, all of which were wholly-owned subsidiaries of Kingslee S.A. which in turn was 100% held by the Company. Dr Lee Shau Kee was taken to be interested in the Company as set out in Note 1 and Henderson Investment Limited by virtue of the SFO. As Directors of the Company and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Dr Lee Ka Kit and Mr Lee Ka Shing were taken to be interested in these shares by virtue of the SFO.*

7. *Mr Lee Tat Man was the beneficial owner of these shares.*

8. *Of these shares, 3,556,972,015 shares and 1,381,550,426 shares were respectively owned by Disralei Investment Limited and Medley Investment Limited, both of which were wholly-owned subsidiaries of Timpani Investments Limited; 1,450,834,578 shares were owned by Macrostar Investment Limited, a wholly-owned subsidiary of Chelco Investment Limited; and Timpani Investments Limited and Chelco Investment Limited were wholly-owned subsidiaries of Faxson Investment Limited which in turn was 100% held by the Company. Dr Lee Shau Kee was taken to be interested in the Company as set out in Note 1 and The Hong Kong and China Gas Company Limited ("China Gas") by virtue of the SFO. As Directors of the Company and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Dr Lee Ka Kit and Mr Lee Ka Shing were taken to be interested in these shares by virtue of the SFO.*

9. *These shares were owned by Professor Poon Chung Kwong and his wife jointly.*

10. *Of these shares, Dr Lee Shau Kee was the beneficial owner of 799,220 shares, and for the remaining 119,017,090 shares, 48,817,090 shares were held by Wiselin Investment Limited, 23,400,000 shares each were respectively owned by Graf Investment Limited, Mount Sherpa Limited and Paillard Investment Limited, all of which were wholly-owned subsidiaries of Pataca Enterprises Limited which in turn was 100% held by the Company. Dr Lee Shau Kee was taken to be interested in the Company as set out in Note 1 and Hong Kong Ferry (Holdings) Company Limited by virtue of the SFO. As Directors of the Company and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Dr Lee Ka Kit and Mr Lee Ka Shing were taken to be interested in these shares by virtue of the SFO.*

11. *Dr Lam Ko Yin, Colin was the beneficial owner of these shares.*

12. *Madam Fung Lee Woon King was the beneficial owner of these shares.*

13. *Of these shares, 120,735,300 shares, 119,140,680 shares and 96,606,000 shares were respectively owned by Higgins Holdings Limited, Multiglade Holdings Limited and Threadwell Limited, all of which were wholly-owned subsidiaries of Aynbury Investments Limited which in turn was 100% held by the Company. Dr Lee Shau Kee was taken to be interested in the Company as set out in Note 1 and Miramar Hotel and Investment Company, Limited by virtue of the SFO. As Directors of the Company and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Dr Lee Ka Kit and Mr Lee Ka Shing were taken to be interested in these shares by virtue of the SFO.*

14. *These shares were owned by Hong Kong & China Gas (China) Limited, Planwise Properties Limited and Superfun Enterprises Limited, wholly-owned subsidiaries of China Gas. Dr Lee Shau Kee was taken to be interested in China Gas as set out in Note 8 and Towngas China Company Limited by virtue of the SFO. As Directors of the Company and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Dr Lee Ka Kit and Mr Lee Ka Shing were taken to be interested in these shares by virtue of the SFO.*

15. *These shares were held by Hopkins as trustee of the Unit Trust.*

16. *These shares were held by Hopkins as trustee of the Unit Trust.*

17. *Of these shares, Dr Lee Shau Kee was the beneficial owner of 35,000,000 shares, and Fu Sang owned the remaining 15,000,000 shares.*

18. *Of these shares, (i) 10,400 shares were owned by the Company; and (ii) 15,600 shares were owned by Manifest Investments Limited which was 100% held by HD.*

19. *Of these shares, (i) 5,000 shares were owned by Applecross Limited which was wholly-owned by Dr Lee Ka Kit; and (ii) 5,000 shares were owned by Henderson (China) Investment Company Limited, a wholly-owned subsidiary of Andcoe Limited which was wholly-owned by Henderson China Holdings Limited, an indirect wholly-owned subsidiary of the Company.*

20. *Madam Fung Lee Woon King was the beneficial owner of these shares.*

21. *These shares were owned by Jetwin International Limited. Triton (Cayman) Limited as trustee of a unit trust owned all the issued share capital of Jetwin International Limited. Triumph (Cayman) Limited and Victory (Cayman) Limited, as trustees of respective discretionary trusts, held units in the unit trust. The entire share capital of Triton (Cayman) Limited, Triumph (Cayman) Limited and Victory (Cayman) Limited were owned by Dr Lee Shau Kee who was taken to be interested in such shares by virtue of the SFO. As Directors of the Company and discretionary beneficiaries of the discretionary trusts holding units in such unit trust, Dr Lee Ka Kit and Mr Lee Ka Shing were taken to be interested in such shares by virtue of the SFO.*

22. *This share was owned by Sunnice Investment Limited, a wholly-owned subsidiary of Profit Best Development Limited which in turn was wholly-owned by the Company.*

23. *Madam Fung Lee Woon King was the beneficial owner of these shares.*

24. *These shares were owned by Jetwin International Limited.*

25. *This share was owned by Sunnice Investment Limited, a wholly-owned subsidiary of Profit Best Development Limited which in turn was wholly-owned by the Company.*

Share Option Schemes

The Company and its subsidiaries have no share option schemes.

Arrangements to Purchase Shares or Debentures

At no time during the year ended 31 December 2018 was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Equity-linked Agreements

No equity-linked agreements entered into by the Company were subsisting as at 31 December 2018 and the Company did not enter into any equity-linked agreements during the year under review.

Interests in Transactions, Arrangements or Contracts and Connected Transactions/Continuing Connected Transactions

During the year under review, the Group had the transactions, arrangements and contracts as described below with persons who are "connected persons" for the purposes of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"):

(1) Henderson Finance Company Limited, a wholly-owned subsidiary of Henderson Development Limited, made unsecured advances from time to time to subsidiaries of the Company up to a maximum aggregate sum of approximately HK$12,776 million during the year, with interest chargeable on the balances outstanding from time to time by reference to HIBOR quoted by banks. As at 31 December 2018, the aggregate sum owing by subsidiaries of the Company to Henderson Finance Company Limited amounted to approximately HK$1,100 million, which has been included in the financial statements under "Amount due to a fellow subsidiary".

Dr Lee Shau Kee, Dr Lee Ka Kit and Mr Lee Ka Shing were taken to be interested in the transactions, arrangements and contracts referred to in the above as directors of the Company's ultimate holding company, Henderson Development Limited (and as more particularly described in the section "Disclosure of Interests" above) with respect to their interests in Henderson Development Limited or the trust.

(2) The Company had the following continuing connected transactions/connected transaction, each of which, as disclosed by way of announcement, was subject to the reporting and announcement requirements but exempt from independent shareholders' approval requirements under Chapter 14A of the Listing Rules:

Sunlight Real Estate Investment Trust ("Sunlight REIT") being a trust in accordance with Code on Real Estate Investment Trusts issued by the Securities and Futures Commission of Hong Kong (the "REIT Code") was regarded by the Stock Exchange as a connected person of the Company under the Listing Rules so long as the aggregate percentage unitholdings in Sunlight REIT held by the Group and the Shau Kee Financial Enterprises Limited group ("SKFE Group") (controlled by a family trust of Dr Lee Shau Kee, the Chairman and Managing Director of the Company) is above 30%. Accordingly, the transactions between the Group and Sunlight REIT group constitute connected transactions of the Company under the Listing Rules.

As disclosed in the announcement dated 16 May 2018, new annual cap amounts in respect of each of the three financial years ending up to 31 December 2021 were set for the continuing connected transactions between the Group and Sunlight REIT group contemplated under the following agreements/deeds:

(a) a property management agreement dated 29 November 2006 was entered into between Henderson Sunlight Asset Management Limited ("HSAM"), a wholly-owned subsidiary of the Company, as manager of Sunlight REIT, and Henderson Sunlight Property Management Limited (the "Property Manager"), a wholly-owned subsidiary of the Company, as property manager of the Sunlight REIT, and the property holding companies under Sunlight REIT group had also subsequently acceded thereto. The property management agreement was thereafter supplemented by four supplemental agreements dated 28 April 2009, 25 June 2012, 12 May 2015 and 15 May 2018 respectively. The agreement related to the provision of certain property management and lease management as well as marketing services in respect of the properties of Sunlight REIT at a fee of not exceeding 3% per annum of the gross property revenue of the relevant properties of Sunlight REIT plus a commission on the base rent or licence fee for a tenancy or a licence secured. By the last supplemental agreement entered into between HSAM and the Property Manager, the term of the appointment of the Property Manager for the provision of the said property related management services (the "Property Management Transactions") has been extended to 30 June 2021;

(b) a trust deed dated 26 May 2006 (as supplemented by supplemental deeds dated 1 June 2006, 28 November 2006, 28 April 2009, 23 July 2010 and 30 April 2012, and further supplemented by the supplemental deed dated 16 March 2015 which related to the expansion of the investment scope of Sunlight REIT in alignment with the amendments to the REIT Code, etc.) was entered into between Uplite Limited, a subsidiary of SKFE Group, as settlor, HSAM as manager, and HSBC Institutional Trust Services (Asia) Limited as trustee in respect of, among other things, the appointment of HSAM as the manager of Sunlight REIT for the management and operation of Sunlight REIT at a base fee not exceeding 0.4% per annum of the property values of Sunlight REIT for the relevant financial year and a variable fee of 3% per annum of the relevant net property income of Sunlight REIT payable in the form of cash and/or Sunlight REIT units as HSAM may elect. HSAM is also entitled to an acquisition fee in respect of acquisition of real estate by Sunlight REIT, and a divestment fee in respect of any real estate sold or divested by Sunlight REIT (where applicable) and certain reimbursement (the "Asset Management Transactions");

(c) agreements are entered into from time to time between the Property Manager and Megastrength Security Services Company Limited ("Megastrength"), a wholly-owned subsidiary of the Company, in respect of the provision of security and related services for property(ies) of the Sunlight REIT for various terms, typically of durations ranging from short intervals up to 24 months at fees determined through a tendering/quotation procedure or on the basis of commercial negotiations. By a letter of award dated 24 April 2017, the Property Manager awarded the security services contract to Megastrength for an initial term of 14 months commencing from 1 May 2017 (the "First Security Services Contract"), which is renewable at the option of the Property Manager to a further term of 12 months subject to the same terms and conditions. On 11 May 2018, the Property Manager and Megastrength entered into a new services contract to renew the First Security Services Contract for a further term of 12 months commencing on 1 July 2018 which was on the same terms and conditions as the First Security Services Contract. The monthly service fee is fixed at approximately HK$228,000 for the first 12 months ended on 1 May 2018 and approximately HK$235,000 for the remaining term ending on 1 July 2019 (collectively the "Security Services Transactions"); and

(d) agreements or arrangements are to be entered into from time to time between members of the Group and members of Sunlight REIT group for the provision of other ancillary property services for the properties of Sunlight REIT (the "Other Ancillary Property Services Transactions").

The maximum aggregate sums to be paid by the Sunlight REIT group to the Group under the Property Management Transactions, the Asset Management Transactions, the Security Services Transactions and the Other Ancillary Property Services Transactions will not exceed the following:

Financial year ended 31 December 2018 (HK$ million)	Financial year ending 31 December 2019 (HK$ million)	Financial year ending 31 December 2020 (HK$ million)	Financial year ending 31 December 2021 (HK$ million)
219	198	218	241

For the year ended 31 December 2018, the Group received HK$51,510,000 for the Property Management Transactions, HK$97,307,000 for the Asset Management Transactions and HK$2,770,400 for the Security Services Transactions which in aggregate amounted to HK$151,587,400; while no fee was received for the Other Ancillary Property Services Transactions (collectively the "Sunlight REIT Transactions").

The Audit Department has reviewed the Sunlight REIT Transactions together with the relevant internal controls and confirmed to the Independent Non-executive Directors of the Company that the Sunlight REIT Transactions were conducted in accordance with the pricing mechanism and the terms under the relevant agreements. The Independent Non-executive Directors of the Company have reviewed and confirmed that such transactions are (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms; and (c) in accordance with the terms of the respective agreements/deeds relating to the transactions in question and are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Auditor of the Company has also confirmed that nothing has come to the Auditor's attention that causes it to believe that the Sunlight REIT Transactions (a) have not received the approval of the Board; (b) were not, in all material respects, in accordance with the pricing policies of the Group; (c) were not entered into, in all material respects, in accordance with the relevant agreements/deeds governing such transactions; and (d) have exceeded the respective caps as aforesaid.

The Company's Auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements other than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Auditor has issued its unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed by the Group in this Annual Report in accordance with Rule 14A.56 of the Listing Rules. The Company will provide a signed copy of the said letter to the Stock Exchange.

The material related party transactions set out in note 38 to the financial statements on pages 248 to 250 include transactions that constitute connected transactions/continuing connected transactions for which the disclosure requirements under the Listing Rules have been met.

Save as disclosed above, no other transaction, arrangement or contract that is significant in relation to the Company's business to which the Company, its holding company or any of its subsidiaries or fellow subsidiaries was a party, and in which a Director of the Company had, directly or indirectly, a material interest, subsisted at the year end or at any time during the year.

Directors' Interests in Competing Business

Pursuant to Rule 8.10 of the Listing Rules, the interests of Directors of the Company in businesses which might compete with the Group during the year ended and as at 31 December 2018 were as follows:

Dr Lee Shau Kee, the Chairman of the Company, and Dr Lee Ka Kit and Mr Lee Ka Shing, Directors of the Company, have deemed interests and/or held directorships in companies engaged in the same businesses of property investment, development and management in Hong Kong and mainland China as the Group. As those companies which engage in the same businesses as the Group are involved in the investment, development and management of properties of different types and/or in different locations, and the Group has been operating independently of, and at arm's length from, the businesses of those companies, no competition is considered to exist.

Service Contracts

None of the Directors has a service contract with the Company or any of its subsidiaries which is of a duration exceeding three years or which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

Management Contracts

No contracts (as defined in Section 543 of the Companies Ordinance (Cap. 622)) relating to the management and/or administration of the whole or any substantial part of the business of the Company were entered into or subsisted during the year.

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.

Major Customers and Suppliers

For the year ended 31 December 2018, the aggregate amount of revenue attributable to the Group's largest customer and five largest customers accounted for approximately 30% and 34% respectively, of the Group's total revenue; and the aggregate amount of purchases attributable to the Group's largest supplier and five largest suppliers accounted for approximately 38% and 42% respectively, of the Group's total purchases.

So far as the Company is aware, none of the Directors of the Company or any of his/her close associates, or shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued shares), had any interest in those customers or suppliers.

Management Discussion and Analysis

A management discussion and analysis of the Group's results for the year ended 31 December 2018 is shown on pages 78 to 91.

Sustainability and Corporate Social Responsibility

The standalone Sustainability and CSR Report is to be published on the same date of this Annual Report and posted on the Company's website.

Retirement Benefits Scheme

The Group's Hong Kong employees participate in the Henderson Staff Provident Fund (the "Fund"), a defined contribution provident fund scheme as defined in the Occupational Retirement Schemes Ordinance (Cap. 426) or in another defined contribution scheme (the "Scheme") as mentioned below or in schemes (the "MPF Schemes") registered under the Mandatory Provident Fund Scheme Ordinance (Cap. 485) ("MPFO").

Contributions to the Fund are made by the participating employers at rates ranging from 4% to 6%, and by the employees at 2%, of the employees' basic monthly salaries. The portion of employers' contributions to which the employees are not entitled and which has been forfeited shall not be used to reduce the future contributions of the participating employers.

As for the Scheme, contributions are made by both the employers and the employees at the rate of 5% of the employees' basic monthly salaries. Forfeited contributions can be applied towards reducing the amount of future contributions payable by the employers. There were no forfeited contributions of the Scheme utilised during the year ended 31 December 2018 (2017: Nil). As at 31 December 2018, there were no forfeited contributions that could be utilised to reduce the Group's contributions to the Scheme (2017: Nil).

No employees of the Group were eligible to join the Fund or the Scheme on or after 1 December 2000.

Employees of the Group who are not members of the Fund or the Scheme participate in the MPF Schemes. In addition to the minimum benefits set out in the MPFO, the Group provides certain voluntary top-up benefits to employees participating in the MPF Schemes. The portion of employer's contributions to which the employees are not entitled and which has been forfeited can be used by the Group to reduce the future contributions. The total amount so utilised during the year ended 31 December 2018 was HK$2,500,000 (2017: HK$2,000,000) and there was no balance available to be utilised as at 31 December 2018 (2017: Nil).

The Group also participates in the state-organised pension scheme operated by the Government of the PRC for its PRC employees and contributes a certain percentage of the employees' covered payroll to fund the benefits.

The Group's retirement costs charged to the profit and loss account for the year ended 31 December 2018 were HK$96,000,000 (2017: HK$90,000,000).

Permitted Indemnity

The Articles of Association of the Company provide that every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities (to the fullest extent permitted by the Companies Ordinance (Cap. 622)) which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto.

In addition, the indemnity agreements made by the Company, which are currently in force and were in force throughout the financial year, contained permitted indemnity provisions (as permitted in Section 469(2) of the Companies Ordinance (Cap. 622)), for the benefit of the Directors of the Company. The Company has also taken out and maintained Director's liability insurance throughout the financial year, which provides appropriate cover for the Directors.

Revolving Credit Agreements with Covenants of the Controlling Shareholders

The Company through a wholly-owned subsidiary as borrower had obtained the 5-year term loan and revolving credit facilities of up to HK$18,000,000,000 in March 2015 from groups of syndicate of banks under a guarantee given by the Company.

In connection with the above credit facilities, it will be an event of default if the Company is deemed to be ultimately controlled by any person(s) other than Dr Lee Shau Kee and/or his family and/or companies controlled by any of them or any trust in which Dr Lee Shau Kee and/or his family and/or companies controlled by any of them are beneficiaries. If any event of default occurs, the outstanding amounts (if any) under the credit facilities may become due and payable on demand.

Public Float

As at the date of this report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

Auditor

A resolution for the re-appointment of KPMG as Auditor of the Company is to be proposed at the forthcoming annual general meeting.

Corporate Governance

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 96 to 112.

On behalf of the Board

Lee Shau Kee

Chairman

Hong Kong, 20 March 2019

Biographical Details of Directors and Senior Management

Executive Directors

Dr the Hon LEE Shau Kee, *GBM, DBA (Hon), DSSc (Hon), LLD (Hon),* aged 90, is the founder of the Company. He has been the Chairman and Managing Director of the Company since 1976 and has been engaged in property development in Hong Kong for more than 60 years. He is also the chairman of the Nomination Committee and a member of the Remuneration Committee of the Company. He is the founder, and continues to act as an executive director of Henderson Investment Limited after his stepping down as the chairman and managing director on 1 July 2015. He is also the chairman of The Hong Kong and China Gas Company Limited, the vice chairman of Sun Hung Kai Properties Limited as well as a non-executive director of Hong Kong Ferry (Holdings) Company Limited and Miramar Hotel and Investment Company, Limited, all of which are listed companies. Dr Lee was awarded the Grand Bauhinia Medal (GBM) by the Government of the Hong Kong Special Administrative Region in 2007. Dr Lee is a director of Rimmer (Cayman) Limited, Riddick (Cayman) Limited, Hopkins (Cayman) Limited, Henderson Development Limited, Believegood Limited and Cameron Enterprise Inc. which have discloseable interests in the Company under the provisions of the Securities and Futures Ordinance. He is the brother of Mr Lee Tat Man and Madam Fung Lee Woon King, the father of Ms Lee Pui Man, Margaret, Dr Lee Ka Kit and Mr Lee Ka Shing and the father-in-law of Mr Li Ning.

Dr LEE Ka Kit, *GBS, JP, DBA (Hon),* aged 55, a Member of the Standing Committee of the 13th National Committee of the Chinese People's Political Consultative Conference, has been an Executive Director of the Company since 1985 and the Vice Chairman since 1993. He was educated in the United Kingdom and has been primarily responsible for the development of the business of Henderson Land Group in the People's Republic of China since he joined the Company in 1985. He is the vice chairman of Henderson Development Limited ("Henderson Development"). He is also the vice chairman of Henderson Investment Limited, a non-executive director of The Hong Kong and China Gas Company Limited and The Bank of East Asia, Limited as well as an independent non-executive director of Xiaomi Corporation, all of which are listed companies. He was appointed as a Justice of the Peace in 2009 and was awarded the Gold Bauhinia Star (GBS) in 2015 by the Government of the Hong Kong Special Administrative Region. He is a member as well as the chairman of the Board of Directors of One Country Two Systems Research Institute. He was awarded an Honorary University Fellowship by The University of Hong Kong in 2009 and an Honorary Degree of Doctor of Business Administration by Edinburgh Napier University in July 2014. He is a director of Rimmer (Cayman) Limited, Riddick (Cayman) Limited, Hopkins (Cayman) Limited and Henderson Development which have discloseable interests in the Company under the provisions of the Securities and Futures Ordinance. He is the son of Dr Lee Shau Kee, the brother of Ms Lee Pui Man, Margaret and Mr Lee Ka Shing, the brother-in-law of Mr Li Ning and the relative of Mr Lee Tat Man and Madam Fung Lee Woon King.

Dr LAM Ko Yin, Colin, *SBS, FCILT, FHKIoD, DB (Hon),* aged 67, joined the Company in 1982 and has been an Executive Director since 1985 and the Vice Chairman since 1993. He is also a member of the Remuneration Committee and the Nomination Committee of the Company. Dr Lam holds a B.Sc. (Honours) degree from The University of Hong Kong and has over 45 years' experience in banking and property development. He is also the chairman of Hong Kong Ferry (Holdings) Company Limited, the vice chairman of Henderson Investment Limited as well as a non-executive director of The Hong Kong and China Gas Company Limited and an executive director of Miramar Hotel and Investment Company, Limited, all of which are listed companies. Dr Lam was awarded the Silver Bauhinia Star (SBS) by the Government of the Hong Kong Special Administrative Region in 2017. He is the deputy chairman of The University of Hong Kong Foundation for Educational Development and Research and a director of Fudan University Education Development Foundation. Dr Lam was awarded an Honorary University Fellowship by The University of Hong Kong in 2008, and was conferred with a degree of Doctor of Business (Honoris Causa) by Macquarie University in 2015. He is a Fellow of The Chartered Institute of Logistics and Transport in Hong Kong and a Fellow of The Hong Kong Institute of Directors. Dr Lam is a director of Rimmer (Cayman) Limited, Riddick (Cayman) Limited, Hopkins (Cayman) Limited, Henderson Development Limited and Believegood Limited which have discloseable interests in the Company under the provisions of the Securities and Futures Ordinance.

LEE Ka Shing, *JP*, aged 47, a Committee Member of the 13th Beijing Committee of the Chinese People's Political Consultative Conference, has been an Executive Director of the Company since 1993 and the Vice Chairman since 2005. He was educated in Canada. Mr Lee is the vice chairman of Henderson Development Limited ("Henderson Development"). On 1 July 2015, he was re-designated from the vice chairman to chairman and managing director of Henderson Investment Limited. He is also the chairman and chief executive officer of Miramar Hotel and Investment Company, Limited as well as a non-executive director of The Hong Kong and China Gas Company Limited, both of which are listed companies. He was appointed as a Justice of the Peace by the Government of the Hong Kong Special Administrative Region in 2017. He is a member of the Court of The Hong Kong Polytechnic University. Mr Lee is a director of Rimmer (Cayman) Limited, Riddick (Cayman) Limited, Hopkins (Cayman) Limited, Henderson Development, Believegood Limited and Richbond Investment Limited which have discloseable interests in the Company under the provisions of the Securities and Futures Ordinance. He is the son of Dr Lee Shau Kee, the brother of Ms Lee Pui Man, Margaret and Dr Lee Ka Kit, the brother-in-law of Mr Li Ning and the relative of Mr Lee Tat Man and Madam Fung Lee Woon King.

YIP Ying Chee, John, *LLB*, *FCIS*, aged 70, has been an Executive Director of the Company since 1997. He graduated from The University of Hong Kong and the London School of Economics and is a solicitor, a certified public accountant and a chartered surveyor. He has over 40 years' experience in corporate finance, and corporate and investment management.

SUEN Kwok Lam, *BBS, JP, MH, FHIREA*, aged 72, joined the Company in 1997 and has been an Executive Director of the Company since 2002. Mr Suen is an individual Member of The Real Estate Developers Association of Hong Kong. He was the president of Hong Kong Association of Property Management Companies from 2003 to 2007 and the vice president of Hong Kong Institute of Real Estate Administrators from 2006 to 2018. He has over 45 years' experience in property management. He was awarded the Medal of Honour in 2005 and the Bronze Bauhinia Star (BBS) in 2015 and appointed as a Justice of the Peace in 2011 by the Government of the Hong Kong Special Administrative Region respectively. Mr Suen previously served as an independent non-executive director of China Overseas Property Holdings Limited until 9 October 2018.

FUNG LEE Woon King, aged 80, has been an Executive Director of the Company since 1976. She joined Henderson Development Limited ("Henderson Development"), the parent company of the Company as treasurer in 1974 and has been an executive director of Henderson Development since 1979. She is also the Chief Treasurer of Henderson Development Group, Henderson Land Group and Henderson Investment Group. Madam Fung is a director of Rimmer (Cayman) Limited, Riddick (Cayman) Limited, Hopkins (Cayman) Limited, Henderson Development, Yamina Investment Limited, Believegood Limited, Cameron Enterprise Inc., South Base Limited and Richbond Investment Limited which have discloseable interests in the Company under the provisions of the Securities and Futures Ordinance. She is the sister of Dr Lee Shau Kee and Mr Lee Tat Man and the relative of Dr Lee Ka Kit, Mr Lee Ka Shing, Ms Lee Pui Man, Margaret and Mr Li Ning.

LAU Yum Chuen, Eddie, aged 72, has been an Executive Director of the Company since 1987. He has over 45 years' experience in banking, finance and investment. Mr Lau is also a non-executive director of Hong Kong Ferry (Holdings) Company Limited and an executive director of Miramar Hotel and Investment Company, Limited, both of which are listed companies.

KWOK Ping Ho, *BSc, MSc, Post-Graduate Diploma in Surveying, FRICS, ACIB,* aged 66, joined the Company in 1987 and has been an Executive Director since 1993. Mr Kwok holds a Bachelor of Science (Engineering) (Civil Engineering Group) Honours degree from the University of London and a Master of Science degree in Administrative Sciences from Cass Business School, City, University of London. He is also the holder of a Post-Graduate Diploma in Surveying (Real Estate Development) from The University of Hong Kong. Mr Kwok is a Fellow of the Royal Institution of Chartered Surveyors and he is also an Associate member of The Chartered Institute of Bankers (A.C.I.B.) of the United Kingdom. Mr Kwok had previously been a Part-time Lecturer for the MBA programme of The University of Hong Kong and he is also currently an Honorary Professor of the Department of Real Estate and Construction, Faculty of Architecture of The University of Hong Kong. He had worked in the international banking field for more than 11 years with postings in London, Chicago, Kuala Lumpur, Singapore as well as in Hong Kong before joining the Company and has over 35 years of experience in the finance and business management areas which include responsibilities in the corporate investment, finance and treasury and project management activities of Henderson Land Group since 1987, including group re-organisation, privatisation proposals and corporate acquisitions. He is also a non-executive director of Henderson Sunlight Asset Management Limited, the manager of the publicly-listed Sunlight Real Estate Investment Trust. Mr Kwok is a director of Believegood Limited which has discloseable interests in the Company under the provisions of the Securities and Futures Ordinance.

WONG Ho Ming, Augustine, *JP, MSc, MEcon, FHKIS, MRICS, MCIArb, RPS (GP),* aged 58, joined the Company in 1996 and has been an Executive Director of the Company since 2010. He is presently the General Manager of Property Development Department as well. He is a registered professional surveyor and has over 34 years' experience in property appraisal, dealing and development. He was appointed as a Justice of the Peace by the Government of the Hong Kong Special Administrative Region in 2008.

Non-executive Directors

LEE Pui Ling, Angelina, *SBS, JP, LLB, FCA,* aged 70, has been a Director of the Company since 1996 and was re-designated as Non-executive Director in 2004. Mrs Lee is a Partner of the firm of solicitors, Woo Kwan Lee & Lo, and is a Fellow of the Institute of Chartered Accountants in England and Wales. Mrs Lee was a Member of the Exchange Fund Advisory Committee of the Hong Kong Monetary Authority, a non-executive director of the Securities and Futures Commission and a non-executive director of the Mandatory Provident Fund Schemes Authority. Mrs Lee is also a non-executive director of CK Infrastructure Holdings Limited and TOM Group Limited as well as an independent non-executive director of Great Eagle Holdings Limited, all of which are listed companies.

LEE Tat Man, aged 81, has been a Director of the Company since 1976. He has been engaged in property development in Hong Kong for more than 40 years and is also an executive director of Henderson Investment Limited, a listed company. Mr Lee is a director of Rimmer (Cayman) Limited, Riddick (Cayman) Limited, Hopkins (Cayman) Limited, Henderson Development Limited and Cameron Enterprise Inc. which have discloseable interests in the Company under the provisions of the Securities and Futures Ordinance. He is the brother of Dr Lee Shau Kee and Madam Fung Lee Woon King and the relative of Dr Lee Ka Kit, Mr Lee Ka Shing, Ms Lee Pui Man, Margaret and Mr Li Ning.

Independent Non-executive Directors

KWONG Che Keung, Gordon, *FCA*, aged 69, has been an Independent Non-executive Director of the Company since 2004. He is also the chairman of the Audit Committee and the Corporate Governance Committee and a member of the Remuneration Committee and the Nomination Committee of the Company. He graduated from The University of Hong Kong with a bachelor's degree in social sciences in 1972 and qualified as a chartered accountant in England in 1977. He was a partner of Pricewaterhouse from 1984 to 1998 and an independent member of the Council of The Stock Exchange of Hong Kong from 1992 to 1997. He is an independent non-executive director of Henderson Investment Limited, Agile Group Holdings Limited, China Power International Development Limited, Chow Tai Fook Jewellery Group Limited, FSE Services Group Limited, Global Digital Creations Holdings Limited, NWS Holdings Limited, OP Financial Limited and Piraeus Port Authority S.A. (listed in Greece), all of which are listed companies. Mr Kwong previously served as an independent non-executive director of COSCO SHIPPING Holdings Co., Ltd. until 25 May 2017 and CITIC Telecom International Holdings Limited until 1 June 2017.

Professor KO Ping Keung, *PhD, FIEEE, JP,* aged 68, has been an Independent Non-executive Director of the Company since 2004. He is also a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. Professor Ko holds a Bachelor of Science (Honours) degree from The University of Hong Kong, a Doctor of Philosophy degree and a Master of Science degree from the University of California at Berkeley. He is an Adjunct Professor of Peking University and Tsinghua University and Emeritus Professor of Electrical & Electronic Engineering and the former Dean of the School of Engineering of The Hong Kong University of Science and Technology. He was the vice chairman of Electrical Engineering and Computer Science Department of the University of California at Berkeley in 1991-1993 and a member of Technical staff, Bell Labs, Holmdel, in 1982-1984. Professor Ko is an independent non-executive director of Henderson Investment Limited, Q Technology (Group) Company Limited and VTech Holdings Limited, all of which are listed companies.

WU King Cheong, *BBS, JP,* aged 68, has been an Independent Non-executive Director of the Company since 2005. He is also the chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee of the Company. Mr Wu is the Life Honorary Chairman of the Chinese General Chamber of Commerce, the Honorary Permanent President of the Chinese Gold & Silver Exchange Society and the Permanent Honorary President of the Hong Kong Securities Association Limited. He is an independent non-executive director of Henderson Investment Limited, Hong Kong Ferry (Holdings) Company Limited, Miramar Hotel and Investment Company, Limited and Yau Lee Holdings Limited, all of which are listed companies.

WOO Ka Biu, Jackson, *MA (Oxon),* aged 56, has been an Independent Non-executive Director of the Company since 2012. He holds an MA degree in Jurisprudence from the Oxford University and is a qualified solicitor in England and Wales, Hong Kong Special Administrative Region and Australia. He is an honorary director of Tsinghua University, a China-Appointed Attesting Officer appointed by the Ministry of Justice, People's Republic of China and a Practising Solicitor Member on the panel of the Solicitors' Disciplinary Tribunal in The Hong Kong Special Administrative Region. Mr Woo was a partner of Ashurst Hong Kong and a director of N M Rothschild & Sons (Hong Kong) Limited ("Rothschild"). Prior to joining Rothschild, Mr Woo was a partner in the corporate finance department of Woo Kwan Lee & Lo. Mr Woo was an alternate to Sir Po-shing Woo, in Sir Po-shing Woo's capacity as a non-executive director of the Company. He is a director of Kailey Group of Companies, the Chief Executive Officer of Challenge Capital Management Limited and a consultant of Guantao & Chow Solicitors and Notaries. He is also an alternate to Sir Po-shing Woo, in Sir Po-shing Woo's capacity as a non-executive director of Sun Hung Kai Properties Limited, a listed company. He previously served as an independent non-executive director of Ping An Insurance (Group) Company of China, Ltd. until during the month of August 2017. He is the son of Sir Po-shing Woo.

Professor POON Chung Kwong, *GBS, JP, PhD, DSc,* aged 79, has been an Independent Non-executive Director and a member of the Corporate Governance Committee of the Company since 2012. Professor Poon obtained a Bachelor of Science (honours) degree from the University of Hong Kong, a Doctor of Philosophy degree and a Higher Doctor of Science degree from the University of London. He was a postdoctoral fellow at the California Institute of Technology, University of Southern California and University of Toronto. He also held the Honorary Degree of Doctor of Humanities from The Hong Kong Polytechnic University in 2009. Professor Poon is currently the chairman of Virya Foundation Limited (a registered non-profit charitable organisation) and he is the President Emeritus and Emeritus Professor of The Hong Kong Polytechnic University and had devoted 40 years of his life to advancing university education in Hong Kong before he retired in January 2009 from his 18-year presidency at The Hong Kong Polytechnic University. Professor Poon was appointed a non-official Justice of the Peace (JP) in 1989 and received the OBE award in 1991, the Gold Bauhinia Star (GBS) award in 2002 by the Government of the Hong Kong Special Administrative Region, and the "Leader of the Year Awards 2008 (Education)". In addition, Professor Poon was appointed a member of the Legislative Council (1985-1991) and a member of the National Committee of the Chinese People's Political Consultative Conference (1998-2013). Professor Poon is the Honorary Professor of a number of top-rated universities in mainland China. Professor Poon is a non-executive director of Lee & Man Paper Manufacturing Limited and an independent non-executive director of The Hong Kong and China Gas Company Limited and Chevalier International Holdings Limited, all of which are listed companies. He previously served as an independent non-executive director of Hopewell Highway Infrastructure Limited until 2 May 2018.

AU Siu Kee, Alexander, *OBE, FCA, FCCA, FCPA, AAIA, FCIB, FHKIB,* aged 72, rejoined the Company as an Independent Non-executive Director, and a member of the Audit Committee and the Corporate Governance Committee of the Company in December 2018. Mr Au was an Executive Director and the Chief Financial Officer of the Company from December 2005 to June 2011. He stepped down from the position of Chief Financial Officer and was re-designated as a Non-executive Director of the Company on 1 July 2011. On 18 December 2012, Mr Au was re-designated as an Independent Non-executive Director of the Company until his retirement on 2 June 2015. A banker by profession, Mr Au was the chief executive officer of Hang Seng Bank Limited from October 1993 to March 1998 and of Oversea-Chinese Banking Corporation Limited in Singapore from September 1998 to April 2002. He was formerly a non-executive director of a number of leading companies including The Hongkong and Shanghai Banking Corporation Limited, MTR Corporation Limited and Hang Lung Group Limited. Mr Au previously served as an independent non-executive director of The Wharf (Holdings) Limited until 23 November 2017. Currently, Mr Au is an independent non-executive director of Henderson Investment Limited and Wharf Real Estate Investment Company Limited, and a non-executive director of Hong Kong Ferry (Holdings) Company Limited and Miramar Hotel and Investment Company, Limited, all of which are listed companies. He is also the chairman and a non-executive director of Henderson Sunlight Asset Management Limited, a wholly-owned subsidiary of the Company, which is the manager of the publicly-listed Sunlight Real Estate Investment Trust. An accountant by training, Mr Au is a Fellow of The Institute of Chartered Accountants in England and Wales, The Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

Senior Management

YU Wai Wai, *JP, BA (AS), B Arch, FHKIA, HonFHKIPM, Registered Architect (HK), Authorized Person (Architect),* aged 58, joined the Company in 2013 and is presently the General Manager of Project Management (1) Department. He is a Fellow member of the Hong Kong Institute of Architects, an Honorary Fellow of the Hong Kong Institute of Project Management and an Authorized Person (Architect). He has over 33 years of experience in property planning and design, project management, quality management, cost management, land acquisition and customer services. He also has experience in art and cultures, green building innovations, heritage and conservation developments. Mr Yu was appointed as a Justice of the Peace by the Government of the Hong Kong Special Administrative Region in 2013.

KWOK Man Cheung, Victor, *BA (AS), B Arch (Dist), MSc (Con P Mgt), EMBA, FHKIA, MAPM, RIBA, Authorized Person (Architect), Registered Architect (HK), PRC Class 1 Registered Architect Qualification,* aged 65, joined the Company in 2005 and is presently the General Manager of Project Management (2) Department. He possesses professional qualifications of both a project manager and an architect. He holds a Bachelor of Architecture (Distinction) degree and a Master of Science in Construction Project Management degree from The University of Hong Kong, and an Executive Master of Business Administration degree from Tsinghua University. He is a Fellow Member of The Hong Kong Institute of Architects and a Member of Association of Project Management. He has over 40 years of professional experience in the property and construction industry of Hong Kong and mainland China.

LEUNG Kam Leung, *MSc, PGDMS, FHKIS, RPS (GP),* aged 65, joined the Company in 1997 and is presently the General Manager of Property Planning Department. He has over 42 years' experience in land and property development. He joined the former Public Works Department in 1976 and qualified as a Chartered Surveyor in 1980. He was assigned to an international property consultancy firm in London in 1982 receiving professional training in valuation, town planning and property development. He was promoted to Senior Estate Surveyor and Chief Estate Surveyor of the Lands Department in 1986 and 1994 respectively. He holds an Associateship in General Practice Surveying, a Postgraduate Diploma in Management Studies and a Master of Science degree in International Real Estate. He was sponsored by the Hong Kong Government in 1992 to complete a one-year programme of studies at the Graduate School of Public Policy of the University of California, Berkeley. Mr Leung is a Fellow Member of The Hong Kong Institute of Surveyors and a Registered Professional Surveyor. He was a non-official member of the Business Facilitation Advisory Committee, the convenor of the Former Pre-construction Task Force, a member of the Review Panel under the Land (Miscellaneous Provisions) Ordinance, a member of the Real Estate Services Training Board of Vocational Training Council and an external examiner of Master of Science in Real Estate Programme of the Faculty of Architecture of The University of Hong Kong. He is now a member of the Land Sub-committee of the Land and Development Advisory Committee and the convenor of the Planning, Environment and Lands Sub-committee of The Real Estate Developers Association of Hong Kong.

WONG Wing Hoo, Billy, *BBS, JP, BSc, FICE, FHKIE, FIHT, FHKIHT, RPE,* aged 61, joined the Company in 2006 and is presently the General Manager of Construction Department. He is a fellow member of the Institution of Civil Engineers, Hong Kong Institution of Engineers, Institution of Highways and Transportation and Hong Kong Institution of Highways and Transportation. He is also a Registered Professional Engineer under the Engineers Registration Ordinance Chapter 409. Mr Wong was appointed as a Justice of the Peace in 2005 and was awarded Bronze Bauhinia Star (BBS) in 2014 by the Government of the Hong Kong Special Administrative Region respectively. He previously served as president of Hong Kong Construction Association, chairman of Construction Industry Training Authority, chairman of Construction Industry Training Board and director of Hong Kong Science and Technology Parks Corporation. Mr Wong is currently director of Hong Kong-Shenzhen Innovation and Technology Park Ltd., board member of the Airport Authority Hong Kong and permanent supervisor of Hong Kong Construction Association.

CHENG Yuk Lun, Stephen, *BSc(Eng), C Eng, MICE, MIStructE, MHKIE, RPE, Registered Structural Engineer, Registered Geotechnical Engineer, Authorized Person (List II), PRC Class 1 Registered Structural Engineer Qualification,* aged 70, joined the Company in 1994 and is presently the Senior General Manager of the Engineering Department. He is a member of the Hong Kong Institution of Engineers, the Institution of Civil Engineers, and the Institution of Structural Engineers. He has over 40 years of professional experience in structural, civil, and geotechnical engineering.

WONG Man Wa, Raymond, *LLB, PCLL, Solicitor*, aged 53, joined the Company in 2012 and is presently the Senior General Manager of Sales Department. He possesses professional qualification as a solicitor in Hong Kong and is presently sitting on a number of professional, government consultative and advisory committees. He is also an individual member of The Real Estate Developers Association of Hong Kong. He holds a Bachelor of Laws (LL.B) degree and a Postgraduate Certificate in Laws (PCLL) from The University of Hong Kong. Prior to joining the Company, he had over 22 years' practical experience as a lawyer specializing in land and property development related works and was a partner of one of the largest international law firms in Hong Kong.

LAM Tat Man, Thomas, *MEM(UTS), DMS, EHKIM, MHIREA, China GBL Manager*, aged 59, joined the Company in 1983 and is presently the General Manager of Sales (1) Department. He holds a Master Degree in Engineering Management from the University of Technology, Sydney, Australia and a Diploma in Management Studies from The Hong Kong Polytechnic University. He is an Ordinary Member of Hong Kong Institute of Real Estate Administrators and an Executive Member of Hong Kong Institute of Marketing and a China Green Building Label Manager. He has over 35 years' experience in property sales and marketing.

HAHN Ka Fai, Mark, *BSc, MRICS, MHKIS, RPS (GP),* aged 55, joined the company in 2013 and is presently the General Manager of Sales (2) Department. He is a member of both the Royal Institution of Chartered Surveyors and The Hong Kong Institute of Surveyors. He has over 32 years' experience in property acquisitions, developments, sales and marketing as well as fund raising involving projects in Hong Kong, mainland China, Taiwan and Japan. Prior to joining the Company, he held various senior posts with several leading international property consultancies, associate director at Sino Land and executive director, Asia/managing director, development at Grosvenor.

CHOI Ngai Min, Michael, *BBS, JP, MBA*, aged 61, joined the Company in 2013 and is presently the in charge of China sales and land acquisition. He graduated from the Business Management Department of the Hong Kong Baptist College and holds a Master Degree in Business Administration from the University of East Asia, Macau. He has been in the real estate industry for 38 years and has extensive knowledge and experience in the real estate markets in Hong Kong and mainland China. Mr Choi was appointed as a Justice of the Peace in 2005 and was awarded Bronze Bauhinia Star (BBS) in 2015 by the Government of the Hong Kong Special Administrative Region respectively. Currently, he is the vice president of The Hong Kong Real Property Federation Limited.

LEE Pui Man, Margaret, *BHum (Hons)*, aged 58, joined the Company in 1984 and is presently the Senior General Manager of Portfolio Leasing Department. She holds a B Hum (Honours) degree from the University of London and has over 34 years' experience in marketing development. She is the eldest daughter of Dr Lee Shau Kee, the spouse of Mr Li Ning, the sister of Dr Lee Ka Kit and Mr Lee Ka Shing and the relative of Mr Lee Tat Man and Madam Fung Lee Woon King.

SIT Pak Wing, *ACIS, FHIREA, FRICS*, aged 71, joined the Company in 1991 and is presently the General Manager of Portfolio Leasing Department. He is a Member of The Institute of Chartered Secretaries and Administrators, a Fellow Member of the Hong Kong Institute of Real Estate Administrators, an individual Member of The Real Estate Developers Association of Hong Kong and a Fellow of the Royal Institution of Chartered Surveyors. He has over 40 years' experience in marketing development, leasing and property management.

LI Ning, *BSc, MBA*, aged 62, Mr Li, has been appointed an executive director of Henderson Investment Limited since 2014 and is also an executive director of Hong Kong Ferry (Holdings) Company Limited. He holds a B.Sc. degree from Babson College and an M.B.A. degree from the University of Southern California. Mr Li set up the business of Citistore Stores in 1989 and has been managing the business since then in the capacity as a director, being a veteran with 25 years' experience in the department store business. Mr Li is the son-in-law of Dr Lee Shau Kee, the spouse of Ms Lee Pui Man, Margaret, the brother-in-law of Dr Lee Ka Kit and Mr Lee Ka Shing and the relative of Mr Lee Tat Man and Madam Fung Lee Woon King.

Dr WONG Kim Wing, Ball, *BA (AS), B. Arch, PhD (Finance), FHKIA, Registered Architect (HK), Authorized Person (List 1, HK),* aged 57, joined the Company in 2011 as the group consultant and serves to advise Henderson Land Group in his expert areas of sales and marketing, leasing, and project management. He is also presently acting as the General Manager of Asset Development Department and Comm. & Ind. Properties Department and advises Henderson Land Group on its asset development and asset branding of investment portfolio. Dr Wong is a Registered Architect and Authorized Person in Hong Kong and holds a PhD Degree in Finance from the Shanghai University of Finance and Economics. Prior to joining Henderson Land Group, he was an executive director of CC Land Holdings Ltd., and was the director (Project and Planning) of The Link Management Limited (as Manager of The Link Real Estate Investment Trust). He had also served Sun Hung Kai Properties Group for over 10 years.

FUNG Hau Chung, Andrew, *BBS, JP, BA,* aged 61, was appointed as the Chief Financial Officer of the Company on 1 August 2017. He holds the Bachelor of Arts Degree from The University of Hong Kong and the Honorary Fellowship awarded by Lingnan University. Mr Fung served as an executive director and the Head of Global Banking and Markets of Hang Seng Bank Limited before he stepped down such positions in July 2017. He is the Professor of Practice (Finance) in the School of Accounting and Finance of The Hong Kong Polytechnic University and the Adjunct Professor of The Hang Seng University of Hong Kong. He has about 37 years of experience in banking, capital markets and asset management. Mr Fung is currently a board member of the Hospital Authority, the chairman of the Hospital Governing Committee of Pamela Youde Nethersole Eastern Hospital, a member of the Court of The University of Hong Kong and a client representative director of OTC Clearing Hong Kong Limited.

LEE King Yue, aged 92, joined Henderson Development Limited, the parent company of the Company on its incorporation in 1973 and has been engaged with the Chairman of the Company in property development for over 60 years. Mr Lee was an Executive Director of the Company for about 40 years until his stepping down from the board on 2 June 2016. He is an executive director of Henderson Real Estate Agency Limited and also a director of various members of the Group. He performs a senior executive role in the Finance Department of the Group and is responsible for the Group's property mortgage loans business.

LIU Cheung Yuen, Timon, *BEc, FCPA, CA (Aust), FCS, FCIS,* aged 61, joined the Henderson Land Group in 2005 and is presently the Company Secretary of the Group. Mr Liu graduated from Monash University, Australia with a bachelor's degree in Economics. He is a fellow of both the Hong Kong Institute of Certified Public Accountants and The Hong Kong Institute of Chartered Secretaries, and an associate of The Institute of Chartered Accountants in Australia. He has many years' experience in accounting, auditing, corporate finance, corporate investment and development, and company secretarial practice.

WONG Wing Kee, Christopher, *BSc (Econ), FCA,* aged 56, joined the Company in 2007 and is presently the General Manager of Accounts Department. Mr Wong graduated from The London School of Economics and Political Science, University of London and is a fellow of The Institute of Chartered Accountants in England & Wales. He has over 30 years of experience in accounting, auditing, investment banking and corporate finance in the United Kingdom and in Hong Kong. Prior to joining the Company, Mr Wong was the chief financial officer of Kerry Properties Limited between December 2004 and May 2007.

NGAN Suet Fong, Bonnie, *BBA,* aged 61, joined the Company in 2005 and is presently the General Manager of Corporate Communications Department. Ms Ngan graduated from the University of Wisconsin, USA. She has over 35 years of experience in both banking and real estate industries, and has held senior positions in corporate communications, marketing, retail banking and e-business. Prior to joining the Company, Ms Ngan was the general manager, corporate communications and public relations of Hong Kong Tourism Board.

Financial Statements

Report of the Independent Auditor

KPMG

Independent auditor's report to the members of Henderson Land Development Company Limited

(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of Henderson Land Development Company Limited ("the Company") and its subsidiaries ("the Group") set out on pages 143 to 263, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

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

Key audit matters

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

Key audit matters (continued)

Valuation of investment properties and investment properties under development	
Refer to note 15 to the consolidated financial statements on pages 215 to 221 and the accounting policy 2(j)(i) on page 162.	
The key audit matter	**How the matter was addressed in our audit**
The Group holds either directly or through its joint ventures and associates, a portfolio of investment properties and investment properties under development located in Hong Kong and in certain first and second-tier cities across mainland China. These properties comprise office premises, industrial premises, shopping malls, residential premises and car parking bays. The fair values of investment properties and investment properties under development as at 31 December 2018 were assessed by the management based on independent valuations prepared by a firm of qualified external property valuers. The net changes in fair value of investment properties and investment properties under development are recorded in the consolidated statement of profit or loss. We identified valuation of the investment properties and investment properties under development as a key audit matter because of the significance of investment properties and investment properties under development to the Group's total assets and the significance of changes in fair value of investment properties and investment properties under development to the Group's profit before taxation and because the valuation of investment properties and investment properties under development can be inherently subjective and requires significant management judgement and estimation which increases the risk of error or potential management bias, particularly given the number and the diverse nature and location of the investment properties and investment properties under development.	Our audit procedures to address the valuation of investment properties and investment properties under development, either directly held by the Group or through its joint ventures and associates included the following: • obtaining and inspecting the valuation reports prepared by the external property valuers on which the management's assessment of the fair values of investment properties and investment properties under development was based; • assessing the external property valuers' qualifications, experience and expertise in the properties being valued and considering their objectivity and independence; • with the assistance of our internal property valuation specialists, discussing with the external property valuers, without the presence of management, their valuation methodology and assessing the key estimates and assumptions adopted in the valuations by comparing capitalisation rates, prevailing market rents and comparable market transactions with the available market data and by utilising the industry knowledge and experience of our internal property valuation specialists; • comparing tenancy information, including committed rents and occupancy rates, provided by the management to the external property valuers with underlying contracts and related documentation, on a sample basis; • conducting site visits to investment properties under development, on a sample basis, to observe the development progress and evaluating management's development budgets reflected in the latest forecasts with reference to market statistics about estimated construction costs, signed construction contracts and/or unit construction costs of recently completed projects.

Key audit matters (continued)

Assessing the net realisable value of properties held for/under development for sale and completed properties for sale in mainland China	
Refer to note 23 to the consolidated financial statements on page 230 and the accounting policy 2(o) on page 171.	
The key audit matter	**How the matter was addressed in our audit**
As at 31 December 2018, the Group held either directly or through its joint ventures and associates, properties held for/under development for sale and completed properties for sale located in certain cities across mainland China. These properties are stated at the lower of cost and net realisable value. The determination of the net realisable value of these properties requires estimations, including expected future selling prices and costs necessary to complete the sale of these properties, and is assessed by the management with reference to the independent valuations carried out by the external property valuers for certain properties. Changes in government policies, which affect interest rates, the required reserve ratio for banks and/or mortgage requirements for second-home buyers, could lead to volatility in property prices, particularly for properties in mainland China. We identified the assessment of the net realisable value of the properties in mainland China as a key audit matter because of the significance of these properties to the Group's total assets and because the assessment of net realisable value is inherently subjective and requires significant management judgement and estimation in relation to estimating future selling prices and future construction costs which increases the risk of error or potential management bias.	Our audit procedures to assess the net realisable value of properties held for/under development for sale and completed properties for sale in mainland China, either directly held by the Group or through its joint ventures and associates, included the following: • obtaining and inspecting management's valuation assessments and/or the external valuation reports prepared by external property valuers and on which the management's assessment of the net realisable value of the properties held for/under development for sale and completed properties for sale was based; • assessing the qualifications, experience and expertise of the management and/or the external property valuers in the nature and locations of the properties being valued; • with the assistance of our internal property valuation specialists, discussing with management and/or the external property valuers their valuation methodologies and assessing the key estimates and assumptions adopted in the valuations, including expected future selling prices and costs to completion, by comparing expected future selling prices to, where available, recently transacted prices for similar properties or the prices of comparable properties located in the vicinity of each development, and publicly available construction cost information for properties of a similar nature and location and by utilising the industry knowledge and experience of our internal property valuation specialists; • conducting site visits to properties under development for sale, on a sample basis, to observe the development progress and evaluating the management's development budgets reflected in the latest forecasts with reference to market statistics about estimated construction costs, signed construction contracts and/or unit construction costs of recently completed projects.

Information other than the consolidated financial statements and auditor's report thereon

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

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

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

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

Responsibilities of the directors for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Felix Kwo Hang Lee.

KPMG
Certified Public Accountants

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

20 March 2019

Consolidated Statement of Profit or Loss

for the year ended 31 December 2018

	Note	2018 HK$ million	2017 *(restated)* HK$ million
Revenue	5	**21,982**	27,960
Direct costs		**(9,987)**	(15,344)
		11,995	12,616
Other net income	6	**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	15(a)	**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	7(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	7	**33,495**	33,382
Income tax	10(a)	**(2,123)**	(2,217)
Profit for the year		**31,372**	31,165
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	*13(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	*13(b)*	***HK$4.49***	*HK$4.43**

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

The notes on pages 152 to 263 form part of these financial statements. Details of dividends payable to equity shareholders of the Company are set out in note 11.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2018

	Note	**2018** **HK$ million**	2017 *(restated)* HK$ million
Profit for the year		**31,372**	31,165
Other comprehensive income for the year (after tax and reclassification adjustments):	12(a)		
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

The notes on pages 152 to 263 form part of these financial statements.

Consolidated Statement of Financial Position

at 31 December 2018

	Note	At 31 December 2018 HK$ million	At 31 December 2017 *(restated)* HK$ million	At 1 January 2017 *(restated)* HK$ million
Non-current assets				
Investment properties	15	**176,717**	173,494	131,860
Other property, plant and equipment	15	**370**	350	1,419
Goodwill	16	**262**	–	–
Interest in associates	18	**62,059**	59,491	53,933
Interest in joint ventures	19	**53,011**	44,865	38,728
Derivative financial instruments	20	**42**	111	358
Other financial assets	21	**13,825**	11,937	10,854
Deferred tax assets	10(c)	**641**	424	377
		306,927	290,672	237,529
Current assets				
Deposits for acquisition of properties	22	**1,310**	1,666	4,608
Inventories	23	**97,177**	74,219	78,476
Trade and other receivables	24	**15,239**	17,435	9,973
Cash held by stakeholders		**2,158**	2,333	1,289
Cash and bank balances	26(a)	**16,507**	24,673	22,966
		132,391	120,326	117,312
Assets of the disposal group classified as held for sale	32	**1,788**	–	3,220
		134,179	120,326	120,532
Current liabilities				
Trade and other payables	27	**27,113**	23,525	24,996
Bank loans	28	**27,834**	23,506	14,392
Guaranteed notes	29	**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	**–**	–	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

	Note	At 31 December 2018 HK$ million	At 31 December 2017 *(restated)* HK$ million	At 1 January 2017 *(restated)* HK$ million
Non-current liabilities				
Bank loans	28	**44,621**	45,671	28,086
Guaranteed notes	29	**7,888**	8,204	7,846
Amount due to a fellow subsidiary	30	**1,100**	1,754	316
Derivative financial instruments	20	**376**	746	906
Provisions for reinstatement costs		**13**	–	–
Deferred tax liabilities	10(c)	**6,802**	6,618	6,582
		60,800	62,993	43,736
NET ASSETS		**317,992**	297,943	268,288
CAPITAL AND RESERVES	31			
Share capital	39(c)	**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

Approved and authorised for issue by the Board of Directors on 20 March 2019.

Lee Shau Kee
Lee Tat Man
Directors

The notes on pages 152 to 263 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2018

		Attributable to equity shareholders of the Company									
	Note	Share capital HK$ million	Property revaluation reserve HK$ million	Exchange reserve HK$ million	Fair value reserve (recycling) HK$ million	Hedging reserve HK$ million	Other reserves HK$ million	Retained profits HK$ million	Total HK$ million	Non-controlling interests HK$ million	Total equity HK$ million
Balance at 1 January 2017, as previously reported		52,345	16	(1,366)	584	(549)	159	212,345	263,534	5,767	269,301
Impact of change in accounting policy upon adoption of HKFRS 15	2(b)	–	–	–	–	–	–	(927)	(927)	(86)	(1,013)
Restated balance at 1 January 2017		52,345	16	(1,366)	584	(549)	159	211,418	262,607	5,681	268,288
Changes in equity for 2017:											
Profit for the year (restated)		–	–	–	–	–	–	30,809	30,809	356	31,165
Other comprehensive income for the year	12(c)	–	–	4,841	200	100	–	53	5,194	5	5,199
Total comprehensive income for the year (restated)		–	–	4,841	200	100	–	30,862	36,003	361	36,364
Transfer from other reserves		–	–	–	–	–	(43)	43	–	–	–
Bonus shares issued	39(c)	–	–	–	–	–	–	–	–	–	–
Dividend approved in respect of the previous financial year	11(b)	–	–	–	–	–	–	(4,110)	(4,110)	–	(4,110)
Dividend declared and paid in respect of the current year	11(a)	–	–	–	–	–	–	(1,921)	(1,921)	–	(1,921)
Share of associates' reserves		–	–	–	–	–	–	(5)	(5)	–	(5)
Dividends paid to non-controlling interests		–	–	–	–	–	–	–	–	(567)	(567)
Transfers of subsidiaries	34(b)	–	–	–	–	–	–	–	–	(16)	(16)
Distribution to non-controlling interests		–	–	–	–	–	–	–	–	(15)	(15)
Repayment to non-controlling interests, net		–	–	–	–	–	–	–	–	(75)	(75)
Balance at 31 December 2017 (restated)		52,345	16	3,475	784	(449)	116	236,287	292,574	5,369	297,943

Consolidated Statement of Changes in Equity

for the year ended 31 December 2018

		Attributable to equity shareholders of the Company										
	Note	Share capital HK$ million	Property revaluation reserve HK$ million	Exchange reserve HK$ million	Fair value reserve (recycling) HK$ million	Fair value reserve (non-recycling) HK$ million	Hedging reserve HK$ million	Other reserves HK$ million	Retained profits HK$ million	Total HK$ million	Non-controlling interests HK$ million	Total equity HK$ million
Balance at 31 December 2017 and 1 January 2018, as previously reported		52,345	16	3,475	784	–	(449)	116	236,838	293,125	5,487	298,612
Impact of change in accounting policy upon adoption of HKFRS 9	2(b)	–	–	–	(785)	135	–	–	833	183	2	185
Impact of change in accounting policy upon adoption of HKFRS 15	2(b)	–	–	–	–	–	–	–	(551)	(551)	(118)	(669)
Balance at 1 January 2018 (restated)		52,345	16	3,475	(1)	135	(449)	116	237,120	292,757	5,371	298,128
Changes in equity for 2018:												
Profit for the year		–	–	–	–	–	–	–	31,157	31,157	215	31,372
Other comprehensive income for the year	12(c)	–	–	(3,989)	(2)	3	395	–	(31)	(3,624)	(11)	(3,635)
Total comprehensive income for the year		–	–	(3,989)	(2)	3	395	–	31,126	27,533	204	27,737
Transfer to other reserves		–	–	–	–	–	–	30	(30)	–	–	–
Transfer to retained profits upon disposal of equity investments		–	–	–	–	(91)	–	–	91	–	–	–
Bonus shares issued	39(c)	–	–	–	–	–	–	–	–	–	–	–
Dividend approved in respect of the previous financial year	11(b)	–	–	–	–	–	–	–	(4,921)	(4,921)	–	(4,921)
Dividend declared and paid in respect of the current year	11(a)	–	–	–	–	–	–	–	(2,201)	(2,201)	–	(2,201)
Share of associates' and joint ventures' reserves		–	–	–	–	–	–	5	(20)	(15)	–	(15)
Dividends paid to non-controlling interests		–	–	–	–	–	–	–	–	–	(709)	(709)
Repayment to non-controlling interests, net		–	–	–	–	–	–	–	–	–	(27)	(27)
Balance at 31 December 2018		52,345	16	(514)	(3)	47	(54)	151	261,165	313,153	4,839	317,992

The notes on pages 152 to 263 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2018

	Note	2018 HK$ million	2017 *(restated)* HK$ million
Operating activities			
Profit before taxation		**33,495**	33,382
Adjustments for:			
– Interest income		**(991)**	(954)
– Dividend income from investments designated as financial assets at fair value through other comprehensive income ("FVOCI") and investments measured as financial assets at fair value through profit or loss ("FVPL") (2017: investments in available-for-sale securities)	7(d)	**(117)**	(214)
– Net gain on disposal of investment properties	6	**(234)**	(1,024)
– Provision/(reversal of provision) on inventories, net	6	**90**	(25)
– Reversal of impairment loss on trade debtors, net	6	**(25)**	(2)
– Net gain on transfers of subsidiaries	6 & 34(b)	**(1,444)**	(3,837)
– Net gain on winding-up of subsidiaries	6	**–**	(33)
– Net gain on disposal of available-for-sale securities	6	**–**	(336)
– Net fair value loss on investments measured as financial assets at FVPL	6	**93**	–
– Net fair value (gain)/loss on derivative financial instruments:			
Interest rate swap contracts and cross currency swap contracts	6	**(91)**	(21)
Other derivatives	6	**(13)**	35
– Cash flow hedges: reclassified from hedging reserve to profit or loss	6	**519**	371
– Increase in fair value of investment properties and investment properties under development	15(a)	**(10,465)**	(9,911)
– Finance costs	7(a)	**810**	837
– Depreciation	7(d)	**68**	94
– Share of profits less losses of associates		**(5,265)**	(4,955)
– Share of profits less losses of joint ventures		**(6,947)**	(4,378)
– Net foreign exchange gain		**(22)**	(55)
– Other cash flows from operating activities		**(20)**	(2)
Operating profit before changes in working capital		**9,441**	8,972
Increase in instalments and loans receivable		**(4,390)**	(1,730)
Decrease/(increase) in deposits for acquisition of properties		**341**	(310)
Increase in inventories (other than through acquisitions and transfers of subsidiaries and transfers to/from investment properties)		**(9,960)**	(1,067)
Decrease/(increase) in debtors, prepayments and deposits		**2,400**	(2,214)
Increase in gross amount due from customers for contract work		**(24)**	(6)
Decrease/(increase) in cash held by stakeholders		**175**	(1,044)
Decrease in cash restricted for use		**2,569**	130
(Decrease)/increase in creditors and accrued expenses		**(1,650)**	121
(Decrease)/increase in gross amount due to customers for contract work		**(4)**	7
Increase/(decrease) in rental and other deposits		**116**	(242)
Increase/(decrease) in forward sales deposits received		**6,307**	(2,158)

Consolidated Cash Flow Statement

for the year ended 31 December 2018

	Note	2018 HK$ million	2017 *(restated)* HK$ million
Cash generated from operations		**5,321**	459
Interest received		**313**	316
Tax paid			
– Hong Kong		**(908)**	(839)
– Outside Hong Kong		**(902)**	(733)
Net cash generated from/(used in) operating activities		**3,824**	(797)
Investing activities			
Payment for purchase of investment properties and other property, plant and equipment		**(2,134)**	(28,000)
Proceeds from disposal of investment properties and other property, plant and equipment		**2,165**	2,430
(Advances to)/repayment from associates, net		**(2,742)**	241
Advances to joint ventures, net		**(1,663)**	(2,744)
Additional investments in associates		**(749)**	(452)
Additional investments in joint ventures		**–**	(277)
Payment for purchase of investments designated as financial assets at FVOCI and investments measured as financial assets at FVPL (2017: investments in available-for-sale securities)		**(119)**	(741)
Payment for purchase of other derivatives		**–**	(18)
Proceeds from sale of investments in equity securities designated as financial assets at FVOCI (2017: investments in available-for-sale securities), net		**1,623**	1,831
Proceeds from redemption/disposal of held-to-maturity debt securities		**495**	633
Net cash outflow in respect of the acquisition of subsidiaries	34(a)	**(16,211)**	(47)
Net cash inflow in respect of the transfers of subsidiaries	34(b)	**9,744**	9,161
Additional investments in subsidiaries		**–**	(17)
Interest received		**681**	646
Dividends received from associates		**2,397**	2,180
Dividends received from joint ventures		**1,389**	1,362
Dividends received from investments in equity securities designated as financial assets at FVOCI and investments measured as financial assets at FVPL (2017: investments in available-for-sale securities)		**113**	214
(Increase)/decrease in deposits with banks and other financial institutions over three months of maturity at acquisition		**(509)**	6,293
Increase in structured bank deposits		**(1,819)**	(2)
Net cash used in investing activities		**(7,339)**	(7,307)

Consolidated Cash Flow Statement

for the year ended 31 December 2018

	Note	2018 HK$ million	2017 *(restated)* HK$ million
Financing activities			
Repayment to non-controlling interests, net	26(b)	**(27)**	(75)
Proceeds from new bank loans	26(b)	**46,608**	60,741
Repayment of bank loans	26(b)	**(43,350)**	(34,421)
Proceeds from issue of guaranteed notes	26(b)	**4,880**	1,339
Repayment of guaranteed notes	26(b)	**(1,244)**	(5,767)
(Decrease)/increase in amount due to a fellow subsidiary	26(b)	**(654)**	1,438
Interest and other borrowing costs paid	26(b)	**(2,114)**	(1,562)
Distribution to non-controlling interests		**–**	(15)
Dividends paid to equity shareholders of the Company	11	**(7,122)**	(6,031)
Dividends paid to non-controlling interests		**(709)**	(567)
Net cash (used in)/generated from financing activities		**(3,732)**	15,080
Net (decrease)/increase in cash and cash equivalents		**(7,247)**	6,976
Cash and cash equivalents at 1 January		**20,828**	12,805
Effect of foreign exchange rate changes		**(682)**	1,047
Cash and cash equivalents at 31 December	26(a)	**12,899**	20,828

The notes on pages 152 to 263 form part of these financial statements.

Notes to the financial statements

for the year ended 31 December 2018

1 General information

Henderson Land Development Company Limited ("the Company") is incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited. The address of the Company's registered office and principal place of business is 72/F-76/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are property development and investment, department store operation and management, construction, finance, project management, investment holding and property management.

2 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). A summary of the significant accounting policies adopted by the Company and its subsidiaries (collectively referred to as "the Group") is set out below.

(b) 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.

2 Significant accounting policies (continued)

(b) Changes in accounting policies (continued)

HKFRS 9, Financial instruments (continued)

	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)
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.

2 Significant accounting policies (continued)

(b) Changes in accounting policies (continued)

HKFRS 9, Financial instruments (continued)

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:

Original measurement category	HKAS 39 Carrying amount at 31 December 2017 HK$ million	Reclassification HK$ million	Re-measurement HK$ million	HKFRS 9 Carrying amount at 1 January 2018 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, 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.

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.

2 Significant accounting policies (continued)

(b) 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 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 13(a)).

	As previously reported HK$ million	Effect of adoption of HKFRS 15 HK$ million	As restated HK$ million
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 Significant accounting policies (continued)

(b) 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 24) 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 27) under "Trade and other payables" in the statement of financial position.

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.

2 Significant accounting policies (continued)

(b) Changes in accounting policies (continued)

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.

(c) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2018 comprise those of the Company and its subsidiaries and have equity accounted for the Group's interests in associates and joint ventures.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

– investments designated as financial assets at FVOCI (see note 2(g));

– investments measured as financial assets at FVPL (see note 2(g));

– derivative financial instruments (see note 2(h)); and

– investment properties and certain investment properties under development (see note 2(j)(i)).

The measurement basis of non-current assets held for sale and disposal groups is set out in note 2(l) below.

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and the key sources of estimation uncertainty are discussed in note 3.

2 Significant accounting policies (continued)

(d) Subsidiaries and non-controlling interests

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

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

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

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

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

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(g)) or, where appropriate, the cost on initial recognition of an investment in an associate or a joint venture (see note 2(e)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(n)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 2(l)).

2 Significant accounting policies (continued)

(e) Associates and joint arrangements

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

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

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 2(l)). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post-acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see note 2(n)). Any excess of acquisition-date fair value over cost, the Group's share of the post-acquisition post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investee's other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

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

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

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(g)).

In the Company's statement of financial position, investments in associates and joint ventures are stated at cost less impairment losses (see note 2(n)), unless classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 2(l)).

(ii) A joint operation is a joint arrangement whereby the Group and other parties contractually agree to share control of the arrangement, and have rights to the assets, and obligations for the liabilities, relating to the arrangement. The Group recognises its interest in the joint operation by combining the assets, liabilities, revenues and expenses attributable to its interest with similar items on a line-by-line basis. Consistent accounting policies are applied for like transactions and events in similar circumstances.

2 Significant accounting policies (continued)

(f) Goodwill

Goodwill represents the excess of:

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

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

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

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(n)).

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

(g) Other investments in debt and equity securities

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

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except for those investments measured at FVPL for which transaction costs are recognised directly in profit or loss and where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

(A) Policy applicable from 1 January 2018

Investments other than equity investments

Non-equity investments held by the Group are classified into one of the following measurement categories:

– Amortised cost, if the investment is held for the collection of contractual cash flows which represents solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note 2(x)(iii)).

– Fair value through other comprehensive income ("FVOCI (recycling)"), if the contractual cash flows of the investment comprises solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

– Fair value through profit or loss ("FVPL") if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

2 Significant accounting policies (continued)

(g) Other investments in debt and equity securities (continued)

(A) Policy applicable from 1 January 2018 (continued)

Equity investments

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 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 as at FVPL or FVOCI (non-recycling), are recognised in profit or loss as income in accordance with the accounting policy set out in note 2(x)(vii).

(B) Policy applicable prior to 1 January 2018

Non-derivative financial assets with fixed or determinable payments and maturity dates, and for which the Group has the positive ability and intention to hold to maturity, are classified as held-to-maturity debt securities. Held-to-maturity debt securities are initially recognised at fair value and at the end of each reporting period, they are measured at amortised cost using the effective interest method less impairment losses (see note 2(n)). Foreign exchange gains and losses resulting from changes in the amortised cost of held-to-maturity debt securities are also recognised in profit or loss.

Investments in securities which do not fall into the above category are classified as available-for-sale securities. At the end of each reporting period the fair value is re-measured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve (recycling). As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 2(n)). Dividend income from equity securities is recognised in profit or loss in accordance with the policy set out in note 2(x)(vii).

When the investments are derecognised or impaired (see note 2(n)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(h) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period, the fair value is re-measured. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged (see note 2(i)).

2 Significant accounting policies (continued)

(i) Cash flow hedges

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

The Group prospectively and retrospectively assesses and ensures that the effectiveness of each individual derivative financial instrument in hedging cash flows of the respective underlying hedged item are supported by fulfilments of statistical criteria (minimum coefficient of determination 0.8, regression slope of between 0.8 and 1.25, and minimum confidence level of 95%), based on the results of periodical empirical tests.

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

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

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

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

(j) Investment properties and other property, plant and equipment

(i) Investment properties and investment properties under development

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

Investment properties and investment properties under development are stated at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably measured at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 2(x)(ii).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 2(m)(i)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 2(m).

2 Significant accounting policies (continued)

(j) Investment properties and other property, plant and equipment (continued)

(ii) Other property, plant and equipment

The following items of other property, plant and equipment are stated at cost less accumulated depreciation (see note 2(k)) and impairment losses (see note 2(n)):

– other land and buildings;

– leasehold land classified as being held for own use under finance leases; and

– other items of plant and equipment.

The cost of self-constructed items of other property, plant and equipment includes the costs of materials and direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(z)).

Gains or losses arising from the retirement or disposal of an item of other property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the property revaluation reserve to retained profits and is not reclassified to profit or loss.

(k) Depreciation

(i) Investment properties and investment properties under development

No depreciation is provided on investment properties and investment properties under development.

(ii) Hotel properties, leasehold land classified as being held for own use under finance leases and other land and buildings

Depreciation is provided on the cost of the leasehold land of properties over the unexpired terms of the leases. Cost of buildings thereon is depreciated on a straight-line basis over the unexpired terms of the respective leases or 40 years, if shorter.

(iii) Other items of plant and equipment

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

–	Leasehold improvements, furniture and fixtures	5 years
–	Others	2 to 10 years

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

2 Significant accounting policies (continued)

(l) Non-current assets held for sale and disposal groups

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then on initial classification as held for sale and until the completion of the disposal, the non-current assets (except for certain assets as explained below) or the disposal group are recognised at the lower of their carrying amounts and fair value less costs to sell. The principal exceptions to this measurement policy, so far as the financial statements of the Group are concerned, are deferred tax assets, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 2.

Impairment losses on initial classification as held for sale, and on subsequent re-measurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

(m) Leased assets

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

(i) Classification of assets leased to the Group

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

- property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as an investment property, is accounted for as if it were held under a finance lease (see note 2(j)(i)); and
- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

2 Significant accounting policies (continued)

(m) Leased assets (continued)

(ii) Operating lease charges

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

The cost of acquiring land under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 2(j)(i)) or is held for/under development for sale (see note 2(o)(ii)).

(n) Credit losses and impairment of assets

(i) Credit losses from financial instruments, contract assets and lease receivables

(A) Policy applicable from 1 January 2018

The Group recognises a loss allowance for expected credit losses (ECLs) on the following items:

– financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables and loans to associates and joint ventures);

– contract assets as defined in HKFRS 15 (see note 2(p));

– debt securities measured at FVOCI (recycling);

– lease receivables (which is included under "Debtors, prepayments and deposits" within trade and other receivables); and

– loan commitments issued, which are not measured at FVPL.

Financial assets measured at fair value, including units in bond funds, equity securities measured at FVPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

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

For undrawn loan commitments, expected cash shortfalls are measured as the difference between (i) the contractual cash flows that would be due to the Group if the holder of the loan commitment draws down on the loan; and (ii) the cash flows that the Group expects to receive if the loan is drawn down.

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate;

– lease receivables: discount rate used in the measurement of the lease receivable;

– loan commitments: current risk-free rate adjusted for risks specific to the cash flows.

2 Significant accounting policies (continued)

(n) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments, contract assets and lease receivables (continued)

(A) Policy applicable from 1 January 2018 (continued)

Measurement of ECLs (continued)

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables, lease receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments (including loan commitments issued), the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument (including a loan commitment) has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

2 Significant accounting policies (continued)

(n) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments, contract assets and lease receivables (continued)

(A) Policy applicable from 1 January 2018 (continued)

Significant increases in credit risk (continued)

For loan commitments, the date of initial recognition for the purpose of assessing ECLs is considered to be the date that the Group becomes a party to the irrevocable commitment. In assessing whether there has been a significant increase in credit risk since initial recognition of a loan commitment, the Group considers changes in the risk of default occurring on the loan to which the loan commitment relates.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are re-measured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Basis of calculation of interest income

Interest income recognised in accordance with note 2(x)(iii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset, lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

2 Significant accounting policies (continued)

(n) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments, contract assets and lease receivables (continued)

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and other receivables, available-for-sale investments and held-to-maturity debt securities). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment. Objective evidence of impairment included:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For investments in associates and joint ventures accounted for under the equity method in the consolidated financial statements (see note 2(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(n)(iii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(n)(iii).

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale securities, the cumulative loss that had been recognised in the fair value reserve (recycling) was reclassified to profit or loss. The amount of the cumulative loss that was recognised in profit or loss was the difference between the acquisition cost and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale securities were not reversed through profit or loss. Any subsequent increase in the fair value of such assets was recognised in other comprehensive income.

2 Significant accounting policies (continued)

(n) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments, contract assets and lease receivables (continued)

(B) Policy applicable prior to 1 January 2018 (continued)

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Credit losses from financial guarantees issued

The accounting policy for financial guarantees is set out in note 2(w)(i).

(A) Policy applicable from 1 January 2018

The Group monitors the risk that the specified debtor will default on the contract and recognises a provision when ECLs on the financial guarantees are determined to be higher than the amount carried in “Trade and other payables” in respect of the guarantees (i.e. the amount initially recognised, less accumulated amortisation).

To determine ECLs, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. The same definition of default and the same assessment of significant increase in credit risk as described in note 2(n)(i) apply.

As the Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, a provision would be recognised if and when it became probable that (i) the holder of the guarantee would call upon the Group under the guarantee; and (ii) the amount of the claim on the Group was expected to exceed the amount carried in “Trade and other payables” in respect of the guarantee.

(iii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– Other property, plant and equipment;

– goodwill; and

– investments in subsidiaries, associates and joint ventures in the Company’s statement of financial position (except for those classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 2(l)).

2 Significant accounting policies (continued)

(n) Credit losses and impairment of assets (continued)

(iii) Impairment of other assets (continued)

If any such indication exists, the asset's recoverable amount is estimated. In addition, the recoverable amount of goodwill is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

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

– Recognition of impairment losses

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

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

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

(iv) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the aforementioned interim period, the Group applies the same impairment testing, recognition and reversal criteria (see notes 2(n)(i), (ii) and (iii)) as it would at the end of the financial year.

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

2 Significant accounting policies (continued)

(o) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost and net realisable value are determined as follows:

(i) *Leasehold land held for development for sale*

The cost of leasehold land, which is held for development for sale, represents the cost of acquisition and the premium, if any, payable to the relevant government authorities. Net realisable value is determined by reference to management estimates based on prevailing market conditions.

(ii) *Properties held for/under development for sale*

The cost of properties held for/under development for sale comprises specifically identified cost, including the acquisition cost of land, aggregate cost of development, materials and supplies, wages and other direct expenses, and an appropriate proportion of overheads and borrowing costs capitalised (see note 2(z)). Net realisable value represents the estimated selling price, based on prevailing market conditions, less estimated costs of completion and costs to be incurred in selling the property.

(iii) *Completed properties for sale*

The cost of completed properties for sale comprises the total land and development costs for that project, being all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition, and is determined by apportionment attributable to the unsold properties. Net realisable value represents the estimated selling price, based on prevailing market conditions, less estimated costs to be incurred in selling the property.

(iv) *Retail, catering stocks and trading goods*

Cost is calculated using the weighted average cost formula and comprises all costs of purchase. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

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

(p) Construction contracts

A contract with a customer is classified by the Group as a construction contract when the contract relates to work on real estate assets under the control of the customer and therefore the Group's construction activities create or enhance an asset under the customer's control.

A contract asset is recognised when the Group recognises revenue (see note 2(x)(iv)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses in accordance with the policy set out in note 2(n)(i) and are reclassified to receivables when the right to the consideration has become unconditional.

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 2(x)(iv)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

2 Significant accounting policies (continued)

(p) Construction contracts (continued)

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

(q) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see note 2(p)).

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for credit losses (see note 2(n)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for credit losses.

(r) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(s) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 2(w)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(t) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for expected credit losses in accordance with the accounting policy set out in note 2(n)(i).

(u) Employee benefits

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

2 Significant accounting policies (continued)

(v) Income tax

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

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

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

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided that those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided that they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2(j)(i), the amount of deferred tax recognised is measured using the tax rates that would apply on the sale of those assets at their carrying value at the end of the reporting period unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets or liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

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

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

2 Significant accounting policies (continued)

(v) Income tax (continued)

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

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

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

  – the same taxable entity; or

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

(w) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

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

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

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued.

(ii) Other provisions and contingent liabilities

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

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

2 Significant accounting policies (continued)

(x) Revenue recognition

(i) Sale of properties

Revenue arising from the sale of properties held for sale 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, which is the point in time when the customer has the ability to direct the use of the property and obtain substantially all the benefits of the property. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the statement of financial position under forward sales deposits received.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of allowance) of the asset.

(iv) Contract revenue

When the outcome of a construction contract can be reasonably measured, revenue from the contract is recognised progressively over time using the cost-to-cost method, i.e. based on the proportion of the actual costs incurred relative to the estimated total costs.

The likelihood of the Group earning contractual bonuses for early completion or suffering contractual penalties for late completion are taken into account in making these estimates, such that revenue is only recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

When the outcome of the contract cannot be reasonably measured, revenue is recognised only to the extent of contract costs incurred that are expected to be recovered.

If at any time the costs to complete the contract are estimated to exceed the remaining amount of the consideration under the contract, then a provision is recognised in accordance with the policy set out in note 2(w)(ii).

Revenue for construction contracts was recognised on a similar basis in the comparative period under HKAS 11, *Construction contracts*.

(v) Hotel operation

Income from hotel operation is recognised when services are provided.

(vi) Department store operation

Revenue arising from the sale of goods from department store operation is recognised at a point in time when the Group sells a product to the customer, which is taken to be the point in time when the customer has obtained control of the goods sold. Commission income from consignment and concessionaire counters is recognised at a point in time of sale of goods by counter suppliers. Promotion income is recognised over time when the services are provided. Revenue is recognised after deduction of any trade discounts.

2 Significant accounting policies (continued)

(x) Revenue recognition (continued)

(vii) Dividends

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

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

(y) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the transaction dates. Items in the statement of financial position, including goodwill arising on consolidation of foreign operations acquired on or after 1 July 2005, are translated into Hong Kong dollars at the closing foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. Goodwill arising on consolidation of a foreign operation acquired before 1 July 2005 is translated into Hong Kong dollars at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(z) Borrowing costs

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

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

2 Significant accounting policies (continued)

(aa) Related parties

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

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

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or a joint venture of the other entity (or an associate or a joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a) above.

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

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

Close family members of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(ab) Segment reporting

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

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

3 Accounting estimates and judgements

The key sources of estimation uncertainty and critical accounting judgements in applying the Group's accounting policies are described below.

(a) Valuation of investment properties and investment properties under development

As described in note 15, investment properties and investment properties under development are stated at fair value based on the valuation performed by an independent firm of professional surveyors.

In determining the fair value of investment properties, the valuers have based on a method of valuation which involves, inter alia, certain estimates including current market rents for similar properties in the same location and condition, appropriate discount rates and expected future market rents. In relying on the valuation report, management has exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions.

Investment properties under development are valued by estimating the fair value of such properties as if they were completed in accordance with the relevant development plan and then deducting from that amount the estimated costs to complete the construction, financing costs and a reasonable profit margin.

(b) Write-down of inventories for property development

Management performs a regular review on the carrying amounts of inventories for property development. Based on management's review, write-down of inventories for property development will be made when the estimated net realisable value has declined below the carrying amount.

In determining the net realisable value of completed properties for sale, management refers to prevailing market data such as recent sales transactions, market survey reports available from independent property surveyors and internally available information, as bases for evaluation.

In respect of leasehold land held for development for sale and properties held for/under development for sale, the estimate of net realisable value requires the application of a risk-adjusted discount rate to the estimated future cash flows to be derived from those properties. These estimates require judgement as to the anticipated selling prices by reference to recent sales transactions in nearby locations, rate of new property sales, marketing costs (including price discounts required to stimulate sales) and the estimated costs to completion of properties, the legal and regulatory framework and general market conditions.

(c) Impairment of non-current assets

If circumstances indicate that the carrying amounts of non-current assets may not be recoverable, the assets may be considered impaired and are tested for impairment. An impairment loss is recognised when the asset's recoverable amount has declined below its carrying amount. The recoverable amount is the greater of the fair value less costs of disposal and value in use. In determining the recoverable amount which requires significant judgements, the Group estimates the future cash flows to be derived from continuing use and ultimate disposal of the asset and applies an appropriate discount rate to these future cash flows.

(d) Recognition of deferred tax assets

At 31 December 2018, the Group has recognised deferred tax assets mainly in relation to the unused tax losses as set out in note 10(c). The realisability of deferred tax assets mainly depends on whether it is probable that future taxable profits will be available against which related tax benefits under the deferred tax assets can be utilised, in which case a partial reversal of deferred tax assets may arise and which amount will be recognised in profit or loss for the period in which such a reversal takes place.

4 Financial risk management and fair values of financial instruments

Exposure to credit, liquidity, foreign currency and interest rate risks arises in the normal course of the Group's business. The Group is also exposed to price risk arising from its financial investments. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to bank deposits, derivative financial instruments as well as instalments, loans, rental and other trade receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Cash is deposited with financial institutions with sound credit ratings and the Group has exposure limit to any single financial institution. Transactions involving derivative financial instruments are also executed with counterparties of sound credit standing. Given their high credit ratings, management does not expect any of these financial institutions will fail to meet their obligations.

Regular review and follow-up actions are carried out on overdue amounts of instalments receivable from sale of properties and loans receivable which enable management to assess their recoverability and to minimise the exposure to credit risk. In relation to property sales for which the buyers have entered into mortgage loans advanced from the Group, management mitigates the credit risk by holding collateral in the form of properties. In respect of rental income from leasing properties, monthly rents are received in advance and sufficient rental deposits are held to cover potential exposure to credit risk. For other trade receivables, credit terms given to customers are generally based on the financial strength and repayment history of each customer. As such, the Group does not obtain collateral from its customers. An ageing analysis of the receivables is prepared on a regular basis and is closely monitored to minimise any credit risk associated with the receivables. Adequate allowance for impairment losses have been made for estimated irrecoverable amounts.

The Group has no concentrations of credit risk in view of its large number of customers. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position. Except for the financial guarantees given by the Group as disclosed in note 37 to these financial statements, the Group does not provide any other guarantee which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 24 to these financial statements.

4 Financial risk management and fair values of financial instruments (continued)

(b) Liquidity risk

The treasury function of the Group is arranged centrally to cover expected cash demands. The Group's policy is to regularly monitor its current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

Given the amount due to a fellow subsidiary (see note 30) classified as a non-current liability, amounts due to associates and certain amounts due to joint ventures (see note 27) have no fixed terms of repayment, it is not practical to disclose their remaining contractual maturities at the end of the reporting period. Except for these, the following tables show the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	2018 Contractual undiscounted cash outflow						2017 *(restated)* Contractual undiscounted cash outflow					
	Within 1 year or on demand HK$ million	More than 1 year but less than 2 years HK$ million	More than 2 years but less than 5 years HK$ million	More than 5 years HK$ million	Total HK$ million	Carrying amount HK$ million	Within 1 year or on demand HK$ million	More than 1 year but less than 2 years HK$ million	More than 2 years but less than 5 years HK$ million	More than 5 years HK$ million	Total HK$ million	Carrying amount *(restated)* HK$ million
Bank loans	29,917	15,868	19,601	13,284	78,670	72,455	24,536	16,433	26,546	4,221	71,736	69,177
Guaranteed notes	5,657	1,737	3,433	4,177	15,004	13,075	1,618	5,524	1,576	2,304	11,022	9,373
Creditors and accrued expenses (2017 – restated)	6,217	–	–	–	6,217	6,217	7,538	–	–	–	7,538	7,538
Rental and other deposits	657	490	440	43	1,630	1,630	618	468	418	38	1,542	1,542
Amount due to a joint venture	939	–	–	–	939	919	252	–	–	–	252	244
	43,387	18,095	23,474	17,504	102,460	94,296	34,562	22,425	28,540	6,563	92,090	87,874

	2018 Contractual undiscounted cash inflow/(outflow)					2017 Contractual undiscounted cash inflow/(outflow)				
	Within 1 year or on demand HK$ million	More than 1 year but less than 2 years HK$ million	More than 2 years but less than 5 years HK$ million	More than 5 years HK$ million	Total HK$ million	Within 1 year or on demand HK$ million	More than 1 year but less than 2 years HK$ million	More than 2 years but less than 5 years HK$ million	More than 5 years HK$ million	Total HK$ million
Derivative settled net:										
Interest rate swap contracts held as cash flow hedging instruments	–	–	–	–	–	(71)	(71)	(200)	(113)	(455)
Other interest rate swap contracts	(63)	(55)	(99)	13	(204)	(117)	(96)	(113)	88	(238)
Derivative settled gross:										
Cross currency interest rate swap contracts held as cash flow hedging instruments:										
– outflow	(6,436)	(17)	(188)	(87)	(6,728)	(1,611)	(6,422)	(197)	(91)	(8,321)
– inflow	6,215	19	192	90	6,516	1,547	6,221	202	94	8,064
Other cross currency interest rate swap contracts:										
– outflow	(95)	(96)	(1,220)	(2,396)	(3,807)	(3)	(3)	(10)	(171)	(187)
– inflow	33	33	995	2,291	3,352	1	1	3	149	154

4 Financial risk management and fair values of financial instruments (continued)

(c) Foreign currency risk

The Group owns assets and conducts its businesses primarily in Hong Kong and mainland China with its cash flows substantially denominated in Hong Kong dollars and Renminbi, respectively. The Group reports its results in Hong Kong dollars.

The Group's primary foreign currency exposure arises from its property development and investment activities in mainland China, as the functional currency of these operations is Renminbi. Where appropriate and cost efficient, the Group seeks to finance these investments by Renminbi borrowings with reference to the future Renminbi funding requirements from the investments and the related returns to be generated therefrom, and thereby establishing a natural hedge against any foreign currency risk arising from assets and liabilities denominated in Renminbi.

The Group is also exposed to foreign currency risk in respect of cash deposits denominated in United States dollars, Renminbi and other currencies, and at 31 December 2017, investments in certain available-for-sale securities and held-to-maturity debt securities which were denominated in United States dollars and Renminbi, and all of which were not hedged at 31 December 2018 and 31 December 2017. At 31 December 2018, cash deposits denominated in United States dollars amounted to US$62 million (2017: US$900 million), and at 31 December 2017, certain available-for-sale securities and held-to-maturity debt securities denominated in United States dollars amounted to US$251 million. The Group does not expect that there will be any significant currency risk associated with the aforementioned cash deposits and investments in certain available-for-sale securities and held-to-maturity debt securities denominated in United States dollars given that the Hong Kong dollar is pegged to the United States dollar. For cash deposits denominated in other currencies, since the balances are insignificant, the Group considers the exposure to foreign currency risk to be low.

(i) Hedging

Fixed-to-floating USD and floating-to-fixed cross currency (USD-HKD) interest rate swap contracts and fixed-to-fixed cross currency (USD-HKD) interest rate swap contracts have been entered into with certain counterparty banks in order to convert the principal and interest amounts of the guaranteed notes denominated in United States dollars ("US$") (see note 29) into Hong Kong dollars. Fixed-to-floating cross currency (GBP-USD) and floating-to-fixed cross currency (USD-HKD) interest rate swap contracts have been entered into with counterparty banks in order to convert the principal and interest amounts of guaranteed notes denominated in Pound Sterling ("£") (see note 29) into Hong Kong dollars. Fixed-to-fixed cross currency (SGD-HKD) interest rate swap contracts have been entered into with counterparty banks in order to convert the principal and interest amounts of guaranteed notes denominated in Singapore dollars ("S$") into Hong Kong dollars, but which had matured following the full repayment by the Group of the guaranteed notes denominated in Singapore dollars during the year ended 31 December 2018. By entering into the above swap contracts, the Group hedges against the foreign currency risk which may arise during the periods (i) between the issuance date and the maturity date in respect of the entire amount of each tranche of the guaranteed notes due 2019-2022 denominated in United States dollars and Pound Sterling with aggregate principal amounts of US$119 million (2017: US$119 million) and £50 million (2017: £50 million) (see note 29(a)) at 31 December 2018; (ii) between the issuance date and the maturity date in respect of the entire amount of the guaranteed notes due 2019 denominated in United States dollars with aggregate principal amount of US$500 million (2017: US$500 million) (see note 29(b)) at 31 December 2018; and (iii) between the issuance date and the maturity date in respect of the entire amount of the guaranteed notes issued pursuant to the Medium Term Note Programme established by the Group on 30 August 2011 denominated in United States dollars with aggregate principal amount of US$10 million (2017: US$10 million and S$200 million) (see note 29(c)) at 31 December 2018.

4 Financial risk management and fair values of financial instruments (continued)

(c) Foreign currency risk (continued)

(i) Hedging (continued)

Given the involvement of different derivatives in the hedging relationships (see the paragraph above), the following tables summarise and demonstrate the profile of the Group's hedging instruments at 31 December 2018.

(a) Fixed-to-floating USD and floating-to-fixed cross currency (USD-HKD) interest rate swap contracts

	Weighted average exchange rate	Weighted average fixed interest rate receivable/ (pay) leg	Weighted average floating interest rate receivable/ (pay) leg	Notional amount
Fixed-to-floating USD interest rate swap contracts				
Maturity profile:				
Within 1 year	**Not applicable**	**6.2800%**	**(3.0099%)**	**US$99,000,000**
2 to 5 years	**Not applicable**	**6.3800%**	**(3.0549%)**	**US$20,000,000**
Floating-to-fixed cross currency (USD-HKD) interest rate swap contracts				
Maturity profile:				
Within 1 year	**7.7896**	**(5.5960%)**	**3.0099%**	**US$99,000,000**
2 to 5 years	**7.7896**	**(5.6833%)**	**3.0549%**	**US$20,000,000**

(b) Fixed-to-floating cross currency (GBP-USD) and floating-to-fixed cross currency (USD-HKD) interest rate swap contracts

	Weighted average exchange rate	Weighted average fixed interest rate receivable/ (pay) leg	Weighted average floating interest rate receivable/ (pay) leg	Notional amount
Fixed-to-floating cross currency (GBP-USD) interest rate swap contracts				
Maturity profile:				
Within 1 year	**1.9969**	**6.3400%**	**(3.0389%)**	**£50,000,000**
Floating-to-fixed cross currency (USD-HKD) interest rate swap contracts				
Maturity profile:				
Within 1 year	**7.7896**	**(5.6253%)**	**3.0389%**	**US$99,845,000**

4 Financial risk management and fair values of financial instruments (continued)

(c) Foreign currency risk (continued)

(i) Hedging (continued)

(c) Fixed-to-fixed cross currency (USD-HKD) interest rate swap contracts

	Weighted average exchange rate	Weighted average fixed interest rate receivable/ (pay) leg	Weighted average floating interest rate receivable/ (pay) leg	Notional amount
Fixed-to-fixed cross currency (USD-HKD) interest rate swap contracts				
Maturity profile:				
Within 1 year	**7.7505**	**5.5000%/ (4.9690%)**	**Not applicable**	**US$500,000,000**
After 5 years	**7.7800**	**5.2000%/ (4.4500%)**	**Not applicable**	**US$10,000,000**

The Group's hedging objective is to hedge the foreign currency exposure to the cash flows variability arising from the coupon and principal repayments of the guaranteed notes (as referred to above), as a result of the movements in the exchange rates between Hong Kong dollars (being the issuing entity's functional currency) and United States dollars, Pound Sterling and Singapore dollars during the tenure and upon the maturity of such guaranteed notes. The Group also adopts the rollover strategy under which the management carefully reviews and considers the reference interest rates and interest payment and/or receipt dates between the hedging instrument and the hedged item, in order to maximise the Group's savings in cash outflow under hedging arrangement. The Group applies a hedge ratio of 1:1.

The main sources of hedge ineffectiveness in these hedging relationships principally arise from (i) the difference in the tenure between the hedging instrument and the hedged item; and (ii) the difference in timing of the settlement of hedging instrument and the hedged item.

The following table provides a reconciliation of the hedging reserve in respect of foreign currency risk and shows the effectiveness of the hedging relationships:

	2018 HK$ million
Balance at 1 January	**(449)**
Effective portion of the cash flow hedge recognised in other comprehensive income (see below)	**(13)**
Amounts reclassified to profit or loss (note 6)	**519**
Related tax	**(84)**
Share of hedging reserve of associates and joint ventures	**(27)**
Balance at 31 December	**(54)**
Change in the fair value and reclassification adjustments of the cross currency interest rate swap contracts during the year	**(13)**
Hedge ineffectiveness recognised in profit or loss during the year	**–**
Effective portion of the cash flow hedge recognised in other comprehensive income (see above)	**(13)**

4 Financial risk management and fair values of financial instruments (continued)

(c) Foreign currency risk (continued)

(i) Hedging (continued)

Furthermore, cross currency swap contracts have been entered into with certain counterparty banks in respect of guaranteed note and bank loans denominated in Japanese Yen ("¥") in the aggregate principal amount of ¥32,000 million and bank loans denominated in Australian dollars ("AUD") in the aggregate principal amount of AUD173 million at 31 December 2018 (2017: guaranteed note denominated in Japanese Yen in the principal amount of ¥2,000 million) (see note 20(c)). The Group does not apply hedge accounting in relation to the abovementioned guaranteed notes and bank loans. Therefore, the cross currency swap contracts were used as economic hedge of these guaranteed notes and bank loans.

The following table sets out the Group's exposure at the end of the reporting period to foreign currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purpose, the amounts of the exposure are shown in Hong Kong dollars, translated using the spot rate at 31 December 2018:

	Exposure to foreign currencies in relation to assets and liabilities for which no hedge accounting is applied (expressed in HK$ million)				
	United States dollars	Japanese Yen	Renminbi	Australian dollars	Other currencies
Cash and cash equivalents	485	–	11,790	–	1
Bank loans	–	(2,128)	–	(959)	–
Guaranteed note	–	(142)	–	–	–
Gross exposure arising from recognised assets and liabilities	485	(2,270)	11,790	(959)	1
Less:					
Notional amounts of cross currency swap contracts designated as economic hedge	–	(2,270)	–	(959)	–
Net exposure arising from recognised assets and liabilities	485	–	11,790	–	1

(ii) Sensitivity analysis

Assuming that the relevant foreign currencies had strengthened/weakened by not more than 5% (2017: 5%) at 31 December 2018 and the changes had been applied to each of the Group entities' exposure to foreign currency risk for both derivative and non-derivative financial instruments denominated in a currency other than the functional currency of the entity to which they relate and in existence at that date, with all other variables held constant, the Group's profit after tax and total equity attributable to equity shareholders of the Company would increase/decrease by HK$19 million (2017: HK$51 million).

The sensitivity analysis above assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period. The analysis is performed on the same basis for 2017.

4 Financial risk management and fair values of financial instruments (continued)

(d) Interest rate risk

The Group is exposed to interest rate risk through the impact of rates changes on interest-bearing borrowings which predominantly bear floating interest rates. The Group monitors closely its interest rate exposure and the level of fixed rate and floating rate borrowings and considers hedging significant interest rate exposure should the need arise. The Group's interest rate profile as monitored by management is set out in (ii) below.

(i) Hedging

At 31 December 2018, interest rate swap contracts have been entered into with certain counterparty banks to hedge against the interest rate risk which may arise during the periods between the drawdown dates and the repayment dates in respect of certain bank borrowings which bear floating interest rates denominated in Hong Kong dollars in the aggregate principal amount of HK$11,450 million (2017: HK$11,450 million) (see notes 20(a) and 20(b)) at 31 December 2018.

The interest rate swap contracts mature over the next seven years matching the maturity of the underlying bank borrowings denominated in Hong Kong dollars (see note 20(b)) and have fixed interest rates ranging from 3.16% to 5.10% per annum.

At 31 December 2018, the Group does not apply hedge accounting in relation to the abovementioned bank borrowings which bear floating interest rates denominated in Hong Kong dollars in the aggregate principal amount of HK$11,450 million (2017: HK$7,600 million). Furthermore, at 31 December 2018, interest rate swap contracts have been entered into with certain counterparty banks in respect of certain guaranteed notes denominated in Hong Kong dollars in the aggregate principal amount of HK$5,599 million (2017: HK$1,200 million), and for which the Group does not apply hedge accounting. Therefore, the interest rate swap contracts were used as economic hedge of these bank borrowings and guaranteed notes.

(ii) Interest rate profile

The following table details the interest rate profile of the Group's bank loans, guaranteed notes and amount due to a fellow subsidiary at the end of the reporting period, after taking into account the effect of swap contracts (see (i) above).

	2018		
	Fixed/ floating	Effective interest rate per annum	Amount HK$ million
Bank loans	**Floating**	**2.62%-5.80%**	**61,054**
Bank loans	**Fixed**	**3.16%-5.10%**	**11,401**
Guaranteed notes	**Floating**	**2.55%-3.36%**	**5,735**
Guaranteed notes	**Fixed**	**3.05%-5.74%**	**7,340**
Amount due to a fellow subsidiary	**Floating**	**1.68%**	**1,100**

4 Financial risk management and fair values of financial instruments (continued)

(d) Interest rate risk (continued)

(ii) Interest rate profile (continued)

	2017		
	Fixed/ floating	Effective interest rate per annum	Amount HK$ million
Bank loans	Floating	0.98%-3.10%	58,587
Bank loans	Fixed	3.30%-4.40%	10,590
Guaranteed notes	Floating	2.24%-2.38%	1,338
Guaranteed notes	Fixed	4.03%-5.74%	8,035
Amount due to a fellow subsidiary	Floating	1.06%	1,754

(iii) Sensitivity analysis

Assuming that the interest rates had generally increased/decreased by not more than 100 basis points (2017: 100 basis points) at 31 December 2018 and the changes had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date, with all other variables held constant, the Group's profit after tax and total equity attributable to equity shareholders of the Company would decrease/increase by HK$187 million (2017: HK$256 million).

The sensitivity analysis above assumes the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to interest rate risk at the end of the reporting period. The analysis is performed on the same basis for 2017.

(e) Price risk

The Group is exposed to risks arising from price and fair value changes in relation to investments designated as financial assets at FVOCI (non-recycling) and investments measured as financial assets at FVPL (see note 21).

Listed investments held in the portfolio have been chosen based on their long term growth potential and returns and are monitored regularly for performance against expectations. At 31 December 2018, assuming that the market value of the Group's listed investments designated as financial assets at FVOCI (non-recycling) had increased/decreased by not more than 10%, with all other variables held constant, the total equity attributable to equity shareholders of the Company would increase/decrease by HK$11 million. Any increase or decrease in the market value of the Group's listed investments designated as financial assets at FVOCI (non-recycling) would not affect the Group's profit after tax. Assuming that the market value of the Group's listed investments measured as financial assets at FVPL had increased/decreased by not more than 10%, with all other variables held constant, the Group's profit after tax and the total equity attributable to equity shareholders of the Company would increase/decrease by HK$138 million.

4 Financial risk management and fair values of financial instruments (continued)

(e) Price risk (continued)

At 31 December 2017, assuming that the market value of the Group's listed available-for-sale securities had increased/decreased by not more than 10%, with all other variables held constant, the total equity attributable to equity shareholders of the Company would increase/decrease by HK$302 million. Any increase or decrease in the market value of the Group's listed available-for-sale securities would not affect the Group's profit after tax unless they are impaired.

The sensitivity analysis above assumes that the changes in the stock market index or other relevant risk variables had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to price risk at the end of the reporting period. It is also assumed that the fair value of the Group's financial investments would change in accordance with the historical correlation with the relevant stock market index or other relevant risk variables, and that all other variables remain constant. The analysis is performed on the same basis for 2017.

(f) Fair value measurement

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs, i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

- Level 2 valuations: Fair value measured using Level 2 inputs, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

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

4 Financial risk management and fair values of financial instruments (continued)

(f) Fair value measurement (continued)

(i) Financial assets and liabilities measured at fair value (continued)

Fair value hierarchy (continued)

	Fair value at 31 December 2018	Fair value measurements at 31 December 2018 categorised into		
		Level 1	Level 2	Level 3
	HK$ million	HK$ million	HK$ million	HK$ million
Recurring fair value measurement				
Financial assets:				
Investments in equity securities designated as financial assets at FVOCI (non-recycling):				
– Unlisted (note 21)	**118**	**–**	**–**	**118**
– Listed (note 21)	**109**	**109**	**–**	**–**
Investments in other securities measured as financial assets at FVPL:				
– Listed (note 21)	**1,384**	**1,384**	**–**	**–**
Financial assets measured at FVPL (note 24)	**190**	**–**	**–**	**190**
Derivative financial instruments:				
– Cross currency interest rate swap contracts (note 20)	**66**	**–**	**66**	**–**
– Interest rate swap contracts (note 20)	**23**	**–**	**23**	**–**
Financial liabilities:				
Derivative financial instruments:				
– Cross currency interest rate swap contracts (note 20)	**398**	**–**	**398**	**–**
– Interest rate swap contracts (note 20)	**273**	**–**	**273**	**–**

4 Financial risk management and fair values of financial instruments (continued)

(f) Fair value measurement (continued)

(i) Financial assets and liabilities measured at fair value (continued)

Fair value hierarchy (continued)

	Fair value at 31 December 2017	Fair value measurements at 31 December 2017 categorised into	
		Level 1	Level 2
	HK$ million	HK$ million	HK$ million
Recurring fair value measurement			
Financial assets:			
Available-for-sale securities:			
– Listed (note 21)	3,021	3,021	–
Derivative financial instruments:			
– Cross currency interest rate swap contracts (note 20)	111	–	111
– Other derivatives (note 20)	67	67	–
Financial liabilities:			
Derivative financial instruments:			
– Cross currency interest rate swap contracts (note 20)	400	–	400
– Interest rate swap contracts (note 20)	428	–	428

During the years ended 31 December 2018 and 2017, there were no transfers between Level 1 and Level 2 (2017: Nil), for the reason that the investment in certain unlisted equity securities stated at cost less impairment losses at 31 December 2017 was measured at fair value at 1 January 2018 by reference to the valuation techniques as referred to below. The Group's policy is to recognise transfers between levels of fair value hierarchy at the end of the reporting period during which they occur.

Valuation techniques and inputs used in Level 2 fair value measurements

The fair values of cross currency interest rate swap contracts and interest rate swap contracts are calculated as the present value of the estimated future cash flows based on the terms and maturity of each contract, taking into account the current interest rates and the current creditworthiness of the swap counterparties.

4 Financial risk management and fair values of financial instruments (continued)

(f) Fair value measurement (continued)

(i) Financial assets and liabilities measured at fair value (continued)

Valuation techniques and inputs used in Level 3 fair value measurements

Information about Level 3 fair value measurement

Category of financial asset	Valuation technique	Significant unobservable inputs	Discount percentage
Unlisted equity instruments	Market comparable companies	Discount for lack of marketability	30% (2017: Not applicable)

The fair value of certain unlisted equity instruments is determined using market approach of comparable companies adjusted for lack of marketability discount. The fair value measurement is negatively correlated to the discount for lack of marketability. At 31 December 2018, it is estimated that with all other variables held constant, a decrease/an increase in the discount for lack of marketability by 10% would have increased/decreased the Group's other comprehensive income by HK$10 million (2017: Nil).

The movement during the year ended 31 December 2018 in the balance of Level 3 fair value measurements is as follows:

	2018 HK$ million
Unlisted equity securities	
At 1 January:	
At cost (note 21)	**28**
Fair value gain upon designation as financial assets at FVOCI	
– Attributable to the Group (note 2(b))	**77**
– Attributable to non-controlling interests (note 2(b))	**2**
Net unrealised gains recognised in other comprehensive income during the year	**11**
At 31 December (note 21)	**118**

From 1 January 2018, any gains or losses arising from the re-measurement of the Group's unlisted equity securities held for strategic purpose are recognised in the fair value reserve (non-recycling) in other comprehensive income. Upon disposal of the equity securities, the amount accumulated in the fair value reserve (non-recycling) is transferred directly to retained profits. Prior to 1 January 2018, any gains arising from the disposal of the unlisted equity securities were recognised under "Other net income" in the consolidated statement of profit or loss.

4 Financial risk management and fair values of financial instruments (continued)

(f) Fair value measurement (continued)

(ii) Financial assets and liabilities measured at other than fair value

The carrying amounts of the Group's financial instruments measured at cost or amortised cost are not materially different from their fair values at 31 December 2018 and 2017 except as follows:

– Certain amounts due from associates and joint ventures, amounts due to associates and certain amounts due to joint ventures

Certain amounts due from associates and joint ventures, amounts due to associates and certain amounts due to joint ventures are unsecured, interest-free and have no fixed terms of repayment. Given these terms it is not meaningful to quantify their fair values and therefore they are stated at cost.

– Held-to-maturity debt securities

At 31 December 2017, held-to-maturity debt securities of HK$485 million (see note 21) with fair value of HK$508 million (see note 21) were recognised at amortised cost less impairment losses at the end of the reporting period.

5 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 **HK$ million**	2017 *(restated)* 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 14(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.

6 Other net income

	2018 HK$ million	2017 (restated) HK$ million
Net gain on transfers of subsidiaries regarding (note (i)) (note 34(b))		
– 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) (note 14(a)(iv))	**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 (notes 14(c) and 24(b))	**25**	2
(Provision)/reversal of provision on inventories, net	**(90)**	25
Net foreign exchange gain (note 7(d))	**89**	79
Others	**326**	66
	1,520	5,017

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 altogether 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); 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).*

7 Profit before taxation

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

		2018 HK$ million	2017 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

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.

		2018 HK$ million	2017 HK$ million
(b)	**Directors' emoluments**	**183**	177

Details of the directors' emoluments are set out in note 8.

		2018 HK$ million	2017 HK$ million
(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

7 Profit before taxation (continued)

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

		2018 HK$ million	2017 *(restated)* 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 (notes 14(c) and 15(a))	**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.

8 Directors' emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance (Cap. 622) and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) are as follows:

	2018				
	Directors' fees HK$'000	Salaries, allowances and benefits-in-kind HK$'000	Discretionary bonuses HK$'000	Retirement scheme contributions HK$'000	Total HK$'000
Executive Directors					
Dr Lee Shau Kee	200	22,381	–	–	22,581
Dr Lee Ka Kit	200	20,114	600	18	20,932
Dr Lam Ko Yin, Colin	200	9,949	21,060	595	31,804
Lee Ka Shing	200	13,859	3,430	762	18,251
Yip Ying Chee, John	150	9,120	14,760	544	24,574
Suen Kwok Lam	150	7,261	7,760	434	15,605
Fung Lee Woon King	150	5,164	5,080	308	10,702
Lau Yum Chuen, Eddie	150	22	–	–	172
Kwok Ping Ho	250	5,018	1,456	300	7,024
Wong Ho Ming, Augustine	150	10,014	15,170	599	25,933
Non-executive Directors					
Lee Pui Ling, Angelina	200	150	–	–	350
Lee Tat Man	200	–	–	–	200
Independent Non-executive Directors					
Kwong Che Keung, Gordon	300	750	–	–	1,050
Professor Ko Ping Keung	300	650	–	–	950
Wu King Cheong	300	650	–	–	950
Leung Hay Man (deceased on 11 October 2018)	283	558	–	–	841
Woo Ka Biu, Jackson	250	–	–	–	250
Professor Poon Chung Kwong	250	100	–	–	350
Au Siu Kee, Alexander (appointed on 13 December 2018)	471	329	–	–	800
Total for the year ended 31 December 2018	4,354	106,089	69,316	3,560	183,319

8 Directors' emoluments (continued)

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance (Cap. 622) and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) are as follows: (continued)

	2017				
	Directors' fees HK$'000	Salaries, allowances and benefits-in-kind HK$'000	Discretionary bonuses HK$'000	Retirement scheme contributions HK$'000	Total HK$'000
Executive Directors					
Dr Lee Shau Kee	160	22,303	–	–	22,463
Dr Lee Ka Kit	160	18,837	600	18	19,615
Dr Lam Ko Yin, Colin	160	9,837	20,854	589	31,440
Lee Ka Shing	160	13,120	3,374	719	17,373
Yip Ying Chee, John	125	9,011	14,630	538	24,304
Suen Kwok Lam	125	7,090	7,740	418	15,373
Fung Lee Woon King	125	4,999	4,820	298	10,242
Lau Yum Chuen, Eddie	125	19	–	–	144
Kwok Ping Ho	225	4,865	1,420	290	6,800
Wong Ho Ming, Augustine	125	9,629	14,700	576	25,030
Non-executive Directors					
Lee Pui Ling, Angelina	175	150	–	–	325
Lee Tat Man	160	–	–	–	160
Independent Non-executive Directors					
Kwong Che Keung, Gordon	260	690	–	–	950
Professor Ko Ping Keung	260	590	–	–	850
Wu King Cheong	260	590	–	–	850
Leung Hay Man	310	690	–	–	1,000
Woo Ka Biu, Jackson	225	–	–	–	225
Professor Poon Chung Kwong	225	100	–	–	325
Total for the year ended 31 December 2017	3,365	102,520	68,138	3,446	177,469

8 Directors' emoluments (continued)

During the years ended 31 December 2018 and 2017:

(i) all the directors' fees payable to the executive directors of the Company were in respect of their services as directors of the Company and/ or its subsidiary undertakings, and all the salaries, allowances, benefits-in-kind, discretionary bonuses and retirement scheme contributions payable to the executive directors of the Company were in respect of their services in connection with the management of the affairs of the Company and/or its subsidiary undertakings; and

(ii) all the emoluments payable to the non-executive directors and the independent non-executive directors of the Company were in respect of their services as directors of the Company and/or its subsidiary undertakings.

There are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities for disclosure pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance (Cap. 622) and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) (2017: None).

During the year ended 31 December 2018 and at 31 December 2018, save as disclosed in note 38, there was no transaction, arrangement or contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a director of the Company and his/her connected entities had a material interest, subsisted at the end of the reporting period or at any time during the year for disclosure pursuant to section 383 (1)(e) of the Hong Kong Companies Ordinance (Cap. 622) and Part 4 of the Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) (2017: None).

There was no arrangement under which a director had waived or agreed to waive any remuneration during the current and prior years.

9 Emoluments of five highest paid individuals and senior management

(a) Emoluments of five highest paid individuals

Of the five individuals with the highest emoluments, all (2017: all) of them are directors whose emoluments are disclosed in note 8.

(b) Emoluments of senior management

Other than the emoluments of directors and five highest paid individuals disclosed in notes 8 and 9(a) respectively, the emoluments of the senior management whose profiles are set out in the section "Biographical Details of Directors and Senior Management" of the Company's annual report for the year ended 31 December 2018 (of which these financial statements form a part) fell within the following bands:

	2018 Number of individuals	2017 Number of individuals
Emolument band (HK$) (note)		
$3,000,001 to $4,000,000	**1**	1
$4,000,001 to $5,000,000	**2**	3
$5,000,001 to $6,000,000	**2**	3
$6,000,001 to $7,000,000	**3**	2
$7,000,001 to $8,000,000	**1**	–
$8,000,001 to $9,000,000	**–**	1
$9,000,001 to $10,000,000	**1**	–
$10,000,001 to $11,000,000	**–**	3
$11,000,001 to $12,000,000	**3**	1
$12,000,001 to $13,000,000	**1**	1
$13,000,001 to $14,000,000	**2**	2
$14,000,001 to $15,000,000	**2**	1
	18	18

Note: Including salaries, allowances and benefits-in-kind, discretionary bonuses and retirement scheme contributions.

10 Income tax

(a) 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.

10 Income tax (continued)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2018 HK$ million	2017 *(restated)* HK$ million
Profit before taxation (2017 – restated)	**33,495**	33,382
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned (2017 – restated)	**5,758**	6,083
Tax effect of share of profits less losses of associates and joint ventures (2017 – restated)	**(2,124)**	(1,596)
Tax effect of non-deductible expenses	**140**	192
Tax effect of non-taxable revenue	**(2,312)**	(2,295)
Tax effect of temporary differences recognised in prior years now derecognised	**–**	(576)
Tax effect of current year's tax losses not recognised	**248**	349
Tax effect of prior years' tax losses utilised	**(24)**	(82)
Tax effect of unused tax losses not recognised in prior years now recognised	**(128)**	(115)
Tax indemnity received	**–**	(1)
One-off rebate of Hong Kong Profits Tax	**(2)**	(2)
Land Appreciation Tax	**471**	296
Withholding tax	**7**	5
Under/(over)-provision in respect of prior years, net	**89**	(41)
Actual tax expense (2017 – restated)	**2,123**	2,217

10 Income tax (continued)

(c) Deferred tax assets and liabilities recognised:

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

Deferred tax arising from:	Depreciation allowances in excess of related depreciation HK$ million	Revaluation of properties HK$ million	Elimination and capitalisation of expenses HK$ million	Fair value adjustment on business combination HK$ million	Consideration receivable on disposal of toll fee collection right of toll bridges HK$ million	Tax losses HK$ million	Others HK$ million	Total HK$ million
At 1 January 2017	1,599	3,358	493	1,088	6	(305)	(34)	6,205
Exchange adjustments	30	228	1	6	–	–	–	265
(Credited)/charged to profit or loss (restated)	(64)	51(*)	(195)	(64)	(6)	5	(53)	(326)
Charged to reserves (note 12(a))	–	–	–	–	–	–	31	31
Acquisitions of subsidiaries (note 34(a))	–	–	5	–	–	–	–	5
Transfers of subsidiaries (note 34(b))	(55)	–	(1)	–	–	56	–	–
Other reclassifications	–	–	14	–	–	–	–	14
At 31 December 2017 (restated)	1,510	3,637	317	1,030	–	(244)	(56)	6,194
At 1 January 2018 (restated)	**1,510**	**3,637**	**317**	**1,030**	**–**	**(244)**	**(56)**	**6,194**
Exchange adjustments	**(23)**	**(174)**	**(1)**	**(5)**	**–**	**–**	**–**	**(203)**
Charged/(credited) to profit or loss	**192**	**200**	**(86)**	**–**	**–**	**(131)**	**(81)**	**94**
Charged to reserves (note 12(a))	**–**	**–**	**–**	**–**	**–**	**–**	**84**	**84**
Acquisitions of subsidiaries (note 34(a))	**–**	**–**	**–**	**–**	**–**	**(8)**	**–**	**(8)**
At 31 December 2018	**1,679**	**3,663**	**230**	**1,025**	**–**	**(383)**	**(53)**	**6,161**

(*) Represented the net deferred tax charged to profit or loss for the year ended 31 December 2017, comprising the deferred tax charge of HK$238 million on changes in fair value of investment properties and investment properties under development for the year ended 31 December 2017 (see note 13(b)) less the deferred tax credit of HK$187 million due to the reversal of deferred tax liabilities arising mainly from the transfer of subsidiaries which own Beijing Henderson Centre, an investment property in mainland China, during the year ended 31 December 2017.

	2018 HK$ million	2017 *(restated)* HK$ million
Net deferred tax assets recognised in the consolidated statement of financial position	**(641)**	(424)
Net deferred tax liabilities recognised in the consolidated statement of financial position (2017 – restated)	**6,802**	6,618
	6,161	6,194

10 Income tax (continued)

(d) Deferred tax assets not recognised:

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

	2018		2017	
	Deductible temporary differences/ unused tax losses HK$ million	**Deferred tax assets not recognised HK$ million**	Deductible temporary differences/ unused tax losses HK$ million	Deferred tax assets not recognised HK$ million
Deductible temporary differences	**4**	**1**	4	1
Future benefits of tax losses				
Hong Kong (note (i))				
– Assessed by the Inland Revenue Department	**2,830**	**467**	2,702	446
– Not yet assessed by the Inland Revenue Department	**8,327**	**1,375**	7,884	1,300
Outside Hong Kong (note (ii))	**287**	**76**	318	80
	11,444	**1,918**	10,904	1,826
	11,448	**1,919**	10,908	1,827

Notes:

(i) *These tax losses do not expire under current tax legislation.*

(ii) *These tax losses can be carried forward to offset against taxable profits of subsequent years for up to five years from the year in which they arose.*

The Group has not recognised deferred tax assets in respect of deductible temporary differences and unused tax losses of certain subsidiaries as it is not probable that sufficient future taxable profits will be available against which the deductible temporary differences and unused tax losses can be utilised.

11 Dividends

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

	2018 HK$ million	2017 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.

11 Dividends (continued)

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

	2018 HK$ million	2017 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

12 Other comprehensive income

(a) Tax effects relating to each component of other comprehensive income

	2018			2017		
	Pre-tax amount HK$ million	**Tax expense HK$ million**	**Net-of-tax amount HK$ million**	Pre-tax amount HK$ million	Tax expense HK$ million	Net-of-tax amount HK$ million
Exchange differences: net movement in the exchange reserve	**(2,484)**	**–**	**(2,484)**	3,221	–	3,221
Cash flow hedges: net movement in the hedging reserve	**506**	**(84)**	**422**	187	(31)	156
Investments in equity securities designated as financial assets at FVOCI: net movement in the fair value reserve (non-recycling)	**36**	**–**	**36**	–	–	–
Available-for-sale securities: net movement in the fair value reserve (recycling)	**–**	**–**	**–**	245	–	245
Share of other comprehensive income of associates and joint ventures	**(1,609)**	**–**	**(1,609)**	1,577	–	1,577
Other comprehensive income for the year	**(3,551)**	**(84)**	**(3,635)**	5,230	(31)	5,199
		(note 10(c))			(note 10(c))	

12 Other comprehensive income (continued)

(b) Components of other comprehensive income, including reclassification adjustments

	2018 HK$ million	2017 HK$ million
Exchange differences:		
– translation of financial statements of foreign entities	**(2,484)**	3,484
– reclassification adjustments for amounts transferred to profit or loss on transfers of subsidiaries (see note 34(b))	**–**	(238)
– reclassification adjustments for amounts transferred to profit or loss on winding-up of subsidiaries	**–**	(25)
Net movement in the exchange reserve during the year recognised in other comprehensive income	**(2,484)**	3,221
Cash flow hedges:		
– effective portion of changes in fair value of hedging instruments recognised during the year	**44**	332
– reclassification adjustments for amounts transferred to profit or loss	**462**	(145)
– net deferred tax charged to other comprehensive income	**(84)**	(31)
Net movement in the hedging reserve during the year recognised in other comprehensive income	**422**	156
Investments in equity securities designated as financial assets at FVOCI:		
– changes in fair value recognised during the year	**36**	–
Net movement in the fair value reserve (non-recycling) during the year recognised in other comprehensive income	**36**	–
Available-for-sale securities:		
– changes in fair value recognised during the year	**–**	500
– reclassification adjustments for amounts transferred to profit or loss on disposal	**–**	(256)
– reclassification adjustments for amounts transferred to profit or loss on impairment	**–**	1
Net movement in the fair value reserve (recycling) during the year recognised in other comprehensive income	**–**	245

12 Other comprehensive income (continued)

(c) For each component of equity

	Attributable to equity shareholders of the Company									
	Property revaluation reserve HK$ million	Exchange reserve HK$ million	Fair value reserve (recycling) HK$ million	Fair value reserve (non-recycling) HK$ million	Hedging reserve HK$ million	Other reserves HK$ million	Retained profits HK$ million	Total HK$ million	Non-controlling interests HK$ million	Total other comprehensive income HK$ million
2017										
Exchange differences:										
– translation of financial statements of foreign entities	–	3,472	–	–	–	–	–	3,472	12	3,484
– reclassification adjustments for amounts transferred to profit or loss on transfers of subsidiaries	–	(238)	–	–	–	–	–	(238)	–	(238)
– reclassification adjustments for amounts transferred to profit or loss on winding-up of subsidiaries	–	(18)	–	–	–	–	–	(18)	(7)	(25)
Cash flow hedges:										
– effective portion of changes in fair value, net of deferred tax	–	–	–	–	277	–	–	277	–	277
– reclassification from equity to profit or loss, net of deferred tax	–	–	–	–	(121)	–	–	(121)	–	(121)
Available-for-sale securities:										
– changes in fair value	–	–	500	–	–	–	–	500	–	500
– reclassification adjustments for amounts transferred to profit or loss on disposal	–	–	(256)	–	–	–	–	(256)	–	(256)
– reclassification adjustments for amounts transferred to profit or loss on impairment	–	–	1	–	–	–	–	1	–	1
Share of other comprehensive income of associates and joint ventures	–	1,625	(45)	–	(56)	–	53	1,577	–	1,577
Other comprehensive income for the year	–	4,841	200	–	100	–	53	5,194	5	5,199
2018										
Exchange differences:										
– translation of financial statements of foreign entities	**–**	**(2,476)**	**–**	**–**	**–**	**–**	**–**	**(2,476)**	**(8)**	**(2,484)**
Cash flow hedges:										
– effective portion of changes in fair value, net of deferred tax	**–**	**–**	**–**	**–**	**36**	**–**	**–**	**36**	**–**	**36**
– reclassification from equity to profit or loss, net of deferred tax	**–**	**–**	**–**	**–**	**386**	**–**	**–**	**386**	**–**	**386**
Investments in equity securities designated as financial assets at FVOCI:										
– changes in fair value	**–**	**–**	**–**	**39**	**–**	**–**	**–**	**39**	**(3)**	**36**
Share of other comprehensive income of associates and joint ventures	**–**	**(1,513)**	**(2)**	**(36)**	**(27)**	**–**	**(31)**	**(1,609)**	**–**	**(1,609)**
Other comprehensive income for the year	**–**	**(3,989)**	**(2)**	**3**	**395**	**–**	**(31)**	**(3,624)**	**(11)**	**(3,635)**

13 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 million	2017 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.*

13 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 **HK$ million**	2017 *(restated)* 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 (notes 15(a) and 15(c))	**(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 15(c))	**200**	238
Share of changes in fair value of investment properties (net of deferred tax) during the year:		
– associates (note 15(c))	**(1,267)**	(950)
– joint ventures (note 15(c))	**(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 13(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.*

14 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.

14 Segment reporting (continued)

(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:

	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
For the year ended 31 December 2018										
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 6) 1,678		–		1,678		(48)		1,630
Unallocated head office and corporate 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

14 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

14 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)) 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
For the year ended 31 December 2017 (restated)										
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 6) 4,861		15		4,876		(58)		4,818
Unallocated head office and corporate 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

14 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

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 6), 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 6). 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 6); (2) net gain on disposal of investment properties of HK$234 million (2017 (restated): HK$1,024 million) (see note 6) (before deducting the amount of net gain attributable to non-controlling interests); and (3) attributable share of gain on disposal of investment properties by an associate of HK$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.*

14 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).

(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 5)	(note 5)		

14 Segment reporting (continued)

(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 7(d))	(note 7(d))	**(note 6)**	(note 6)

15 Investment properties and other property, plant and equipment

(a) Reconciliation of carrying amount

	Investment properties HK$ million	Investment properties under development HK$ million	Subtotal HK$ million	Hotel properties HK$ million	Other land and buildings HK$ million	Interests in leasehold land held for own use under finance leases HK$ million	Plant and equipment HK$ million	Subtotal HK$ million	Total HK$ million
Cost or valuation:									
At 1 January 2017 (restated)	117,647	14,213	131,860	650	202	771	1,287	2,910	134,770
Exchange adjustments	1,955	47	2,002	–	4	–	10	14	2,016
Additions									
– through acquisition of a subsidiary (note 34(a))	–	–	–	–	–	–	1	1	1
– others	759	27,584(*)	28,343	2	1	–	43	46	28,389
Disposals									
– through transfers of subsidiaries (note 34(b))	(521)	–	(521)	(652)	–	(767)	(50)	(1,469)	(1,990)
– others (restated)	(2,244)	–	(2,244)	–	–	–	(105)	(105)	(2,349)
Written off	–	–	–	–	–	(4)	(6)	(10)	(10)
Surplus on revaluation	8,848	1,063	9,911	–	–	–	–	–	9,911
Transfer to investment properties	2,241	(2,241)	–	–	–	–	–	–	–
Transfer from inventories	599	3,544	4,143	–	7	–	–	7	4,150
At 31 December 2017 (restated)	129,284	44,210	173,494	–	214	–	1,180	1,394	174,888
Representing:									
Cost	–	–	–	–	214	–	1,180	1,394	1,394
Valuation (restated)	129,284	44,210	173,494	–	–	–	–	–	173,494
	129,284	44,210	173,494	–	214	–	1,180	1,394	174,888
Accumulated depreciation and impairment losses:									
At 1 January 2017	–	–	–	216	46	163	1,066	1,491	1,491
Exchange adjustments	–	–	–	–	–	–	7	7	7
Charge for the year (note 7(d))	–	–	–	10	4	10	70	94	94
Written back on disposals									
– through transfers of subsidiaries (note 34(b))	–	–	–	(226)	–	(169)	(47)	(442)	(442)
– others	–	–	–	–	–	–	(97)	(97)	(97)
Acquisition of a subsidiary (note 34(a))	–	–	–	–	–	–	1	1	1
Written off	–	–	–	–	–	(4)	(6)	(10)	(10)
At 31 December 2017	–	–	–	–	50	–	994	1,044	1,044
Net book value:									
At 31 December 2017 (restated)	129,284	44,210	173,494	–	164	–	186	350	173,844

(*) *Including the carrying amount of HK$2,410 million in respect of a land site in mainland China acquired by the Group during the year ended 31 December 2017, but in relation to which certificate of land delivery (土地交接書) was obtained by the Group on 2 February 2018.*

15 Investment properties and other property, plant and equipment (continued)

(a) Reconciliation of carrying amount (continued)

	Investment properties HK$ million	Investment properties under development HK$ million	Subtotal HK$ million	Hotel properties HK$ million	Other land and buildings HK$ million	Interests in leasehold land held for own use under finance leases HK$ million	Plant and equipment HK$ million	Subtotal HK$ million	Total HK$ million
Cost or valuation:									
At 1 January 2018 (restated)	129,284	44,210	173,494	–	214	–	1,180	1,394	174,888
Exchange adjustments	(1,398)	(577)	(1,975)	–	(3)	–	(10)	(13)	(1,988)
Additions									
– through acquisition of a subsidiary (note 34(a))	–	–	–	–	–	–	32	32	32
– others	326	2,139	2,465	–	–	–	29	29	2,494
Disposals									
– through transfers of subsidiaries (note 34(b))	(9,000)	–	(9,000)	–	–	–	–	–	(9,000)
– others	(984)	–	(984)	–	–	–	(10)	(10)	(994)
Written off	–	–	–	–	–	–	(7)	(7)	(7)
Surplus on revaluation	7,481	2,984	10,465	–	–	–	–	–	10,465
Transfer to investment properties	7	–	7	–	(7)	–	–	(7)	–
Transfer from inventories, net	310	1,935	2,245	–	39	–	–	39	2,284
At 31 December 2018	126,026	50,691	176,717	–	243	–	1,214	1,457	178,174
Representing:									
Cost	–	1,182	1,182	–	243	–	1,214	1,457	2,639
Valuation	126,026	49,509	175,535	–	–	–	–	–	175,535
	126,026	50,691	176,717	–	243	–	1,214	1,457	178,174
Accumulated depreciation and impairment losses:									
At 1 January 2018	–	–	–	–	50	–	994	1,044	1,044
Exchange adjustments	–	–	–	–	–	–	(9)	(9)	(9)
Charge for the year (note 7(d))	–	–	–	–	5	–	63	68	68
Written back on disposals									
– others	–	–	–	–	–	–	(10)	(10)	(10)
Written off	–	–	–	–	–	–	(6)	(6)	(6)
At 31 December 2018	–	–	–	–	55	–	1,032	1,087	1,087
Net book value:									
At 31 December 2018	126,026	50,691	176,717	–	188	–	182	370	177,087

15 Investment properties and other property, plant and equipment (continued)

(b) The analysis of net book value of properties is as follows:

	2018 HK$ million	2017 *(restated)* HK$ million
In Hong Kong (2017 – restated)		
– under long leases	**11,144**	18,217
– under medium-term leases	**123,295**	112,631
	134,439	130,848
Outside Hong Kong		
– under long leases	**10**	10
– under medium-term leases	**42,456**	42,800
	42,466	42,810
	176,905	173,658

(c) Fair value measurement of investment properties and investment properties under development

Fair value hierarchy

The fair value of the Group's investment properties and investment properties under development is measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs, i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

15 Investment properties and other property, plant and equipment (continued)

(c) Fair value measurement of investment properties and investment properties under development (continued)

Fair value hierarchy (continued)

	Fair value at 31 December 2018	Fair value measurements at 31 December 2018 categorised into	
		Level 2	Level 3
	HK$ million	HK$ million	HK$ million
Recurring fair value measurement			
Investment properties:			
– In Hong Kong	**96,464**	**–**	**96,464**
– In mainland China	**29,562**	**–**	**29,562**
Investment properties under development:			
– In Hong Kong	**36,704**	**–**	**36,704**
– In mainland China	**12,805**	**2,922**	**9,883**

	Fair value at 31 December 2017	Fair value measurements at 31 December 2017 categorised into	
		Level 2	Level 3
	HK$ million	HK$ million	HK$ million
Recurring fair value measurement			
Investment properties:			
– In Hong Kong (restated)	99,048	–	99,048
– In mainland China	30,236	–	30,236
Investment properties under development:			
– In Hong Kong	31,709	–	31,709
– In mainland China	12,501	8,123	4,378

During the years ended 31 December 2018 and 2017, there were no transfers between Level 1 and Level 2. During the year ended 31 December 2018, there was transfer of HK$5,244 million (2017: Nil) of investment properties under development (based on fair value at 31 December 2017) from Level 2 to Level 3 as a result of change in valuation methodology which involved significant unobservable inputs. The Group's policy is to recognise transfers between levels of fair value hierarchy at the end of the reporting period during which they occur.

15 Investment properties and other property, plant and equipment (continued)

(c) Fair value measurement of investment properties and investment properties under development (continued)

Valuation process

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.

Valuation methodologies

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.

Inputs used in Level 2 fair value measurement

The valuations of investment properties under development in mainland China were determined using direct market comparison approach by reference to recent sales prices of comparable properties on a price per square foot basis based on market data which is publicly available.

Inputs used in Level 3 fair value measurement

Below is a table which presents the significant unobservable inputs:

Completed investment properties

	Range of capitalisation rates		Range of occupancy rates	
	2018 %	2017 %	**2018 %**	2017 %
In Hong Kong				
– Retail	**2.75%-5.5%**	2.75%-5.5%	**38%-100%**	38%-100%
– Office/industrial	**3.0%-4.0%**	3.0%-4.0%	**89%-100%**	90%-100%
In mainland China				
– Retail	**5.5%-8.0%**	5.5%-8.0%	**66%-100%**	66%-100%
– Office	**6.0%-7.5%**	6.0%-7.5%	**50%-100%**	50%-98%

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

15 Investment properties and other property, plant and equipment (continued)

(c) Fair value measurement of investment properties and investment properties under development (continued)

Inputs used in Level 3 fair value measurement (continued)

Investment properties under development

	Estimated project development cost	
	2018	2017
In Hong Kong	**HK$2 million to HK$3,720 million**	HK$50 million to HK$3,255 million
In mainland China	**HK$2,433 million**	HK$852 million

The fair value measurement of investment properties under development is negatively correlated to the estimated cost to completion, being determined as the estimated project development cost less the actual amount of project development cost incurred up to the end of the reporting period.

Valuation

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 13(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).

A reconciliation of the abovementioned figures is as follows:

	For the year ended 31 December 2018		
	Hong Kong HK$ million	**Mainland China HK$ million**	**Total 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 13(b))	**9,736**	**729**	**10,465**
Less:			
Deferred tax (note 13(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 13(b))	**1,267**	**–**	**1,267**
– joint ventures (Group's attributable share) (note 13(b))	**5,198**	**98**	**5,296**
	16,188	**627**	**16,815**

15 Investment properties and other property, plant and equipment (continued)

(c) Fair value measurement of investment properties and investment properties under development (continued)

Valuation (continued)

	For the year ended 31 December 2017		
	Hong Kong HK$ million	Mainland China HK$ million	Total 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 13(b))	8,775	1,136	9,911
Less:			
Deferred tax (note 13(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 13(b))	950	–	950
– joint ventures (Group's attributable share) (note 13(b))	2,890	39	2,929
	12,564	937	13,501

(d) All properties held under operating leases that would otherwise meet the definition of investment properties are classified as investment properties.

16 Goodwill

On 31 May 2018, Henderson Investment Limited, a listed subsidiary of the Company, completed its acquisition of the entire issued share capital of UNY (HK) Co., Limited ("UNY HK") (renamed as Unicorn Stores (HK) Limited on 27 July 2018) for a cash consideration of HK$300 million (the "Acquisition") (subject to adjustment). Based on (i) the fair value of the assets acquired less the liabilities assumed of UNY HK in the amount of HK$29 million at the completion date of the Acquisition of 31 May 2018; and (ii) the adjusted amount of the consideration of HK$291 million in accordance with the terms of the agreement in relation to the Acquisition, a goodwill of HK$262 million has arisen from the Acquisition and was recognised in the Group's consolidated statement of financial position at 31 December 2018.

The factors which constitute the goodwill comprise, inter alia, (i) UNY HK's retail operating experience of about 30 years in Hong Kong with a particular focus on supplying Japanese fresh produce and food products which have popular brand recognition; (ii) the renowned and long-established general Japanese merchandise store-cum-supermarket currently operated by UNY HK; and (iii) the sourcing of Japanese fresh produce and food products which are directly associated with FamilyMart UNY Holdings Co., Ltd., being one of the most well-established retailing brands in Japan.

The Directors have assessed that there was no impairment on the goodwill at 31 December 2018.

17 Interest in subsidiaries

Details of the principal subsidiaries at 31 December 2018 which materially affected the results, assets or liabilities of the Group are set out on pages 255 to 261.

18 Interest in associates

	2018 **HK$ million**	2017 *(restated)* HK$ million
Unlisted		
Share of net assets	**3,450**	2,842
Amounts due from associates	**3,146**	3,150
	6,596	5,992
Listed in Hong Kong		
Share of net assets, including goodwill on acquisition (2017 – restated)	**55,463**	53,499
	62,059	59,491
Market value of listed shares	**109,596**	94,765

Except for the amounts due from associates of HK$65 million (2017: HK$91 million) which are interest-bearing at Hong Kong dollar prime rate less 3% (2017: Hong Kong dollar prime rate less 3%) per annum, all of the amounts due from associates are unsecured, interest-free and have no fixed terms of repayment. The balances are not expected to be recovered within one year from the end of the reporting period and are neither past due nor impaired.

18 Interest in associates (continued)

All of the associates are accounted for using the equity method in the consolidated financial statements. Details of the principal associates at 31 December 2018 are set out on page 262.

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

	The Hong Kong and China Gas Company Limited (note)	
	2018 HK$ million	2017 HK$ million
Gross amounts of the associate's:		
Current assets	**20,612**	24,366
Non-current assets	**112,237**	106,799
Current liabilities	**(26,151)**	(31,948)
Non-current liabilities	**(36,366)**	(28,886)
Equity	**70,332**	70,331
Revenue	**39,073**	32,477
Profit from continuing operation	**10,433**	9,347
Other comprehensive income	**(2,872)**	3,498
Total comprehensive income	**7,561**	12,845
Dividend received from the associate	**2,103**	1,912
Reconciled to the Group's interest in the associate:		
Gross amount of net assets of the associate	**70,332**	70,331
Carrying amount of perpetual capital securities	**–**	(2,354)
Non-controlling interests	**(7,793)**	(7,453)
Equity attributable to equity shareholders	**62,539**	60,524
Group's interest	**41.53%**	41.53%
Group's share of the associate's equity attributable to equity shareholders	**25,972**	25,135
Goodwill	**17,519**	17,519
Carrying amount in the consolidated financial statements	**43,491**	42,654
Market value of the listed shares	**103,508**	88,986

Note: *The principal activities of The Hong Kong and China Gas Company Limited are the production, distribution and marketing of gas, water supply and emerging environmentally-friendly energy businesses. Its distinctive business nature forms a supplement to the Group's core business of property development and property investment to smooth out the cyclicality of the Group's property development business.*

18 Interest in associates (continued)

Aggregate information of associates that are not individually material:

	2018 HK$ million	2017 *(restated)* HK$ million
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements (2017 – restated)	**18,568**	16,837
Aggregate amounts of the Group's share of those associates:		
Profit from continuing operation (2017 – restated)	**1,395**	1,540
Other comprehensive income	**(223)**	83
Total comprehensive income (2017 – restated)	**1,172**	1,623

19 Interest in joint ventures

	2018 HK$ million	2017 HK$ million
Share of net assets	**38,190**	34,159
Less: Impairment loss	**(2)**	(2)
	38,188	34,157
Amounts due from joint ventures	**14,823**	10,708
	53,011	44,865

The amounts due from joint ventures are unsecured, interest-free, have no fixed terms of repayment and are not expected to be recovered within one year from the end of the reporting period except for the amounts of HK$13 million (2017: HK$14 million) and HK$280 million (2017: HK$271 million) which are interest-bearing at Hong Kong dollar prime rate (2017: Hong Kong dollar prime rate) per annum and Hong Kong Interbank Offered Rate plus 0.5% (2017: Hong Kong Interbank Offered Rate plus 0.5%) per annum respectively. During the year ended 31 December 2018, an amount due from a joint venture of HK$650 million which is secured, interest-bearing at Hong Kong Interbank Offered Rate plus 1.4% per annum and is wholly repayable on 18 November 2021, was transferred to the disposal group (see note 32). The balances are neither past due nor impaired.

All of the joint ventures are accounted for using the equity method in the consolidated financial statements. Details of the principal joint ventures at 31 December 2018 are set out on page 263.

19 Interest in joint ventures (continued)

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

	Central Waterfront Property Investment Holdings Limited (note)	
	2018 HK$ million	2017 HK$ million
Gross amounts of the joint venture's:		
Current assets	**604**	771
Non-current assets	**116,293**	103,425
Current liabilities	**(6,081)**	(2,141)
Non-current liabilities	**(14,512)**	(18,346)
Equity	**96,304**	83,709
Included in the above assets and liabilities:		
Cash and cash equivalents	**256**	373
Non-current financial liabilities (excluding trade and other payables and provisions)	**(13,500)**	(17,382)
Revenue	**6,514**	6,175
Increase in fair value of investment properties	**12,859**	7,707
Profit from continuing operation	**16,492**	11,202
Other comprehensive income	**23**	(19)
Total comprehensive income	**16,515**	11,183
Dividend received from the joint venture	**1,341**	1,266
Included in the above profit:		
Depreciation and amortisation	**(66)**	(71)
Interest income	**5**	1
Interest expense	**(498)**	(421)
Income tax expense	**(720)**	(694)
Reconciled to the Group's interest in the joint venture:		
Gross amount of net assets of the joint venture	**96,304**	83,709
Group's interest	**34.21%**	34.21%
Group's share of net assets of the joint venture and its carrying amount in the consolidated financial statements	**32,946**	28,637

Note: *Central Waterfront Property Investment Holdings Limited was incorporated in the British Virgin Islands by the Group and its joint venture partners and operates in Hong Kong. Its subsidiaries are mainly engaged in property investment and hotel operation in the International Finance Centre complex in Hong Kong.*

19 Interest in joint ventures (continued)

Aggregate information of joint ventures that are not individually material:

	2018 HK$ million	2017 HK$ million
Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements (including interest in a joint venture classified as "Assets of the disposal group classified as held for sale" under current assets (see note 32))	**21,853**	16,228
Aggregate amounts of the Group's share of those joint ventures:		
Profit from continuing operation	**1,305**	546
Other comprehensive income	**(362)**	291
Total comprehensive income	**943**	837

20 Derivative financial instruments

	2018		2017	
	Assets HK$ million	Liabilities HK$ million	Assets HK$ million	Liabilities HK$ million
Cash flow hedges:				
Cross currency interest rate swap contracts (note 4(f)(i))	**66**	**303**	111	393
Interest rate swap contracts (note 4(f)(i))	**–**	**–**	–	198
Total cash flow hedges	**66**	**303**	111	591
Fair value through profit or loss:				
Cross currency interest rate swap contracts (notes 4(c)(i) and 4(f)(i))	**–**	**95**	–	7
Interest rate swap contracts (notes 4(d)(i) and 4(f)(i))	**23**	**273**	–	230
Other derivatives (note 4(f)(i))	**–**	**–**	67	–
	23	**368**	67	237
	89	**671**	178	828
Representing:				
Non–current portion	**42**	**376**	111	746
Current portion (notes 24 and 27)	**47**	**295**	67	82
	89	**671**	178	828

20 Derivative financial instruments (continued)

(a) Derivatives under cash flow hedges

Swap contracts which have been entered into with certain counterparty banks comprise:

– cross currency interest rate swap contracts to hedge against the interest rate risk and foreign currency risk in respect of guaranteed notes (see note 29) denominated in United States dollars and Pound Sterling in the aggregate principal amounts of US$629 million and £50 million respectively at 31 December 2018 (2017: guaranteed notes denominated in United States dollars, Pound Sterling and Singapore dollars in the aggregate principal amounts of US$629 million, £50 million and S$200 million, respectively); and

– interest rate swap contracts to hedge against the interest rate risk in respect of certain bank loans denominated in Hong Kong dollars in the aggregate principal amount of HK$3,850 million at 31 December 2017.

The abovementioned cross currency interest rate swap contracts and interest rate swap contracts will mature between 25 July 2019 and 20 October 2026 (2017: between 19 September 2018 and 20 October 2026).

(b) Derivatives to hedge against interest rate risk but not under cash flow hedges

At 31 December 2018, interest rate swap contracts have been entered into with certain counterparty banks to hedge against the interest rate risk in respect of certain bank loans and guaranteed notes denominated in Hong Kong dollars in the aggregate principal amounts of HK$11,450 million (2017: HK$7,600 million) and HK$5,599 million (2017: HK$1,200 million), respectively at 31 December 2018.

(c) Derivatives to hedge against foreign currency risk but not under cash flow hedges

At 31 December 2018, cross currency swap contracts have been entered into with certain counterparty banks to hedge against the foreign currency risk in respect of guaranteed note (see note 29) and bank loans denominated in Japanese Yen in the aggregate principal amount of ¥32,000 million and bank loans denominated in Australian dollars in the aggregate principal amount of AUD173 million at 31 December 2018 (2017: guaranteed note denominated in Japanese Yen in the principal amount of ¥2,000 million).

(d) Other derivatives

The carrying value of other derivatives at 31 December 2017 represented the fair value of the remaining unexercised bonus warrants of Miramar Hotel and Investment Company, Limited (a listed associate of the Group) at that date. The exercise rights attached to the bonus warrants expired on 19 January 2018. During the year ended 31 December 2018, 33,700,000 (2017: 24,780,330) of such bonus warrants at aggregate fair value of HK$81 million (2017: HK$80 million) were exercised by the Group.

21 Other financial assets

	2018 HK$ million	2017 HK$ million
Investments designated as financial assets at FVOCI (non-recycling)		
Investments in equity securities		
Unlisted (note 4(f)(i))	**118**	–
Listed (note 4(f)(i)):		
– in Hong Kong	**109**	–
	227	–
Investments measured as financial assets at FVPL		
Investments in other securities		
Listed (note 4(f)(i)):		
– in Hong Kong	**1,384**	–
Financial assets measured at amortised cost		
Instalments receivable	**8,660**	7,846
Loans receivable	**3,554**	557
	12,214	8,403
Available-for-sale securities		
Unlisted (note 4(f)(i))	**–**	28
Listed (note 4(f)(i)):		
– in Hong Kong	**–**	2,708
– outside Hong Kong	**–**	313
	–	3,049
Held-to-maturity debt securities (note 4(f)(ii))		
Listed:		
– in Hong Kong	**–**	242
– outside Hong Kong	**–**	243
	–	485
	13,825	11,937
Market value of listed held-to-maturity debt securities (note 4(f)(ii))	**–**	508
Fair value of individually impaired available-for-sale securities	**–**	223

21 Other financial assets (continued)

(a) Investments in equity securities designated as financial assets at FVOCI (non-recycling) and investments in other securities measured as financial assets at FVPL/Available-for-sale securities

At 1 January 2018, the Group designated certain investments in equity securities as financial assets at FVOCI (non-recycling). At 31 December 2017, these investments were classified as available-for-sale and were either measured at cost less impairment losses or fair value. The FVOCI designation was made because the investments are expected to be held for strategic purpose.

(b) Held-to-maturity debt securities

At 31 December 2017, held-to-maturity debt securities were listed, issued by corporate entities with sound credit standing and were neither past due nor impaired. They were fully disposed of or redeemed during the year ended 31 December 2018.

(c) Instalments receivable

Instalments receivable represent the proceeds receivable from the sale of properties due after more than one year from the end of the reporting period. The balance included in "Other financial assets" is neither past due nor impaired. Instalments receivable due within one year from the end of the reporting period are included in "Trade and other receivables" under current assets (see note 24).

Instalments receivable, which are due within one year (see note 24) and after more than one year from the end of the reporting period, included an amount of HK$7,304 million (2017: HK$6,424 million) representing the aggregate attributable amounts of the outstanding mortgage loans advanced from the Group to the property buyers and which were already drawn down by the property buyers at the end of the reporting period.

(d) Loans receivable

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

	2018 **HK$ million**	2017 HK$ million
Secured loans	**883**	425
Unsecured loans	**2,671**	132
	3,554	557

Except for an amount of HK$380 million (2017: HK$380 million) which is interest-bearing at Hong Kong Interbank Offered Rate plus 2.25% (2017: Hong Kong Interbank Offered Rate plus 2.25%) per annum, the remaining balance of the abovementioned secured loans in the aggregate amount of HK$503 million (2017: HK$45 million) are interest-bearing at fixed interest rates ranging from 3% to 7.125% (2017: 3%) per annum.

Except for an amount of HK$23 million which is interest-free (2017: Nil), the remaining balance of the abovementioned unsecured loans in the aggregate amount of HK$2,648 million (2017: HK$132 million) are interest-bearing at fixed interest rates ranging from 3.8% to 9% (2017: 5%) per annum.

These balances are due after more than one year from the end of the reporting period and are neither past due nor impaired.

The balances of loans receivable which are expected to be recovered within one year from the end of the reporting period have been classified as "Trade and other receivables" under current assets (see note 24). The balances are neither past due nor impaired.

22 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.

23 Inventories

	2018 **HK$ million**	2017 *(restated)* 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

The analysis of carrying value of inventories for property development is as follows:

	2018 **HK$ million**	2017 *(restated)* HK$ million
In Hong Kong (2017 – restated)		
– under long leases	**37,987**	30,105
– under medium-term leases	**56,375**	39,869
	94,362	69,974
In mainland China		
– under long leases	**1,768**	2,383
– under medium-term leases	**909**	1,781
	2,677	4,164
	97,039	74,138
Including:		
– Properties expected to be completed after more than one year	**69,495**	49,504

24 Trade and other receivables

	2018 HK$ million	2017 *(restated)* HK$ million
Instalments receivable (note 21(c)) (2017 – restated)	**358**	319
Loans receivable (note 21(d))	**501**	866
Debtors, prepayments and deposits (2017 – restated)	**14,045**	16,020
Gross amount due from customers for contract work (note 25)[^]	**52**	28
Financial assets measured at FVPL (note 4(f)(i))	**190**	–
Derivative financial instruments (note 20)	**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(p)).*

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	
	2018 HK$ million	2017 HK$ million	per annum (%)	Settlement date
(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 (see note 21(d))
Sub-total:	**370**	728		
Total:	**501**	866		

24 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.

(a) Ageing analysis

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 **HK$ million**	2017 *(restated)* 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

Details of the Group's credit policy are set out in note 4(a).

(b) Impairment of trade debtors

Impairment losses in respect of trade debtors are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors directly (see note 2(n)(i)).

The movement in the allowance account during the year is as follows:

	2018 **HK$ million**	2017 HK$ million
At 1 January	**50**	52
Exchange differences	**–**	1
Reversal of impairment loss, net (notes 6 and 14(c))	**(25)**	(2)
Uncollectible amounts written off	**(11)**	(1)
At 31 December	**14**	50

24 Trade and other receivables (continued)

(c) Trade debtors that are not impaired

Comparative information under HKAS 39

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note 2(n)(i) – policy applicable prior to 1 January 2018). At 31 December 2017, trade receivables of HK$50 million were determined to be impaired. The individually impaired receivables relate to customers who were in financial difficulties and management assessed that only a portion of these receivables are expected to be recovered. Accordingly, the Group has recognised impairment losses in relation to the amounts which were considered to be irrecoverable.

The ageing analysis of trade debtors that are neither individually nor collectively considered to be impaired was as follows:

	2017 *(restated)* HK$ million
Neither past due nor impaired (2017 – restated)	195
Less than 1 month past due	226
Over 1 month but less than 3 months past due	23
	249
	444

Receivables which were neither past due nor impaired relate to customers for whom there was no recent history of default.

Receivables which were past due but not impaired relate to customers who have a good track record of trading with the Group. Based on past experience, management considers that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered to be fully recoverable.

25 Gross amount due from/(to) customers for contract work

	2018 HK$ million	2017 HK$ million
Contracts in progress at the end of the reporting period:		
Contract costs incurred plus profits less losses	**162**	289
Progress billings	**(115)**	(270)
Net contract work	**47**	19
Represented by:		
Gross amount due from customers for contract work recognised as contract assets under "Trade and other receivables" (note 24)	**52**	28
Gross amount due to customers for contract work recognised as contract liabilities under "Trade and other payables" (note 27)	**(5)**	(9)
	47	19

26 Cash and bank balances and movements in the carrying amounts of items relating to financing activities

(a) Cash and cash equivalents comprise:

	2018 HK$ million	2017 HK$ million
Deposits with banks and other financial institutions	**12,361**	14,735
Structured bank deposits	**1,856**	36
Cash at bank and in hand	**2,290**	9,902
Cash and bank balances in the consolidated statement of financial position	**16,507**	24,673
Less:		
Deposits with banks and other financial institutions over three months of maturity at acquisition	**(1,648)**	(1,139)
Structured bank deposits	**(1,856)**	(36)
Cash restricted for use	**(104)**	(2,670)
Cash and cash equivalents in the consolidated cash flow statement	**12,899**	20,828

At 31 December 2018, cash and bank balances in the consolidated statement of financial position included (i) balances of bank deposits in mainland China which were subject to exchange controls, and of which an amount of HK$104 million (2017: HK$2,670 million) was restricted for use and primarily comprised the guarantee deposits for the construction of certain property development projects under pre-sales in mainland China; and (ii) structured bank deposits denominated in Renminbi in the equivalent amount of HK$1,856 million (2017: HK$36 million) which were capital-protected.

26 Cash and bank balances and movements in the carrying amounts of items relating to financing activities (continued)

(b) Movements in the carrying amounts of items relating to financing activities

	Bank loans HK$ million (note 28)	Guaranteed notes HK$ million (note 29)	Derivative financial instruments, net (other than other derivatives) HK$ million (note 20)	Amount due to a fellow subsidiary HK$ million (note 30)	Amounts due to non-controlling interests and joint ventures, net HK$ million	Total HK$ million
At 1 January 2017	42,478	13,606	1,023	316	4,213	61,636
Changes from financing cash flows:						
Repayment to non-controlling interests, net	–	–	–	–	(75)	(75)
Proceeds from new bank loans/guaranteed notes	60,741	1,339	–	–	–	62,080
Repayment of bank loans/guaranteed notes	(34,421)	(5,767)	–	–	–	(40,188)
Increase in amount due to a fellow subsidiary	–	–	–	1,438	–	1,438
Interest and other borrowing costs paid during the year	(700)	(558)	(228)	(9)	(67)	(1,562)
Total changes from financing cash flows	25,620	(4,986)	(228)	1,429	(142)	21,693
Exchange adjustments	312	189	–	–	–	501
Changes in fair value	–	–	(306)	–	–	(306)
Other changes:						
Interest expenses (before capitalisation) for the year (note 7(a))	601	464	233	9	67	1,374
Other borrowing costs (before capitalisation) for the year (note 7(a))	156	4	–	–	–	160
Others	10	96	(5)	–	535	636
Total other changes	767	564	228	9	602	2,170
At 31 December 2017	69,177	9,373	717	1,754	4,673	85,694

26 Cash and bank balances and movements in the carrying amounts of items relating to financing activities (continued)

(b) Movements in the carrying amounts of items relating to financing activities (continued)

	Bank loans HK$ million (note 28)	Guaranteed notes HK$ million (note 29)	Derivative financial instruments, net (other than other derivatives) HK$ million (note 20)	Amount due to a fellow subsidiary HK$ million (note 30)	Amounts due to non-controlling interests and joint ventures, net HK$ million	Total HK$ million
At 1 January 2018	69,177	9,373	717	1,754	4,673	85,694
Changes from financing cash flows:						
Repayment to non-controlling interests, net	–	–	–	–	(27)	(27)
Proceeds from new bank loans/guaranteed notes	46,608	4,880	–	–	–	51,488
Repayment of bank loans/guaranteed notes	(43,350)	(1,244)	–	–	–	(44,594)
Decrease in amount due to a fellow subsidiary	–	–	–	(654)	–	(654)
Interest and other borrowing costs paid during the year	(1,240)	(501)	(177)	(76)	(120)	(2,114)
Total changes from financing cash flows	2,018	3,135	(177)	(730)	(147)	4,099
Exchange adjustments	(19)	60	–	–	–	41
Changes in fair value	–	–	(135)	–	–	(135)
Other changes:						
Interest expenses (before capitalisation) for the year (note 7(a))	1,158	555	125	76	120	2,034
Other borrowing costs (before capitalisation) for the year (note 7(a))	140	4	–	–	–	144
Others	(19)	(52)	52	–	705	686
Total other changes	1,279	507	177	76	825	2,864
At 31 December 2018	72,455	13,075	582	1,100	5,351	92,563

27 Trade and other payables

	2018 HK$ million	2017 *(restated)* HK$ million
Creditors and accrued expenses (2017 – restated)	**6,217**	7,538
Gross amount due to customers for contract work (note 25) (#)	**5**	9
Rental and other deposits	**1,630**	1,542
Forward sales deposits received (2017 – restated) (#)	**16,290**	10,225
Derivative financial instruments (note 20)	**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(p)).

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 deposits from customers when they sign the sale and purchase agreements relating to property sales. Such deposit is recognised as a contract liability until the property is 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 to 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.

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**

27 Trade and other payables (continued)

(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).

28 Bank loans

At 31 December 2018, bank loans were repayable as follows:

	2018 HK$ million	2017 HK$ million
Within 1 year and included in current liabilities	**27,834**	23,506
After 1 year and included in non-current liabilities		
– After 1 year but within 2 years	**14,441**	15,639
– After 2 years but within 5 years	**17,098**	25,871
– After 5 years	**13,082**	4,161
	44,621	45,671
	72,455	69,177

At 31 December 2018 and 2017, all of the bank loans were unsecured.

Certain of the Group's banking facilities are subject to the fulfilment of covenants relating to certain ratios in the Group's statement of financial position and minimum net assets requirement, as are commonly found in lending arrangements with financial institutions. Any breach of the covenants by the Group would result in the drawdown facilities to become repayable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 4(b). At 31 December 2018 and 2017, none of the covenants relating to the drawdown facilities had been breached.

29 Guaranteed notes

	2018 HK$ million	2017 HK$ million
Guaranteed notes due 2019-2022	**1,429**	1,456
Guaranteed notes due 2019	**3,914**	3,902
Guaranteed notes issued pursuant to the Medium Term Note Programme	**7,732**	4,015
	13,075	9,373

At 31 December 2018, the guaranteed notes were repayable as follows:

	2018 HK$ million	2017 HK$ million
Within 1 year and included in current liabilities	**5,187**	1,169
After 1 year and included in non-current liabilities		
– After 1 year but within 2 years	**1,483**	5,202
– After 2 years but within 5 years	**2,966**	1,279
– After 5 years	**3,439**	1,723
	7,888	8,204
	13,075	9,373

(a) Guaranteed notes due 2019-2022

On 25 July 2007, the Company through a wholly-owned subsidiary issued guaranteed loan notes (the "2007 Notes") with aggregate principal amounts of US$325 million and £50 million under private placements in the United States of America and in Europe, respectively. At 31 December 2018 and 2017, the 2007 Notes with principal amounts of US$119 million and £50 million bore fixed interest rates which ranged from 6.28% to 6.38% per annum and payable semi-annually in arrears. The 2007 Notes are guaranteed by the Company and will mature between 25 July 2019 and 25 July 2022 (2017: 25 July 2019 and 25 July 2022).

(b) Guaranteed notes due 2019

On 17 September 2009, the Company through a wholly-owned subsidiary issued guaranteed notes (the "2009 Notes") with an aggregate principal amount of US$500 million at an issue price equal to 99.795% of the principal amount of the 2009 Notes. The 2009 Notes bear a fixed interest rate at 5.50% per annum payable semi-annually in arrears. The 2009 Notes are guaranteed by the Company and will mature on 17 September 2019.

29 Guaranteed notes (continued)

(c) Guaranteed notes issued pursuant to the Medium Term Note Programme (the "MTN 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 MTN Programme, from US$3,000 million to US$5,000 million. The aggregate carrying amount of the guaranteed notes issued under the MTN Programme during the year ended 31 December 2018 was HK$4,889 million, and the guaranteed notes issued under the MTN Programme which remained outstanding at 31 December 2018 comprised HK$7,524 million, US$10 million and ¥2,000 million (2017: the aggregate amounts of guaranteed notes issued during the year under the MTN Programme were HK$1,200 million and ¥2,000 million, and the guaranteed notes issued under the MTN Programme which remained outstanding at 31 December 2017 comprised HK$2,635 million, US$10 million, S$200 million and ¥2,000 million).The guaranteed notes which remained outstanding at 31 December 2018 under the MTN Programme were issued by a wholly-owned subsidiary of the Company during the period between 23 September 2011 and 16 November 2018 (2017: between 19 September 2011 and 6 December 2017), and bear fixed coupon rates ranging from 0.80% to 5.20% per annum (2017: 0.80% to 5.20% per annum) payable quarterly, semi-annually or annually in arrears, and will mature between 27 April 2020 and 6 December 2032 (2017: between 19 September 2018 and 6 December 2032).

30 Amount due to a fellow subsidiary

At 31 December 2018 and 2017, all of the amount due to a fellow subsidiary is unsecured, interest-bearing and is not expected to be settled within one year from the end of the reporting period with no fixed terms of repayment.

31 Capital and reserves

(a) Movements in components of equity

The reconciliation between the opening and closing balances during the year of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of changes in the Company's individual components of equity between the beginning and the end of the year are set out in note 39(b).

(b) Nature and purpose of reserves

(i) Property revaluation reserve

The property revaluation reserve relates to other land and buildings. Where other land and buildings is reclassified to investment properties, the cumulative increase in fair value at the date of reclassification is included in the property revaluation reserve, and will be transferred to retained profits upon the retirement or disposal of the relevant property.

(ii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 2(y).

(iii) Fair value reserve (recycling)

The fair value reserve (recycling) comprises the cumulative net change in the fair value of debt securities measured at FVOCI under HKFRS 9 held at the end of the reporting period (see note 2(g)). Prior to 1 January 2018, this reserve included the cumulative net change in the fair value of available-for-sale securities held at the end of the reporting period in accordance with HKAS 39 and was dealt with in accordance with the accounting policies set out in notes 2(g) and 2(n)(i). This amount has been reclassified to fair value reserve (non-recycling) upon the adoption of HKFRS 9 at 1 January 2018 (see note 2(b)).

31 Capital and reserves (continued)

(b) Nature and purpose of reserves (continued)

(iv) Fair value reserve (non-recycling)

The fair value reserve (non-recycling) comprises the cumulative net change in the fair value of equity investments designated at FVOCI under HKFRS 9 held at the end of the reporting period (see note 2(g)).

(v) Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of a derivative financial instrument which is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, in accordance with the accounting policy adopted for cash flow hedges in note 2(i).

(vi) Other reserves

Other reserves mainly comprise the statutory reserve set up for enterprises established in mainland China. According to the relevant rules and regulations in The People's Republic of China ("PRC") applicable to wholly foreign-owned enterprises, a wholly foreign-owned enterprise is required to transfer at least 10% of its profit after taxation, as determined under the PRC Accounting Regulations, to a reserve fund until the reserve fund balance reaches 50% of the relevant enterprise's registered capital.

32 Disposal group

On 27 July 2018, the Group and a subsidiary of 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. The Group presented the disposal group as held for sale, as follows:

	2018 HK$ million
Assets	
Share of consolidated net assets in Best Value	**1,138**
Amount due from Best Value (note 19)	**650**
	1,788

33 Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that the Group can continue to provide financial returns to shareholders, and by securing access to financing sources at reasonable costs.

The Group regularly reviews and manages its capital structure under the policy of financial management. The Group maintains a financially sound capital position and, where appropriate, makes adjustments to its capital structure in light of remarkable changes in the financial and capital markets and in economic conditions.

The Group monitors its capital structure on the basis of gearing ratio, which is one of the most commonly adopted measurement standards for capital management by companies engaged in the businesses of property development and property investment. Gearing ratio is calculated based on the net debt (being the aggregate of the Group's bank and other borrowings and the amount due to a fellow subsidiary (collectively, the "Total debt") less cash and bank balances) and shareholders' funds of the Group at the end of the reporting period.

During the year ended 31 December 2018, the Group's strategy, which was unchanged from that for the corresponding year ended 31 December 2017, was to secure long-term funding sources at attractive borrowing costs so as to finance the development of the Group's land bank in Hong Kong and mainland China in the coming years. The Group continued to maintain a low gearing ratio during the year, which has the effect of minimising any unfavourable impact on the Group arising from any unforeseeable adverse changes in the local and/or international financial markets, capital markets and economic conditions.

The Group's gearing ratios at 31 December 2018 and 2017 were as follows:

	2018 HK$ million	2017 HK$ million
Bank and other borrowings (including guaranteed notes) 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%

Except for a wholly-owned subsidiary of the Company which is engaged in the provision of finance and is governed by the requirements of the Banking Ordinance, neither the Company nor any of its other subsidiaries was subject to externally imposed capital requirements during the year and at 31 December 2018.

34 Acquisitions and transfers of subsidiaries

(a) Acquisitions of subsidiaries

The Group acquired certain subsidiaries during the years ended 31 December 2018 and 2017. The fair value of the assets acquired and the liabilities assumed for the Group's acquisitions of subsidiaries were as follows:

	2018 HK$ million	2017 HK$ million
Other property, plant and equipment (note 15(a))	**32**	–
Deferred tax assets (note 10(c))	**8**	–
Deposits for acquisition of properties	**–**	7
Inventories	**16,303**	82
Trade and other receivables	**61**	–
Tax recoverable	**3**	–
Cash and bank balances	**1**	–
Trade and other payables	**(445)**	(22)
Amount due to a related company	**–**	(15)
Deferred tax liabilities (note 10(c))	**–**	(5)
Provisions for reinstatement costs	**(13)**	–
Fair value of identifiable net assets	**15,950**	47
Goodwill	**262**	–
Net consideration	**16,212**	47
Representing:		
Cash consideration paid	**16,212**	47
Net cash outflow in respect of the acquisitions:		
Cash consideration paid	**16,212**	47
Cash and cash equivalents acquired	**(1)**	–
	16,211	47

34 Acquisitions and transfers of subsidiaries (continued)

(b) Transfers of subsidiaries

The Group transferred certain subsidiaries during the years ended 31 December 2018 and 2017. The transfers which were completed during the years ended 31 December 2018 and 2017 had the following effect on the Group's assets and liabilities:

	2018 HK$ million	2017 HK$ million
Investment properties and other property, plant and equipment (note 15(a))	**9,000**	1,548
Investment properties	**–**	3,257
Deposits for acquisition of properties	**–**	3,316
Inventories	**1,084**	2,646
Trade and other receivables	**8**	546
Cash and cash equivalents	**–**	703
Trade and other payables	**(13)**	(412)
Tax payable	**–**	(2)
Net assets	**10,079**	11,602
Non-controlling interests	**–**	(16)
Interest in a joint venture	**(1,682)**	–
Release of exchange reserve (note 12(b))	**–**	(238)
Professional charges	**102**	34
Net gain on transfers (note 6)	**1,444**	3,837
Total consideration	**9,943**	15,219
Net cash inflow in respect of the transfers:		
Total consideration	**9,943**	15,219
Consideration received in advance in prior year	**–**	(330)
Consideration to be received	**(199)**	(5,025)
Cash and cash equivalents transferred	**–**	(703)
	9,744	9,161

35 Capital commitments

At 31 December 2018, the Group had capital commitments not provided for in these financial statements as follows:

		2018 HK$ million	2017 HK$ million
(a)	Contracted for acquisition of property and future development expenditure and the related costs of internal fixtures and fittings	**9,852**	13,094
	Future development expenditure and the related costs of internal fixtures and fittings approved by the directors but not contracted for	**23,188**	14,454
		33,040	27,548
(b)	**In relation to the capital commitments undertaken by joint ventures and certain associates attributable to the Group:**		
	Contracted for acquisition of property and future development expenditure and the related costs of internal fixtures and fittings	**2,466**	1,825
	Future development expenditure and the related costs of internal fixtures and fittings approved by the directors but not contracted for	**4,662**	4,397
		7,128	6,222

36 Significant leasing arrangements

At 31 December 2018, the Group was both a lessor and a lessee under operating leases. Details of the Group's commitments under non-cancellable operating leases are set out as follows:

(a) Lessor

The Group leases out a number of land/building facilities under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease after that date at which time all terms are re-negotiated. Further details of the carrying value of the properties are contained in note 15.

The total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2018 HK$ million	2017 HK$ million
Within 1 year	**4,727**	4,972
After 1 year but within 5 years	**4,816**	5,553
After 5 years	**131**	214
	9,674	10,739

36 Significant leasing arrangements (continued)

(b) Lessee

The Group leases a number of building facilities under operating leases. The leases typically run for an initial period of one to five years, with an option to renew the lease after that date at which time all terms are re-negotiated.

The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018 HK$ million	2017 HK$ million
Within 1 year	**373**	244
After 1 year but within 5 years	**286**	297
	659	541

37 Contingent liabilities

At 31 December 2018, contingent liabilities of the Group were as follows:

(a) In connection with the sale of certain subsidiaries and shareholders' loans to Sunlight Real Estate Investment Trust ("Sunlight REIT") (the "Sale") in December 2006, the Group entered into Deeds of Tax Covenant with Sunlight REIT. Under the Deeds of Tax Covenant, the Group has undertaken to indemnify Sunlight REIT for any tax liabilities relating to events occurred on or before the completion of the Sale (the "Completion"), clawback of commercial building allowances and capital allowances granted up to the Completion and re-classification of the properties before or upon the Completion. At 31 December 2018, the Group had contingent liabilities in this connection of HK$11 million (2017: HK$11 million).

(b) At 31 December 2018, the Group had contingent liabilities in respect of performance bonds, guarantees and undertakings for the due and proper performance of the obligations of the Group's subsidiaries and projects amounting to HK$443 million (2017: HK$1,237 million).

(c) At 31 December 2018, the Group had given guarantees to financial institutions in the aggregate amount of HK$1,458 million (2017: HK$837 million) 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. Such guarantees will be released upon the issuance of the Building Ownership Certificate.

(d) At 31 December 2018, the Company had given an irrevocable, unconditional and several guarantee to the lending bank in relation to the repayment obligations by a joint venture, in which the Group has a 20% interest, which entered into a loan facility agreement with such lending bank on 2 May 2017. The Group's contingent liabilities in respect of the guarantee in relation to the amount drawn down on the loan facility, which is proportional to the Group's attributable interest in the joint venture, amounted to HK$320 million (2017: HK$30 million).

(e) Furthermore, in accordance with a development agreement dated 21 November 2018 ("Development Agreement") between the Urban Renewal Authority ("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, the Company shall irrevocably and unconditionally guarantee the Developer's obligations under the Development Agreement in favour of URA 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.

38 Material related party transactions

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions during the year:

(a) Transactions with fellow subsidiaries

Details of material related party transactions during the year between the Group and its fellow subsidiaries are as follows:

	2018 HK$ million	2017 HK$ million
Rental income (note (iii))	**6**	–
Rental commission income (note (iii))	**7**	–
Other interest expense (note (i))	**76#**	9#
Sales commission income (note (iii))	**4**	8
Administration fee income (note (ii))	**10**	10

(b) Transactions with associates and joint ventures

Details of material related party transactions during the year between the Group and its associates and joint ventures are as follows:

	2018 HK$ million	2017 HK$ million
Purchase of investment properties (note (iii))	**–**	281
Construction income (note (iii))	**41**	194
Rental income (note (iii))	**23**	22
Rental expenses (note (iii))	**174**	150
Venue-related expenses (note (iii))	**57**	54
Management fee income (note (iii))	**1**	2
Security guard service fee income (note (iii))	**25**	25
Other interest income (note (i))	**229**	22
Other interest expenses (note (i))	**38**	–
Property management service fee income (note (iii))	**9**	10
Rental commission income (note (iii))	**7**	6
Loan commitment fee income (note (iii))	**–**	6

During the year ended 31 December 2018, the Group transferred the entire issued shares of its two wholly-owned subsidiaries to a joint venture in which the Group has a 50% interest, details of which are set out in note 6(i)(b) of these financial statements.

38 Material related party transactions (continued)

(c) Transactions with related companies

Details of material related party transactions during the year between the Group and its related companies which are controlled by private family trusts of a director of the Company are as follows:

	2018 HK$ million	2017 HK$ million
Purchase of leasehold land held for development for sale (note (iii))	**105**	–
Income from sale of construction materials (note (iii))	**5**	4
Rental income (note (iii))	**8**	12
Tax indemnity receipt	**–**	1

Notes:

(i) Interest income and expense are calculated on the balance of loans outstanding from time to time by reference to Hong Kong Interbank Offered Rate, Hong Kong dollar prime rate or Renminbi benchmark loan rates announced by the People's Bank of China.

(ii) This transaction represents cost reimbursements or cost reimbursements plus certain percentage thereon as service fees.

(iii) In the opinion of the directors, these transactions were carried out on normal commercial terms and in the ordinary course of business.

(iv) The amount due to a fellow subsidiary at 31 December 2018 and 2017 is referred to in the Group's consolidated statement of financial position at 31 December 2018 and 2017, and the terms of which are set out in note 30. The amounts due from/to associates and joint ventures at 31 December 2018 and 2017 are set out in notes 18, 19, 24, 27 and 32.

(d) Transactions with Sunlight REIT

Details of the material related party transactions during the year between the Group and Sunlight REIT (which is deemed as a connected person of the Company under the Listing Rules as from 30 April 2009) are as follows:

	2018 HK$ million	2017 HK$ million
Property and leasing management service fee income and other ancillary property service fee income	**52#**	53#
Asset management service fee income	**97#**	92#
Rental expenses	**11**	11
Security service fee income	**3#**	3#

The above transactions were conducted in accordance with the terms of the respective agreements/deeds entered into between the Group and Sunlight REIT. At 31 December 2018, the amount due from Sunlight REIT was HK$30 million (2017: HK$29 million) and is unsecured, interest-free and has no fixed terms of repayment. The amount is included in "Trade and other receivables" under current assets (note 24).

38 Material related party transactions (continued)

(e) Transactions with a director of the Company and a company owned by him

(i) Dr Lee Ka Kit, a director of the Company, made an advance ("advance") of HK$44 million (2017: HK$91 million) to Henderson (China) Investment Company Limited ("HCI"), an indirect wholly-owned subsidiary of the Group, for the purpose of funding HCI's business operation in mainland China. The advance is unsecured, interest-free and has no fixed terms of repayment.

(ii) Dr Lee Ka Kit, through a company owned by him (the "entity"), has separate interest in an associate of the Group and through which the Group holds its interest in a development project in mainland China. The entity agreed to provide and had provided finance in the form of non interest-bearing advances to such associate in accordance with the percentage of its equity interest in such associate. At 31 December 2018, the advance by the entity to the abovementioned associate amounted to HK$80 million (2017: HK$80 million). Such amount is unsecured and has no fixed terms of repayment.

(f) Transaction with a director of the Company

During the year ended 31 December 2017, the Group sold to Professor Ko Ping Keung, a director of the Company, a completed property unit for a consideration of HK$26 million.

(g) Transaction with a company owned by a close family member of a director of the Company

During the year ended 31 December 2017, the Group sold to a company owned by a close family member of Madam Fung Lee Woon King, a director of the Company, a completed property unit for a consideration of HK$57 million.

(h) Key management personnel

Remuneration for key management personnel are disclosed in note 8.

These related party transactions also constitute connected transactions and/or continuing connected transactions under the Listing Rules, details of which are set out in the paragraph headed "Interests in transactions, arrangements or contracts and connected transactions/continuing connected transactions" in the Report of the directors set out in the Company's annual reports for the years ended 31 December 2018 and 2017.

39 Statement of financial position and changes in equity of the Company

(a) Statement of financial position

	Note	At 31 December 2018 HK$ million	At 31 December 2017 HK$ million
Non-current assets			
Interest in subsidiaries	17	**178,231**	165,749
Interest in associates		**91**	91
Interest in joint ventures		**8**	111
		178,330	165,951
Current assets			
Trade and other receivables		**65**	65
Cash and bank balances		**2**	2
		67	67
Current liability			
Trade and other payables		**17**	19
		17	19
Net current assets		**50**	48
Total assets less current liability		**178,380**	165,999
Non-current liabilities			
Amounts due to subsidiaries		**49,680**	35,110
Amounts due to joint ventures		**23**	100
		49,703	35,210
NET ASSETS		**128,677**	130,789
CAPITAL AND RESERVE	39(b)		
Share capital	39(c)	**52,345**	52,345
Retained profits		**76,332**	78,444
TOTAL EQUITY		**128,677**	130,789

Approved and authorised for issue by the Board of Directors on 20 March 2019.

Lee Shau Kee
Lee Tat Man
Directors

39 Statement of financial position and changes in equity of the Company (continued)

(b) Movement in equity

	Note	Share capital HK$ million	Retained profits HK$ million	Total HK$ million
Balance at 1 January 2017		52,345	72,446	124,791
Changes in equity for 2017:				
Profit and total comprehensive income for the year		–	12,029	12,029
Bonus shares issued	39(c)	–	–	–
Dividend approved in respect of the previous financial year	11(b)	–	(4,110)	(4,110)
Dividend declared and paid in respect of the current year	11(a)	–	(1,921)	(1,921)
Balances at 31 December 2017 and 1 January 2018		**52,345**	**78,444**	**130,789**
Changes in equity for 2018:				
Profit and total comprehensive income for the year		**–**	**5,010**	**5,010**
Bonus shares issued	39(c)	**–**	**–**	**–**
Dividend approved in respect of the previous financial year	11(b)	**–**	**(4,921)**	**(4,921)**
Dividend declared and paid in respect of the current year	11(a)	**–**	**(2,201)**	**(2,201)**
Balance at 31 December 2018		**52,345**	**76,332**	**128,677**

39 Statement of financial position and changes in equity of the Company (continued)

(c) Share capital

	The Group and the Company			
	Number of shares		Amount	
	2018 million	2017 million	**2018 HK$ million**	2017 HK$ million
Ordinary shares, issued and fully paid:				
At 1 January	**4,001**	3,637	**52,345**	52,345
Issue of bonus shares (note (i))	**400**	364	**–**	–
At 31 December	**4,401**	4,001	**52,345**	52,345

In accordance with section 135 of the Hong Kong Companies Ordinance (Cap. 622), the shares of the Company do not have a par value.

(i) *Issue of bonus shares*

On 21 June 2018, an aggregate of 400,114,628 shares were issued on the basis of one new share credited as fully paid for every ten shares held to shareholders whose names appeared on the Company's register of members on 11 June 2018.

On 21 June 2017, an aggregate of 363,740,571 shares were issued on the basis of one new share credited as fully paid for every ten shares held to shareholders whose names appeared on the Company's register of members on 13 June 2017.

There is no change to the Company's share capital as the Company's shares no longer have a par or nominal value in accordance with section 135 of the Hong Kong Companies Ordinance (Cap. 622).

(d) Distributability of reserves

At 31 December 2018, the aggregate amount of reserves available for distribution to equity shareholders of the Company, as calculated under the provisions of Part 6 of the Hong Kong Companies Ordinance (Cap. 622), was HK$76,332 million (2017: HK$78,444 million). As stated in note 11(a), after the end of the reporting period, the directors proposed a final dividend of HK$1.30 (2017: HK$1.23) per ordinary share, amounting to HK$5,722 million (2017: HK$4,921 million). This dividend has not been recognised as a liability at the end of the reporting period.

40 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 11.

41 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(b) to these financial statements.

42 Immediate parent and ultimate controlling party

At 31 December 2018, the directors consider that the immediate parent and ultimate controlling party of the Group to be Henderson Development Limited, which is incorporated in Hong Kong. Henderson Development Limited does not produce financial statements available for public use.

Principal Subsidiaries

at 31 December 2018

Details of the principal subsidiaries are as follows:

		Note	Particulars of issued shares HK$ (unless otherwise stated)	% of shares held by The Company	Subsidiaries
(a)	Property development				
(i)	**Incorporated and operates in Hong Kong**				
	Asia Cheer International Limited		1	–	100
	Avion Investment Limited	(i)	3,000,000	100	–
	Borten Limited	(i)	1	–	100
	Capital Matrix Limited		1	–	100
	Carley Limited		2	–	100
	City Castle Limited		1	–	100
	Denco Properties Limited	(i)	1	–	100
	Dynamic Hero Limited	(i)	1	–	100
	Dynamic Talent Limited		1	–	100
	Fairtex Development Limited		1	–	100
	Gainbo Limited	(i)	2	–	100
	Gentway Limited	(i)	1	–	100
	Global Crystal Limited	(i)	1	–	100
	Golden Sharp Limited		1	–	100
	Harven Limited		10,000	–	100
	Harvest Development Limited		840	–	82.86
	Hongkong Island Construction Properties Co., Limited	(i)	500,000	–	100
	Hung Shun Investment Company Limited	(i)	3,940,200	–	100
	Joinbo Enterprises Limited	(i)	1	–	100
	Landrich Development Limited	(i)	1,000	–	100
	Nation Sheen Limited	(i)	2	–	100
	Onfine Development Limited	(i)	2	–	100
	Perfect Success Development Limited		2	–	100
	Rich Silver Development Limited		2	–	100
	Rise Cheer Investment Limited	(i)	1	–	100
	Sky Rainbow Development Limited		10,000	–	100
	Smart Bright Development Limited	(i)	1,000,100	–	100
	Sunny Perfect Limited		1,000	–	100
	Super Fortune Investment Limited	(i)	1	–	100
	Supreme Hero Limited	(i)	1	–	100
	Sure Partner Limited		1	–	100
	Treasure Palace Limited		1	–	100
	Triple Glory Limited	(i)	1	–	100
	Union Citizen Limited	(i)	1	–	100
	Victory Well Development Limited		2	–	100
	Winjoy Development Limited	(i)	2	100	—

		Issued/ contributed registered capital	% of equity interest held by The Company	Subsidiaries	% of profit sharing by subsidiaries
(a)	Property development (continued)				
(ii)	**Established and operates in mainland China**				
	Sino-Foreign Co-operative Joint Venture Enterprise				
	Beijing Gaoyi Property Development Co., Ltd.	US$81,000,000	–	100	100

		Note	Particulars of issued shares HK$ (unless otherwise stated)	% of shares held by The Company	Subsidiaries
(b)	Property investment				
	Incorporated and operates in Hong Kong				
	Bloomark Investment Limited	(i)	2	–	100
	Carry Express Investment Limited	(i)	100,000	–	100
	Century Base Development Limited	(i)	1	–	100
	Deland Investment Limited	(i)	200	–	100
	Easewin Development Limited	(i)	100,000	–	100
	Evercot Enterprise Company, Limited	(i)			
	– A Shares		14,990,000	100	–
	– B Shares		200	–	–
	Intelligent House Limited	(i)	10,000	–	100
	Join Fortune Development Limited	(i)			
	– A Shares		100	100	–
	– B Shares		2	–	–
	Millap Limited	(i)	2	100	–
	Shung King Development Company Limited	(i)			
	– Ordinary A Shares		2	100	–
	– Non-voting Deferred A Shares		2,000,000	100	–
	– B Shares		2	–	–
	Union Fortune Development Limited	(i)	10,000	–	100

		Note	Particulars of issued shares HK$ (unless otherwise stated)	% of shares held by The Company	Subsidiaries
(c)	**Finance**				
(i)	**Incorporated and operates in Hong Kong**				
	Ever Supreme Development Limited		1	–	100
	Henderson (China) Finance Limited	(i)	10,000	–	100
	Henderson International Finance Limited		25,000,000	100	–
	Henderson Land Credit (2014) Limited	(i)	1	–	100
	Henderson Land Credit (2015) Limited	(i)	1	–	100
	Henderson Land Finance (2011) Limited	(i)	1	–	100
	Henland Finance Limited	(i)	1,000,000	–	100
	Post East Finance Company Limited		2	–	100
	Rich Chase Development Limited	(i)	2	–	100
	Smart Time International Limited		1	–	100
	Success Crown Development Limited		2	–	100
(ii)	**Incorporated and operates in the British Virgin Islands**				
	Hansom Technology Limited	(i)	US$1	–	100
	Henderson Land Finance Limited		US$1	100	–
	Henderson Land MTN Limited	(i)	US$1	–	100
	Henson Finance Limited	(i)	US$1	–	100
	Midlink Limited	(i)	US$1	–	100
	St. Helena Holdings Co. Limited		US$3	–	100
(iii)	**Incorporated in Singapore and operates in Hong Kong**				
	Henderson Land MTN (S) Pte. Limited	(i)	US$1	–	100

Principal Subsidiaries

at 31 December 2018

	Note	Particulars of issued shares HK$ (unless otherwise stated)	% of shares held by The Company	Subsidiaries
(d) Construction				
Incorporated and operates in Hong Kong				
E Man Construction Company Limited		35,000,000	100	–
Ginca Construction Machinery Limited		1	–	100
Granbo Construction Company Limited		1	–	100
Heng Lai Construction Company Limited		2	–	100
Heng Shung Construction Company Limited		2	–	100
Heng Tat Construction Company Limited		200	–	100
Hong Kong Concrete Precasting Product Company Limited		2	–	100

	Note	Particulars of issued shares HK$ (unless otherwise stated)	% of shares held by The Company	Subsidiaries
(e) Property management				
Incorporated and operates in Hong Kong				
Beverly Hill (Estate Management) Limited		2	–	100
Flora Plaza Management Limited		10	–	60
Goodwill Management Limited		2	–	100
H-Privilege Limited		1	–	100
Hang On Estate Management Limited		2	–	100
Hang Yick Properties Management Limited		10,000,000	100	–
Henderson Sunlight Asset Management Limited	(i)	38,800,000	–	100
Henderson Sunlight Property Management Limited	(i)	1	–	100
Metro City Management Limited		2	–	100
Metro Harbourview Management Limited		2	–	100
Nathan Hill Management Company Limited		1	–	100
Star Management Limited		2	–	100
Sunshine City Property Management Limited		2	–	100
Well Born Real Estate Management Limited		2	100	–

		Note	Particulars of issued shares HK$ (unless otherwise stated)	% of shares held by The Company	Subsidiaries
(f)	Investment holding				
(i)	**Incorporated and operates in Hong Kong**				
	Banshing Investment Limited		2	–	100
	Channel Best Limited	(i)	1	–	100
	China Investment Group Limited		300,000,000	–	100
	Citiright Development Limited		2	100	–
	Covite Investment Limited		2	–	100
	Darnman Investment Limited		2	–	100
	Disralei Investment Limited				
	– Ordinary Shares		2	–	100
	– Non-voting Deferred Shares		1,000	–	100
	Fondoll Investment Limited		200	100	–
	Gainwise Investment Limited		2	–	100
	Graf Investment Limited	(i)			
	– Ordinary Shares		2	–	100
	– Non-voting Deferred Shares		200	–	100
	Henderson China Properties Limited	(i)	3,000,000,000	–	100
	Henderson Investment Limited		612,926,901	–	69.27
	Macrostar Investment Limited				
	– Ordinary Shares		2	–	100
	– Non-voting Deferred Shares		2	–	100
	Main Champion Development Limited	(i)	2	100	–
	Markshing Investment Limited		2	–	100
	Medley Investment Limited				
	– Ordinary Shares		2	–	100
	– Non-voting Deferred Shares		200	–	100
	Mightymark Investment Limited		2	100	–
	Mount Sherpa Limited	(i)			
	– Ordinary Shares		2	–	100
	– Non-voting Deferred Shares		20	–	100
	Paillard Investment Limited	(i)			
	– Ordinary Shares		2	–	100
	– Non-voting Deferred Shares		200	–	100
	Tactwin Development Limited	(i)	1,000	100	–
	Wellfine Development Limited		55	100	–
	Wiselin Investment Limited	(i)	2	–	100

		Note	Particulars of issued shares HK$ (unless otherwise stated)	% of shares held by The Company	Subsidiaries
(f)	Investment holding (continued)				
(ii)	**Incorporated in Hong Kong and operates in mainland China**				
	Hang Seng Quarry Company Limited	(i)	10,000	64	–
(iii)	**Incorporated and operates in the British Virgin Islands**				
	Cobase Limited		US$1	–	100
	Higgins Holdings Limited	(i)	US$1	–	100
	Multiglade Holdings Limited	(i)	US$1	–	100
	Richful Resources Limited		US$1	–	100
	Starland International Limited		US$1	100	–
	Sunnice Investment Limited		US$1	–	100
	Threadwell Limited	(i)	US$1	–	100

		Note	Particulars of issued shares HK$ (unless otherwise stated)	% of shares held by The Company	Subsidiaries
(g)	Department store operation and management				
	Incorporated and operates in Hong Kong				
	Citistore (Hong Kong) Limited		1	–	100
	Unicorn Stores (HK) Limited (formerly known as UNY (HK) Co., Limited)		35,000,000	–	100

Principal Subsidiaries

at 31 December 2018

		Note	Particulars of issued shares HK$ (unless otherwise stated)	% of shares held by The Company	Subsidiaries
(h)	**Management and agency services**				
	Incorporated and operates in Hong Kong				
	Henderson Leasing Agency Limited	(i)	1	–	100
	Henderson Property Agency Limited		200,000	–	100
	Henderson Real Estate Agency Limited	(i)	200	100	–

		Note	Particulars of issued shares HK$ (unless otherwise stated)	% of shares held by The Company	Subsidiaries
(i)	**Professional services and others**				
	Incorporated and operates in Hong Kong				
	Hang Oi Charitable Foundation Limited		–	–	100
	Henderson Warmth Foundation Limited		–	100	–
	Megastrength Security Services Company Limited	(i)			
	– Ordinary Shares		10,000	–	100
	– Non-cumulative Preference Shares		400	–	100

Note:

(i) Companies audited by KPMG.

The above list gives the principal subsidiaries of the Group which, in the opinion of the directors, materially affected the results, assets or liabilities of the Group.

Principal Associates

at 31 December 2018

Details of the principal associates, which are incorporated and operate in Hong Kong unless otherwise stated, are as follows:

	% of equity interest held by The Company	Subsidiaries	Principal activities
Listed			
Hong Kong Ferry (Holdings) Company Limited	–	33.41	Property development, property investment, ferry, shipyard and related businesses, and securities investment
Miramar Hotel and Investment Company, Limited	–	48.70	Property rental, hotels and serviced apartments, food and beverage operation and travel operation
The Hong Kong and China Gas Company Limited	–	41.53	Production, distribution and marketing of gas, water supply and emerging environmentally-friendly energy businesses
Unlisted			
Star Play Development Limited	–	33.33	Property investment
Start Treasure Limited	–	22.80	Property development
上海旭弘置業有限公司 (established and operates in mainland China)	–	50	Property development and investment
蘇州旭高房地產開發有限公司 (established and operates in mainland China)	–	50	Property development

The above list gives the principal associates of the Group which, in the opinion of the directors, materially affected the results, assets or liabilities of the Group.

Principal Joint Ventures

at 31 December 2018

Details of the principal joint ventures, which are incorporated and operate in Hong Kong unless otherwise stated, are as follows:

	% of equity interest held by The Company	Subsidiaries	Principal activities
Best Value International Limited	–	50	Property investment and investment holding
Billion Ventures Limited (incorporated in the British Virgin Islands and operates in Hong Kong)	–	50	Investment holding
Central Waterfront Property Investment Holdings Limited (incorporated in the British Virgin Islands and operates in Hong Kong)	–	34.21	Investment holding
Double Cove Management Limited	–	50	Provision of property management services
Long Global Investment (Chengdu) Limited (established and operates in mainland China)	–	30	Property development
Newfoundworld Holdings Limited	–	20	Property investment and hotel operation
Special Concept Development Limited	–	25	Property development
Surbana-Henderson (Xian) Property Development Co., Ltd. (established and operates in mainland China)	–	50	Property development
Surbana-Henderson II (Xian) Property Development Co., Ltd. (established and operates in mainland China)	–	50	Property development
Teamfield Property Limited	–	49.18	Property development
The Reach Management Limited	–	50	Provision of property management services
上海旭領湖置業有限公司 (established and operates in mainland China)	–	35	Property development

The above list gives the principal joint ventures of the Group which, in the opinion of the directors, materially affected the results, assets or liabilities of the Group.

Corporate Information

Board of Directors

Executive Directors
Dr Lee Shau Kee
(Chairman and Managing Director)
Dr Lee Ka Kit *(Vice Chairman)*
Dr Lam Ko Yin, Colin *(Vice Chairman)*
Lee Ka Shing *(Vice Chairman)*
Yip Ying Chee, John
Suen Kwok Lam
Fung Lee Woon King
Lau Yum Chuen, Eddie
Kwok Ping Ho
Wong Ho Ming, Augustine

Non-executive Directors
Lee Pui Ling, Angelina
Lee Tat Man

Independent Non-executive Directors
Kwong Che Keung, Gordon
Professor Ko Ping Keung
Wu King Cheong
Woo Ka Biu, Jackson
Professor Poon Chung Kwong
Au Siu Kee, Alexander

Audit Committee
Kwong Che Keung, Gordon*
Professor Ko Ping Keung
Wu King Cheong
Au Siu Kee, Alexander

Remuneration Committee
Wu King Cheong*
Dr Lee Shau Kee
Dr Lam Ko Yin, Colin
Kwong Che Keung, Gordon
Professor Ko Ping Keung

Nomination Committee
Dr Lee Shau Kee*
Dr Lam Ko Yin, Colin
Kwong Che Keung, Gordon
Professor Ko Ping Keung
Wu King Cheong

Corporate Governance Committee
Kwong Che Keung, Gordon*
Professor Poon Chung Kwong
Au Siu Kee, Alexander

* *Committee Chairman*

Company Secretary
Liu Cheung Yuen, Timon

Registered Office
72-76/F., Two International Finance Centre
8 Finance Street, Central
Hong Kong
Telephone : (852) 2908 8888
Facsimile : (852) 2908 8838
Internet : www.hld.com
E-Mail : henderson@hld.com

Share Registrar
Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Share Listing
The Stock Exchange of Hong Kong Limited (Stock Code: 12)

Shares are also traded in the United States through an
American Depositary Receipt Level 1 Programme
(Ticker Symbol: HLDCY
CUSIP Reference Number: 425166303)

Authorised Representatives
Dr Lam Ko Yin, Colin
Liu Cheung Yuen, Timon

Auditor
KPMG

Solicitors
Woo Kwan Lee & Lo
Lo & Lo

Principal Bankers
Bank of China (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
Industrial and Commercial Bank of China (Asia) Limited
Mizuho Bank, Ltd.
Oversea-Chinese Banking Corporation Limited

Group Executives

Dr Lee Shau Kee
GBM, DBA (Hon), DSSc (Hon), LLD (Hon)
General Manager

Dr Lee Ka Kit
GBS, JP, DBA (Hon)
Deputy General Manager

Dr Lam Ko Yin, Colin
SBS, FCILT, FHKIoD, DB (Hon)
Deputy General Manager

Lee Ka Shing
JP
Deputy General Manager

Yip Ying Chee, John
LLB, FCIS
Assistant General Manager

Departmental Executives

Group Business Development Department

Yip Ying Chee, John
LLB, FCIS
Executive Director

Project Management (1) Department

Yu Wai Wai
JP, BA (AS), B Arch, FHKIA, HonFHKIPM,
Authorized Person (Architect), Registered Architect (HK)
General Manager

Project Management (2) Department

Kwok Man Cheung, Victor
BA (AS), B Arch (Dist), MSc (Con P Mgt),
EMBA, FHKIA, MAPM, RIBA,
Authorized Person (Architect), Registered Architect (HK),
PRC Class 1 Registered Architect Qualification
General Manager

Siu Sing Yeung, Tony
B. Arch (Hons), HKIA,
Authorized Person (Architect), Registered Architect (HK),
PRC Class 1 Registered Architect Qualification
Senior Deputy General Manager

Property Development Department

Wong Ho Ming, Augustine
JP, MSc, MEcon, FHKIS, MRICS, MCIArb, RPS (GP)
Executive Director

Yu Hon Kwan, Randy
MH, JP
General Manager

Leung Shu Ki, Shuki
BA (Hons), MHKIP, MRTPI,
MCIP, RPP (HK), MCILT
Senior Deputy General Manager

Property Planning Department

Leung Kam Leung
MSc, PGDMS, FHKIS, RPS (GP)
General Manager

Construction Department

Wong Wing Hoo, Billy
BBS, JP, BSc, FICE, FHKIE, FIHT, FHKIHT, RPE
General Manager

Yiu Chi Kin, Simon
BSc (Bldg), MSc, MCIOB, MRICS, MASI, MHKICM, MHKIE
Deputy General Manager

Engineering Department

Cheng Yuk Lun, Stephen
BSc(Eng), C Eng, MICE, MIStructE, MHKIE, RPE,
Registered Structural Engineer, Registered Geotechnical Engineer,
Authorized Person (List II), PRC Class 1 Registered Structural
Engineer Qualification
Senior General Manager

Sales Department
Wong Man Wa, Raymond
LLB, PCLL, Solicitor
Senior General Manager

Sales (1) Department
Lam Tat Man, Thomas
MEM(UTS), DMS, EHKIM, MHIREA,
China GBL Manager
General Manager

Sales (2) Department
Hahn Ka Fai, Mark
BSc, MRICS, MHKIS, RPS (GP)
General Manager

China Land Acquisition & Risk Control Department
Choi Ngai Min, Michael
BBS, JP, MBA
In Charge

Portfolio Leasing Department
Lee Pui Man, Margaret
BHum (Hons)
Senior General Manager

Sit Pak Wing
ACIS, FHIREA, FRICS
General Manager

Property Management Department
Suen Kwok Lam
BBS, JP, MH, FHIREA
Executive Director

Retail and Hotel Management Department
Li Ning
BSc, MBA
General Manager

Comm. & Ind. Properties Department
Dr Wong Kim Wing, Ball
BA (AS), B. Arch, PhD (Finance), FHKIA,
Registered Architect (HK), Authorized Person (List 1, HK)
General Manager

General Manager Department
Ngai Tung Hai, Karsky
FRICS, MHKIS, AACI
Manager

Dr Wong Kim Wing, Ball
BA (AS), B. Arch, PhD (Finance), FHKIA,
Registered Architect (HK), Authorized Person (List 1, HK)
Group Consultant

Finance Department
Fung Hau Chung, Andrew
BBS, JP, BA
Chief Financial Officer

Lau Yum Chuen, Eddie
Executive Director

Kwok Ping Ho
BSc, MSc, Post-Graduate Diploma in Surveying, FRICS, ACIB
Executive Director

Cashier Department
Fung Lee Woon King
Chief Treasurer

Human Resources Department
Dr Lam Ko Yin, Colin
SBS, FCILT, FHKIoD, DB (Hon)
Executive Director

Wong Ying Kin, Frankie
MSc, MBA, BBA, DMS, MIHRM
General Manager

Company Secretarial Department
Liu Cheung Yuen, Timon
BEc, FCPA, CA (Aust), FCS, FCIS
General Manager

Accounts Department
Wong Wing Kee, Christopher
BSc (Econ), FCA
General Manager

Audit Department
Choi Kam Fai, Thomas
B Comm, CPA(Canada), CMA
General Manager

Information Technology Department
Kum Tak Cheung, Bassanio
General Manager

Corporate Communications Department
Ngan Suet Fong, Bonnie
BBA
General Manager

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of the Company will be held at The Ballroom, 18/F, The Mira Hong Kong, 118-130 Nathan Road, Tsim Sha Tsui, Kowloon, Hong Kong on Tuesday, 28 May 2019 at 9:30 a.m. to transact the following business:

1. To receive and consider the Audited Financial Statements and the Reports of the Directors and Auditor for the year ended 31 December 2018.

2. To declare a Final Dividend (with no scrip option).

3. To re-elect retiring Directors.

4. To re-appoint Auditor and authorise the Directors to fix the Auditor's remuneration.

5. To consider as special business and, if thought fit, pass the following resolutions as Ordinary Resolutions:

   (A) "**THAT** conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") granting listing of and permission to deal in the new shares of the Company to be issued pursuant to this Resolution, and upon the recommendation of the Directors, such number of new shares of the Company (the "Bonus Share(s)") which is equal to one-tenth of the total number of the issued shares in the Company on 5 June 2019 be allotted and issued without consideration to and among the Shareholders of the Company whose names appear on the Register of Members of the Company on 5 June 2019 on the basis of one Bonus Share for every ten shares in the Company held by such Shareholders of the Company on such date, and that the Bonus Shares to be allotted and issued pursuant to this Resolution shall rank pari passu in all respects with the existing issued shares in the Company except that they will not be entitled to participate in any dividend declared or recommended by the Company in respect of the financial year ended 31 December 2018 and that the Directors be and are hereby authorised to deal with any fractions arising from the distribution by the sale of the Bonus Shares representing such fractions and to retain the net proceeds for the benefit of the Company and further that the Directors be and are hereby authorised to do all acts and things as may be necessary and expedient in connection with the issue of the Bonus Shares."

   (B) "**THAT**:

      (a) subject to paragraph (b) of this Resolution, the exercise by the Directors during the Relevant Period (as defined in paragraph (c) of this Resolution) of all the powers of the Company to buy back shares of the Company on the Stock Exchange or on any other stock exchange on which the shares of the Company may be listed and recognised by the Stock Exchange and the Securities and Futures Commission for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or of any other stock exchange as amended from time to time be and is hereby generally and unconditionally approved;

      (b) the aggregate number of shares of the Company to be bought back pursuant to the approval in paragraph (a) above shall not exceed 10 per cent. of the total number of the issued shares of the Company as at the date of this Resolution (subject to adjustment in the case of any conversion of all or any of the shares in the Company into a larger or smaller number of shares during the Relevant Period) and the said approval shall be limited accordingly; and

(c) for the purposes of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:

(i) the conclusion of the next Annual General Meeting of the Company;

(ii) the expiration of the period within which the next Annual General Meeting of the Company is required by the Articles of Association of the Company or the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) to be held; and

(iii) the date on which the authority set out in this Resolution is revoked or varied by an ordinary resolution of the Shareholders in general meeting."

(C) "**THAT**:

(a) subject to compliance with the prevailing requirements of the Rules Governing the Listing of Securities on the Stock Exchange, a general mandate be and is hereby generally and unconditionally given to the Directors to exercise during the Relevant Period (as defined in paragraph (b) of this Resolution) all the powers of the Company to allot, issue and deal with additional shares of the Company, and to make or grant offers, agreements or options (including, without limitation, Rights Issue (as defined in paragraph (b) of this Resolution), warrants, bonus warrants, bonds, debentures, notes and other securities convertible into shares in the Company), which would or might require the exercise of such powers either during or after the Relevant Period, provided that the aggregate number of the shares of the Company to be allotted, issued and dealt with pursuant to the general mandate herein, otherwise than pursuant to (i) a Rights Issue, or (ii) any option scheme or similar arrangement for the time being adopted for the grant or issue to the employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company, or (iii) an issue of shares in the Company upon the exercise of the subscription rights or conversion rights attaching to any warrants or convertible notes which may be issued by the Company or any of its subsidiaries, or (iv) any scrip dividend pursuant to the Articles of Association of the Company from time to time, shall not exceed 20 per cent. of the total number of issued shares of the Company as at the date of this Resolution (subject to adjustment in the case of any conversion of all or any of the shares in the Company into a larger or smaller number of shares during the Relevant Period) and the said approval shall be limited accordingly; and

(b) for the purposes of this Resolution:

"Relevant Period" shall have the same meaning as assigned to it under Ordinary Resolution (B) of item no. 5 as set out in the notice convening this Meeting; and

"Rights Issue" means an offer of shares in the Company or issue of option, warrants or other securities giving the right to subscribe for shares of the Company, open for a period fixed by the Directors of the Company to holders of shares of the Company whose names appear on the Register of Members of the Company (and, where appropriate, to holders of other securities of the Company entitled to the offer) on a fixed record date in proportion to their then holdings of such shares (or, where appropriate, such other securities) as at that date (subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong)."

(D) "**THAT** the general mandate granted to the Directors and for the time being in force to exercise the powers of the Company to allot, issue and deal with additional shares of the Company pursuant to Ordinary Resolution (C) of item no. 5 as set out in the notice convening this Meeting be and is hereby extended by the addition to the aggregate number of the shares which may be allotted, issued and dealt with or agreed conditionally or unconditionally to be allotted, issued and dealt with by the Directors pursuant to such general mandate the aggregate number of shares in the Company bought back by the Company since the granting of the said general mandate pursuant to the exercise by the Directors of the powers of the Company to buy back such shares under the authority granted pursuant to Ordinary Resolution (B) of item no. 5 as set out in the notice convening this Meeting provided that such number of shares shall not exceed 10 per cent. of the total number of issued shares of the Company as at the date of this Resolution (subject to adjustment in the case of any conversion of all or any of the shares in the Company into a larger or smaller number of shares during the Relevant Period)."

6. To consider as special business and, if thought fit, pass the following resolution as a Special Resolution:

"**THAT** the Articles of Association of the Company be amended in the following manner:

(a) **Article 2**

by inserting the following definition of "the Chairman of the Board" immediately after the definition of "the Chairman":

""the Chairman of the Board" shall mean the Chairman of the Board, or where more than one Chairman of the Board have been appointed, the Joint Chairmen of the Board;"

Chairman of the Board.

(b) **Article 78**

by deleting the existing Article 78 in its entirety and replacing therewith the following new Article 78:

"78. The Chairman of the Board (if any) or, if he is absent or declines to take the chair at such meeting, the Vice Chairman of the Board (if any) shall take the chair at every general meeting, or, if there be no such Chairman of the Board or Vice Chairman of the Board, or, if at any general meeting neither of such Chairman of the Board or Vice Chairman of the Board is present within fifteen minutes after the time appointed for holding such meeting, or both such persons decline to take the chair at such meeting, the Directors present shall choose another Director as Chairman of such meeting, and if no Director be present or if all the Directors present decline to take the chair or if the Chairman chosen shall retire from the chair, then the members present shall choose one of their own number to be Chairman of such meeting. For the avoidance of doubt, only one person shall take the chair of such meeting at any one time."

Chairman of general meeting.

(c) **Article 123**

by deleting the existing Article 123 and its heading titled “Chairman” in their entirety and replacing therewith the following new Article 123 and new heading:

“**Chairman of the Board**

123. (a) The Board may from time to time elect or otherwise appoint a Director to be Chairman of the Board or Vice Chairman of the Board and determine the period for which each of them is to hold office. The Chairman of the Board or, if he is absent or declines to take the chair at such meeting, the Vice Chairman of the Board shall preside at meetings of the Board, but if no such Chairman of the Board or Vice Chairman of the Board be elected or appointed, or if at any meeting the Chairman of the Board or Vice Chairman of the Board is not present within five minutes after the time appointed for holding the same, or both such persons decline to take the chair at such meeting, the Directors present shall choose one of their number to be Chairman of such meeting. For the avoidance of doubt, only one person shall take the chair of such meeting at any one time. Chairman of the Board.

(b) Whenever there is for the time being more than one Director being elected or appointed to be Chairman of the Board, the Directors so elected or appointed shall together be Joint Chairmen of the Board. Each individual Director elected or appointed to be Chairman of the Board shall be referred to as Joint Chairman of the Board and entitled to discharge separately all the functions of the position to which he is appointed, and references in these Articles to “the Chairman of the Board” shall, unless the context requires otherwise, be to each of the Directors for the time being elected or appointed to that position.

(c) The Directors who are for the time being Joint Chairmen of the Board may agree between themselves which of them will take the chair at any meeting of the Board or any general meeting if more than one of them are present at the relevant meeting. If only one of the Joint Chairmen of the Board is present, he shall take the chair at that relevant meeting. If the Joint Chairmen present at the relevant meeting are unable to agree between themselves which of them shall take the chair at such meeting, all of them shall be deemed to have declined to take the chair.”.”

By Order of the Board
Timon LIU Cheung Yuen
Company Secretary

Hong Kong, 23 April 2019

Registered Office:
72-76/F., Two International Finance Centre
8 Finance Street, Central
Hong Kong

Notes:

(1) At the above Meeting, the Chairman will exercise his power under Article 80 of the Articles of Association to put each of the resolutions to be voted by way of a poll.

(2) A Member of the Company entitled to attend, speak and vote at the above Meeting is entitled to appoint one proxy or more proxies to attend and speak and on a poll, to vote instead of him at the Meeting, and separate proxies may be appointed by a Member to represent the respective number of shares held by the Member as specified in the relevant proxy form. A proxy need not be a Member. Form of proxy and the power of attorney or other authority, if any, under which it is signed (or a notarially certified copy of that power of attorney or authority) must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited (the "Company's Registrar") at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours (excluding any part of a day that is a public holiday) before the time appointed for holding the Meeting or any adjournment thereof or, in the case of poll taken more than 48 hours after it was demanded, not less than 24 hours (excluding any part of a day that is a public holiday) before the time appointed for the taking of the poll.

(3) For the purpose of determining Shareholders who are entitled to attend and vote at the above 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. In order to be entitled for attending the above Meeting, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's Registrar 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.

(4) For the purpose of determining Shareholders who qualify 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 Registrar at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 31 May 2019. The proposed final dividend and Bonus Shares will be distributed to Shareholders whose names appear on the Register of Members of the Company on Wednesday, 5 June 2019.

(5) Concerning item no. 3 above, Mr Kwok Ping Ho, Mr Wong Ho Ming, Augustine, Mr Lee Tat Man, Mr Kwong Che Keung, Gordon, Professor Ko Ping Keung, Mr Wu King Cheong and Mr Au Siu Kee, Alexander (collectively the "Retiring Directors") will retire from office and, being eligible, have offered themselves for re-election at the above Meeting.

(6) A circular containing details relating to re-election of the Retiring Directors, the Ordinary Resolutions (A) and (B) (including the relevant explanatory statement) of item no. 5 above and the Special Resolution on amendments to the Articles of Association of the Company is sent to Members for perusal.

(7) Concerning Ordinary Resolutions (C) and (D) of item no. 5 above, approvals are being sought from Members, as a general mandate in compliance with Sections 140 and 141 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and the Rules Governing the Listing of Securities on the Stock Exchange, that in the event it becomes desirable for the Company to issue any new shares of the Company, the Directors are given flexibility and discretion to allot and issue new shares up to 20 per cent. of the total number of the issued shares as at the date of passing of Ordinary Resolution (C) of item no. 5 above plus the aggregate number of shares bought back by the Company pursuant to the general mandate approved in Ordinary Resolution (B) of item no. 5 above. Save as disclosed (if any), the Directors, however, have no immediate plans to issue any new shares of the Company under the said mandate being sought.

(8) If item no. 2 and Ordinary Resolution (A) of item no. 5 above are approved, the final dividend will be paid on Monday, 17 June 2019 and the share certificates for the Bonus Shares will be despatched to the Shareholders of the Company on the same day.

(9) If a Typhoon Signal No. 8 or above is hoisted or a Black Rainstorm Warning Signal is in force at any time between 6:30 a.m. and 9:30 a.m. on the day of the above Meeting, the above Meeting will be adjourned. The Company will post an announcement on the Company's website (www.hld.com) and the HKEXnews website (www.hkexnews.hk) to notify Shareholders of the date, time and place of the adjourned meeting.

The above Meeting will be held as scheduled when an Amber or a Red Rainstorm Warning Signal is in force. Shareholders should decide on their own whether they would attend the above Meeting under bad weather conditions bearing in mind their own situations.

(10) Please indicate in advance, not less than 1 week before the time appointed for holding the above Meeting, if Shareholders, because of disabilities, need special arrangements to participate in the above Meeting. Any such request should be made in writing to the Company's Registrar by post at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong or by email at hkinfo@computershare.com.hk. The Company will endeavour to make the necessary arrangements unless there is unjustifiable hardship in arranging for them.

(11) The Chinese translation of this notice is for reference only, and in case of any inconsistency, the English version shall prevail.

Financial Calendar

Interim Results	Announced on Thursday, 23 August 2018
Final Results	Announced on Wednesday, 20 March 2019
Annual Report	Posted to Shareholders on Tuesday, 23 April 2019
Closure of Register of Members	(1) To be closed from Thursday, 23 May 2019 to Tuesday, 28 May 2019 for the purpose of determining Shareholders who are entitled to attend and vote at the Annual General Meeting (2) To be closed from Monday, 3 June 2019 to Wednesday, 5 June 2019 for the purpose of determining Shareholders who qualify for the proposed final dividend and Bonus Shares
Annual General Meeting	To be held on Tuesday, 28 May 2019
Dividends – Interim	HK$0.50 per share (with no scrip option) – paid on Tuesday, 18 September 2018
– Final (Proposed)	HK$1.30 per share (with no scrip option) – payable on Monday, 17 June 2019
Issue of Bonus Shares (Proposed)	One bonus share for every ten shares held – Share Certificates to be posted to Shareholders on Monday, 17 June 2019

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HENDERSON LAND DEVELOPMENT COMPANY LIMITED