WHARF

*Established 1886*

# WHARF REAL ESTATE INVESTMENT COMPANY LIMITED

Stock Code: 1997

Annual Report 2017

# CONTENTS

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

Mr Stephen T H Ng, *Chairman & Managing Director*
Ms Doreen Y F Lee, *Vice Chairman*
Ms Y T Leng, *Executive Director*
Mr K H Leung

### Independent Non-executive Directors

Mr Alexander S K Au, *OBE*
Mr Andrew J Seaton
Mr R Gareth Williams
Professor E K Yeoh, *GBS, OBE, JP*

## COMPANY SECRETARY

Mr Kevin C Y Hui, *FCCA, CPA*

## AUDITORS

KPMG, Certified Public Accountants

## PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited

## PRINCIPAL SHARE REGISTRAR

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive, PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR

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

## REGISTERED OFFICE

Cricket Square, Hutchins Drive, PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

# SHAREHOLDER INFORMATION

## LISTING

Ordinary Shares
The Stock Exchange of Hong Kong Limited
Stock Code: 1997

| | |
|---|---|
| As at 31 December 2017 | |
| Number of issued shares | 3,036,227,327 |
| Market capitalisation (Approx.) | HK$158 billion |

## FINANCIAL CALENDAR

| | |
|---|---|
| 2017 Final Results Announcement | 5 March 2018 |
| Record Date & Time for Interim Dividend | 6:00 pm, 9 April 2018 |
| Payment of 2017 Interim Dividend | 24 April 2018 |
| Closure of Register of Members (Shareholders' right to attend and vote at Annual General Meeting) | 3 May 2018 to 9 May 2018 (both days inclusive) |
| Annual General Meeting Date & Time | 10:30 am, 9 May 2018 |

## CONTACTS

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

# GROUP BUSINESS STRUCTURE

## WHARF REAL ESTATE INVESTMENT COMPANY LIMITED

- TSIM SHA TSUI
  - Harbour City
    - Marco Polo Hongkong Hotel *
    - Gateway Hotel
    - Prince Hotel
    - The "Star" Ferry
- CAUSEWAY BAY
  - Times Square
- CENTRAL
  - Wheelock House
  - Crawford House
  - The Murray *
- KOWLOON EAST
  - Plaza Hollywood

* Held under Harbour Centre Development Limited (together with non-core assets)

# CORPORATE OVERVIEW

## NEW LISTING BUT RICH HERITAGE

Listed on the Main Board of The Stock Exchange of Hong Kong Limited on 23 November 2017, Wharf Real Estate Investment Company Limited (the "Company") (Stock Code: 1997) owns and operates a scarce portfolio of six premier core properties in Hong Kong demerged from The Wharf (Holdings) Limited ("Wharf Holdings") (Stock Code: 4). Wharf's rich heritage started in 1886 when Wharf Holdings was registered as the 17th company incorporated in Hong Kong. It was also one of the original 30 constituent stocks of Hang Seng Index in 1964.

## SIMPLE AND FOCUSED INVESTMENT STRATEGY

### Premier Hong Kong Investment Properties ("IP") with Proven Track Record

With a superior management track record in planning and execution, the Company is among the largest property companies in Hong Kong by IP revenue and valuation.

***Retail proxy — three iconic malls commanded a 9.2% share of overall Hong Kong retail sales in 2017 and has weathered market downturns over decades***

The three iconic malls Harbour City, Times Square and Plaza Hollywood create and operate unique lifestyle platforms for retailers to meet with shoppers and to trade. Together, they commanded a 9.2% share of overall Hong Kong retail sales in 2017, underlining the malls' high sales productivity. As a proxy for the Hong Kong retail market, the Company witnessed exponential growth and resilience in retail rental income over the past decade throughout market upturns and downturns (Harbour City: 15% CAGR; Times Square: 12% CAGR).

***Mall differentiation — setting the benchmark for "retailtainment" experience***

The Company will continue to focus on differentiation to compete, with high quality retail offerings and shopper experience. Proactive tenant mix refinement will continue to create value and drive performance, further enhancing the Company's leadership position and setting the benchmark for "retailtainment" experience.

***Prudent financial management and stable dividend policy***

The Company adheres to a high level of financial discipline (2017 net gearing: 19.9%) and flexibility (loan to value: 20%). With a first-time A2 issuer rating with stable outlook from Moody's, the Company is enabled to access both the bank and non-bank credit markets efficiently. The Company strives to provide shareholders with stable dividend yield pegged at 65% of realised recurrent profit from investment properties in Hong Kong.

# CORPORATE OVERVIEW

## Unique Portfolio of Six Premier Quality Assets in Prime Locations

Encompassing 11.7 million square feet of GFA, the valuable portfolio includes six premier quality assets at strategic and dynamic locations in the city. The pedigree of this portfolio is further reflected in their 999-year land leases, which again distinguish it from other portfolios in Hong Kong:

- Harbour City (Tsimshatsui), not only where high-spending shopping, entertainment, lifestyle and dining converge but also the popular choice for prime offices and hotels

- Times Square (Causeway Bay), shoppers' paradise on Hong Kong Island and a prime choice for offices, all under one roof and directly linked to a busy MTR station

- Central Portfolio (Wheelock House, Crawford House and The Murray, Hong Kong, a Niccolo Hotel ("The Murray")), a foothold of offices, retail and a luxury hotel in the very heart of the financial and business centre of Hong Kong

- Plaza Hollywood (Kowloon East), a high-traffic regional mall in a vibrant new Central Business District, atop a MTR station where two busy lines intersect and at the entrance to a major north-south road link

With a total value of HK$265 billion as at 31 December 2017, this portfolio reported a total revenue of HK$14.6 billion in 2017, thereby anchoring a sturdy recurrent income stream for the Company.

## Valuable Portfolio — Prominent Core Properties with Rare 999-year Leaseholds Top the List in Hong Kong by GFA

Within the portfolio are premier core properties with rare 999-year leaseholds (in Harbour City, Times Square, Crawford House and Wheelock House) with a total value of over HK$200 billion.

### Harbour City

*International retail landmark: a must-have partner & prime showcase to the Mainland market for the world's best brands.*

After years of value creation and investment, Harbour City has become a must-visit "retailtainment" destination for locals and tourists. It is also the preferred location of showcase to the Mainland market for the world's best-in-class brands. With its unique competitive advantage, Harbour City sets new records in retail revenue which underscores the Company's proactive management approach anchored on solid retailing principles.

*Core of the "Greater Harbour City" cluster in the high-traffic lifestyle hub*

With a massive two-million-square-foot mall, Harbour City anchors the "Greater Harbour City" cluster in the high-traffic shopping, entertainment, lifestyle and dining realm of Tsimshatsui.

*Among the most productive malls globally*

Unrivalled sales productivity has underpinned Harbour City's success for many years, with a retail sales CAGR of 10% (versus 6% for Hong Kong overall) over the past 10 years. Commanding a 6.8% share of Hong Kong retail sales, Harbour City prides itself on attracting international premium retailers and on creating win-win collaborations with a diverse base of tenants. Home to 570 retailers and with renowned brands having their best or among their best performing stores, Harbour City remains one of the most productive malls in the world.

*Hosting unrivalled critical mass of consumer products*

"One Harbour, One Harbour City" underlines the unique positioning of Harbour City, backed by critical mass of various product categories under one roof, including the city's largest cosmetics cluster (250 brands), a diversified shoe cluster (200 brands), KidX "Petite Canton Road" (best-in-class selection), jewellery and watches (100 brands) and a full range of exquisite sporting goods and culinary offerings.

*OTE further enhances OT positioning*

The newly-opened Ocean Terminal Extension ("OTE") designed by Foster + Partners has further reinforced Ocean Terminal's position. Its breath-taking views over Victoria Harbour captivate diners at the 11 exciting outlets with alfresco areas.

## Times Square

*A 17-level shopping and lifestyle landmark in Causeway Bay; among the most successful vertical malls across the globe.*

Since transformation from an old tram depot and wet markets up to 1989, Times Square has become an iconic lifestyle landmark in Causeway Bay for shoppers and tourists. The prominent 17-level mall with a signature Open Piazza hosts an expertly-managed trade mix of 230 stores and is directly connected to the busy Causeway Bay MTR Station. Times Square has been billed as one of the most successful vertical malls across the globe.

*Core of the "Greater Times Square" cluster*

Times Square is the anchor of the "Greater Times Square" cluster in the vibrant Causeway Bay and enhances the overall attraction of the lively cluster. Value-accretive initiatives effectively shape the mall's success and enhance its appeal to all ages. Proven management and execution capabilities further differentiate Times Square from other malls in the area and continue to drum up interests of celebrated retailers.

## Central Portfolio

*Recent completion further expands recurrent income base in Central.*

Completion of The Murray has augmented the Group's portfolio in the heart of Central District, which also comprises Crawford House (prime retail and office) and Wheelock House (prime office).

# CORPORATE OVERVIEW

*The Murray, Hong Kong, a Niccolo Hotel*

*A luxurious, contemporary chic Niccolo Hotel converted from Murray Building in Central.*

The Murray is a luxurious 336-room urban sanctuary converted from the historic Murray Building. This iconic piece of architecture, formerly a heritage government office building for nearly 50 years, is among the eight historic landmarks under the government's "Conserving Central" Initiative. A plaque unveiling ceremony was held on 20 December 2017 to commemorate the completion of the preservation project and to celebrate the 20th Anniversary of HKSAR.

Internationally renowned design and architectural firm, Foster + Partners, was appointed to renovate and refurbish this strategically located property, turning the property into a contemporary urban chic hotel in the heart of Central District. It is a strategic investment with a long term perspective.

### Plaza Hollywood

*A leading shopping destination in Kowloon East (a vibrant new Central Business District)*

After years of meticulous tenant mix optimisation, Plaza Hollywood has become a leading shopping destination in Kowloon East, a vibrant new Central Business District with untapped potential. The rapid emergence of the district and the burgeoning populous middle class in the surrounding residential area provide ample growth opportunities for Plaza Hollywood. With a unique critical mass comprising 259 retail outlets, 25 restaurants, and a purpose-built stadium housing a six-screen cinema multiplex with 1,614 seats, the 4-storey retail complex has a highly efficient layout (65% of GFA is lettable).

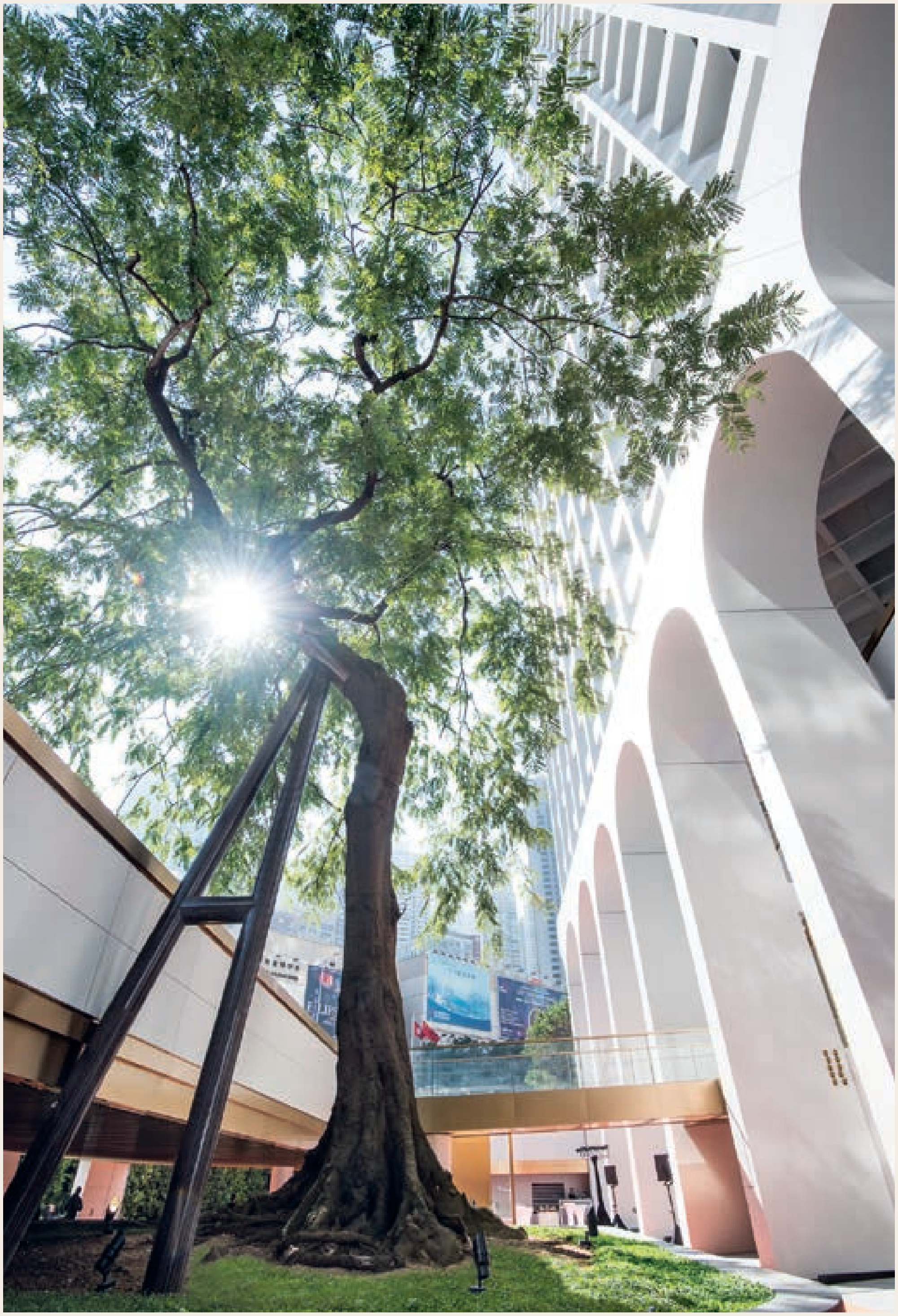
Located at the entrance to Tate's Cairn Tunnel and atop MTR station where two busy lines will intersect, provides unmatched accessibility and draws continuous patronage to the mall. Its proximity to a cluster of tourist attractions and cultural landmarks including the well-known Wong Tai Sin Temple and Tang Dynasty-styled Chi Lin Nunnery and Nan Lian Garden, also sets Plaza Hollywood apart from its peers.

## Harbour Centre Development Limited ("HCDL") (Stock Code: 51) — 71.5% Equity Interest

*HCDL mainly comprises Marco Polo Hongkong Hotel and The Murray in Hong Kong, Suzhou International Finance Square, Marco Polo Changzhou, as well as the remaining development properties in the Mainland. For details of its operations and results, please refer to the 2017 annual report of HCDL.*

*In order to re-focus back on opportunities in Hong Kong, HCDL intends to liquidate its Mainland assets in an orderly manner.*

# CHAIRMAN'S STATEMENT



# CHAIRMAN'S STATEMENT

**Dear Shareholders,**

I am pleased to present the first annual report of Wharf Real Estate Investment Company Limited, listed on the Main Board of The Stock Exchange of Hong Kong Limited on 23 November 2017 pursuant to a complete demerger from The Wharf (Holdings) Limited ("Wharf Holdings"). The demerger enables a separation of strategic and investment profiles. It offers investors investment options and enhances the operational and financial transparency to stakeholders.

## DISTINGUISHED POSITIONING

### Premier Hong Kong Properties with unmatched track record — Simple and Focused

The Company is blessed with a rich heritage as Wharf Holdings was registered in 1886 as the 17th company incorporated in Hong Kong and one of the original 30 constituent stocks in the Hang Seng Index in 1964. It owns and operates a unique portfolio of six premier retail, office and hotel properties in Hong Kong including Harbour City, Times Square, Crawford House, Wheelock House, The Murray, Hong Kong, a Niccolo Hotel ("The Murray") and Plaza Hollywood. The pedigree of this unique portfolio is further reflected in its 999-year land leases, which again distinguish it from other portfolios in Hong Kong.

With a superior management track record in planning and execution, the Company is among the largest property companies in Hong Kong by IP revenue and valuation. Its three iconic malls together combined for an unmatched 9.2% share of the city's total retail sales in 2017. This portfolio of 11.7 million square feet of GFA commanded a total market value of HK$265 billion and reported total revenue of HK$14.6 billion in 2017.

## PREMIER QUALITY PROPERTY PORTFOLIO

### Harbour City

Harbour City represented 67% of the total value of this portfolio. Strategically located in the most dynamic and vibrant retail district of Tsimshatsui, Harbour City prides itself in operating one of the most productive malls in the world. The two-million-square-foot mall with a retail frontage that stretches for a third of a mile on the celebrated Canton Road is home to some of the best performing stores in the world for coveted brands. It is the choice location for the world's best-in-class brands to showcase to the Mainland market. Critical mass, showcase effect and best-positioned destination contribute to the success of this mall. The newly-opened Ocean Terminal Extension designed by Foster + Partners has quickly become a new focal point to further enhance Harbour City's positioning.

### Times Square

Widely recognised as one of the most successful vertical malls globally, the 17-storey shopping landmark in Times Square boasts an expertly-managed tenant mix and direct connection to the busy Causeway Bay MTR Station. This core of the "Greater Times Square" cluster is home to 230 tenants and offers unique one-stop "retailtainment" experience.

#### *Proven expertise drives performance and weathers market downturns*

Sustained retailers' demand at Harbour City and Times Square demonstrates our proactive management approach, underscored by our win-win collaborations with tenants. Tenant mix refreshment and asset enhancement initiatives drive performance and create value. The 10-year CAGR of 15% and 12% in retail rental income over 2007 for Harbour City and Times Square respectively underlined the Group's ability to weather market downturns.

### Central Portfolio

Completion of The Murray, Hong Kong, has augmented the Group's portfolio in the heart of Central District, which also comprises prime retail and office properties Crawford House and Wheelock House.

### The Murray

The Murray is a luxury hotel under the Niccolo flag and a strategic investment with a long term perspective. It is the only one out of eight projects under the Government's "Conserving Central" Initiative entrusted to the private sector. It reinvigorates the heritage Murray Building, formerly a Government office building. This contemporary urban chic hotel features 336 spacious room and suites spanning 25 floors with panoramic views over the city's central business district and serene green surroundings. The Murray is an exquisite business and leisure destination for discerning travellers. A series of signature restaurants and bar, as well as a range of dedicated meeting and event spaces, will establish The Murray as the new epicentre for events and celebrations.

### Plaza Hollywood

Plaza Hollywood is a leading shopping destination in Kowloon East, a vibrant new central business district with potential remaining to be tapped. Its critical mass at the entrance to Tate's Cairn Tunnel and atop Diamond Hill MTR Station puts Plaza Hollywood in a strong position in the area. Completion of the Shatin to Central MTR Link by phase by 2021 will further enhance the geographical advantages of the mall.

## PRUDENT FINANCIAL MANAGEMENT AND STABLE DIVIDEND POLICY

Our steadfast commitment to financial discipline was manifested in the Group's net gearing of 19.9% as at the end of 2017, with a loan-to-value ratio of 20%. An A2 issuer rating from Moody's for stable outlook facilitates the Company's access to both the bank and non-bank credit markets. With a steady and strong recurrent income stream, the Company endeavours to reward investors with stable dividend by distributing 65% of realised recurrent profit from investment properties in Hong Kong.

## GENERAL ECONOMY

Despite geopolitical uncertainties, the threat of interest rate hikes, an impending trade war, Brexit and credit tightening in China, the global economy is witnessing an encouraging broad-based upturn.

Amidst rising trade tensions between the United States and the rest of the world, China's firm stand against protectionism to champion free trade and globalisation provides some comfort. The world's second largest economy on our doorstep has pledged to continue to drive global development with sustainable growth. It is also building strategic ties with countries across Asia, Europe and Africa.

Hong Kong's GDP grew by a moderate 3.8% in 2017, based on solid external and domestic demand buttressed by recovering exports and local consumption. Aided by a weaker currency, the hospitality sector staged a modest recovery. Retail sales increased by 2.2% over 2016 to HK$446.1 billion and the sector is well placed to benefit from the continuation of recovery in consumption demand.

In the office market, tight supply of prime office space and sustained demand bode well for rents in prime buildings in prime locations. Financial institutions and insurance companies are expanding their presence in Hong Kong to capitalise on Greater Bay Area opportunities. While Mainland firms lead office leasing activity in Central District, decentralisation has in parallel gained momentum with multinationals relocating to other emerging districts at more affordable rents. Such momentum may help to stabilise office rents in 2018.

# CHAIRMAN'S STATEMENT

## FINANCIAL RESULTS

Solid rental operations helped to lift Group core profit by 12% to HK$9.5 billion. Profit attributable to shareholders was HK$17.2 billion and earnings per share HK$5.67, including the net surplus from IP revaluation and other exceptional items. Total assets reached HK$272.7 billion, while book net asset value increased to HK$207.3 billion (or HK$68.29 per share).

Net debt at year-end amounted to HK$42.5 billion. Gearing ratio was 19.9%.

A dividend of HK$0.95 per share will be paid for the second half of 2017.

## BUSINESS-IN-COMMUNITY

The Group supports a series of "Business-in-Community" initiatives, in which staff volunteering plays a pivotal role. Our commitment to generate positive impact and lasting value to the community is well recognised.

Flagship youth development programme Project *WeCan* is a structured platform joining disadvantaged schools with corporate and community partners to provide financial and volunteer support. Since its launch in 2011, the programme has supported over 50,000 students who are disadvantaged in learning in 53 deserving schools through year-round enrichment activities to extend students' learning beyond classrooms.

The Wharf Hong Kong Secondary School Art Competition continued to nurture young local talents. The annual art competition offers a genuine opportunity for secondary school students to showcase their talent. Currently, 12 students receive The Wharf Arts Scholarships to pursue further studies in creative and art related subjects in top-notch institutions around the world.

On top of serving the community's transportation needs, the Star Ferry is the first and only public transport system in Hong Kong, for 26 years, to offer free rides for senior citizens.

## OUTLOOK

Contrary to many market predictions in 2017, global economy is on course for an upturn, thanks to firm growth in advanced economies. Looking ahead, external uncertainties remain a concern despite prevailing positive economic sentiment. Brexit and tapering of monetary stimuli in major economies might have repercussions on global financial conditions and capital flows. The impact of protectionism on world trade and geopolitical tensions in the Korean Peninsula and the Middle East also warrant attention.

As recovery of advanced economies picked up momentum, China's economy sustained a notable growth rate of 6.9% in 2017, outpacing the government's target of 6.5% to rank among the fastest in the world. While achieving its first acceleration since 2010, China is on track to meeting an annual GDP growth target of at least 6.5% until 2020. It is also closer to its commitment to doubling per-capita income by 2020 over 2010 levels. Meanwhile, China's "new normal" economy is gradually taking shape as it evolves to become more consumer-oriented and new sources of momentum emerge. The Belt and Road and Greater Bay Area Initiatives are expected to further boost trade and economic growth within the country as well as in the regions involved.

Hong Kong is in the best position to benefit from China's development. The commissioning of three important infrastructure links this year, namely Hong Kong-Zhuhai-Macau Bridge in the second quarter, Guangzhou-Shenzhen-Hong Kong Express Rail Link in the third quarter and Liantang road link in the fourth quarter, would consolidate Hong Kong's position as the world's leading super service platform and gateway to China. In the longer term, China's rapid pace of urbanisation, service sector intensification and consumerism will generate robust demand. Hong Kong needs to recognise these opportunities at our doorstep and not miss this fast train.

The retail and hospitality industries in Hong Kong have been recovering from a two-year slump and ended 2017 positively. The government has committed resources to develop the city into a "world-class and first-choice tourism destination" by extending marketing to a diverse range of markets as well as enhancing the quality of tourism services. The Greater Bay Area Initiative and infrastructure projects under way would provide new impetus to boost tourism and retail industries.

The Group is well placed to benefit from the recovery for retail and tourism trend. Our best-in-class management has enabled us to stand out in a competitive marketplace. Furthermore, our core strength in developing destination retail properties with unrivalled productivity and showcase effects offer a key differentiation.

On behalf of all Shareholders and my fellow Directors, I wish to extend my sincere thanks to all customers and business partners for their invaluable support, and to all Staff for their professional performance throughout the year.

The Company is committed to consolidating its core strength and building its businesses for the Community and for Shareholders.

**Stephen T H Ng**
*Chairman and Managing Director*
Hong Kong

5 March 2018

# FINANCIAL HIGHLIGHTS

| | **2017**<br>***HK$ Million*** | 2016<br>*HK$ Million* | Change<br>% |
|---|---|---|---|
| **Results** | | | |
| Revenue | **20,904** | 16,851 | +24% |
| Operating profit | **15,442** | 11,824 | +31% |
| Core profit *(note a)* | **9,500** | 8,516 | +12% |
| Profit attributable to equity shareholders | **17,218** | 9,917 | +74% |
| Total dividend for the year *(note b)* | **2,884** | N/A | N/A |
| Earnings per share | | | |
| Core profit | **HK$3.13** | HK$2.81 | +11% |
| Attributable to equity shareholders | **HK$5.67** | HK$3.27 | +73% |
| Dividend per share | | | |
| Interim dividend *(note b)* | **HK$0.95** | N/A | N/A |
| **Financial Position** | | | |
| Total assets | **272,675** | 265,462 | +3% |
| Total business assets *(note c)* | **266,506** | 257,564 | +3% |
| Investment properties | **253,827** | 244,375 | +4% |
| Net debt | **42,476** | 30,150 | +41% |
| Shareholders' equity | **207,318** | 198,910 | +4% |
| Total equity | **212,968** | 204,137 | +4% |
| Number of issued shares (in millions) *(note d)* | **3,036** | 3,036 | 0% |
| Net asset value per share | **HK$68.29** | HK$65.52 | +4% |
| Net debt to total equity | **19.9%** | 14.8% | +5.1% pt |

*Notes:*

*(a) Core profit primarily excludes investment property revaluation surplus and exchange difference on foreign currency borrowings.*

*(b) Equivalent to about 65% of realised recurrent profit from investment properties in Hong Kong in the second half of 2017. No dividend was paid in respect of the first half of 2017 (before the Company was listed).*

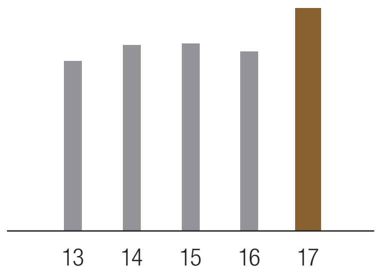
*(c) Business assets exclude unallocated corporate assets mainly comprising equity investments, deferred tax assets, bank deposits & cash and amount due from the former immediate holding company.*

*(d) The no. of shares in issue as of 23 November 2017 pursuant to the distribution in specie of 3,036,227,327 ordinary shares of the Company, as if it had been effective on 1 January 2016.*

## REVENUE

(HK$ Million)

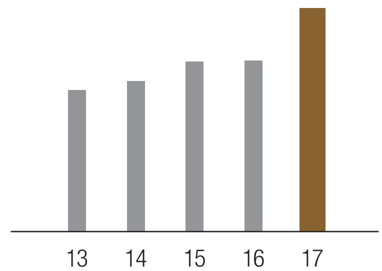
20,904




## OPERATING PROFIT

(HK$ Million)

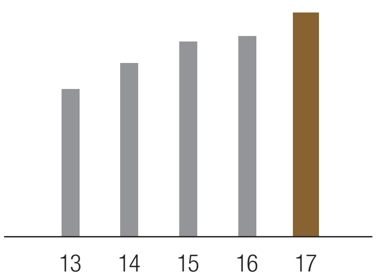
15,442




## CORE PROFIT

(HK$ Million)

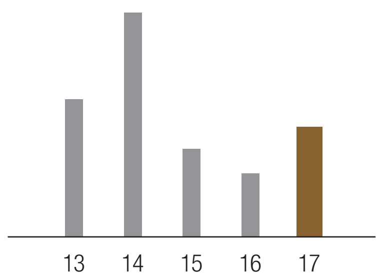
9,500




## PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS

(HK$ Million)

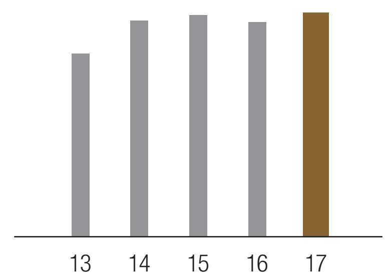
17,218




## SHAREHOLDERS EQUITY

(HK$ Million)

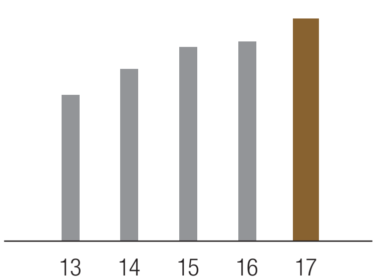
207,318




## CORE PROFIT PER SHARE

(HK$)

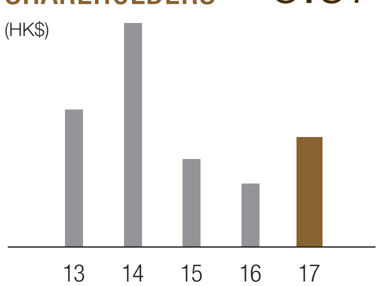
3.13




## EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY SHAREHOLDERS

5.67

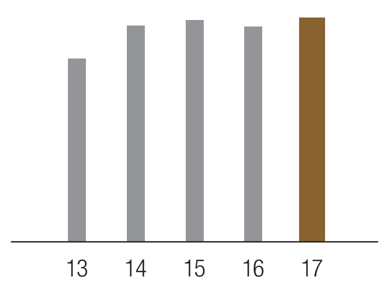
(HK$)



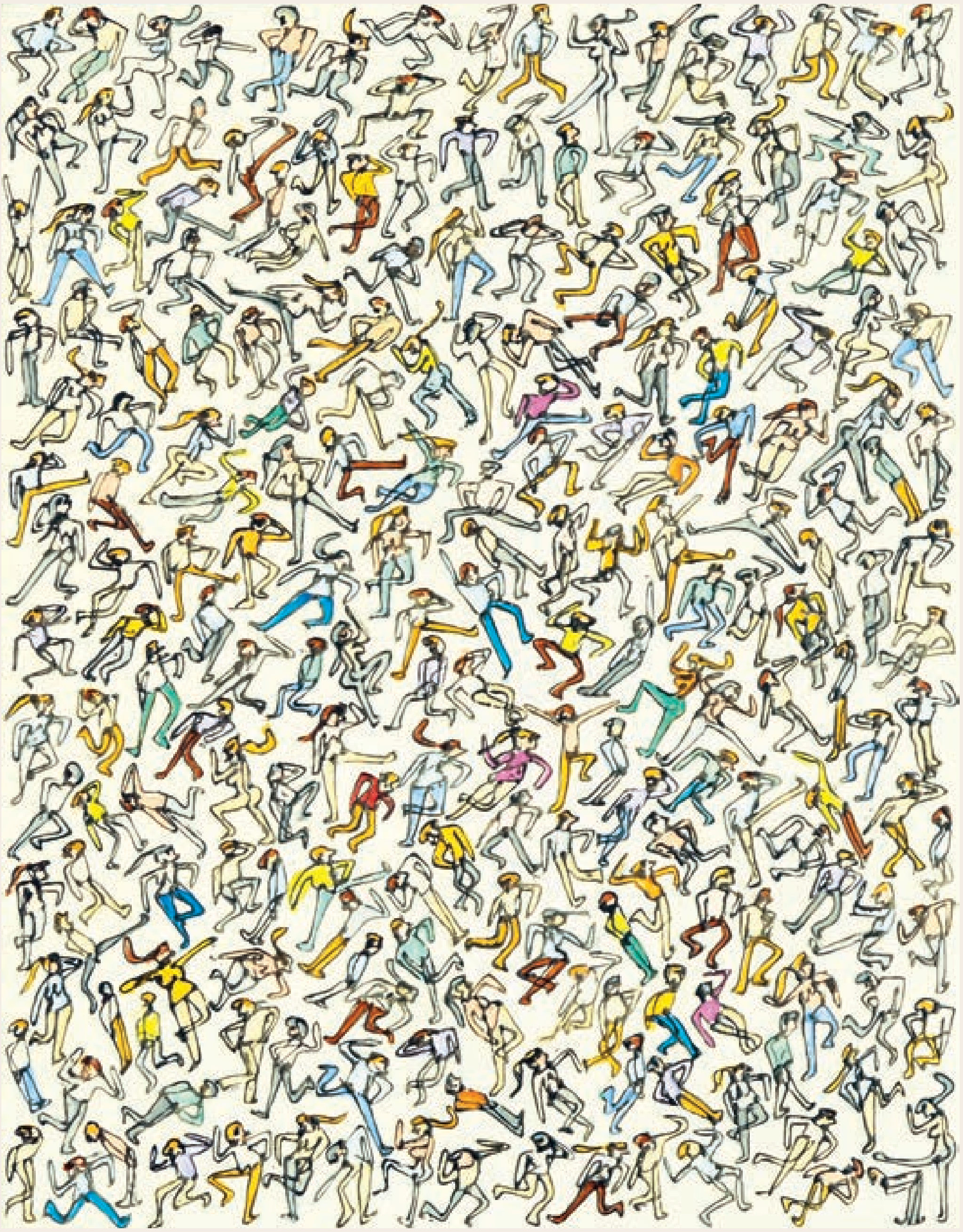

## NET ASSET VALUE PER SHARE

(HK$)

68.29



# BUSINESS REVIEW



# HARBOUR CITY


UBS

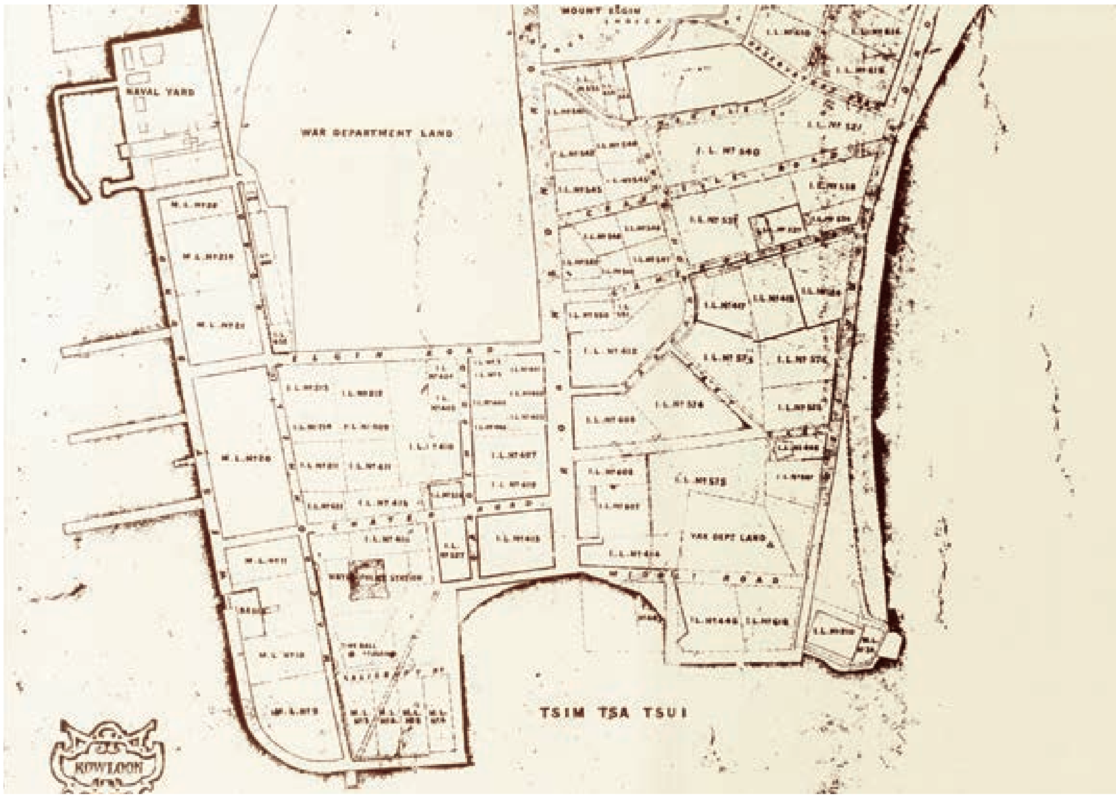
1960s

1980s

"The Ocean Terminal proved a big attraction to the Hongkong public at its opening... Many visitors to the terminal agreed that it would soon become a popular rendezvous for relatives and friends in the Tsimshatsui area."

*– The South China Morning Post reported on March 23, 1965, a day after the opening ceremony of Ocean Terminal*

# CANTON ROAD, TSIM SHA TSUI




In the 1960s Canton Road was a dilapidated street that few dared to visit when the sun went down. Wharf maximised Harbour City's plot ratio untapped by previous management, which represents an increase of nearly 50% on a large base. With two million square feet of mall space under one roof, and 530 metres of contiguous retail frontage along Canton Road, Harbour City has critical mass and street exposure, and became an international retail landmark.

1900s

Photo credit: www.hkmemory.org


1980s

# HARBOUR CITY

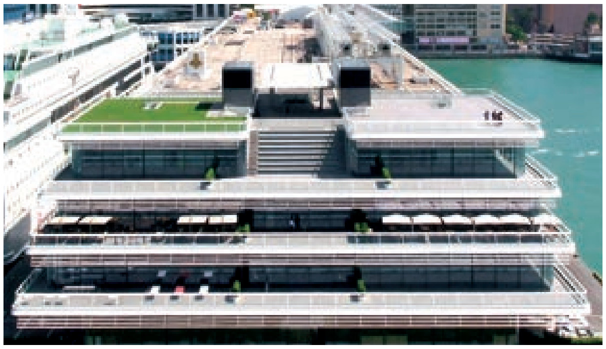
Harbour City performed solidly in an improving market. Overall revenue (excluding hotels) increased by 5% to HK$9,444 million and operating profit by 6% to HK$8,311 million.

## RETAIL

Proactive retail management alongside an improving local retail environment accelerated Harbour City's outstanding performance again in 2017. Retail sales grew by 9.1% principally driven by a continuous recovery in luxury brands. The out-performing trend reflects the continuous increase in shopper traffic and consumption at the mall. Positive rental reversion coupled with improving turnover rent lifted revenue by 7% to HK$6,627 million and operating profit by 7% to HK$5,896 million. Average retail passing rent for 2017 grew by 6% to HK$430 per square foot per month. Occupancy rate was 96% at year-end.

Emerging as a new icon in the city since completion in the past summer, the striking new Ocean Terminal Extension ("OTE") is an ideal place to capture the sunset and night views of Hong Kong with its west-facing Observatory Deck boasting a magnificent 270-degree panoramic view of Victoria Harbour. Unprecedented alfresco-gastronomic experience is offered by 11 dining outlets, including *à nu retrouvez-vous, Ana Ten, Fu Rong, Paper Moon, TSUKADA NOJO, Xihe Ya Yuan,* and *HEXA,* a fine Chinese dining restaurant operated by *Club Cubic*. Alongside upgraded cruise terminal facilities, OTE is a new driver of incremental patronage.

Constant re-tenanting at Harbour City revealed fresh surprises for visitors. New additions including *ba&sh, GOR GOR, Gusella, John Hardy, LAMY, Laurèl, Mr&Mrs Italy* and *St. John* further enhanced the diverse tenant mix. A spate of exciting premium brands including *ADORE, Boy London, Degaia, ERES, EVE LOM, Homme Plissé Issey Miyake, Little MO&Co., Marcelo Burlon, Our Generation, Roseonly* and *Yves Salomon* established their Hong Kong debuts at Harbour City.


## PROPERTY INFORMATION

| | Gross Floor Area (sq ft) | Revenue (HK$ Million) | Average Occupancy (%) | Year-end Valuation (HK$ Million) |
|---|---|---|---|---|
| Retail | 2,068,000 | 6,627 | 96 | 96,567 |
| Office | 4,287,000 | 2,492 | 96 | 63,309 |
| Others | 2,054,000 | 1,661 | N/A | 18,200 |

# HARBOUR CITY

## BUSINESS ASSETS

| As at 31 December | 2017 HK$ Million | 2016 HK$ Million | Change |
|---|---|---|---|
| Properties (at valuation) | **170,256** | 164,540 | +3% |
| Hotel and Club* (at valuation) | **7,820** | 7,570 | +3% |
| Other assets | **564** | 744 | –24% |
| Total business assets | **178,640** | 172,854 | +3% |

* Hotel and Club are stated at cost less depreciation in the financial statements.

## GROSS REVENUE

| | 2017 HK$ Million | 2016 HK$ Million | Change |
|---|---|---|---|
| Retail | **6,627** | 6,207 | +7% |
| Office | **2,492** | 2,437 | +2% |
| Serviced Apartments | **325** | 316 | +3% |
| Hotel and Club | **1,336** | 1,286 | +4% |
| Total gross revenue | **10,780** | 10,246 | +5% |

## OPERATING PROFIT

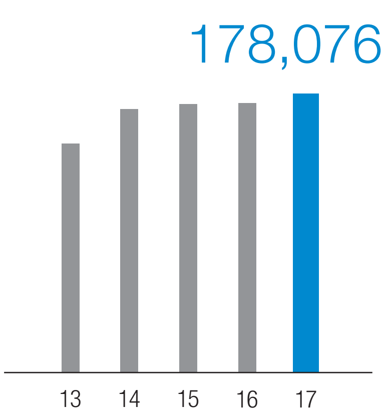
| | 2017 HK$ Million | 2016 HK$ Million | Change |
|---|---|---|---|
| Retail | **5,896** | 5,491 | +7% |
| Office | **2,204** | 2,148 | +3% |
| Serviced Apartments | **211** | 208 | +1% |
| Hotel and Club | **365** | 335 | +9% |
| Total operating profit | **8,676** | 8,182 | +6% |

Revolving pop-up stores by prestigious brands including *Chaumet, Chloé* (exclusive)*, Coach* (exclusive), *DEVIALET, Dior* handbag, *Estée Lauder/La Mer/TOM FORD, innisfree, MAGIC HAUS* and *Kenzo Kids* further spiced up retail experiences and encouraged repeat visits. *Abercrombie & Fitch* unveiled a new concept store at Harbour City in late 2017, making a grand re-entrance into the Hong Kong market.

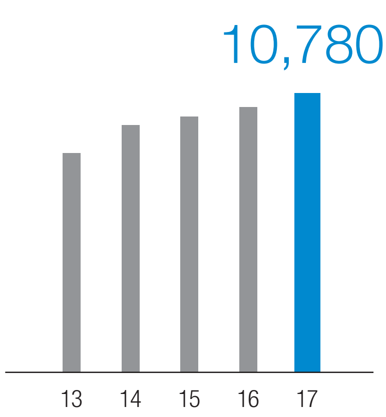
Harbour City has stepped up the offering of intimate and incomparable culinary experiences. Four eatery outlets, namely *China Tang, ÉPURE, Sushi Tokami* and *Ye Shanghai,* were honoured in the "MICHELIN Guide Hong Kong/ Macau 2017". The newly-opened *The Cheesecake Factory*'s Hong Kong debut, modelling on its original store in Beverly Hills, attracted a capacity crowd and a consistently long line. Other recent openings included the Hong Kong debuts of *Menya Ittō, a* famous ramen and tsukemen restaurant from Tokyo, and *Du Hsiao Yueh,* a well-known traditional Tainan restaurant with over 100 years of history, at LCX, as well as *Hattendo Café* and *Uji-en* Hong Kong debuts and *Tsuta Japanese Soba Noodles* Kowloon debut at Gateway.

Innovative and high-calibre marketing campaigns further attract incremental patronage. Harbour City partnered with Hong Kong Disneyland to present "Super Hero Summer" featuring the first-ever Hong Kong-exclusive Marvel comic book with a giant 3-D popup book installation and six comic strips on display at the Ocean Terminal Forecourt, which successfully captured crowds and media attention. A public art project "Bubble Up", the first solo art exhibition by Mr. Shinji Ohmaki, a contemporary Japanese artist, in Hong Kong, was launched with 20 bubble performance shows, generating "millions of bubbles". With the Christmas theme of "Christmas in the Air", a giant Santa airship embellished with more than 2,000 LED lights was parked at the Ocean Terminal Forecourt. Hong Kong's first public aerial drone show, combined with the LED violin band and a unique hoop dance performance, also brought unprecedented visual surprise to the audience.

**Property Value**
(HK$ Million)




**Gross Revenue**
(HK$ Million)



# HARBOUR CITY

## RETAIL TENANT MIX (by Rental, Area and Sales)

| | % by Rental | % by Area | % by Sales |
|---|---|---|---|
| Fashion | 37.9 | 29.8 | 24.3 |
| Leather Goods – Shoes Bags & Related Trade | 20.5 | 11.5 | 24.7 |
| Jewellery, Beauty and Accessories | 20.2 | 8.4 | 23.7 |
| Department Store, Confectionery Products | 9.3 | 17.3 | 12.4 |
| Restaurant, Fast Food, F&B, Entertainment | 4.0 | 20.5 | 5.4 |
| Children's Wear, Toy & Related Trades | 2.8 | 5.0 | 2.7 |
| Sports Wear | 2.1 | 3.6 | 1.9 |
| Electrical & Audio-visual Equipment | 1.7 | 1.6 | 4.4 |
| Others | 1.5 | 2.3 | 0.5 |
| Total | 100 | 100 | 100 |

## OFFICE

Office rental reversion remained solid despite intensifying competition resulting from office supply in Kowloon. Steady rents for new commitments were achieved. Average passing rent for 2017 increased by 5% to HK$43 per square foot per month. Revenue increased by 2% to HK$2,492 million. Occupancy rate was 98% at year-end. Lease renewal retention rate was 66%.

## SERVICED APARTMENTS

Gateway Apartments, Sutton Court and Hampton Court, offer a wide range of apartment types to accommodate the unique and sophisticated demands of discerning residents. The privileged access to the exclusive Pacific Club further elevates the exquisite living experiences. Revenue during the year amounted to HK$325 million, with occupancy at 95% at year-end (excluding the vacation of Hampton Court for premise conversion). Hampton Court will be converted into office premises as part of the company's value-accretive initiatives, scheduled for completion by 2019.

Total GFA

8.41 MILLION SQUARE FEET

999 -YEAR LEASEHOLD

High fashion retail frontage

1/3 MILE

equivalent to the most prime section of Ginza, Tokyo; Avenue Montaigne, Paris; and Fifth Avenue, New York

Annual footfall

~80 MILLION

Total retail sales

HK$ 30.2 BILLION

Valuation

HK$ 178.1 BILLION

Retail sales per sq.ft.

HK$ 2,300 PER MONTH

(US$ 3,540 PER ANNUM)


GUCCI

# TIMES SQUARE

1980s

2010

Transforming an old tram depot and wet markets into Times Square was a thrill in itself. A 17-storey vertical mall of one million square feet was unheard of at that time in Hong Kong and the world.


時代廣場
TIMES SQUARE

# TIMES SQUARE


## PROPERTY INFORMATION

| | Gross Floor Area (sq ft) | Revenue (HK$ Million) | Average Occupancy (%) | Year-end Valuation (HK$ Million) |
|---|---|---|---|---|
| Retail | 943,000 | 2,112 | 96 | 38,651 |
| Office | 1,033,000 | 712 | 95 | 17,949 |

Overall revenue remained at HK$2,824 million and operating profit declined by 1% to HK$2,518 million.

## RETAIL

The 17-storey vertical mall of nearly one million square feet is a must-visit shopping landmark in town. Owing to a 4% reduction of lettable area for shop amalgamation to welcome two anchors, the *Facesss* and *LEGO* Certified Store, as well as ongoing tenant mix reshuffling, revenue eased by 1% to HK$2,112 million despite a stable rental reversion. Average retail passing rent increased mildly to HK$299 per square foot per month. Occupancy rate was 96%. Tenant sales witnessed solid improvements with a 1.1% growth in 2017. Foot traffic remained steady.

Tenant mix continued to be refreshed to wow visitors with a broader spectrum of exclusive experiences catering for an eclectic range of interests and tastes. *LEGO* Certified Store launched a 3,385-square-foot Hong Kong Island debut at the lifestyle hub in July 2017, while the opening of the 6,450-square-foot *Facesss*, a beauty category killer with more than 30 global renowned beauty counters (including debuts in Hong Kong and *Facesss*-exclusive), offers pleasant surprises to customers. These exciting openings continued to drive incremental sales and traffic. Other new additions including *ARTĒ Madrid, ba&sh, Coronet, John Masters Organics* (Hong Kong debut), *Madia, Michael Kors* and *Proteca & ACE* further enhance retail experiences.

A wide diversity of contemporary eateries from across the globe whipped up waves of excitements for diners. These included *San Xi Lou,* a pioneer in Sichuan cuisine in Hong Kong, *Forbidden Duck* by Michelin-starred chef Alvin Leung serving signature Peking-style and slow-cooked roast duck, and *Club Albergue 1601*, a four-in-one dining space combining restaurant, bar, café and skycourt.

## OFFICE

Revenue increased by 2% to HK$712 million on stable rental reversion. Average passing rent increased by 4% to HK$54 per square foot per month for 2017. Occupancy rate was 99% at year-end. Lease renewal retention rate was 74%.


# TIMES SQUARE

## BUSINESS ASSETS

| As at 31 December | **2017 HK$ Million** | 2016 HK$ Million | Change |
|---|---|---|---|
| Properties (at valuation) | **56,600** | 54,510 | +4% |
| Other assets | **67** | 24 | +179% |
| Total business assets | **56,667** | 54,534 | +4% |

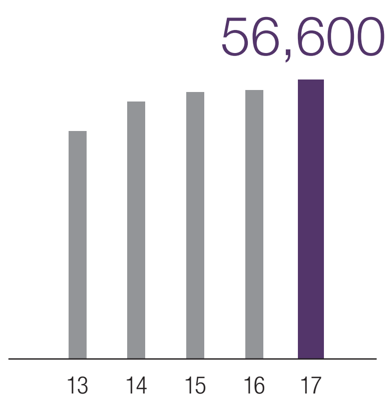
## GROSS REVENUE

| | **2017 HK$ Million** | 2016 HK$ Million | Change |
|---|---|---|---|
| Retail | **2,112** | 2,137 | –1% |
| Office | **712** | 701 | +2% |
| Total gross revenue | **2,824** | 2,838 | –0% |

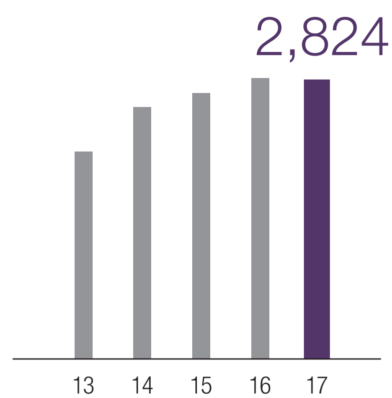
## OPERATING PROFIT

| | **2017 HK$ Million** | 2016 HK$ Million | Change |
|---|---|---|---|
| Retail | **1,894** | 1,917 | –1% |
| Office | **624** | 616 | +1% |
| Total operating profit | **2,518** | 2,533 | –1% |

**Property Value**
(HK$ Million)




**Gross Revenue**
(HK$ Million)




# TIMES SQUARE

## RETAIL TENANT MIX (by Rental, Area and Sales)

| | % by Rental | % by Area | % by Sales |
|---|---|---|---|
| Fashion | 31.0 | 21.7 | 25.2 |
| Jewellery, Beauty, Healthcare and Accessories | 36.2 | 16.9 | 26.5 |
| Department Stores, Confectionery Products | 13.4 | 20.0 | 24.7 |
| Restaurant, Fast Food, F&B and Entertainment | 7.7 | 27.7 | 9.0 |
| Electrical & Audio-visual Equipment | 5.4 | 5.2 | 10.2 |
| Sports Wear | 4.2 | 4.2 | 3.3 |
| Others | 2.1 | 4.3 | 1.1 |
| Total | 100 | 100 | 100 |

Various exhilarating exhibitions and events were rolled out to promote the cultural values of the community. The Picasso and Jacqueline Exhibition, with a curated collection of 13 precious masterpieces by the legendary artist flown in all the way from the Museu Picasso in Barcelona successfully, surprised visitors. Nine renowned local collectors and clay model/miniature artists were invited to share their fondest memories about home cooking in Hong Kong, along with their recipes and kitchen models, in the "Sweet Memories of Home Cooking" Exhibition. "My Furry Kids at Home" Photo Exhibition was launched to encourage care for and adoption of cats, giving furry kids and ourselves a chance to live a happy life.

Total GFA

1.98 MILLION SQUARE FEET

999 -YEAR LEASEHOLD

Valuation

HK$ 56.6 BILLION

Annual footfall

~65 MILLION

Total retail sales

HK$ 8.2 BILLION

Retail sales per sq.ft.

HK$ 1,300 PER MONTH

(US$ 2,000 PER ANNUM)


三希樓


CINE TIMES

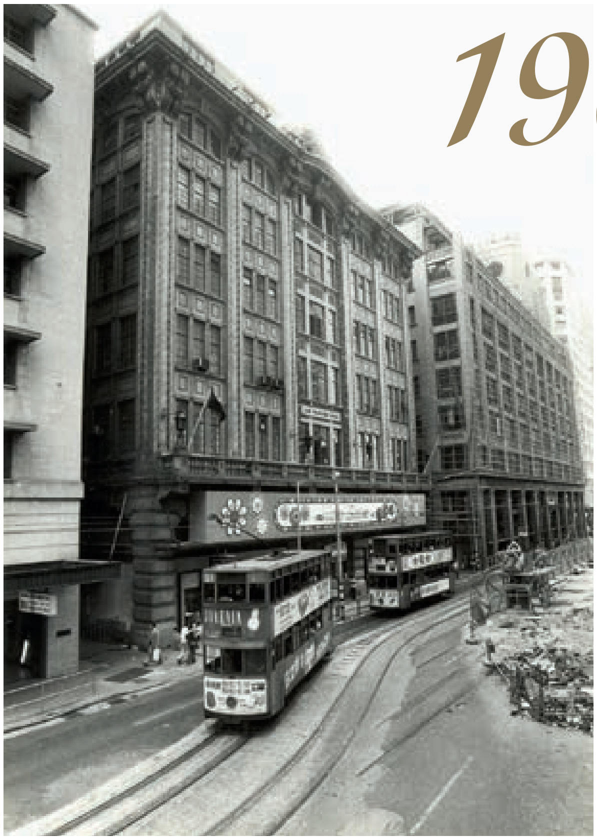

facesss
DISCOVER THE ORIGINAL YOU
AVEDA

# CENTRAL PORTFOLIO

WHEELOCK
HOUSE


CRAWFORD
HOUSE


# THE MURRAY



1960s

1977

Wheelock House and Crawford House performed solidly with positive rental reversions. Segment revenue increased by 15% to HK$466 million and operating profit by 15% to HK$410 million.

The Company's premises at Wheelock House at the intersection of Pedder Street and Des Voeux Road Central include the entire office tower (21 consecutive floors of Grade A office spaces) and a prime shop on the ground floor with a rare 999-year leasehold. Situated in a highly coveted location atop Central MTR station, Wheelock House is among the most preferred addresses for sizable corporations and multinationals which has been reflected in the high occupancy and lease renewal rate. Wheelock House was 100% leased at favourable rental rates as at year-end. Office passing rent for 2017 posted a gain of 7% to HK$74 per square foot per month, and a 19% rental reversion was recorded.

# WHEELOCK HOUSE


# 1993

Crawford House is another prime commercial property of the Group on Queen's Road Central with a rare 999-year leasehold. The tower spans 85,000 square feet of retail premises across seven storeys (including a basement), with 18 prime office floors atop. Its commanding presence in the heart of the bustling Central business district makes it a preferred workplace for a diversity of industries and trades. The prominent 120-metre high street frontage, housing *Zara*'s largest flagship in Hong Kong, represents the longest single retail frontage on Queen's Road Central. The strategic location adjacent to the world's longest escalator leading up to the Mid-levels, and a stone's throw away from Central MTR Station, bolsters the appeal and enhances retail value. Retail occupancy remained at 96% at year-end, and office occupancy was 99%. Office passing rent for 2017 increased by 6% to HK$57 per square foot per month while a 9% rental reversion was achieved. Lease renewal retention was maintained at 68%.

# CRAWFORD HOUSE

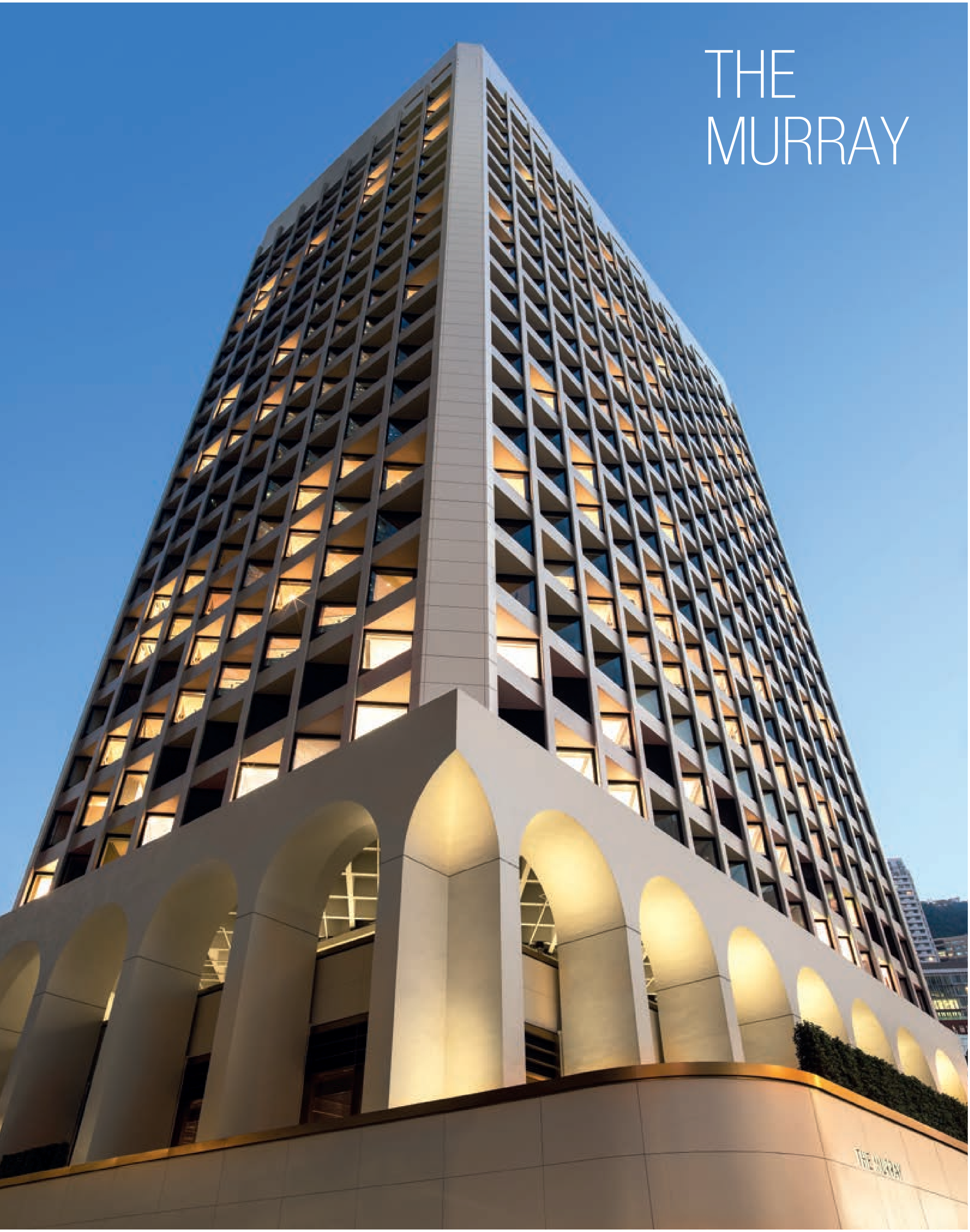
1969

2013

I am thrilled to witness its impressive transformation and wish to commend everyone involved for a job well done... I am delighted that this home to many Government departments for nearly half a century is now a home away from home for guests from around the world. The Murray continues the proud tradition of this property being a landmark building in the heart of the city.

*~ Mrs Carrie Lam Cheng Yuet-Ngor, Chief Executive, HKSAR (The Murray's Commemorative Book)*

# THE MURRAY



# THE MURRAY

The Murray, Hong Kong, a Niccolo Hotel ("The Murray"), is a unique hospitality and leisure destination for local and international guests. The recently-opened US$1 billion contemporary urban chic sanctuary features 336 over-sized rooms and suites across 25 floors. *Popinjays* (a stunning rooftop restaurant, bar and terrace) offers breath-taking views of the central business district and the green oasis of Hong Kong Park. Included in the eclectic array of dining concepts to delight guests' palates are *The Tai Pan* (modern International dining), *Garden Lounge* (afternoon tea and casual dining), *Murray Lane* (sophisticated bar by the lobby), and *Guo Fu Lou* (Michelin-starred Cantonese classics). Alongside the creative meeting and event spaces and wellness offerings, The Murray is poised to offer prestigious visitors, captains of industry and leaders in style, unique memorable experiences and to become the new epicenter for events and celebrations.

298 ROOMS & 38 SUITES

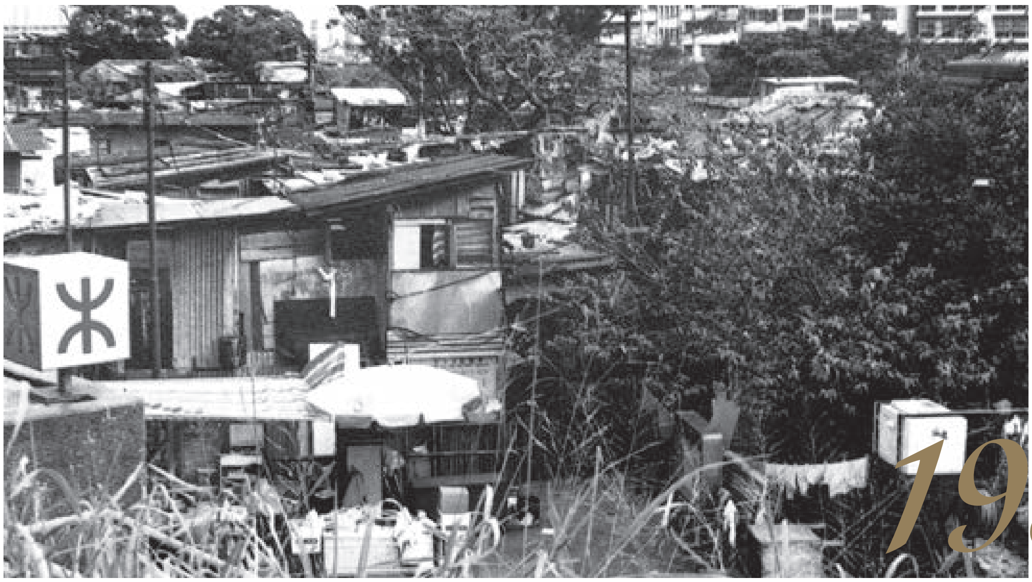
5 CONTEMPORARY URBAN CHIC DINING OUTLETS

A project under the "Conserving Central" Initiative

THE UNIQUE OVT

Converted from an iconic building with 50 YEARS OF HISTORY



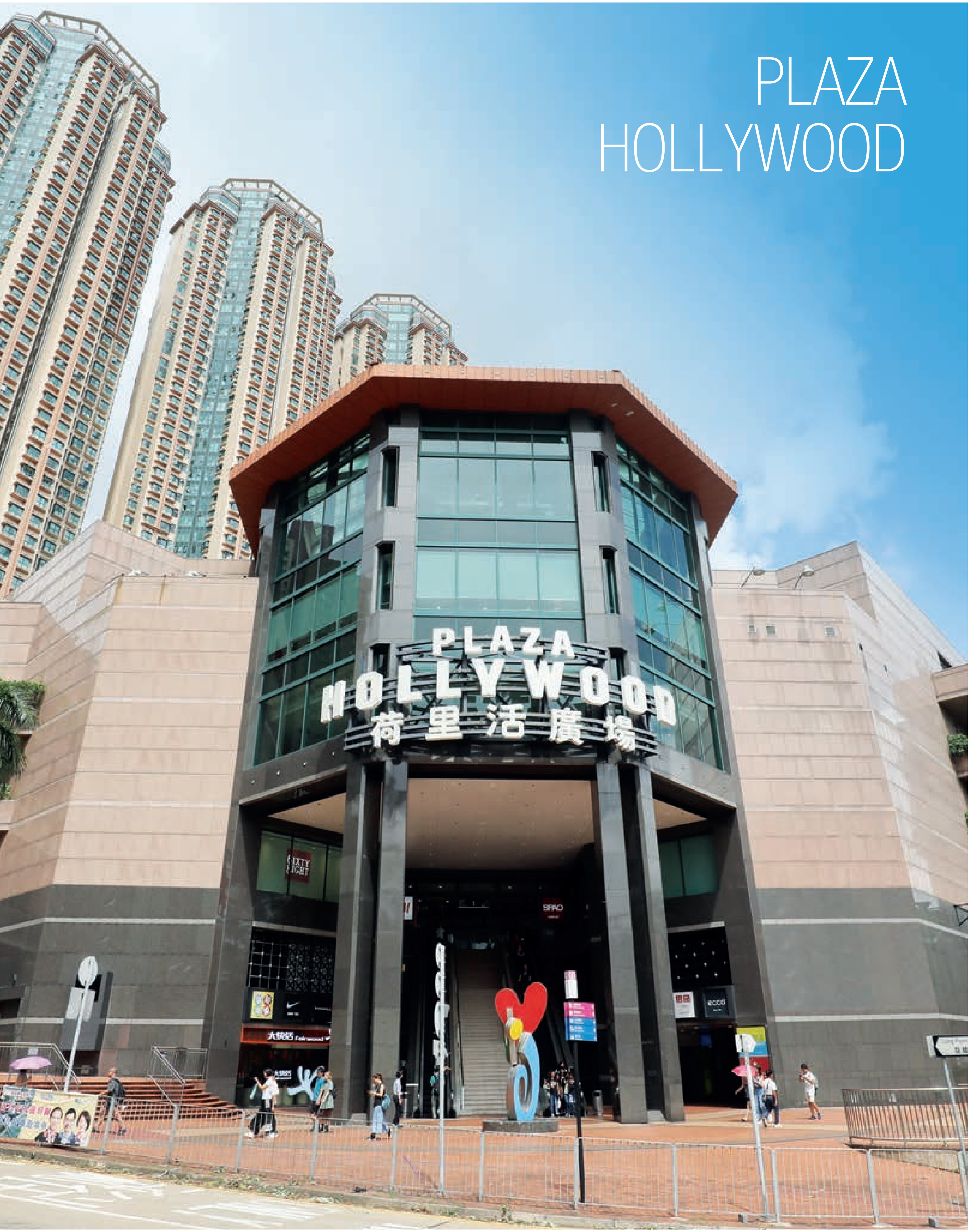


1980s

Photo credit: The Straits Times on 1 August 1993

1995

# PLAZA HOLLYWOOD



# PLAZA HOLLYWOOD


Constant enhancement of retail offering and compelling marketing strategies continued to drive performance. Positive rental reversion lifted revenue by 5% to HK$574 million and operating profit by 6% to HK$439 million. Average retail passing rent of 2017 increased by 2% to HK$108 per square foot per month. Occupancy rate was 97% at year-end. Retail offering was further enriched with new recruitments of popular brands including *Chickeeduck, Joy & Peace, King Koil, Nature Bud, Ray-Ban, SKECHERS, Suning* and *Verdee Bamboo Living.* A spate of enticing dining options was introduced to satiate diners' palate. They included *Bless Cold Pressed Juice, Chasho Shimizu Ippoen, Crostini, Fullhouse Kitchen, Luna Cake, Pacific Coffee* and *Ten Ren's Tea*.

In a bid to boost tourist spending, Plaza Hollywood continues to collaborate with Kai Tak Cruise Terminal and arrange free shuttle service, ambassadors and incentive programmes to lure tourists visit. Various impactful marketing campaigns continued to drive quality traffic. Heaps of family-friendly events including Tainan Food Market and Balance Bike Training Site were staged to appeal to families. Vegetable Food Festival, the annual joint promotion with Chi Lin Nunnery, was organised in July with overwhelming responses from the public and media. During Christmas, a giant festive decoration under the theme of Betakkuma, a popular online cartoon character, successfully allured crowds. Other significant cultural highlights included Hong Kong's largest "Used Book Fair" for charity and "Best-10 Book Award and Book Fair".

## BUSINESS ASSETS

| As at 31 December | **2017 HK$ Million** | 2016 HK$ Million | Change |
|---|---|---|---|
| Properties (at valuation) | **9,580** | 9,540 | — |
| Other assets | **7** | 11 | –36% |
| Total business assets | **9,587** | 9,551 | — |

## RETAIL TENANT MIX (by Rental, Area and Sales)

| | % by Rental | % by Area | % by Sales |
|---|---|---|---|
| Restaurant, Fast Food, F&B and Entertainment | 23.4 | 32.8 | 23.9 |
| Jewellery, Beauty and Accessories | 22.2 | 10.9 | 17.1 |
| Fashion | 19.2 | 21.9 | 14.3 |
| Department Store, Healthcare, Confectionery Products | 12.0 | 14.4 | 17.6 |
| Travel, Telecommunication and Other Services | 8.0 | 5.0 | 7.3 |
| Electrical & Audio-visual Equipment | 6.3 | 5.7 | 13.1 |
| Sports Wear | 4.8 | 4.2 | 3.8 |
| Others | 4.1 | 5.1 | 2.9 |
| Total | 100 | 100 | 100 |


Total retail sales

HK$ 2.5 BILLION

Annual footfall

~20 MILLION

# AWARDS & RECOGNITIONS

## HARBOUR CITY

"Brand of the Year" at World Branding Awards

Top 10 Shopping Mall, Top 25 My Favorite Shopping Malls Events
at the Shopping Mall Awards 2016–2017 by *Hong Kong Economic Times*

"We're all Smurfs!" Art Exhibition

| | |
|---|---|
| 3 Gold | "Marketing Excellence" at ICSC China Shopper Center Awards 2017<br>"Creative Communication" at The 8th Golden Mouse Digital Marketing Award<br>"Excellence in Event Marketing" at Marketing Excellence Awards 2016 |
| 3 Silver | "New Media/Digital Communications" at The 3rd Hong Kong Public Relations Awards (2016)<br>"Best Use of Digital" at THE MARKies AWARDS 2017<br>"Best PR Campaign — Lifestyle" at PR Award HK 2017 |
| Bronze | "Best Idea (Event)" at THE MARKies AWARDS 2017 |
| Merit | "Creativity" at The 3rd Hong Kong Public Relations Awards (2016) |

Style Up BE@RERICK

| | |
|---|---|
| Bronze | "Best Event (CSR)" at Marketing Event Awards 2017 |


## TIMES SQUARE

Celebrate Chinese New Year by Revitalizing Cantonese Opera exhibition

"Excellence in Corporate Social Responsibility" award at Marketing Excellence Awards 2017

"Best Cultural Event" and "Best Outdoor Events: Arts, Leisure and Entertainment" awards in The Marketing Awards 2017

"CSR Event" award by PR Daily's Corporate Social Responsibility Awards 2017 in USA

Winnie the Pooh exhibition

"Location-Based or Experiential Initiative of the Year 2017" award at LIMA Award organised by International Licensing Industry Merchandisers' Association

Top 25 My Favorite Shopping Malls Events,
Top 10 Best Shopping Malls awards at the shopping Mall Awards 2017-18

## PLAZA HOLLYWOOD

Top 25 My Favorite Shopping Malls Events award at the Shopping Mall Awards 2017–2018

Best Family-oriented Shopping Mall in Best Mall Awards 2017

"Smart Family Choice — Shopping Mall" in Smart Family Choice Awards 2017 by *Whiz-kids Express Weekly*


## THE "STAR" FERRY

Merit Award and Special Mention Award in Enterprise Category in The 7th Hong Kong Outstanding Corporate Citizenship Award by Hong Kong Productivity Council

TripAdvisor Certificate of Excellence 2017

Junzi Corporation Survey 2017 Commendation List

# AWARDS & RECOGNITIONS

## THE MURRAY

One of the Luxurious New Hotels Opening in 2018, CNN Travel

One of the New Hotels to Check Out in 2018, The New York Times

## MARCO POLO HOTELS IN HONG KONG


Merit Award in 2017 HKMA Quality Award by Hong Kong Management Association

Marco Polo Hongkong Hotel

Marco Polo German Bierfest—
"Best Outdoor Event" at the Marketing Events Awards 2017 by *Marketing Magazine*

Bronze Certification by EarthCheck

Gateway Hotel and Prince Hotel — TripAdvisor Certificate of Excellence 2017


## GATEWAY APARTMENTS

"The Best Serviced Apartment Award" for seven years in a row and "The Best Eco-Friendly Serviced Apartment Award" by Squarefoot

"Service Awards" for the sixth consecutive year from "Capital Weekly" in recognition of its achievements in the pursuit of service excellence

Silver Award in the "Hotels and Recreation Clubs" sector at the 2016 Hong Kong Awards for Environmental Excellence

## PACIFIC CLUB

Ranked Top 100 City Clubs in Platinum Clubs of the World 2018–2019 out of more than five hundred clubs from 34 countries around the Globe

Certificate of Merit in the "Hotels and Recreation Clubs" sector at the 2016 Hong Kong Awards for Environmental Excellence

# CORPORATE SOCIAL RESPONSIBILITY

# CORPORATE SOCIAL RESPONSIBILITY

## OUR SUSTAINABILITY APPROACH

Guided by our long-standing mission, “Building for Tomorrow”, the Group is committed to achieving excellent corporate governance, maximising economic and social value for the community, as well as reducing our impact on the environment through prudent business planning and execution.

## CSR STRUCTURE

The Corporate Social Responsibility (“CSR”) Steering Committee, chaired by the Group’s Chairman, formulates the overall CSR strategy of the Group to align business development with the Group’s CSR goals and commitments. Executives from business units oversee the day-to-day management of programmes and meet regularly to exchange ideas and best practices.


* Duties and responsibilities of each business unit may differ based on corresponding business nature

The Group dedicates its resources to improving people’s quality of life and building a sustainable community for our future generations through a wide range of CSR programmes.

## BUSINESS DEVELOPMENT

A robust governance structure, sound risk management, and internal control systems, as well as high standards of ethics and integrity, build a strong foundation for the success of our business. Detailed discussion on these topics can be found on Pages 72 to 87.

## PROTECTING OUR ENVIRONMENT

We constantly identify opportunities to improve energy efficiency, decrease carbon emissions, and manage resource consumption in our business units (“BUs”), hence reducing our carbon footprint. Our efforts go beyond compliance with legislation. Environmental initiatives are well in place in our BUs commensurate with their scale and operations, including upgrading lighting and air-conditioning systems, adopting water saving/recycling measures, using environmentally-friendly materials, organising waste recycling and collection programmes, and raising awareness and fostering behavioural change among employees. We are proud of the following practices and achievements:

- Harbour City Estates Limited adopted Variable Speed Drive for new chillers to improve efficiency during part-load operations. Together with the use of oil-free permanent magnet motors, we saved 632,564kWh of electricity consumption compared with 2016.

- Wheelock House recycled grey water and collected condensate water from the air-conditioning system for cleaning. Cooling water bled off from the cooling tower was also collected for flushing the toilets. These measures reduced our fresh and flushing water consumption by approximately 1737.2 m$^3$.

- Pacific Club has been collecting rain water since 2013 which is used for watering plants and cleaning the car park and driveway.

CSR PLUS HKQAA CSR INDEX

WWF Double Diamond Member 雙鑽石會員2017/18 HONG KONG

Hang Seng Corporate Sustainability Index Series Member 2017-2018



# Building a sustainable community for our future generations

- Various resource management measures were introduced to our BUs. For example, Crawford House and Wheelock House provide bio-degradable umbrella bags and recycled Christmas trees and peach blossom trees to combat deforestation. At Pacific Club, we reused red packets for decorating peach blossom trees during Chinese New Year.

- The "Star" Ferry remodeled *World Star* into a Diesel Electric Propulsion System by replacing its original marine diesel engine with new constant marine diesel electric generator sets. This measure allows us to reduce the greenhouse gas emission by meeting standards of the United States Environmental Protection Agency Tier 3 Standards and the International Maritime Organisation Tier II.

## NURTURING OUR PEOPLE

Caring and nurturing our employees is one of our priorities. To retain loyal staff and attract new talent, the Group adopts a fair and transparent recruitment process, compensates our employees with welfare packages commensurate with their qualifications and experience, invests in their career development and promotes a harmonious and safe workplace.

### Training and development

Our BUs offer training programmes covering a wide spectrum of topics such as corporate culture, skills enhancement, professional development, occupational safety and health, environmental protection, anti-corruption, personal data privacy protection and other relevant legislation. The signature Red Ring Leadership Philosophy Training consolidates leadership culture within our hotel businesses to live bold and stay sharp and disseminates it to senior executives through a series of modules including Self-awareness and Leadership Styles, Training and Coaching Skills, and Process Improvement. This year, the Group offered a total of 57,826 training hours[1] to our employees.

### Inclusive workplace

Having an engaged and loyal workforce is important for the Group's sustainability and prosperity. One of the ways that we enhance the sense of belonging of our employees is to listen to their feedback and suggestions regarding our business operations and other specific issues through various channels such as staff newsletters, staff surveys, luncheons, town hall meetings and the Intranet platform. The senior management reviews suggestions regularly and provides solutions to address concerns.

To promote work-life balance and the overall well-being of our employees, our BUs organised recreational activities, outings and interest classes throughout the year. In our hotel business, breakfast is arranged for our staff to start the day full of energy. At Wharf Estates Limited, in addition to the gymnasium equipment at Leisure Corner, there is a Breastfeeding-friendly Workplace Policy and set up a nursery room in the office.

### Occupational safety and health ("OSH")

We comply with the OSH standards recommended by the government. A safety manual and a management system are in place for regular safety assessments, emergency plans, corrective action plans for accidents or health issues, and policy reviews. Relevant training is provided to staff at all levels.

[1] The training hours reported cover the Group's selected Hong Kong operations, namely, Harbour City, Times Square, Plaza Hollywood, Prince Hotel, Gateway Hotel, Marco Polo Hongkong Hotel, Pacific Club, Gateway Apartments, and The "Star" Ferry Company, Limited and Mainland China operations, namely, Marco Polo Changzhou Hotel.

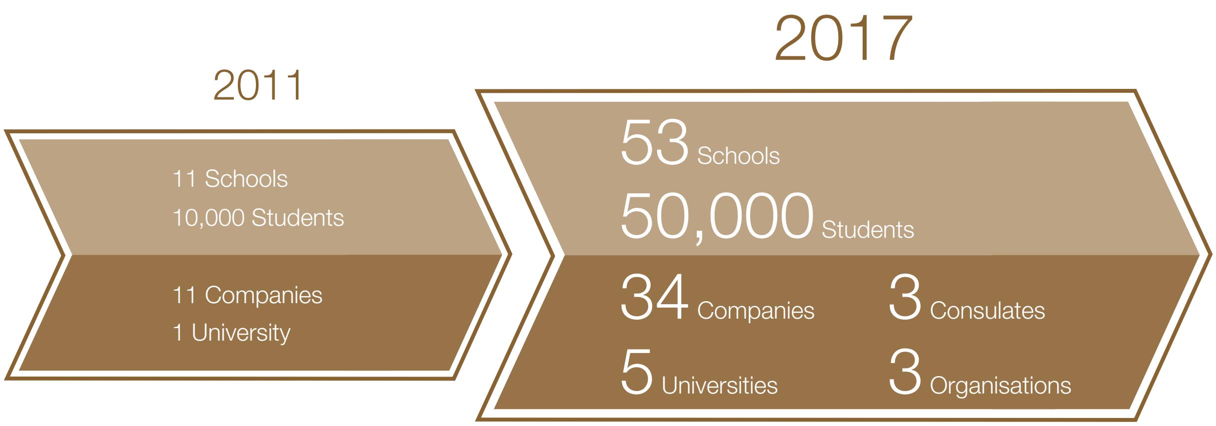

Marco Polo Hotels - Hong Kong


WHARF ESTATES
FANTASY

## BUSINESS-IN-COMMUNITY

The caring for the community spirit is rooted in our company culture. We create employment opportunities and provide financial and manpower support for various community programmes including but not limited to art and culture, economic development and social welfare.

**Project *WeCan* ("*WeCan*")**




Launched in 2011, Project *WeCan* is a Business-in-Community initiative providing secondary school students who are disadvantaged in learning with opportunities and care to empower them to pursue further studies and future careers.

Using an "adopt-a-school" model, Project *WeCan* is an open platform where each school is coupled with a partner in a multi-year collaboration for financial and volunteer support. To facilitate mutual learning and exchange, schools are invited to take part in joint-school programmes including Young Innovators Bazaar, Career Exploration Day, Job Tasting Programme and Teachers' Development Days, etc.

Our BUs, for example, the Prince Hotel, Gateway Hotel ("GH") and Marco Polo Hongkong Hotel ("MPHK"), supported Project *WeCan*'s Job Tasting Programme by hosting the students for one month at different departments during summer holidays, giving the students an opportunity to experience the hospitality industry. GH and MPHK also supported the Career Exploration Day by organising demonstration booths including pastry decoration, honeymoon amenities set-up and mock interview for students to explore their career interests. About 4,500 students benefitted from the Career Exploration Day.







# CORPORATE SOCIAL RESPONSIBILITY

### Art and culture

The Group has been a keen supporter of art and culture. Like previous years, The Wharf Hong Kong Secondary School Art Competition 2017 received about 2,000 entries of diverse themes from more than 200 secondary schools across 18 districts in Hong Kong. A roving exhibition of the winning entries took place at the Group's three shopping malls, Harbour City, Times Square and Plaza Hollywood, from April to June 2017. In July, the 18 winners were invited to participate in a tailor-made arts and cultural exchange tour to Beijing. Besides visiting local art museums and exhibitions, the four-day trip offered students an opportunity to meet internationally-acclaimed artists including Fang Lijun and Sui Jianguo. Winners are also eligible to apply for The Wharf Art Scholarship to pursue a fully-subsidised bachelor degree programme in creative art at a tertiary institution of their choice. Currently, 12 students have been awarded scholarships to study architecture, art and design related subjects at renowned institutions such as School of the Art Institute of Chicago, University of Bath, and Central Saint Martins, University of the Arts London and SCAD Hong Kong.

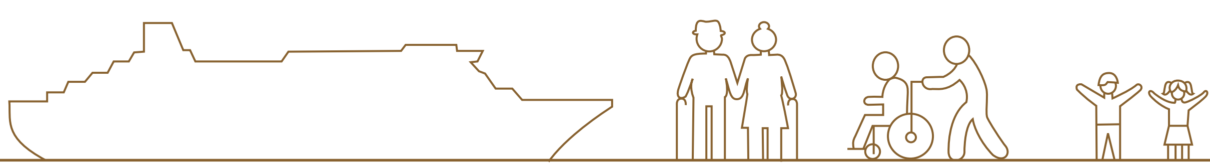
Throughout the year, we organised an array of art and cultural activities such as docent tours to Art Basel Hong Kong and Art Central 2017, and visits to art and design graduation shows at tertiary institutions, artist sharing sessions and art workshops, etc.

### Volunteer team

Established in 2011, the Wharf Estates Volunteer Team aims to build a volunteering culture among our staff members and collaborate with our stakeholders to help the community wherever we can. Almost 50% of employees have joined the team which is devoted to serving people in need, such as underprivileged children and elderly. The volunteer team has recently extended services to care for animals, protect the environment and raise awareness of human rights. Some highlights include partnering with Hong Kong Dog Rescue Tai Po Homing Centre to help with dog walking, joining hands with Feeding Hong Kong to collect and deliver edible surplus bread to the food bank after work, and participating in the Orbis Moonwalkers fundraising walkathon to raise funds for sight-saving projects worldwide. By the end of the year, the team contributed to over 20,000 hours of volunteer service.

### Community care

The Group supported over 186 events and activities by providing free venues and logistic support, volunteering and donations. Our hotels partnered with Heep Hong Society to organise a centre visit, a cooking activity and a fundraising event. The Gateway Apartments continues to work with The Salvation Army where volunteers knitted scarves for the elderly. The "Star" Ferry remains the first and only public transport offering free rides to eligible elderly and concessionary fares to those in need.



The "Star" Ferry alone contributed HK$2,711,629 by offering free rides for 977,906 elderly over 65 years old in 2017. Concessionary fares were also offered to 63,932 people with disabilities and 923,373 children.


ART COMPETITION
ART COMPETITION

## RESPONSIBLE PRODUCTS AND SERVICES

The Group is committed to improving the quality of our products and services on the following areas:

- Professional customer services: Annual Work and Service Improvement Team ("WSIT") training is in place at Wharf Estates Limited to equip employees with problem solving skills and idea generation tools for carrying out continuous improvement projects. As a company culture, we also value our employees' suggestions on improving workflow, service quality and cost control measures.

- Customer health and safety: We place auto sensor dispensers at convenient locations of our properties to provide shoppers and visitors with free disinfectant-alcohol gel to maintain good hygiene. At the Pacific Club, we organise bi-monthly sample testing of the water quality from filtered water taps, fish tanks and the swimming pool on the Club premises. We maintain a high standard of facilities to better protect public safety. The structural integrity of shopping mall decorations and our thematic exhibitions is examined and certified by an independent Registered Structural Engineer, followed by an inspection once decorations are set up and daily checking by in-house building inspectors and security guards. In our hotels and clubs, the quality and hygiene of our cuisine are effectively managed by the Hygiene Manager under the HACCP[2] based 43 points audit checklist or ISO22000 Food Safety Management System.

- Fair and transparent marketing communications: The Group complies with the Trade Descriptions Ordinance (Cap 362) and logo guidelines in planning and executing our marketing and communications projects. All marketing collaterals are proofread and approved by the Managers or the legal department before release.

- Customer privacy: To protect customers' personal information, the Group follows a standard procedure in handling customer data. Customers' information is only accessible by authorised personnel, and we take all reasonably practical steps to destroy customer data that is no longer required for the purposes for which the data was originally collected.

### Supplier management

The Group prioritises suppliers who are concerned with and would address or minimise environmental and social issues in their operations. Vendor management systems are in place to assess suppliers' social, environmental and technical capabilities. For instance, to reduce environmental impact, our tender documents include a Green Purchasing Clause. Suppliers are also required to sign a "Supplier Declaration" with company chop as a pledge to uphold business ethics and integrity. Supplier performance is evaluated against a set of KPIs to ensure alignment with legislation and our requirements.

## CSR REPORTING

We prepare our standalone Sustainability Report in accordance with the "Core" option of the Global Reporting Initiative Sustainability Reporting Standards ("GRI Standards") and to fulfil the requirements of the Environmental, Social and Governance Reporting Guide (Appendix 27) issued by The Stock Exchange of Hong Kong Limited. The reporting scope covers our selected Hong Kong and Mainland China operations[3] for the period of 1 January to 31 December 2017.

2 Hazard Analysis Critical Control Point ("HACCP").
3 Hong Kong operations include Harbour City, Times Square, Plaza Hollywood, Crawford House, Wheelock House, Prince Hotel, Gateway Hotel, Marco Polo Hongkong Hotel, Pacific Club, Gateway Apartments, and The "Star" Ferry Company, Limited, while Mainland China operations include Marco Polo Changzhou Hotel.


KNITTING FOR THE ELDERLY
港威豪庭「織」出愛送暖活動





## (I) REVIEW OF 2017 RESULTS

Group core profit increased by 12% to HK$9,500 million in 2017 (2016: HK$8,516 million). Investment Properties ("IP") achieved an 8% growth to HK$8,671 million as the backbone. Development Properties ("DP") added HK$683 million.

Profit attributable to shareholders increased by 74% to HK$17,218 million (2016: HK$9,917 million) after inclusion of a higher IP revaluation surplus of HK$7,982 million (2016: HK$1,211 million).

### Revenue and Operating Profit

IP revenue and operating profit continued to grow, respectively by 4% to HK$13,334 million (2016: HK$12,775 million) and 5% to HK$11,698 million (2016: HK$11,171 million). In particular, Harbour City recorded revenue and operating profit growth of 5% and 6%.

Hotel revenue rose by 5% to HK$1,403 million (2016: HK$1,342 million) and operating profit by 25% to HK$337 million (2016: HK$269 million).

DP recognised 138% higher property sales to HK$5,907 million (2016: HK$2,482 million) and 754% higher operating profit to HK$3,630 million (2016: HK$425 million) benefitting from the final completion of Suzhou Times City.

Investment and others revenue grew by 3% to HK$260 million (2016: HK$252 million) while operating profit dropped by 68% to HK$48 million (2016: HK$148 million).

Consolidated revenue increased by 24% to HK$20,904 million (2016: HK$16,851 million) and operating profit by 31% to HK$15,442 million (2016: HK$11,824 million).

### Changes in Fair Value of IP

Book value of the IP portfolio as at 31 December 2017 increased to HK$253.8 billion (2016: HK$244.4 billion) with HK$249.9 billion thereof stated at fair value based on independent valuation, which produced a revaluation gain of HK$7,991 million for the year (2016: HK$1,191 million). The attributable gain of HK$7,982 million (2016: HK$1,211 million), net of related non-controlling interests, was credited to the consolidated statement of profit or loss.

IP under development in the amount of HK$3.9 billion is carried at cost and will not be carried at fair value until the earlier of its fair value first becoming reliably measurable or the date of completion.

### Finance Costs

Net finance costs amounted to HK$1,029 million (2016: HK$1,351 million) after interest capitalization of HK$4 million (2016: HK$15 million) for DP projects. The effective borrowing rate for the year declined to 3.2% (2016: 4.0%).

### Income Tax

Taxation charge for the year increased to HK$4,267 million (2016: HK$1,895 million) mainly due to increase in land appreciation tax and income tax provision for Suzhou Times City resulting from its higher profit recognised in the year.

### Profit Attributable to Equity Shareholders

Group profit attributable to equity shareholders for the year amounted to HK$17,218 million (2016: HK$9,917 million), representing an increase of 74%. Basic earnings per share were HK$5.67, based on weighted average of 3,036 million shares (2016: HK$3.27 based on 3,036 million shares).

Core profit, excluding the net IP revaluation gain of HK$7,982 million (2016: HK$1,211 million) and exchange loss of HK$264 million (2016: gain of HK$190 million), rose by 12% to HK$9,500 million (2016: HK$8,516 million). Core earnings per share were HK$3.13 (2016: HK$2.81).

## (II) LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL COMMITMENTS

### Shareholders' and Total Equity

As at 31 December 2017, shareholders' equity increased by HK$8.4 billion to HK$207.3 billion (2016: HK$198.9 billion), equivalent to HK$68.29 per share based on 3,036 million issued shares (2016: HK$65.52 per share based on 3,036 million shares).

Total equity including non-controlling interests increased by HK$8.9 billion to HK$213.0 billion (2016: HK$204.1 billion).

### Assets

Total assets as at 31 December 2017 increased to HK$272.7 billion (2016: HK$265.5 billion). Total business assets, excluding bank deposit and cash, equity investments, financial and deferred tax assets, increased to HK$266.5 billion (2016: HK$257.6 billion) mainly due to increase in IP valuation, offset by decrease in DP resulting from orderly liquidation.

Geographically, Hong Kong business assets, mainly comprising IP, amounted to HK$258.4 billion (2016: HK$248.3 billion), representing 97% (2016: 96%) of the Group total.

### Investment properties

IP increased by 4% to HK$253.8 billion (2016: HK$244.4 billion), representing 95% of total business assets. Harbour City and Times Square were valued at HK$170.3 billion (excluding the three hotels) and HK$56.6 billion, respectively, together representing 89% of the IP portfolio.

### Development Properties/Interests in Associates and Joint Ventures

DP fell to HK$0.1 billion (2016: HK$2.0 billion) reflecting further sales recognition of the subsidiary portfolio during the period. In addition, DP undertaken through associates and joint ventures amounted to HK$3.3 billion (2016: HK$3.2 billion).

### Hotels

Hotel properties included The Murray, three MP Hotels and MP Changzhou with book cost increasing to HK$8.3 billion (2016: HK$6.8 billion), reflecting the construction cost incurred for The Murray, which started to trade in early 2018.

### Deposits from sale of properties

Deposits from sale of properties was reduced to zero (2016: HK$5.0 billion), reflecting full recognition of DP revenue by subsidiaries.

### Debts and Gearing

Net debt as at 31 December 2017 increased by HK$12.3 billion to HK$42.5 billion (2016: HK$30.2 billion). It comprised HK$45.6 billion in debts and HK$3.1 billion in bank deposits and cash.

Upon listing on the Main Board of the Hong Kong Stock Exchange on 23 November 2017, the Group settled the inter-group balances in total amount of HK$46 billion due to former parent company, The Wharf (Holdings) Limited, and its fellow subsidiaries by drawdown on bank borrowings, resulting to an increase in net debt.

An analysis of net debt is as below:

| **Net debt/(cash)** | **31 December 2017** ***HK$ Billion*** | 31 December 2016 *HK$ Billion* |
|---|---|---|
| Wharf REIC (excluding HCDL) | **42.9** | 1.1 |
| HCDL | **(0.4)** | (1.9) |
| | **42.5** | (0.8) |
| Loans from fellow subsidiaries | **–** | 31.0 |
| Total net debt | **42.5** | 30.2 |

As at 31 December 2017, the ratio of net debt to total equity rose to 19.9% (2016: 14.8%).

### Finance and Availability of Facilities

Total available loan facilities as at 31 December 2017 amounting to HK$54.4 billion, of which HK$45.6 billion was utilised, are analysed as below:

| | 31 December 2017 | | |
|---|---|---|---|
| | Available Facility *HK$ Billion* | Total Debts *HK$ Billion* | Undrawn Facility *HK$ Billion* |
| **Committed and uncommitted bank facilities** | | | |
| Wharf REIC (excluding HCDL) | 48.3 | 43.3 | 5.0 |
| HCDL Group | 6.1 | 2.3 | 3.8 |
| | 54.4 | 45.6 | 8.8 |

Certain banking facilities were secured by mortgages over the IP under development with total carrying value of HK$3.9 billion (2016: HK$Nil).

The debt portfolio was primarily denominated in Hong Kong dollar ("HKD"). Funding sourced from such debt portfolio was mainly used to finance the Group's IP and remaining DP investments.

The Group continued to maintain a strong financial position with ample surplus cash and undrawn committed facilities to facilitate business and investment activities. In addition, the Group also maintained a portfolio of liquid equity investments with an aggregate market value of HK$2.7 billion (2016: HK$2.3 billion), which is available for use if necessary.

### Cash Flows for the Group's Operating and Investing Activities

For the year under review, the Group recorded net cash inflows before changes in working capital of HK$15.5 billion (2016: HK$11.9 billion) mainly generated from rental income. Changes in working capital reduced the net cash inflow from operating activities to HK$9.6 billion (2016: HK$11.4 billion). For investing activities, the Group recorded a net cash outflow of HK$12.6 billion (2016: inflow of HK$6.2 billion), mainly due to repayment of intergroup balances to Wharf group upon the Group's listing.

### Major Capital and Development Expenditures and Commitments

Major expenditures incurred in 2017 are analysed as follows:

| | Hong Kong *HK$ Million* | Mainland China *HK$ Million* | Total *HK$ Million* |
|---|---|---|---|
| **Properties** | | | |
| IP | 491 | 788 | 1,279 |
| DP | – | 525 | 525 |
| | 491 | 1,313 | 1,804 |
| **Others** | | | |
| Hotels | 1,629 | 1 | 1,630 |
| **Group total** | 2,120 | 1,314 | 3,434 |

i. IP expenditure was mainly incurred by HCDL for construction of its Suzhou IFS project.

ii. Hotels expenditure was mainly incurred by HCDL for construction of The Murray, which was completed in late 2017.

iii. DP expenditure included costs for projects undertaken by associates and joint ventures.

As at 31 December 2017, major expenditures to be incurred in the coming years was estimated at HK$7.3 billion, of which HK$1.7 billion was committed. They are analysed by segment as below:

| | As at 31 December 2017 | | |
|---|---|---|---|
| | **Committed** *HK$ Million* | **Uncommitted** *HK$ Million* | **Total** *HK$ Million* |
| **Properties** | | | |
| **IP** | | | |
| Hong Kong | 343 | 468 | 811 |
| Mainland China | 1,214 | 2,903 | 4,117 |
| | 1,557 | 3,371 | 4,928 |
| **DP** | | | |
| Mainland China | 119 | 2,113 | 2,232 |
| **Properties total** | | | |
| Hong Kong | 343 | 468 | 811 |
| Mainland China | 1,333 | 5,016 | 6,349 |
| | 1,676 | 5,484 | 7,160 |
| **Hotels** | 16 | 120 | 136 |
| **Group total** | 1,692 | 5,604 | 7,296 |

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

Included in the above are HCDL's expenditures amounting to HK$6,489 million, which will be funded by its own financial resources.

## (III) HUMAN RESOURCES

The Group had approximately 2,900 employees as at 31 December 2017. Employees are remunerated according to their job responsibilities and market pay trend with a discretionary annual performance bonus as variable pay for rewarding individual performance and contributions to the Group's achievement and results.

## (IV) BUSINESS STRATEGY

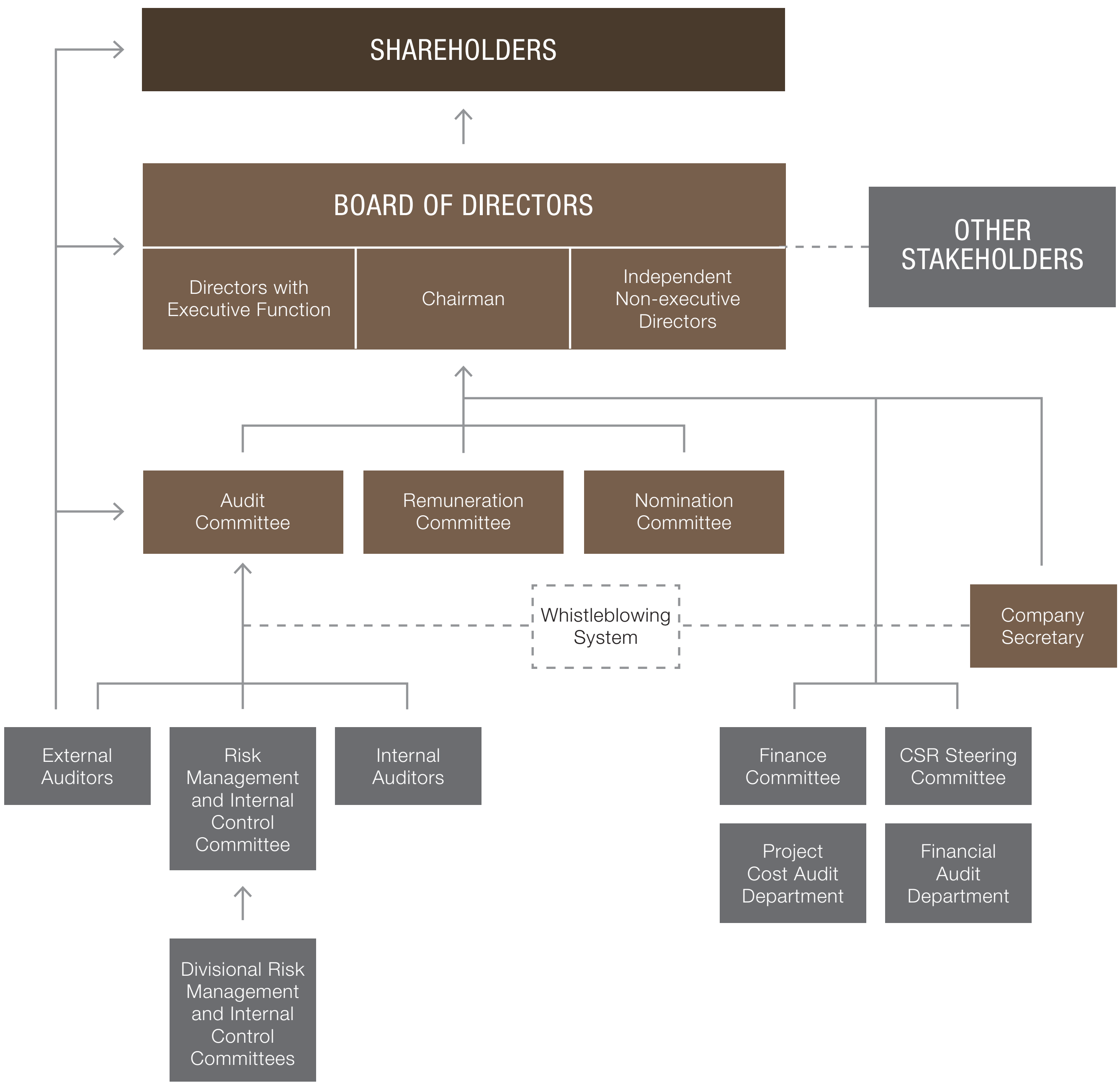
The principal strategy is to hold and invest in premium quality properties in Hong Kong aiming at providing shareholders with stable dividends and the potential for sustainable long-term growth in dividends by proactively managing our properties portfolio and any other properties we may acquire in the future, while maintaining a high level of financial discipline and financial flexibility.

The implementation of the strategy can be broadly categorised into the Group's (i) asset management strategy, and (ii) capital management strategy. The asset management strategy includes firstly proactive lease management and tenant mix optimisation, secondly continual asset enhancement and value creation, and thirdly the implementation of effective and forward looking marketing initiatives. As regards the capital management strategy, it is the Group's intention that the capital structure should optimise the cost of capital while maintaining prudent and disciplined financial management and financing flexibility.

## CORPORATE GOVERNANCE PRINCIPLES AND STRUCTURE

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

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



## COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Throughout the period from the listing of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 23 November 2017 (the "Listing") to 31 December 2017, the Company has complied with all the code provisions of the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), with one exception as follows:

| **Code Provision A.2.1 (Separation of the roles of Chairman and Chief Executive)** |
| --- |
| Mr Stephen T H Ng serves as Chairman as well as Managing Director of the Company. Such deviation is deemed appropriate as it is considered to be more efficient to have one single person to be Chairman of the Company as well as to discharge the executive functions of a chief executive thereby enabling more effective planning and better execution of long-term strategies. The Board believes that the balance of power and authority is adequately ensured by the operations and governance of the Board which comprises experienced and high calibre individuals, with half of them being Independent Non-executive Directors ("INEDs"). |

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

## BOARD OF DIRECTORS

### Roles and Responsibilities

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

#### Governance and Social Responsibility

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

#### Strategic Planning

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

#### Risk Management

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

#### Performance Review

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

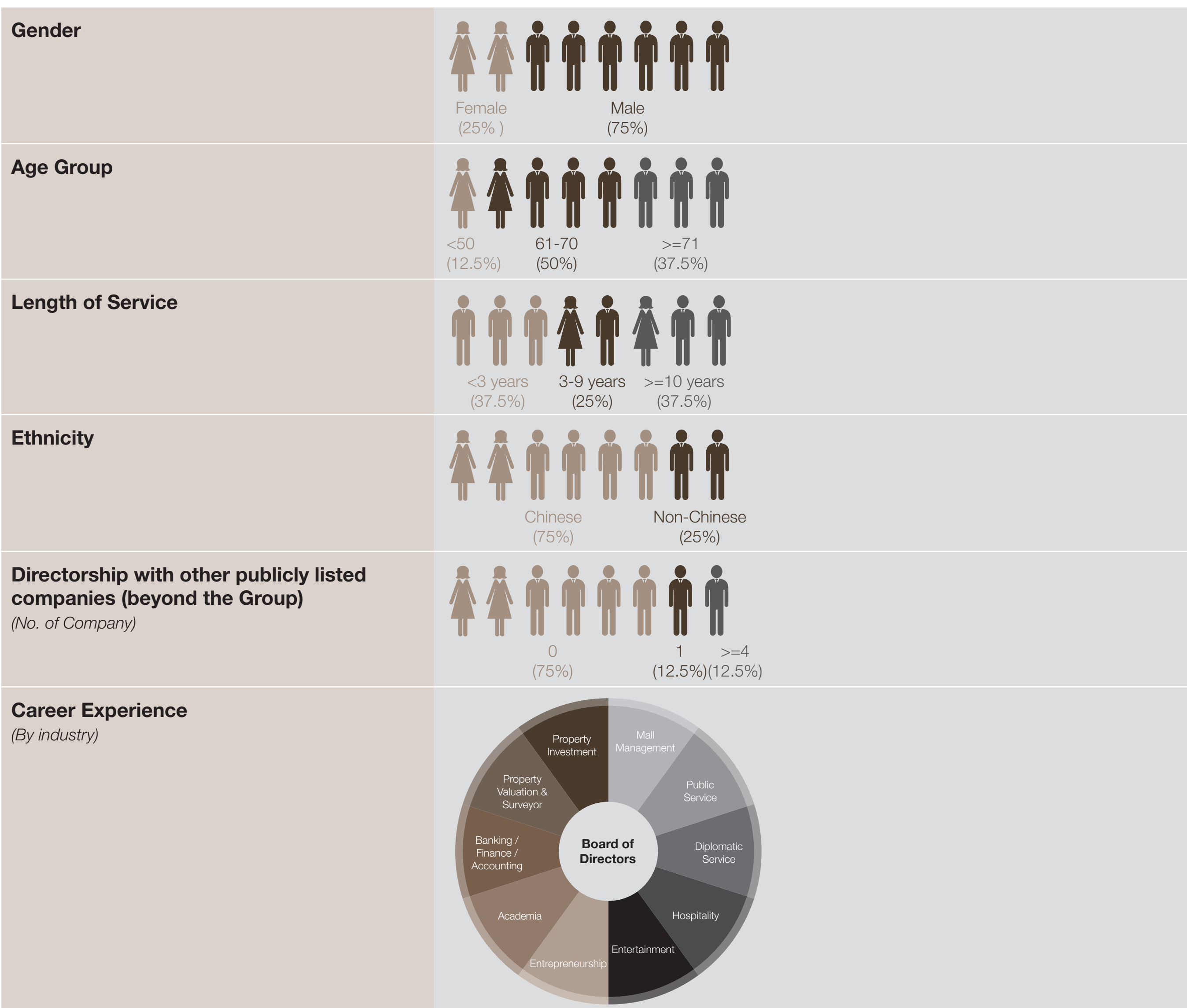
## Board Composition and Diversity Policy

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

Directors' biographical details are set out in "(A) Biographical Details of Directors and Senior Managers" on pages 92 to 94. All Directors, including INEDs, are also identified as such in all corporate communications that disclose the names of Directors.

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

The following chart shows the diversity profile of the Board as at 31 December 2017:



## Appointment and Election of Directors

In accordance with the Company's Amended and Restated Articles of Association, all Directors are subject to retirement by rotation at an annual general meeting at least once every three years. Any new Directors appointed by the Board either to fill a casual vacancy or as an addition to the Board are subject to re-election by shareholders of the Company (the "Shareholder") at the next general meeting of the Company. At each annual general meeting, at least one-third of the Directors for the time being shall retire from office and the retiring Directors shall be eligible for re-election.

The Board, with support of the Nomination Committee, is responsible for developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment of Directors and assessing the independence of INEDs.

All Directors will retire at the annual general meeting (the "AGM") to be held on 9 May 2018. The retiring Directors, being eligible, offer themselves for re-election. There is no cumulative voting in Director elections. The election of each candidate is done through a separate resolution. Details with respect to the candidates standing for election as Directors are set out in the AGM circular to Shareholders.

## Independent Directors

Four out of eight Directors are INEDs, a sufficient number to ensure their views to carry weight and implanting a strong independence element into the Board.

The Company has received written annual confirmation from each of the INEDs concerning their independence pursuant to Rule 3.13 of the Listing Rules, and considers that all INEDs are independent and meet the independence guidelines set out thereunder.

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

## Remuneration of Directors and Senior Management

The remuneration payable to Directors and Senior Management of the Company is determined with reference to calibres, experiences, job responsibilities, performance and profitability of the Group, and the remuneration benchmarks normally paid by listed companies in Hong Kong and overseas for ensuring a fair and competitive remuneration package in the market. The basis of determining the fee payable to the Board during the period under review is as follows:

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

In respect of the remuneration payable to Directors and Senior Management of the Company, the details have been set out in Note 2(b) and 2(c) to the financial statements on pages 116 and 117 respectively.

## Directors' Trainings

Newly appointed Directors receive briefings and orientation on legal and responsibilities as a Director and the role of the Board. The Company Secretary also provides latest information of the business development, market changes and updates in the Listing Rules and relevant legal and regulatory requirements to the Directors in a timely manner in order to make an informed decision and discharge their duties and responsibilities.

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

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

| **Directors** | **Types of Trainings** (See Remarks) |
|---|---|
| Mr Stephen T H Ng, *Chairman & Managing Director* | A, B |
| Ms Doreen Y F Lee, *Vice Chairman* | A, B |
| Ms Y T Leng, *Executive Director* | A, B |
| Mr K H Leung | A, B |
| **Independent Non-executive Directors** | |
| Mr Alexander S K Au | A, B |
| Mr Andrew J Seaton | A, B |
| Mr R Gareth Williams | A, B |
| Professor E K Yeoh | A, B |

Remarks:
A: attending seminars and/or conferences and/or forums
B: reading journals, updates, articles and/or materials, etc

## Directors' Securities Transactions

The Company adopts its own set of code of conduct regarding Directors' securities transactions (the "Company's Code") with terms thereof being no less exacting than the required standard set out in the Model Code in Appendix 10 of the Listing Rules. Indeed, the Company's Code has a higher standard than the Model Code to the extent that the absolute prohibitions under paragraphs A.1 and A.3 of the Model Code, viz. forbidding Directors from securities dealings at any time in possession of price-sensitive information and during the relevant blackout periods preceding publication of financial results, shall apply not only to the listed securities of the Company itself but also of its subsidiaries and associates.

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

## BOARD EFFECTIVENESS

### Division of Responsibilities

There is a clear division of responsibilities between the Board and the management. Decisions on important matters are specifically reserved to the Board while decisions on the Group's general operations are delegated to the management. Important matters include those affecting the Group's strategic policies, major investment and funding decisions and major commitments relating to the Group's operations.

#### CHAIRMAN AND MANAGING DIRECTOR

**Mr Stephen T H Ng**

- perform a leadership role in monitoring and evaluating the Group's business
- responsible for the overall strategic planning and major decision making for the Group
- lead the Board and manage the affairs of the Board to ensure its effective functioning
- facilitate and encourage active engagement of Directors, fully drawing on their skills, experience and knowledge
- ensure cohesive working relationship among members of the Board and the Management
- assume overall responsibility on corporate governance practices and procedures
- in his capacity as Managing Director, directly has executive responsibilities in certain major business and corporate units of the Group

#### DIRECTORS WITH EXECUTIVE FUNCTIONS

***Investment Properties in Hong Kong***
**Ms Doreen Y F Lee *(Vice Chairman)***
**Ms Y T Leng *(Executive Director)***

***Finance***
**Mr K H Leung**

- responsible for business directions and operational efficiency of the business and corporate units under their respective management

#### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr Alexander S K Au**
**Mr Andrew J Seaton**
**Mr R Gareth Williams**
**Professor E K Yeoh**

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

### Company Secretary

Company Secretary, Mr Kevin C Y Hui, is a seasoned employee of the Company and is very familiar with the Company's state of affairs. He reports to Chairman and the Board directly. The main responsibility of Company Secretary is supervision of the Company's compliances with laws and regulations, for instances, the Listing Rules, the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong), the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the Companies Ordinance (Cap 622 of the Laws of Hong Kong) and the Codes on Takeovers and Mergers and Share Buy-backs.

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

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

### Directors' Meeting Attendance in 2017

Individual attendance records of our Directors at the Board Meeting held in October 2017 are set out below:

| | **Attendance** |
|---|---|
| Mr Stephen T H Ng, *Chairman & Managing Director* | 1/1 |
| Ms Doreen Y F Lee, *Vice Chairman* | 1/1 |
| Ms Y T Leng, *Executive Director* | 1/1 |
| Mr K H Leung | 1/1 |
| **Independent Non-executive Directors** | |
| Mr Alexander S K Au | 1/1 |
| Mr Andrew J Seaton | 1/1 |
| Mr R Gareth Williams | 1/1 |
| Professor E K Yeoh | 1/1 |

## Board Process

*Key Features of Board Process*

| | |
|---|---|
| Regular Meetings | • The Board held one meeting in 2017. Directors' attendance records are disclosed on page 78 of this report. At least four regular Board meetings will be held in each financial year as a general corporate practice.<br>• Directors may attend meetings in person, by phone or through other means of electronic communication in accordance with the Company's Amended and Restated Articles of Association. |
| Meeting Notice | • One-month formal notice would be given before each regular meeting and reasonable notices are given for all other ad hoc meetings. |
| Meeting Agenda | • All Directors are consulted as to whether they may want to include any matter in the agenda for each Board meeting.<br>• Board papers are circulated not less than three days before Board meetings to enable the Directors to make informed decisions on matters to be raised at Board meetings. |
| Important Decisions | • Important matters are decided by Directors at Directors' meetings, or on some exceptional occasions, dealt with by way of written resolutions so that all Directors (including INEDs) can note and comment, as appropriate, the matters before approval is granted. |
| Board and Board Committee Minutes / Written Resolutions | • Company Secretary prepares minutes and/or written resolutions and records matters discussed and decisions resolved by the Board and Board Committee.<br>• Board and Board Committee meeting minutes are sent to all Directors and Board Committee members respectively for comments and record, and final version thereof are put on record within a reasonable time after each Board and Board Committee meeting.<br>• Board and Board Committee minutes and resolutions are available for inspection by all Directors/ Board Committee members.<br>• Minutes record in sufficient detail of the matters considered by the Board/Board Committees and decisions reached. |
| Supply of and Access to Information | • Company Secretary and the Group Financial Controller attend all regular Board meetings to advise on corporate governance, statutory compliance, and accounting and financial matters, as appropriate.<br>• Communications between Directors on the one hand, and Company Secretary, who acts as co-ordinator for the business units of the Group on the other, is a dynamic and interactive process to ensure that queries raised and clarification sought by the Directors are dealt with and that further supporting information is provided if appropriate. |
| Independent Professional Advice | • Company Secretary can arrange independent professional advice at the expense of the Company should such advice be considered necessary by any Director. |
| Conflicts of Interests | • Directors are required to declare their direct/indirect interests, if any, in any proposed transaction, arrangement or contract to be considered by the Board pursuant to the applicable laws and rules, including the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and the Company's Amended and Restated Articles of Associations and, where appropriate, Directors who are interested are required to abstain from voting on the proposed transaction, arrangement or contract. |
| Indemnification and Insurance | • The Company has arranged appropriate insurance cover of Directors' and Officers' liability. |

### Board Committees

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

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

**BOARD OF DIRECTORS**

**AUDIT COMMITTEE**

Three members
(All being INEDs):

- Mr Alexander S K Au (Chairman)
- Mr R Gareth Williams
- Professor E K Yeoh

Roles:
To monitor and review the Company's financial information and oversee the financial reporting mechanism, risk management and internal control systems, as well as corporate governance matters. To communicate with external auditors for ensuring their independence and audit effectiveness.

**REMUNERATION COMMITTEE**

Three members
(Majority being INEDs):

- Mr Alexander S K Au (Chairman)
- Mr Stephen T H Ng
- Mr Andrew J Seaton

Roles:
To make recommendations to the Board on the Company's policy and structure for the remuneration of Directors and Senior Management, and review the specific remuneration packages of all Executive Directors and Senior Management by reference to corporate goals and objectives resolved by the Board from time to time.

**NOMINATION COMMITTEE**

Three members
(Majority being INEDs):

- Mr Stephen T H Ng (Chairman)
- Mr Alexander S K Au
- Professor E K Yeoh

Roles:
To provide recommendations to the Board in respect of the board composition, nomination of candidates for directorship, appointment and re-appointment of directors, assessment of the independence.

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

## Summary of Works Performed by the Board Committees in 2017

### Audit Committee

- Audit Committee was established in October 2017
- No Audit Committee meeting in 2017
- Audit Committee has the following delegated authorities and responsibilities:
  - Review of the annual audit plan of external auditors
  - Approval of the remuneration and terms of engagement of external auditors
  - Review of external auditors' independence and objectivity and the effectiveness of audit process in accordance with applicable standards
  - Review of the quarterly, interim and annual financial statements before submission to the Board, with particular consideration of the duties of Audit Committee
  - Review of the audit programme of and work done by internal auditors
  - Review on the effectiveness of the Group's financial controls, risk management and internal control systems with the support of Risk Management and Internal Control Committee and internal auditors
  - Meeting with external auditors without presence of executive Board members or the management
  - Review of whistle-blowing cases and relevant investigation results
  - Review of corporate governance matters and the relevant reports of the Group
  - Review of and monitoring the Group's compliance with legal and regulatory requirements
  - Recommendation to the Board for the reappointment of external auditor

### Remuneration Committee

- Remuneration Committee was established in October 2017
- No Remuneration Committee meeting in 2017
- Remuneration Committee has the following delegated authorities and responsibilities:
  - Review of the Company's policy and structure for all remuneration of Directors and Senior Management
  - Consideration and approval of the emoluments for all Directors and Senior Management
  - Review of the level of fees for Directors and Audit Committee members
  - Review of the list of emoluments for Directors to be disclosed in annual report

### Nomination Committee

- Nomination Committee was established in October 2017
- No Nomination Committee meeting in 2017

## ACCOUNTABILITY AND AUDIT

### Financial Reporting

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

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

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

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

Directors are satisfied with the Group's performance on the basis that the Company generates or preserves value over the longer term and delivers the Company's objectives through its business model as discussed under Corporate Overview on pages 5 to 8.

### External Auditors

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

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

1. Audit services of the Company and its subsidiaries (both incorporated in Hong Kong and other jurisdictions);
2. Checking the accuracy of extraction of the financial information in the preliminary announcement of annual results;
3. Attendance of 2018 AGM; and
4. Reporting on continuing connected transactions.

The remuneration paid/payable to the Auditors of the Company in respect of audit services and non-audit services for the period under review are set out below:

| | **Fee paid/payable** (HK$ Million) |
|---|---|
| **Type of Services:** | **2017** |
| Audit services | **16** |
| Non-audit services | **2** |
| **Total** | **18** |

The Audit Committee was satisfied with KPMG's work and recommended to the Board that, subject to Shareholders' approval at the forthcoming Annual General Meeting, KPMG be re-appointed as the Company's Auditors for 2018.

The statement by the Auditors regarding its reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 102 to 104.

# RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

## Risk Governance Structure

The Board has overall responsibilities for the Group's risk management and internal control systems to safeguard the interests of the Company and its Shareholders as a whole. To this end, the Board oversees and approves the Group's risk management and internal control strategies and policies, which are aimed at evaluating and determining the nature and extent of the risks that are compatible with the Group's strategic objectives and risk appetite, with the main purpose of providing of reasonable assurance against material misstatement or loss rather than absolute elimination of the risk of failure to achieve business objectives.

Reporting to the Board, the Audit Committee is delegated with the authority and responsibility for ongoing monitoring and evaluation of the effectiveness of the relevant systems, with assistance of the Risk Management and Internal Control Committee.

### *Risk Management and Internal Control Committee ("RMICC")*

RMICC was established in January 2018. RMICC plays a central role in the on-going management of the Group's risk management and internal control systems, with the following features:

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

### *Internal Control functions*

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

| | |
|---|---|
| ***DRMICCs*** | • set up at the level of business and corporate units as divisional advisory bodies with composition of the respective key management staff together with those charged with the internal control functions<br>• responsible for the identification and reporting of functional risk, and the ongoing supervision and monitoring of the risk management and internal control systems<br>• entrusted with implementation of the Group's control policies and on-going assessment of control activities in the relevant business units |
| ***Finance Committee*** | establish financing strategy and policies with reference to risk assessment formulate externally and internally and cash flow placing as well as the centralised treasury functions |
| ***Internal Audit Department*** | monitoring compliance with group policies and standards, and review of the effectiveness of internal control measures of business and corporate units |
| ***Financial Audit Department*** | scrutiny on leasing activities and expenditure proposals |
| ***Project Cost Audit Department*** | auditing on tendering and contract relating to construction works |
| ***CSR Steering Committee*** | alignment of business development with Corporate Social Responsibility goals and commitments |

## Practices and Processes

With diversified range of business activities, the Group is operating in dynamic environments with varying risk exposures. Risk management and internal controls within the Group are not just serial processes but dynamic and integrated operations embedded in the day-to-day routines with the primary ownership vested on the respective business and corporate units under stewardship residing with the Board.

Areas of responsibility of each operational unit are clearly defined with specific limits of authority in place to ensure effective checks and balances. Procedures have been designed for safeguarding assets against unauthorised use or disposition, maintenance of proper accounting records, assurance of the reliability of financial information for internal use or publication and compliance with relevant legislation and regulations. Risk management system, internal control measures and procedures are continuously under review and being improved where necessary in response to changes in business, operating and regulatory environments.

## Whistleblowing System

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

## Periodical Reviews

Under the leadership of RMICC, system reviews in a comprehensive approach on the basis of COSO (Committee of Sponsoring Organizations of the Treadway Commission) framework are conducted throughout the Group at least annually. Each business unit, through the co-ordination of DRMICCs, makes a self-assessment by a process as illustrated in the following flow diagram.


DRMICCs report on their reviews and findings, with the conclusions as to the effectiveness of the risk management and control activities of each individual business unit, while RMICC will draw an overall review and conclusion for reporting to Audit Committee and the Board. Such reviewing exercise is carried out on a regular basis and affords good opportunities for the Group to identify and prioritise risks, and to develop and manage appropriate measures to control risks within acceptable levels and with a greater focus on anti-fraud measures.

## Annual Confirmation

RMICC and DRMICCs conducted in 2017 a review of the effectiveness of the Group's risk management and internal control systems and procedures covering all controls, including financial, operational and compliance and risk management, and the adequacy of, *inter alia*, resources, qualifications, experience and training of staff of the Company's accounting, internal audit and financial reporting function. Confirmations from management in the form of certification that risk management and internal control procedures are functioning effectively to meet the respective financial reporting, operational and compliance needs, are submitted by business and corporate unit heads to RMICC for consolidation and reporting to Audit Committee.

Based on the result of the review as reported by Audit Committee, in respect of the period under review, Directors considered that the risk management and internal control systems and procedures of the Group were effective and adequate, and the Group has duly complied with the requirements under the Corporate Governance Code relating to the risk management and internal control.

A discussion on the principal risks and uncertainties encountered by the Group are set out on page 100 in the Directors' Report.

## Inside Information Policy

The Company recognises the significance of consistent practices of fair disclosure with the aim of disclosing inside information in a timely and accurate manner.

The Company has a policy with regard to the principles and procedures for handling and disseminating the Company's inside information in compliance with the requirements under Part XIVA of the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong) and the Listing Rules, and such policy has been communicated to the relevant senior executives of the Group. Company Secretary works closely with the senior executives in identifying potential inside information and assess the materiality thereof, and where appropriate, to escalate such information for the attention of the Board to resolve on further action(s) complying with the applicable laws and regulations.

In prevention of premature leakage of inside information, the Company has taken all reasonable measures from time to time to ensure proper preservation of confidentiality of inside information until disclosure to the general public, including *inter alia*:-

- restrictive access to inside information to a limited number of employees on a need-to-know basis
- appropriate confidentiality agreements are put in place when entering into any significant negotiations
- inclusion of a strict prohibition on the unauthorised use or disclosure of inside information in Employee Code of Conduct
- An Insider Dealing Circular is issued to all employees annually reminding their duties and obligations in respect of any dealings in the listed securities of the Company as well as its subsidiaries and associated corporations

## COMMUNICATION WITH SHAREHOLDERS

The Board recognises the importance of constructive and transparent communication with Shareholders and investors and believes that Shareholders' value can be enhanced by continuous and effective dialogue with its stakeholders. The Company is committed to a fair and timely disclosure of key information of the Group to facilitate Shareholders and investment community to make investment decisions. Corporate information including but not limited to annual and interim reports, announcements, presentation materials and press releases are available on the websites of the Company and the Stock Exchange.

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


### 2018 Annual General Meeting

The forthcoming AGM will be held on 9 May 2018. All Shareholders are encouraged to attend and to vote on all resolutions to be proposed at the AGM. Details of resolutions to be proposed at the 2018 AGM are set out in the circular which will be despatched together with this annual report. Relevant notice of AGM and proxy form will be available on the websites of the Company and the Stock Exchange.

### Voting

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

(a) All resolutions (other than procedural or administrative matter) put to Shareholders in general meetings are voted by way of a poll. The circulars and notices of general meetings set out voting to be carried out by way of a poll.
(b) Chairman or Company Secretary explains the procedures for voting by poll to Shareholders and answer any questions from Shareholders before a poll is required to be conducted at the meetings.
(c) The Company ensures that votes cast are properly counted and recorded. Independent scrutineer, the Company's Hong Kong Branch Share Registrar, is appointed to count the number of votes cast at general meetings.
(d) Poll results are announced on the same day and also published on the Company's website not later than the business day following the general meetings.

## Shareholders’ Rights

### *(a) Convene an Extraordinary General Meeting*

Pursuant to the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and Article 58 of the Company’s Amended and Restated Articles of Associations, on written requisition by Shareholders representing not less than one-tenth of the paid up capital of the Company carrying the right of voting at the general meetings, Directors must convene an extraordinary general meeting.

### *(b) Send Enquiries to the Board*

Shareholders may at any time address their enquiries to the Board through the Company’s email address (for enquiry purpose only), postal address, fax number and telephone number, which are set out on page 2 of this annual report and the Company’s corporate website (www.wharfreic.com).

### *(c) Make Proposals at General Meetings*

(i) The procedures for proposing candidate(s) for election as Director(s) at a Shareholders’ meeting are set out in the Corporate Governance section of the Company’s corporate website.

(ii) The procedures for proposing resolution(s) to be moved at the Company’s annual general meeting(s) are as follows:

Pursuant to Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and Article 85 of the Company’s Amended and Restated Articles of Associations, Shareholder(s) can submit a written requisition to move a resolution at the Company’s annual general meeting(s) if they represent:

- at least 2.5% of the total voting rights of all Shareholders who have a right to vote at the annual general meeting to which the requests relate; or
- at least 50 members who have a right to vote on the resolution at the annual general meeting to which the requests relate.

(1) A notice of their intention to propose such person for election and also a notice signed by the person to be proposed of his willingness to be elected shall be lodged with Company Secretary at the Head Office (16th Floor, Ocean Centre, Harbour City, Canton Road, Kowloon, Hong Kong) or at the Registration Office (Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong); and

(2) The minimum length of the period, during which such notice(s) are given, shall be at least seven days and the period for lodgement of such notice(s) shall commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting.

## Constitutional Documents

Prior to the Listing, the Memorandum of Association and the Articles of Association of the Company were amended and restated on 24 October 2017 to align with those requirements under the Listing Rules applicable to Cayman companies publicly listed in Hong Kong. Shareholders’ rights are set out in the Amended and Restated Articles of Association of the Company which is available on the Company’s website.

# DIRECTORS' REPORT

The Board of Directors has pleasure in submitting their Report and the Audited Financial Statements for the financial year ended 31 December 2017.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding encompassing *inter alia* ownership of premium quality properties for investment purposes in prime locations in Hong Kong. Principal activities of the principal subsidiaries are set out on pages 158 to 159.

## LISTING OF THE COMPANY

The Company was formerly wholly-owned by The Wharf (Holdings) Limited ("Wharf"). In July 2017, Wharf submitted a proposal to The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in accordance with Practice Note 15 of the Rules (the "Listing Rules") Governing the Listing of Securities on the Stock Exchange to demerge the Company for a separate listing by way of introduction. The proposal was approved by the Stock Exchange in August 2017.

In September 2017, the Company submitted a listing application form (Form A1) to and was subsequently approved by the Stock Exchange to list by way of introduction of and permission to deal in the ordinary shares of HK$0.10 each of the Company ("Wharf REIC Shares") on the Main Board of the Stock Exchange ("Main Board").

The spin-off and separate listing of the Company was implemented by distribution in specie as a special interim dividend by Wharf to its shareholders on basis of one Wharf REIC Share for every one Wharf share held as at 20 November 2017 (the "Distribution"). Upon completion of the Distribution, the Company becomes publicly listed on the Main Board under stock code 1997 (the "Listing") on 23 November 2017 (the "Listing Date").

Thereafter, Wharf has retained no interest in the issued share capital of the Company and the Company is no longer a subsidiary of Wharf, but remains as a 62%-owned subsidiary of Wheelock and Company Limited ("Wheelock").

## BUSINESS REVIEW

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

- Corporate Overview (pages 5 to 8) and the Business Model as discussed therein
- Chairman's Statement (pages 9 to 13)
- Business Review (pages 16 to 53)
- Financial Highlights (pages 14 to 15) and Financial Review (pages 68 to 71)
- Principal Risks and Uncertainties (page 100)
- Events after the reporting period — Note 29 to the consolidated financial statements (page 142)

In addition, the Group's policies and performance in the area of environmental, social and governance, and compliance with relevant laws and regulations are discussed in the sub-section headed "(K) Environmental, Social and Governance" on page 101.

## RESULTS AND APPROPRIATIONS

The results of the Group for the financial year ended 31 December 2017 are set out in the Consolidated Statement of Profit or Loss and Consolidated Statement of Comprehensive Income on pages 105 to 106.

Appropriations of profits during the financial year are set out in the Consolidated Statement of Change in Equity on page 108.

## DIVIDENDS

An interim dividend of HK$0.95 per share will be paid on 24 April 2018 to Shareholders on record as at 6:00 pm on 9 April 2018. The distribution will amount to HK$2,884 million, representing 65% of realised recurrent profit from IP in Hong Kong for second half of 2017.

## DONATIONS

The Group made donations during the financial year totalling HK$33 million.

## SHARE CAPITAL

During the financial year, the Company has issued and cancelled Wharf REIC Shares as follows:

(a) 1 Wharf REIC Share was allotted and issued to the subscriber to the Memorandum of Association of the Company and was thereafter transferred to Wharf, fully paid, at the incorporation of the Company;

(b) 1 Wharf REIC Share was allotted and issued to Wharf, fully paid, as part of the reorganisation in preparation of the Listing;

(c) An aggregate of 3,036,227,327 Wharf REIC Shares, fully paid, were allotted and issued to the qualifying shareholders of Wharf and the designated nominee of the excluded shareholders of Wharf (where applicable) pursuant to the Distribution; and

(d) 2 Wharf REIC Shares (stated in paragraphs (a) and (b) above) were surrendered by Wharf to the Company for cancellation at no consideration prior to the Listing.

Details of movement in share capital of the Company during the financial year are set out in Note 22 to the Financial Statements on page 136.

## EQUITY-LINKED AGREEMENT

No equity-linked agreement which may result in the Company issuing shares was entered into or existed during the financial year.

## DIRECTORS

Directors of the Company during the financial year and up to the date of this Report were Mr Stephen T H Ng, Ms Doreen Y F Lee, Ms Y T Leng, Mr K H Leung, Mr Paul Y C Tsui (resigned on 9 August 2017), Mr Kevin C Y Hui (resigned on 9 August 2017), Mr Alexander S K Au, Mr Andrew J Seaton, Mr R Gareth Williams and Professor E K Yeoh.

All Directors will retire from the Board in accordance with the Company's Amended and Restated Articles of Association at the forthcoming Annual General Meeting ("AGM"). The retiring Directors, being eligible, offer themselves for re-election. None of the retiring Directors proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

## INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transaction, arrangement or contract of significance in relation to the Company's business to which any subsidiaries of the Company, the ultimate holding company of the Company or any subsidiary of such ultimate holding company was a party and in which a Director or any connected entities of a Director had a material interest, whether directly or indirectly, subsisted at the end of the financial year or at any time during that financial year.

## MANAGEMENT CONTRACTS

No contract for the management and administration of the whole or any substantial part of any business of the Company were entered into or existed during the financial year.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the financial year was the Company, its subsidiaries or its ultimate holding company or any subsidiary of such ultimate holding company a party to any arrangement to enable Directors to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate, with the exception that during the year, there existed certain outstanding options to subscribe for ordinary shares of Wharf, the Company's fellow subsidiary, granted under Wharf's share option scheme to certain employees/directors of companies in Wharf group, some of whom were Directors of the Company during the financial year.

Under the rules of Wharf's share option scheme (such rules being subject to the relevant laws and rules applicable from time to time), shares of Wharf would be issued at such prices as being not less than the highest of (a) the indicative price as specified in the written offer; (b) the closing price on the Stock Exchange on the date of grant of the options; and (c) the average closing price on the Stock Exchange for the five trading days immediately preceding the date of grant; and the relevant options would be exercisable during such periods, not being beyond the expiration of 10 years from the date of grant of relevant options, as determined by the board of directors of Wharf.

During the financial year, a total of 2,800,000 shares of Wharf were allotted and issued to three Directors of the Company, namely Mr Stephen T H Ng, Ms Doreen Y F Lee and Ms Y T Leng under Wharf's share option scheme, relevant details of which are set out on pages 95 to 96.

## PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Amended and Restated Articles of Association, every Director is entitled to be indemnified out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses, which he/she may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of his/her duty, or supposed duty, in his/her respective offices or trusts, to the extent as permitted by laws.

The Company has, together with its holding company (Wheelock), a listed subsidiary (Harbour Centre Development Limited) and a listed fellow subsidiary (Wharf), maintained directors' liability insurance which has been in force throughout the financial year and up to the date of this report to provide appropriate insurance cover for directors of their respective group companies, including *inter alia* the Directors.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Amended and Restated Articles of Association, or the laws of Cayman Islands, which would oblige the Company to offer new shares on pro-rata basis to existing shareholders.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

## AUDITORS

The Financial Statements now presented have been audited by KPMG, Certified Public Accountants, who retire and being eligible, offer themselves for re-appointment.

## OTHER CORPORATE INFORMATION

Other corporate information supplementary to this Directors' Report are set out on pages 92 to 101.

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

Hong Kong, 5 March 2018

## OTHER CORPORATE INFORMATION

### (A) Biographical Details of Directors and Senior Managers

#### *(i) Directors*

**Mr Stephen Tin Hoi Ng,** *Chairman & Managing Director* (Age: 65)
Mr Ng has been Chairman and Managing Director of the Company since 2017. He also serves as chairman of Nomination Committee and a member of Remuneration Committee. Mr Ng performs a leadership role in monitoring and evaluating the Group's business, and is primarily responsible for the overall strategic planning and major decision making for the Group.

Mr Ng is deputy chairman of Wheelock and Company Limited ("Wheelock"), publicly listed holding company of the Company, chairman and managing director of The Wharf (Holdings) Limited ("Wharf") and chairman of Wheelock Properties (Singapore) Limited, both publicly listed fellow subsidiaries of the Company. Among other subsidiaries of the Company of which he serves as a director, he is chairman of publicly listed Harbour Centre Development Limited ("HCDL"). Furthermore, he is non-executive chairman of publicly listed Joyce Boutique Holdings Limited ("JBHL") as well as a non-executive director of Hotel Properties Limited, publicly listed associate of Wheelock. He formerly served as chairman and chief executive officer of publicly listed i-CABLE Communications Limited until his resignation in September 2017 and a non-executive director of publicly listed Greentown China Holdings Limited until his resignation in March 2015.

Mr Ng was born in Hong Kong in 1952 and grew up in Hong Kong. He attended Ripon College in Ripon, Wisconsin, USA and the University of Bonn, Germany, from 1971 to 1975, and graduated with a major in mathematics. He is chairman of Project *WeCan* Committee, chairman of Hong Kong General Chamber of Commerce, and a council member of both Employers' Federation of Hong Kong and Hong Kong Trade Development Council.

Under the existing service contract between the Group and Mr Ng, his basic salary and various allowances for the year 2018, calculated on an annualised basis, would be approximately HK$3.35 million (2017: HK$1.34 million) per annum.

**Ms Doreen Yuk Fong Lee,** *Vice Chairman* (Age: 61)
Ms Lee has been Vice Chairman of the Company since 2017. She is also vice chairman of Wharf. Among other subsidiaries of the Company of which she serves as a director, she is chairman and senior managing director of Wharf Estates Limited and Wharf China Estates Limited with primary responsibility for overseeing the Group's portfolio of investment properties in Hong Kong and Mainland China. She is also a non-executive director of JBHL. She was formerly a non-executive director of HCDL from 2010 to 2012.

Ms Lee obtained a bachelor's degree in Arts (Hon) from The University of Hong Kong in 1978.

Under the existing service contract between the Group and Ms Lee, her basic salary and various allowances for the year 2018, calculated on an annualised basis, would be approximately HK$4.80 million (2017: HK$4.61 million) per annum.

**Ms Yen Thean Leng,** *Executive Director* (Age: 46)
Ms Leng, *BSc(Hons), MRICS, MHKIS, RPS*, joined the Company in 2017 and was appointed as an Executive Director. Among other subsidiaries of the Company of which she serves as a director, she is an executive director of Wharf Estates Limited with primary responsibility for managing the Group's core investment properties in Hong Kong, namely Harbour City, Times Square and Plaza Hollywood.

Ms Leng has extensive experience in the real estate industry, in particular, leasing and management of large scale commercial and retail properties, and the planning, design and development of property projects in Hong Kong. She was formerly a director of HCDL from 2012 to 2013 and of Wharf from 2013 to 2017. Ms Leng is a chartered surveyor and holds a Bachelor Degree in Land Management with first class honours.

Under the existing service contract between the Group and Ms Leng, her basic salary and various allowances for the year 2018, calculated on an annualised basis, would be approximately HK$4.50 million (2017: HK$4.01 million) per annum.

**Mr Kai Hang Leung,** *Director* (Age: 73)
Mr Leung has been a Director of the Company since 2017. He has also been the group treasurer of Wheelock group and Wharf group since 2007.

Mr Leung joined Wharf group in 1983, where he was primarily responsible for finance and treasury. He served on the board of Wheelock as finance director from 1992 to 2002, and was formerly a director of Wharf from 1998 to 2002. He rejoined Wharf group in 2007.

Mr Leung obtained a bachelor's degree and postgraduate diploma in social work from The University of Hong Kong in 1967 and 1968, respectively.

Under the existing service contract between the Group and Mr Leung, his basic salary and various allowances for the year 2018, calculated on an annualised basis, would be approximately HK$1.12 million (2017: HK$0.42 million) per annum.

**Mr Alexander Siu Kee Au,** *OBE, Director* (Age: 71)
Mr Au, *FCA, FCCA, FCPA, AAIA, FCIB, FHKIB*, has been an Independent Non-executive Director ("INED") of the Company since 2017. He also serves as chairman of each of Audit Committee and Remuneration Committee as well as a member of Nomination Committee.

A banker by profession, Mr Au was the chief executive officer of Hang Seng Bank Limited from 1993 to 1998 and of Oversea-Chinese Banking Corporation Limited in Singapore from 1998 to 2002. Currently, Mr Au is the chairman and non-executive director of Henderson Sunlight Asset Management Limited, manager of the publicly-listed Sunlight Real Estate Investment Trust. He is an INED of Henderson Investment Limited, and a non-executive director of two other companies, namely Hong Kong Ferry (Holdings) Company Limited and Miramar Hotel and Investment Company, Limited, all publicly listed in Hong Kong. Mr Au was formerly an INED of Wheelock from 2002 to 2012, of Wharf from 2012 to 2017, and of Henderson Land Development Company Limited from 2012 to 2015, all being publicly listed in Hong Kong. Mr Au is a member of the Finance Committee of The Independent Schools Foundation Limited.

An accountant by training, Mr Au is a Chartered Accountant as well as 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.

**Mr Andrew James Seaton,** *Director* (Age: 63)
Mr Seaton has been an INED of the Company since 2017. He also serves as a member of Remuneration Committee.

Mr Seaton has been the Executive Director of the British Chamber of Commerce in Hong Kong, one of Hong Kong's largest international business bodies, since April 2015. He leads the work of the Chamber, with responsibility for its overall strategy and management, its financial status and staffing.

Mr Seaton was formerly a member of the United Kingdom Diplomatic Service, from 1977 to 2013, during which his responsibilities focused mainly on the United Kingdom's relations with China and Hong Kong. He was a member of the British Embassy in Beijing and of the British Trade Commission from 1982 to 1986; and served as Deputy Consul General in Hong Kong from 1997 to 2000. He subsequently acted as the Head of China Department of the United Kingdom Foreign and Commonwealth Office from 2000 to 2003, providing policy advice on the United Kingdom's relations with and strategy towards China and Hong Kong. Mr Seaton served as Her Majesty's Consul General to Hong Kong and Macau from 2008 to 2012. He also served in the British Embassy Dakar from 1979 to 1981 and as Her Majesty's Consul General in Chicago from 2003 to 2007.

Mr Seaton was educated at the University of Leeds, the United Kingdom, where he obtained a Bachelor's Degree (first class honours) in Chinese Studies in July 1977. He attended the Beijing Foreign Language Institute (now known as Beijing Language and Culture University) as an exchange student from September 1975 to February 1976 and Peking University as an exchange scholar from March 1976 to July 1976.

**Mr Richard Gareth Williams,** *Director* (Age: 70)
Mr Williams has been an INED of the Company since 2017. He also serves as a member of the Audit Committee.

Mr Williams has over 40 years of experience in the areas of property valuation and estate agency. He is the principal of Gareth Williams & Associates, which was established in January 2006 and is principally engaged in property valuation and estate agency, where he is primarily responsible for specialist property valuation and acquisitions and disposal of investment properties. He is currently an INED of IBI Group Holdings Limited, a publicly listed company in Hong Kong.

Mr Williams was a property investment director of Wheelock Properties (Hong Kong) Limited, a subsidiary of Wheelock, from 2004 to 2006 where he was responsible for overseeing the property services business, and was formerly its INED until November 2017. From 2002 to 2004, he worked as the chief executive of the Hong Kong office of Knight Frank Asia Pacific Pte. Ltd., where he was responsible for its overall management. From 1979 to 2002, Mr Williams worked for Vigers Hong Kong Limited, with his last position as the chairman and chief executive officer, where he was primarily responsible for provision of property valuation and estate agency services. From 1976 to 1979, Mr Williams served as rating and valuation surveyor at the Rating and Valuation Department of the Hong Kong government.

Mr Williams has been certified as a fellow of the Royal Institution of Chartered Surveyors in the United Kingdom and as a fellow of the Hong Kong Institute of Surveyors since June 1984 and December 1984 respectively. He was admitted as a member of the Chartered Institute of Arbitrators and a practising member of The Academy of Experts, both based in the United Kingdom, in December 1999 and April 2009 respectively. Mr Williams has also been registered as a Registered Professional Surveyor (General Practice) with the Surveyors Registration Board in Hong Kong since 1 January 1993.

**Professor Eng Kiong Yeoh,** *GBS, OBE, JP, Director* (Age: 71)
Professor Yeoh, *MBBS(HK), FHKAM, FHKCCM, FHKCP, FFPHM(UK), FRCP(Edin), FRCP(Lond), FRCP(Glasg), FRACMA, FRACP*, has been an INED of the Company since 2017. He also serves as a member of each of Audit Committee and Nomination Committee.

Professor Yeoh obtained bachelor's degrees in medicine and surgery from The University of Hong Kong in October 1971. He is a Professor of Public Health, a director at the Jockey Club School of Public Health and Primary Care of The Chinese University of Hong Kong and also Head of Division of Health System, Policy and Management at the Jockey Club School of Public Health and Primary Care. His research is in health systems, services and policy with an interest in applying systems thinking in studying how the complex components of health systems interact and interrelate to improve health.

Professor Yeoh served as Secretary for Health, Welfare and Food of the Hong Kong government between 1999 and 2004. He was the director of operations from 1990 to 1993 and chief executive from 1994 to 1999 of the Hong Kong Hospital Authority with responsibility for the management and transformation of the public hospital system. Professor Yeoh was formerly an INED of Wharf from 2012 to 2017.

Professor Yeoh is a member of the Research Council of the Food and Health Bureau and a co-chairperson of Grant Review Board Executive of the Health and Medical Research Fund, Food and Health Bureau of the Hong Kong government. Professor Yeoh was appointed a Justice of the Peace (non-official) in 1995. In 2005, he was awarded the Gold Bauhinia Star Medal by the Hong Kong government in recognition of his public service.

*Notes: Wheelock (of which Mr Stephen T H Ng is a director) has interests in the share capital of the Company discloseable to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (the "SFO").*

### *(ii) Senior Management*

For the purpose of this report, only those individuals with responsibilities under the immediate authority of the Board for the conduct of business of the Group are regarded as members of the Group's senior management, comprising the first four Directors named under (A)(i) above.

## (B) Directors' Interests in Securities

### *(i) Interests in Shares*

At 31 December 2017, Directors of the Company had the following beneficial interests, all being long positions, in the shares of the Company, Wheelock (the Company's parent company) and Wharf (the Company's fellow subsidiary). The percentages (where applicable) which the relevant shares represented to the respective number of shares in issue of the three companies are also set out below:

| | **Quantity held** (percentage, where applicable) | **Nature of Interest** |
|---|---|---|
| **The Company** | | |
| Stephen T H Ng | 1,009,445 (0.0332%) | Personal Interest |
| Alexander S K Au | 100,000 (0.0033%) | Personal Interest |
| E K Yeoh | 20,000 (0.0007%) | Personal Interest |
| **Wheelock** | | |
| Stephen T H Ng | 176,000 (0.0086%) | Personal Interest |
| **Wharf** | | |
| Stephen T H Ng | 9,445 (0.0003%) | Personal Interest |
| Alexander S K Au | 100,000 (0.0033%) | Personal Interest |
| E K Yeoh | 20,000 (0.0007%) | Personal Interest |

*Notes: The interests in shares disclosed above do not include interests in share options of the Company's associated corporation(s) held by Directors as at 31 December 2017. Details of such interests in share options are separately set out below under the sub-section headed "(ii) Interests in Share Options of Wharf".*

### *(ii) Interests in Share Options of Wharf*

Set out below are particulars of interests (being personal interests) in options held by Directors of the Company during the financial year ended 31 December 2017 to subscribe for ordinary shares of Wharf granted/exercisable under the share option scheme of Wharf:

| | | | No. of Wharf's shares under option | | | | |
|---|---|---|---|---|---|---|---|
| **Name of Director** | **Total no. as at 31 December 2017** (percentage based on no. of shares in issue) | **Date of grant** *(Day/Month/Year)* | **As at 1 January 2017** | **Exercised during the year** | **As at 31 December 2017** | **Subscription price per share** *(HK$)* | **Vesting/Exercise period** *(Day/Month/Year)* |
| Stephen T H Ng | 5,000,000 (0.16%) | 05/06/2013 | 400,000 | (400,000) | – | 23.83 | 06/06/2013 – 05/06/2018 |
| | | | 400,000 | (400,000) | – | | 06/06/2014 – 05/06/2018 |
| | | | 400,000 | (200,000) | 200,000 | | 06/06/2015 – 05/06/2018 |
| | | | 400,000 | – | 400,000 | | 06/06/2016 – 05/06/2018 |
| | | | 400,000 | – | 400,000 | | 06/06/2017 – 05/06/2018 |
| | | Sub-total | 2,000,000 | (1,000,000) | 1,000,000 | | |
| | | 07/07/2016 | 1,000,000 | (1,000,000) | – | 15.92 | 08/07/2016 – 07/07/2021 |
| | | | 1,000,000 | – | 1,000,000 | | 08/07/2017 – 07/07/2021 |
| | | | 1,000,000 | – | 1,000,000 | | 08/07/2018 – 07/07/2021 |
| | | | 1,000,000 | – | 1,000,000 | | 08/07/2019 – 07/07/2021 |
| | | | 1,000,000 | – | 1,000,000 | | 08/07/2020 – 07/07/2021 |
| | | Sub-total | 5,000,000 | (1,000,000) | 4,000,000 | | |

| Name of Director | Total no. as at 31 December 2017 (percentage based on no. of shares in issue) | Date of grant (Day/Month/Year) | No. of Wharf's shares under option: As at 1 January 2017 | Exercised during the year | As at 31 December 2017 | Subscription price per share (HK$) | Vesting/Exercise period (Day/Month/Year) |
|---|---|---|---|---|---|---|---|
| Doreen Y F Lee | 3,800,000 (0.13%) | 05/06/2013 | 400,000 | – | 400,000 | 23.83 | 06/06/2013 – 05/06/2018 |
| | | | 400,000 | – | 400,000 | | 06/06/2014 – 05/06/2018 |
| | | | 400,000 | – | 400,000 | | 06/06/2015 – 05/06/2018 |
| | | | 400,000 | – | 400,000 | | 06/06/2016 – 05/06/2018 |
| | | | 400,000 | – | 400,000 | | 06/06/2017 – 05/06/2018 |
| | | Sub-total | 2,000,000 | – | 2,000,000 | | |
| | | 07/07/2016 | 600,000 | (600,000) | – | 15.92 | 08/07/2017 – 07/07/2021 |
| | | | 600,000 | – | 600,000 | | 08/07/2018 – 07/07/2021 |
| | | | 600,000 | – | 600,000 | | 08/07/2019 – 07/07/2021 |
| | | | 600,000 | – | 600,000 | | 08/07/2020 – 07/07/2021 |
| | | Sub-total | 2,400,000 | (600,000) | 1,800,000 | | |
| Y T Leng | 1,350,000 (0.04%) | 05/06/2013 | 150,000 | – | 150,000 | 23.83 | 06/06/2013 – 05/06/2018 |
| | | | 150,000 | – | 150,000 | | 06/06/2014 – 05/06/2018 |
| | | | 150,000 | – | 150,000 | | 06/06/2015 – 05/06/2018 |
| | | | 150,000 | – | 150,000 | | 06/06/2016 – 05/06/2018 |
| | | | 150,000 | – | 150,000 | | 06/06/2017 – 05/06/2018 |
| | | Sub-total | 750,000 | – | 750,000 | | |
| | | 07/07/2016 | 200,000 | (200,000) | – | 15.92 | 08/07/2017 – 07/07/2021 |
| | | | 200,000 | – | 200,000 | | 08/07/2018 – 07/07/2021 |
| | | | 200,000 | – | 200,000 | | 08/07/2019 – 07/07/2021 |
| | | | 200,000 | – | 200,000 | | 08/07/2020 – 07/07/2021 |
| | | Sub-total | 800,000 | (200,000) | 600,000 | | |

*Notes:*

*(1) Following the Listing and the Distribution, the subscription prices applicable to Wharf's share options granted on 5 June 2013 and 7 July 2016 had been adjusted from HK$70.20 to HK$23.83 and from HK$46.90 to HK$15.92 respectively as a result of the Distribution with effect from 30 November 2017.*

*(2) Except as disclosed above, no Wharf's share option held by Directors of the Company lapsed or was exercised or cancelled during the financial year and no Wharf's share option was granted to any Director of the Company during the financial year.*

Except as disclosed above, as recorded in the register kept by the Company under section 352 of the SFO in respect of information required to be notified to the Company and the Stock Exchange by the Directors and/or Chief Executive of the Company pursuant to the SFO or the Model Code for Securities Transactions by Directors of Listed Issuers (or any other applicable code), there were no interests, whether long or short positions, held or deemed to be interested as at 31 December 2017 by any of Directors or Chief Executive of the Company in shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), nor had there been any rights to subscribe for any shares, underlying shares or debentures of the Company and its associated corporations held or deemed to be interested by any of them as at 31 December 2017.

## (C) Substantial Shareholders' Interests

Given below are the names of all parties, other than person(s) who is/are Director(s), who/which were, directly or indirectly, interested in 5% or more of any class of voting shares of the Company as at 31 December 2017, the respective relevant numbers of shares in which they were, and/or were deemed to be, interested as at that date as recorded in the register kept by the Company under section 336 of the SFO (the "Register"):

| Names | No. of Ordinary Shares (percentage based on number of shares in issue) |
|---|---|
| (i) Wheelock and Company Limited | 1,869,956,608 (61.59%) |
| (ii) HSBC Trustee (C.I.) Limited | 1,869,956,608 (61.59%) |

*Notes:*

*(1) For the avoidance of doubt and double counting, it should be noted that the shareholdings stated against parties (i) and (ii) represented the same block of shares.*

*(2) Wheelock's deemed shareholding interests stated above included interests held through its wholly-owned subsidiaries, namely Lynchpin Limited ("LL"), WF Investment Partners Limited ("WIPL"), High Fame Investments Limited ("HFIL") and Wheelock Investments Limited ("WIL"), with 253,779,072 shares (8.36%) being the deemed interests held by LL, 1,365,314,536 shares (44.97%) being the deemed interests held by WIPL, 250,863,000 shares (8.26%) being the deemed interests held by HFIL and 1,869,956,608 shares (61.59%) being the deemed interests held by WIL.*

All the interests stated above represented long positions. As at 31 December 2017, there were no short position interests recorded in the Register.

## (D) Retirement Benefits Schemes

The Group's principal retirement benefits schemes available to its Hong Kong employees are defined contribution schemes (including the Mandatory Provident Fund) which are administered by independent trustees. Both the Group and the employees contribute respectively to the schemes sums which represent a certain percentage of the employees' salaries. The contributions by the Group are expensed as incurred and may be reduced by contribution forfeited for those employees who have left the schemes prior to full vesting of the relevant employee's contribution.

The employees of the Group's subsidiaries in the PRC are members of the state-managed social insurance and housing funds operated by the Government of PRC. The PRC subsidiaries are required to contribute a certain percentage of payroll costs to the funds to fund the benefits. The only obligation of the Group with respect to the retirement benefits of PRC employees is to make the specified contributions.

## (E) Directors' Interests in Competing Business

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

Two Directors of the Company, namely Mr Stephen T H Ng and Ms Doreen Y F Lee, being directors of Wheelock and/or certain subsidiary(ies) and/or associate(s) of Wheelock ("Wheelock Group"), are considered as having an interest in Wheelock Group under Rule 8.10(2) of the Listing Rules.

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

For safeguarding the interests of the Group, the INEDs and Audit Committee of the Company would on a regular basis review the business and operational results of the Group to ensure, *inter alia*, that the Group's (i) property leasing businesses; and (ii) hotel businesses are and continue to be run at arm's length from those of the Wheelock Group.

## (F) Major Customers and Suppliers

For the financial year ended 31 December 2017:

(i) the aggregate amount of purchases (not including the purchases of items which are of a capital nature) attributable to the Group's five largest suppliers represented less than 30% of the Group's total purchases; and

(ii) the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30% of the Group's total turnover.

## (G) Debentures, Bank Loans Overdrafts and Other Borrowings

Particulars of any and all debentures, bank loans, overdrafts and/or other borrowings of the Company and of the Group as at 31 December 2017 which are repayable on demand or within a period not exceeding one year are set out in Note 17 to the Financial Statements on pages 129 and 130. Those which would fall due for repayment after a period of one year are particularised in Note 17 to the Financial Statements on pages 129 and 130.

## (H) Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this Report, the Company has maintained the prescribed public float under the Listing Rules throughout the financial year ended 31 December 2017.

## (I) Disclosure of Connected Transactions

Prior to the Listing, the Company and/or its subsidiaries (collectively, the "Group") have entered into certain transactions with parties who have become connected persons of the Company upon the completion of the Listing. Such pre-existing transactions have become continuing connected transactions of the Company under the Listing Rules following the completion of the Listing. In order to regulate these pre-existing transactions and any new continuing connected transactions to be entered into by the Group from time to time, the Company entered into various master agreements and framework agreements, particulars of which were previously disclosed in the listing document issued by the Company on 9 November 2017.

Set out below is information in relation to continuing connected transactions of the Group and is required under the Listing Rules to be disclosed in the Annual Report and Financial Statements of the Company.

### (i) Master Property Services Agreement

On 8 November 2017, the Company entered into a master property services agreement (the "Master Property Services Agreement") with Wheelock for a period from the Listing Date to 31 December 2019 for the purpose of, *inter alia,* governing the provision of property services comprising property project management services, property sales and marketing services, property management services and/or any other property related services in respect of the Group's investment properties by Wheelock group to the Group from time to time and stipulating, *inter alia*, the annual cap amount of remuneration payable by the Group to Wheelock group in relation thereto, which are fixed at HK$20 million, HK$162 million and HK$53 million for the two months ended 31 December 2017 and the financial years ending 31 December 2018 and 2019, respectively.

The aggregate annual amounts of remuneration under the Master Property Services Agreement, which is subject to the relevant annual cap amount as stated above, for the period from the Listing Date to 31 December 2017 amounted to HK$11 million.

### (ii) Master Hotel Services Agreement

On 8 November 2017, the Company entered into a master hotel services agreement (the "Master Hotel Services Agreement") with Wharf for a period from the Listing Date to 31 December 2019 for the purpose of, *inter alia,* governing the provision of hotel management services comprising management, marketing and technical services and/or any other services relating to the development and/or operation of hotels and/or serviced apartment property(ies) in respect of the Group's hotels by Wharf group to the Group from time to time and stipulating, *inter alia*, the annual cap amount of remuneration payable by the Group to Wharf group in relation thereto, which are fixed at HK$30 million, HK$135 million and HK$160 million for the two months ended 31 December 2017 and the financial years ending 31 December 2018 and 2019, respectively.

The aggregate annual amounts of remuneration under the Master Hotel Services Agreement, which is subject to the relevant annual cap amount as stated above, for the period from the Listing Date to 31 December 2017 amounted to HK$15 million.

### (iii) Wheelock Leasing Framework Agreement

On 8 November 2017, the Company entered into a leasing framework agreement (the "Wheelock Leasing Framework Agreement") with Wheelock for a period from the Listing Date to 31 December 2019 for the purpose of, *inter alia,* governing leases, tenancies or licences in respect of premises owned by the Group (including office premises, car parking spaces and building areas but excluding hotel premises) entering into between members of the Group and members of Wheelock group and stipulating, *inter alia*, the annual cap amount of rental rates and licence fee rates payable by Wheelock group to the Group in relation thereto, which are fixed at HK$17 million, HK$105 million and HK$105 million for the two months ended 31 December 2017 and the financial years ending 31 December 2018 and 2019, respectively.

The aggregate annual amounts of rental rates and licence fee rates under the Wheelock Leasing Framework Agreement, which is subject to the relevant annual cap amount as stated above, for the period from the Listing Date to 31 December 2017 amounted to HK$9 million.

### (iv) Wharf Leasing Framework Agreement

On 8 November 2017, the Company entered into a leasing framework agreement (the "Wharf Leasing Framework Agreement") with Wharf for a period from the Listing Date to 31 December 2019 for the purpose of, *inter alia,* governing leases, tenancies or licences in respect of premises owned by the Group (including office premises, car parking spaces and building areas but excluding hotel premises) entering into between members of the Group and members of Wharf group and stipulating, *inter alia*, the annual cap amount of rental rates and licence fee rates payable by Wharf group to the Group in relation thereto, which are fixed at HK$8 million, HK$44 million and HK$44 million for the two months ended 31 December 2017 and the financial years ending 31 December 2018 and 2019, respectively.

The aggregate annual amounts of rental rates and licence fee rates under the Wharf Leasing Framework Agreement, which is subject to the relevant annual cap amount as stated above, for the period from the Listing Date to 31 December 2017 amounted to HK$4 million.

Wheelock, being a substantial shareholder of the Company, and Wharf, being a subsidiary of Wheelock, are both regarded as connected persons of the Company within the meaning under the Listing Rules, the transactions mentioned under Sections (I)(i) to (iv) above constitute continuing connected transactions for the Company.

### (v) Confirmation from Directors and Auditors

(a) Directors, including INEDs, of the Company have reviewed the continuing connected transactions mentioned under Section (I)(i) to (iv) above (the "Transactions") and confirmed that the Transactions were entered into:

(1) by the Group in the ordinary and usual course of its business;

(2) on normal commercial terms or better; and

(3) according to the agreements governing the Transactions on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

(b) In accordance with paragraph 14A.56 of the Listing Rules, the Board engaged the Company's auditors to perform procedures on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

The auditors of the Company have advised nothing has come to their attention that causes them to believe that the Transactions:

(1) had not been approved by the Company's Board of Directors;

(2) were not, in all material respects, in accordance with the pricing policies of the Group for transactions involving the provision of goods or services by the Group;

(3) were not entered into, in all material respects, in accordance with the relevant agreements governing the Transactions; and

(4) have exceeded the relevant cap amounts, where applicable, during the financial year ended 31 December 2017.

**(vi)** With regard to the Related Party Transactions as disclosed under Note 24 to the Financial Statements on page 138, the transactions stated under paragraphs (a)(ii), (b) and (c) therein constitute connected transactions (as defined under the Listing Rules) of the Company, the transactions under paragraphs (d) and (f) constitute a fully exempt connected transaction of the Company, and the transactions under paragraphs (a)(i) and (e) do not constitute connected transactions under the Listing Rules, for all of which the applicable requirements under the Listing Rules have been duly complied with.

### (J) Principal Risks and Uncertainties

The following is a list of principal risks and uncertainties that are considered to be of significance and have potential to affect the Group's businesses, results of operations and financial conditions. However, this is non-exhaustive as there may be other risks and uncertainties arise resulting from changes in economic and other conditions over time. The Group employs a risk management and internal control framework to identify current and foreseeable risks at different levels of the organisation so as to take preventive actions to avoid or mitigate their adverse impacts.

#### *Risks pertaining to Investment Properties ("IP")*

IP segment is the Group's core business with IP assets accounted for over 93% of the Group's total. With the majority of the properties located in Hong Kong, the general economic climate, regulatory changes, government policies and the political conditions in both Hong Kong and Mainland China may have a significant impact on the Group's overall financial results and condition. The Group's rental income may experience more frequent adjustments resulting from competition arising from oversupply in retail and office areas. Furthermore, rental levels may also be impacted by external economic and market conditions including but not limited to the fluctuations in general supply and demand, performance in stock markets and financial volatility, which may indirectly affect the Group's IP performance.

IPs are stated at their fair values in accordance with the Hong Kong Financial Reporting Standards in the statement of financial position at each reporting period. The fair values are provided by independent professional surveyors, using the income capitalisation approach which capitalised the net income of properties and takes into account the significant adjustments on term yield to account for the risk upon reversion and the changes in fair value are recognised in the consolidated statement of profit or loss. Given the size of the Group's IP portfolio, any significant change in the IP values may overwhelmingly affect the Group's results that may not be able to reflect the Group's operating and cash flow performance.

In this respect, the Group regularly assesses changes in the economic environment and keeps alert to market needs and competitors' offensives in order to maintain competitiveness. Continuously maintaining the quality of the assets and building up a diversified and high-quality tenant-mix also help the Group to grow revenue and to resist a sluggish economy. In addition, long- range planned and tactical promotions are seamlessly executed for maintaining the IPs' leading brands and value.

#### *Risks pertaining to Hotel Segment*

The Group owns and operate four hotels in Hong Kong and one in Mainland China. The Group also has also one hotel under development, which is expected to commence operation by mid-2019. Hotel performance is usually subject to a high degree of fluctuations caused by both predictable and unpredictable factors including seasonality, social stability, epidemic diseases and changes in economic conditions. For instance, the recent Central Government Anti-corruption drive in Mainland, the policy change on the grant of multiple-entry permits to Shenzhen residents, together with the change in the foreign exchanges of the surrounding regions have varied the development pattern of the tourism and hospitality industry with heavily relied on the growth of visitor arrivals from Mainland.

In this respect, Hotel Segment closely assesses the impact of the geopolitical outlook and economic development of different countries for building its portfolios and exposures to match with the Group's risk appetite. It also takes continual reviews of competition, legal and political changes as well as market trends for setting its business strategies including marketing and pricing to protect and drive profitability.

#### *Legal and Regulatory Compliance risks*

Whilst the Group has a diversified portfolio of business operations across Hong Kong and various Mainland cities, any failure to anticipate the trend of regulatory changes or cope with relevant requirements may result in non-compliance of a local laws or regulation, leading to not only financial loss but also reputational damage to the Group. In mitigation of relevant risks, the Group has actively assesses the effect of relevant developments and engages closely with regulatory authorities and external advisors on new laws and regulations and also trending legislations to ensure relevant requirements are properly complied with in an effective manner.

#### *Financial risks*

The Group is exposed to financial risks related to interest rate risks, foreign currency risks, equity price and credit in the normal course of its business. For further details of such risks and relevant management policies, please refer to note 21 to the financial statements from pages 132 to 136.

## (K) Environmental, Social and Governance

It is the Group's mission to create positive economic, social and environmental impacts for the community through our operations and community investment projects. A three-tier governance structure, consisting of a group-level CSR Steering Committee, Cross-Business Unit ("BU") CSR Group and CSR governance bodies at each business unit, formulates the overall CSR strategy and reviews CSR Guidelines to align with the Group's goals and commitments and improve performance. Executives from BUs oversee the day-to-day management of programmes and meet regularly to exchange ideas and best practices.

Group-level environmental guidelines were implemented in 2016 to govern pollution prevention and waste management, sustainable use of resources, carbon emissions, environmental protection, biodiversity and the restoration of natural habitats. Environmental initiatives are implemented at our BUs commensurate with their scale and operations, including upgrading lighting and air-conditioning systems, adopting water saving/recycling measures, using environmentally-friendly materials, organising waste recycling and collection programmes, and raising awareness and fostering behavioural change among employees.

The Group adheres to the highest level of business ethics and professional conduct while carrying out business. Any form of bribery, extortion, fraud or money laundering is strictly prohibited. It is mandatory for all employees to comply with the Group's Business Code of Ethics, Code of Conduct and relevant policies on conflicts of interest, insider dealings, anti-competition, and anti-corruption. The Group's Whistleblowing Policy and Procedures specifies the responsibility for implementation of the policy, the process of raising a complaint, and investigation procedures. The Group encourages employees to raise complaints about misconduct and malpractice directly with the Group's Company Secretary. The Group conforms to the Competition Ordinance (Cap 619 of the Laws of Hong Kong) with written guidelines issued to employees and actively promotes healthy market development throughout its operations.

The Group strives to offer safe, high quality products and services to customers. Trainings are provided to equip employees with problem solving skills and idea generation tools for carrying out continuous improvement projects. Various customer health and safety measures tailored to the business nature of the BUs are in place. The Group complies with the Trade Descriptions Ordinance (Cap 362 of the Laws of Hong Kong) and logo guidelines in planning and executing marketing and communications projects. The Group also adheres to the Personal Data (Privacy) Ordinance (Cap 486 of the Laws of Hong Kong) to handle customers' information. To better manage our supply chain, vendor management systems are implemented to assess suppliers' social, environmental and technical capabilities.

Employees are important to the Group's continued success. The Group adopts a fair and transparent recruitment process, compensates employees with welfare packages commensurate to their qualifications and experience, invests in their career development and promotes a harmonious and safe workplace. All company policies and practices are in compliance with the relevant statutory requirements of the respective jurisdiction. The Group complies with the Occupational safety and health standards recommended by the government and has an established safety manual and management system for regular safety assessments, emergency plans, corrective action plans for accidents or health issues, and policy reviews.

The Group believes in giving back to the community and empowering underprivileged members of the community. Through our diverse portfolio, the Group creates employment opportunities, provides financial and manpower support for various community programmes, focusing on art and culture, economic development and social welfare. Employees are encouraged to participate in these activities.

Detailed discussions of the Group's environmental policies and its relationship with customers, suppliers, employees, and other key stakeholders are contained on pages 57 to 67 of this Annual Report. Further details can also be found in the Group's standalone Sustainability Report which will soon be available for download on the Group's corporate website (www.wharfreic.com).

**To the shareholders of Wharf Real Estate Investment Company Limited**
*(incorporated in Cayman Islands with limited liability)*

## OPINION

We have audited the consolidated financial statements of Wharf Real Estate Investment Company Limited ("the company") and its subsidiaries ("the group") set out on pages 105 to 159, which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the group as at 31 December 2017 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 disclosure requirements of 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 statement of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Valuation of completed investment properties ("IP")**

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

**The key audit matter**

The Group holds a portfolio of IP (primarily retail and offices) located in Hong Kong which accounted for 93% of the Group's total assets as at 31 December 2017.

The fair values of the IP as at 31 December 2017 were assessed by the Group based on independent valuations prepared by a qualified external property valuer which took into account the net income of each property, allowing for reversionary potential and redevelopment potential, where appropriate.

The net changes in fair value of IP recorded in the consolidated statement of profit or loss represented 36% of the Group's profit before taxation for the year ended 31 December 2017.

We identified the valuation of IP as a key audit matter because these properties represent the majority of the Group's total assets and a small adjustment to or variances in the assumptions and data used to compute the valuation of individual properties, when aggregated, could have a significant impact on the Group's profit and because the valuation of IP is inherently subjective requiring significant judgement and estimation, particularly in determining market rents and capitalisation rates, which increases the risk of error or potential management bias.

**How the matter was addressed in our audit**

Our audit procedures to assess the valuation of IP included the following:

- obtaining and inspecting the valuation reports prepared by the external property valuer engaged by the Group;
- meeting the external property valuer to discuss and challenge the key estimates and assumptions adopted in the valuations, including prevailing market rents, market yields and comparable market transactions, and to assess the independence, objectivity, qualifications and expertise of the external property valuer in the properties being valued;
- with the assistance of our internal property valuation specialists, assessing the valuation methodology adopted by the external property valuer and comparing the key estimates and assumptions adopted in the valuation of each IP, including market rents and market yields, with available market data and government statistics;
- conducting site visits to IP and comparing tenancy information, including rents and occupancy rates adopted by the external property valuer with underlying contracts and related documentation, on a sample basis.

**Revenue recognition for investment properties ("IP") and development properties ("DP")**

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

**The key audit matter**

Revenue from the IP and DP segments accounted for 92% of the Group's revenue for the year ended 31 December 2017.

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

Revenue from DP is recognised upon the later of the execution of a formal sale and purchase agreement and the issue of the occupation permit/completion certificate by the relevant government authorities.

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

**How the matter was addressed in our audit**

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

- evaluating the design, implementation of operating effectiveness of key internal controls over the recording of revenue for the IP and DP segments;
- comparing fixed rental revenue received and receivable with underlying tenancy information, including monthly rents and rental periods as set out in the signed rental agreements, on a sample basis, and assessing whether fixed rental revenue had been recorded in the appropriate accounting period;
- re-performing the calculation of contingent rental received and receivable with reference to turnover reports submitted by the relevant retail outlets, on a sample basis, and assessing whether the contingent rental had been recorded and accounted for in the appropriate accounting period; and
- inspecting occupation permits or completion certificates which had been issued by the relevant government authorities on a sample basis for sales and pre-sales for each DP project and assessing whether the cash, for the sample selected, had been received by comparing the amount received with bank statements and assessing whether revenue should be recorded in the current accounting period or should be deferred as deposits from pre-sale of properties.

## 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 disclosure requirements of 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, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

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

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

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

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

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

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

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

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements 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 Cheung Wing Han, Ivy.

**KPMG**
*Certified Public Accountants*

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

5 March 2018

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For The Year Ended 31 December 2017

| | Note | 2017 HK$ Million | 2016 HK$ Million |
|---|---|---|---|
| **Revenue** | 1 | **20,904** | 16,851 |
| Direct costs and operating expenses | | **(4,494)** | (4,247) |
| Selling and marketing expenses | | **(361)** | (311) |
| Administrative and corporate expenses | | **(463)** | (293) |
| Operating profit before depreciation, amortisation, interest and tax | | **15,586** | 12,000 |
| Depreciation and amortisation | 2 | **(144)** | (176) |
| **Operating profit** | 2 | **15,442** | 11,824 |
| Increase in fair value of investment properties | | **7,991** | 1,191 |
| Other net (charge)/income | 3 | **(311)** | 216 |
| | | **23,122** | 13,231 |
| Finance costs | 4 | **(1,029)** | (1,351) |
| Share of results after tax of: | | | |
| — An associate | 10(c) | **82** | 23 |
| — Joint ventures | 11(b) | **(15)** | 176 |
| Profit before taxation | | **22,160** | 12,079 |
| Income tax | 5 | **(4,267)** | (1,895) |
| **Profit for the year** | | **17,893** | 10,184 |
| **Profit attributable to:** | | | |
| Shareholders of the Company | | **17,218** | 9,917 |
| Non-controlling interests | | **675** | 267 |
| | | **17,893** | 10,184 |
| **Earnings per share:** | | | |
| Basic and diluted | 7 | **HK$5.67** | HK$3.27 |

The notes and principal accounting policies on pages 111 to 159 form part of these financial statements. Details of dividend payable to equity shareholders of the Company are set out in note 6.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For The Year Ended 31 December 2017

| | 2017 HK$ Million | 2016 HK$ Million |
|---|---|---|
| **Profit for the year** | **17,893** | 10,184 |
| **Other comprehensive income** | | |
| Items that will not be reclassified to profit or loss (net of nil tax): | | |
| Fair value changes on equity investments | **451** | (151) |
| Items that may be reclassified subsequently to profit or loss (net of nil tax): | | |
| Exchange difference on translation of the operations of: | | |
| — subsidiaries | **267** | (373) |
| — an associate and a joint venture | **72** | (87) |
| Others | **(139)** | 11 |
| **Other comprehensive income for the year** | **651** | (600) |
| **Total comprehensive income for the year** | **18,544** | 9,584 |
| **Total comprehensive income attributable to:** | | |
| Shareholders of the Company | **17,613** | 9,529 |
| Non-controlling interests | **931** | 55 |
| | **18,544** | 9,584 |

The notes and principal accounting policies on pages 111 to 159 form part of these financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

| | Note | 31 December 2017 HK$ Million | 31 December 2016 HK$ Million |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment properties | 8 | **253,827** | 244,375 |
| Hotel and club properties, plant and equipment | 9 | **8,549** | 7,000 |
| Interest in an associate | 10 | **1,599** | 1,417 |
| Interest in joint ventures | 11 | **1,694** | 1,808 |
| Equity investments | 12 | **2,708** | 2,301 |
| Deferred tax assets | 20 | **353** | – |
| Other non-current assets | | **54** | 41 |
| | | **268,784** | 256,942 |
| **Current assets** | | | |
| Properties for sale | 13 | **144** | 1,957 |
| Inventories | | **12** | 11 |
| Trade and other receivables | 14 | **635** | 818 |
| Prepaid tax | 5(d) | **24** | 164 |
| Bank deposits and cash | 15 | **3,076** | 5,212 |
| Amount due from the former immediate holding company | 19 | **–** | 358 |
| | | **3,891** | 8,520 |
| **Total assets** | | **272,675** | 265,462 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 20 | **(2,207)** | (1,762) |
| Other deferred liabilities | | **(314)** | (300) |
| Bank loans | 17 | **(24,752)** | (3,150) |
| Loans from fellow subsidiaries | 18 | **–** | (30,980) |
| | | **(27,273)** | (36,192) |
| **Current liabilities** | | | |
| Trade and other payables | 16 | **(8,805)** | (7,932) |
| Deposits from sale of properties | | **(13)** | (5,030) |
| Taxation payable | 5(d) | **(2,816)** | (533) |
| Bank loans | 17 | **(20,800)** | (1,232) |
| Amount due to the former immediate holding company | 19 | **–** | (10,354) |
| Amounts due to fellow subsidiaries | 19 | **–** | (52) |
| | | **(32,434)** | (25,133) |
| **Total liabilities** | | **(59,707)** | (61,325) |
| **NET ASSETS** | | **212,968** | 204,137 |
| **Capital and reserves** | 22 | | |
| Share capital | | **304** | –* |
| Reserves | | **207,014** | 198,910 |
| **Equity attributable to shareholders of the Company** | | **207,318** | 198,910 |
| **Non-controlling interests** | | **5,650** | 5,227 |
| **TOTAL EQUITY** | | **212,968** | 204,137 |

* *The balance represents amount less than HK$1 million.*

The notes and principal accounting policies on pages 111 to 159 form part of these financial statements.

**Stephen T H Ng**
*Chairman & Managing Director*

**Doreen Y F Lee**
*Vice Chairman*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For The Year Ended 31 December 2017

| | | Equity attributable to the shareholders of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | *Note* | **Share capital** *HK$ Million* | **Share premium** *HK$ Million* | **Investment revaluation reserves** *HK$ Million* | **Exchange reserves** *HK$ Million* | **Revenue reserves** *HK$ Million* | **Total** *HK$ Million* | **Non-controlling interest** *HK$ Million* | **Total equity** *HK$ Million* |
| **At 1 January 2016** | | –* | –* | 441 | 488 | 204,205 | 205,134 | 5,771 | 210,905 |
| **Changes in equity for 2016:** | | | | | | | | | |
| Profit for the year | | – | – | – | – | 9,917 | 9,917 | 267 | 10,184 |
| Other comprehensive income | | – | – | (108) | (290) | 10 | (388) | (212) | (600) |
| Total comprehensive income | | – | – | (108) | (290) | 9,927 | 9,529 | 55 | 9,584 |
| Transfer to revenue reserves upon de-recognition of equity investments | | – | – | (34) | – | 34 | – | – | – |
| Dividend paid | *6* | – | – | – | – | (15,753) | (15,753) | – | (15,753) |
| Net capital repatriation to non-controlling interests of subsidiaries | | – | – | – | – | – | – | (232) | (232) |
| Acquisition of additional interest in a subsidiary | | – | – | – | – | – | – | (14) | (14) |
| Dividends paid to non-controlling interests | | – | – | – | – | – | – | (353) | (353) |
| **At 31 December 2016** | | –* | –* | 299 | 198 | 198,413 | 198,910 | 5,227 | 204,137 |
| **At 1 January 2017** | | **–*** | **–*** | **299** | **198** | **198,413** | **198,910** | **5,227** | **204,137** |
| **Changes in equity for 2017:** | | | | | | | | | |
| Profit for the year | | **–** | **–** | **–** | **–** | **17,218** | **17,218** | **675** | **17,893** |
| Other comprehensive income | | **–** | **–** | **323** | **214** | **(142)** | **395** | **256** | **651** |
| Total comprehensive income | | **–** | **–** | **323** | **214** | **17,076** | **17,613** | **931** | **18,544** |
| Transfer to revenue reserves upon de-recognition of equity investments | | **–** | **–** | **(44)** | **–** | **44** | **–** | **–** | **–** |
| Dividend paid | *6* | **–** | **–** | **–** | **–** | **(10,205)** | **(10,205)** | **–** | **(10,205)** |
| Net capital repatriation to non-controlling interests of subsidiaries | | **–** | **–** | **–** | **–** | **–** | **–** | **(339)** | **(339)** |
| Dividends paid to non-controlling interests | | **–** | **–** | **–** | **–** | **–** | **–** | **(169)** | **(169)** |
| Issuance of new shares | *22(a)* | **304** | **696** | **–** | **–** | **–** | **1,000** | **–** | **1,000** |
| **At 31 December 2017** | | **304** | **696** | **578** | **412** | **205,328** | **207,318** | **5,650** | **212,968** |

* *The balances represent amount less than HK$1 million.*

The notes and principal accounting policies on pages 111 to 159 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For The Year Ended 31 December 2017

| | Note | 2017 HK$ Million | 2016 HK$ Million |
|---|---|---|---|
| Operating cash inflow | (a) | **15,464** | 11,855 |
| Changes in working capital | (a) | **(3,282)** | 2,203 |
| **Cash generated from operations** | (a) | **12,182** | 14,058 |
| Net interest paid | | **(989)** | (1,297) |
| Interest paid | | **(1,033)** | (1,366) |
| Interest received | | **44** | 69 |
| Dividends received from a joint venture and an associate | | **122** | 366 |
| Dividends received from equity investments | | **78** | 76 |
| Hong Kong profits tax paid | | **(1,577)** | (1,486) |
| Overseas tax paid | | **(168)** | (347) |
| **Net cash generated from operating activities** | | **9,648** | 11,370 |
| **Investing activities** | | | |
| Additions to investment properties | | **(859)** | (7,704) |
| Additions to hotel and club properties, plant and equipment | | **(1,648)** | (1,017) |
| Net (increase)/decrease in interest in an associate | | **(53)** | 168 |
| Net decrease in interest in joint ventures | | **–** | 214 |
| Net proceeds from disposal of hotel and club properties, plant and equipment | | **–** | 1 |
| Purchase of equity investments | | **(1,116)** | (109) |
| Acquisition of interest in subsidiaries | | **(50)** | (9) |
| Proceeds from disposal of equity investments | | **1,161** | 107 |
| Decrease in amount due from the former immediate holding company | | **358** | 4,250 |
| (Decrease)/increase in amount due to the former immediate holding company | | **(10,354)** | 10,354 |
| Decrease in amounts due to fellow subsidiaries | | **(52)** | (7) |
| **Net cash (used in)/generated from investing activities** | | **(12,613)** | 6,248 |
| **Financing activities** | | | |
| Proceeds from the issue of shares | | **1,000** | – |
| (Decrease)/increase in loans from fellow subsidiaries | | **(30,980)** | 2,397 |
| Drawdown of bank loans | | **46,902** | 1,178 |
| Repayment of bank loans | | **(5,732)** | (5,739) |
| Capital repatriation to non-controlling interests of a subsidiary | | **(339)** | (232) |
| Dividends paid | | **(10,205)** | (15,753) |
| Dividends paid to non-controlling interests | | **(169)** | (353) |
| **Net cash generated from/(used in) financing activities** | | **477** | (18,502) |
| **Decrease in cash and cash equivalents** | | **(2,488)** | (884) |
| **Cash and cash equivalents at 1 January** | | **5,212** | 6,501 |
| Effect of exchange rate changes | | **352** | (405) |
| **Cash and cash equivalents at 31 December** | | **3,076** | 5,212 |

The notes and principal accounting policies on pages 111 to 159 form part of these financial statements.

## NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### (a) Reconciliation of operating profit to cash generated from operations

| | **2017** *HK$ Million* | 2016 *HK$ Million* |
|---|---|---|
| Operating profit for the year | **15,442** | 11,824 |
| Adjustments for: | | |
| Interest income | **(44)** | (69) |
| Dividends receivable from equity investments | **(78)** | (76) |
| Depreciation and amortisation | **144** | 176 |
| Operating cash inflow | **15,464** | 11,855 |
| Decrease in properties for sale | **1,767** | 949 |
| Increase in inventories | **(1)** | – |
| Decrease in trade and other receivables | **189** | 235 |
| Increase in trade and other payables | **119** | 366 |
| (Decrease)/increase in deposits from sale of properties | **(5,370)** | 636 |
| Increase in derivative financial instruments | **–** | (1) |
| Other non-cash items | **14** | 18 |
| Changes in working capital | **(3,282)** | 2,203 |
| **Cash generated from operations** | **12,182** | 14,058 |

### (b) Reconciliation of liabilities arising from financing activities

| | **Bank loans** ***HK$ Million*** *(Note 17)* | **Loans from fellow subsidiaries** ***HK$ Million*** *(Note 18)* | **Total** ***HK$ Million*** |
|---|---|---|---|
| **At 1 January 2016** | 8,943 | 28,583 | 37,526 |
| Changes from financing cash flows: | | | |
| Drawdown of bank loans | 1,178 | – | 1,178 |
| Repayment of bank loans | (5,739) | – | (5,739) |
| Increase in loans from fellow subsidiaries | – | 2,397 | 2,397 |
| Total changes from financing cash flows | (4,561) | 2,397 | (2,164) |
| **At 31 December 2016** | 4,382 | 30,980 | 35,362 |
| **At 1 January 2017** | **4,382** | **30,980** | **35,362** |
| Changes from financing cash flows: | | | |
| Drawdown of bank loans | **46,902** | **–** | **46,902** |
| Repayment of bank loans | **(5,732)** | **–** | **(5,732)** |
| Decrease in loans from fellow subsidiaries | **–** | **(30,980)** | **(30,980)** |
| Total changes from financing cash flows | **41,170** | **(30,980)** | **10,190** |
| **At 31 December 2017** | **45,552** | **–** | **45,552** |

## 1 SEGMENT INFORMATION

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

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

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

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

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

Segment business assets principally comprise all tangible assets and current assets directly attributable to each segment with the exception of bank deposits and cash, certain financial investments, deferred tax assets and amounts due from the former immediate holding company.

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

**(a) Analysis of segment revenue and results**

| | Revenue HK$ Million | Operating profit HK$ Million | Increase in fair value of investment properties HK$ Million | Other net (charge)/ income HK$ Million | Finance costs HK$ Million | Share of results after tax of an associate HK$ Million | Share of results after tax of joint ventures HK$ Million | Profit before taxation HK$ Million |
|---|---|---|---|---|---|---|---|---|
| **For the year ended 31 December 2017** | | | | | | | | |
| Investment properties | **13,334** | **11,698** | **7,991** | **–** | **(1,008)** | **–** | **–** | **18,681** |
| Development properties | **5,907** | **3,630** | **–** | **2** | **(3)** | **82** | **(15)** | **3,696** |
| Hotels | **1,403** | **337** | **–** | **–** | **(3)** | **–** | **–** | **334** |
| Segment total | **20,644** | **15,665** | **7,991** | **2** | **(1,014)** | **82** | **(15)** | **22,711** |
| Investment and others | **260** | **48** | **–** | **(313)** | **(15)** | **–** | **–** | **(280)** |
| Corporate expenses | **–** | **(271)** | **–** | **–** | **–** | **–** | **–** | **(271)** |
| Group total | **20,904** | **15,442** | **7,991** | **(311)** | **(1,029)** | **82** | **(15)** | **22,160** |
| **For the year ended 31 December 2016** | | | | | | | | |
| Investment properties | 12,775 | 11,171 | 1,191 | – | (1,306) | – | – | 11,056 |
| Development properties | 2,482 | 425 | – | 23 | (8) | 23 | 176 | 639 |
| Hotels | 1,342 | 269 | – | – | (4) | – | – | 265 |
| Segment total | 16,599 | 11,865 | 1,191 | 23 | (1,318) | 23 | 176 | 11,960 |
| Investment and others | 252 | 148 | – | 193 | (33) | – | – | 308 |
| Corporate expenses | – | (189) | – | – | – | – | – | (189) |
| Group total | 16,851 | 11,824 | 1,191 | 216 | (1,351) | 23 | 176 | 12,079 |

### (b) Analysis of segment business assets

| | 31 December 2017 HK$ Million | 31 December 2016 HK$ Million |
|---|---|---|
| Investment properties | **254,295** | 244,871 |
| Development properties | **3,552** | 5,710 |
| Hotels | **8,659** | 6,983 |
| Total segment business assets | **266,506** | 257,564 |
| Unallocated corporate assets | **6,169** | 7,898 |
| Total assets | **272,675** | 265,462 |

Unallocated corporate assets mainly comprise equity investments, deferred tax assets, bank deposits and cash and amounts due from the former immediate holding company.

Segment assets held through an associate and joint ventures included in the above are:

| | 31 December 2017 HK$ Million | 31 December 2016 HK$ Million |
|---|---|---|
| Development properties | **3,293** | 3,225 |

### (c) Other segment information

| | Capital expenditure Year ended 31 December | |
|---|---|---|
| | 2017 HK$ Million | 2016 HK$ Million |
| Investment properties | **1,279** | 7,770 |
| Hotels | **1,630** | 989 |
| Group total | **2,909** | 8,759 |

| | Depreciation and amortisation Year ended 31 December | |
|---|---|---|
| | 2017 HK$ Million | 2016 HK$ Million |
| Investment properties | **20** | 21 |
| Hotels | **121** | 152 |
| Segment total | **141** | 173 |
| Investment and others | **3** | 3 |
| Group total | **144** | 176 |

The Group had no significant non-cash expenses other than depreciation and amortisation.

### (d) Geographical information

| | Revenue Year ended 31 December 2017 HK$ Million | 2016 HK$ Million |
|---|---|---|
| Hong Kong | **14,843** | 14,200 |
| Mainland China | **6,016** | 2,606 |
| Singapore | **45** | 45 |
| Group total | **20,904** | 16,851 |

| | Operating profit Year ended 31 December 2017 HK$ Million | 2016 HK$ Million |
|---|---|---|
| Hong Kong | **11,756** | 11,328 |
| Mainland China | **3,641** | 451 |
| Singapore | **45** | 45 |
| Group total | **15,442** | 11,824 |

| | Specified non-current assets As at 31 December 2017 HK$ Million | 2016 HK$ Million |
|---|---|---|
| Hong Kong | **257,839** | 247,844 |
| Mainland China | **7,830** | 6,756 |
| Group total | **265,669** | 254,600 |

| | Total business assets As at 31 December 2017 HK$ Million | 2016 HK$ Million |
|---|---|---|
| Hong Kong | **258,387** | 248,319 |
| Mainland China | **8,119** | 9,245 |
| Group total | **266,506** | 257,564 |

Specified non-current assets excludes deferred tax assets, equity investments and other non-current assets.

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

# 2 OPERATING PROFIT

## (a) Operating profit is arrived at:

| | 2017 HK$ Million | 2016 HK$ Million |
|---|---|---|
| **After charging/(crediting)** | | |
| Depreciation and amortisation on | | |
| — hotel and club properties, plant and equipment | **136** | 168 |
| — leasehold land | **8** | 8 |
| Total depreciation and amortisation | **144** | 176 |
| Impairment of trade receivables | **4** | – |
| Staff costs *(Note (i))* | **833** | 779 |
| Auditors' remuneration | | |
| — audit services | **16** | 8 |
| — non-audit services | **2** | – |
| Cost of trading properties for recognised sales | **2,182** | 1,968 |
| Gross amount of rental income from investment properties *(Note (ii))* | **(13,334)** | (12,775) |
| Direct operating expenses of investment properties | **1,509** | 1,494 |
| Interest income *(Note (iii))* | **(44)** | (69) |
| Dividend income from equity investments | **(78)** | (76) |
| Corporate charges from a fellow subsidiary | **213** | 189 |

*Note:*

*(i)* *Staff costs included defined contribution pension schemes costs for the year ended 31 December 2017 of HK$41 million (2016: HK$38 million).*

*(ii)* *Gross amount of rental income includes contingent rentals for the year ended 31 December 2017 of HK$738 million (2016: HK$707 million).*

*(iii)* *Interest income for the year ended 31 December 2017 of HK$44 million (2016: HK$69 million) are generated in respect of financial assets (mainly comprising bank deposits) stated at amortised cost.*

### (b) Directors' emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefit of Directors) Regulation for the year ended 31 December 2016 and 2017 are as follows:

| | Fees *HK$'000* | Salaries, allowance and benefits in kind *HK$'000* | Discretionary bonus *HK$'000* | Contribution to pension schemes *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|
| **For the year ended 31 December 2017** | | | | | |
| *Executive Directors* | | | | | |
| Mr Stephen T H Ng (iii) | **174** | **1,343** | **–** | **1** | **1,518** |
| Ms Doreen Y F Lee | **80** | **4,616** | **6,000** | **14** | **10,710** |
| Ms Y T Leng | **80** | **4,012** | **6,000** | **396** | **10,488** |
| Mr K H Leung | **80** | **420** | **–** | **–** | **500** |
| *Independent Non-executive Directors* | | | | | |
| Mr Alexander S K Au (ii & iii) | **67** | **–** | **–** | **–** | **67** |
| Mr Andrew J Seaton (iii) | **48** | **–** | **–** | **–** | **48** |
| Mr R Gareth Williams (ii) | **57** | **–** | **–** | **–** | **57** |
| Professor E K Yeoh (ii) | **57** | **–** | **–** | **–** | **57** |
| Total | **643** | **10,391** | **12,000** | **411** | **23,445** |
| **For the year ended 31 December 2016** | | | | | |
| *Executive Directors* | | | | | |
| Mr Stephen T H Ng | 50 | 960 | – | – | 1,010 |
| Ms Doreen Y F Lee | – | 4,474 | 5,625 | 225 | 10,324 |
| Ms Y T Leng | – | 3,885 | 4,000 | 384 | 8,269 |
| Total | 50 | 9,319 | 9,625 | 609 | 19,603 |

*Notes:*

*(i) The Directors of the Company were appointed on the following dates:*

| | Date of appointment |
|---|---|
| *Executive Directors:* | |
| Mr Stephen T H Ng (iii) | 13 April 2017 |
| Ms Doreen Y F Lee | 8 August 2017 |
| Ms Y T Leng | 8 August 2017 |
| Mr K H Leung | 8 August 2017 |
| *Independent Non-executive Directors:* | |
| Mr Alexander S K Au (ii & iii) | 23 October 2017 |
| Mr Andrew J Seaton (iii) | 23 October 2017 |
| Mr R Gareth Williams (ii) | 23 October 2017 |
| Professor E K Yeoh (ii) | 23 October 2017 |

*(ii) Include Audit Committee Member's fee for the period from date of appointment to 31 December 2017 of HK$18,904 (2016: HK$Nil) received/receivable by each of relevant Directors.*

*(iii) Include Remuneration Committee fee for the period from the date of appointment to 31 December 2017 of HK$9,452 (2016: HK$ Nil) received/receivable by each of relevant Directors.*

*(iv) The emoluments of Mr Stephen T H Ng and Ms Doreen Y F Lee included amounts reimbursed to Wharf calculated at a pre-determined percentage of the basic remuneration for being executive directors and employees of the Company and Wharf pursuant to a framework agreement entered into between the Group and Wharf.*

*(v) No remuneration has been paid to directors who were appointed and resigned before the date of listing of the Company.*

### (c) Individuals with highest emoluments

Of the five individuals with the highest emoluments, 2 for the year ended 31 December 2017 (2016: 2) are directors respectively, whose emoluments are disclosed in Note 2(b). The aggregate of the emoluments in respect of the other 3 (2016: 3) individuals are as follows:

| | **2017** **_HK$'000_** | 2016 _HK$'000_ |
|---|---|---|
| Salaries, allowance and benefits in kind | **8,540** | 6,527 |
| Discretionary bonuses | **1,540** | 1,955 |
| Contribution to pension schemes | **520** | 621 |
| Total | **10,600** | 9,103 |

The emoluments of the 3 (2016: 3) individuals with highest emoluments are within the following bands:

| | **2017** **_No. of individual_** | 2016 _No. of individual_ |
|---|---|---|
| HK$2,500,001 – HK$3,000,000 | **–** | 1 |
| HK$3,000,001 – HK$3,500,000 | **2** | 2 |
| HK$3,500,001 – HK$4,000,000 | **1** | – |

## 3 OTHER NET (CHARGE)/INCOME

Other net (charge)/income for the year mainly comprises net foreign exchange losses of HK$264 million (2016: gains of HK$231 million).

## 4 FINANCE COSTS

| | **2017** **_HK$ Million_** | 2016 _HK$ Million_ |
|---|---|---|
| Interest charged on: | | |
| — Bank loans | **89** | 92 |
| — Loans from fellow subsidiaries | **848** | 1,112 |
| Total interest charge | **937** | 1,204 |
| Other finance costs | **96** | 162 |
| Less: Amount capitalised | **(4)** | (15) |
| Total | **1,029** | 1,351 |

Interest was capitalised at an average annual rate of approximately 1.2% (2016: 1.0%) for the year ended 31 December 2017.

## 5 INCOME TAX

Taxation charged to the consolidated statement of profit or loss includes:

| | 2017 HK$ Million | 2016 HK$ Million |
|---|---|---|
| **Current income tax** | | |
| Hong Kong | | |
| — provision for the year | **1,670** | 1,536 |
| — under-provision in respect of prior year | **2** | 1 |
| Outside Hong Kong | | |
| — provision for the year | **939** | 215 |
| — over-provision in respect of prior year | **–** | (2) |
| | **2,611** | 1,750 |
| **Land appreciation tax ("LAT")** *(Note 5(c))* | **1,568** | 9 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **88** | 136 |
| Total | **4,267** | 1,895 |

**(a)** The provision for Hong Kong profits tax is based on the profit for the year as adjusted for tax purposes at a rate of 16.5% (2016: 16.5%).

**(b)** Income tax on assessable profits outside Hong Kong is mainly China corporate income tax calculated at a rate of 25% (2016: 25%) and China withholding tax on dividends at a rate of up to 10% for the year ended 31 December 2017 and 2016.

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

**(d)** Prepaid tax/taxation payable in the consolidated statement of financial position is expected to be utilised/settled within one year.

**(e)** Tax attributable to an associate and joint ventures for the year ended 31 December 2017 are an aggregate of HK$18 million (2016: HK$153 million), which are included in the share of results of an associate and joint ventures.

**(f)** The China tax law imposes a withholding tax at 10%, unless reduced by a treaty or agreement, for dividends distributed by a PRC-resident enterprise to its immediate holding company outside Mainland China for earnings generated since 1 January 2008. Undistributed earnings generated prior to 1 January 2008 are exempt from such withholding tax. For the year ended 31 December 2017, the Group has provided HK$341 million (2016: HK$13 million), for withholding taxes on accumulated earnings generated by its Mainland China subsidiaries which is related to dividend distribution to their immediate holding companies outside Mainland China in the foreseeable future.

**(g)** Reconciliation between the actual tax charge and profit before taxation at applicable tax rates:

| | **2017** **HK$ Million** | 2016 HK$ Million |
|---|---|---|
| Profit before taxation | **22,160** | 12,079 |
| Notional tax on profit before taxation calculated at applicable tax rates | **3,947** | 2,039 |
| Tax effect of non-deductible expenses | **97** | 76 |
| Tax effect of non-taxable income | **(388)** | (61) |
| Tax effect of non-taxable fair value gain on investment properties | **(1,319)** | (197) |
| Under/(over) provision in respect of prior year | **2** | (1) |
| Tax effect of tax losses not recognised | **27** | 9 |
| Tax effect of temporary differences not recognised | **(8)** | 8 |
| LAT on properties for sales | **1,568** | 9 |
| Withholding tax on distributed/distributable earnings | **341** | 13 |
| Actual total tax charge | **4,267** | 1,895 |

## 6 DIVIDENDS ATTRIBUTABLE TO EQUITY SHAREHOLDERS

Dividends of HK$15,753 million were declared by Wharf Estates Limited, an indirect wholly-owned subsidiary, to Wharf, the then immediate holding company of Wharf Estates Limited for the year ended 31 December 2016.

Dividends of HK$10,205 million were declared by Wharf Estates Limited to Wharf on 30 July 2017.

The rates for dividends and the number of shares ranking for dividends are not presented as such information is not considered meaningful for the preparation of the consolidated financial statements of the Group.

No dividend was paid or proposed by the Company since its incorporation to the year ended 31 December 2017.

The interim dividend of HK$2,884 million (HK$0.95 per share) based on 3,036 million issued ordinary shares declared after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

## 7 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders for the year of HK$17,218 million (2016: HK$9,917 million) and the weighted average of 3,036 million ordinary shares which has been taken into account the shares issued pursuant to the distribution in specie of 3,036,227,327 ordinary shares of the Company as if it had been effective on 1 January 2016.

There are no potential dilutive ordinary shares in issue during the years ended 31 December 2017 and 2016.

## 8 INVESTMENT PROPERTIES

**(a) Cost or valuation**

| | Completed *HK$ Million* | Under development *HK$ Million* | Total *HK$ Million* |
|---|---|---|---|
| At 1 January 2016 | 233,135 | 2,462 | 235,597 |
| Exchange adjustment | – | (156) | (156) |
| Additions | 7,116 | 627 | 7,743 |
| Revaluation surpluses | 1,191 | – | 1,191 |
| At 31 December 2016 and 1 January 2017 | **241,442** | **2,933** | **244,375** |
| Exchange adjustment | **–** | **205** | **205** |
| Additions | **468** | **788** | **1,256** |
| Revaluation surpluses | **7,991** | **–** | **7,991** |
| At 31 December 2017 | **249,901** | **3,926** | **253,827** |

**(b) The analysis of cost or valuation of the above assets is as follows:**

| | Completed *HK$ Million* | Under development *HK$ Million* | Total *HK$ Million* |
|---|---|---|---|
| 2017 valuation | **249,901** | **–** | **249,901** |
| At cost | **–** | **3,926** | **3,926** |
| | **249,901** | **3,926** | **253,827** |
| 2016 valuation | 241,442 | – | 241,442 |
| At cost | – | 2,933 | 2,933 |
| | 241,442 | 2,933 | 244,375 |

**(c) Tenure of title to properties:**

| | Completed *HK$ Million* | Under development *HK$ Million* | Total *HK$ Million* |
|---|---|---|---|
| At 31 December 2017 | | | |
| Held in Hong Kong | | | |
| Long term leases | **227,605** | **–** | **227,605** |
| Medium term leases | **22,296** | **–** | **22,296** |
| | **249,901** | **–** | **249,901** |
| Held outside Hong Kong | | | |
| Medium term leases | **–** | **3,926** | **3,926** |
| | **249,901** | **3,926** | **253,827** |
| At 31 December 2016 | | | |
| Held in Hong Kong | | | |
| Long term leases | 219,202 | – | 219,202 |
| Medium term leases | 22,240 | – | 22,240 |
| | 241,442 | – | 241,442 |
| Held outside Hong Kong | | | |
| Medium term leases | – | 2,933 | 2,933 |
| | 241,442 | 2,933 | 244,375 |

### (d) Investment properties revaluation

The Group's investment properties under development are stated at fair value at the earlier of when the fair value first becomes reliably measurable and the date of completion of the property.

The investment properties stated at fair value were revalued by Knight Frank Petty Limited ("Knight Frank"), an independent firm of professional surveyors who have among their staff Fellows of the Hong Kong Institute of Surveyors with extensive experience in valuing properties in Hong Kong and Mainland China. Knight Frank has valued the investment properties on a market value basis and has taken into account the net income of the respective properties, allowing for reversionary potential and the redevelopment potential of the properties where appropriate.

The revaluation surplus arising on revaluation on investment properties is recognised in the line item "Increase in fair value of investment properties" on the face of the consolidated statement of profit or loss.

The following table presents the investment properties which are measured at fair value at the end of each reporting period across the three levels of the inputs to the revaluation methodologies in accordance with HKFRS 13, Fair value measurement ("HKFRS 13"). The levels are defined as follows:

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

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

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

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

| | Level 3 | | | |
|---|---|---|---|---|
| | **Retail** | **Office** | **Residential** | **Total** |
| | ***HK$ Million*** | ***HK$ Million*** | ***HK$ Million*** | ***HK$ Million*** |
| **Recurring fair value measurements** | | | | |
| At 31 December 2017 | | | | |
| Hong Kong | **150,479** | **89,042** | **10,380** | **249,901** |
| At 31 December 2016 | | | | |
| Hong Kong | 149,868 | 81,294 | 10,280 | 241,442 |

During the year ended 31 December 2017, there were no transfer between Level 1 and Level 2 or transfers into or out of Level 3.

The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

### Valuation processes

The Group reviews the valuations performed by the independent valuers for financial reporting purposes by verifying all major inputs and assessing the reasonableness of the property valuations. Valuation reports with an analysis of changes in fair value measurement are reviewed and approved by the senior management.

### Valuation methodologies

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

### Level 3 valuation methodologies

#### *Completed investment properties*

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

| | Weighted average | | | |
|---|---|---|---|---|
| | **Capitalisation rate** | | **Market rent** | |
| | **2017** | 2016 | **2017** | 2016 |
| Hong Kong | | | | |
| — Retail | **5.2%** | 5.1% | **287** | 287 |
| — Office | **4.2%** | 4.2% | **56** | 51 |
| — Residential | **4.5%** | 4.5% | **59** | 59 |

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

**(e)** The Group leases out properties under operating leases, which generally run for a period of two to twelve years. Lease payments may be varied periodically to reflect market rentals and may contain a contingent rental element which is based on various percentages of tenants' sales receipts.

**(f)** The Group's total future minimum lease income under non-cancellable operating leases is receivable as follows:

| | **2017** *HK$ Million* | 2016 *HK$ Million* |
|---|---|---|
| Within 1 year | **9,712** | 9,654 |
| After 1 year but within 5 years | **11,776** | 11,959 |
| After 5 years | **1,066** | 1,186 |
| | **22,554** | 22,799 |

## 9 HOTEL AND CLUB PROPERTIES, PLANT AND EQUIPMENT

| | Leasehold land *HK$ Million* | Hotel and club properties *HK$ Million* | Plant and equipment *HK$ Million* | Total *HK$ Million* |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2016 | 234 | 6,982 | 1,304 | 8,520 |
| Exchange adjustment | (3) | (69) | (3) | (75) |
| Additions | 1 | 968 | 47 | 1,016 |
| Disposals | – | – | (7) | (7) |
| At 31 December 2016 and 1 January 2017 | **232** | **7,881** | **1,341** | **9,454** |
| Exchange adjustment | **3** | **72** | **4** | **79** |
| Additions | **1** | **1,595** | **57** | **1,653** |
| Disposals | **–** | **–** | **(19)** | **(19)** |
| At 31 December 2017 | **236** | **9,548** | **1,383** | **11,167** |
| **Accumulated depreciation and impairment losses** | | | | |
| At 1 January 2016 | 67 | 1,255 | 998 | 2,320 |
| Exchange adjustment | – | (34) | (2) | (36) |
| Charge for the year | 8 | 49 | 119 | 176 |
| Written back on disposals | – | – | (6) | (6) |
| At 31 December 2016 and 1 January 2017 | **75** | **1,270** | **1,109** | **2,454** |
| Exchange adjustment | **–** | **37** | **2** | **39** |
| Charge for the year | **8** | **45** | **91** | **144** |
| Written back on disposals | **–** | **–** | **(19)** | **(19)** |
| At 31 December 2017 | **83** | **1,352** | **1,183** | **2,618** |
| **Net book value** | | | | |
| At 31 December 2017 | **153** | **8,196** | **200** | **8,549** |
| At 31 December 2016 | 157 | 6,611 | 232 | 7,000 |

As at 31 December 2016, the hotel properties under development comprise the Murray Building Project totalling HK$5,868 million, which were included in hotel and club properties for which the costs attributable to land and buildings cannot be allocated reliably. This amount is not subject to depreciation. The Murray Building Project has been completed during the year ended 31 December 2017.

**(b) Tenure of title to properties:**

| | Leasehold land *HK$ Million* | Hotel and club properties *HK$ Million* | Total *HK$ Million* |
|---|---|---|---|
| At 31 December 2016 | | | |
| Held in Hong Kong | | | |
| Long term leases | 82 | 139 | 221 |
| Medium term leases | 33 | 5,934 | 5,967 |
| | 115 | 6,073 | 6,188 |
| Held outside Hong Kong | | | |
| Medium term leases | 42 | 538 | 580 |
| | 157 | 6,611 | 6,768 |
| At 31 December 2017 | | | |
| Held in Hong Kong | | | |
| Long term leases | **81** | **181** | **262** |
| Medium term leases | **27** | **7,462** | **7,489** |
| | **108** | **7,643** | **7,751** |
| Held outside Hong Kong | | | |
| Medium term leases | **45** | **553** | **598** |
| | **153** | **8,196** | **8,349** |

**(c) Impairment of hotel and club properties, plant and equipment**

The value of hotel and club properties, plant and equipment is assessed at the end of each reporting period for indications of impairment with reference to valuations undertaken by management. The management assess the recoverable amount of each asset being the higher of its value in use or its fair value less costs to sell. No such impairment was made or written back during the year ended 31 December 2017 and 2016.

## 10 INTEREST IN AN ASSOCIATE

| | 2017 HK$ Million | 2016 HK$ Million |
|---|---|---|
| Share of net assets | **810** | 679 |
| Amount due from an associate | **789** | 738 |
| | **1,599** | 1,417 |
| Amount due to an associate *(Note 16)* | **–** | (14) |
| | **1,599** | 1,403 |

Details of the associate are set out below:

| Name of entity | Place of establishment and operation | Class of shares | Percentage of equity Interest | Principal activities |
|---|---|---|---|---|
| 上海萬九綠合置業有限公司 | Mainland China | Registered capital | 19 | Property |

**(a)** The amount due from an associate is unsecured, recoverable on demand and not expected to be recoverable within twelve months from the end of each reporting period.

The amount due from an associate is interest free. The amounts are neither past due nor impaired.

**(b)** As at 31 December 2017 and 2016, the amount due to an associate is unsecured, interest free and repayable on demand.

### (c) Summary financial information of the associate

No associate is individually material to the Group. Information of the associate is summarised below:

| | 2017 HK$ Million | 2016 HK$ Million |
|---|---|---|
| Carrying amount of the associate in the consolidated financial statements | **810** | 679 |
| Amounts of the Group's share of the associate's | | |
| — Profit from continuing operations | **82** | 23 |
| — Other comprehensive income | **50** | (46) |
| Total comprehensive income | **132** | (23) |

## 11 INTEREST IN JOINT VENTURES

| | 2017 HK$ Million | 2016 HK$ Million |
|---|---|---|
| Share of net assets | **1,694** | 1,808 |
| Amounts due to joint ventures *(Note 16)* | **(1,514)** | (1,422) |
| | **180** | 386 |

Details of joint ventures are set out below:

| Name of entity | Place of establishment/ incorporation and operation | Class of shares | Percentage of equity interest | Principal activities |
|---|---|---|---|---|
| Speedy Champ Investments Limited | Hong Kong | Ordinary shares | 39 | Holding company |
| 重慶豐盈房地產開發有限公司 | Mainland China | Registered capital | 39 | Property |

(a) As at 31 December 2017 and 2016, the amounts due to joint ventures are unsecured, interest free and repayable on demand.

(b) No joint venture is individually material to the Group. Aggregate information of the joint ventures is summarised below:

| | 2017 HK$ Million | 2016 HK$ Million |
|---|---|---|
| Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements | **1,694** | 1,808 |
| Aggregate amounts of the Group's share of those joint ventures | | |
| — (Loss)/profit from continuing operations | **(15)** | 176 |
| — Other comprehensive income | **22** | (41) |
| Total comprehensive income | **7** | 135 |

## 12 EQUITY INVESTMENTS

| | 2017 HK$ Million | 2016 HK$ Million |
|---|---|---|
| Listed investment stated at market value | | |
| — in Hong Kong | **697** | 869 |
| — outside Hong Kong | **2,011** | 1,432 |
| | **2,708** | 2,301 |

## 13 PROPERTIES FOR SALE

| | 2017 HK$ Million | 2016 HK$ Million |
|---|---|---|
| Properties under development for sale | **38** | 1,753 |
| Completed properties for sale | **106** | 204 |
| | **144** | 1,957 |

(a) Properties under development for sale of HK$38 million at 31 December 2017 (2016: HK$77 million) are expected to be completed after more than one year from the end of the reporting period.

(b) The carrying value of leasehold land included in properties under development for sale and completed properties for sale is summarized as follows:

| | 2017 HK$ Million | 2016 HK$ Million |
|---|---|---|
| Held outside Hong Kong | | |
| Long term leases | **30** | 984 |

## 14 TRADE AND OTHER RECEIVABLES

### (a) Ageing analysis

Included in this item are trade receivables (net of allowance for bad and doubtful debts) with an ageing analysis based on the invoice date as at 31 December 2017 as follows:

| | 2017 HK$ Million | 2016 HK$ Million |
|---|---|---|
| Trade receivables | | |
| 0 – 30 days | **254** | 244 |
| 31 – 60 days | **27** | 24 |
| 61 – 90 days | **3** | 4 |
| Over 90 days | **7** | 16 |
| | **291** | 288 |
| Other receivables and prepayments | **344** | 530 |
| | **635** | 818 |

The Group has established credit policies for each of its core business. The general credit terms allowed range from 0 to 60 days, except for sale of properties the proceeds from which are receivable pursuant to the terms of the agreements. All the receivables are expected to be recoverable within one year.

### (b) Impairment of trade receivable

Impairment losses in respect of trade receivables 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 receivables directly.

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

| | 2017 HK$ Million | 2016 HK$ Million |
|---|---|---|
| At 1 January | **2** | 2 |
| Impairment loss recognised | **4** | – |
| Uncollectible amounts written off | **(4)** | – |
| At 31 December | **2** | 2 |

### (c) Trade receivables that are not impaired

As at 31 December 2017, 99% (2016: 99%) of the Group's trade receivables was not impaired, of which 97% (2016: 94%) was either not past due or less than two months past due.

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

## 15 BANK DEPOSITS AND CASH

| | **2017 *HK$ Million*** | 2016 *HK$ Million* |
|---|---|---|
| Bank deposits and cash | **3,076** | 5,212 |

At 31 December 2017, bank deposits and cash included:

| | **2017 *HK$ Million*** | 2016 *HK$ Million* |
|---|---|---|
| Balances placed with banks in Mainland China *(Note (a))* | **2,625** | 5,047 |
| Balances solely for certain designated property development projects in Mainland China *(Note (a))* | **22** | 96 |

*(a) The remittance is subject to relevant rules and regulations of foreign exchange control promulgated by Mainland China government.*

*The effective annual interest rate on bank deposits was 1.1% at 31 December 2017 (2016: 1.2%)*

Bank deposits and cash are denominated in the following currencies:

| | **2017 *HK$ Million*** | 2016 *HK$ Million* |
|---|---|---|
| RMB | **2,596** | 5,022 |
| HKD | **434** | 166 |
| USD | **46** | 24 |
| | **3,076** | 5,212 |

## 16 TRADE AND OTHER PAYABLES

Included in this item are trade payables with an ageing analysis based on the invoice date as at 31 December 2017 as follows:

| | **2017** **HK$ Million** | 2016 *HK$ Million* |
|---|---|---|
| Trade payables | | |
| 0 – 30 days | **107** | 111 |
| 31 – 60 days | **16** | 31 |
| 61 – 90 days | **2** | 7 |
| Over 90 days | **5** | 6 |
| | **130** | 155 |
| Rental and customer deposits | **3,393** | 3,306 |
| Construction costs payable | **1,310** | 1,189 |
| Amount due to an associate *(Note 10)* | **–** | 14 |
| Amounts due to joint ventures *(Note 11)* | **1,514** | 1,422 |
| Other payables | **2,458** | 1,846 |
| | **8,805** | 7,932 |

The amount of trade and other payables that is expected to be settled after more than one year as at 31 December 2017 are HK$2,154 million (2016: HK$ 2,394 million) which is mainly for rental and customer deposits. The Group considers the effect of discounting these items would be immaterial. As at 31 December 2017 and 2016, all of the other trade and other payables are expected to be settled or recognised as income within one year or are payable on demand from the end of each reporting period.

## 17 BANK LOANS

| | **2017** **HK$ Million** | 2016 *HK$ Million* |
|---|---|---|
| **Bank loans (secured)** | | |
| Due after more than 2 years but not exceeding 5 years | **2** | – |
| **Bank loans (unsecured)** | | |
| Due within 1 year | **20,800** | 1,232 |
| Due after more than 1 year but not exceeding 2 years | **2,500** | 300 |
| Due after more than 2 years but not exceeding 5 years | **22,250** | 2,850 |
| | **45,550** | 4,382 |
| **Total** | **45,552** | 4,382 |
| **Analysis of maturities of the above borrowings**: | | |
| **Current borrowings** | | |
| Due within 1 year | **20,800** | 1,232 |
| **Non-current borrowings** | | |
| Due after more than 1 year but not exceeding 2 years | **2,500** | 300 |
| Due after more than 2 years but not exceeding 5 years | **22,252** | 2,850 |
| | **24,752** | 3,150 |
| **Total** | **45,552** | 4,382 |

**(a) The Group's borrowings are denominated in the following currencies:**

| | **2017** **HK$ Million** | 2016 HK$ Million |
|---|---|---|
| HKD | **45,550** | 3,955 |
| USD | **–** | 427 |
| RMB | **2** | – |
| | **45,552** | 4,382 |

**(b)** The effective interest rate per annum on bank loans ranged from 1.1% to 4.8% for the year ended 31 December 2017 (2016: 0.9% to 1.6%).

**(c)** All the interest bearing borrowings are carried at amortised cost. None of the non-current interest bearing borrowings are expected to be settle within one year from the end of each reporting period.

**(d)** As at 31 December 2017, banking facilities of the Group in the amount of HK$1,914 million (2016: HK$Nil) are secured by mortgages over IP under development with an aggregate carrying value of HK$3,926 million (2016: HK$Nil).

**(e)** At 31 December 2017, the Group's bank loans included HK$2,302 million (2016: HK$3,250 million), which are borrowed by Harbour Centre Development Limited. The loans are without recourse to the Company and its other subsidiaries.

**(f)** Certain of the above borrowings are attached with financial covenants which require that at any time, the consolidated tangible net worth is not less than and the ratio of borrowings to consolidated tangible net worth is not more than certain required levels of the relevant groups. During the year ended 31 December 2017, all these covenants have been complied with by the Group.

**(g)** As at 31 December 2016, certain bank loans are guaranteed by Wharf which are attached with financial covenants which require that at any time the consolidated tangible net worth of Wharf is not less than and the ratio of borrowings to consolidated tangible net worth of Wharf is not more than certain required levels. Prior to the listing date, all these covenants have been complied with by Wharf. Such bank loans were repaid and the guarantees by Wharf were terminated prior to the listing of the Company.

**(h)** In December 2017, a USD3 billion medium term note programme (the "Programme") was established by the Group. Subsequent to the year ended 31 December 2017, medium term note of HK$6.5 billion with maturity date due after more than 7 years were issued under the Programme to refinance and optimize the loan maturity profile.

## 18 LOANS FROM FELLOW SUBSIDIARIES

At 31 December 2016, the loans from fellow subsidiaries are unsecured, interest bearing at market rates and repayable on demand. The fellow subsidiaries confirmed that they would not call upon the Group to repay any part of the loans for the next twelve months from the end of each reporting period. The effective interest rate per annum on loans from fellow subsidiaries ranged from 1.4% to 6.1% for the year ended 31 December 2016.

The loans from fellow subsidiaries were settled during the year ended 31 December 2017.

## 19 AMOUNTS DUE FROM/TO THE FORMER IMMEDIATE HOLDING COMPANY AND FELLOW SUBSIDIARIES

The amounts due from/to Wharf, the former immediate holding company and fellow subsidiaries represents amount due from/to Wharf and its subsidiaries ("Wharf Group") , which are non-trade in nature, unsecured, interest free and recoverable/repayable on demand.

The amount due from/to Wharf Group were settled during the year ended 31 December 2017.

## 20 DEFERRED TAXATION

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

| | **2017** **HK$ Million** | 2016 HK$ Million |
|---|---|---|
| Deferred tax liabilities | **2,207** | 1,762 |
| Deferred tax assets | **(353)** | – |
| Net deferred tax liabilities | **1,854** | 1,762 |

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

| | **Depreciation allowances in excess of the related depreciation** ***HK$ Million*** | **Others** ***HK$ Million*** | **Future benefit of tax losses** ***HK$ Million*** | **Total** ***HK$ Million*** |
|---|---|---|---|---|
| At 1 January 2016 | 1,600 | 12 | (2) | 1,610 |
| Charged to profit or loss | 120 | 14 | 2 | 136 |
| Acquisition of subsidiaries | 13 | – | – | 13 |
| Exchange adjustment | 3 | – | – | 3 |
| At 31 December 2016 and 1 January 2017 | **1,736** | **26** | **–** | **1,762** |
| Charged to profit or loss | **113** | **(25)** | **–** | **88** |
| Exchange adjustment | **–** | **4** | **–** | **4** |
| At 31 December 2017 | **1,849** | **5** | **–** | **1,854** |

**(b)** **Deferred tax assets not recognised**

| | **2017** | | 2016 | |
|---|---|---|---|---|
| | **Deductible temporary differences/ tax losses** ***HK$ Million*** | **Deferred tax assets** ***HK$ Million*** | Deductible temporary differences/ tax losses *HK$ Million* | Deferred tax assets *HK$ Million* |
| Deducible temporary differences | **510** | **128** | 479 | 119 |
| Future benefit of tax losses | | | | |
| — Hong Kong | **328** | **54** | 25 | 4 |
| — Outside Hong Kong | **149** | **37** | 141 | 35 |
| | **477** | **91** | 166 | 39 |
| Total | **987** | **219** | 645 | 158 |

The Group has not recognised the deferred tax assets attributable to the future benefit of tax losses sustained in the operations of certain subsidiaries as the availability of future taxable profits against which the assets can be utilised is uncertain at 31 December 2017. The tax losses arising from Hong Kong operations do not expire under current tax legislation. The tax losses arising from operations in Mainland China can be carried forward to offset against taxable profits of subsequent years for up five years from the year in which they arose.

## 21 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

The Group is exposed to financial risks related to interest rate, foreign currency, equity price, liquidity and credit in the normal course of business. To manage some of these risks, the Group Finance Committee develops, maintains and monitors the Group's financial management policies designed to facilitate cost efficient funding to the Group and to mitigate the impact of fluctuations in interest rates and exchange rates. The financial management policies are implemented by the Group's Treasury department, which operates as a centralised service unit in close co-operation with the Group's operating units for managing the day-to-day treasury functions and financial risks and for providing cost efficient funding to the Group.

The Group uses derivatives, principally forward currency contracts and interest rate and cross currency interest rate swaps, as deemed appropriate, for financing and hedging transactions and for managing risks associated with the Group's assets and liabilities. It is the Group's policy not to enter into derivative transactions and invest in financial products with significant underlying leverage which are commercially speculative.

### (a) Interest rate risk

The Group's main exposure to interest rate risk relates principally to the Group's borrowings. Borrowings at variable rates expose the Group to cash flow interest rate risk whilst borrowings at fixed rate expose the Group to fair value interest rate risk. The Group manages its interest rate risk exposure in accordance with defined policies and reviews this exposure with a focus on reducing the Group's overall cost of funding as well as maintaining to the floating/fixed rate mix appropriate to its current business portfolio.

Based on a sensitivity analysis performed as at 31 December 2017, it was estimated that a general increase/decrease of 1% in interest rates, with all other variables held constant, would have decreased/increased the Group's post-tax profit and total equity by approximately HK$359 million (2016: HK$44 million). This takes into account the effect of interest bearing bank deposits.

The sensitivity analysis above indicates the instantaneous change in the Group's post-tax profit and total equity that would have arisen assuming that the change in interest rates had occurred at the end of each reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of each reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of each reporting period, the impact on the Group's post-tax profit and total equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis has been performed on the same basis as 2016.

### (b) Foreign currency risk

The Group owns assets and conducts its businesses primarily in Hong Kong and secondarily in Mainland China, with its cash flows denominated substantially in HKD and RMB which exposes the Group to foreign currency risk with respect to RMB related to its property development in Mainland China. Anticipated foreign exchange payments relate primarily to RMB capital expenditure.

Where appropriate or available in a cost-efficient manner, the Group may enter into forward foreign exchange contracts to manage its foreign currency risk arising from above anticipated transactions denominated in currencies other than its entities' functional currencies.

The Group's borrowings are predominantly denominated in the functional currency of the entity taking out the borrowings. In the case of group companies whose functional currencies are HKD, their borrowings are mostly denominated in HKD or USD. For managing the overall financing costs of existing and future capital requirements for the projects in Mainland China, the Group has adopted a diversified funding approach and has entered into certain forward foreign exchange contracts. Based on the prevailing accounting standards, the forward foreign exchange contracts are marked to market with the valuation movement recognised in the consolidated statement of profit or loss.

The following table details the Group's exposure at the end of each reporting period to currency risk arising from recognised assets/(liabilities) denominated in a currency other than the functional currency of the Group's entities to which they relate. Differences resulting from the translation of the financial statement of foreign operations into the Group's presentation currency and exposure arising from inter-company balances which are considered to be in the nature of investment in a subsidiary are excluded.

| | **As at 31 December 2017** | | As at 31 December 2016 | | | | |
|---|---|---|---|---|---|---|---|
| | ***USD Million*** | ***RMB Million*** | *USD Million* | *RMB Million* | *JPY Million* | *SGD Million* | *AUD Million* |
| Equity investments | **258** | **—** | 184 | – | – | – | – |
| Bank loans | **6** | **—** | (55) | – | – | – | – |
| Intercompany balances | **–** | **(127)** | (1,770) | (1,127) | (9,958) | (510) | (110) |
| Gross exposure arising from recognised assets and liabilities | **264** | **(127)** | (1,641) | (1,127) | (9,958) | (510) | (110) |

In addition, at 31 December 2017, Mainland China subsidiaries of the Group with RMB as their functional currency are exposed to foreign currency risk with respect to HKD/USD by holding HKD/USD denominated bank deposits and cash in the amount of HK$28 million (2016: HK$25 million).

Based on the sensitivity analysis performed at 31 December 2017, it was estimated that the impact on the Group's post tax profit and total equity would not be material in response to possible changes in the foreign exchange rates of foreign currencies to which the Group is exposed.

It is further analysed that the sensitivity on the translation of Mainland China operations from 1% increase/decrease of exchange rate against RMB and HKD, the Group's total equity would have increased/decreased by HK$55 million at 31 December 2017 (2016: HK$59 million).

## (c) Equity price risk

The Group is exposed to equity price changes arising from equity investments.

Listed investments held in the equity investment portfolio have been chosen for their long term growth potential and returns and are monitored regularly for performance. Given that the volatility of the stock markets may not have a direct correlation with the Group's investment portfolio, it is impractical to determine the impact that the changes in stock market indices would have on the Group's portfolio of equity investments.

Based on a sensitivity analysis performed as at 31 December 2017, it is estimated that an increase/decrease of 5% (2016: 5%) in the market value of the Group's listed equity investments, with all other variables held constant, would not have affected the Group's post-tax profit but would have increased/decreased the Group's total equity by HK$135 million (2016: HK$115 million). The analysis has been performed on the same basis as 2016.

### (d) Liquidity risk

The Group adopts a prudent liquidity risk management policy, maintaining sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding with staggered maturities to reduce refinancing risk in any year from major financial institutions and to maintain flexibility for meeting its liquidity requirements in the short and longer term. The Group's management regularly monitors the current and expected liquidity requirements and its compliance with lending covenants.

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

The following tables detail the remaining contractual maturities at the end of each reporting period of the Group's derivative and non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates at the end of each reporting period and carried at the exchange rates prevailing at the end of each reporting period) and the earliest date the Group can be required to pay:

| | | Contractual undiscounted cash flow | | | | |
|---|---|---|---|---|---|---|
| | **Carrying amount** *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* |
| **At 31 December 2017** | | | | | | |
| Bank loans | **(45,552)** | **(47,680)** | **(21,614)** | **(2,996)** | **(23,070)** | **–** |
| Trade and other payables | **(8,805)** | **(8,805)** | **(6,651)** | **(978)** | **(956)** | **(220)** |
| | **(54,357)** | **(56,485)** | **(28,265)** | **(3,974)** | **(24,026)** | **(220)** |
| **At 31 December 2016** | | | | | | |
| Bank loans | (4,382) | (4,565) | (1,294) | (341) | (2,930) | – |
| Trade and other payables | (7,932) | (7,932) | (5,538) | (1,066) | (1,108) | (220) |
| Amount due to the former immediate holding company | (10,354) | (10,354) | (10,354) | – | – | – |
| Amounts due to fellow subsidiaries | (52) | (52) | (52) | – | – | – |
| Loans from fellow subsidiaries | (30,980) | (34,885) | (1,533) | (11,969) | (13,238) | (8,145) |
| | (53,700) | (57,788) | (18,771) | (13,376) | (17,276) | (8,365) |

### (e) Credit risk

The Group's credit risk is primarily attributable to rental, trade and other receivables, cash and cash equivalents and over-the-counter derivative financial instruments. The exposures to these credit risks are closely monitored on an ongoing basis by established credit policies and procedures in each of the Group's core businesses. In respect of rental receivables, sufficient rental deposits from tenants are held to cover potential exposure to credit risk. Further, evaluations are made for the customers with reference to their repayment history and financial strength, as well as the economic environment in which the customer operates.

Cash at bank, deposits placed with financial institutions and investments and transactions involving derivative financial instruments are with counter parties with sound credit ratings to minimise credit exposure.

The Group has no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position. The Group does not provide any other guarantee which would expose the Group to material credit risk.

## (f) Fair values of assets and liabilities

### (i) *Assets and liabilities carried at fair value*

The following table presents the fair value of the Group's financial instruments measured at the end of each reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as defined in Note 8(d).

Financial instruments carried at fair value

The fair value measurement information for financial instruments in accordance with HKFRS 13 is given below:

| | **Fair value measurements as at 31 December 2017 categorised into** | |
|---|---|---|
| | **Level 1** | **Total** |
| | ***HK$ Million*** | ***HK$ Million*** |
| **Assets** | | |
| Equity investments: | | |
| — Listed investments | **2,708** | **2,708** |

| | Fair value measurements as at 31 December 2016 categorised into | |
|---|---|---|
| | Level 1 | Total |
| | *HK$ Million* | *HK$ Million* |
| **Assets** | | |
| Equity investments: | | |
| — Listed investments | 2,301 | 2,301 |

During the year ended 31 December 2017 and 2016, there were no transfers of instruments between Level 1 and Level 2 or transfers into or out of Level 3.

The Group's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of each reporting period in which they occur.

### (ii) *Assets and liabilities carried at other than fair value*

The carrying amounts of the Group's financial assets and liabilities carried at cost or amortised cost are not materially different from their fair values as at 31 December 2017 and 2016.

## (g) Capital management

The Group's primary objective when managing capital is to safeguard the Group's ability to continue as a going concern, to meet its financial obligations and continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders' returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in the light of changes in the Group's business portfolio and economic conditions.

The Group monitors its capital structure by reviewing its net debt-to-equity ratios and cash flow requirements, taking into account of its future financial obligations and commitments. For this purpose, the Group defines net debt as total loans less bank deposits and cash. Shareholders' equity comprises issued share capital and reserves attributable to equity shareholders of the Company. Total equity comprises shareholders' equity and non-controlling interests.

The net debt-to-equity ratios as at 31 December 2017 and 2016 were as follows:

| | 2017 *HK$ Million* | 2016 *HK$ Million* |
|---|---|---|
| Bank loans *(Note 17)* | **45,552** | 4,382 |
| Loans from fellow subsidiaries | **–** | 30,980 |
| Less: Bank deposits and cash *(Note 15)* | **(3,076)** | (5,212) |
| Net debt | **42,476** | 30,150 |
| Equity attributable to shareholders of the Company | **207,318** | 198,910 |
| Total equity | **212,968** | 204,137 |
| Net debt-to-shareholders' equity ratio | **20.5%** | 15.2% |
| Net debt-to-total equity ratio | **19.9%** | 14.8% |

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

## 22 SHARE CAPITAL AND RESERVES

### (a) Share capital

The Company was incorporated in the Cayman Islands on 13 April 2017 as an exempted company with limited liability under the Companies Law (as revised) of the Cayman Islands. Details of share capital of the Company for the period from 13 April 2017 (date of incorporation) to 31 December 2017 are set out below:

| | *Number of shares Million* | *HK$ Million* |
|---|---|---|
| **Authorised ordinary shares of HK$0.1 each** | | |
| At 13 April 2017 (date of incorporation) | 4 | – |
| Increase in authorised share capital | 4,996 | 500 |
| At 31 December 2017 | 5,000 | 500 |

| | *Number of shares Million* | *HK$ Million* |
|---|---|---|
| **Issued and fully paid ordinary shares** | | |
| At 13 April 2017 (date of incorporation) | – | – |
| Issuance of new shares | 3,036 | 304 |
| At 31 December 2017 | 3,036 | 304 |

A total of 3,036,227,327 shares of the Company were issued to Wharf in pursuant to the Reorganisation. Prior to the Listing, Wharf declared a dividend by means of distribution in specie of the entire issued share capital of the Company to the qualified shareholders on 14 November 2017. The distribution was made by way of allocating one share of the Company for every one share of Wharf held by the qualified shareholders of Wharf at the close of business on the distribution record date on 20 November 2017.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

The share capital in the consolidated statement of financial position as at 31 December 2016 represented the share capital of WEL which in aggregate is less than HK$1 million. Pursuant to the Reorganisation, the Company became the holding company of the Group on 9 August 2017.

## (b) Share premium

The share premium represents the difference between the par value of the shares of the Company and proceeds received from the issuance of the shares of the Company.

Under the Companies Law of the Cayman Islands, the funds in the share premium account of the Company is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company would be in a position to pay off its debts as they fall due in the ordinary course of business.

## (c) Reserves

The Group's equity, apart from share capital, share premium and other statutory capital reserves, includes investments revaluation reserves for dealing with the movements on revaluation of equity investments and the exchange reserves mainly for dealing with the exchange differences arising from the translation of the financial statements of foreign operations in accordance with the accounting policy Note (o).

The revenue reserves of the Group at 31 December 2017 included HK$89 million (2016: HK$83 million) in respect of statutory reserves of the subsidiaries in Mainland China which are not distributable in the form of cash dividend but may be used to set off losses or be converted into paid-in capital.

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the company's individual components of equity between the beginning and the end of the year are set out below:

*Company*

| | **Share capital** *HK$ Million* | **Share premium** *HK$ Million* | **Revenue reserves** *HK$ Million* | **Total** *HK$ Million* |
|---|---|---|---|---|
| **Balance at 13 April 2017 (date of incorporation)** | – | – | – | – |
| **Changes in equity for period from 13 April 2017 (date of incorporation) to 31 December 2017:** | | | | |
| Total comprehensive income for the period | – | – | 3,442 | 3,442 |
| Issuance of new shares | 304 | 696 | – | 1,000 |
| **Balance at 31 December 2017** | 304 | 696 | 3,442 | 4,442 |

**(d)** Reserves of the Company available for distribution to equity shareholders of the Company as at 31 December 2017 amounted to HK$3,442 million.

**(e)** At the end of the reporting period, the directors declared interim dividend of HK$0.95 per share amounting to HK$2,884 million based on 3,036 million issued ordinary shares. The dividend has not been recognised as a liability at the end of the reporting period.

## 23 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | Note | 31 December 2017 HK$ Million |
|---|---|---|
| **Non-current asset** | | |
| Interest in subsidiaries | | **4,475** |
| **Current liability** | | |
| Payables | | **(33)** |
| **NET ASSETS** | | **4,442** |
| **Capital and reserves** | | |
| Share capital | *22(a)* | **304** |
| Reserves | | **4,138** |
| **TOTAL EQUITY** | | **4,442** |

**Stephen T H Ng**
*Chairman & Managing Director*

**Doreen Y F Lee**
*Vice Chairman*

## 24 MATERIAL RELATED PARTIES TRANSACTIONS

Transactions between the Company and its subsidiaries have been eliminated on combination. The Group has entered into the following material related party transactions during the year:

(a) For the year ended 31 December 2017, the Group earned rental income totalling HK$943 million (2016: HK$1,023 million).

(i) There was HK$861 million (2016: HK$917 million) from tenants which are wholly or partly owned by companies which in turn are wholly owned by the family interests of close family members of, or by a trust the settler of which is a close family member of the chairman of Wheelock Company and Limited ("Wheelock").

(ii) There was an amount HK$82 million (2016: HK$106 million) from various tenants which are subsidiaries of Wheelock and Wharf, of which HK$13 million constitute connected transactions as defined under Listing Rules for the period from 23 November 2017 (the "Listing Date") to 31 December 2017 under the Wheelock Leasing Framework Agreement and Wharf Leasing Framework Agreement.

(b) There were in existence agreements with a subsidiary of Wharf for the management, marketing, project management and technical services of the Group's hotel operations. For the year ended 31 December 2017, total fees payable under this arrangement amounted to HK$86 million (2016: HK$79 million). Including in the above, an amount of HK$15 million constitute connected transactions as defined under Listing Rules for the period from the Listing Date to 31 December 2017 under the Master Hotel Services Agreement.

(c) There were in existence agreements with subsidiaries of Wheelock and Wharf for the property services in respect of the Group's property projects. For the year ended 31 December 2017, total fees payable under this arrangement amounted to HK$55 million (2016: HK$58 million). Including in the above, an amount of HK$11 million constitute connected transactions as defined under Listing Rules for the period from the Listing Date to 31 December 2017 under the Master Property Services Agreement.

(d) For the year ended 31 December 2017, corporate charges amounted to HK$213 million (2016: HK$189 million) were charged by Wharf Limited, a fellow subsidiary of the Group and a wholly owned subsidiary of Wharf.

(e) For the period from 1 January 2017 to the Listing Date, finance costs amounted to an aggregate of HK$848 million (2016: HK$1,112 million) were charged by Wharf Finance Limited, Wharf MTN (Singapore) Pte Ltd and Wharf Finance (BVI) Limited, all of which are fellow subsidiaries of the Group and wholly owned subsidiaries of Wharf. There was no more such finance costs with related parties be incurred after the Listing Date.

(f) Remuneration for key management personnel of the Group, including amounts paid to the Directors of the Company and the five highest paid employee are disclosed in Note 2(b) and 2(c).

In addition to the above transactions, details of the Group's amounts due from and to related parties are disclosed in Notes 10, 11, 18 and 19.

## 25. CONTINGENT LIABILITIES

As at 31 December 2017, there were contingent liabilities in respect of guarantees given by the Company on behalf of subsidiaries relating to overdrafts, short term loans and credit facilities of up to HK$48,300 million (2016: HK$Nil).

As at 31 December 2017, there were guarantees of HK$1,936 million (2016: HK$3,194 million) provided by the Group to the banks in favour of their customers in respect of the mortgage loans provided by the banks to those customers for the purchase of the Group's development properties. There were also mortgage loan guarantees of HK$2 million (2016: HK$49 million) provided by joint ventures and associates of the Group to the banks in favour of their customers.

The Group and the Company have not recognised any deferred income of the above guarantees for subsidiaries as their fair value cannot be reliably measured and their transaction price was HK$Nil.

As at the end of the reporting period, the Directors do not consider it is probable that a claim will be made against the Group and the Company under any of the guarantees.

## 26 COMMITMENTS

The Group's outstanding commitments as at 31 December 2017 are detailed as below:

### Planned expenditure

| | | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|---|
| | | **Committed** *HK$ Million* | **Uncommitted** *HK$ Million* | **Total** *HK$ Million* | Committed *HK$ Million* | Uncommitted *HK$ Million* | Total *HK$ Million* |
| **(I)** | **Properties** | | | | | | |
| | **Investment properties** | | | | | | |
| | Hong Kong | **343** | **468** | **811** | 368 | 429 | 797 |
| | Mainland China | **1,214** | **2,903** | **4,117** | 1,447 | 2,054 | 3,501 |
| | | **1,557** | **3,371** | **4,928** | 1,815 | 2,483 | 4,298 |
| | **Development properties** | | | | | | |
| | Mainland China | **119** | **2,113** | **2,232** | 488 | 2,043 | 2,531 |
| | | **119** | **2,113** | **2,232** | 488 | 2,043 | 2,531 |
| | **Properties total** | | | | | | |
| | Hong Kong | **343** | **468** | **811** | 368 | 429 | 797 |
| | Mainland China | **1,333** | **5,016** | **6,349** | 1,935 | 4,097 | 6,032 |
| | | **1,676** | **5,484** | **7,160** | 2,303 | 4,526 | 6,829 |
| **(II)** | **Hotels** | **16** | **120** | **136** | 1,379 | 412 | 1,791 |
| **Total** | | **1,692** | **5,604** | **7,296** | 3,682 | 4,938 | 8,620 |

(i) Properties commitments are mainly for construction costs to be incurred in the forthcoming years.

(ii) The expenditure for development properties included attributable amounts for developments undertaken by joint ventures and an associate of HK$2,232 million at 31 December 2017 in the Mainland China (2016: HK$2,187 million).

## 27 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued certain amendments to Hong Kong Financial Reporting Standards ("HKFRSs") which are first effective for the current accounting period of the Group. The amendments do not have a significant impact on the Group's results and financial position for the current or prior periods have been prepared or presented.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period except for HKFRS 9, Financial instruments, since the consolidated financial statements for the year ended 31 December 2016.

The "Principal accounting policies" set out on pages 143 to 157 summarise the accounting policies of the Group after the adoption of these policies to the extent that they are relevant to the Group.

## 28 FUTURE CHANGES IN ACCOUNTING POLICIES

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2017 and which have not been adopted in these financial statements except for HKFRS 9. These include the following which may be relevant to the Group.

| | **Effective for accounting periods beginning on or after** |
|---|---|
| HKFRS 15, *Revenue from contracts with customers* | 1 January 2018 |
| Amendments to HKFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions* | 1 January 2018 |
| Amendments to HKAS 40, *Investment property: Transfers of investment property* | 1 January 2018 |
| HK(IFRIC) 22, *Foreign currency transactions and advance consideration* | 1 January 2018 |
| HKFRS 16, *Leases* | 1 January 2019 |
| HK(IFRIC) 23, *Uncertainty over income tax treatments* | 1 January 2019 |
| Amendments to HKFRS 10 and HKAS 28, *Sale or contribution of assets between an investor and its associate or joint venture* | A date to be determined by HKICPA |

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 15, the actual impacts upon the initial adoption of the standard may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ending 30 June 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

### HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, *Revenue*, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specifies the accounting for revenue from construction contracts.

Based on the assessment completed to date, the group has identified the following areas which are expected to be affected:

#### (a) Timing of revenue recognition

The Group's revenue recognition policies are disclosed in note (p). Currently, revenue arising from rental income is recognised over the accounting periods covered by the lease term and income from hotels operation are recognised at the time when the services are provided, whereas revenue from the sale of properties is generally recognised when the risks and rewards of ownership have passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. HKFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

(i) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(ii) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

(iii) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

The Group has assessed that the new revenue standard is not likely to have significant impact on how it recognises revenue from rental income from investment properties and income from hotels operation. However, revenue recognition for sales of development properties is expected to be affected. Currently the Group's property development activities are carried out in the Mainland China only. Taking into account the contract terms, the Group's business practice and the legal and regulatory environment of the Mainland China, the Group has assessed that its property sales contracts will not meet the criteria for recognising revenue over time and therefore revenue from property sales will continue to be recognised at a point in time. Currently the Group recognises revenue from property sales upon the later of the signing of the sale and purchase agreement and the completion of the property development, which is taken to be the point in time when the risks and rewards of ownership of the property have been transferred to the customer. The Group has assessed that under the transfer-of-control approach in the new standard revenue from property sales will generally be recognised when the legal assignment is completed, which is the point in time when the customer has the ability to direct the use of the property and obtain substantially all of the remaining benefits of the property. This may result in revenue being recognised later than at present.

#### (b) Significant financing component

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance or in arrears. Currently, the Group would only apply such a policy when payments are significantly deferred, which is currently not common in the Group's arrangements with its customers.

Currently, the Group does not apply such a policy when payments are received in advance, which is not common in the Group's arrangements with its customers.

The Group plans to elect to use the cumulative effect transition method for the adoption of HKFRS 15 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. As allowed by HKFRS 15, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. Since the number of "open" contracts for sales of development properties at 31 December 2017 is limited, the Group expects that the transition adjustment to be made upon the initial adoption of HKFRS 15 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial results from 2018 onwards.

### HKFRS 16, Leases

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

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

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

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

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

## 29 EVENTS AFTER THE REPORTING PERIOD

After the end of the reporting period the Directors declared an interim dividend. Further details are disclosed in Note 6.

## 30 PARENT AND ULTIMATE HOLDING COMPANY

The Directors consider the parent and ultimate holding company at 31 December 2017 to be Wheelock and Company Limited, which is incorporated and listed in Hong Kong. Wheelock and Company Limited produces financial statements available for public use.

## 31 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Directors on 5 March 2018.

# PRINCIPAL ACCOUNTING POLICIES

## a. Basis of preparation of financial statements

Wharf Real Estate Investment Company Limited (the "Company") was incorporated in the Cayman Islands on 13 April 2017.

The Company is an investment holding company. The Company and its subsidiaries (together, "the Group") are principally engaged in investment in strategic and substantial retail, office and hotel operations in Hong Kong.

To rationalise the corporate structure in preparation of the listing of the Company's shares on The Stock Exchange of Hong Kong Limited, the Group underwent a group reorganisation ("Reorganisation"), the Company became the holding company of the Group on 9 August 2017.

The companies now comprising the Group were under the common control of the same controlling shareholder before and after the Reorganisation. Accordingly, the Reorganisation is considered to be a business combination of entities under common control. The consolidated financial statements have been prepared using the merger basis of accounting as if the companies now comprising the Group have been consolidated at 1 January 2016. The assets and liabilities of the consolidating companies are recognised and measured using the historical carrying amounts from the perspective of the controlling shareholder.

The consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Group include the consolidated results and cash flows of all companies now comprising the Group (or where the companies were incorporated, established or acquired at a date later than 1 January 2016, for the period from the date of incorporation, establishment or acquisition to 31 December 2017) as if the group structure had been in existence since 1 January 2016. The consolidated statement of financial position of the Group as at 31 December 2017 and 2016 has been prepared to present the state of affairs of the Group as if the Reorganisation had been completed at 1 January 2016.

All material intra-group balances, transactions and cash flows are eliminated in preparing these financial statements.

The financial statements are presented in Hong Kong dollars ("HK$"), rounded to the nearest million, except as otherwise stated herein. The measurement basis used in the preparation of the financial statements are the historical cost basis except where stated otherwise in the accounting policies set out below.

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note (w).

## b. 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 Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosures requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued a number of new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Except for HKFRS 9, *Financial instruments* ("HKFRS 9"), the Group has not adopted any new standards or interpretations that are not yet effective for the accounting period beginning on 1 January 2018. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year beginning 1 January 2018 are set out in Note 28.

## c. Basis of consolidation

### (i) *Subsidiaries and non-controlling interests*

Subsidiaries are entities controlled by the Group. The results of subsidiaries are included in the financial statements from the date that control commences until the date that control ceases. Merger accounting is adopted for common control combinations (see below) in which all of the combining entities are ultimately controlled by the same controlling shareholder both before and after the business combination and that control is not transitory.

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.

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that control the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at the carrying amounts recognised from the controlling shareholder's perspective. All differences between the cost of acquisition (fair value of consideration paid) and the amounts at which the assets and liabilities are recorded have been recognised directly in equity as part of the other reserve.

Intra-group balances and transactions and cash flows, and any unrealised profits arising from intragroup transactions, are eliminated in full in preparing the financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

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

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the 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 comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with note (f) depending on the nature of the liability.

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

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

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note (k)(ii)).

### (ii) *Associates and joint ventures*

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

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

An investment in an associate or a joint venture is accounted for in the financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see note (k)(ii)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income. Adjustments are made on consolidation to the financial information of associates and joint ventures where necessary to ensure consistency with the accounting policies adopted by the Group.

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

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

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

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

In the Company's statement of financial position, investments in an associate and joint ventures are stated at cost less impairment losses (see note (k)(ii)).

## d. Investment properties and hotel and club properties, plant and equipment

### (i) *Investment properties*

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

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

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note (j)), 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 (j).

*(ii)* ***Hotel and club properties, plant and equipment***

Hotel and club properties, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note (k)(ii)). Hotel properties under development are stated at cost less impairment losses (see note (k)(ii)).

*(iii)* Gains or losses arising from the retirement or disposal of an item of investment properties and hotel and club properties, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of profit or loss on the date of retirement or disposal.

## e. Depreciation of investment properties and hotel and club properties, plant and equipment

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

*(i)* ***Investment properties***

No depreciation is provided on investment properties.

*(ii)* ***Hotel and club properties, property and equipment***

Depreciation is provided on the cost of the leasehold land of hotel and club properties over the unexpired period of the lease. Costs of buildings thereon are depreciated on a straight line basis over their estimated useful lives of not more than 40 years.

Depreciation of hotel properties under development commences when they are available for use.

Depreciation is provided on a straight line basis over their estimated useful lives of property and equipment of 3 to 25 years.

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

## f. Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value.

A financial asset or financial liability (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit of loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

*(i)* ***Classification and measurement of financial assets***

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income ("FVOCI") — debt investment; FVOCI — equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition, except if and in the period the Group changes its business model for managing financial assets.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

— the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

— the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified and measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

### Financial assets: Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

— the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;

— how the performance of the portfolio is evaluated and reported to the Group's management;

— the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

— how managers of the business are compensated — e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

— the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

### Financial assets: Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

— contingent events that would change the amount or timing of cash flows;

— terms that may adjust the contractual coupon rate, including variable rate features;

— prepayment and extension features; and

— terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a significant discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets: Subsequent measurement and gains and losses

| | |
|---|---|
| Financial assets at FVTPL | These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss. |
| Financial assets at amortised cost | These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss. |
| Equity investments at FVOCI | These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss. |

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

### *(ii) Derecognition of financial assets*

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In such cases, the transferred assets are not derecognised.

### *(iii) Classification and measurement of financial liabilities*

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

### *(iv) Derecognition of financial liabilities*

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

### *(v) Offsetting*

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under HKFRSs, or for gains and losses arising from a group of similar transactions such as in the Group's trading.

## g. Investments in debt and equity securities

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

The 'equity investments' caption in the consolidated statement of financial position includes:

- equity investment securities mandatorily measured at FVTPL or designated as at FVTPL; these are at fair value with changes recognised immediately in profit or loss; and

- equity investment securities designated as at FVOCI.

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

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

Investments in equity securities (other than investments in subsidiaries, associates and joint ventures) are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets.

## h. Derivative financial instruments

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

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

## i. Hedging

### *(i) Fair value hedge*

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

### *(ii) Cash flow hedge*

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

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

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is reclassified from equity to the consolidated statement of profit or loss in the same period or periods during which the asset acquired or liability assumed affects the consolidated statement of 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 the consolidated statement of 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 Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss is reclassified from equity to the consolidated statement of profit or loss immediately.

## j. Leased assets

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

### *(i) Classification of leased assets*

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

— property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as an investment property, is accounted for as if held under a finance lease (see note (d)(i)); and

— land held tor own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

### *(ii) Assets held under operating leases*

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

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

### *(iii) Assets held under finance leases*

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in recognised as plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note (e). Impairment losses are accounted for in accordance with the accounting policy as set out in note (k)(ii). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

## k. Impairment of assets

### *(i) Impairment of financial assets*

The Group recognises loss allowances for expected credit loss (“EGL”) on financial assets measured at amortised cost.

The Group measures loss allowances at an amount equal to lifetime EGL. Loss allowances for trade receivables are always measured at an amount equal to lifetime EGL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating EGL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group’s historical experience and informed credit assessment and including forward-looking information.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of EGL that results from default events on a financial instrument that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

In all cases, the maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

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

Credit-impaired financial assets

At each reporting date, the Group assesses on a forward looking basis whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit — impaired. A financial asset is ’credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

— significant financial difficulty of the borrower or issuer;

— a breach of contract such as a default or past due event;

— the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;

— it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for EGL in the consolidated statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group’s procedures for recovery of amounts due.

### (ii) Impairment of non-financial assets

The carrying amounts of non-financial assets, other than properties carried at revalued amounts (including investments in subsidiaries in the Company's statement of financial position, investments in associates and joint ventures accounted for under the equity method (see note (c)(ii)) and deferred tax assets, are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— Calculation of recoverable amount

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

— Recognition of impairment losses

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

— Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed (including those provided during the interim financial reporting).

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

## I. Properties for sale

### (i) Completed properties for sale

Completed properties for sale are stated at the lower of cost and net realisable value. Cost is determined by apportionment of the total development costs, including borrowing costs capitalised (see note (q)), attributable to unsold units. Net realisable value is estimated by the management, based on prevailing market conditions which represents the estimated selling price less costs to be incurred in selling the property. Cost of completed properties for sale comprises all costs of purchase, costs of conversion and costs incurred in bringing the inventories to their present location and condition.

The amount of any write down of or provision for properties held for sale is recognised as an expense in the period the write down or loss occurs. The amount of any reversal of any write down or provision arising from an increase in net realisable value is recognised in the consolidated statement of profit or loss in the period in which the reversal occurs.

### (ii) Properties under development for sale

Properties under development for sale are classified as current assets and stated at the lower of cost and net realisable value. Cost includes identified costs including the acquisition cost of land, aggregate cost of development, borrowing costs capitalised (see note (q)), material and supplies, wages, other direct expenses and an appropriate proportion of overheads. Net realisable value is estimated by management, taking into account the expected price that can ultimately be achieved, based on prevailing market conditions and the anticipated costs of completion and costs to be incurred in selling the property.

The amount of any write down of or provision for properties under development for sale is recognised as an expense in the period the write down or loss occurs. The amount of any reversal of any write down or provision arising from an increase in net realisable value is recognised in the consolidated statement of profit or loss in the period in which the reversal occurs.

## m. Inventories

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

## n. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

## o. Foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary foreign currency balances and the statement of financial position of foreign operations are translated into Hong Kong dollars at the exchange rates ruling at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into Hong Kong dollars at the monthly weighted average exchange rates for the year. Consolidated statement of financial position items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. Differences arising from the translation of the financial statement of foreign operations are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve and those arising from the financing of properties under development by foreign currency borrowings are capitalised as part of the development costs. All other exchange differences are dealt with in the consolidated statement of profit or loss.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is reclassified from equity to the consolidated statement of profit or loss and is included in the calculation of the profit or loss on disposal.

## p. Recognition of revenue

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the consolidated statement of profit or loss as follows:

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

(ii) Income arising from the sale of properties held for sale is recognised upon the later of the execution of the formal sale and purchase agreement and the issue of occupation permit/completion certificate by the relevant government authorities, which is taken to be the point in time when the risks and rewards of ownership of the property have passed to the buyer. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the consolidated statement of financial position.

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

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

(iv) Interest income is recognised as it accrues using the effective interest method.

(v) Income received in advance attributable to long term service contracts is deferred and recognised over the contract period on a straight line basis.

## q. Borrowing costs

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

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

## r. Income tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the consolidated statement of 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.

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

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

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may be capable to support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided that they are not part of a business combination).

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

The carrying amount of a deferred tax asset is reviewed at 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 will probably arise from the distribution of dividends are recognised when the related dividends are likely to be payable in the foreseeable future.

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

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

## s. Related parties

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

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

(b) has significant influence over the Group; or

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

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

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

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

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

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

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

(f) The entity is controlled or jointly controlled by a person identified in (i).

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

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

## t. Financial guarantees issued, provisions and contingent liabilities

### *(i) Financial guarantees issued*

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

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

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note (t)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee, i.e. the amount initially recognised, less accumulated amortisation.

### *(ii) Other provisions and contingent liabilities*

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

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

## u. Segment reporting

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

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

## v. Employee benefits and contributions to defined contribution retirement plans

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

## w. Significant accounting estimates and judgements

In the process of applying the Group's accounting policies, management has made the following accounting judgements:

Note 21 contain information about the assumptions and their risk relating to financial instruments. Other key sources of estimation uncertainty are as follows:

### *— Valuation of investment properties*

Investment properties are included in the consolidated statement of financial position at their market value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably determined at that time. The market value of investment properties is assessed annually by independent qualified valuers, after taking into consideration the net income allowing for reversionary potential and redevelopment potential of the properties.

The assumptions adopted in the property valuations are based on the market conditions existing at the end of the reporting period, with reference to current market sales prices and the appropriate capitalisation rate.

### *— Assessment of the useful economic lives for depreciation of hotel and club properties, plant and equipment*

In assessing the estimated useful lives of hotel and club properties, plant and equipment, management takes into account factors such as the expected usage of the asset by the Group based on past experience, the expected physical wear and tear {which depends on operational factors), technical obsolescence arising from changes or improvements in production or from a change in the market demand for the product or service output of the asset. The estimation of the useful life is a matter of judgement based on the experience of the Group.

Management reviews the useful lives of hotel and club properties, plant and equipment annually and if expectations are significantly different from previous estimates of useful economic lives, the useful lives and, therefore, the depreciation rate for the future periods will be adjusted accordingly.

— *Assessment of impairment of non-current assets*

Management assesses the recoverable amount of each asset based on its value in use (using relevant rates) or on its net selling price (by reference to market prices), depending upon the anticipated future plans for the asset. Estimating the value in use of an asset involves estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and applying the appropriate discount rate to these future cash flows. Cash flow projections for the remaining useful life of the asset and the most recent financial budgets/forecasts are approved by management.

— *Assessment of provision for properties for sale*

Management determines the net realisable value of properties for sale by using (i) prevailing market data such as most recent sale transactions and market survey reports available from independent property valuers; and (ii) internal estimates of costs based on quotes by suppliers.

Management's assessment of the net realisable value of properties under development for sale requires the application of a risk-adjusted discount rate to estimate future discounted cash flows to be derived from the properties under development for sale. These estimates require judgement as to the anticipated sale prices by reference to recent sale transactions in nearby locations, rate of new property sales, marketing costs (including price discounts required to stimulate sales) and the expected costs to completion of properties, the legal and regulatory framework and general market conditions. The Group's estimates may be inaccurate and estimates may need to be adjusted in later periods.

— *Recognition of deferred tax assets*

The recognition of deferred tax assets requires formal assessment by the Group of the future profitability of related operations. In making this judgement, the Group evaluates, amongst other factors, the forecast financial performance, changes in technology and operational and financing cashflows.

# PRINCIPAL SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

As 31 December 2017

## (A) SUBSIDIARIES INCORPORATED IN HONG KONG:

| Company name | Issued and paid up capital | Percentage of equity interest Direct | Percentage of equity interest Indirect | Principal activities |
|---|---|---|---|---|
| Bright Smart Limited | HK$10,000 divided into 10,000 shares | – | 100 | Property investment |
| Cheer Sky Investment Limited | HK$1 divided into 1 share | – | 72 | Holding company |
| Excellent Base Limited | HK$10,000 divided into 10,000 shares | – | 100 | Property investment |
| Free Boost Investments Limited | HK$1 divided into 1 share | – | 72 | Holding company |
| Harbour Centre Development Limited * | HK$3,641,350,047 divided into 708,750,000 shares | – | 72 | Holding company |
| Harbour City Estates Limited | HK$330,100,000 divided into 20,000 shares | – | 100 | Property investment |
| Harriman Leasing Limited | HK$2,000,990 divided into 10,100,099 shares | – | 100 | Leasing services |
| HCDL China Finance Limited | HK$1 divided into 1 share | – | 72 | Finance |
| HCDL Finance Limited | HK$5,000,000 divided into 5,000,000 shares | – | 72 | Finance |
| HCDL Investments Limited | HK$1 divided into 1 share | – | 72 | Holding company |
| HCDL Investments Finance Limited | HK$1 divided into 1 share | – | 72 | Finance |
| High Sea Investments Limited | HK$2 divided into 2 shares | – | 72 | Holding company |
| Joinhill Investments Limited | HK$1 divided into 1 share | – | 72 | Holding company |
| Manniworth Company Limited | HK$10,000 divided into 10,000 shares | – | 72 | Property investment |
| Market Favour Investments Limited | HK$1 divided into 1 share | – | 72 | Holding company |
| Marnav Holdings Limited | HK$1,000,000 dividend into 1,000,000 shares | – | 100 | Property investment |
| Mullein Company Limited | HK$10,000 divided into 10,000 shares | – | 100 | Property investment |
| Oripuma Investments Limited | HK$2 divided into 2 shares | – | 100 | Property investment |
| Plaza Hollywood Limited | HK$10,000,000 divided into 10,000,000 shares | – | 100 | Property investment |
| Ridge Limited | HK$10,000 divided into 10,000 shares | – | 100 | Property investment |
| The Murray Limited | HK$1 divided into 1 share | – | 72 | Hotel |
| The Hongkong Hotel Limited | HK$100,000 divided into 100,000 shares | – | 72 | Hotel and property investment |
| The Marco Polo Hotel (Hong Kong) Limited | HK$1,000 divided into 1,000 shares | – | 100 | Hotel |
| The Prince Hotel Limited | HK$2 divided into 2 shares | – | 100 | Hotel |
| The "Star" Ferry Company, Limited | HK$7,200,000 divided into 1,440,000 shares | – | 100 | Public transport |
| Times Square Limited | HK$20 divided into 2 shares | – | 100 | Property investment |
| Wavatah Company Limited | HK$1,000 divided into 1,000 shares | – | 100 | Property investment |
| Wealthy Flow Company Limited | HK$1 divided into 1 share | – | 72 | Funds management |
| Wettersley Company Limited | HK$10,000 divided into 10,000 shares | – | 100 | Property investment |
| Wharf Estates Limited | HK$1,000,000 dividend into 1,000,000 shares | – | 100 | Holding company |

| Company name | Issued and paid up capital | Percentage of equity interest Direct | Indirect | Principal activities |
|---|---|---|---|---|
| Wharf Realty Limited | HK$2 divided into 2 shares | – | 100 | Property investment |
| Wharf REIC Corporate Management Limited (previously known as Wharf REIC Corporate Services Limited) | HK$1 divided into 1 share | – | 100 | Property management |
| Wharf REIC Finance Limited (previously known as Central Market Limited) | HK$1 divided into 1 share | – | 100 | Finance |
| Wharf REIC Treasury Limited | HK$1 divided into 1 share | – | 100 | Bank deposit |
| Wharf Transport Investments Limited | HK$2 divided into 2 shares | – | 100 | Holding company |

* *A company listed on the Main Board of The Stock Exchange of Hong Kong Limited*

## (B) SUBSIDIARIES ESTABLISHED IN THE PEOPLE'S REPUBLIC OF CHINA:

| Company name | Issued and paid up capital | Percentage of equity interest Direct | Indirect | Principal activities |
|---|---|---|---|---|
| 常州馬可孛羅酒店有限公司 | US$7,000,000 | – | 72 | Hotel |
| 廣州秀達企業管理有限公司 | HK$2,000,000 | – | 72 | Holding company |
| 廣州譽港企業管理有限公司 | RMB5,000,000 | – | 72 | Holding company |
| 廣州港捷企業管理有限公司 | RMB10,000,000 | – | 72 | Holding company |
| 九龍倉 (常州) 置業有限公司 | US$169,800,000 | – | 72 | Property |
| 南京聚龍房地產開發有限公司 | US$18,000,000 | – | 72 | Holding company |
| 上海綠源房地產開發有限公司 | RMB70,000,000 | – | 72 | Property |
| 蘇州高龍房產發展有限公司 | RMB1,500,000,000 | – | 57 | Property |

## (C) SUBSIDIARIES INCORPORATED IN THE BRITISH VIRGIN ISLANDS:

| Company name | Issued and paid up capital | Percentage of equity interest Direct | Indirect | Principal activities |
|---|---|---|---|---|
| Algebra Assets Limited | 500 US$1 shares | – | 72 | Investment |
| Harbour Centre (Hong Kong) Limited | 500 US$1 shares | – | 72 | Holding company |
| HCDL China Development Limited | 500 US$1 shares | – | 72 | Holding company |
| Mandelson Investments Limited | 500 US$1 shares | – | 72 | Investment |
| Victor Horizon Limited (0051) Limited (previously known as Victor Horizon Limited) | 500 US$1 shares | – | 72 | Investment |
| #Wharf REIC Finance (BVI) Limited (previously known as Galaxy Spark Limited) | 500 US$1 shares | – | 100 | Finance |
| Wharf REIC Holdings Limited (previously known as Fort Noble Limited) | 501 US$1 shares | 100 | – | Holding company |

# *Registered in Hong Kong under Part 16 of the Companies Ordinance (Cap 622 of the Laws of Hong Kong) as a registered non-Hong Kong company.*

# SCHEDULE OF PRINCIPAL PROPERTIES

As at 31 December 2017

| | APPROXIMATE GROSS FLOOR AREAS (sq.ft.) | | | | |
|---|---|---|---|---|---|
| **Address** | **Total** | **Office** | **Retail** | **Hotel** | **Serviced Apartments/ Others** |
| **HONG KONG** | | | | | |
| **Properties – Investment** | | | | | |
| **Harbour City , Tsimshatsui** | | | | | |
| Ocean Terminal | 725,000 | – | 580,000 | – | 145,000 |
| Ocean Centre | 987,000 | 631,000 | 356,000 | – | – |
| Wharf T & T Centre | 257,000 | 244,000 | 13,000 | – | – |
| World Commerce Centre | 254,000 | 240,000 | 14,000 | – | – |
| World Finance Centre | 513,000 | 476,000 | 37,000 | – | – |
| Ocean Galleries | 348,000 | – | 348,000 | – | – |
| Gateway I | 1,241,000 | 1,127,000 | 114,000 | – | – |
| Gateway II | 2,641,000 | 1,551,000 | 434,000 | – | 656,000 |
| Marco Polo Hongkong Hotel | 737,000 | 18,000 | 172,000 | 547,000 | – |
| Gateway | 289,000 | – | – | 289,000 | – |
| Prince | 279,000 | – | – | 279,000 | – |
| Pacific Club Kowloon | 138,000 | – | – | – | 138,000 |
| | 8,409,000 | 4,287,000 | 2,068,000 | 1,115,000 | 939,000 |
| **Times Square** | | | | | |
| Sharp Street East, Causeway Bay | 1,976,000 | 1,033,000 | 943,000 | – | – |
| **Crawford House** | | | | | |
| 64–70A Queen's Road Central, Central | 189,000 | 104,000 | 85,000 | – | – |
| **Wheelock House** | | | | | |
| 3/F–24/F., & Shop C, Wheelock House, 20 Pedder Street, Central | 215,000 | 211,000 | 4,000 | – | – |
| **Plaza Hollywood** | | | | | |
| 3 Lung Poon Street, Diamond Hill | 562,000 | – | 562,000 | – | – |
| **Others** | 56,000 | 5,000 | 51,000 | – | – |
| | 2,998,000 | 1,353,000 | 1,645,000 | – | – |
| **The Murray, Hong Kong, a Niccolo Hotel** | | | | | |
| Cotton Tree Drive, Central | 336,000 | – | – | 336,000 | – |
| **Total Hong Kong Property – Investment** | 11,743,000 | 5,640,000 | 3,713,000 | 1,451,000 | 939,000 |
| **MAINLAND CHINA** | | | | | |
| **Property – Investment** | | | | | |
| **Suzhou International Finance Square** | | | | | |
| Xing Hu Jie, Suzhou Industrial Park, Suzhou | 3,220,600 | 1,501,000 | 22,600 | 443,000 | 1,254,000 |
| **Marco Polo Changzhou** | | | | | |
| 88 Hehai East Road, Xinbei District, Changzhou | 474,000 | – | – | 343,000 | 131,000 |
| **Total Mainland China Property – Investment** | 3,694,600 | 1,501,000 | 22,600 | 786,000 | 1,385,000 |
| **Group Total:** | 15,437,600 | 7,141,000 | 3,735,600 | 2,237,000 | 2,324,000 |

*Notes:*

*(a) These properties with total site area of 428,719 sq.ft. form part of Harbour City.*

*(b) In addition to the above floor areas, the Group has total carpark areas of approximately 2 million sq. ft..*

| (Remarks) | Site Area (Sq.ft.) | Lot Number | Lease Expiry | Year of Completion/ Expected Completion | Stage of Completion | Effective Equity Interest to the Company |
|---|---|---|---|---|---|---|
| | 346,719 | KIL11178 | 2033 | 1966 | N/A | 100% |
| | 126,488 | KML 11 S.A. | 2880 | 1977 | N/A | 100% |
| | (a) | KML 11 S.B. | 2880 | 1981 | N/A | 100% |
| | (a) | KML 11 S.B. | 2880 | 1981 | N/A | 100% |
| | (a) | KML 11 S.D. | 2880 | 1983 | N/A | 100% |
| | (a) | KML 11 S.B. & D. | 2880 | 1981/83 | N/A | 100% |
| | (a) | KML 11 R.P. | 2880 | 1994 | N/A | 100% |
| | (a) | KML 11 S.B. & D. | 2880 | 1998/99 | N/A | 100% |
| (A 665–room hotel) | 58,814 | KML 91 S.A. & KML 10 S.B. | 2863 | 1969 | N/A | 72% |
| (A 400–room hotel) | (a) | KML 11 S.B. | 2880 | 1981 | N/A | 100% |
| (A 394–room hotel) | (a) | KML 11 S.D. | 2880 | 1983 | N/A | 100% |
| (Club House) | 48,309 | KIL 11179 | 2021 | 1990 | N/A | 100% |
| | 112,441 | IL 731, IL 728, IL 727, IL 725 S.A. & R.P., IL 724 S.A. | 2850/60/80 | 1993 | N/A | 100% |
| | 12,286 | IL 7 R.P. & IL 45 S.A.R.P. | 2842 | 1977 | N/A | 100% |
| | N/A | ML 99 S.A., S.C. & R.P. & ML 100 S.A., S.B. & R.P. | 2854 | 1984 | N/A | 100% |
| | 280,510 | NKIL 6160 | 2047 | 1997 | N/A | 100% |
| | N/A | N/A | N/A | N/A | N/A | N/A |
| (A 336–room hotel) | 68,136 | 9036 | 2063 | 2017 | N/A | 72% |
| (A 216–room hotel) | 229,069 | N/A | 2047/77 | 2019 | Superstructure in progress | 57% |
| (A 271–room hotel and The Mansion) | 842,531 | N/A | 2048 | 2014 | N/A | 72% |

# FIVE-YEAR FINANCIAL SUMMARY

| Year ended 31 December | 2017 HK$ Million | 2016 HK$ Million | 2015 HK$ Million | 2014 HK$ Million | 2013 HK$ Million |
|---|---|---|---|---|---|
| **Consolidated Statement of Profit or Loss** | | | | | |
| Revenue | **20,904** | 16,851 | 17,576 | 17,437 | 15,941 |
| Operating profit | **15,442** | 11,824 | 11,759 | 10,416 | 9,769 |
| Core profit *(Note a)* | **9,500** | 8,516 | 8,276 | 7,352 | 7,030 |
| Profit before property revaluation surplus | **9,236** | 8,706 | 8,469 | 7,464 | 6,642 |
| Profit attributable to equity shareholders | **17,218** | 9,917 | 13,787 | 35,127 | 21,525 |
| Dividends attributable to shareholders | **2,884** | N/A | N/A | N/A | N/A |
| **Consolidated Statement of Financial Position** | | | | | |
| Investment properties | **253,827** | 244,375 | 235,597 | 229,023 | 194,305 |
| Hotel and club property, plant and equipment | **8,549** | 7,000 | 6,200 | 6,005 | 5,391 |
| Interest in associates/joint ventures | **3,293** | 3,225 | 3,647 | 4,186 | 4,088 |
| Equity investments | **2,708** | 2,301 | 2,450 | 1,550 | 1,340 |
| Properties for sale | **144** | 1,957 | 2,699 | 4,979 | 7,375 |
| Bank deposits and cash | **3,076** | 5,212 | 6,501 | 5,273 | 5,928 |
| Other assets | **1,078** | 1,392 | 5,876 | 9,457 | 5,940 |
| Total assets | **272,675** | 265,462 | 262,970 | 260,473 | 224,367 |
| Bank loans | **(45,552)** | (4,382) | (8,943) | (14,956) | (11,518) |
| Loan from fellow subsidiaries | **–** | (30,980) | (28,583) | (25,163) | (23,744) |
| Other liabilities | **(14,155)** | (25,963) | (14,539) | (14,487) | (13,896) |
| Net assets | **212,968** | 204,137 | 210,905 | 205,867 | 175,209 |
| Share capital | **304** | – | – | – | – |
| Reserves | **207,014** | 198,910 | 205,134 | 200,194 | 169,746 |
| Shareholders' equity | **207,318** | 198,910 | 205,134 | 200,194 | 169,746 |
| Non-controlling interests | **5,650** | 5,227 | 5,771 | 5,673 | 5,463 |
| Total equity | **212,968** | 204,137 | 210,905 | 205,867 | 175,209 |
| Net debt | **42,476** | 30,150 | 31,025 | 34,846 | 29,334 |
| **Financial Data** | | | | | |
| *Per share data* | | | | | |
| Earnings per share (HK$) | | | | | |
| — Core profit | **3.13** | 2.81 | 2.73 | 2.42 | 2.32 |
| — Before property revaluation surplus | **3.04** | 2.87 | 2.79 | 2.46 | 2.19 |
| — Attributable to equity shareholders | **5.67** | 3.27 | 4.54 | 11.57 | 7.09 |
| Net asset value per share (HK$) | **68.29** | 65.52 | 67.57 | 65.94 | 55.91 |
| Dividends per share (HK$ Cents) *(Note b)* | **95.00** | N/A | N/A | N/A | N/A |
| *Financial ratios* | | | | | |
| Net debt to shareholders' equity (%) | **20.5%** | 15.2% | 15.1% | 17.4% | 17.3% |
| Net debt to total equity (%) | **19.9%** | 14.8% | 14.7% | 16.9% | 16.7% |
| Interest cover (Times) *(Note c)* | **15.1** | 8.8 | 8.9 | 7.6 | 8.9 |
| Return on shareholders'equity (%) *(Note d)* | **8.5%** | 4.9% | 6.8% | 19.0% | 12.7% |
| Dividend payout (%) (annualised) | | | | | |
| — Core profit | **60.7%** | N/A | N/A | N/A | N/A |
| — Attributable to equity shareholders | **33.5%** | N/A | N/A | N/A | N/A |

*(a)* *Core profit primarily excludes investment property revaluation surplus, exchange difference on foreign currency borrowings and other non-recurring items including impairment for hotel properties under development attributable to HK$388 million in 2013.*

*(b)* *The Company was listed on 23rd November 2017 and the dividend payable is based on 65% of realised recurrent profit from investment properties in Hong Kong.*

*(c)* *Interest cover is based on EBITDA over finance costs (before capitalisation and fair value loss/gain).*

*(d)* *Return on shareholders' equity is based on profit attributable to shareholders over average shareholders' equity during the year.*

*(e)* *The weighted average of 3,036 million ordinary shares which has been taken into account the shares issued pursuant to the distribution in specie of 3,036,227,327 ordinary shares of the Company as if it had been effective on 1 January 2013.*

**ART PIECE CREDIT:**

Shin Heung-Woo, *Dance*, p.16
Relton Marine, *Still Life with Pink Plate*, p.57

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

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