Building a Sustainable Future

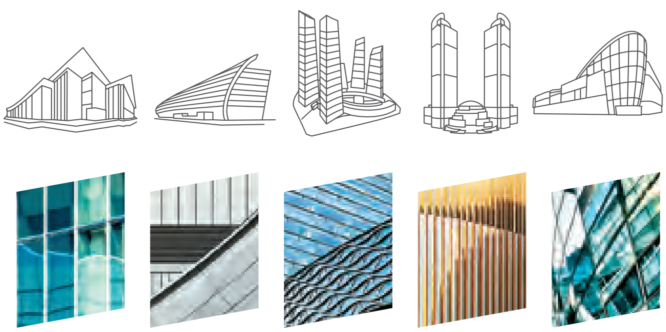
ANNUAL REPORT
2018

恒隆集團
HANG LUNG GROUP

HANG LUNG GROUP LIMITED
STOCK CODE: 00010

Building a Sustainable Future

Hang Lung is committed to building a sustainable business model with two of its integral elements – "hardware" and "software". The twin covers of the 2018 Annual Reports of Hang Lung Group (stock code: 00010) and Hang Lung Properties (stock code: 00101) highlight our unparalleled "hardware"– the unique architectural and design features of our world-class properties. These outstanding qualities are the essential complement to the disciplined execution of acquiring prized sites ideal for properties developed to the highest standards. Meanwhile, companion sections in the annual reports focus on our exceptional "software" – customer service, shopping experience, corporate governance, social responsibility and sustainability initiatives. Excellence in these areas is key to our customer-centric strategy that gives the highest priority to putting people first.



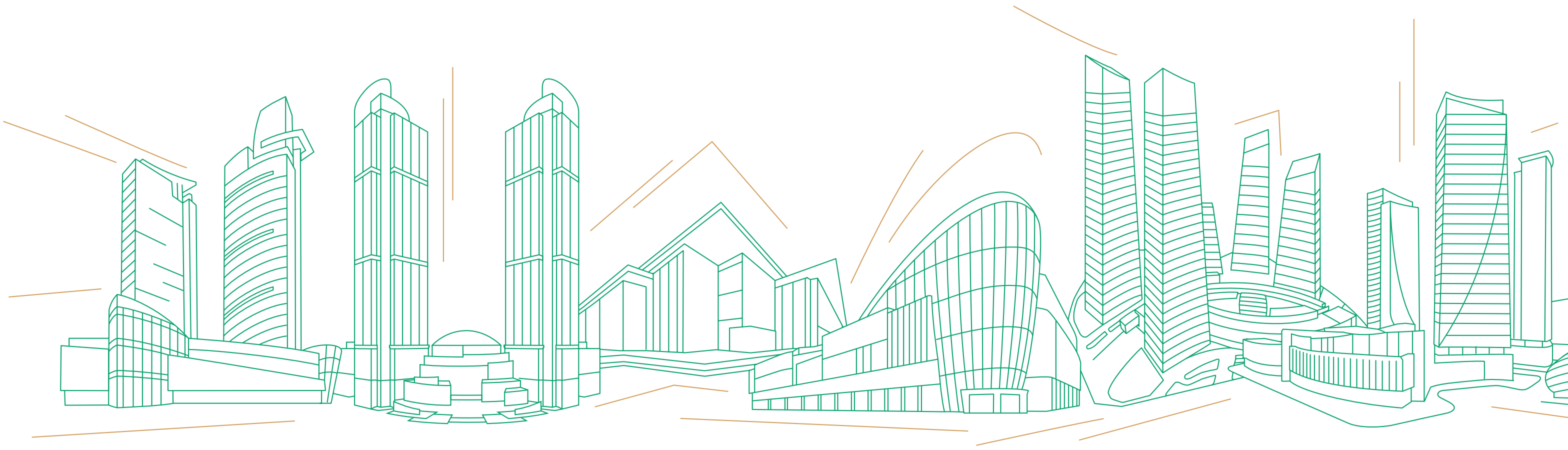
Palace 66 Shenyang | Riverside 66 Tianjin | Forum 66 Shenyang | Grand Gateway 66 Shanghai | Parc 66 Jinan

We Do It Right

We Do It Right is a business philosophy that extends beyond our core business and embraces the initiatives we undertake on behalf of our staff, the community and the environment. We believe this is fundamental to our success and helps us win the trust of our stakeholders.

In this annual report we describe the progress we have made during the year, using meaningful metaphors to signify our efforts to create unmatched value for our cherished shareholders, tenants and customers.

As Hang Lung's business continues to grow, we will continue to maintain our high standards in order to become a highly admired national commercial property developer in Hong Kong and on the Mainland.



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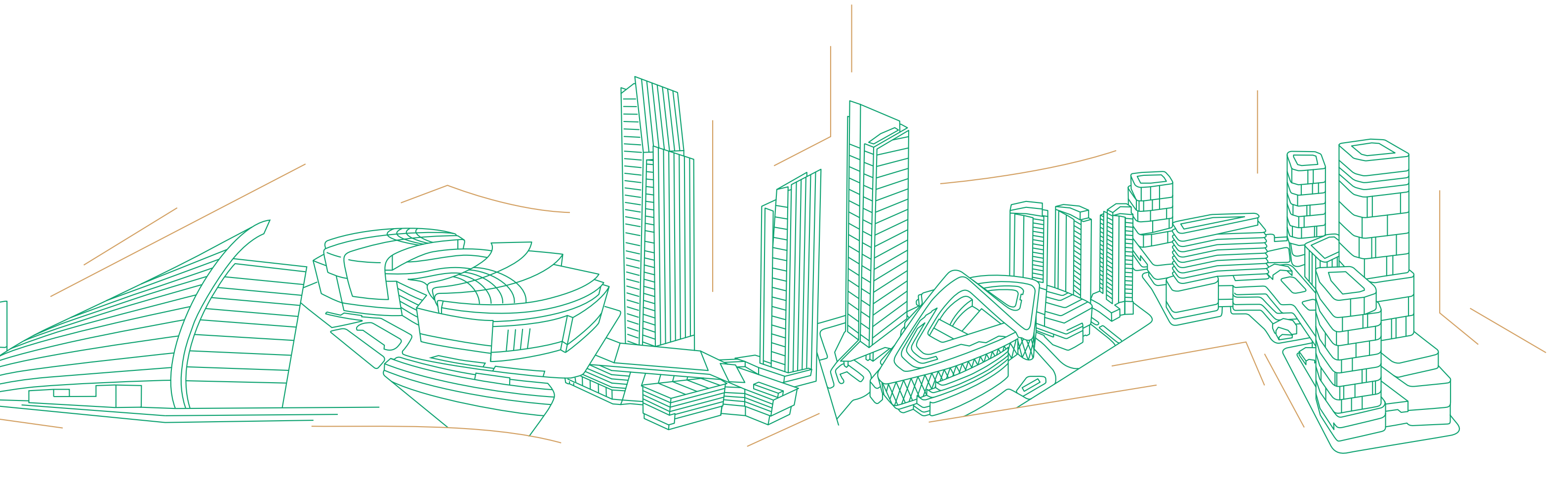
Corporate Profile

Hang Lung Group Limited (stock code: 00010) is one of the most established listed companies in Hong Kong with more than 50 years of experience in the property development market. Through Hang Lung Properties Limited (stock code: 00101), we have built a leading reputation as a top-tier property developer in Hong Kong and on the Mainland, with a recognized commitment to quality.

Our businesses in Hong Kong include property development for sale and lease and our substantial portfolio encompasses well-planned large-scale mall/commercial, office and residential developments in prominent locations.

We made our first investment on the Mainland in the early 1990's as the foremost step in our future business expansion. Adhering to the strategy of developing prime sites in major cities, our portfolio of investment properties currently comprises two large-scale developments in Shanghai – the mall/commercial, office and residential complex Grand Gateway 66, and the commercial and office complex Plaza 66. Together with our prime landmark complexes of Parc 66 in Jinan, Center 66 in Wuxi, Riverside 66 in Tianjin, and Olympia 66 in Dalian, as well as Palace 66 and Forum 66 in Shenyang, we are vigorously building on our successes to develop similar properties in major cities including Kunming, Wuhan and Hangzhou.

We will continue not only to expand our horizons on the Mainland, but also to invest in our portfolio in Hong Kong, as we aim to become a highly admired national commercial property developer.



Financial Highlights

Results

For the year ended December 31

in HK$ Million (unless otherwise stated)	2018	2017
Revenue		
Property leasing	8,784	8,354
Mainland China	4,686	4,372
Hong Kong	4,098	3,982
Property sales	1,231	3,420
Total revenue	10,015	11,774
Net profit attributable to shareholders	5,285	5,314
Property leasing	4,865	4,026
Property sales	420	1,288
Dividends	1,089	1,089
Shareholders' equity	86,447	83,137
Per share data		
Earnings	$3.88	$3.90
Dividends		
Total	$0.80	$0.80
Interim	$0.19	$0.19
Final	$0.61	$0.61
Shareholders' equity	$63.5	$61.0
Net assets	$110.7	$109.8
Financial ratio		
Payout ratio		
Total	21%	21%
Property leasing	22%	27%
Net debt to equity ratio	12.0%	3.9%
Debt to equity ratio	20.3%	18.7%

Underlying Results

For the year ended December 31

in HK$ Million (unless otherwise stated)	2018	2017
Underlying net profit attributable to shareholders	2,631	3,314
Property leasing	2,211	2,026
Property sales	420	1,288
Earnings per share (Note 1)	$1.93	$2.43
Payout ratio (Note 1)		
Total	41%	33%
Property leasing	49%	54%

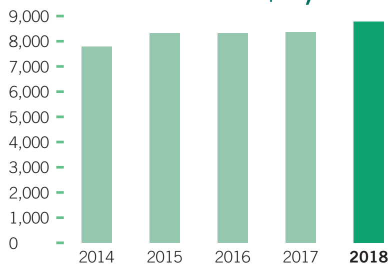
Note:

1. The relevant calculations are based on the underlying net profit attributable to shareholders.

Property Leasing Revenue

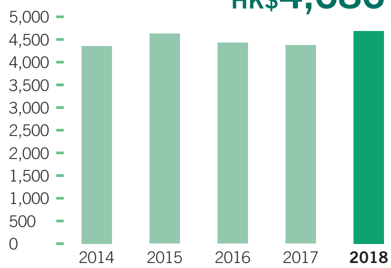
Overall

+5%
HK$8,784 Million



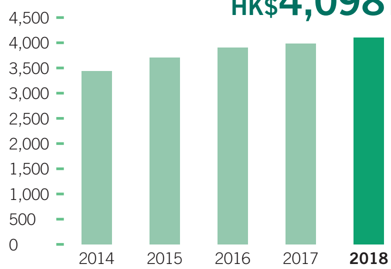
Mainland China

+7%
HK$4,686 Million



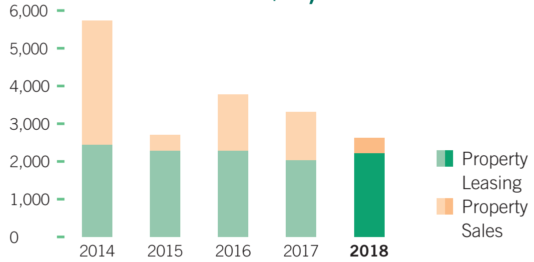
Hong Kong

+3%
HK$4,098 Million



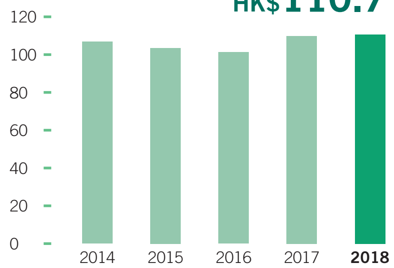
Underlying Net Profit

-21%
HK$2,631 Million



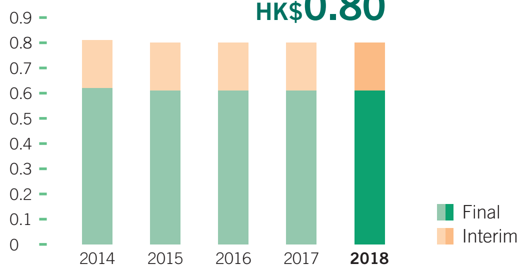
Net Assets per Share

+1%
HK$110.7



Dividends per Share

same
HK$0.80



Vision

We share a common vision
and uphold the We Do It Right
business philosophy to strive
for excellence and achieve
new heights for the Company.


Westlake

Spring City 66, Kunming

Heartland 66, Wuhan

Chairman's Letter to Shareholders

Ronnie C. Chan
Chairman

Results and Dividend

For the year ended December 31, 2018, revenue decreased 15% to HK$10,015 million. Net profit attributable to shareholders fell slightly to HK$5,285 million. Earnings per share at HK$3.88 were almost the same as the year before.

When excluding the effects of property revaluation gain, the underlying net profit attributable to shareholders decreased 21% to HK$2,631 million. Underlying earnings per share fell similarly to HK$1.93.

The Board recommends a final dividend of HK61 cents per share payable on May 21, 2019 to shareholders of record on May 7, 2019. If approved by shareholders, total dividends per share for the year ended December 31, 2018 will be HK80 cents.

Business Review

Let me begin with an overview of our business in mainland China from three aspects — the industry, high-end retailers, and our operations. I will concentrate mainly on the sales of quality goods, such as those taking place in so-called four- or five-star malls. This is our main business.

China's Reform and Opening-up Policy began at the end of 1978. Ideological barriers were high but they were gradually overcome in the 1980's. There was a backlash in June 1989, from which it took a few years to recover. The then-paramount leader Mr. Deng Xiaoping paid a visit to the south of the country in early 1992 to revive the national experiment. Many reforms were subsequently made in the 1990's, which laid the foundation for an economic takeoff that began in earnest this century.

When I visited the Mainland in the 1980's, many daily necessities were still unavailable in stores. Quality products were almost non-existent. The 1990's saw considerable improvements, but the base was still quite low. However, societal wealth accumulation became noticeable. In response, smaller and invariably poor quality malls began to pop up, mostly in Guangzhou and Shanghai, and a few in Beijing. Many of them were developed by Hong Kong real estate companies but no one was willing to bet big.

We were the exception. Strategically we decided to go big in Shanghai in 1992. It is probably correct to say that Hang Lung pioneered both the sub-luxury malls, like Grand Gateway 66, and luxury malls, like Plaza 66, on the Mainland. Those pieces of land were purchased respectively in 1992 and 1993, and construction was completed in 1999 and 2000 respectively.

Quality retailing, then limited to the three cities mentioned, began to take off around the turn of the new millennium. The speed of advancement took many by surprise. Even in many tier-two cities, wealth creation became obvious. Bigger malls began to emerge everywhere in the country, although few were of high quality. Nevertheless, personal consumption became a more meaningful share of the domestic economic pie. Quality goods gradually became prevalent in many economically vibrant cities.

For the 12 years between 2000 and 2011, private consumption on average increased at almost 13% per year. It was an amazing period of growth. Even the global financial crisis of 2008 to 2012 hardly had any adverse effect. In the ensuing six years of 2012 to 2017, the average annual growth slowed to a still respectable 10.4%. However, luxury goods sales were much more affected. The anti-corruption campaign in the past few years was certainly a major factor. The increase in overseas sales of such items was another. This trend only began to turn around towards the end of 2017.

Now let me turn to the high-end retailers. Before 2000, one could hardly find them anywhere in mainland China. Top Western fashion houses, mostly European, began to take notice of the market potential in the late 1990's. When we opened Plaza 66 in Shanghai in 2000, many of them landed in this big country for the first time, and most local citizens were introduced to these fashion brands for the first time.

As the economy grew rapidly, these retailers began to make a lot of money. They projected that China would soon become their biggest market in the world, and they were correct. Consequently they expanded rapidly into many tier-two cities, so much so that some of them over-expanded, beyond what the local economy could sustain at the time. By 2013 at the latest, most if not all of these top brands froze further advancement. A good number had to cut back the number of stores in many cities. The head office grip was so tight that moving a shop from one location to a much better location at comparable rents was rejected. This condition lasted through the end of 2017 and the beginning of 2018. Sentiments now have definitely turned and they are all opening new stores again. Their sales growth in China has been brisk of late.

Why the change? The effects of the anti-corruption campaign mentioned earlier have long been felt. Gifting involving government officials is long gone. The market has shifted into a healthier one where demand mainly comes from end users. The slow growth of the past five to six years has created pent-up demand. Since the salary rise of the target customers, especially younger professionals, has never stopped, this clientele that bought less when market sentiments were weak has now returned, and with more money to spend.

Many top brands have told us that the average age of their shoppers in the world, including China, is getting younger. This means that they now have even more fans and potential fans. The fashion name owners are also expecting that Beijing's efforts to bring overseas sales domestic will soon bear fruit. All these factors are once again fueling the expansion plans of luxury brands.

How do we fit into this overall picture? Our strategy and timing could not have been better. Betting big in the 1990's to build two sizable malls in Shanghai — one each in the luxury space (Plaza 66) and sub-luxury space (Grand Gateway 66) — has paid off handsomely. Expanding into tier-two cities in the mid-2000's was a necessary step for the long-term growth of the Company. We have been the "Home to Luxury" in Shanghai since the 2000's, and were expecting the same in other cities in the 2010's.

GRAND GATEWAY 66, SHANGHAI

However, we were hurt by the bear market of 2012 to 2017. Those were the years when China's economic growth slowed, market sentiments for private consumption weakened, and the luxury retail sector was particularly hard hit. In hindsight, could we have escaped the onslaught? Hardly, but we could have minimized the pain if we had done a better job in one area.

As I wrote several times to shareholders, the rapid expansion of mall construction outside of Shanghai in the late 2000's had greatly strained our management. Our team build-up could not catch up with the pace of construction — between 2010 and 2015, we completed almost 2 million square meters of world-class commercial space (including associated car parks), much of it during the bear market. That was over four times what we have in Shanghai, and almost double the size of our combined investment property portfolio in Hong Kong and Shanghai that was built over some 35 years.

Now the picture is completely reversed. We have resolved most of our management issues, and the luxury and sub-luxury markets have fully recovered. Better days should await us.

Whilst management is not overly concerned with our share price, it is nevertheless worth commenting on it briefly. For about 30 years before we opened our two Shanghai complexes, we underperformed our peers. Beginning around 2002, we outperformed almost all property counters in Hong Kong for about a decade. Then in the past six to seven years of bear market as mentioned above, we again did not do well. So far this year, we have outperformed. We may be at an inflection point.

More significantly, our business may also be at an inflection point in several respects. First, except for the luxury home project on Blue Pool Road, we have all but sold out our developmental residential products in Hong Kong. (Only one unit of The Long Beach remains unsold.) Those pieces of land were purchased in the early 2000's, so the ultimate profit margins obtained therefrom were phenomenal. However, as my regular readers know, for about 15 years we have been concentrating our efforts on Mainland high-end commercial property development for long-term investment. Since 2004, we have undertaken eight sizable developments in seven cities. Upon completion, they will provide about 4.3 million square meters of world-class commercial space, of which about 43% have been completed and are generating profits.

We will continue to do development projects for sale in Hong Kong, but only with a targeted approach. As I shall report in the next section, at present we have two such projects for which land acquisition is almost complete. This seems natural since we already have the expertise; indeed, this Company started its existence doing just that. Such efforts will supplement our main business in rental properties and provide a faster cash flow. Nevertheless, our focus in the coming years will still be on high-end commercial properties for long-term hold.

The second inflection point relates to the market. As reported earlier, Mainland Chinese high-end private consumption grew briskly for almost 12 years between 2000 and 2011. This was followed by a long bear market of six years from 2012 to 2017. Now the sector is again rising strongly.

The third has to do with our management. Problems of the late 2000's and the first half of the 2010's have been all but resolved. Our team today is stronger than ever, although there is still room for improvement.

It is at this juncture that Mr. Weber Lo joined us last year as our new CEO. In early years, under the leadership of Mr. Nelson Yuen, we decided on a strategy, bought the land, as well as started the construction. When Nelson retired in 2010, Mr. Philip Chen took over, built the team, and set up the necessary systems. Last July, Weber succeeded Philip. His main task is to perfect the systems and realize the profits. I do not see why this cannot be accomplished.

It is worth mentioning that the leadership of the Company has always been quite young. When Mr. T.H. Chan founded Hang Lung in 1960, he was barely 40. I took over the chairmanship in 1991 at around the same age. Nelson was also at this age when he began to run the Company with me two years later. Philip was 54 in 2010 when he joined us, and Weber was 47 last year. Today, much of the management burden rests with Weber and our Executive Director Adriel Chan who is 36. They make a superb team which should be able to steward the Company for the next few decades.

Finally, in terms of business performance, the Company is also poised to advance significantly. All AEI (Asset Enhancement Initiatives) in Shanghai will be completed in a few months. In the next two years, we will have completed more world-class commercial space on the Mainland than at any comparable period in our history — a total of approximately 1.1 million square meters of luxury malls and office skyscrapers. To continue an analogy that I have used before, this is like bringing more than two Empire State Buildings of New York City to the market each year for two consecutive years.

The average quality of our tenants is also on the rise. Our office tenants are already among the highest caliber in each of the cities we operate. This was what we envisioned in the mid-2000's when we decided to build office towers in tier-two cities. In provincial capitals like Shenyang, and certain wealthy municipalities like Wuxi, there will always be a certain amount of demand for top-class Grade-A offices. As long as we build the best quality space in prime locations, we can always lease them at reasonable prices. Our experiences so far have borne out this fact, and we expect the same to happen soon in Spring City 66 in Kunming and Heartland 66 in Wuhan.

Mall tenant quality can always be upgraded, unless it is like Plaza 66 in Shanghai which already houses the world's top fashion brands, making it a true "Home to Luxury". Such names command rich profit margins which will enable them to pay higher rents. Particularly pleasing at this time is not just that we are signing over 30 such leases; rather, these fashion houses will enter many of our malls other than Plaza 66 — one-third of them will be in Grand Gateway 66 and two-thirds will be outside of Shanghai. They are convinced that, not just in Plaza 66, we have the best possible properties where they can sell their expensive products, and with which they would like to be associated. They will help transform Grand Gateway 66 into another "Home to Luxury" in Shanghai. Our other shopping centers that will benefit include Forum 66, Olympia 66, Center 66, Spring City 66, and Heartland 66.

All these inflection points are beneficial to our business, especially our rental operations on the Mainland. Some of these positive effects have already been seen in our results, but the full impact will only be felt starting next year, when Grand Gateway 66 fully reopens after the completion of its AEI, Spring City 66 inaugurates at the end of this year, and many luxury stores open in these and other malls of ours.

This said, the results of the past year have been satisfactory. They were in line with what I have predicted six months, even 12 months, ago. This was true of our investment properties in Hong Kong and on the Mainland. Since we have all but sold out our Hong Kong residential development projects, top and bottom lines both retreated.

This brings up the question of what should be a reasonable and sensible way to assess our Company and its performance. For well over a decade, we have told shareholders that moving forward, we will increasingly become an investment property-led enterprise. Development projects for sale will be done only under either one of the two conditions — in Hong Kong, opportunistically, and on the Mainland, as part of a bigger complex with primarily retail and office space. Given that, one should treat the development process as being separate from our rental operations. The former is by nature volatile, while the latter is steady. Only by doing so will we be comparing like with like.

PLAZA 66, SHANGHAI

Prospects

On the geopolitical front, there is a dark cloud looming on the horizon. China-U.S. relations are also reaching an inflection point, and the future can be troubling. I have written about this at some length in both my July 2018 and January 2019 letters to shareholders of Hang Lung Properties, our majority-owned operating and listed entity. I encourage you to read them. You can access them through our website (www.hanglung.com/en-US/media-center/publications/chairmans-letter-to-shareholders). I will only very briefly summarize them here.

The present trade dispute is in the total scheme of things but a proxy for a much longer term and more serious technological race. Increasingly perceiving in the past two decades that China is fast-rising and so must threaten her hegemony, the U.S. is now engaged in an all-out tech war with China because technology determines military might. To accomplish this, Washington, D.C. is using all that is within her power to contain China. While it is intellectually intriguing to elevate the competition to the level of culture, civilization, ideology, or political systems, at the heart it is a perceived threat to American hegemony.

How did we get to this point? It traces back to the fall of the Soviet Union in 1991. Believing thereafter that in almost every respect, the Western systems of market economy and democracy are superior (and in many ways they are), Washington, D.C. cannot accept that the Chinese model of state-guided and participated economy with limited democracy can at times be superior. Yet the facts are now staring in her face. For example, instead of competing with China to develop faster 5G communications, the U.S. is falling behind and so she tries to contain China by all means, even resorting to very unsavory methods. The gloves are off.

Objectively studying the situation, it is not difficult to come to the conclusion that China will be able to bear the consequences of a trade war without overly serious trouble. One should not forget that Beijing can also retaliate in trade and other areas, which will make it equally unpleasant for the U.S. At the end, no one will win, and some reasonable solutions can be derived.

But where will the great tech war end? What will the world look like afterwards? In a highly undesirable scenario, there will be two tech systems and two tech standards used in different parts of the world. Politically and economically, there will be two spheres of influence. All countries will have to choose sides — either the U.S. or China. Relationships between countries will have to be readjusted. With all this unnecessary friction, trade flows and even supply chains will be disrupted. They will have to be reestablished in patterns that we cannot predict today. It will be a totally different world from what we have known since World War II.

What about the Chinese economy which is of paramount interest to us? While the global economy will no doubt slow down, Beijing will try its best to stimulate its domestic economy for job creation and social stability. Any existing policy can be quickly reversed. For example, whereas citizens have for years been discouraged from buying homes, especially second homes, recently many of these rules have been relaxed to cater to macro-economic needs. Some possible negative consequences may arise that must be addressed, and Beijing will do so later.

It seems certain that the Central Government will do its best to stimulate domestic consumption. After all, individual (and corporate) saving levels are huge. The humongous pool of low-yielding or even idle money must be unleashed for more productive use. Just as home building and home purchases will greatly stimulate the economy, so will private consumption increase. This should be excellent news for us.

Nevertheless, the tech war may bring colossal unforeseen consequences which should keep us vigilant. These can be far more significant than those of the trade dispute. We have seen the latter before and can make predictions based on many similar historic incidents. The former is hardly known to mankind. No one has ever witnessed the speed, magnitude, and pervasiveness of technological developments as seen today. Francis Fukuyama's book *The End of History and the Last Man*, published in 1992, was premature if not outright misguided. However, the technology race of today may well bring about the end of history. It is an uncomfortable thought. Much more analytical work needs to be done before any of us can have a better handle on this novel but troubling development.

This is why, while being quite pleased with our business and its short- to medium-term prospects, we are also taking defensive measures. This is one reason why we have decided to soon build out our not inconsequential Mainland land bank of high-end serviced apartments. These are located in Heartland 66 in Wuhan, Center 66 in Wuxi, Forum 66 in Shenyang, and Spring City 66 in Kunming. I expect a healthy cash flow as well as profits therefrom.

In Hong Kong, we are pleased to have sold out almost all residential units, especially since prices are correcting. We only have 12 semi-detached houses at Blue Pool Road and one apartment at The Long Beach remaining. Our timing is again quite good.

We will part with some of our mature Hong Kong investment properties. In the past, we periodically sold some at prices far above their book value. I will not be surprised if history will repeat itself.

We have been and will remain cautious regarding our expansion plans. We will only take on investment property projects that have a clear strategic value and at the right price. The Hangzhou land purchased last May was such an example. We are now working on certain other similar projects, but I do not expect fruition to come any time soon.

SPRING CITY 66, KUNMING

Recognizing the comprehensive quality of all Hang Lung malls, top luxury brands are signing up in our properties

Whereas we are cautiously optimistic about the Mainland, we maintain a positive outlook on the future of Hong Kong, both its economy and its property market. Consider the following.

As the Mainland economy and society develop further, the gap between the Motherland and Hong Kong in many respects will narrow. It has been happening for decades and will continue for many more years to come. This is both boon and bane to Hong Kong, but mostly boon. For example, the Central Government is now determined to turn Shanghai into an international financial center for RMB-denominated products. As the Yuan (i.e. RMB) plays a more significant role in the global economy, which is inevitable in the long run, there should be a financial center on the Mainland for this. Why should Beijing cede all business to offshore RMB centers like Hong Kong, London, or Singapore? As long as Hong Kong people do not behave foolishly as they have done occasionally since 1997, our city should still be the most significant non-RMB as well as offshore RMB center for China for some time to come.

The right of passage to Hong Kong for Mainland citizens is expected to tend toward relaxation, although progress may be slow. As the two sides economically equalize and harmonize further, this condition should persist and even be enhanced. In time, money flow should also become freer. Imagine the increased demand for our residential units!

Even our commercial properties will benefit. Historically, purchasers of Hong Kong offices and retail space have been our citizens or local real estate companies like us. In more recent years, investment funds, both local and international, have joined the game. Most of them have a shorter term horizon. Long-term institutional money has always been lacking, but now it is lurking across the border. Think of the needs of the Mainland insurance companies and retirement funds — quality long-term assets to match their liabilities. They can buy in many Mainland cities, but few other than Beijing and Shanghai have commercial buildings as prestigious and as safe as investment assets as Hong Kong. The smallest of these three markets is Hong Kong, yet for various reasons, it may be the most desirable one.

Given all of the above, how can Hong Kong's real estate market — indeed the overall economy — be anything but good!

For domestic political reasons since 1997, Hong Kong has not achieved our potential. If we had been shrewder, we might have become a far more significant financial center of a fast developing economy which has now become the world's second largest. For example, the headquarters of some of the pan-regional development banks established in the past 15 years could have been located here. Think of the associated economic benefits that they can generate. In the overzealous desire of some to prove ourselves different from the Mainland, we are harming our own economic potential.

Nevertheless, given our unique location and history, Hong Kong will remain a vibrant city. Although no longer growing as fast as before, nor as fast as we should have been, we are still in an envious position. As long as mainland China needs us, or as long as we present ourselves desirable to the country, we will continue to do well.

In many ways, we are one of the safest economies in the world. Under the "One Country, Two Systems" construct, we can have the political, economic, and military support from the Motherland as and when required. If, as expected, the Mainland economy continues to develop well, we will continue to benefit. But if geopolitics across the Pacific turns ugly, Beijing may need Hong Kong more. I cannot say that our position is foolproof, but all things considered, we are still the envy of many.

The world has always been a turbulent place. It was particularly so in the first half of the 20th century, to be followed by seven decades of relative peace. I fear that now the world is entering into yet another unstable period. No one knows how serious it will be or how long it will last. In this sea of instability, China may in fact be a haven of relative tranquility. If so, then private consumption will rise and our business will benefit therefrom. Looking around the world, I consider myself fortunate to be engaged in our business on the Mainland.

In the more immediate term, I see gradual growth in our business for the rest of this year. The Hong Kong rental market performance should be similar to that of 2018. On the Mainland, it is quite possible that all our investment properties will do better than last year. The leap in the top line will begin next year, and the trend may last for several years. With a lag of say one to three years, the rental net profit should rise.

Our 2019 results will obviously depend on how many houses at Blue Pool Road we sell. This outcome is not possible to predict. What is quite sure is our main rental business should do satisfactorily.

Barring unforeseeable circumstances, the next few years should be very good for our business and, I trust, for our shareholders as well.

Ronnie C. Chan
Chairman
Hong Kong, January 30, 2019

Uniqueness

We put our customer-centric and marketing strategy at the very heart of our operations to develop and foster a sustainable relationship with customers.

The Lounge Plaza 66, Shanghai

Grand Gateway 66, Shanghai

Center 66, Wuxi


FASHION WALK
KINGSTON
STROK
EAT · DRINK · PLAY · G

Review of Operations


Shenyang
Palace 66
Forum 66
Dalian
Olympia 66
Tianjin
Riverside 66
Jinan
Parc 66
Wuxi
Center 66
Wuhan
Heartland 66
Hangzhou
Shanghai
Plaza 66
Grand Gateway 66
Kunming
Spring City 66
Hong Kong
Fashion Walk
Central Portfolio
The Peak Galleria
Kornhill Plaza
Mongkok Portfolio
Amoy Plaza

Business Overview

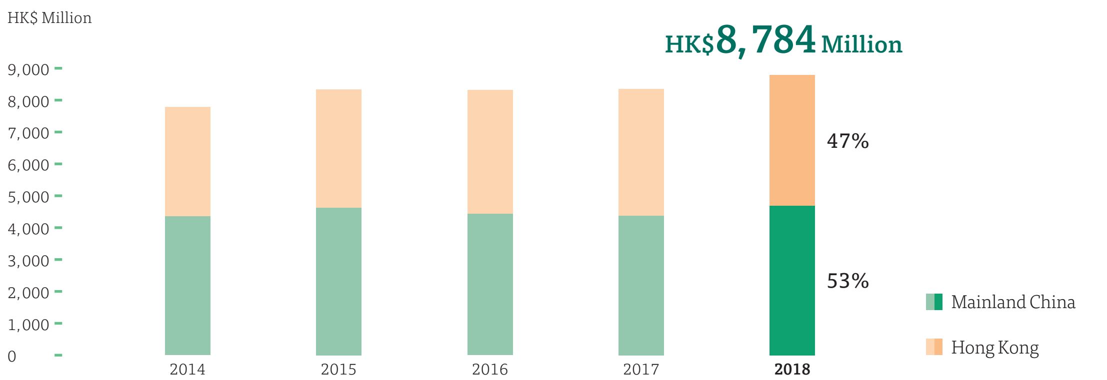
Against the backdrop of the Sino-US trade war (Trade War) and other global uncertainties, our property leasing performance showed resilience to achieve decent growth in both income and profit.

Total property leasing revenue grew 5% to HK$8,784 million. The Hong Kong leasing portfolio generated 3% more in revenue while income from the Mainland properties increased 7%.

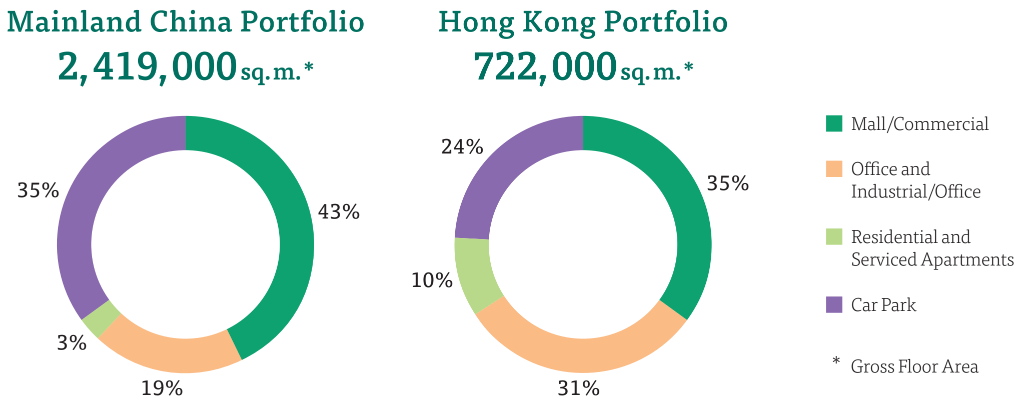
Gross domestic product (GDP) growth in Hong Kong for the first three quarters of 2018 was 3.7%. After five consecutive months of double-digit increases since February 2018, the retail market has slowed down to grow at 1.4% year-on-year in November 2018. This index was significantly influenced by high-value items. As our properties in Hong Kong are not luxury-driven, we have experienced a steadier growth in sales and rental revenue throughout the year.

GDP growth in mainland China for 2018 was 6.6%. Although the Trade War has caused jitters at the top end of the market, the luxury sector has been resilient on the strength of the "bigger" brands, showing healthy growth since the second half of 2017. This growth was supported by several factors such as the RMB depreciation, which led to more domestic spending, the tightened border controls on undeclared imports, and the e-commerce law to combat parallel import "daigou" activity.

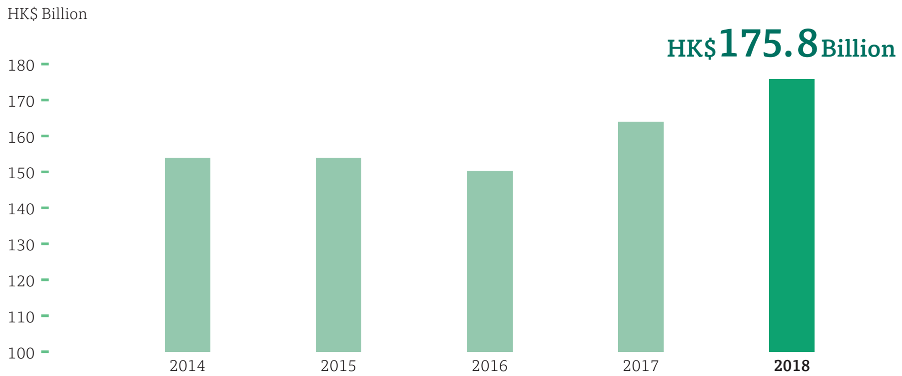
Property Leasing Revenue



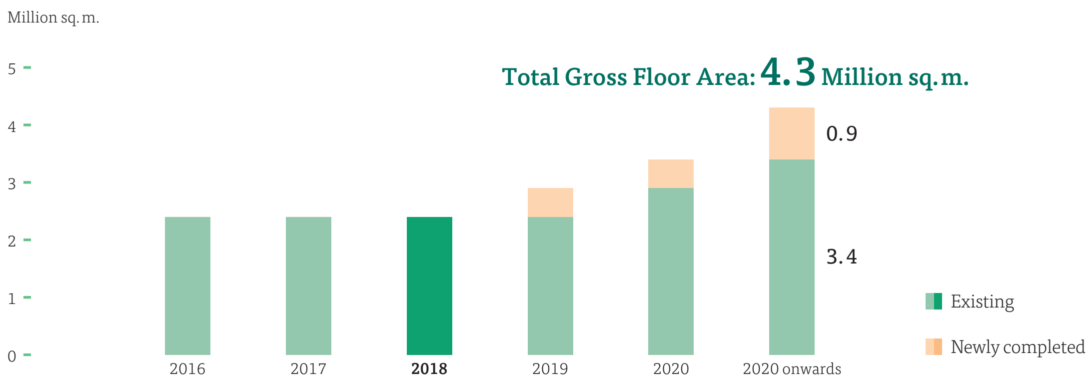
Area of Investment Properties



Valuation of Investment Properties and Investment Properties under Development as at December 31



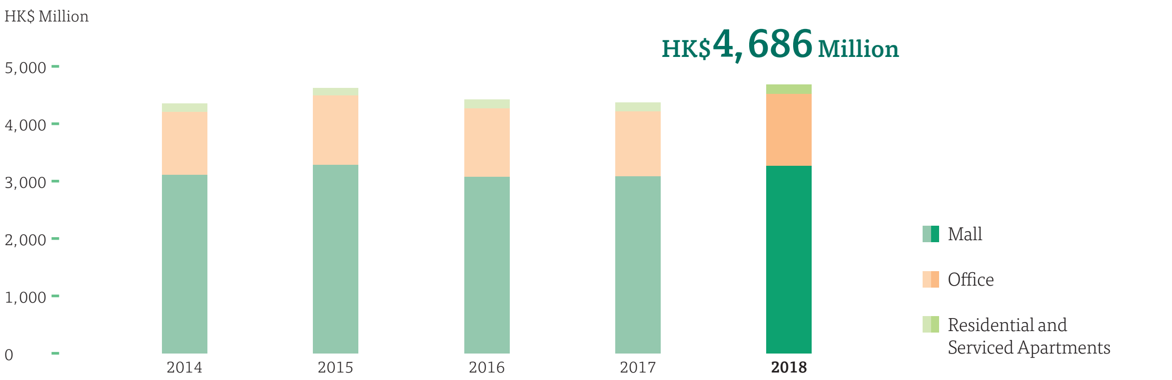
Area of Investment Properties in Mainland China



Mainland China Property Leasing

The performance of our mainland China leasing portfolio was encouraging in 2018. Revenue climbed 4% in RMB terms, or 7% when excluding certain areas temporarily closed for renovation at the mall of Shanghai Grand Gateway 66.

Revenue of Mainland China Portfolio



Segmental Analysis of Mainland China Investment Properties

For the year ended December 31

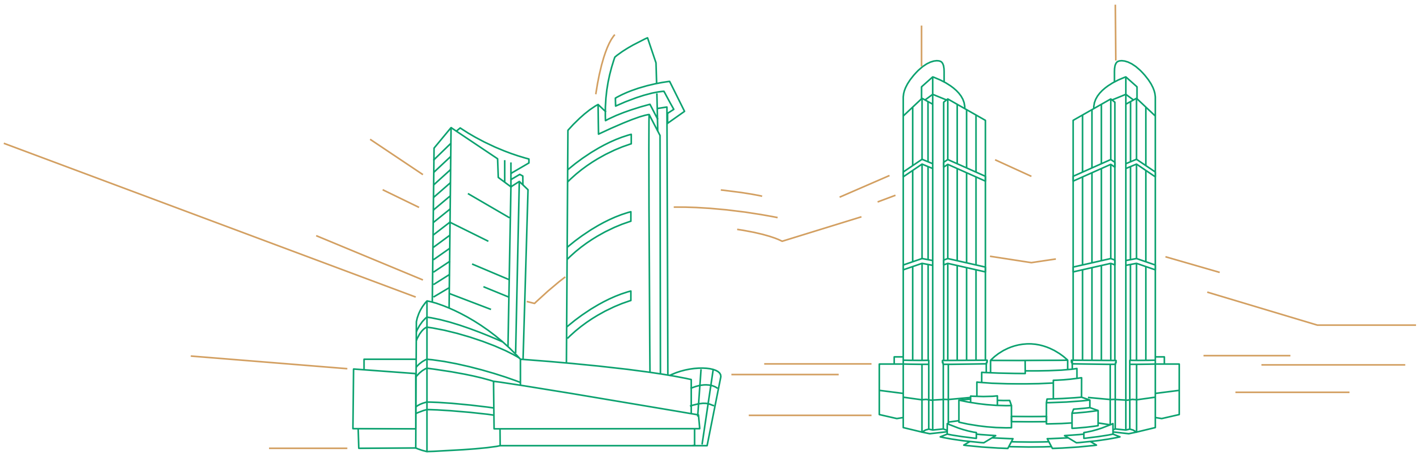
	Revenue (HK$ Million)		Occupancy Rate (at year-end)(%)	
	2018	2017	**2018**	2017
Mall	**3,270**	3,085	**88%**	84%
Office	**1,253**	1,130	**91%**	86%
Residential and Serviced Apartments	**163**	157	**90%**	86%
Total	**4,686**	4,372	**89%**	85%

A strong growth momentum was being built up during the year. Revenue of the Mainland properties in RMB terms achieved growth rates at 6% and 2% during the second half and first half of 2018, respectively, compared to a year ago. In particular, revenue of Mainland properties outside Shanghai advanced 7% year-on-year, with an accelerated 9% growth in the second half year. Operating profit grew 8% to RMB2,554 million. Average margin recorded growth of two points to 65%.

Our eight malls in mainland China reported revenue growth of 3% to RMB2,755 million, or 6% when excluding the renovation impact of Grand Gateway 66. The asset enhancement program at Shanghai Plaza 66, which has been completed in phases since January 2017, not only added value to the asset but also potential for future rental revenue growth, thus contributing to strong revenue and retail sales growth in 2018. The revenue growth in Plaza 66 more than compensated for the short-term income disruption caused by the upgrading work at Grand Gateway 66. Outside of Shanghai, all properties, except Forum 66 in Shenyang and Riverside 66 in Tianjin, made good progress in leasing revenue.

STRONG GROWTH MOMENTUM

Plaza 66 maintained a strong growth momentum after the asset enhancement initiative



Brief on Properties

Plaza 66, Shanghai

Plaza 66 is located at 1266 Nanjing Xi Lu in Jing'an District, the most prominent commercial area in Shanghai. Positioned as a Home to Luxury, the five-story shopping mall features over 100 prestigious luxury brands from around the world, including Louis Vuitton, Hermès, Chanel, Dior, Prada, Bottega Veneta, Cartier and more, as well as youthful fashion labels like Golden Goose Deluxe Brand, Mr & Mrs Italy, and fine dining options.

The two prestigious Grade-A Office Towers 1 and 2, which soar to 66 and 48 floors respectively, attract prominent local and multinational corporations, information technology companies and fashion labels as tenants.

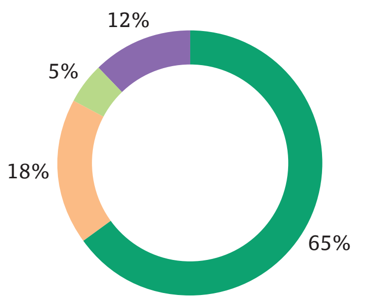
Grand Gateway 66, Shanghai

Located atop the metro station of Xujiahui, Grand Gateway 66 showcases over 260 popular brands. The complex's shopping mall has become home to a range of top labels like Bottega Veneta, Chaumet, Gucci, Jimmy Choo, Loewe and Tiffany & Co.

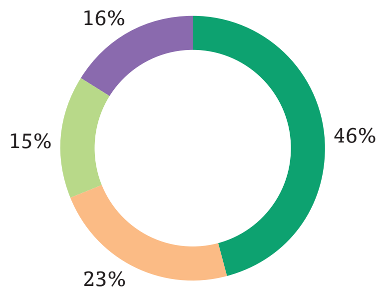
The complex's Office Tower houses numerous world-class corporations listed on Fortune Global 500, while the high-end serviced apartments offering more than 600 suites with a luxurious array of private clubhouse facilities have long been the residential choice for expatriate executives in global enterprises.

- Fashion & Accessories
- Food & Beverage
- Lifestyle & Entertainment
- Others

Commercial Segment Distribution (by Leased Floor Area) (Plaza 66, Shanghai)

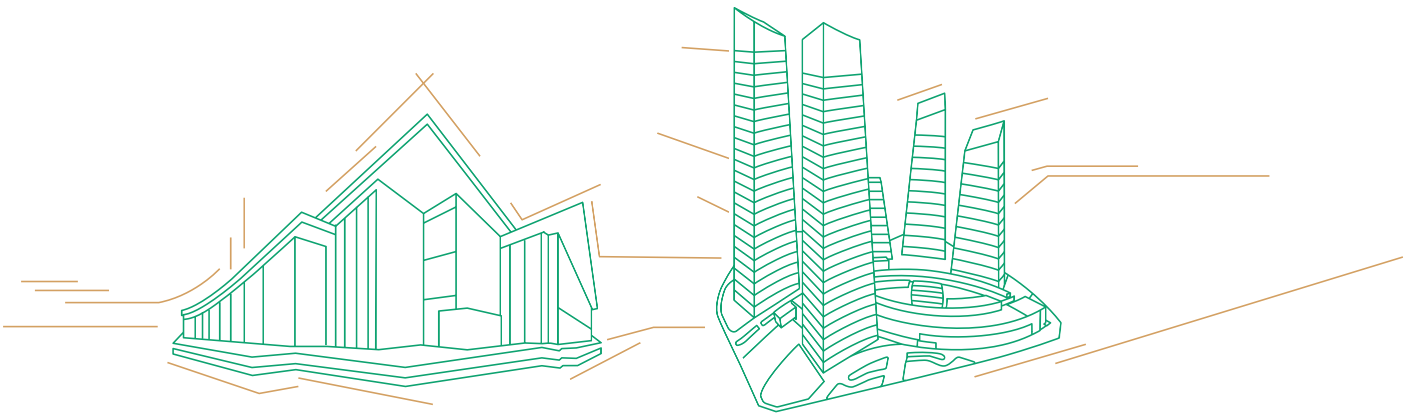


Commercial Segment Distribution (by Leased Floor Area) (Grand Gateway 66, Shanghai)



Key Statistics

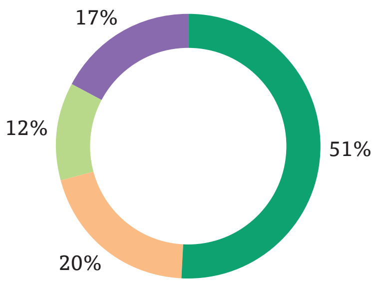
		Plaza 66, Shanghai	Grand Gateway 66, Shanghai
Gross floor area (sq.m.)	Commercial	53,700	122,262
	Office	159,555	67,223
	Residential and Serviced Apartments	N/A	83,942
Number of car parking spaces		804	752
Occupancy rate (at year-end)	Commercial	99%	79%
	Office	95%	94%
	Residential and Serviced Apartments	N/A	90%
Number of shopping mall tenants		131	286



Palace 66, Shenyang

Situated on the renowned Zhongjie Lu in Shenhe District – the financial hub of Shenyang – Palace 66 comprises about 200 local and international brands that span across fashion, leisure & entertainment, beauty & cosmetics, food & beverage and more.

Commercial Segment Distribution (by Leased Floor Area)



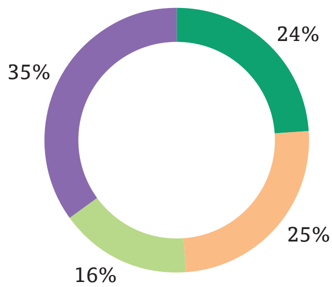
109,307
N/A
N/A
844
88%
N/A
N/A
212

Forum 66, Shenyang

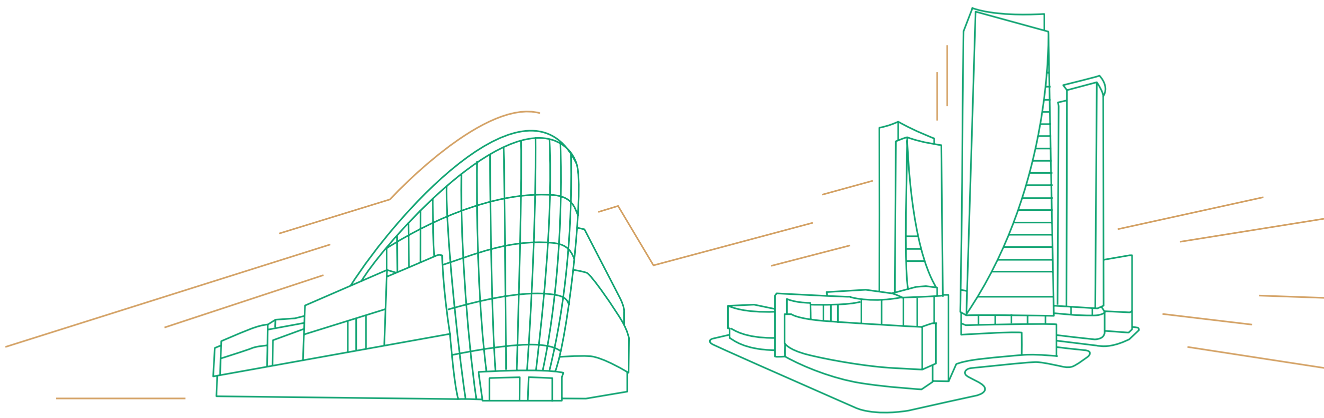
Forum 66 complex is located at 1 Qingnian Da Jie, the Golden Corridor at the core of the commercial district in Shenyang. In addition to globally acclaimed labels like Chanel, Chloé, Christian Louboutin, Tory Burch and Valentino, its shopping mall also houses cosmetics specialty store, boutique supermarket, upscale cinema, global cuisine options and lifestyle services.

Towering 88 stories above the ground, the complex's office tower has numerous multinational corporation tenants under its belt, while a 5-star Conrad hotel slated to open in 2019 will occupy the top 19 floors with 315 deluxe rooms and suites, as well as a wide range of international banquet, business and leisure facilities.

Commercial Segment Distribution (by Leased Floor Area)



101,960
131,723 (excluded hotel)
N/A
2,001
93%
88%
N/A
137



Brief on Properties

Parc 66, Jinan

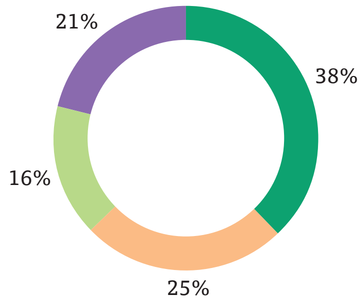
Located on Quancheng Lu, the Golden Street at the core of Jinan, Parc 66 is a stone's throw away from numerous tourist attractions. Catering to the diverse shopping, dining, entertainment and leisure needs of customers, the shopping mall offers over 300 stores of various genres, including global luxury, chic fashion, children's education and amusement, upscale cinema, boutique supermarket and international gourmet.

Center 66, Wuxi

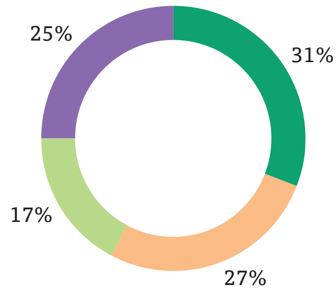
Center 66 is located at the intersection of Zhongshan Lu and Renmin Zhong Lu in Liangxi District, the most prosperous commercial district in downtown Wuxi. With indoor walkways to metro lines 1 and 2, its shopping mall features over 200 quality retail stores with a line-up of global luxury labels, while its 52-story office tower is the prime choice for multinational enterprises to set up branches in the city, with UBS, Shiseido, Huawei, AIA Group and China Minsheng Bank as some of its most esteemed tenants.

- Fashion & Accessories
- Food & Beverage
- Lifestyle & Entertainment
- Others

Commercial Segment Distribution (by Leased Floor Area)

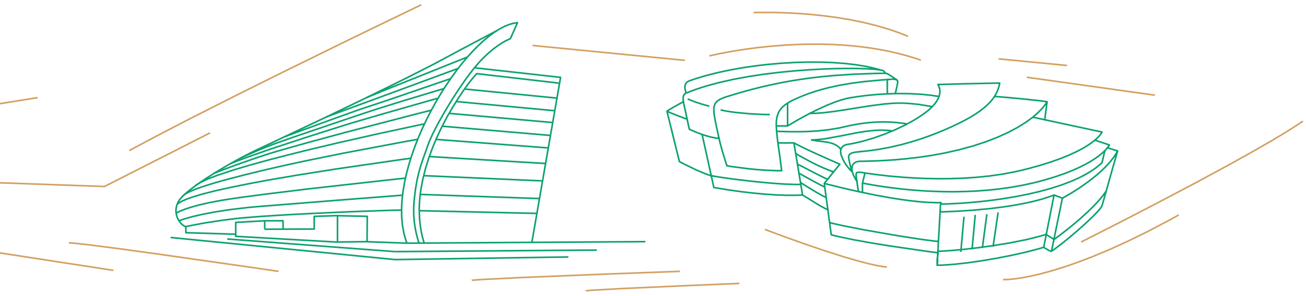


Commercial Segment Distribution (by Leased Floor Area)



Key Statistics

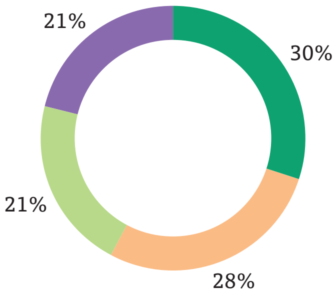
		Parc 66, Jinan	Center 66, Wuxi
Gross floor area (sq.m.)	Commercial	171,074	118,066
	Office	N/A	85,438
	Residential and Serviced Apartments	N/A	N/A
Number of car parking spaces		785	1,292
Occupancy rate (at year-end)	Commercial	96%	89%
	Office	N/A	86%
	Residential and Serviced Apartments	N/A	N/A
Number of shopping mall tenants		353	191



Riverside 66, Tianjin

In close proximity to Haihe Central Business District, Riverside 66 is sited at the crossroads of Heping Lu and Binjiang Dao, the two "golden" commercial streets of Tianjin. In addition to over 300 international and local brands that offer a full-fledged modern consumer experience of shopping, dining, leisure and entertainment, the project introduces the Sun-Bright International Cineplex, Tianjin's very first concept cinema that offers a total of 576 seats in a number of themed houses, with the largest house boasting a capacity of 127.

Commercial Segment Distribution (by Leased Floor Area)

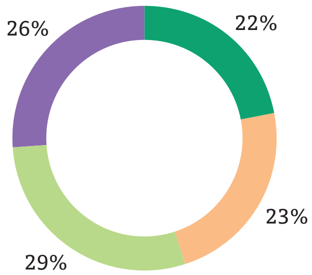


152,831
N/A
N/A
800
90%
N/A
N/A
255

Olympia 66, Dalian

Olympia 66 is situated on 66 Wusi Lu in Xigang District, the commercial hub of Dalian. The project features prestigious local and international labels of fashion and accessories, jewelry and watches, beauty and digital products, as well as a stunning array of global culinary delights, advanced international entertainment and leisure facilities, a dynamic family zone and an innovative range of sports sites. The mall also has an ice-skating rink and Dalian's first Palace cinema, providing 10 houses and 1,600 seats.

Commercial Segment Distribution (by Leased Floor Area)



221,900
N/A
N/A
1,214
79%
N/A
N/A
299

HOME TO LUXURY

The Home to Luxury Party was a resounding success for relationship-strengthening with high-value customers and our tenants

Plaza 66, Shanghai

Shopping Mall

Plaza 66 has continued to be the undisputed market leader since pioneering luxury malls in Shanghai in 2000. Our prestigious home for over 100 global luxury and dining brands is retaining peerless leadership through constantly innovating and brand building in line with the times. Exclusive flagships, pop-ups, product launches and customer-centric campaigns differentiate Plaza 66 as a cut above the growing crowd – with healthy growth in rents, sales and occupancy.

The Home to Luxury Party was a resounding success for relationship-strengthening with high-value customers and our tenants – introducing exclusive products with giveaways and performances, and recording satisfactory growth in sales. Elevating brand-building was the launch of our corporate Customer Relationship Management (CRM) program HOUSE 66.

Among flagship stores, Bulgari renovated for an updated image. There were another 20 new brands included Canali, Liu Jo, Chaumet, Filorga, Burberry Kids and Lalique; with exclusive retail pop-ups and new F&B tenants enriching luxury lifestyle.

Looking ahead, Plaza 66 drives onward among the most successful commercial complexes in mainland China with Celine Men's first standalone boutique on the Mainland; the Greater China launch of a Pronovias flagship store; Germany's classy LVMH luggage brand Rimowa; and Greater China debut of Tokyo's popular 37 Steakhouse & Bar and major branding refreshments also by Gucci, Van Cleef & Arpels, Piaget and Tiffany & Co. As premium brands increasingly encourage domestic spending, performance will remain strong with enhanced luxury lifestyle content. New flagship stores, exclusive collections, special edition merchandise and marketing campaigns tailored to customer "big data" – along with digital initiatives and youthful labels reaching China's affluent new generations – will continue to fortify the market leadership of one of Shanghai's most admired, iconic landmarks.

Focus is especially intensified on customer engagement for sustainable long-term sales growth with a specialist team providing even more exclusive, personalized and highly-valued services addressing shopping needs and service requests.

Office Tower

Our twin prestigious Grade-A office towers continued to thrive. Completion of major upgrading resulted in a significant increase in occupancy – driven by recent strong demand from luxury retailers, pharmaceutical firms and professional and consultancy companies. Core tenancy of prominent local and multinational corporations and consultancy companies maintained a stable mix. Several long-term quality tenants expanded their premises, namely LVMH group, Allergan and Bain & Co.

With limited supply of prime office space in Jing'an District's CBD, demand from expansion by core tenants and reputable PRC companies, as well as financial services, professional and consultancy services, will remain solid. With potential market uncertainty over the Trade War, market trends will be closely monitored and we will continue to diversify our tenant mix by recruiting quality domestic and multinational corporations across industries.

Grand Gateway 66, Shanghai

Shopping Mall

Affluent Xujiahui district remained as a fashionable commercial hub, and due to limited new supply of luxury retailing, Grand Gateway 66 reinforced its market leadership despite undergoing a massive facelift. Two major tenants, Ole' Supermarket and SFC Cineplex, reopened in 2018 mid-summer – Ole' emerging as a high-end lifestyle supermarket and the 11-house Cineplex upgraded with unparalleled, state-of-the-art technology including IMAX, Onyx, 4DX and Real D audio and visual systems.

Phase 1 renovation of the mall was completed in August 2018 and the North Building successfully reopened in September 2018, almost fully let including many brands new to Shanghai, and some making their debut in mainland China, notably Undefeated, Princi by Starbucks Reserve Bakery Café and Dragon Noodles Academy.

Phase 2 renovation in the South Building began in July 2018 and is on a fast track, with new retail space at L1-L3 scheduled for fitting out in late 2019 – and major flagship stores targeting opening in early 2020.

MASSIVE FACELIFT

Grand Gateway 66 reinforced its market leadership despite undergoing a massive facelift

With majority of the renovation near completion by end of 2019, the mall will evolve and become a trendy, vibrant, commercial-lifestyle luxury complex. The outlook is positive with a bright, new image already attracting exciting new tenants.

Office Tower

Completion of major renovation enhanced our competitiveness for attracting multinational corporations and quality domestic enterprises. New tenants namely UOB, Vailog and Georgia-Pacific were introduced. Due to consolidation of major tenancies amid limited new supply, the office tower saw a very satisfactory occupancy rate.

Despite competition arising from emerging districts such as Xuhui Bund, performance is expected to remain stable. Renovation has enhanced competitiveness, resulting in early renewal of major core tenancies. For long-term sustainability, we will continue to refine our tenant mix – and maintain ongoing communication with tenants to better understand and appreciate their business requirements, and plan ahead to accommodate their potential expansion.

Serviced Apartments

Demand remained soft due to several negative factors including tightened restrictions on working visas for expatriates; decentralization of many Grade-A offices away from the CBD, curtailing expatriate demand; and continued construction – of both Grand Gateway 66 and surrounding sites.

Despite the above, we maintained an overall high occupancy in 2018, mainly by effective strategy and keeping a close relationship with corporate clients.

In 2019, we expect the above challenges to continue and will implement various measures to increase renewal rate by improving service and the neighborhood environment to satisfy tenants as best we can.

SHOPPING HOTSPOT

Palace 66 remained a popular destination in Zhongjie Lu Shopping District for youngsters, trendsetters and fashion lovers

Palace 66, Shenyang

Shopping Mall

Palace 66 remained a popular destination in Zhongjie Lu Shopping District for youngsters, trendsetters and fashion lovers, with average rent and sales efficiency much higher than its competitors. But the commercial environment is generally weak due to struggling competition, and we are working with the district government on how to breathe new life into the neighborhood.

Encouraging signs in the second half of 2018 were from increased footfall and sales; and the arrival of fashionable new tenancies including Air Jordan, adidas, Puma, LI-NING, FILA, GF FERRE, Chow Sang Sang, Chow Tai Fook, TSL and Mini-Cinema. Popular brands including Miss Sixty, UGG, Longines, Pandora, Breitling and D&X also refreshed their stores – with Darry Ring and U Lifestyle also upgrading. To enhance our shopping experience, we have also updated our car park e-payment system.

To cater for more customer needs, we will continue to adjust tenant mix to incorporate more lifestyle content, targeting experienced F&B operators as well as trendy new Chinese fashion brands. We are also enhancing customer experience with customized leisure zones, pop-ups and more personalized services. With the launch of the new CRM program, HOUSE 66, in the second half of 2019, it is hoped to further enhance customer loyalty.

Forum 66, Shenyang

Shopping Mall

Forum 66 continued positively along the road to recovery, with introduction of a more lifestyle mix boosting revenue, footfall and occupancy rate. Overall occupancy has increased, with B1 and L4 reaching 100% after F&B enhancements and L3 reaching almost 100% after revamp.

Luxury brands including Chanel, Cartier, Giorgio Armani, Valentino, Lanvin and Christian Louboutin as well as the recent introduction of various pop-up stores like Sergio Rossi, Mikimoto, etc. have strengthened the retail offering. Riding on the opening of lifestyle trades like bookstore, gym and quality restaurants on upper levels, shopping experience is enriched.

ENRICHED SHOPPING EXPERIENCE

Forum 66 continued positively with introduction of a more lifestyle mix

With the successful opening of the first office tower, completion of the subway connection, enhanced ambience in new zones and inauguration of the new Conrad Hotel in 2019, positive aspects now bode well for Forum 66 to remain a very strong player in northeast China in the long run.

Office Tower

Satisfactory occupancy followed successful opening of Forum 66's first Grade-A office tower in competitive market conditions. Joining anchor tenants Siemens, Bank of China, ABB, PwC, Deloitte, Schaeffler, SMBC and Medtronic was a quality tenant mix including Audi, DS-DTT, Sekisui Medical Technology, Koubei-Alibaba, Tiantong Law Firm, AUTOAl and Sansheng Real Estate.

More multinational corporations and quality PRC companies are expected to occupy the high-zone handed over in mid-2018, which will increasingly command higher rents from a prestigious location and quality tenant mix. As a major industrial hub, Shenyang's Grade-A office market is more positive, with demand also from financial, professional services, media, information technology and real estate sectors. But vacancies in the market still need time to be absorbed as efforts continue to reverse economic stagnation and attract investment.

Parc 66, Jinan

Shopping Mall

Jinan is booming with a focus on technology-intensive industries – earning Global Second-Tier City status in the World Urban System Rankings by the Globalization and World Cities Research Network (GaWC). Parc 66 remains Jinan's largest and most prestigious mall, since opening in 2011. Overall performance was uptrend, recording healthy and stable growth.

As the first choice for mid-to-upmarket brands, new international affordable luxury labels making their debut included popular women's fashion labels Kate Spade, Pinko, i.t, Aape and Marella further increase fashion elements and cluster effects.

TRENDY LIFESTYLE

Parc 66 has introduced more first and new lifestyle elements in Jinan

Numerous existing tenants upgraded and introduced more first and new lifestyle elements to customers, attracting them to return and stay longer in the mall. With Starbucks Reserve among F&B brands enhancing, resulting in increased attractions, footfall and sales as well as more interactions between trade categories.

The future of Parc 66 is bright with rooms for growth. Following retrenchment in recent years, international luxury brands are getting confident and returning, with major upcoming tenants including TAG Heuer, Marisfrolg, AUM, Karl Lagerfeld and the debut of LI-NING.

More F&B outlets are being encouraged to diversify the lifestyle mix. A dedicated cosmetics zone is planning for international beauty brands. The arrival of sportswear brand flagship stores, replacing multi-brand outlets, underlines a national trend embracing fitness and exercise.

NEW AND TRENDY
Center 66 attracted more trendy new tenants

Center 66, Wuxi

Shopping Mall

Revenue of Center 66 picked up remarkably well in 2018. The significant increase in retail sales also pushed up occupancy, attracting trendy, attractive new tenants. These included the Wuxi debuts of Dunhill and Hokkaido dessert brand ZAKUZAKU. Starbucks meanwhile upgraded to Starbucks Reserve; while Honeymoon Dessert, TASTY and Bellagio Cuisine all renovated for bright new F&B images, boosting footfall.

Top luxury brands are upgrading; with more recently signed-up including HeyTea at the MTR tunnel, and Gucci is expected for opening in 2019. Completion of Office Tower 2 in 2019 mid-summer, complete with a retail podium and brand new premium cinema complex, will attract even more footfall.

Office Tower

Office Tower 1 maintained its leading position in the market, as a base to quality multi-national corporations and leading domestic enterprises, accounting for around half of tenancies. Tenant mix continued to be optimized with new tenants including Samsung, Huatai Futures, Galaxy Futures and PingAn Securities. Increased average occupancy produced healthy revenue growth.

Completion of Office Tower 2 in July 2019 is not only set to attract more quality tenants, but also offer expansion opportunities for existing office tenants. While vacancies remain high among competitors, who are adopting aggressive leasing strategies, our office towers stand out from the crowd as prestigious landmarks – in demand from equally prestigious corporations and companies.

Riverside 66, Tianjin

Shopping Mall

Riverside 66 managed to maintain a satisfactory occupancy. Disruptive renovation of Binjiang Pedestrian Street, where the mall is located, curtailed customer traffic. In the meantime, upgrading and a more diversified tenant mix re-positioned Riverside 66 as an "upscale trendsetting mall for the tasteful". More lifestyle brands were introduced including Common Gender and Hardy Hardy – along with fashionable urban sports labels and a kid's education zone. Existing tenants including Pop Mart and Qianyuan also took the opportunity to upgrade.

We also intensified overall marketing initiatives, boosting WeChat followers and launching online activities and games; and cooperating with more than 200 brands in the mall to promote online sales. Marketing efforts extended to joining Alipay's online campaigns on special days and events, while e-parking services were also enhanced.

Higher occupancy is expected following completion of Binjiang Pedestrian Street renovation with a refreshed image. Focus on promoting three themed zones – Youth Lifestyle and Aesthetics, Light F&B and High-end Kid Education – reinforces our clear-cut positioning.

TRENDY NEW ELEMENTS

Riverside 66 has re-positioned as an "upscale trendsetting mall for the tasteful"

ONE-STOP SHOPPING DESTINATION

Olympia 66 will introduce more world-class luxury brands in Dalian

Olympia 66, Dalian

Shopping Mall

Olympia 66 is making its mark as "by far the best mall in Dalian" – an attractive one-stop destination for international labels, fashion, entertainment, lifestyle and F&B. Despite a challenging year, footfall and sales were up, with higher occupancy and rental revenue from new openings. Lively new tenants included Ole' Supermarket, the city's first Palace Cineplex, the Dalian debut of COS and newest APPLE Store.

Olympia 66 is attracting new brands entering the Dalian market, including an upcoming new CNSC flagship downtown duty-free store spanning two levels. Lifestyle mix is expanding with the extension of a kid's zone embracing fashion, art, dance, music and fun learning. World-class luxury brands are expected to follow.

Hong Kong Property Leasing

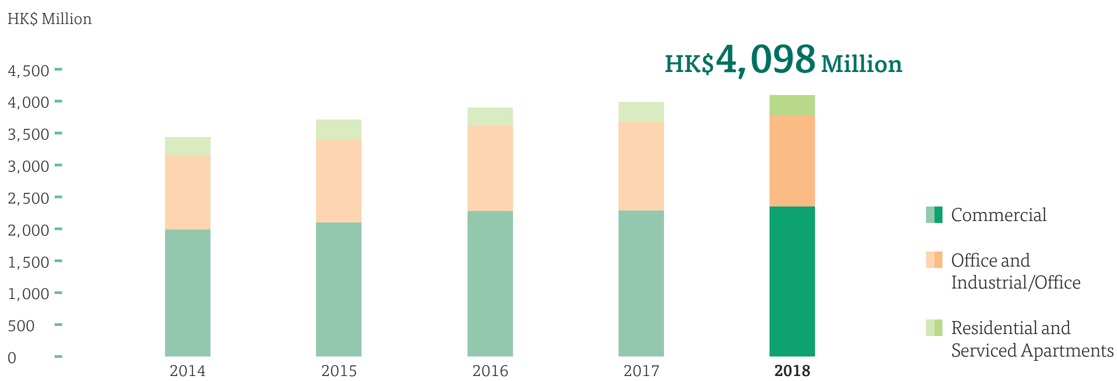
Total revenue and operating profit of our Hong Kong leasing portfolio both achieved a mild growth of 3% to HK$4,098 million and HK$3,450 million, respectively, in spite of the high base. Overall rental margin was 84%.

With our efforts over recent years in asset enhancement and improvements in tenancy profile, we have laid a solid foundation for sustainable growth in future years.

With the contribution made by the positive rental reversions of our major tenants in recent years, revenue of the Hong Kong commercial portfolio increased 3% to HK$2,344 million.

Overall occupancy slightly decreased two points to 95% owing to the impact of the renovation at The Peak Galleria, but was up two points on a comparable basis. Riding on the positive momentum of the retail market, total retail sales climbed 8% year-on-year.

Revenue of Hong Kong Portfolio



Geographical Analysis of Hong Kong Investment Properties

At December 31

	Total Gross Floor Area* ('000 sq.m.)	
	2018	2017
Hong Kong Island		
Central	**51**	51
Causeway Bay and Wan Chai	**92**	92
Kornhill and Quarry Bay	**135**	135
The Peak and Mid-Levels	**46**	46
Hong Kong South	**12**	12
Kowloon		
Mongkok	**137**	137
Tsim Sha Tsui and West Kowloon	**81**	82
Ngau Tau Kok	**79**	79
Cheung Sha Wan and Kwai Chung	**89**	91
Total	**722**	725

Segmental Analysis of Hong Kong Investment Properties

For the year ended December 31

	Revenue (HK$ Million)		Occupancy Rate (at year-end)(%)	
	2018	2017	**2018**	2017
Commercial	**2,344**	2,283	**95%**	97%
Office and Industrial/Office	**1,429**	1,396	**95%**	95%
Residential and Serviced Apartments	**325**	303	**85%**	80%
Total	**4,098**	3,982	**94%**	94%

* Including gross floor area of car parks

Brief on Properties

Fashion Walk
Causeway Bay

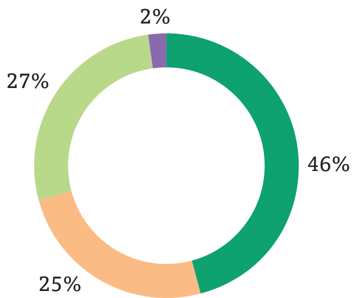
Fashion Walk is the distinctive shopping destination across three main areas, namely Paterson, Kingston and Food Street, offering the latest trends in fashion, gastronomy and lifestyle in a magnificent setting. It houses numerous innovative concept stores and flagships of celebrated international fashion labels, including the first pet-friendly beauty & event venue Private i Concept Store, the first global boutique of New York label Heron Preston, the first overseas store of Japanese stylish brand STUDIOUS, the first Hong Kong outlet of French fashion label AMI, and the Hong Kong flagship store Onitsuka Tiger, together with designer labels such as OFF-WHITE, MSGM, MASTERMIND WORLD and Y's, and a diverse array of culinary delights at Food Street.

Hang Lung Centre
Causeway Bay

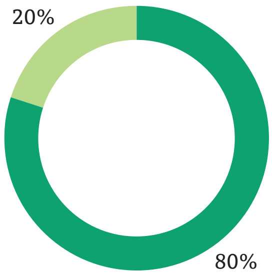
Offering a wide range of travel, fashion wholesale and medical services, Hang Lung Centre is a retail and commercial complex enviably situated at the heart of Causeway Bay. It welcomed H&M's first and the largest global flagship in Asia in 2015, while the Travel Zone is now optimized for customers to obtain travel information and purchase related products in an even more pleasant environment.

■ Fashion & Accessories
■ Food & Beverage
■ Leisure & Entertainment (including Lifestyle)
■ Bank
■ Department Store
■ Others

Commercial Segment Distribution (by Leased Floor Area) (Fashion Walk)

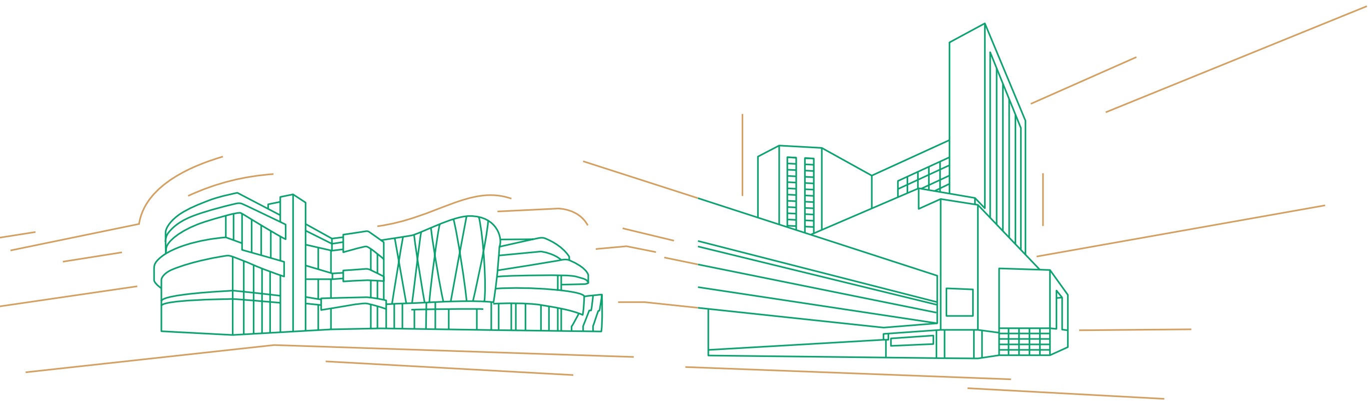


Commercial Segment Distribution (by Leased Floor Area) (Hang Lung Centre)



Key Statistics

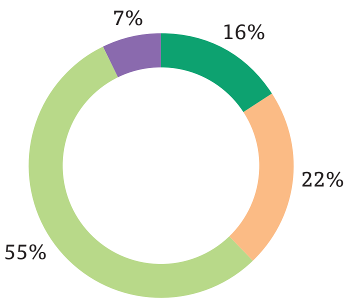
		Fashion Walk	Hang Lung Centre
Gross floor area (sq.m.)	Commercial	31,072	8,777
	Office	N/A	22,131
	Residential and Serviced Apartments	7,935	N/A
Number of car parking spaces		N/A	126
Occupancy rate (at year-end)	Commercial	98%	100%
	Office	N/A	89%
	Residential and Serviced Apartments	86%	N/A
Number of shopping mall tenants		91	3



The Peak Galleria
The Peak

Ideally located atop the famous attraction in Hong Kong, Victoria Peak, The Peak Galleria is renowned as a major tourist landmark. The extensive shopping and dining complex is complemented by various exciting activities highlighting the vibrant local culture. The complex also features an array of iconic museums and themed entertainments. Together with its tailor-made tenant mix and a series of brands making their debut in Hong Kong, The Peak Galleria is designed as a must-visit destination perfect for local and overseas tourists alike. Visitors can enjoy stunning panoramic views of Victoria Harbour and Pok Fu Lam Reservoir which are best seen from The Observation Deck at the Green Terrace on Level 3, which is free to all.

Commercial Segment Distribution (by Leased Floor Area)

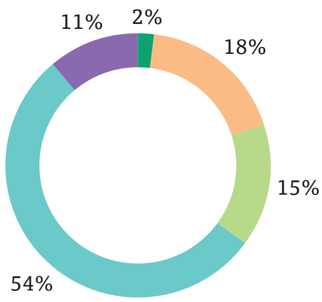


12,446
N/A
N/A
493
7% (closed for renovation)
N/A
N/A
16

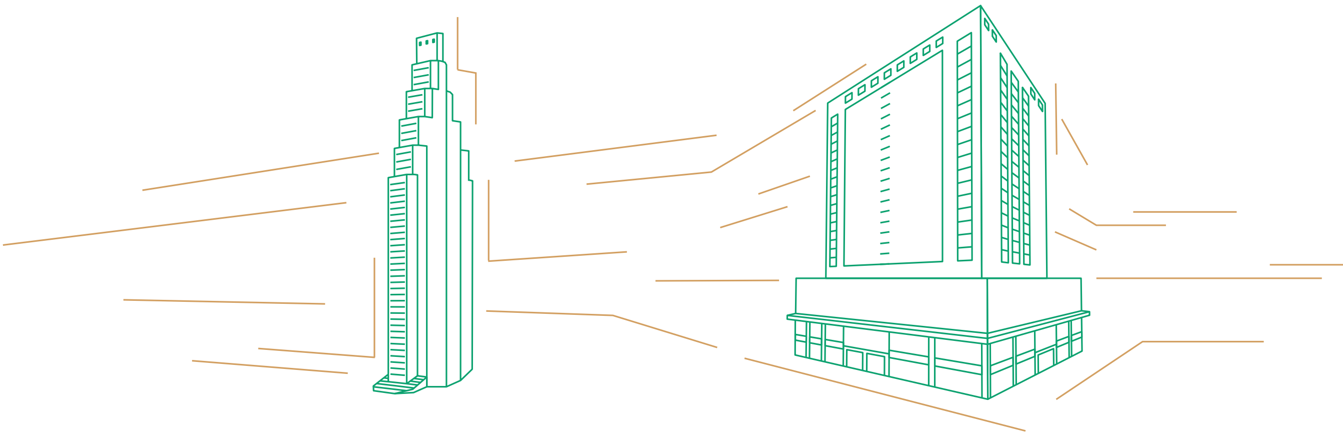
Kornhill Plaza
Quarry Bay

Conveniently located in the east of Hong Kong Island atop the MTR Tai Koo Station, Kornhill Plaza is a commercial complex with a shopping mall, serviced apartments and an office tower. The mall houses AEON STYLE department store. The serviced apartments provide superior management and services, and an office tower, together with Kornhill Learnscape, which offers leisure-learning facilities for youngsters.

Commercial Segment Distribution (by Leased Floor Area)



53,080
10,577
35,275
1,069
100%
100%
77%
125



Brief on Properties

Standard Chartered Bank Building
Central

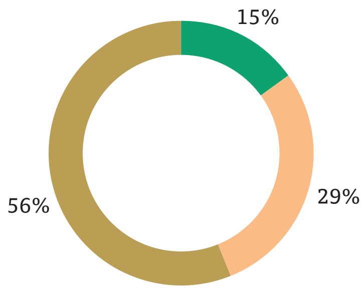
The Standard Chartered Bank Building is a Grade-A office tower in the commercial district of Central. In addition to the headquarters of Hang Lung Properties and the very first digital branch of Standard Chartered Bank Hong Kong, prestigious fashion label Escada and high-end Chinese restaurant Mott 32 are also among its tenants.

Grand Plaza
Mongkok

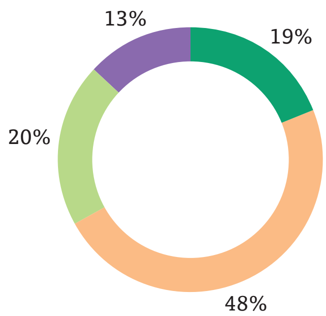
Enviably located right next to the MTR Mongkok Station on Nathan Road, Grand Plaza houses two office towers and a commercial podium. It is home to a stellar line-up of international watch and jewelry brands, concept stores as well as fashion and lifestyle labels. The dedicated Dining Floors feature 20-plus gourmet dining venues where international cuisine is served. The Grand Plaza Office Tower One showcases the region's most prominent healthcare centers. It has further been subtly zoned into Beauty and Travel floors, providing visitors a one-stop leisure and lifestyle experience.

- Fashion & Accessories
- Food & Beverage
- Leisure & Entertainment (including Lifestyle)
- Bank
- Department Store
- Others

Commercial Segment Distribution (by Leased Floor Area)

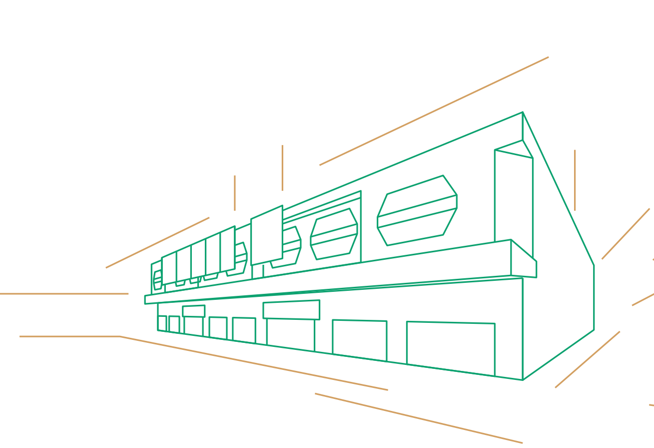


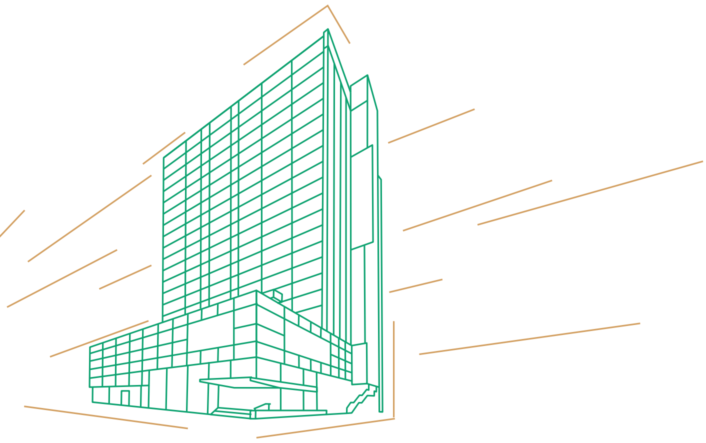
Commercial Segment Distribution (by Leased Floor Area)



Key Statistics

		Standard Chartered Bank Building	Grand Plaza
Gross floor area (sq.m.)	Commercial	4,814	20,905
	Office	23,730	31,251
	Residential and Serviced Apartments	N/A	N/A
Number of car parking spaces		16	40
Occupancy rate (at year-end)	Commercial	100%	100%
	Office	100%	98%
	Residential and Serviced Apartments	N/A	N/A
Number of shopping mall tenants		3	27





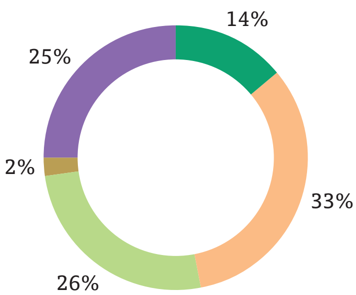
Amoy Plaza
Ngau Tau Kok

Conveniently located near the MTR Kowloon Bay Station, Amoy Plaza is an integrated mall in Kowloon East, comprising stores offering trendy fashions, beauty products and electronic gadgets. Together with more than 40 restaurants serving local and international cuisines, the mall offers a full selection of lifestyle experiences for nearby office workers and residents of Amoy Gardens.

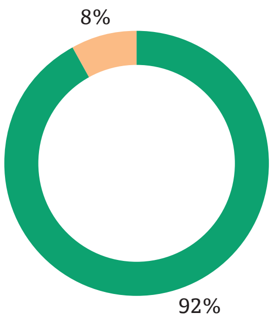
Gala Place
Mongkok

Located at the junction of Dundas Street and Nathan Road with affluent footfall, Gala Place houses a diverse array of merchants. In addition to the 4,500-plus-square-foot Starbucks thematic store and the triple-story H&M full-concept flagship store, the largest in Kowloon, it also showcases an expertly curated portfolio of diversified services and products including chic fashion, outdoor gear, skincare and cosmetics, lifestyle products, audio and digital gadgets, beauticians, telecommunications centers, and a home design house as well as a smorgasbord of new and enticing food and beverage offerings, which together transform Gala Place into a hotspot for the trendy and fashionable in Mongkok. It is also equipped with a car park which offers close to 500 car parking spaces, providing a convenient, one-stop shopping experience for customers.

Commercial Segment Distribution (by Leased Floor Area)



Commercial Segment Distribution (by Leased Floor Area)



49,006	7,454
N/A	30,205
N/A	N/A
620	478
99%	100%
N/A	92%
N/A	N/A
262	2

Fashion Walk

Vibrant Fashion Walk emerged from its three-year transformation as a fashionable hub of trend-setting and entertainment in the bustling heart of Causeway Bay. Over a hundred highly sought-after global brands and labels including more than 40 flagship and experience stores create an exhilarating mix of fashion, lifestyle and F&B in a unique indoor-and-outdoor retail environment, including alfresco dining.

The successful launch of 9 Kingston Street – a unique 100,000-square-feet retail space facing Victoria Park – has enhanced the medley of iconic lifestyle, sports and F&B concepts. Exciting "firsts" in Hong Kong included the first Tian Tian Plus concept store outside of Singapore; Hong Kong flagship Little Bao Diner; Hong Kong's first Belgian craft beer experience The Artist House; and Private i's first one-stop pet salon and concept store. Other fashion designer labels include Heron Preston's first global concept store and Palm Angels' first Hong Kong concept store on Paterson Street. Vivienne Westwood also unveiled its latest fashion and lifestyle concept with a full menu café.

Fashion Walk's pop-ups and promotions continued to be the talk of the town, attracting extensive media coverage. Headlining high profile collaborations, prestigious IWC Schaffhausen's pop-up celebrated their 150th anniversary; Givenchy Beauty launched their first international pop-up #THISISNOTWHATYOUTHINK; and Cathay Pacific staged their Wake Up Fresh interactive roadshow.

As a key element of Fashion Walk, Hang Lung Centre continued to be a highly popular destination for first-rate operators in the travel, fashion wholesale and medical sectors. Seven revamped medical floors, branded Hang Lung Medical Hub, are now home to over 120 professional specialists at about 60 clinics, labs and medical centers providing diverse, premium healthcare service.

DESTINATION FOR TRENDSETTERS

More than 40 flagship and experience stores opened their doors at Fashion Walk

COMMUNITY MALL

Kornhill Plaza positioned as a community mall serving nearby residents and office workers with daily necessities

Central Portfolio

Our Central portfolio delivered healthy and sustainable rental growth in 2018. Unique dining concepts such as Mott 32, Duddell's, Foxglove and Wolfgang's Steakhouse continued to perform exceptionally well. Renowned Japanese omakase restaurants Sushi Sase and Sushi Sase Hanare launched in Baskerville House to rave reviews – complementing the other fine-dining concepts and fitting in well with the historical legacy of Duddell street.

For offices, leasing demand remained solid with vacancies still tight in the area. With their prime location and prestigious address, our Duddell Street properties continued to be well sought-after by reputable professional service firms.

Kornhill Plaza

As a community mall serving nearby residents and office workers with daily necessities, Kornhill Plaza is relatively immune to macro retailing and economic factors. Its 2018 performance remained stable, maintaining high occupancy rate with increased sales. Our Wellness Zone has notably expanded, with F&B diversification including new Bubble Tea outlets and Sichuan restaurants.

As certain tenancies expire, we aim to fine-tune our mix to the needs of the Hong Kong East community, targeting more lifestyle, wellness and F&B variety.

ASSET ENHANCEMENT

The Peak Galleria is undergoing an historic facelift

The Peak Galleria

The Peak Galleria is undergoing an historic facelift – for repositioning as an iconic shopping, dining and entertainment landmark for locals and tourists. The first of two renovation phases is scheduled to open in summer 2019.

Mongkok Portfolio

Shopping Malls

Positioned as malls Where Trends Meet, to a stellar line-up of international watch and jewelry brands, concept stores as well as lifestyle, stylish sports and fashion labels with dedicated restaurants, Grand Plaza, Hollywood Plaza and Gala Place retained sustainable income growth despite a mild setback in income from jewelry and watch outlets.

Amid tenant mix reshuffling and premises re-layout responding to market change, the first to Hong Kong new brands including Hanlin Tea, Midori, Gyu Kaku Buffet, Nome, and new concepts including Mannings Plus, Sasa Duplex, Tao Heung Fish Market and CSS Duplex Rolex made satisfactory debuts with sales growth and excitement to the market.

Looking ahead, sales on beauty & health care will remain robust, more focus will be on personal care and beauty sectors. F&B is proving equally resilient, more new F&B brands will be introduced under the Mongkok portfolio for a satisfactory rental growth.

SUSTAINABLE GROWTH

Mongkok portfolio recorded sustainable income growth

Office Towers

Occupancy was up with stable rental growth from strong demand for medical floors at both Grand Centre and Grand Plaza. This was attributed to a growing number of "medical tourists". At Hollywood Plaza and Gala Place, occupancy remained high. The steady rental growth was supported by the change of right trades which houses a potpourri of diversified services and products including chic sports fashion, outdoor gears, lifestyle products and co-work space, etc. to cope with market change. With the new dining floor, Gala Place would become a one-stop shopping and dining hub for customers.

Yet, office leasing competition is fierce due to increasing number of office supply.

With demand growing for clinic space, we plan to convert more office floors to medical floors to capture this growth market, with generally offers higher rental.

Amoy Plaza

Amoy Plaza enjoyed a fruitful year by introducing a new UA Cinema, exciting F&B concepts attracting more teenagers and families, and unique retailing such as Living Plaza By AEON. Our F&B branding Eat in Amoy encouraged special and exciting new F&B tenants such as Domon Izakaya (HK Ajisen group) and Ten Ren Tea, enhancing the mall's attractiveness and revenue.

These positive developments, along with fun activities and happenings, enhanced Amoy Plaza's image as a one-stop community mall.

We will continue to introduce more entertainment, lifestyle and unique F&B brands, reinforcing Amoy Plaza's image. Our concept A Moment Of Yours is also establishing closer connection with the local community. East Kowloon Cultural Centre is expected to be opened in 2021, which could draw more footfall to Amoy Plaza.

EXCITING BRANDS

Amoy Plaza enhanced its image as a one-stop community mall with introduction of exciting entertainment, F&B and retail brands

Outlook

In view of the Trade War, we maintain a cautiously optimistic view towards both the Hong Kong and Mainland property leasing markets.

While we aim to drive sustainable growth of the established properties in both Hong Kong and Mainland, Shanghai Plaza 66 will continue to attain healthy rental growth. The progressive completion of the renovation at Shanghai Grand Gateway 66 and the opening of new properties in Kunming (retail and office tower), Wuxi (the second office tower) and Shenyang (hotel) on the Mainland will drive revenue to a higher level.

In 2019, we will focus more on our customer-centric initiatives in terms of strategic leasing and the sequential launch of HOUSE 66, our customer relationship management program, across the portfolio. HOUSE 66 was successfully launched in September 2018 at Shanghai Plaza 66 and in December 2018 at Jinan Parc 66. Tenants at both properties greeted the program with a high degree of enthusiasm, increasing membership registrations and spending by members.

We will continue to watch, keep pace with, or stay ahead of customer trends, striking a balance between experiential content and conventional retail to increase footfall and retail sales, thereby optimizing income. More new technologies will be deployed at our properties such as mobile applications, mobile payment and smart parking, on top of the ever-improving direct customer services, to build on the unique Hang Lung Brand Experience.

To maintain our competitive edge and may further build our land bank when opportunities arise, the asset enhancement program in both Hong Kong and the Mainland will continue with due consideration of our financial strength. Depending on market conditions, we may continue to sell down the residential units on hand. Meanwhile, projects under development in mainland China will forge ahead as planned.

Mainland China Property Development

Summary of New Projects in Mainland China

	Center 66	Forum 66	Spring City 66	Heartland 66	Hangzhou Project
City	Wuxi	Shenyang	Kunming	Wuhan	Hangzhou
City status	Major City	Provincial Capital	Provincial Capital	Provincial Capital	Provincial Capital
Province	Jiangsu	Liaoning	Yunnan	Hubei	Zhejiang
Usage	Shopping Mall, Office, Hotel, Serviced Apartments	Shopping Mall, Office, Hotel, Serviced Apartments	Shopping Mall, Office, Serviced Apartments	Shopping Mall, Office, Serviced Apartments	Shopping Mall, Office, Hotel
Total gross floor area ('000 sq.m.)*	371	800	432	460	228
Year of Completion	Shopping Mall: 2013 Office Tower 1: 2014 Remaining portions: From 2019	Shopping Mall: 2012 Office Tower: 2015 Remaining portions: In phases from 2019	In phases from 2019	In phases from 2020	In phases from 2024

* Including gross floor area above and below ground (excluding carpark area)

FORUM 66, SHENYANG

Forum 66, Shenyang

The high zone office renovation works of the office tower were completed on schedule, with handover for tenants advanced to April 2018. The Conrad Hotel is due for completion and expected to open in the second half of 2019.

Amendment to Master Layout Plan for development of the second Office Tower and Serviced Apartments is scheduled for submission in March 2019. Given progress so far in overcoming numerous unforeseen obstacles, positive aspects now bode well for the 800,000-square-meter landmark to remain a very strong player in northeast China in the long run.

Center 66, Wuxi

Office Tower 2 is on schedule for completion in July 2019 for mixed retail-office tenancy. Key milestones for 2018 were topping-out Office Tower 2, with the retail podium substantially completed by year-end. General progress was maintained by fast-tracking consultants and contractors.

The master layout plan for Phase 2, including two blocks of serviced apartments and one boutique hotel, has been submitted to government for approval by Q1 2019. Site construction works target to commence by Q2 2019. Issues over Metro Line No. 6 were resolved through close coordination with local government authorities.

Outstanding performance is anticipated to continue with ultimate completion of Wuxi's premier shopping center-office tower landmark, as the booming city attracts more high-profile international and domestic enterprises and financial institutions.

CENTER 66, WUXI

Spring City 66, Kunming

Spring City 66 is scheduled for opening in phases as the first top-end shopping center in Kunming. Construction is progressing as planned, with the world-class shopping mall and 64-story Grade-A office tower topped out in September 2018. Installation of the curtain wall, mechanical & electrical system, interior decoration, landscaping and more are in good progress.

Pre-opening leasing is equally encouraging – with over 70% of leasable space committed as of year-end 2018. Many flagship stores of world-class fashion brands and new brands are entering the capital of Yunnan Province for the first time. Work meanwhile also commenced satisfactorily on the serviced apartments.

Spring City 66 is on target to debut as Kunming's most comprehensive world-class shopping mall, with a correspondingly prestigious Grade-A office tower in the second half of 2019. Over 300 high-end luxury and contemporary luxury brands and international fashion & accessories along with worldwide delicacies and F&B and lifestyle & entertainment introduce the best of the world to Kunming – injecting fresh new vitality into this burgeoning retail market with excitement destined to reverberate through Yunnan Province.

SPRING CITY 66, KUNMING

HEARTLAND 66, WUHAN

Heartland 66, Wuhan

Progress on the shopping mall, Grade-A offices and apartments was on track with program for opening in phases from 2020 onwards as a city and provincial hub for high-end lifestyle shopping and leisure. A key milestone was the topping out of Office Tower in June 2018.

Timely completion is expected for the prestigious mixed-use commercial complex with a total gross floor area of 460,000 square meters – comprising a 177,000-square-meter mall, 61-story Grade-A office tower of 151,500 square meters, serviced apartments and 2,800 car parking spaces from 2020. Leasing activities for the mall have commenced positioning Heartland 66 as a leading retail center in the Wuhan market.

Hangzhou Project

This new acquisition in 2018 extends Hang Lung's portfolio to the capital of Zhejiang Province, a leading technology hub and one of China's wealthiest cities. Hangzhou is also an important commerce and education center, with a rich cultural history and the UNESCO World Heritage listed West Lake.

The project is located in Hangzhou's most prestigious and vibrant center of Wulin Square. We will develop the premium site into a large-scale and high-end commercial mixed use complex, comprising a world-class shopping mall and office towers with a maximum floor area of approximately 194,100 square meters above ground. The construction will start in 2019 and completion is expected in phases starting from 2024. The office tower will be the area's tallest with unparalleled views of the city and West Lake.

HANGZHOU PROJECT

Major Properties of the Group

A. Major Properties Under Development

At December 31, 2018

	Location	Site Area (sq.m.)	Main Usage	Total Gross Floor Area (sq.m.)	% Held by The Group	Stage of Completion	Expected Completion Year
MAINLAND CHINA							
SHENYANG							
Forum 66	Qingnian Da Jie, Shenhe District	92,065	M/H/O/S	574,091	57.6%	Hotel fitting-out	2019 onwards
WUXI							
Center 66 (Phase 1)	Renmin Zhong Lu, Liangxi District	37,324	O	52,261	57.6%	Superstructure	2019 onwards
Center 66 (Phase 2)	Jiankang Lu, Liangxi District	16,767	M/H/O/S	108,982	57.6%	Planning	
KUNMING							
Spring City 66	Dongfeng Dong Lu, Panlong District	56,043	M/O/S	432,388	57.6%	Superstructure	2019 onwards
WUHAN							
Heartland 66	Jinghan Da Dao, Qiaokou District	82,334	M/O/S	459,500	57.6%	Superstructure	2020 onwards
HANGZHOU							
	Baijingfang Lane, Xiacheng District	44,827	M/H/O	228,100	57.6%	Planning	2024 onwards

M: Mall H: Hotel O: Office S: Serviced Apartments

B. Residential Properties Completed For Sale

At December 31, 2018

	Location	Site Area (sq.m.)	Total Saleable Area (sq.m.)	% Held by The Group	No. of Residential Unit for Sale	No. of Car Parking Spaces for Sale
HONG KONG						
23-39 Blue Pool Road	23-39 Blue Pool Road, IL 5747	7,850	5,114	57.6%	12	24
The Long Beach	8 Hoi Fai Road, KIL 11152	20,200	136	57.6%	1	–

C. MAJOR INVESTMENT PROPERTIES

At December 31, 2018

	Location	Lease Expiry	Total Gross Floor Area (sq.m.) Commercial	Office and Industrial/ Office	Residential and Serviced Apartments	No. of Car Parking Spaces
HONG KONG						
CENTRAL						
Printing House	6 Duddell Street, IL 339	2848	1,709	5,980	–	–
1 Duddell Street	1 Duddell Street, IL 7310	2848	2,340	6,616	–	–
Baskerville House	22 Ice House Street, IL 644	2880	1,473	3,379	–	–
Standard Chartered Bank Building	4-4A Des Voeux Road Central, Sections A&B of ML 103	2854	4,814	23,730	–	16
CAUSEWAY BAY AND WAN CHAI						
Hang Lung Centre	2-20 Paterson Street, IL 524 & IL 749	2864	8,777	22,131	–	126
Fashion Walk	Paterson Street, Houston Street, Great George Street, Cleveland Street, Kingston Street, Gloucester Road, ML 231 & ML 52, IL 469 & IL 470	2842, 2864 & 2868	31,072	–	7,935	–
Shui On Centre	15/F-28/F, 6-8 Harbour Road, IL 8633	2060*	–	16,313	–	42
KORNHILL (QUARRY BAY)						
Kornhill Plaza	1-2 Kornhill Road, IL 8566	2059*	53,080	10,577	–	1,069
Kornhill Apartments	2 Kornhill Road, IL 8566	2059*	–	–	35,275	–
THE PEAK AND MID-LEVELS						
The Peak Galleria	118 Peak Road, RBL 3	2047	12,446	–	–	493
The Summit	41C Stubbs Road, IL 8870	2047	–	–	15,225	54
HONG KONG SOUTH						
Burnside Villa	9 South Bay Road, RBL 994	2072	–	–	9,212	89
MONGKOK						
Grand Plaza	625 & 639 Nathan Road, KIL 10234 & KIL 10246	2060	20,905	31,251	–	40
Hang Tung Building	1112-1120 Canton Road, KIL 9708	2045*	–	–	–	1,000
Gala Place	56 Dundas Street, KIL 9590	2044*	7,454	30,205	–	478
TSIM SHA TSUI AND WEST KOWLOON						
Grand Centre	8 Humphreys Avenue, KIL 7725 & KIL 8026	2038	3,688	7,198	–	–
Hanford Commercial Centre	221B-E Nathan Road, KIL 10619 & KIL 8132	2037	1,444	4,891	–	–
AquaMarine	8 Sham Shing Road, NKIL 6338	2050	22,350	–	–	413
The Long Beach	8 Hoi Fai Road, KIL 11152	2050	20,174	–	–	93

	Location	Lease Expiry	Total Gross Floor Area (sq.m.)# Commercial	Office and Industrial/ Office	Residential and Serviced Apartments	No. of Car Parking Spaces
HONG KONG						
NGAU TAU KOK						
Amoy Plaza	77 Ngau Tau Kok Road, NKIL 53, NKIL 1482, NKIL 2660 & NKIL 3947	2047	49,006	–	–	620
CHEUNG SHA WAN, KWAI CHUNG AND TSUEN WAN						
822 Lai Chi Kok Road	822 Lai Chi Kok Road, NKIL 5568	2047	–	9,004	–	73
9 Wing Hong Street	9 Wing Hong Street, NKIL 6229	2047	–	35,223	–	95
Laichikok Bay Garden	Shops 1A1, 1A2, 5A, 6A & 6B, Lai King Hill Road, Lot 3336 of SD 4	2047	2,973	–	–	111
TUEN MUN						
Tai Hing Gardens	11 Tsun Wen Road and 10A Ho Hing Circuit, Tuen Mun, TMTL 312	2047	10,970	–	–	387
Luen Cheong Can Centre	8 Yip Wong Road, Tuen Mun, Lot1169 in DD131	2047	–	7,856	–	37
MAINLAND CHINA						
SHANGHAI						
Grand Gateway 66 Gardens 1 & 2	2118 Hua Shan Lu, Xuhui District	2063	–	–	65,587	–
Grand Gateway 66	1 Hong Qiao Lu, Xuhui District	2043	122,262	67,223	18,355	752
Plaza 66	1266 Nanjing Xi Lu, Jing'an District	2044	53,700	159,555	–	804
SHENYANG						
Palace 66	128 Zhongjie Lu, Shenhe District	2057	109,307	–	–	844
Forum 66	1 Qingnian Da Jie, Shenhe District	2058	101,960	131,723 (excluded hotel)	–	2,001
JINAN						
Parc 66	188 Quancheng Lu, Lixia District	2059	171,074	–	–	785
WUXI						
Center 66 (Phase 1)	139 Renmin Zhong Lu, Liangxi District	2059	118,066	85,438	–	1,292
TIANJIN						
Riverside 66	166 Xing'an Lu, Heping District	2061	152,831	–	–	800
DALIAN						
Olympia 66	66 Wusi Lu, Xigang District	2050	221,900	–	–	1,214

* With an option to renew for a further term of 75 years

\# Gross floor area of mainland China investment properties includes gross floor area above and below ground

Forward

We adopt prudent and comprehensive financial management strategies to maintain a strong financial position with a high degree of moving forward to meet the Company's capital commitments and long-term business plans.

Forum 66, Shenyang

Grand Plaza

Olympia 66, Dalian

Financial Review

Consolidated Results

Total revenue of Hang Lung Group Limited (the Company) and its subsidiaries (the Group) decreased 15% to HK$10,015 million for the financial year ended December 31, 2018, as a result of fewer residential units sold during the year. Revenue from property leasing advanced 5% to HK$8,784 million. Property sales revenue decreased 64% to HK$1,231 million. Total operating profit declined 13% to HK$7,249 million.

Underlying net profit attributable to shareholders decreased 21% to HK$2,631 million. Net profit attributable to shareholders dropped 1% to HK$5,285 million after including a revaluation gain on properties. Earnings per share decreased to HK$3.88.

Revenue and Operating Profit

	Revenue			Operating Profit		
	2018 HK$ Million	2017 HK$ Million	Change	**2018 HK$ Million**	2017 HK$ Million	Change
Property Leasing	**8,784**	8,354	5%	**6,484**	6,074	7%
Mainland China	**4,686**	4,372	7%	**3,034**	2,734	11%
Hong Kong	**4,098**	3,982	3%	**3,450**	3,340	3%
Property Sales	**1,231**	3,420	-64%	**765**	2,238	-66%
Total	**10,015**	11,774	-15%	**7,249**	8,312	-13%

Dividend

The Board of Directors has recommended a final dividend of HK61 cents per share for 2018 (2017: HK61 cents) to be paid by cash on May 21, 2019, to shareholders whose names appeared on the register of members on May 7, 2019. Together with an interim dividend of HK19 cents per share (2017: HK19 cents), the full year dividends for 2018 amounted to HK80 cents per share (2017: HK80 cents).

Property Leasing

Against the backdrop of the Sino-US trade war (Trade War) and other global uncertainties, our property leasing performance showed resilience to achieve decent growth in both income and profit. Total property leasing revenue grew 5% to HK$8,784 million. The Hong Kong leasing portfolio generated 3% more in revenue while income from the Mainland properties increased 7%.

Gross domestic product (GDP) growth in Hong Kong for the first three quarters of 2018 was 3.7%. After five consecutive months of double-digit increases since February 2018, the retail market has slowed down to grow at 1.4% year-on-year in November 2018. This index was significantly influenced by high-value items. As our properties in Hong Kong are not luxury-driven, we have experienced a steadier growth in sales and rental revenue throughout the year.

GDP growth in mainland China for 2018 was 6.6%. Although the Trade War has caused jitters at the top end of the market, the luxury sector has been resilient on the strength of the "bigger" brands, showing healthy growth since the second half of 2017. This growth was supported by several factors such as the RMB depreciation, which led to more domestic spending, the tightened border controls on undeclared imports, and the e-commerce law to combat parallel import "daigou" activity.

Mainland China

The performance of our mainland China leasing portfolio was encouraging in 2018. Revenue climbed 4% to RMB3,950 million, or 7% when excluding certain areas temporarily closed for renovation at the mall of Shanghai Grand Gateway 66. A strong growth momentum was being built up during the year. Revenue of the Mainland properties in RMB terms achieved growth rates at 6% and 2% during the second half and first half of 2018, respectively, compared to a year ago. In particular, revenue of Mainland properties outside Shanghai advanced 7% year-on-year, with a 9% growth in the second half year. Operating profit grew 8% to RMB2,554 million. Average margin recorded growth of two points to 65%.

Our eight malls in mainland China reported revenue growth of 3% to RMB2,755 million, or 6% when excluding the renovation impact of Grand Gateway 66. The asset enhancement program at Shanghai Plaza 66, which has been completed in phases since January 2017, not only added value to the asset but also potential for future rental revenue growth, thus contributing to strong revenue and retail sales growth in 2018. The revenue growth in Plaza 66 more than compensated for the short-term income disruption caused by the upgrading work at Grand Gateway 66. Outside of Shanghai, all properties, except Forum 66 in Shenyang and Riverside 66 in Tianjin, made good progress in leasing revenue.

Our office portfolio in mainland China generated 8% more in revenue to RMB1,058 million. The Plaza 66 office towers recorded income growth against keen competition as a result of our rigorous effort to retain quality tenants and solicit new ones at above average market rents. The office towers at Grand Gateway 66, Forum 66 and Center 66 continued to grow in both revenue and average occupancy rate. Income from all the office towers accounted for 27% of our total mainland China leasing revenue.

Mainland China Property Leasing Portfolio

	Revenue			Occupancy Rate*	
City and Name of Property	**2018 RMB Million**	2017 RMB Million	Change	Mall	Office
Shanghai Plaza 66	**1,554**	1,409	10%	99%	95%
Shanghai Grand Gateway 66	**1,176**	1,241	-5%#	79%#	94%
Shenyang Palace 66	**162**	155	5%	88%	N/A
Shenyang Forum 66	**216**	213	1%	93%	88%
Jinan Parc 66	**292**	271	8%	96%	N/A
Wuxi Center 66	**252**	219	15%	89%	86%
Tianjin Riverside 66	**179**	181	-1%	90%	N/A
Dalian Olympia 66	**119**	99	20%	79%	N/A
Total	**3,950**	3,788	4%		
Total in HK$ Million equivalent	**4,686**	4,372	7%		

About 19% of leasable area was temporarily void for major asset upgrading.

* All occupancy rates stated therein were as of December 31, 2018.

Shanghai Plaza 66

A strong performance was achieved for both the mall and office towers of Plaza 66, which reported a total revenue growth of 10% to RMB1,554 million.

The Plaza 66 mall earned 12% more in revenue during the year. After completion of the asset enhancement program in 2017, the mall successfully anchored its leading market position as the Home to Luxury, capturing the upswing in luxury sales and then converting it into strong growth in both revenue and retail sales. In September 2018, a brand-new customer relationship management program, HOUSE 66, was launched at Plaza 66. HOUSE 66 is dedicated to providing customers with unique and personalized services, allowing us to establish a more personal and enduring relationship with our loyal customers. Retail sales at the mall rose 13% year-on-year as a result, with occupancy rate increasing three points to 99%.

Income of the two office towers at Plaza 66 rose 7% to RMB622 million as a result of new lettings and expansion by existing tenants. The enhancement works for Office Tower Two were completed during the year, thus boosting overall occupancy rate by six points to 95%.

Shanghai Grand Gateway 66

Affected by the three-year asset upgrading program commenced in 2017, Grand Gateway 66 reported a total revenue drop of 5% to RMB1,176 million in 2018. Nonetheless, when excluding the impact of the rental disruption caused by the upgrading program, total revenue was up 1%.

Income of the Grand Gateway 66 mall retreated 9% to RMB803 million, but was flat when excluding the renovation impact. The first phase of the upgrade works covering the entire North Building was finished and the face-lifted building re-opened in September 2018. The renovated area has a good mix of fashion & accessories, food & beverage, and lifestyle & entertainment tenants of more than 80 brands, of which 18 were making their first appearance in Shanghai or indeed in the Mainland. The renovated cinema with about 1,500 seats in 11 houses was re-opened, equipped with the world's leading visual and audio technologies to offer audiences a superior experience. The next phase of the upgrade program commenced in July 2018, covering the bulk of the South Building including the transformation of the mall's main entrance and its basement and the building of a linkage with Metro Link 9. These works are expected to be completed in stages starting in late 2019.

During the renovation, innovative promotional campaigns and customer experience activities were launched while many exclusive pop-up stores were introduced in order to maintain the mall's vibrant ambience and the business continuity for key tenants. Retail sales decreased 3% year-on-year on a comparable basis when excluding the impact of renovation.

Income of the office tower at Grand Gateway 66 climbed 6% mainly attributable to higher occupancy, which increased four points to 94%. The majority of upgrading works of the office tower was completed during the year.

Revenue of residential and serviced apartments at Grand Gateway 66 grew 1%. Occupancy rate rose four points to 90% despite the disruption caused by the mall's enhancement works and the nearby construction sites.

Shenyang Palace 66

The Palace 66 mall achieved steady growth in revenue of 5% to RMB162 million. Occupancy rate was 88% at the end of 2018. Retail sales increased 7%. During the year, more sporting and popular lifestyle fashion brands were recruited, with many trend-setting, emerging and lifestyle brands making their first appearance in the mall.

Shenyang Forum 66

Total income of Forum 66 increased 1% to RMB216 million as a result of the strong revenue growth from the office tower, which was partly offset by the drop in revenue from the mall.

Income of the office tower at Forum 66 grew 15% to RMB117 million, with occupancy rate increasing eight points to 88%. The six floors in the high zone of the tower, representing 14% of leasable area, were available for leasing from July 2018. The top 19 floors of the office tower are being converted into a Conrad hotel, which is scheduled for opening in the second half of 2019. The Conrad hotel is destined to become a focal point for business and social gatherings in Shenyang.

Revenue from the mall dropped 11% as we were in the process of optimising the tenancy profile. Retail sales at the mall slipped 1%. To meet the needs of the local market, more lifestyle and family-related elements were introduced during the year. As a result, occupancy rate jumped 10 points to 93%.

Jinan Parc 66

The Parc 66 mall reported a healthy growth in the year. Revenue advanced 8% to RMB292 million, with occupancy rising two points to 96%. Retail sales jumped 18%. During the year, the mall's trade mix was further enhanced with several first-in-town brands brought in, more non-conventional shopping, entertainment and lifestyle elements introduced, and food & beverage brands upgraded. Following the successful debut in Shanghai Plaza 66, HOUSE 66, our new customer relationship management program, was launched in Parc 66 in December 2018.

Wuxi Center 66

Center 66 performed remarkably well during the year with a revenue increase of 15% to RMB252 million, despite 9% of the mall's leasable area being temporarily closed for the construction of the second office tower.

Driven by positive rental reversions and higher occupancy, the mall's income jumped 19% with retail sales increasing 20%. Occupancy advanced two points to 89%. The 9% of the mall closed because of construction of the second office tower will re-open in the middle of 2019. That area will become the podium of the second office tower and house a new cinema as well as more luxury brands and quality food & beverage tenants.

Revenue of the office tower increased 8% to RMB83 million attributable to an increase in average occupancy over the year. Warmly received by multinational and national corporations including renowned financial institutions, this tower out-performed other Grade A offices in Wuxi in both occupancy and effective rent. Leasing activities for the second tower have commenced with good progress being made. The tower will be ready for handover to tenants in the second half of 2019.

Tianjin Riverside 66

Income of the Riverside 66 mall slipped 1% to RMB179 million as the mall has been undergoing a tenant mix refinement after completion of the first lease term introduced at its opening in 2014. At the end of 2018, occupancy rate improved one point to 90%. More lifestyle and entertainment tenants, including a new cinema with 570 seats, were introduced during the year to offer a more comprehensive experience to customers. Owing to more competition from new malls opened in the city during the year, retail sales declined 8%.

Dalian Olympia 66

In 2018, the Olympia 66 mall recorded double-digit rental growth for the second consecutive year. Income jumped 20% to RMB119 million as good progress was made in building up occupancy and increasing footfall. Occupancy increased eight points to 79%. Retail sales surged 36% driven by the business growth of trendy lifestyle and food & beverage tenants.

Hong Kong

Total revenue and operating profit of our Hong Kong leasing portfolio both achieved a mild growth of 3% to HK$4,098 million and HK$3,450 million, respectively, in spite of the high base. Overall rental margin was 84%. With our efforts over recent years in asset enhancement and improvements in tenancy profile, we have laid a solid foundation for sustainable growth in future years.

Hong Kong Property Leasing Portfolio

	Revenue			Occupancy Rate*
	2018 HK$ Million	2017 HK$ Million	Change	
Commercial	**2,344**	2,283	3%	95%
Offices and Industrial/Offices	**1,429**	1,396	2%	95%
Residential & Serviced Apartments	**325**	303	7%	85%
Total	**4,098**	3,982	3%	

* All occupancy rates stated therein were as of December 31, 2018.

Commercial

With the contribution made by the positive rental reversions of our major tenants in recent years, revenue of the Hong Kong commercial portfolio increased 3% to HK$2,344 million. Overall occupancy slightly decreased two points to 95% owing to the impact of the renovation at The Peak Galleria, but was up two points on a comparable basis. Riding on the positive momentum of the retail market, total retail sales climbed 8% year-on-year.

Revenue of the **Causeway Bay portfolio** increased 4% to HK$634 million. Retail sales advanced 9% year-on-year. During the year, Kingston, which represents 25% of the retail space of our Causeway Bay portfolio, fully re-opened in the first quarter. This marked the completion of the three-year major asset enhancement initiative of Fashion Walk. The property is now transformed into a vibrant, integrated hub of fashion and lifestyle shopping and experiences, offering an all-new selection of shops ranging from active sports brands to chic modern furniture stores, as well as acclaimed gourmet choices.

Income of **Kornhill Plaza in Hong Kong East** advanced 6% driven by trade mix enhancement. The property was fully let. Retail sales increased 5% as a result of the good performance of the anchor tenants, including AEON STYLE and Grand Kornhill Cinema.

Grand Plaza and Gala Place in Mongkok generated 2% more revenue. Both properties were fully leased. Enhancement of the trade mix continued with the introduction of new healthcare and lifestyle brands to cater for the aspirations of style-seekers and the younger generation. More brand-new food & beverage tenants were also recruited. These initiatives made the two properties attractive shopping destinations for both locals and tourists. Total retail sales advanced 24%.

Revenue of **Amoy Plaza in Kowloon East** rose 5% driven by positive rental reversions and the opening of a new cinema, UA Amoy, in August 2018. This cinema has more than 600 seats in three houses, offering a unique entertainment experience to audiences with its stylish design, 4D technology, and food & beverage offerings. Continuing the tenant upgrade, more culinary choices were added to satisfy customers' pursuit of novelty and diversity.

The Peak Galleria continued its major renovation program in 2018. The program is to enhance the overall ambience of the mall with new shopping, entertainment and food & beverage options introduced for discerning customers and tourists alike. The whole of The Peak Galleria has been closed since October 2018 to expedite the renovation. While the first phase is expected to be ready for re-opening in the summer of 2019, certain restaurants are targeted to start operations in the first quarter of 2019.

Offices

Revenue from our office portfolio in Hong Kong increased 2% to HK$1,429 million mainly driven by continuing positive rental reversions. Overall occupancy rate was flat at 95%. Our offices in Central and Mongkok recorded income growth of 4% and 7%, respectively, but revenue from Causeway Bay slipped 3%. The Hong Kong office rental amount accounted for 35% of our total Hong Kong leasing turnover.

To maintain the competitiveness of our properties, a refurbishment program of Gala Place in Mongkok was carried out in 2018, covering the façade, elevator lobbies and car park of the office tower. The entire program is scheduled to be completed in 2019 with minimal adverse impact on our revenue.

Residential and Serviced Apartments

Residential and serviced apartments reported a 7% growth in revenue to HK$325 million, mainly attributable to the higher occupancy at Kornhill Apartments and The Summit.

Property Sales

In 2018, we continued to sell down our remaining inventory as the Hong Kong residential market remained active with rising prices in the first half of the year. During the year, three semi-detached houses at 23-39 Blue Pool Road (2017: one house), nine units of The Long Beach apartments (2017: 226 units) and six car parking spaces at Napa Valley and Hanley Villa (2017: nil) were sold. Revenue from property sales amounted to HK$1,231 million, down 64% as far fewer residential units were sold against a year ago. Profit from property sales decreased 66% to HK$765 million. Overall profit margin was 62%.

In addition, 39 car parking spaces at The Long Beach, which are held as investment properties, were sold during the year. A total gain on disposal of HK$71 million was recorded as part of other income in the statement of profit or loss for the year ended December 31, 2018.

Other than the car parking spaces at The Long Beach, the remaining apartments and car parking spaces at Garden Terrace were also disposed of in two transactions. One transaction was made in April 2018 with completion in July 2018 and the other was made in December 2018 with completion in April 2019. According to accounting rules, these properties were reclassified as assets held for sale at the interim and financial year end reporting dates, respectively, at valuation with reference to the selling price. A gain of HK$82 million was included as part of the fair value gain of investment properties in 2018, compared to the valuation at December 31, 2017.

Property Revaluation

As of December 31, 2018, the total value of our investment properties amounted to HK$144,572 million. The values of the Hong Kong portfolio and the mainland China portfolio were HK$68,344 million and HK$76,228 million, respectively. Our investment properties were revalued by Savills, an independent valuer, as of December 31, 2018.

Total revaluation gain of HK$4,298 million, representing a 3% increase in value, was recorded in 2018 (2017: HK$3,085 million). Properties in Hong Kong recorded a revaluation gain of HK$3,993 million and the corresponding amount for our mainland China portfolio was HK$305 million.

Property Development and Capital Commitment

The total value of investment properties under development was HK$31,186 million. They represented mainland China projects in Kunming, Wuhan, Hangzhou and the remaining phases of the developments in Shenyang and Wuxi. The portfolio consists of malls, office towers, hotels and serviced apartments.

The construction work for Kunming Spring City 66 is progressing well on track. Spring City 66 is located at the center of Kunming's Central Business District and is the city's only large-scale complex connected to the metro interchange station. This mixed-use development, covering a total gross floor area of 432,000 square meters, will comprise a premier mall, a Grade A office tower, serviced apartments and car parking spaces. The mall and the office tower were topped out in September 2018. Leasing activities for the mall have commenced with encouraging responses. More than 70% of the leasable areas have been committed, including for some key anchor tenants. Both the mall and the office tower are planned to open in the second half of 2019.

Wuhan Heartland 66, a prestigious mixed-use commercial project with a total gross floor area of 460,000 square meters, will comprise a 177,000-square-meter mall, a Grade A office tower, serviced apartments and car parking spaces. The office tower was topped out in June 2018. The project will be completed in stages starting from 2020. Leasing activities for the mall have commenced.

The conversion of the top 19 floors of the office tower at Shenyang Forum 66 into a Conrad hotel is in progress. This five-star hotel will have 315 keys and a grand ballroom to accommodate more than 500 guests. The hotel lobby will be situated at the highest floor, offering a 360-degree panoramic view of Shenyang's skyline. The addition of this hotel will complement Forum 66's market position as the destination of choice for customers seeking high-end shopping, entertainment, business and hospitality experiences. The hotel is expected to open in the second half of 2019.

The second office tower at Wuxi Center 66 was topped out in June 2018 and interior fitting out works are progressing as scheduled. This Grade A office tower, built above the southeastern part of the Center 66 mall, has a total gross floor area of 52,000 square meters. There will be a linkage between the mall and the new tower, and a renowned cinema will be introduced to enrich the tenant mix and increase footfall. Leasing activities for the new tower have commenced and the tower will be ready for handover to tenants in the second half of 2019.

The master plan for Wuxi Phase Two development has been submitted for government approval. The project includes luxury serviced apartments and a small boutique hotel.

In May 2018, Hang Lung Properties Limited (Hang Lung Properties), the Company's listed subsidiary, successfully acquired a prime plot of land in Hangzhou for RMB10.7 billion. The site is located in the central business district of Hangzhou with well-established roads, other infrastructure, and a large existing catchment area. The acquisition marks a new milestone for our growth in mainland China, as the development of the site will create a strong synergy with our flagship projects in Shanghai and Wuxi in the Yangtze River Delta region. This premium site will be developed into a large-scale and high-end commercial mixed-use complex, comprising a world-class mall and office towers with a maximum floor area of approximately 194,100 square meters above ground. The architectural design work for the entire project is now underway. As well as focusing on the property's aesthetic features, we will continue to pursue the highest standards of environmental sustainability to fulfill our mission of "Build to Own and Build to Last". The project is planned for completion in phases from 2024.

The projects mentioned above represented the majority of the Group's capital commitments at the reporting date, amounting to HK$35 billion. They will be completed in phases over a number of years. The Group has a solid base of recurrent income and ample financial resources to meet the funding requirements of these projects and seize further growth opportunities when they arise.

In Hong Kong, we plan to re-develop the Amoycan Industrial Centre (AIC) in Ngau Tau Kok, in which Hang Lung Properties owns almost 85% interests. An application for a Land Compulsory Sale for the remaining interests in AIC was submitted to the Lands Tribunal in December 2017.

Liquidity and Financial Resources

The major objective of our financial management is to maintain an appropriate capital structure with a high degree of agility. This is to ensure the Group will have sufficient financial resources to meet all obligations and commitments, and to capture investment opportunities for sustaining our long-term growth. To mitigate financial risks, multiple channels of debt financing have also been established. All related risk management, including debt re-financing, foreign exchange exposure and interest rate volatility, etc., are centrally managed and controlled at the corporate level.

Liquidity and Financing Management

The cash flow position and funding needs are closely reviewed and monitored to ensure that the Group has a good degree of financial flexibility and liquidity. This is achieved by keeping sufficient cash resources and maintaining multiple channels of fund-raising in both Hong Kong and mainland China.

As of December 31, 2018, the Group had total cash and bank balances of HK$12,509 million (December 31, 2017: HK$22,223 million). All the deposits are placed with banks with strong credit ratings and the counterparty risk is monitored on a regular basis.

On debt portfolio management, the Group focuses on mitigating the re-financing and interest rate risks by maintaining an appropriate mix of fixed/floating rate borrowings, a staggered debt repayment profile and a diversified source of funding.

In February 2018, Hang Lung Properties was the first Hong Kong property developer to obtain approval from the National Association of Financial Market Institutional Investors (NAFMII) to establish an on-shore green bond issuance platform in mainland China (Green Panda Bonds). The total amount of the facility is RMB10 billion. A debut issuance of Green Panda Bonds of RMB1 billion with a tenor of three years took place in July 2018. The proceeds will be used to finance the construction of some projects under development in mainland China.

As of December 31, 2018, total borrowings of the Group amounted to HK$30,651 million, of which about 48% was denominated in RMB. The higher debt balance against a year ago was due to payments for the various projects under development in mainland China, including the partial land cost for the newly acquired Hangzhou site.

The following table shows the composition of our debt portfolio:

	At December 31, 2018		At December 31, 2017	
	HK$ Million	% of Total	HK$ Million	% of Total
Floating rate HKD bank loans	**3,653**	11.9%	3,515	12.5%
Floating rate RMB bank loans	**13,490**	44.0%	11,814	42.1%
Fixed rate bonds	**13,508**	44.1%	12,710	45.4%
Denominated in USD	**7,832**	25.6%	7,816	27.9%
Denominated in HKD	**4,540**	14.8%	4,894	17.5%
Denominated in RMB	**1,136**	3.7%	–	–
Total borrowings	**30,651**	100%	28,039	100%

At the reporting date, the average tenor of the entire loan portfolio was 3.3 years (December 31, 2017: 3.2 years). The maturity profile was well staggered and spread over a period of 7 years. Around 76% of the loans were repayable after 2 years.

	At December 31, 2018		At December 31, 2017	
	HK$ Million	% of Total	HK$ Million	% of Total
Repayable:				
Within 1 year	3,360	11.0%	3,017	10.8%
After 1 but within 2 years	4,057	13.2%	4,845	17.3%
After 2 but within 5 years	19,809	64.6%	17,055	60.8%
Over 5 years	3,425	11.2%	3,122	11.1%
Total borrowings	30,651	100%	28,039	100%

As of December 31, 2018, the Group's undrawn committed banking facilities amounted to HK$20,984 million (December 31, 2017: HK$15,009 million). The available balances of the USD3 billion Medium Term Note Program and the RMB10 billion Green Panda Bonds Program amounted to USD1,411 million and RMB9,000 million, respectively, equivalent to HK$21,297 million in total (December 31, 2017: HK$10,645 million).

Gearing Ratios and Interest Cover

As of December 31, 2018, the net debt balance of the Group amounted to HK$18,142 million (December 31, 2017: HK$5,816 million). Net debt to equity ratio was 12.0% (December 31, 2017: 3.9%) and debt to equity ratio was 20.3% (December 31, 2017: 18.7%).

For the year ended December 31, 2018, the amount of total gross interest expense incurred was similar to the level a year ago at HK$1,431 million (2017: HK$1,350 million). The amount of finance costs charged to the statement of profit or loss for 2018 decreased HK$114 million to HK$1,180 million because of a larger amount of interest capitalization for the projects under development.

Interest income for the year was HK$465 million (2017: HK$567 million). The decrease was mainly due to a lower average balance of deposits.

The amount of net interest expense for 2018, i.e. the excess of finance costs over interest income, decreased to HK$715 million (2017: HK$727 million). The average effective cost of borrowings during the year was 4.8% (2017: 4.8%) given a portfolio of debts comprising 44% in RMB bank loan, 4% in RMB bond, 40% in HKD and USD bond and 12% in HKD bank loan.

Interest cover for 2018 was 7 times (2017: 10 times).

Foreign Exchange Management

The activities of the Group are exposed to foreign currency risks mainly arising from its operations in mainland China and certain bank deposits denominated in RMB held in and relating to mainland China entities. There is also exposure in USD arising from the two USD500 million bonds issued. Appropriate measures have been taken to mitigate the foreign exchange risk exposure.

The currencies of cash and bank balances at the reporting date were as follows:

	At December 31, 2018		At December 31, 2017	
	HK$ Million	% of Total	HK$ Million	% of Total
Denominated in:				
HKD	**4,737**	37.9%	12,805	57.6%
RMB	**7,757**	62.0%	9,408	42.3%
USD	**15**	0.1%	10	0.1%
Total cash and bank balances	**12,509**	100%	22,223	100%

(a) RMB Exposure

The RMB exposure of the Group is mainly derived from two respects of the operations. Firstly, currency translation risk arising from the net assets of our Mainland subsidiaries. Secondly, the RMB deposits held in and relating to mainland China entities which are primarily for the purposes of settling future construction payments in RMB.

As of December 31, 2018, net assets denominated in RMB accounted for about 57% of the Group's total net assets. The re-translation of these net assets denominated in RMB into HKD using the exchange rate as of the reporting date resulted in a re-translation loss of HK$3,864 million (2017: gain of HK$5,505 million), as RMB depreciated by about 4.6% against HKD compared to December 31, 2017. The re-translation loss was recognized in other comprehensive income/exchange reserve.

The Group's business operations and projects under development in mainland China are funded by cash inflow from Mainland operations and RMB borrowings, which form a natural hedge against our exposure to exchange rate fluctuation. We have adopted an enterprise risk management approach to mitigate the currency risks and practiced good disciplines of not taking any speculative position on the movement of RMB against HKD. Regular business reviews were made to assess the level of funding needs for our Mainland projects, after taking account of various factors such as regulatory constraints, project development timelines and the business environment. Appropriate modifications to the currency hedging program will be conducted in light of the outcome of the periodic reviews.

(b) USD Exposure

The USD foreign exchange exposure is related to the two USD500 million fixed rate bonds issued, equivalent to HK$7,832 million at the reporting date. The related currency exchange risk was covered back-to-back by two USD/HKD cross currency swap contracts. The swap contracts were entered into in order to effectively fix the exchange rate between USD and HKD for future interest payments and principal repayments.

The changes in the fair value of both swap contracts did not impact the cash flows and the profit or loss materially as they qualified for cash flow hedge accounting.

Charge of Assets

Assets of the Group were not charged to any third parties as at December 31, 2018.

Contingent Liabilities

The Group did not have any material contingent liabilities as at December 31, 2018.

Togetherness

We are dedicated to integrating a sustainability strategy in our business and applying our business philosophy to the way we plan, build and manage our world-class properties, engage with the community and stakeholders and invest in people development.


恒隆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Sustainable Development

Hang Lung is dedicated to weaving sustainability into its business fabric. In 2018, we remained committed to the highest possible standard of integrity and continued to construct and operate our properties in a sustainable way, while nurturing our employees and strived to leverage our strength in community development. These strategies manifest how we apply our business philosophy *We Do It Right* – contributing to economic prosperity, enhancing the quality of life of people and conserving the planet, which are fundamental to our long-term growth.

Reporting Approach and Standards

The Sustainable Development section in this Report summarizes our performance in key sustainability topics in 2018. Comprehensive review of our sustainability policies and performance will be disclosed separately in our standalone Sustainability Report 2018, which shall be prepared in accordance with the Global Reporting Initiative (GRI) Standards as well as the "comply or explain" provisions of the Environmental, Social and Governance Reporting Guide (ESG Guide) contained in the Appendix 27 of the Rules of Listing of Securities on The Stock Exchange of Hong Kong Limited.

Formalizing New Sustainability Strategy

Our first three-year sustainability action plan was concluded in 2017 and we are glad that we have achieved or over-achieved most of the goals. Moving forward, we acknowledge the pressing need to develop a more holistic sustainability strategy, for which can guide us through the anticipated global changes in the forthcoming decade. As such, we launched an extensive stakeholder engagement exercise in 2018 that involved hundreds of stakeholders, including employees, tenants, customers, investors, business partners and other interest groups, to understand their concerns on sustainability topics relevant to our business. We also undertook a deep dive into the United Nations Sustainable Development Goals as well as relevant sustainability policies in Hong Kong and the Mainland to ensure that we are well aware of the global trends. Building upon these efforts, we aim to launch our new sustainability strategy along with the new action plan by the second quarter of 2019.

Building the Team of Hang Lung

Desirable Workplace

A desirable workplace is always the critical link to create shared values among employees. Therefore, we provide competitive remuneration and benefits packages, which are benchmarked against our industry peers on a regular basis, as well as fostering a fair and respectful work culture. Our commitment to provide equal opportunities to our employees and job candidates remains unwavering. By implementing our Equal Employment Opportunities Policy, we prohibit discrimination against our employees or job candidates on any grounds, including gender, age, marital status, family status, pregnancy, disability, race, ethnic origins or religion. To ensure compliance with the local employment laws, we include relevant policies in our Code of Conduct and make our employees aware of the Company's employment practices through biannual reminders. In addition, we forbid the employment of child labor, forced labor and other unlawful forms of labor.

As of 31 December 2018, the Company employed 4,648 staff across Hong Kong and the Mainland. Total employee costs for the year were HK$1,658 million.

MANAGEMENT CONFERENCE

The Company organized a company-wide management conference to facilitate idea exchange for executives from Hong Kong and the Mainland

Learning and Development

We believe in people investment. To equip employees with the latest knowledge and skills to keep up with the ever-shifting business environment, we provide ample training and development opportunities to our employees. In 2018, we organized the first company-wide management conference to facilitate idea exchange for executives from Hong Kong and the Mainland. We also made our online learning platform, eAcademy 66, available on WeChat that enable employees in mainland China to access training courses and material more conveniently. Over 100,000 training hours were delivered to employees in this year. Apart from internal training programs, we provide sponsorship for employees who pursue external training programs and apply for professional memberships.

Health, Safety and Wellbeing

We attach great importance to the health, safety and wellbeing of our employees. Through our Occupational Health and Safety Policy, we provide guidance on the roles and responsibilities of the Company and our employees in maintaining a safe workplace. To instill a safety culture, we regularly provide safety training to our staff and contractors. In 2018, we maintained zero fatalities for our staff. At our construction sites in mainland China, we commissioned independent safety consultants to monitor the safety performance of our contractors. High level of safety performance was maintained with a combined accident rate of 0.0074 accidents per 100,000 man-hours.

WORK-LIFE BALANCE

The Company organized a wide range of leisure activities such as LOHAS Day and baking classes to promote the importance of healthy lifestyle among employees

Work-life balance is regularly emphasized in Hang Lung. In 2018, we delivered a series of workshops on healthy diet across Hong Kong and the Mainland to promote the importance of healthy lifestyle among employees. We also organized a wide range of leisure activities such as LOHAS Day, baking classes and movie night in Hong Kong and held badminton and football competitions in the Mainland. As a family-friendly employer, we implement measures to enable our employees to discharge their parental duty without hassle, such as providing lactation rooms in all of our offices in Hong Kong and the Mainland.

Making Better Places

Sustainable Buildings

Being one of the leading commercial property developers in Hong Kong and the Mainland, we aspire to enhance the industry standards on sustainable buildings in the region. Upholding our business model Build to Own, Build to Last, we incorporate environmental and social considerations throughout the lifecycle of our buildings. Our Environmental Policy ensures our environmental performance by providing guidance to our staff, contractors and suppliers to construct and manage our buildings in an environmentally responsible manner. We also adopt international best practices to design and construct buildings wherever possible. In 2018, our Plaza 66 Office Tower 1 achieved the Leadership in Energy and Environmental Design (LEED) for Core and Shell Development – Gold Level certification, increasing our total number of LEED Gold Level certifications to 10.

Climate Change and Energy Conservation

Recognizing the devastating consequences that climate change potentially poses to our business, we incorporated climate risk as one of our corporate risks under our Enterprise Risk Management framework in 2018 and initiated a preliminary climate risk mapping exercise at Group and site level. Besides, we monitor our impact on climate change by reviewing our carbon footprint regularly. To ensure the accuracy and reliability of our carbon footprint data, we appointed an independent consultant to verify our Scope 1 and Scope 2 greenhouse gas emissions annually.

As over 90% of our carbon footprint is attributable to our energy consumption, we strive to mitigate our impact on climate change through energy conservation. Therefore, we gave priority to energy saving measures, such as replacement of more energy-efficient equipment and facilities optimization, under our Asset Enhancement Initiative. Large-scale renovation projects including The Peak Galleria in Hong Kong and Grand Gateway 66 in Shanghai are expected to be completed in 2019.

Water Conservation

Water scarcity is a global challenge and many of our operating cities face water shortage. We have adopted a wide variety of measures to reduce water consumption at our properties, such as installing water-efficient fixtures and raising awareness on water conservation among our employees, customers and tenants.

Waste Management

Coping with the mounting waste management issue, the Hong Kong SAR Government plans to introduce the Municipal Solid Waste (MSW) Charging Scheme by the end of 2020 and the Chinese Government has also made household waste sorting mandatory to encourage source separation and waste reduction. To prepare for the legislations, our Kornhill Plaza has participated in the Municipal Solid Waste Charging Trial Project organized by the Environmental Protection Department (EPD) in Hong Kong in 2018 to enhance our staff's and tenants' understanding of the forthcoming MSW Charging Scheme.

In addition, we have adopted a wide range of measures to reduce waste at source and facilitate recycling. In 2018, we installed umbrella dryers at selected properties in Hong Kong to reduce usage of plastic umbrella bags and implemented a paperless parking system at all of our properties in mainland China. We also provide collection services at our properties for recyclables including paper, plastics, metal, food waste and glass bottles. In order to step up our efforts on food waste reduction, we collect food waste from tenants of Amoy Plaza and Kornhill Plaza and send it to the EPD's first organic resource recovery center, O•Park1, for recycling.

Regarding hazardous waste, we appoint licensed service providers to collect and handle used fluorescent lights, rechargeable batteries and clinical waste from our medical services tenants.

As for construction waste, we require our contractors to follow site-specific Construction Waste Management Plan to recover, handle, transfer and discard waste to achieve project-specific recycling targets.

Indoor Air Quality

Responding to rising expectations for healthier indoor environments from our staff, tenants and customers, we launched the Clean Air Initiative in 2016 to enhance air filtration systems in phases at our properties in mainland China. By the end of 2018, we had fully upgraded the air filtration provisions at our properties in mainland China. We also helped create awareness on the importance of good indoor air quality and introduced related health tips to our staff and customers. For instance, we collaborated with the International Facility Management Association and Tongji University in September 2018 to organize a technical seminar on topics related to indoor air quality. Besides, we launched a marketing campaign themed with the cartoon characters O_2 at our properties in mainland China to introduce the importance of good indoor air quality to our customers in a fun fashion.

Green Financing

Green financing has bloomed in recent years as investors increasingly recognize environmental factors as a source of long-term value creation. Governments around the world have also implemented policies to incentivize the allocation of capital to promote sustainable development. Demonstrating our commitment to green investing while diversifying our source of capital, we issued a green panda bond of RMB1 billion with a tenor of three years in mainland China in July 2018. The proceeds of the bond are used to fund our green building development projects in mainland China.

Community and Partnership

Hang Lung As One Volunteer Team

Our Hang Lung As One Volunteer Team plays a pivotal role in building sustainable communities where we operate. In 2018, our volunteer activities continued to focus on three areas: youth development, environmental conservation and elderly services. During the year, we organized over 110 volunteer activities, contributing over 13,000 volunteer hours in Hong Kong and the Mainland.

In Hong Kong, we co-organized Knit with Love x Share with Love with Elderly with Lok Kwan Social Service to knit scarves for the elderly, visited the senior citizens living in Tsz Wan Shan and accompanied them for an outing event. We also organized a geology exploration tour to the northeastern area of the UNESCO Geopark for underprivileged primary school students to arouse their interest in exploring the nature. In the tour, the students learnt about rock formations and mangroves, and gained a better understanding of the culture on the islands.

In mainland China, our volunteer teams organized a wide range of activities to support youth development, such as sports day in Wuhan and shadow play experience class in Kunming. Volunteers from Center 66 in Wuxi cleaned up a park to echo Earth Day. Besides, we paid visits to the homes for the elderly during festivals to express our care for them. Volunteers from Grand Gateway 66 in Shanghai partnered with a group of primary schools students to distribute herbal sachets to the elderly during a visit to celebrate Tuen Ng Festival. Volunteers from Olympia 66 in Dalian brought gifts to senior citizens and made dumplings for them during a visit at Chung Yeung Festival.

Hang Lung Mathematics Awards

In 2018, we co-organized the Eighth Hang Lung Mathematics Awards (HLMA), a biennial flagship program, with the Institute of Mathematical Sciences and the Department of Mathematics at The Chinese University of Hong Kong (CUHK). The objective of the competition is to raise interest in mathematics among young people. 260 students in over 90 teams from more than 60 schools participated in the competition this year. To further students' exploration in mathematics, we published a collection of past winning papers with CUHK and distributed the collection for free to secondary schools, libraries and related education institutions in Hong Kong in 2018. Our Hang Lung As One volunteer team also continued to partner with the past participants of HLMA and students from CUHK to provide mathematics tutorial classes to underprivileged students for free for the fourth consecutive year to stimulate their interest in the subject through fun games. A total of 580 hours of tutorial classes were delivered this year.

Hang Lung Young Architects Program

Leveraging our expertise and network, we launched the largest architectural education youth program in Hong Kong, namely Hang Lung Young Architects Program in October 2017 jointly with a leading cultural enterprise Walk in Hong Kong to foster an appreciation of architecture and its connection with the community among the youth. During the nine-month program, over 320 students from 29 secondary schools spent a total of 620 hours to learn and explore architecture through a series of activities, including interactive lectures, workshops, a photo contest and guided tours.

YOUTH DEVELOPMENT & EDUCATION

The Hang Lung Young Architects Program received honors in China and the international arena

ELDERLY SERVICE

Volunteers accompanied the elderly for an outing activity

YOUTH DEVELOPMENT & EDUCATION

The Hon. Mrs. Carrie Lam Cheng Yuet-ngor (left), The Chief Executive of the Hong Kong Special Administrative Region, presented the Gold Award of the 2018 HLMA to Zhiyuan Bai (center) from La Salle College

In the Architectural Tour Design Competition of the Program, 54 teams of students designed architectural guided tour routes with their freshly-acquired knowledge and skills, and assumed docents to lead the judges along the routes of their own design. Overseas architectural tours and scholarships were awarded to the winning teams this year. Under the professional guidance of Hang Lung architects, the winning teams visited architectural landmarks and renowned local architectural firms in Japan, Singapore and Shanghai respectively to broaden their horizons.

The program received honors in China and the international arena, affirming our determination in launching the program. The program won a Gold Award in the CSR Communications category of the 14th China Golden Awards for Excellence in Public Relations, which is the only gold title clinched by a Hong Kong corporation this year. In addition, the program garnered three accolades in the category Communications or PR Campaign of the Year at the International Business Awards 2018, including a Silver Stevie in the sub-category Reputation/Brand Management, a Silver Stevie in the sub-category Sponsorship and a Bronze Stevie in the sub-category Community Relations.

Supply Chain Management

Incorporating sustainability throughout our value chain is a collaborative journey. All of our suppliers and contractors are required to comply with our Supplier Code of Conduct, which covers our sustainability principles and the minimum requirements, for example, compliance with local laws and regulations, labor practices, health and safety standards, and environmental protection. To monitor their compliance with the code, we conduct regular assessments of all suppliers and carry out annual performance review with major suppliers. We have also put in place the Central Environmental Purchasing Policy to encourage our staff, suppliers and contractors to purchase local and environmentally-friendly products and services.

Enhancing Customer Experience

Feedback from customers and tenants is crucial to drive continual improvement of our service quality. Since the launch of the standardized customer engagement survey at our properties in mainland China in 2017, we have identified customer concerns more systematically and undertaken enhancements accordingly. For instance, drivers reflected that traffic jams near the carpark entrance of Riverside 66 in Tianjin was an issue. To enhance customer experience and shorten waiting time, we adopted a multi-pronged approach, such as extending the duration of green light at the adjacent junction, opening up surrounding lanes and deploying staff to redirect traffic at the carpark entrance and exits. As a result, the customer satisfaction score of Riverside 66 increased for six consecutive months in 2018.

CUSTOMER EXPERIENCE

The Company launched the standardized customer engagement survey at our Mainland properties to drive continual improvement of service quality

HOUSE 66

The Company launched a new Customer Relationship Management Program, HOUSE 66, to build a more personal and lasting relationship with customers

In order to provide customers with unique and more personalized services, we rolled out a new Customer Relationship Management Program, HOUSE 66, at Plaza 66 in Shanghai and Parc 66 in Jinan in 2018. Through the program, we aim to build a more personal and lasting relationship with our customers.

We place great emphasis on the health and safety of our customers. By providing relevant guidelines and conducting training and regular drills, we aim to adequately equip our staff to ensure the security of our properties and handle emergency situations appropriately.

To safeguard the personal data of our customers, we have implemented the Privacy Practices Guide: Use of Personal Data in Direct Marketing and Personal Data Privacy Guidelines for Building Management for our operations in Hong Kong to ensure conformity with the Personal Data (Privacy) Ordinance in Hong Kong. Similar policies and procedures are in place to protect the privacy of our customers in mainland China so as to abide by the relevant personal data protection legislations.

Recognitions on Sustainability

Our efforts in promoting sustainability and being transparent on our sustainability performance has been recognized locally and internationally. We were listed as a constituent of the Hang Seng Corporate Sustainability Index in Hong Kong and Hang Seng (Mainland and HK) Corporate Sustainability Index with an "AA" rating for the 9th consecutive year. Reaching global standards, we were included as a member of the Dow Jones Sustainability Indices Asia Pacific Index for two consecutive years, and received a 3-Star performance rating and an A grade disclosure rating under the Global Real Estate Sustainability Benchmark (GRESB). These recognitions attest companies with exceptional performance in sustainable development based on objective assessment of public disclosure, policies adopted and performance in selected areas.

As good governance is essential to corporate success, we have always been proud of our business philosophy that has guided us to operate our business with integrity and honesty.

Clarity

Riverside 66, Tianjin

Palace 66, Shenyang

Parc 66, Jinan

Risk Management

The Corporate Governance Report sets out details of our risk management and internal control systems.

The Company's principal risks in 2018 are listed below:

Property Development Risk

The ability to acquire suitable land for development is critical for the Company in order to sustain continuous growth and the desired return on investment. Complexity of design and tight deadlines present implementation challenges in delivering projects safely, on budget, on time, and to desired quality. Sudden changes in government policies and regulations without sufficient consultation could significantly impact a project's development.

Risk Description	Risk Trend	Key Controls and Risk Mitigations
Heavy capital investment coupled with a long investment period and market cycles provide both opportunities and challenges in land acquisition		• Set investment criteria and risk appetite prior to land acquisition • Consolidate local market information • Conduct appropriate due diligence including third party expert reviews • Identify critical resource constraints for proper planning • Undertake structured analyses of business opportunities • Exercise financial prudence and continuous monitoring of return on investment
Complexity of design, tight deadlines and fluctuations in material cost after tender award due to major changes in macro government policies present implementation challenges in delivering projects safely, on budget, on time and in line with required quality		• Establish clear roles and responsibilities for accountability and division of duties among the Development and Design, Project Management, Cost and Controls, Leasing, and Service Delivery departments at various stages of the development cycle • Closely monitor project progress and review all aspects of a development's planning and construction • Closely monitor costs and supply of materials, tighten controls on price variation claims, and define terms in both the tenders and the contracts • Establish clear and comprehensive policies and procedures with periodic enhancements to tighten controls • Provide regular and comprehensive reports to the Board, and strengthen management supervision
Introduction of new government regulations or sudden policy changes without sufficient consultation could adversely affect a project's development	New/updated laws and regulations at both national and local level	• Actively engage with regulatory bodies and professional firms on updates to laws and regulations • Monitor the impact of major breaches or noncompliance with regulatory requirements, if any • Continue monitoring and assessing the impact of the regulatory changes • Maintain proper and sufficient documentation as far as possible

Business and Operational Risk

We ensure our properties remain competitive to the highest standards by closely monitoring and responding to the business environment and market trends. However, increasing local competition or changes in the regulations/policies can significantly impact our business performance. Moreover, changing consumer behavior and fast-paced technological development can create new challenges to our business.

Risk Description	Risk Trend	Key Controls and Risk Mitigations
Changes in economic conditions and a challenging retail market in mainland China could impact our business strategy	↑ Increase in local competition and impact of online shopping	• Conduct structured market studies and research to understand local competitors and customer needs • Define and present three types of malls with different positioning strategy clearly in mainland China • Review and enhance tenant mix regularly at each project site and to engage new brands • Review the asset performance of each property on a regular basis and fine-tune business strategy, including refinement of positioning and different product lines for existing malls, to remain competitive • Perform tenant and shopper surveys to further improve levels of satisfaction and overall service quality • Undertake project renovations and employ proactive marketing strategies as necessary
Fast-paced technological innovations such as advances in e-commerce, mobile applications and the development of artificial intelligence, as well as rapidly changing consumer behavior and taste could impact the Company's business model or strategy	↑ Development of e-commerce and changes in consumer taste undermining competitiveness	• Study the latest relevant technological developments and customer needs such as artificial intelligence and B2C big data • Ensure IT infrastructure readiness for anticipated future IT developments such as Smart POS and Cloud Technology • Establish targeted Customer Relationship Management programs to better understand customers, drive sales, and increase customer loyalty
Major external disasters or crises, such as pandemics, pollution, floods, earthquakes, cyber-crime, etc., could impact assets or business sustainability	↔	• Ensure appropriate insurance coverage for properties and business • Develop business continuity plans for each critical function • Implement crisis management training and drills, including cyber-attack scenarios • Conduct testing on the effectiveness of the design and implementation of crisis management plans • Increase defense in gaps identified under the cyber security assessment

People Risk

Strong competition for talented staff and the tight labor market across the property management sector, together with the additional demand on resources from new projects create a challenging environment for the Company as it seeks to provide adequate resources to support its existing and growing business.

Risk Description	Risk Trend	Key Controls and Risk Mitigations
Failure to recruit, develop or retain staff with suitable capabilities and the capacity to support expansion/growth of the Company	Challenges in recruiting/ retaining talents at second-tier cities in mainland China	• Develop a manpower plan to match existing and future human capital resources needs against our business strategy • Review the competitiveness of our compensation and benefits regularly • Provide training courses such as the Executive Training Program or offer financial assistance for staff attending recognized professional programs • Establish programs for management trainees (including dedicated mentorship), internship program, and internal rotation to ensure our operations are supported by adequate talents • Refine our training program from time to time to ensure our staff possess the expertise and skills to support business growth • Promote employer branding to attract and retain talents • Operate an effective grievance reporting system
Sudden loss of key management could affect the sustainability of the business		• Establish more structured succession planning for key management team members • Accelerate the internal movement of staff with the right caliber to build succession into key roles
Fraud and corrupt activities could result in significant financial losses and/or impact the reputation of the business		• Strengthen commitment to the highest standards of integrity and accountability • Provide continuous training and reinforce communications with staff on integrity, impartiality, and honesty • Operate an effective whistleblowing mechanism

Treasury Risk

In keeping with the principle of prudent financial management, we have processes in place to identify and manage risks associated with our treasury operations. Key risk areas under the treasury function include interest rate and foreign exchange rate risks, funding and liquidity risks, as well as credit/counterparty risk.

Risk Description	Risk Trend	Key Controls and Risk Mitigations
Part of the Company's borrowings is floating-rate bank loans, which could expose us to rising interest rates	⬆ US interest rates rise	• Adopt various appropriate measures such as the issuance of fixed rate bonds, the use of derivatives such as interest rate swaps for managing fixed/floating debt ratio • Maintain a relatively conservative gearing ratio
Our business in mainland China has by nature currency risk from the capital investment, as well as risks from the currency mismatch between revenue and debts	⬆ Increasing volatility in Renminbi	• Maintain an appropriate level of Renminbi resources for the Company's capital requirements in mainland China • Monitor currency risk and perform sensitivity analyses periodically • Modify the currency hedging strategy when necessary
Market liquidity may change from time to time and limit our ability to borrow adequate and cost-effective funding	⬌	• Manage cash and financing at corporate level by the treasury team • Maintain closer relationships with banks and intermediaries • Manage the maturity profile of deposits and loans to minimize refinancing risk • Establish and maintain diversified channels of debt financing • Establish cross-border cash pooling and Panda Bond platform to broaden funding sources for mainland projects
Credit/counterparty risk exposure is primarily in rents receivable and deposits placed with banks	⬌	• Undertake comprehensive credit assessments of prospective tenants • Require rental deposits and rent in advance, and closely monitor outstanding rents to mitigate rents receivable risk • Assign bank exposure limits to mitigate concentration risk on our deposits • Only make deposits with banks that have sound financial strength and/or good credit ratings

In addition to addressing the principal risk categories faced by the Company, specific emerging risks, such as Sino-US tension that may affect our operations, have been monitored closely and reviewed periodically during the year. The Company recognizes that the potential impact of such emerging risks may become more significant in the future.

Key – Risk Trend (Change from last year)

⬆ Upward/increasing risk trend ⬌ Risk trend remains similar

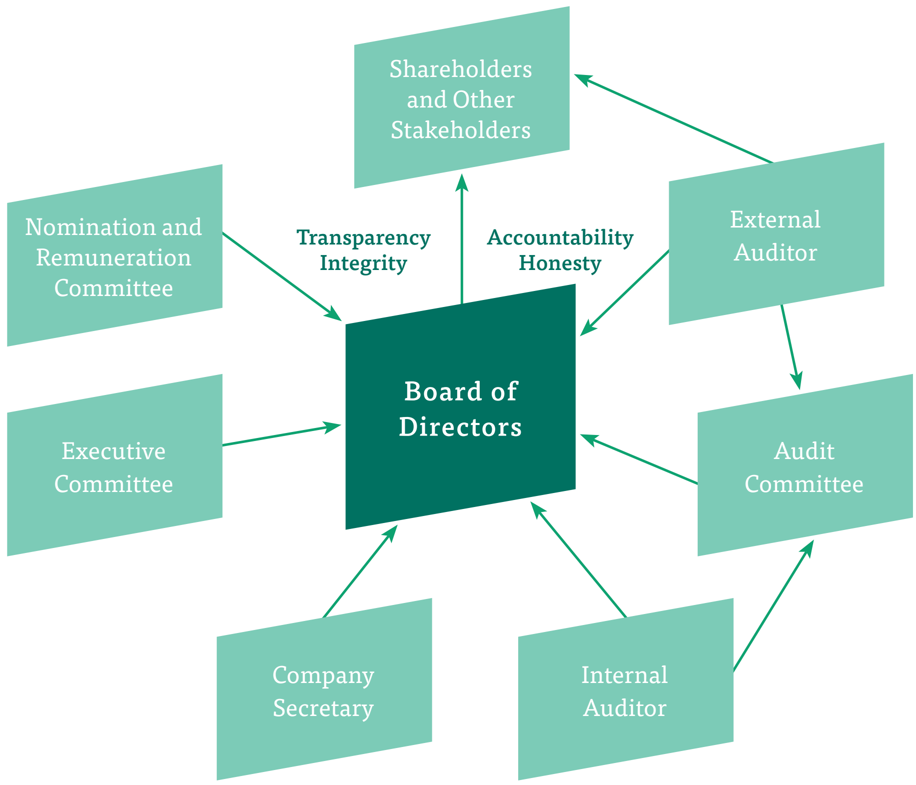
Corporate Governance Report

To build a sustainable future, we are always mindful of pursuing good corporate governance with a clear vision on sustainability. We recognize that sound corporate governance is a strong foundation for our sustainable business growth and a key to long-term success.

Our Strong Belief in Governance

Hang Lung firmly believes that strong governance is the foundation for delivering the corporate objective of maximizing returns to its stakeholders over the long term. At the core of the governance structure is an effective and qualified Board, which is committed to maintaining the highest standards of corporate governance, sound internal controls, and effective risk management to enhance transparency, accountability, integrity and honesty in order to earn the confidence of our shareholders and other stakeholders.

Corporate Governance Structure



A Sound Corporate Culture

As good governance is essential to corporate success, we have always been proud of our We Do It Right business philosophy, which has guided us to operate our business with integrity and honesty. A sound culture of governance has to reach all levels of the organization and the highest standards of integrity and honesty from every employee in every process is expected. Our professional management together with the Board strive to instill integrity into every aspect of our business in every city where the Company is operating its world-class projects.

Professional and Responsible Board

The Board comprises professionals from different sectors of society, who bring a wide range of business and financial experience and expertise to the Board. The Board includes a balanced composition with a strong independent element which can effectively exercise impartial judgment. To enhance the function of the Board, three Board committees, namely, the Executive Committee, Audit Committee and Nomination and Remuneration Committee have been set up to assume different responsibilities.

Prudent Risk Management

The Company recognizes the various risk factors it will face in its operations and properly deals with them in a manageable manner by setting a good internal control environment and making continuous improvements to suit the changing operational needs. Further explanations are disclosed hereunder and in the Risk Management section of this annual report.

Compliance with Corporate Governance Code

As good corporate citizens, we have adopted and fully complied with, and in many cases exceeded, the code provisions and some recommended best practices of the CG Code.

The key cases are listed below:

Board & Board Committees

- Diverse range of Board expertise and experience
- Six regular Board meetings in 2018
- Four Audit Committee meetings in 2018
- Management's attendance in the meetings of the Board and Audit Committee for provision of information to facilitate decision-making process
- The Nomination and Remuneration Committee comprising INEDs only
- Audit Committee members meeting external auditor without the presence of management four times in 2018

Sustainability	
•	Sustainability framework in place since 2012 with the establishment of Sustainability Steering Committee
•	ERM Working Group as a robust forum for risk management
•	Well established framework for robust crisis management
•	Publication of separate sustainability report 2017, which exceeded the requirements of the ESG Guide and received independent third party assurance
Accountability	
•	Publication of results announcement within one month from the end of accounting period
•	Adoption of Code of Conduct since 1994
•	Well-defined whistleblowing policy
•	Whistleblowing cases reported to the Audit Committee on a half-yearly basis
•	Policy governing the non-audit services provided by the external auditor in place with scopes and fees approved by the Audit Committee
Communications	
•	The Chairman's detailed explanation of the business strategies and outlook of the Group in his Letter to Shareholders
•	Open and direct dialogue between the Chairman and shareholders in AGM
•	Corporate website as means of communication with stakeholders
•	Serving of AGM notice with more than 20 clear business days

Our efforts on the corporate governance disclosures and practices were recognized by The Chamber of Hong Kong Listed Companies and the Centre for Corporate Governance and Financial Policy, Hong Kong Baptist University through the Hong Kong Corporate Governance Excellence Awards 2018. Our major listed subsidiary, HLP, received the Corporate Governance Excellence Award - Category 1 (Hang Seng Index Constituent Companies). This accolade once again reaffirmed the Group's dedication to promoting good corporate governance.

(I) Effective and Qualified Board

1. Composition, Board Diversity, Functions, and Board Process and Access to Information

Composition

The Board currently comprises 11 members:

- four Executive Board Members, namely, Mr. Ronnie C. Chan (Chairman), Mr. Weber W.P. Lo (Chief Executive Officer), Mr. H.C. Ho (Chief Financial Officer) and Mr. Adriel W. Chan;
- three NEDs, namely, Mr. Gerald L. Chan, Mr. George K.K. Chang and Mr. Roy Y.C. Chen; and
- four INEDs, namely, Mr. Simon S.O. Ip, Prof. P.W. Liu, Prof. L.C. Tsui and Mr. Martin C.K. Liao.

Our NEDs and INEDs possess diverse academic and professional qualifications or related financial management expertise and bring a wide range of business and financial experience to the Board.

Mr. Weber W.P. Lo was appointed as Chief Executive Officer Designate and Executive Board Member of the Company and HLP on May 16, 2018, and became the Chief Executive Officer upon the retirement of Mr. Philip N.L. Chen as Chief Executive Officer on July 16, 2018.

Mr. Ronnie C. Chan is the brother of Mr. Gerald L. Chan, a cousin of Mr. Roy Y.C. Chen and the father of Mr. Adriel W. Chan. Mr. George K.K. Chang is an employee of Morningside Group, which was co-founded by Mr. Ronnie C. Chan and Mr. Gerald L. Chan and is currently chaired by Mr. Gerald L. Chan.

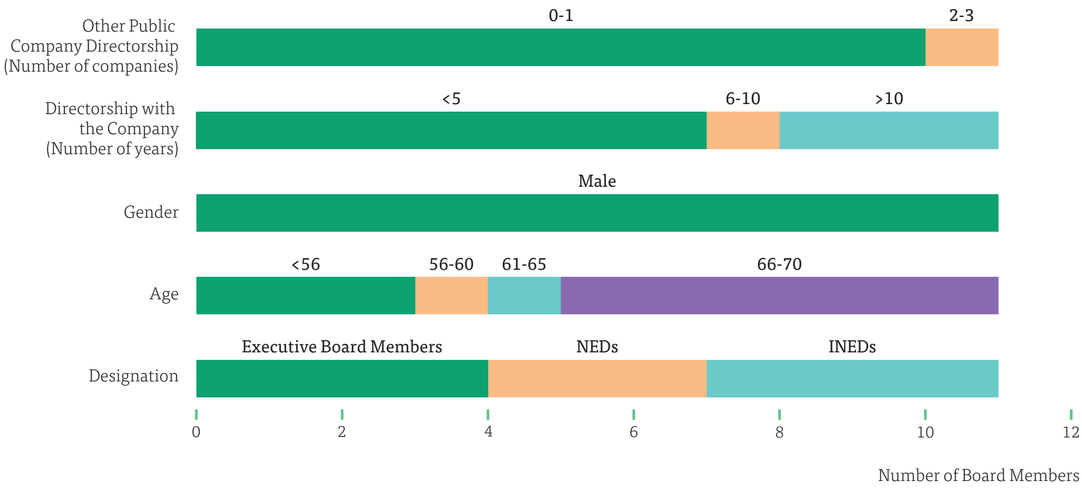
Board Diversity

The Board has a policy setting out the approach to achieve diversity on the Board (the Board Diversity Policy) with the aim of enhancing Board effectiveness and corporate governance as well as achieving our business objectives and sustainable development. Board diversity has been considered from a number of perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, required expertise, skills, knowledge, and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Board Diversity Policy is available on our website under Board of Directors of Corporate Governance of the Investor Relations section.

The Board Diversity Policy was taken into account by the Nomination and Remuneration Committee and the Board in the appointment of Mr. Weber W.P. Lo, a successor to the retiring Chief Executive Officer Mr. Philip N.L. Chen in 2018. In face of the fast-evolving retail business environment and the prevalent use of technology nowadays, the Board has successfully identified Mr. Weber W.P. Lo, a young and tech-savvy member to join the Board to provide diverse perspective and innovative thinking. His appointment has further enhanced the diversity of the Board in terms of balance of skills, expertise, experience, age and professional background. The more diversified Board enables the Group to take on challenges of the millennial generation.

The current Board consists of a diverse mix of Board Members with appropriate skills and experience to lead and oversee the business of the Company, and depending on the needs of our growing business and the availability of competent candidates to fulfill those needs, suitably qualified individuals will be considered in the future for membership.

Board composition and diversity as at December 31, 2018 are as follows:



Functions

An updated list of Board Members identifying their roles and functions and whether they are INEDs is maintained on our website and the website of HKEx. Their biographical details, disclosed on pages 115 to 120 of this annual report, are also maintained on our website under Board of Directors of Corporate Governance of the Investor Relations section.

The Board is responsible for, among other things:

- ensuring continuity of leadership;
- the development of sound business strategies;
- the deployment of adequate capital and managerial resources to implement the business strategies adopted; and
- the adequacy of systems of financial and internal controls, risk management, as well as the conduct of business in conformity with applicable laws and regulations.

NEDs and INEDs have made a positive contribution to the development of the Company's strategies and policies, providing independent, constructive and informed advice. They have given the Board and the committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation.

All Board Members are required to disclose to the Company any offices held in public companies or organizations and other significant commitments.

In 2018, six regular Board meetings were held. Two Board meetings were held during two offsite Board trips: (1) a Kunming trip for inspection of the construction site of Spring City 66 to gain more understanding on the construction progress, and the business environment in Kunming and (2) a Tokyo trip for visits to certain leading mall operators.

In 2018, the average attendance rate of Board Members at Board meetings was 96%. Details of Board Members' attendance records in 2018 are set out below:

Board Members	Meetings Attended/Held			
	Board	Audit Committee	Nomination and Remuneration Committee	2018 AGM
Independent Non-Executive Directors				
Simon S.O. Ip	6/6	4/4	1/1	1/1
P.W. Liu	6/6	3/4	1/1	1/1
L.C. Tsui	5/6	4/4	N/A	1/1
Martin C.K. Liao	5/6	N/A	1/1	1/1
Non-Executive Directors				
Gerald L. Chan	5/6	N/A	N/A	0/1
George K.K. Chang	6/6	4/4	N/A	1/1
Roy Y.C. Chen	6/6	N/A	N/A	1/1
Executive Directors				
Ronnie C. Chan	6/6	N/A	N/A	1/1
Weber W.P. Lo (Note 1)	4/4	N/A	N/A	N/A
H.C. Ho	6/6	N/A	N/A	1/1
Adriel W. Chan	6/6	N/A	N/A	1/1
Philip N.L. Chen (Note 2)	3/3	N/A	N/A	1/1

Notes

1. Mr. Weber W.P. Lo was appointed as Executive Board Member on May 16, 2018.
2. Mr. Philip N.L. Chen retired as Executive Board Member on July 16, 2018.

Board Process and Access to Information

Any Board Member can give notice to the Chairman or the Company Secretary if he intends to include matters on the agenda of a Board meeting. Board or committee papers will be sent to all Board Members or committee members at least three days before the intended date of a Board meeting or committee meeting. Management also supplies the Board and its committees with sufficient information and analyses so as to enable them to make an informed assessment of financial and other information put before the Board and its committees for approval. Management is also invited to join Board meetings where appropriate.

Furthermore, management provides all Board Members with monthly updates which give a balanced and up-to-date assessment of the Company's performance, position, and prospects in sufficient detail to enable the Board as a whole and each Board Member to discharge his duties under the Listing Rules.

All Board Members are entitled to have access to timely information in relation to our business and make further enquiries where necessary, and each also has separate and independent access to management.

In addition, all Board Members have access to the advice and services of the Company Secretary, a full time employee of the Company, who is responsible to the Board for ensuring that procedures are followed and that all applicable laws, rules and regulations are complied with. The Company Secretary supports the Board by ensuring good information flow within the Board and is also a source of advice to the Chairman and to the Board on corporate governance and the implementation of the CG Code. The Company Secretary has confirmed that she took more than 15 hours of relevant professional training to update her skills and knowledge in 2018.

Procedures have also been agreed by the Board to enable Board Members to seek independent professional advice at the Company's expense.

Under the Articles of Association, a Board Member shall not vote or be counted in the quorum in respect of any transaction, contract, or arrangement in which he or any of his associates is/are materially interested unless otherwise stated.

We have also arranged appropriate insurance cover for directors' and officers' liabilities in respect of legal actions against them arising from corporate activities. The insurance policy is reviewed every year to ensure fair and sufficient coverage.

2. *Clear Division of Responsibilities between Chairman and Chief Executive Officer*

There is a clear division of responsibilities between the Chairman and the Chief Executive Officer to ensure a balance of power and authority.

Chairman

The Chairman, Mr. Ronnie C. Chan, provides leadership for the Board. He is responsible for ensuring that all Board Members receive, in a timely manner, adequate information which must be accurate, clear, complete, and reliable, and that Board Members are properly briefed on issues arising at Board meetings. He also ensures that:

- the Board works effectively and discharges its responsibilities;
- all key and appropriate issues are discussed by the Board in a timely manner;
- good corporate governance practices and procedures are established; and
- appropriate steps are taken to provide effective communication with shareholders and that their views are communicated to the Board as a whole.

He, at least annually, holds meetings with the NEDs and INEDs without the other Executive Board Members being present.

He is primarily responsible for drawing up and approving the agenda for each Board meeting. He takes into account, where appropriate, any matters proposed by the other Board Members for inclusion on the agenda, or delegates such responsibility to the Company Secretary.

He encourages all Board Members to make an active contribution to the Board's affairs and takes the lead in ensuring that the Board acts in the best interests of the Company. He encourages Board Members with different views to voice their concerns, allows sufficient time for discussion of issues which the Board is charged to deliberate and reach decisions on.

He promotes a culture of openness and debate by facilitating the effective contribution of NEDs and INEDs in particular and ensures constructive relations between Executive Board Members, NEDs and INEDs.

He also arranges suitable training for Board Members to refresh their knowledge and skills.

Chief Executive Officer

The Chief Executive Officer, Mr. Weber W.P. Lo (who succeeded Mr. Philip N.L. Chen), is a member of the Executive Committee of the Company and is responsible for:

- leading the management team in business operations and in the implementation of policies and strategies adopted by the Board;
- the Company's day-to-day management in accordance with the instructions issued by the Board;

- developing strategic operating plans that reflect the objectives and priorities established by the Board and maintaining operational performance; and
- ensuring the adequacy of risk management, financial and internal control systems, and the conduct of business in conformity with applicable laws and regulations.

The Chief Executive Officer chairs the monthly business review meetings. He also chairs the biweekly "Morning Prayer" meetings of the Company's key executives. Matters concerning the day-to-day operations of the Company are discussed in these meetings. He reports to the Board from time to time on matters of material importance.

To cope with the fast pace of expansion and the ever-changing operating environment, management, under the leadership of the Chief Executive Officer, has put great effort into enhancing our operating system as well as our corporate culture with a regular integrity program for our staff. These reflect the way Hang Lung runs its business – We Do It Right.

To become the most admired commercial property developer in Hong Kong and mainland China, the Chief Executive Officer has also formulated and led the management team to implement strategies to strive for sustainable growth.

3. Independence of INEDs

We have received from each of our INEDs an annual confirmation of his independence and we consider each INED to be independent.

To further enhance accountability, any appointment of an INED who has served on the Board for more than nine years will be subject to a separate resolution to be approved by shareholders. We will state in the notice of the AGM the reason why we consider the INED to still be independent and our recommendation to shareholders to vote in favor of the re-election of such an INED.

4. Appointment, Re-election and Removal

In accordance with the Articles of Association, one-third of the Board Members are required to retire from office by rotation for re-election by shareholders at an AGM, and new appointments to the Board are subject to re-election by shareholders at the next general meeting. In addition, every Board Member is subject to retirement by rotation at least once every three years. The names of such Board Members eligible and offering themselves for re-election, accompanied by detailed biographies, will be presented in the notice of the general meeting. In relation to the appointment or re-election of INED, we will also state in the notice of the general meeting the identifying process, the reason why we consider the INED is independent, the perspectives, skills and experience that the INED can bring to the Board, and how the INED contributes to diversity of the Board.

The NEDs and INEDs are appointed for specific terms, which coincide with their expected dates of retirement by rotation at least once every three years.

5. Continuous Professional Development

Each newly appointed Board Member will meet with fellow Board Members and key executives, and will receive a comprehensive, formal, and tailored induction on the first occasion of his/her appointment. Subsequently, he/she will receive the briefings and professional development necessary to ensure he/she has a proper understanding of the Company's operations and business and full awareness of his/her responsibilities under statute and common law, the Listing Rules, legal and other regulatory requirements, and especially the Company's business and governance policies. The Company Secretary facilitates the induction and professional development of Board Members.

All Board Members are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills to ensure their contribution to the Board remains informed and relevant. The Chairman also arranges suitable training for Board Members from time to time. In 2018, the Company arranged for Board Members' an offsite strategic review workshop to discuss the top strategic risks and strategic plan in light of global economic outlook, technology changes and development of luxury goods market.

Record of training received by each existing Board Member in 2018 is summarized below:

Board Members	Types of Training
Ronnie C. Chan	A, B, C
Weber W.P. Lo	A, B, C
Gerald L. Chan	A, B, C
Simon S.O. Ip	A, B, C
P.W. Liu	A, B, C
L.C. Tsui	A, B, C
Martin C.K. Liao	A, B, C
George K.K. Chang	A, B, C
Roy Y.C. Chen	A, B, C
H.C. Ho	A, B, C
Adriel W. Chan	A, B, C

A Attending seminar(s)/forum(s) and/or giving talk(s) relating to the business or directors' duties

B Reading materials relating to the business or directors' duties

C Attending corporate event(s)/visit(s)

(II) Delegation by the Board

The Executive Committee, Audit Committee, and Nomination and Remuneration Committee were formed in 1989, 1999, and 2003 respectively.

1. Executive Committee

The Executive Committee of the Board was formed in 1989. Its members are all the Executive Board Members of the Company, who meet regularly to establish the strategic direction of the Company and to monitor the performance of the management. Clear terms of reference have been adopted by the Board, and guidelines have also been set up for certain issues requiring Board approval. Each of the Committee members has full understanding on determining which issues require a decision of the full Board and which are delegated by the Board to the Committee or management.

2. Audit Committee

An Audit Committee was established by the Board in 1999. The Committee currently comprises three INEDs and one NED, namely, Mr. Simon S.O. Ip (Chairman of the Committee), Prof. P.W. Liu, Prof. L.C. Tsui and Mr. George K.K. Chang. They possess appropriate academic and professional qualifications or related financial management expertise.

Under the CG Code, it is required that meetings are held at least two times per year with the external auditor. Separate meetings are also held with the external auditor, in the absence of management, as and when required. The Audit Committee has exceeded the CG Code requirements and held four meetings in 2018 for the purpose of, inter alia, discussing the nature and scope of internal audit work and assessing the Company's internal controls. Moreover, the Committee met the external auditor four times in 2018 without the presence of management.

The terms of reference detailing the Committee's role and authority, which include duties pertaining to corporate governance functions and the oversight of risk management, are available on both our website under Audit Committee of Corporate Governance of the Investor Relations section and the website of HKEx.

The Committee is authorized by the Board to investigate any activity within its terms of reference; to seek any information it requires from any employee (and all employees are directed to co-operate with any requests made by the Committee); to obtain outside legal or other independent professional advice; and to secure the attendance of outsiders with relevant experience and expertise at their meetings if necessary. Sufficient resources are provided to the Committee to discharge its duty.

In 2018, the Audit Committee performed, inter alia, the following:

Relationship with External Auditor, Review of Financial Information and Oversight of Financial Reporting System, Risk Management and Internal Control Systems

- reviewed and obtained an explanation from management and the external auditor for the interim and annual results, including the causes of changes from the previous accounting period, the effects on the application of new accounting policies, compliance with the Listing Rules and relevant legislation, and any audit issues, before recommending their adoption by the Board;
- considered and proposed to the Board the re-appointment of KPMG as the Company's external auditor and approved its terms of engagement;
- reviewed the procedures and guidelines for employing the external auditor to perform non-audit assignments for the Company, and approved the scopes and fees for non-audit assignments;
- received and reviewed the internal audit reports from the Internal Auditor;
- held meetings with the external auditor in the absence of management to discuss any material audit issues;
- held meetings with the Internal Auditor in private to discuss material internal audit issues;
- approved the internal audit plan for 2019;
- carried out reviews of the effectiveness of the Company's risk management and internal control systems including tax strategy, the structure of senior management, the adequacy of resources, staff qualifications and experience, as well as training, for financial reporting and internal audit;
- reviewed and approved amendments to the Internal Audit Charter; and
- initiated the offsite strategic review workshop for the Board to discuss top strategic risks and strategic planning

Corporate Governance Functions

- reviewed the Company's policies and practices on corporate governance, compliance with legal and regulatory requirements and the Code of Conduct, and made recommendations to the Board;
- reviewed and monitored the training and continuous professional development of Board Members; and
- reviewed the Company's compliance with the CG Code and disclosure in annual report on corporate governance and sustainable development.

The Audit Committee also reviewed environmental, social and governance (ESG) related risks and confirmed that the ESG risk management and internal control systems were in place and remained effective throughout 2018.

In view of our rapid expansion in mainland China, the Audit Committee also meets quarterly to review and monitor the progress and construction costs of Mainland development projects and major renovation projects. The Cost and Controls Department reports regularly in these Audit Committee meetings, and continues to provide an effective check and balance in the control of our sizeable capital expenditures spending and investment, as well as the quality and safety aspects of the projects.

3. Nomination and Remuneration Committee

A Nomination and Remuneration Committee, set up in 2003, now comprises entirely INEDs, namely, Prof. P.W. Liu (Chairman of the Committee), Mr. Simon S.O. Ip and Mr. Martin C.K. Liao. Regular reviews of significant changes to the salary structure of the Group and the terms and conditions affecting Executive Board Members and senior management are conducted. The Committee met once in 2018 to review, inter alia, the composition of Board Members and Board Members' remuneration.

The existing terms of reference of the Committee has contained the criteria and principles for nomination of Board Members. In view of the amendments to the CG Code which took effect from January 1, 2019, the terms of reference of the Committee has been revised to formally regard those criteria and principles as the nomination policy for Board Members. The updated terms of reference of the Committee can be accessed on both our website under Nomination and Remuneration Committee of Corporate Governance of the Investor Relations section and the website of HKEx.

The major works performed by the Committee in 2018 included the following:

- reviewed the Board Diversity Policy and its implementation;
- reviewed the structure, size and diversity of the Board;
- assessed the independence of the INEDs;
- as part of the succession plan, identified and made recommendations to the Board on the appointment of Chief Executive Officer;
- made recommendations to the Board on the selection of individuals nominated for directorship with reference to qualifications and related expertise;
- made recommendations to the Board on re-election of retiring Board Members at the AGM;
- made recommendations to the Board on the Company's remuneration policy and structure for all Board Members and senior management;
- determined the remuneration packages for individual Executive Board Members and senior management, including benefits in kind, pension rights, and compensation payments;
- made recommendations to the Board on the remuneration of the NEDs and INEDs; and
- endorsed the amendments to the terms of reference of the Committee to regard the existing criteria and principles for nominating Board Members as the nomination policy.

In the nomination policy, the Committee will:

- review the structure, size and diversity of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- identify individuals suitably qualified to become Board Members and select or make recommendations to the Board. In identifying suitable candidates, the Committee shall consider candidates on merit and against the objective criteria, with due regard for the benefits of diversity on the Board; and
- make recommendations to the Board on the appointment or re-appointment of the Board Members and succession planning for Board Members, in particular the Chairman of the Board and the Chief Executive Officer, taking into account the Company's corporate strategy and the mix of skills, knowledge, experience and diversity needed in the future.

The remuneration package of Executive Board Members and senior management, including discretionary bonuses and share options, is based on the following criteria:

- individual performance;
- skills and knowledge;
- involvement in the Group's affairs;
- achievement of business targets; and
- the performance and profitability of the Group.

The Committee also considers factors such as salaries paid by comparable companies, time commitment and responsibilities, and employment conditions elsewhere in the Group.

The Committee obtains benchmark reports for the evaluation of market trends and the competitiveness of the remuneration being offered to Board Members and senior management. Sufficient resources are provided to the Committee to discharge its duties. The Committee may consult the Chairman and the Chief Executive Officer about remuneration proposals of other Executive Board Members and has access to independent professional advice if necessary.

Details of remuneration payable to members of the senior management (which includes Executive Board Members only) are disclosed in Note 7 to the Financial Statements.

4. Management Functions

Senior Management means our Executive Board Members. Their duties are explained in the paragraph headed Executive Committee above. Key executives are responsible for day-to-day operations and the administration function of the Group under the leadership of the Executive Board Members. The Board has given clear directions to management as to matters that must be approved by the Board before decisions are made on behalf of the Company. The types of decisions to be delegated by the Board to management include implementation of strategies and direction determined by the Board, operation of the Group's businesses, preparation of financial statements and operating budgets, and compliance with applicable laws and regulations. These arrangements are reviewed periodically to ensure that they remain appropriate to our needs.

(III) Securities Transactions and Share Interests

1. Securities Transactions

We have set out guidelines regarding securities transactions by Board Members under Transactions in the Company's Shares in our Code of Conduct according to the required standard set out in the Model Code. The Company has made specific enquiries with all Board Members and confirmed that they have complied with the required standard set out in the Model Code and the Code of Conduct regarding Board Members' securities transactions.

The Company has also set out guidelines regarding securities transactions by relevant employees who, because of their office in the Company or its subsidiary, are likely to be in possession of inside information. The relevant employees are also requested to comply with the required standard set out in the Model Code. All the relevant employees are reminded of the compliance of the guidelines every six months. In 2018, the Company also arranged a refresher training to key executives, including the Executive Board Members.

2. Share Interests

Details of Board Members' interests in shares of the Company and HLP as at December 31, 2018 are as follows:

	The Company	Hang Lung Properties Limited	
Board Members	Number of Shares	Number of Shares	Number of Shares under Option
Ronnie C. Chan	11,790,000	16,330,000	21,000,000
Weber W.P. Lo	–	–	10,000,000
Gerald L. Chan	–	–	–
Simon S.O. Ip	–	–	–
P.W. Liu	–	100,000	–
L.C. Tsui	–	–	–
Martin C.K. Liao	–	–	–
George K.K. Chang	–	–	–
Roy Y.C. Chen	–	–	–
H.C. Ho	–	–	11,700,000
Adriel W. Chan (Note)	498,428,580	2,619,719,340	2,200,000

Note

Mr. Adriel W. Chan was deemed to be interested in 498,428,580 shares of the Company and 2,619,719,340 shares of HLP as he was a discretionary beneficiary of a family trust. The family trust held 498,428,580 shares (representing 36.61% interests) of the Company and held/was deemed to be interested in 2,619,719,340 shares of HLP.

(IV) Accountability and Audit

1. Financial Reporting

Board Members acknowledge their responsibility for preparing the financial statements on a going concern basis, with supporting assumptions or qualifications as necessary. The Company's financial statements are prepared in accordance with the Listing Rules, the Companies Ordinance, and also the accounting principles and practices generally accepted in Hong Kong. Appropriate accounting policies are selected and applied consistently; judgments and estimates made are prudent and reasonable. A statement by the external auditor, KPMG, about its reporting responsibilities is included in the Independent Auditor's Report on the Company's consolidated financial statements.

The Board Members endeavor to ensure a balanced, clear and coherent assessment of the Company's position and prospects in annual reports, interim reports, inside information announcements, and other disclosures required under the Listing Rules and other statutory requirements.

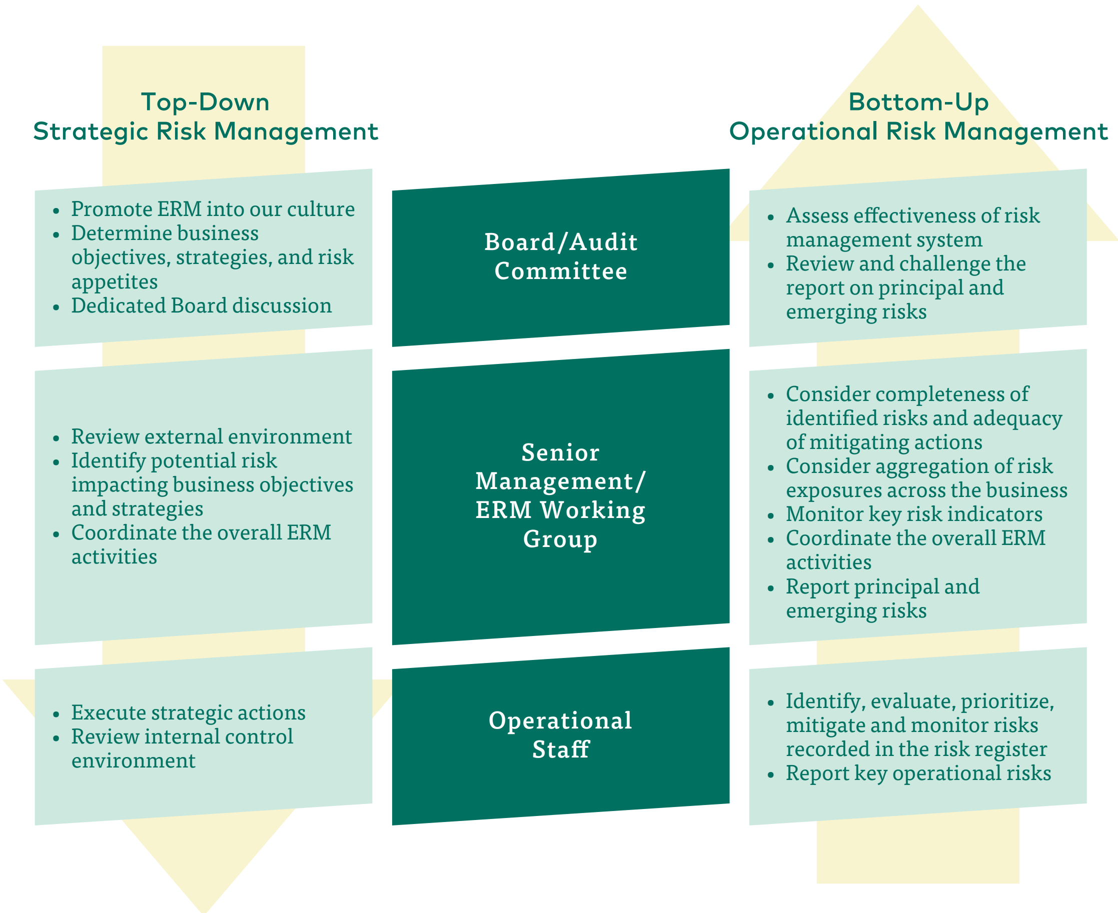
2. Risk Management and Internal Controls

Risk Management Framework

The Board has overall responsibility for risk management and for determining the nature and extent of significant risks it is willing to take to achieve the Company's strategic objectives. The Audit Committee is delegated to oversee the effectiveness of our risk management system. Management is tasked with the design, implementation, and maintenance of a sound and effective risk management framework with reference to the COSO (Committee of Sponsoring Organizations of the Treadway Commission) principles, which is crucial in delivering our corporate strategies and ensuring sustainability.

Risks are inherent in every sector of our business. It is important to have a risk-aware culture throughout the organization, as well as a systematic approach to identify and assess risks such that they can be reduced, transferred, avoided or understood. We are committed to continuously enhancing our risk management framework, linking it to our corporate strategies as well as integrating it into our day-to-day operations and decision-making. Under its approved terms of reference, the ERM Working Group (comprising an Executive Board Member as Chairman and unit heads from all business units and support divisions) has been established as our second line of defense to coordinate and oversee risk management activities, whilst operational management remains the first line of defense. The Internal Audit Department, who reports directly to the Audit Committee on risk management and internal control matters, acts as the third line of defense in this system.

The Company takes proactive measures to identify, evaluate, and manage significant risks arising from our business and from the constantly changing business environment at different levels within the organization. This integrated approach combines a top-down strategic view with a complementary bottom-up operational process as illustrated below:



A list of principal risks, covering both strategic and operational risks as identified by our risk assessment process, is compiled with reference to their residual risk impact and likelihood (after taking into consideration the mitigation controls). Action plans are developed, and risk ownership is assigned for each principal risk. The risk owners coordinate the mitigation measures to ensure proper implementation of these action plans. They are also required to continuously monitor, evaluate, and report on risks for which they bear responsibility. Mitigation controls are subject to internal audit review and testing.

During the year, a dedicated offsite workshop was arranged and attended by Board members to discuss top strategic risks. The Company has continued its program to formalize and fine-tune the risk management system for operating sites and sites under development. Various risk management workshops were conducted for local management teams not only to further promote risk awareness across all levels of the organization, but also to engage them in the risk assessment process. When compiling their risk registers, each site will identify key risks and mitigation actions, and rate the residual risks according to the likelihood and impact parameter at site level (scaled down from enterprise level). Top risks at operational level were then extracted from each site's detailed risk register and reported to the Audit Committee.

Through this integrated top-down and bottom-up risk review processes, which enables risks identification and prioritization throughout the Company, we maintain effective lines of communication to ensure timely escalation of potential risks and initiation of mitigating actions to manage them.

The principal risks that the Company faces may not change significantly from year to year, although the magnitude and significance of these risks can and do vary. Our ongoing review of the principal risks focuses on how changes might arise and how our controls need to be adapted in response to evolving business conditions and organizational changes. The ERM Working Group takes a robust assessment of the principal risks and uncertainties that the Company is exposed to. During 2018, development from Sino-US tension came under close monitoring, while mitigating measures on increasing competition in the retail market and talent management served to support the growth of the Company, amid Renminbi depreciation and rising US interest rates. Meanwhile, risks from the development of e-commerce, changing consumer behavior or taste, and fast-paced innovation in technology continued to present challenges to our business strategy. These principal risks and their respective mitigating actions are covered in the Risk Management section of this annual report.

As the second line of defense, the ERM Working Group is responsible for overseeing risk management activities across all functions. In 2018, it met four times and achieved the following:

- Reviewed the effectiveness of the Company's ERM framework;
- Reviewed risk assessment criteria to ensure that they were appropriately defined and continued to be relevant in light of the Company's business and risk profile;
- Organized various workshops for management and operational staff to promote the ERM framework and to embed a risk-aware culture for monitoring and reporting risks within the Company;
- Identified and evaluated the Company's principal risks and key emerging risks;
- Evaluated the comprehensiveness of identified risks at operational level;
- Challenged the risk owners on the mitigation controls and their effectiveness;
- Analyzed root causes and checked risk enforcement in key areas where controls were previously inadequate or ineffective;
- Examined crisis management capacity for handling large-scale, sudden operational adversities; and
- Compiled relevant and timely risk reports including "deep-dives" for the Board and the Audit Committee.

ERM Working Group Primary Duties

- Ensure appropriate guidelines and procedures applicable to risk assessment are in place
- Establish risk appetite and tolerance level
- Ensure risk assessment criteria are defined
- Coordinate and maintain a register of principal risks
- Facilitate risk identification, including key new risks and risk changes
- Assist in evaluation of the Company's principal risks and key emerging risks
- Facilitate management in assigning roles and responsibilities for risk control and ownership

The Internal Audit Department, as the third line of defense, plays an important role in assessing the effectiveness of the risk management system, and reports regularly to the Audit Committee on key findings as well as making recommendations for improvement and tracking on their implementations.

The Board and the Audit Committee reviewed the Company's top and emerging risks, and conducted an annual review of the effectiveness of the ERM framework. Taking into consideration the principal risks and mitigating actions, the Board believes that the Company has the ability to adequately respond to changes to our business or the external environment.

Internal Control Framework

The Board is responsible for maintaining an effective internal control system. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and but not absolute assurance against material misstatement or loss.

Specifically, our internal control system shall monitor the Company's overall financial position; safeguard its assets against major losses and misappropriation; provide reasonable assurance against material fraud and error; and efficiently monitor and correct non-compliance.

To ensure efficient and effective operations in our growing business units and functions, relevant internal control policies and procedures, committees, and working groups are in place in order to achieve, monitor and enforce internal controls. These policies and procedures are reviewed from time to time and updated where necessary. All employees are made aware of the policies and procedures in place, with comprehensive staff communications and training programs to ensure understanding and awareness.

The Audit Committee is delegated to oversee the effectiveness of internal controls, while management is responsible for designing, implementing, and maintaining an effective internal control system with reference to the COSO principles. In particular, proper policies and procedures governing the activities of the Executive Committee, Board Members, executives, and senior staff, such as delegation of authority, approval of annual and mid-year budgets for all capital and revenue items, etc., have been put in place. Management also continuously reviews, updates, and refines the internal control system to meet anticipated future challenges.

Our Internal Audit Department is independent from our operations and accounting functions. The Internal Auditor reports directly to the Audit Committee. A risk-based internal audit program is approved by the Audit Committee each year. Based on the audit program, the Internal Auditor performs assessment of risks and testing of controls across all business and supports units of the Company in order to provide reasonable assurance that adequate controls and governance are in operation. In line with the Company's zero tolerance of fraud and bribery, the Internal Auditor will perform relevant investigations if fraud or irregularities are uncovered or suspected.

In 2018, the Audit Committee met quarterly to discuss internal audit issues with the Internal Auditor, as well as to enquire on financial and internal control matters with the external auditor. The Audit Committee held four direct discussions with the external auditor in the absence of management. The Audit Committee reported to the Board on key issues arising from these meetings.

There were no significant control failings or weaknesses identified that have not been rectified in 2018. Our internal audit function has been operating effectively.

Annual Assessment

With the confirmation of the management and the foregoing review by the Audit Committee covering all material controls, including financial, operational and compliance controls and risk management functions of the Company and its subsidiaries for the financial year ended December 31, 2018, the Board concluded that effective and adequate risk management and internal control systems had been in operation.

The level of resources, staff qualifications and experience, training programs, and budget of the Company's internal audit, accounting and financial reporting functions were assessed and considered adequate.

3. Code of Conduct

The Company adopted a corporate Code of Conduct in 1994 and has maintained it with regular reviews and updates from time to time as necessary.

The Code of Conduct clearly spells out the Company's policy regarding legal requirements, conflicts of interest, the handling of confidential information and company property, the use of information and communication systems, personal social media activities, our whistleblowing policy, relations with suppliers and contractors, responsibilities to shareholders and the financial community, relations with customers and consumers, employment practices, and responsibilities to the community. In essence, it details the Group's philosophy in running its business and acts as a benchmark for all staff and suppliers to follow.

In order to monitor and enforce compliance with the Code of Conduct, functional managers are responsible for ensuring their subordinates fully understand and adhere to the standards and requirements as stipulated. Any violation thereof will result in the employee being disciplined, including termination of employment or reporting to appropriate authorities if necessary. The Executive Board Members will also answer directly to any Board Member for impartial and efficient handling of complaints received from all shareholders and potential shareholders, customers and consumers, suppliers and contractors, and our employees. As part of our commitment to good governance, all executive staff are required to submit a signed declaration of compliance with the Code of Conduct regarding Transactions in the Company's Shares on a half-yearly basis.

A well-defined whistleblowing mechanism has been put in place for our employees and other related third parties such as contractors and tenants. It is designed to encourage them to confidentially raise any serious concerns about misconduct, fraudulent activities, or malpractices in any matter related to the Group. An email account (whistleblowing@hanglung.com) has been set up for this purpose. All reported cases are addressed to the Director of Corporate Audit directly and investigated by the Internal Audit Department in complete confidence. Our Internal Audit Department monitors and reports cases to the Audit Committee on a half-yearly basis.

All staff are made aware of issues pertaining to integrity and the Company's zero-tolerance policy for misconduct through the Code of Conduct, policies, and procedures. Launched in 2013, the Hang Lung Integrity Program was established to enforce the highest standards of integrity and honesty from every process and every employee in Hong Kong and mainland China. To remind every employee of the importance of integrity, the Company provides handy tips card and e-learning program related to integrity for all staff in Hong Kong and on the Mainland. In 2018, about 102,300 training hours were delivered to our employees, of which about 3,100 training hours were delivered as part of the program.

In addition, to make sure that all operations are managed in accordance with a high standard of professional practice and corporate governance, all employees are reminded of the policy governing conflict of interest situations every six months. All executive staff are also required to complete and sign a declaration form every six months declaring their interests, directly or indirectly, with the Company, subsidiaries or associated companies.

4. Inside Information

The Company has adopted a Policy on Disclosure of Inside Information since 2013 setting out the procedures and controls for handling and dissemination of inside information in compliance with the SFO and the Listing Rules, including:

- disclosure of inside information as soon as reasonably practicable under the applicable laws and regulations;
- publication of interim and annual results within one month from the end of accounting periods to minimize the risk of leakage;
- conduct of its affairs with close adherence to the "Guidelines on Disclosure of Inside Information" issued by Securities and Futures Commission;
- authorizing designated person(s) as spokespersons for communications with stakeholders;
- imposing a strict prohibition on the unauthorized disclosure and use of inside information in its Code of Conduct; and
- reminders to the Board Members and staff members (through key executives) of the compliance of the policy every six months.

In 2018, the Company also arranged a refresher training to key executives, including the Executive Board Members.

5. Independence of External Auditor

KPMG conducts audits on the annual consolidated financial statements of the Company, and confirms every year its independence and objectivity. To ensure the independence of KPMG,

- the Audit Committee regularly reviews and monitors the independence of KPMG;
- the Audit Committee reviews the audit scope and non-audit services and approved the relevant fees;
- the policy on engaging the external auditor for non-audit services is in place and regularly reviewed by the Audit Committee. KPMG will confirm its independence before accepting the engagement of non-audit services; and
- the Audit Committee considers and proposes to the Board every year for the re-appointment of KPMG as the auditor.

KPMG confirms its independence with regard to The Code of Ethics for Professional Accountants issued by Hong Kong Institute of Certified Public Accountants regarding auditor independence.

Total remuneration in respect of services provided by KPMG is as follows:

	Year ended December 31, 2018 HK$ (in million)	Year ended December 31, 2017 HK$ (in million)
Statutory audit services	**12**	12
Non-audit services	**4**	5

(V) Communication with Stakeholders

1. Shareholders

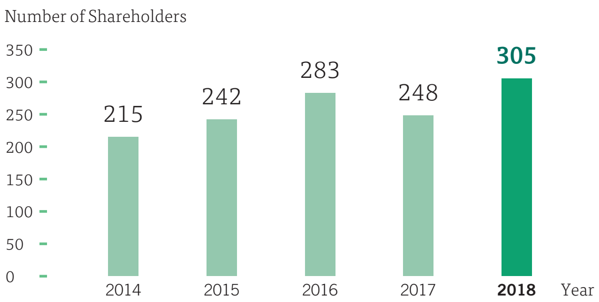
The Board has a shareholders communication policy setting out strategies to promote effective communication with shareholders, with the aim of ensuring that shareholders are provided with information about the Company to enable them to engage actively with the Company and to exercise their rights as shareholders in an informed manner. The policy is regularly reviewed to ensure its effectiveness.

Chairman's Letters to Shareholders & AGMs

Our commitment to improve transparency and enhance communications with shareholders is evidenced by our Chairman's Letters to Shareholders. These Letters are personally written by our Chairman. The Letters are included in the annual reports and interim reports. They have provided an in-depth discussion and analysis on the Group's business, as well as the market and economic outlook.

Our AGM provides a good opportunity for communication between the Board and shareholders. The chairmen of the Board and of its committees are normally present to answer queries raised by shareholders. The external auditor also attends and reports to shareholders at the AGM every year. Notice of the AGM and related papers are sent to shareholders at least 20 clear business days before the meeting. Each separate issue is proposed by a separate resolution by the Chairman. The meeting enjoys strong participation from shareholders.

Shareholders participation in AGMs is as follow:



In addition to the Chairman's Letter to Shareholders, the Chairman uses the AGM as an opportunity to open a dialogue with shareholders and to elaborate on the outlook of the Group and its business strategies.

2018 AGM

Our last AGM was held on April 26, 2018 at Grand Ballroom, Lower Lobby, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong. The meeting was attended by 305 shareholders present in person or by proxy. At the meeting, the Chairman had demanded a poll on each of the resolutions submitted for voting, and the shareholders were provided with detailed procedures for conducting the poll.

The resolutions tabled at the 2018 AGM included:

- the adoption of the financial statements;
- the declaration of a final dividend;
- the re-election of Board Members;
- the re-appointment of the auditor; and
- the renewal of general mandates.

All these resolutions were voted on by poll, and the results of poll voting were posted on the websites of our Company and of HKEx in the evening of the same day. There are no changes in the Articles of Association, which is available on our website and the website of HKEx, in 2018.

The Board confirms that there are no changes proposed to the Articles of Association at the forthcoming AGM to be held on April 30, 2019. The important shareholders' dates for the coming financial year, which include the Board meetings for considering the payments of interim and final dividends for the year ending December 31, 2019, and the AGM, are expected to be held in around late July 2019, late January 2020, and in April 2020 respectively.

Procedure for Shareholders to Convene General Meetings

Shareholder(s) representing at least 5% of the total voting rights of all the shareholders of the Company can make a request to convene a general meeting pursuant to the Companies Ordinance. The request must state the business to be dealt with at the meeting, signed by the relevant shareholder(s) and deposited at our registered office for the attention of the Company Secretary. The same request, authenticated by the person or persons making it, may also be sent to the Company in electronic form to ir@hanglung.com.

Procedure for Shareholders to Put Forward Proposals in General Meetings

Furthermore, the Companies Ordinance provides that (i) shareholder(s) representing at least 2.5% of the total voting rights of all the shareholders of the Company, or (ii) at least 50 shareholders entitled to vote can put forward proposals for consideration at a general meeting of the Company by sending a request in writing to our registered office for the attention of the Company Secretary. The same request, authenticated by the person or persons making it, may also be sent to the Company in electronic form to ir@hanglung.com.

Procedure for Shareholders to Propose a Person for Election as a Board Member

According to the Articles of Association, if any shareholder(s) representing not less than 10% of the total voting rights of all the shareholders of the Company wish(es) to propose a person (other than a retiring Board Member) for election as a Board Member (the Candidate) at a general meeting of the Company, the following documents must be lodged at our registered office:

(i) a written notice of such a proposal duly signed by the shareholder(s) concerned; and

(ii) a written consent duly signed by the Candidate indicating his/her willingness to be elected.

The period for lodgment of the above documents (being a period of at least seven days) shall commence no earlier than the day after the dispatch of the notice of the meeting appointed for such an election, and end no later than seven days prior to the date of said meeting.

Enquiries from Shareholders

Specific enquiries and suggestions by shareholders can be sent in writing to the Board or the Company Secretary at our registered address or by email to our Company at ir@hanglung.com. In addition, shareholders can contact Computershare Hong Kong Investor Services Limited, the share registrar of the Company, if they have any enquiries about their shareholdings or entitlement to dividend. Relevant contact details are set out under the Listing Information section of this annual report.

2. Investors

Details of shareholders by domicile as at December 31, 2018 are as follows:

	Shareholders		**Shareholdings**	
Domicile	**Number**	**%**	**Number of Shares**	**%**
Hong Kong	1,916	97.91	978,266,984	71.85
Mainland China	7	0.36	138,375	0.01
Macau	3	0.15	112,700	0.01
Taiwan	2	0.10	2,874	0.00
Australia and New Zealand	4	0.20	16,800	0.00
Canada and United States of America	16	0.82	127,173	0.01
South East Asia	1	0.05	33,000	0.00
United Kingdom	2	0.10	508	0.00
Others	6	0.31	382,919,828	28.12
TOTAL	**1,957**	**100.00**	**1,361,618,242**	**100.00**

Details of shareholders by holding range as at December 31, 2018 are as follows:

	Shareholders*		Shareholdings*	
Holding Range	**Number**	**%**	**Number of Shares**	**%**
1 – 1,000 shares	476	24.32	221,650	0.02
1,001 – 5,000 shares	667	34.08	2,013,446	0.15
5,001 – 10,000 shares	304	15.54	2,513,200	0.18
10,001 – 100,000 shares	463	23.66	12,617,811	0.93
Over 100,000 shares	47	2.40	1,344,252,135	98.72
TOTAL	**1,957**	**100.00**	**1,361,618,242**	**100.00**

* incorporating, in their respective shareholdings range, 262 participants of Central Clearing and Settlement System holding a total of 791,471,009 shares registered in the name of HKSCC Nominees Limited

Based on the information that is publicly available to the Company and within the knowledge of the Board Members as at the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules.

We are committed to disclosing relevant information on our activities to our shareholders and investors through regular analysts' briefings, press conferences and press releases, emails and our website, apart from through our annual and interim reports. All enquiries and proposals received from shareholders, investors, the media or the public are responded to by Executive Board Members, the Company Secretary or appropriate key executives.

The Company's information is accessible to all via our website. Besides providing traditional financial data, our website contains the most current information including properties available for sale and leasing, the latest number of issued shares, updated substantial shareholders' interests in shares, corporate brochures, newsletters, details of major corporate events, and frequently asked questions.

Moving Forward

To become the most admired commercial property developer in Hong Kong and mainland China, we will continue to strive for sustainable growth by upholding Hang Lung core values - strong governance and the highest standard of integrity and honesty in Hong Kong and every city where the Group is operating its world-class projects. We are confident of offering our stakeholders a highly transparent and well-governed corporation.

Profile of the Directors

Mr. Ronnie Chichung Chan GBM

Chairman

Aged 69, Mr. Chan joined the Group in 1972, and became Chairman in 1991. He also serves as Chairman of Hang Lung Properties Limited, the Group's major publicly listed subsidiary. Mr. Chan is Vice-President of The Real Estate Developers Association of Hong Kong, Chairman Emeritus of Asia Society and Chairman of its Hong Kong Center. He is also a former Chairman of the Executive Committee of One Country Two Systems Research Institute, and former Vice President and former Advisor of the China Development Research Foundation in Beijing. Mr. Chan sits on the governing or advisory bodies of several think-tanks and universities, including Peterson Institute for International Economics, The Hong Kong University of Science and Technology, and University of Southern California, USA, where he received his MBA. He is a Fellow of the American Academy of Arts and Sciences. Mr. Chan is the brother of Mr. Gerald Chan, a Non-Executive Director of the Company and the father of Mr. Adriel Chan, an Executive Director of the Company.

Mr. Weber Wai Pak Lo

Chief Executive Officer

Aged 48, Mr. Lo joined the Company and its major listed subsidiary, Hang Lung Properties Limited, as Chief Executive Officer Designate in May 2018, and became Chief Executive Officer with effect from July 16, 2018. Mr. Lo has more than 25 years of experience in business management across the banking and fast-moving consumer goods sectors in Hong Kong and mainland China. Mr. Lo graduated from The University of Hong Kong in 1993 with a Bachelor of Social Sciences degree.

Mr. Gerald Lokchung Chan

Non-Executive Director

Aged 67, Mr. Chan has been a Director of the Company since 1986. As co-founder of Morningside, Mr. Chan has been active in venture capital and private equity investments since 1987. He also serves on the advisory boards of numerous universities including the University of California, Los Angeles, Harvard University, Fudan University and also the Chair of Overseers Committee of Morningside College, The Chinese University of Hong Kong. Mr. Chan received his undergraduate training in engineering at the University of California, Los Angeles, and his Doctor of Science degree from Harvard University. He is the Chairman of Apellis Pharmaceuticals, Inc. and was a Non-Executive Director of Aduro Biotech, Inc. Mr. Chan is the brother of Mr. Ronnie Chan, Chairman of the Group.

Mr. Simon Sik On Ip GBS, CBE, JP

Independent Non-Executive Director

Aged 70, Mr. Ip joined the Board in 1998. He is a solicitor and Notary Public. Mr. Ip has a distinguished record of public service. He is a former Legislative Councillor, past President of the Law Society of Hong Kong, a past member of the Exchange Fund Advisory Committee, a past member of The Advisory Committee on Post-service Employment of Civil Servants and a member of the Advisory Committee on Post-office Employment for Former Chief Executives and Politically Appointed Officials. Mr. Ip is also a former Chairman of the Hong Kong Jockey Club. He is the Founding Chairman of the Hong Kong Institute of Education (now known as The Education University of Hong Kong) and holds honorary positions in two local universities and Tsinghua University. Mr. Ip is an Independent Non-Executive Director of 長飛光纖光纜股份有限公司 (Yangtze Optical Fibre and Cable Joint Stock Limited Company). He was awarded the Gold Bauhinia Star in July 2017.

Prof. Pak Wai Liu SBS, JP

Independent Non-Executive Director

Aged 71, Prof. Liu joined the Board as an Independent Non-Executive Director in March 2015. He is Research Professor and was formerly Pro-Vice-Chancellor of The Chinese University of Hong Kong. He was formerly Director of the Institute of Global Economics and Finance and was appointed Distinguished Fulbright Scholar in 2000-01. Prof. Liu serves on many government advisory bodies. He is the Chairman of the Advisory Committee on Post-office Employment for Former Chief Executives and Politically Appointed Officials and a member of the Judicial Officers Recommendation Commission. Prof. Liu was a past member of the Working Group on Long-Term Fiscal Planning of the HKSAR, the Commission on Strategic Development, the Independent Commission on Remuneration for Members of the Executive Council and the Legislature, and Officials under the Political Appointment System of the HKSAR, the Provisional Minimum Wage Commission, the Independent Commission on Remuneration for the Members of the District Councils of the HKSAR and the Aviation Development Advisory Committee. He is also a Director of the Hong Kong Institute for Monetary Research of the Hong Kong Monetary Authority and the Shenzhen Finance Institute. He was a Non-Executive Director of the Securities and Futures Commission and Chairman of its Remuneration Committee. Prof. Liu received his AB degree from Princeton University and Ph.D degree from Stanford University in the US. He is an Independent Non-Executive Director of Transport International Holdings Limited and China Zheshang Bank Co., Ltd., and was an Independent Non-Executive Director of Hang Lung Properties Limited, listed subsidiary of the Company. Prof. Liu was awarded the Silver Bauhinia Star (SBS) in 1999, and appointed Justice of Peace (JP) in 2006.

Prof. Lap-Chee Tsui OC, GBM, GBS, JP

Independent Non-Executive Director

Aged 68, Prof. Tsui joined the Board as an Independent Non-Executive Director in November 2014. Prof. Tsui was the fourteenth Vice-Chancellor of the University of Hong Kong. He was a member of the Research Institute at The Hospital for Sick Children in Toronto, Canada since 1981, rising to Geneticist-in-Chief of the Hospital in 1996 and Head of the Genetics and Genomic Biology Program in 1998. Prof. Tsui also held academic appointments at the University of Toronto since 1983, was awarded the title of University Professor in 1994 and has held an Emeritus status since 2006. He was also the President of the Human Genome Organization from 2000 to 2002. Prof. Tsui has received numerous awards for his work, including the Royal Society of Canada Centennial Award in 1989, Gairdner International Award in 1990, Cresson Medal of Franklin Institute in 1992, XII Sanremo International Award for Genetic Research in 1993, the Distinguished Scientist Award from the Medical Research Council, Canada in 2000, Killam Prize of Canada Council in 2002 and the European Cystic Fibrosis Society Award in 2009. He was elected as Fellow of the Royal Society of Canada in 1990, Fellow of the Royal Society of London in 1991, Member of Academia Sinica in 1992, Foreign Associate of the National Academy of Sciences of the US in 2004, Foreign Member of the Chinese Academy of Sciences in 2009, and Founding President of The Academy of Sciences of Hong Kong in 2015. Prof. Tsui obtained a bachelor's degree and master's degree in biology from The Chinese University of Hong Kong in 1972 and 1974 respectively. He also obtained a doctorate degree in biological sciences from the University of Pittsburgh in 1979. Prof. Tsui is an Independent Non-Executive Director of PuraPharm Corporation Limited, and was an Independent Non-Executive Director of China NT Pharma Group Company Limited. He was awarded the Grand Bauhinia Medal in July 2016.

Mr. Martin Cheung Kong Liao SBS, JP

Independent Non-Executive Director

Aged 61, Mr. Liao joined the Board as an Independent Non-Executive Director in November 2014. Mr. Liao is elected Deputy (representing Hong Kong Special Administrative Region ("HKSAR")) to the 12th and 13th National People's Congress of the People's Republic of China. He has been appointed as a Non-Official Member of the Executive Council of the HKSAR since November 2016 and also serves as a Member of the Legislative Council of the HKSAR. Mr. Liao previously served as Chairman of the Anti-Money Laundering and Counter-Terrorist Financing Review Tribunal. He graduated with a Bachelor of Economic Science (Hons) degree and a Master of Laws degree from University College London. Mr. Liao was Called to the Bar in England and Wales in 1984 and was Called to the Bar in Hong Kong in 1985 and is a practising barrister in Hong Kong. He is also an advocate and solicitor admitted in Singapore since 1992. Mr. Liao was awarded the Silver Bauhinia Star in 2014, and appointed Justice of the Peace in 2004.

Mr. George Ka Ki Chang

Non-Executive Director

Aged 66, Mr. Chang joined the Board as a Non-Executive Director in March 2015. He is managing director of Morningside Group chaired and co-founded by Mr. Gerald Chan and co-founded by Mr. Ronnie Chan. Mr. Chang started his professional career in a major international accounting firm and has over eight years of experience in public accounting in Hong Kong and Toronto. Prior to joining Morningside Group in 1991, he held senior financial positions in several international manufacturing and trading companies. Mr. Chang received his M.B.A. degree from the University of Wisconsin at Madison and is a member of the American Institute of Certified Public Accountants, Canadian Institute of Chartered Accountants and Hong Kong Institute of Certified Public Accountants. He sits on the board of several private companies in Asia and North America. Mr. Chang formerly served as a board member of the publicly-traded companies and accumulated experience in high technology companies. He is an independent non-executive director of Crystal International Group Limited.

Mr. Roy Yang Chung Chen

Non-Executive Director

Aged 55, Mr. Chen joined the Board as a Non-Executive Director in September 2015. Mr. Chen is the Chairman and Chief Executive Officer of Grace Financial Limited specializing in wealth management. He is also a Director of Sterling Enterprises Limited responsible for managing various investments in global markets. Starting his career as merchant banker in the US and UK until joining Sterling Enterprises Limited since 1993, Mr. Chen has accumulated extensive experience in international banking, finance and investment. Mr. Chen has been actively involved in promoting and improving corporate governance with a special interest in family business situations since 2000 and was appointed the founding director of the Family Business Network Pacific Asia Ltd. (FBNPA) from 2008 to 2012. He is also the Chairman of Seeds Foundation and serves on the grants committee of ZeShan Foundation and Seeds Foundation, a member of the Public Shareholders Group of the Securities and Futures Commission of Hong Kong and a member of the Caring Company Scheme Steering Committee and WiseGiving Steering Committee of The Hong Kong Council of Social Service. He previously served as a member of the Listing Committee of Hong Kong Stock Exchange and a member of Takeovers and Mergers Panel of the Securities and Futures Commission of Hong Kong. Mr. Chen received his Bachelor of Arts degree in Economics from Claremont McKenna College, and an MBA from Columbia University in the US.

Mr. Hau Cheong Ho

Chief Financial Officer

Aged 59, Mr. Ho joined the Group in 2008. He was appointed to the Board of the Company and of its publicly listed subsidiary, Hang Lung Properties Limited, in 2010. Mr. Ho possesses over 30 years of management experience covering a wide range of industries in England, Australia, Hong Kong and Mainland China. He qualified as a chartered accountant in England and Wales and Australia and holds an MBA from the University of Melbourne, Australia and a Bachelor of Commerce Degree in Accounting from the University of Birmingham, UK.

Mr. Adriel Wenbwo Chan

Executive Director

Aged 36, Mr. Chan joined the Group in 2010. He was appointed to the Board of the Company and of its major listed subsidiary, Hang Lung Properties Limited, in 2016. He is now mainly responsible for the Development and Design Department, Project Management Department (including its asset assurance & improvement team) and Cost & Controls Department. Mr. Chan also chairs the Sustainability Steering Committee and Enterprise Risk Management Working Group, among his other responsibilities within the Group. Prior to joining the Group, he worked in finance, audit, advisory, and risk management fields. Mr. Chan holds an Executive Master of Business Administration degree jointly awarded by the Kellogg School of Management at Northwestern University, USA and the Hong Kong University of Science and Technology, and a Bachelor of Arts degree in International Relations from University of Southern California, USA. He is a son of Mr. Ronnie Chan, Chairman of the Group.

Profile of Key Executive

Ms. Margaret Ka Man Yan

Director – General Counsel & Company Secretary

Ms. Yan joined the Group in 2017. She possesses 30 years of legal advisory experience. Ms. Yan is a solicitor qualified to practice in Hong Kong. She holds a Postgraduate Certificate in Laws and a Bachelor of Laws degree from The University of Hong Kong. She is also a member of The Law Society of Hong Kong, The Law Society of England & Wales and The Law Society of ACT, Australia.

Report of the Directors

The Directors of the Board have pleasure in submitting their report together with the audited consolidated Financial Statements for the year ended December 31, 2018.

Principal Activities

The principal activities of the Company are investment holding, and through its subsidiaries, property development for sales and leasing, property investment for rental income, and other investments. The Company and its subsidiaries (collectively referred to as the Group) also operate in car park management and property management, and through its joint ventures, are involved in the operation of dry-cleaning.

An analysis of the revenue and trading results of the Group by operating segments during the financial year is set out in Note 3 to the Financial Statements.

Principal Subsidiaries and Joint Ventures

A list of principal subsidiaries and joint ventures, together with their places of operations and incorporation and particulars of their issued share capital/registered capital is set out in Notes 37 and 38 to the Financial Statements.

Financial Results

The results of the Group for the year ended December 31, 2018 are set out in the consolidated Financial Statements on pages 135 to 201.

Dividends

The Board now recommends a final dividend of HK61 cents per share which, together with the interim dividend of HK19 cents per share paid on September 27, 2018, makes a total of HK80 cents per share in respect of the year ended December 31, 2018. The proposed final dividend, if approved by the shareholders at the AGM on April 30, 2019, will be paid on May 21, 2019 to shareholders whose names appear on the register of members on May 7, 2019.

The Company aims at providing a stable dividend to shareholders. The dividend will reflect the financial performance of its subsidiary HLP. In recommending a dividend, the Company will take into account the return to shareholders and its funding requirements for future business growth.

Business Review

A fair review of the Group's business and a discussion and analysis of the Group's performance during the year along with the material factors underlying its results and financial position are included in the Review of Operations and Financial Review sections from pages 26 to 59 and pages 64 to 73, respectively, of this annual report. A description of the principal risks and uncertainties facing the Company can be found throughout this annual report, particularly in the Risk Management section from pages 90 to 93. The particulars of important events affecting the Company which have occurred since the end of the financial year 2018, if any, can also be found in the abovementioned sections and the Notes to the Financial Statements. The outlook of the Group's business is discussed in the Review of Operations section from pages 26 to 59 of this annual report.

An analysis of the Group's performance using financial key performance indicators is provided in the Financial Highlights and Financial Review sections from pages 4 to 5 and pages 64 to 73, respectively, of this annual report. A discussion of the Company's environmental policies and performance and an account of the Company's relationships with its key stakeholders are provided in the Sustainable Development section from pages 78 to 85 of this annual report.

Compliance procedures are in place to ensure adherence to relevant laws and regulations, in particular, those which have a significant impact on the Group. The Audit Committee of the Company is delegated by the Board to review and monitor the Group's policies and practices on compliance with legal and regulatory requirements. Any new enactment of, or changes in the relevant laws and regulations are communicated through regular legal updates to ensure compliance. The legal updates are circulated to all executive staff to ensure that they are aware of the changes and can disseminate relevant information to their subordinates. Reminders to relevant staff on compliance are also sent out regularly, where necessary. Training is provided, as needs arise, to build awareness.

The Group has set up systems and policies to ensure compliance with the relevant laws and regulations which have a significant impact on the Group in conducting its business, including but not limited to, the Buildings Ordinance, the Residential Properties (First-hand Sales) Ordinance, the Competition Ordinance, the Personal Data (Privacy) Ordinance, the Minimum Wage Ordinance, the Employment Ordinance, and the Occupational Safety and Health Ordinance in Hong Kong; and the Anti-Monopoly Law, the Anti-Unfair Competition Law, the Construction Law, the Labour Law and the Trade Union Law in the People's Republic of China. At a corporate level, the Company also complies with the Listing Rules, the Companies Ordinance and the SFO.

Ten-Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last ten financial years is set out on pages 202 and 203.

Major Suppliers and Customers

During the year, both the percentage of purchases attributable to the Group's five largest suppliers combined and the percentage of revenue from sales of goods or rendering of services attributable to the Group's five largest customers combined were less than 30% of the total purchases and total revenue of the Group respectively.

Distributable Reserves

The Company's reserves available for distribution to shareholders as at December 31, 2018 amounted to HK$16,920 million (2017: HK$16,083 million).

Donations

Donations made by the Group during the year amounted to HK$15 million (2017: HK$16 million).

Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Group as at December 31, 2018 are set out in Note 18 to the Financial Statements.

Borrowing Costs Capitalization

Borrowing costs capitalized by the Group during the year amounted to HK$251 million (2017: HK$56 million).

Major Group Properties

Details of major properties of the Group as at December 31, 2018 are set out on pages 57 to 59.

Share Capital

During the year, the Company did not issue any shares (2017: Nil).

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

Share Capital of the Company's Listed Subsidiary

During the year, the Company's listed subsidiary, HLP issued 143,000 shares (2017: Nil), fully paid, for a total consideration of HK$2,482,480 (2017: Nil) as a result of the exercise of share options under HLP's share option scheme.

Equity-Linked Agreements

No equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year or subsisted at the end of the year.

Directors

The Directors of the Board during the year and up to the date of this report are:

Mr. Ronnie C. Chan
Mr. Weber W.P. Lo (appointed on May 16, 2018)
Mr. Gerald L. Chan
Mr. Simon S.O. Ip
Prof. P.W. Liu
Prof. L.C. Tsui
Mr. Martin C.K. Liao
Mr. George K.K. Chang
Mr. Roy Y.C. Chen
Mr. H.C. Ho
Mr. Adriel W. Chan
Mr. Philip N.L. Chen (retired on July 16, 2018)

Details of their remuneration are set out in Note 7 to the Financial Statements. The brief biographical details of the existing Directors of the Board are set out on pages 115 to 120.

Mr. Philip N.L. Chen retired as Chief Executive Officer on July 16, 2018.

Mr. Weber W.P. Lo, being Executive Board Member newly appointed on May 16, 2018, will retire from the Board at the forthcoming AGM in accordance with article 94 of the Articles of Association and, being eligible, offer himself for re-election.

In accordance with article 103 of the Articles of Association, Mr. Simon S.O. Ip, Mr. Ronnie C. Chan and Mr. H.C. Ho will retire from the Board by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election.

The list of directors who have served on the boards of the subsidiaries of the Company during the year and up to the date of this report is available on the Company's website at http://www.hanglunggroup.com under Corporate Governance of the Investor Relations section.

Directors' Service Contracts

No Director of the Board proposed for re-election at the forthcoming AGM has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation (other than statutory compensation).

Directors' Interests in Transaction, Arrangement or Contract

Save as disclosed, no transaction, arrangement or contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party, and in which a Director of the Board or his connected entity was materially interested, whether directly or indirectly, subsisted at any time during or at the end of the year.

Permitted Indemnity

Pursuant to the Articles of Association, every Director of the Board or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto subject to the Companies Ordinance. Such permitted indemnity provision for the benefit of the Directors of the Board was in force during the year and remained in force as of the date of this report.

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at December 31, 2018, the interests or short positions of each of the Directors of the Board in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code or which were recorded in the register required to be kept by the Company under section 352 of the SFO are as follows:

		The Company (Long Position)		Hang Lung Properties Limited (Long Position)		
Name	**Capacity**	**Number of Shares**	**% of Number of Issued Shares**	**Number of Shares**	**% of Number of Issued Shares**	**Number of Shares under Option** (Note 2)
Ronnie C. Chan	Personal	11,790,000	0.87	16,330,000	0.36	21,000,000
Weber W.P. Lo	Personal	–	–	–	–	10,000,000
Gerald L. Chan	–	–	–	–	–	–
Simon S.O. Ip	–	–	–	–	–	–
P.W. Liu	Personal & Family	–	–	100,000	–	–
L.C. Tsui	–	–	–	–	–	–
Martin C.K. Liao	–	–	–	–	–	–
George K.K. Chang	–	–	–	–	–	–
Roy Y.C. Chen	–	–	–	–	–	–
H.C. Ho	Personal	–	–	–	–	11,700,000
Adriel W. Chan	Personal & Other (Note 1)	498,428,580	36.61	2,619,719,340	58.25	2,200,000

Notes

1. Other interests included 498,428,580 shares of the Company and 2,619,719,340 shares of HLP held/deemed to be held by a trust of which Mr. Adriel W. Chan was a discretionary beneficiary. Accordingly, Mr. Adriel W. Chan was deemed to be interested in such shares under the SFO.

2. Movements of Options under the Share Option Schemes of Hang Lung Properties Limited

(i) Share Option Scheme adopted on November 22, 2002

Date Granted (mm/dd/yyyy)	Name	Number of Shares under Option: As at Jan 1, 2018	Lapsed during the Year	As at Dec 31, 2018	Exercise Price per Share (HK$)	Vested Dates (mm/dd/yyyy)	Expiry Date (mm/dd/yyyy)
09/01/2008	H.C. Ho	300,000	300,000	–	$24.20	09/01/2010 : 10% 09/01/2011 : 20% 09/01/2012 : 30% 09/01/2013 : 40%	08/31/2018
12/31/2008	H.C. Ho	300,000	300,000	–	$17.36	12/31/2010 : 10% 12/31/2011 : 20% 12/31/2012 : 30% 12/31/2013 : 40%	12/30/2018
02/08/2010	Ronnie C. Chan	6,500,000	–	6,500,000	$26.46	02/08/2012 : 10% 02/08/2013 : 20% 02/08/2014 : 30% 02/08/2015 : 40%	02/07/2020
09/29/2010	H.C. Ho	2,000,000	–	2,000,000	$36.90	09/29/2012 : 10% 09/29/2013 : 20% 09/29/2014 : 30% 09/29/2015 : 40%	09/28/2020
06/13/2011	Ronnie C. Chan H.C. Ho	4,500,000 3,000,000	– –	4,500,000 3,000,000	$30.79	06/13/2013 : 10% 06/13/2014 : 20% 06/13/2015 : 30% 06/13/2016 : 40%	06/12/2021

(ii) Share Option Scheme adopted on April 18, 2012

Date Granted (mm/dd/yyyy)	Name	Number of Shares under Option: As at Jan 1, 2018	Granted during the Year	As at Dec 31, 2018	Exercise Price per Share (HK$)	Vested Dates (mm/dd/yyyy)	Expiry Date (mm/dd/yyyy)
06/04/2013	Ronnie C. Chan H.C. Ho Adriel W. Chan	4,500,000 3,000,000 200,000	– – –	4,500,000 3,000,000 200,000	$28.20	06/04/2015 : 10% 06/04/2016 : 20% 06/04/2017 : 30% 06/04/2018 : 40%	06/03/2023
12/05/2014	Ronnie C. Chan H.C. Ho Adriel W. Chan	2,750,000 1,850,000 150,000	– – –	2,750,000 1,850,000 150,000	$22.60	12/05/2016 : 10% 12/05/2017 : 20% 12/05/2018 : 30% 12/05/2019 : 40%	12/04/2024
08/10/2017	Ronnie C. Chan H.C. Ho Adriel W. Chan	2,750,000 1,850,000 1,850,000	– – –	2,750,000 1,850,000 1,850,000	$19.98	08/10/2019 : 10% 08/10/2020 : 20% 08/10/2021 : 30% 08/10/2022 : 40%	08/09/2027
05/16/2018	Weber W.P. Lo	–	10,000,000	10,000,000	$18.98	05/16/2020 : 10% 05/16/2021 : 20% 05/16/2022 : 30% 05/16/2023 : 40%	05/15/2028

Save as disclosed above, none of the Directors of the Board had, as at December 31, 2018, any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations.

Other than as stated above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Board to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

As at December 31, 2018, details of substantial shareholders' and other persons' (who are required to disclose their interests pursuant to Part XV of the SFO) interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO are as follows:

Name	Note	Number of Shares or Underlying Shares Held (Long Position)	% of Number of Issued Shares (Long Position)
Chan Tan Ching Fen	1	498,428,580	36.61
Cole Enterprises Holdings (PTC) Limited	1	498,428,580	36.61
Merssion Limited	1	498,428,580	36.61
Adriel W. Chan	1	498,428,580	36.61
Kingswick Investment Limited	2	97,965,000	7.19
Dodge & Cox	3	134,650,000	9.89
Aggregate of Standard Life Aberdeen plc affiliated investment management	3	122,498,067	8.99

Notes

1. These shares were the same parcel of shares held by Merssion Limited which was held under a trust. As Ms. Chan Tan Ching Fen was the founder, Cole Enterprises Holdings (PTC) Limited was the trustee and Mr. Adriel W. Chan was a discretionary beneficiary of the trust, they were deemed to be interested in such shares under the SFO.
2. This company was a wholly-owned subsidiary of Merssion Limited. Its interests were included in 498,428,580 shares held by Merssion Limited.
3. These shares were held in the capacity of investment managers.

Save as disclosed above, as at December 31, 2018, no other interests or short positions in the shares or underlying shares of the Company required to be recorded in the register kept under section 336 of the SFO has been notified to the Company.

Related Party Transactions

Details of the material related party transactions undertaken in the usual course of business are set out in Note 29 to the Financial Statements. None of these related party transactions constitutes a discloseable connected transaction under the Listing Rules.

Management Contracts

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

Purchase, Sale or Redemption of Listed Securities

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities.

Corporate Governance

The Company's corporate governance practices are set out in the Corporate Governance Report on pages 94 to 114.

Auditor

The consolidated Financial Statements for the year ended December 31, 2018 have been audited by KPMG. A resolution for the re-appointment of KPMG as auditor of the Company until the conclusion of the next AGM is to be proposed at the forthcoming AGM.

By Order of the Board
Margaret Ka Man Yan
Company Secretary
Hong Kong, January 30, 2019

Independent Auditor's Report

KPMG

Independent auditor's report to the members of Hang Lung Group Limited

(incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of Hang Lung Group Limited ("the Company") and its subsidiaries ("the Group") set out on pages 135 to 201, which comprise the consolidated statement of financial position as at December 31, 2018, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Key audit matters

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

Valuation of investment properties and investment properties under development

(Refer to note 11 (property, plant and equipment) and note 1(f) (accounting policy))

The Key Audit Matter	How the matter was addressed in our audit
The aggregate fair values of the Group's investment properties and investment properties under development as at December 31, 2018 amounted to HK$175,758 million, representing 88% of the Group's total assets as at that date. The net increase in fair values recorded in the consolidated statement of profit or loss for the year ended December 31, 2018 amounted to HK$4,298 million. The Group's investment properties, which are located in Hong Kong and Mainland China, mainly comprise shopping malls, office premises, industrial premises, residential premises and car parking bays. The fair values of the Group's investment properties and investment properties under development were assessed by management based on independent valuations prepared by an external property valuer. We identified valuation of the Group's investment properties and investment properties under development as a key audit matter because of the significance of investment properties and investment properties under development to the Group's consolidated financial statements and because the determination of the fair values involves significant judgement and estimation, including selecting the appropriate valuation methodology, capitalization rates and market rents and, for investment properties under development, an estimation of costs to complete each property development project.	Our audit procedures to assess the valuation of investment properties and investment properties under development included the following: • assessing the competence, capability, experience of the locations and types of properties subject to valuation, independence and objectivity of the external property valuer; • evaluating the valuation methodology used by the external property valuer based on our knowledge of other property valuers for similar types of properties; • on a sample basis, comparing the tenancy information included in the valuation models, which included committed rents and occupancy rates, with underlying contracts and related documentation; • discussing the valuations with the external property valuer in a separate private session and challenging key estimates adopted in the valuations, including those relating to market selling prices, market rents and capitalization rates, by comparing them with historical rates and available market data, taking into consideration comparability and other local market factors, with the assistance of our internal property valuation specialists; and • for investment properties under development, comparing the estimated construction costs to complete each property development project with the Group's updated budgets (see further details set out in the key audit matter below).

Assessing the development costs of investment properties under development in Mainland China

(Refer to note 11 (property, plant and equipment) and note 1(f) (accounting policy))

The Key Audit Matter

The fair value of the Group's investment properties under development is determined using the direct comparison valuation methodology, with reference to comparable market transactions, to derive the fair value of the property assuming it was completed and, where appropriate, after deducting (1) the estimated development costs to be expended to complete each property development project and (2) the estimated profit margin.

Therefore, any increase in the estimated development costs to be expended to complete each property development project compared with the original management approved budgets could have a significant negative impact on the fair value of the Group's investment properties under development and, hence, the results for the year.

The Group's investment properties under development, which are located in different cities in Mainland China, comprise shopping malls, office premises and residential premises.

We identified the assessing the development costs of the Group's investment properties under development as a key audit matter because the determination of estimated development costs involves significant management judgement and estimation, in particular in relation to project feasibility studies, estimating future development costs to be expended to complete each property development project and the estimated profit margin.

How the matter was addressed in our audit

Our audit procedures to assess the development costs of investment properties under development in Mainland China included the following:

- assessing the design, implementation and operating effectiveness of management's key internal controls over the preparation and monitoring of management budgets and forecasts of construction costs for each investment property under development;
- discussing the valuations of investment properties under development with the external property valuer in a separate private session and challenging key estimates adopted in the valuations including those relating to market selling prices, by comparing them with available market data, taking into consideration comparability and other local market factors;
- performing a retrospective review for all investment properties under development by comparing the actual construction costs incurred during the current year with those included in the prior year's forecasts in order to assess the accuracy of the Group's budgeting process;
- conducting site visits to all investment properties under development and discussing with management and the in-house quantity surveyor the development progress and the development budgets reflected in the latest forecasts for each property development project; and
- comparing, on a sample basis, the quantity surveyor's reports for the construction costs incurred for property development projects with the underlying payment records and other documentation relevant to the construction cost accruals and/or payments.

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. We obtained all of the other information prior to the date of this auditor's report apart from "Chairman's Letter to Shareholders". The remaining information is expected to be made available to us after that date.

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

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

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, 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 directors for the consolidated financial statements

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements 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 Melissa M C Wu.

KPMG
Certified Public Accountants

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

January 30, 2019

Financial Statements

Consolidated Statement of Profit or Loss

For the year ended December 31, 2018

	Note	2018 HK$ Million	2017 HK$ Million	2018 RMB Million	2017 RMB Million
				For information purpose only	
Revenue	3(a)	**10,015**	11,774	**8,426**	10,233
Direct costs and operating expenses		**(2,766)**	(3,462)	**(2,324)**	(3,006)
Gross profit		**7,249**	8,312	**6,102**	7,227
Other net income	4	**100**	550	**83**	472
Administrative expenses		**(707)**	(656)	**(597)**	(569)
Operating profit before changes in fair value of properties		**6,642**	8,206	**5,588**	7,130
Net increase in fair value of properties	11	**4,298**	3,085	**3,639**	2,606
Operating profit after changes in fair value of properties		**10,940**	11,291	**9,227**	9,736
Interest income		**465**	567	**390**	494
Finance costs		**(1,180)**	(1,294)	**(996)**	(1,123)
Net interest expense	5	**(715)**	(727)	**(606)**	(629)
Share of profits of joint ventures	12	**435**	221	**366**	190
Profit before taxation	3(b) & 6	**10,660**	10,785	**8,987**	9,297
Taxation	8(a)	**(1,364)**	(1,447)	**(1,145)**	(1,259)
Profit for the year		**9,296**	9,338	**7,842**	8,038
Attributable to:					
Shareholders	23	**5,285**	5,314	**4,459**	4,571
Non-controlling interests		**4,011**	4,024	**3,383**	3,467
		9,296	9,338	**7,842**	8,038
Earnings per share	10(a)				
Basic		**HK$3.88**	HK$3.90	**RMB3.27**	RMB3.36
Diluted		**HK$3.88**	HK$3.90	**RMB3.27**	RMB3.36

The accompanying notes form part of these financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2018

	Note	2018 HK$ Million	2017 HK$ Million	2018 RMB Million (For information purpose only)	2017 RMB Million (For information purpose only)
Profit for the year		**9,296**	9,338	**7,842**	8,038
Other comprehensive income	8(d)				
Items that are or may be reclassified subsequently to profit or loss:					
Exchange difference arising from translation to presentation currency		**(3,864)**	5,505	**2,873**	(3,868)
Movement in hedging reserve:					
Effective portion of changes in fair value		**(4)**	(86)	**(7)**	(77)
Net amount transferred to profit or loss		**(5)**	(48)	**(1)**	(42)
Item that will not be reclassified to profit or loss:					
Net change in fair value of equity investments		**3**	1	**3**	1
		(3,870)	5,372	**2,868**	(3,986)
Total comprehensive income for the year		**5,426**	14,710	**10,710**	4,052
Total comprehensive income attributable to:					
Shareholders		**3,176**	8,198	**6,189**	2,311
Non-controlling interests		**2,250**	6,512	**4,521**	1,741
		5,426	14,710	**10,710**	4,052

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

At December 31, 2018

	Note	2018 HK$ Million	2017 HK$ Million	2018 RMB Million (For information purpose only)	2017 RMB Million (For information purpose only)
Non-current assets					
Property, plant and equipment					
Investment properties		**144,572**	142,406	**126,818**	119,030
Investment properties under development		**31,186**	21,592	**27,325**	18,049
Other property, plant and equipment		**213**	218	**187**	182
	11	**175,971**	164,216	**154,330**	137,261
Interest in joint ventures	12	**4,040**	3,650	**3,548**	3,051
Other assets	13	**1,449**	1,445	**1,273**	1,208
Deposits with banks	14	**1,853**	3,705	**1,628**	3,097
Deferred tax assets	21(b)	**3**	2	**3**	2
		183,316	173,018	**160,782**	144,619
Current assets					
Cash and deposits with banks	14	**10,656**	18,518	**9,350**	15,477
Trade and other receivables	15	**2,061**	2,078	**1,807**	1,737
Properties for sale	16	**2,463**	1,634	**2,163**	1,366
Assets held for sale	17	**101**	540	**89**	451
		15,281	22,770	**13,409**	19,031
Current liabilities					
Bank loans and other borrowings	18	**3,360**	3,017	**2,947**	2,522
Trade and other payables	19	**6,411**	7,169	**5,623**	5,992
Finance lease obligations	20	**22**	19	**19**	16
Current tax payable	21(a)	**581**	511	**509**	427
Liabilities directly associated with the assets held for sale	17	**3**	2	**3**	2
		10,377	10,718	**9,101**	8,959
Net current assets		**4,904**	12,052	**4,308**	10,072
Total assets less current liabilities		**188,220**	185,070	**165,090**	154,691
Non-current liabilities					
Bank loans and other borrowings	18	**27,291**	25,022	**23,946**	20,914
Finance lease obligations	20	**298**	319	**261**	267
Deferred tax liabilities	21(b)	**9,895**	10,173	**8,671**	8,504
		37,484	35,514	**32,878**	29,685
NET ASSETS		**150,736**	149,556	**132,212**	125,006
Capital and reserves					
Share capital	22	**4,065**	4,065	**3,164**	3,164
Reserves	23	**82,382**	79,072	**72,662**	66,326
Shareholders' equity		**86,447**	83,137	**75,826**	69,490
Non-controlling interests		**64,289**	66,419	**56,386**	55,516
TOTAL EQUITY		**150,736**	149,556	**132,212**	125,006

Weber W.P. Lo
Chief Executive Officer

H.C. Ho
Chief Financial Officer

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended December 31, 2018

HK$ Million	Shareholders' equity					
	Share capital (Note 22)	Other reserves (Note 23)	Retained profits (Note 23)	Total	Non-controlling interests	Total equity
At January 1, 2017	4,065	2,002	69,658	75,725	62,393	138,118
Profit for the year	–	–	5,314	5,314	4,024	9,338
Exchange difference arising from translation to presentation currency	–	2,958	–	2,958	2,547	5,505
Cash flow hedges: net movement in hedging reserve	–	(75)	–	(75)	(59)	(134)
Net change in fair value of equity investments	–	1	–	1	–	1
Total comprehensive income for the year	–	2,884	5,314	8,198	6,512	14,710
Final dividend in respect of previous year	–	–	(831)	(831)	–	(831)
Interim dividend in respect of current year	–	–	(258)	(258)	–	(258)
Employee share-based payments	–	(37)	85	48	30	78
Change in non-controlling interests arising from increase of the Group's shareholding in a subsidiary	–	255	–	255	(709)	(454)
Dividends paid to non-controlling interests	–	–	–	–	(1,807)	(1,807)
At December 31, 2017 and January 1, 2018	4,065	5,104	73,968	83,137	66,419	149,556
Profit for the year	**–**	**–**	**5,285**	**5,285**	**4,011**	**9,296**
Exchange difference arising from translation to presentation currency	**–**	**(2,105)**	**–**	**(2,105)**	**(1,759)**	**(3,864)**
Cash flow hedges: net movement in hedging reserve	**–**	**(5)**	**–**	**(5)**	**(4)**	**(9)**
Net change in fair value of equity investments	**–**	**1**	**–**	**1**	**2**	**3**
Total comprehensive income for the year	**–**	**(2,109)**	**5,285**	**3,176**	**2,250**	**5,426**
Final dividend in respect of previous year	**–**	**–**	**(831)**	**(831)**	**–**	**(831)**
Interim dividend in respect of current year	**–**	**–**	**(258)**	**(258)**	**–**	**(258)**
Employee share-based payments	**–**	**18**	**37**	**55**	**16**	**71**
Change in non-controlling interests arising from increase of the Group's shareholding in a subsidiary	**–**	**1,168**	**–**	**1,168**	**(2,610)**	**(1,442)**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**(1,786)**	**(1,786)**
At December 31, 2018	**4,065**	**4,181**	**78,201**	**86,447**	**64,289**	**150,736**

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended December 31, 2018

For information purpose only

RMB Million	Shareholders' equity				Non-controlling interests	Total equity
	Share capital	Other reserves	Retained profits	Total		
At January 1, 2017	3,164	6,862	57,849	67,875	55,923	123,798
Profit for the year	–	–	4,571	4,571	3,467	8,038
Exchange difference arising from translation to presentation currency	–	(2,195)	–	(2,195)	(1,673)	(3,868)
Cash flow hedges: net movement in hedging reserve	–	(66)	–	(66)	(53)	(119)
Net change in fair value of equity investments	–	1	–	1	–	1
Total comprehensive income for the year	–	(2,260)	4,571	2,311	1,741	4,052
Final dividend in respect of previous year	–	–	(734)	(734)	–	(734)
Interim dividend in respect of current year	–	–	(218)	(218)	–	(218)
Employee share-based payments	–	(32)	72	40	28	68
Change in non-controlling interests arising from increase of the Group's shareholding in a subsidiary	–	216	–	216	(599)	(383)
Dividends paid to non-controlling interests	–	–	–	–	(1,577)	(1,577)
At December 31, 2017 and January 1, 2018	3,164	4,786	61,540	69,490	55,516	125,006
Profit for the year	**–**	**–**	**4,459**	**4,459**	**3,383**	**7,842**
Exchange difference arising from translation to presentation currency	**–**	**1,733**	**–**	**1,733**	**1,140**	**2,873**
Cash flow hedges: net movement in hedging reserve	**–**	**(4)**	**–**	**(4)**	**(4)**	**(8)**
Net change in fair value of equity investments	**–**	**1**	**–**	**1**	**2**	**3**
Total comprehensive income for the year	**–**	**1,730**	**4,459**	**6,189**	**4,521**	**10,710**
Final dividend in respect of previous year	**–**	**–**	**(673)**	**(673)**	**–**	**(673)**
Interim dividend in respect of current year	**–**	**–**	**(226)**	**(226)**	**–**	**(226)**
Employee share-based payments	**–**	**14**	**32**	**46**	**14**	**60**
Change in non-controlling interests arising from increase of the Group's shareholding in a subsidiary	**–**	**1,000**	**–**	**1,000**	**(2,192)**	**(1,192)**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**(1,473)**	**(1,473)**
At December 31, 2018	**3,164**	**7,530**	**65,132**	**75,826**	**56,386**	**132,212**

Consolidated Cash Flow Statement

For the year ended December 31, 2018

	Note	2018 HK$ Million	2017 HK$ Million	2018 RMB Million	2017 RMB Million
				For information purpose only	
Operating activities					
Cash generated from operations	24	**7,224**	10,694	**6,104**	9,245
Tax paid					
Hong Kong Profits Tax paid		**(498)**	(1,089)	**(420)**	(943)
Mainland China Income Tax paid		**(622)**	(768)	**(517)**	(670)
Net cash generated from operating activities		**6,104**	8,837	**5,167**	7,632
Investing activities					
Payment for property, plant and equipment		**(13,014)**	(4,251)	**(11,091)**	(3,633)
Acquisition of subsidiaries	25	**(1,200)**	(391)	**(1,054)**	(346)
Net sale proceeds from disposal of property, plant and equipment		**161**	560	**137**	485
Net sale proceeds from disposal of assets held for sale		**565**	–	**459**	–
Interest received		**482**	533	**403**	460
Dividends received from joint ventures		**45**	51	**38**	44
Repayment from joint ventures		**–**	60	**–**	52
(Advance to)/Repayment of advances from unlisted investee companies		**(1)**	2	**(1)**	2
Dividend received from unlisted investments		**4**	–	**3**	–
Decrease/(Increase) in bank deposits with maturity greater than 3 months		**7,905**	(10,677)	**6,665**	(9,249)
Net cash used in investing activities		**(5,053)**	(14,113)	**(4,441)**	(12,185)
Financing activities					
Proceeds from new bank loans and other borrowings	26	**11,505**	1,744	**9,790**	1,511
Repayment of bank loans and other borrowings	26	**(8,294)**	(5,829)	**(6,992)**	(5,049)
Capital element of finance lease rentals paid	26	**(3)**	–	**(3)**	–
Interest and other borrowing costs paid		**(1,340)**	(1,227)	**(1,132)**	(1,063)
Interest element of finance lease rentals paid	26	**(16)**	–	**(14)**	–
Dividends paid		**(1,089)**	(1,089)	**(899)**	(952)
Dividends paid to non-controlling interests		**(1,786)**	(1,807)	**(1,473)**	(1,577)
Decrease in non-controlling interests in subsidiaries		**(1,442)**	(454)	**(1,192)**	(383)
Net cash used in financing activities		**(2,465)**	(8,662)	**(1,915)**	(7,513)
Decrease in cash and cash equivalents		**(1,414)**	(13,938)	**(1,189)**	(12,066)
Effect of foreign exchange rate changes		**(374)**	850	**56**	(330)
Cash and cash equivalents at January 1		**10,490**	23,578	**8,768**	21,164
Cash and cash equivalents at December 31	14	**8,702**	10,490	**7,635**	8,768

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

1 Significant Accounting Policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual 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 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 (the "Listing Rules"). Significant accounting policies adopted by the Group are set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2 provides information on any changes in accounting policies resulting from initial adoption of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements comprise the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interest in joint ventures.

The measurement basis used in the preparation of the financial statements is the historical cost basis except as otherwise stated in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments 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 recognized 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.

Judgments 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 31.

The presentation currency of these consolidated financial statements is Hong Kong dollar. In view of the Group's significant business operations in mainland China, management has included additional financial information prepared in Renminbi in the consolidated financial statements. Such supplementary information is prepared according to note 1(v) as if the presentation currency is Renminbi.

1 Significant Accounting Policies (Continued)

(c) Subsidiaries and non-controlling interests

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

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

Non-controlling interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, 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. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

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

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 recognized in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment losses (Note 1(k)).

1 Significant Accounting Policies (Continued)

(d) Joint ventures

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

The Group's interests in joint ventures are accounted for in the consolidated financial statements under the equity method and are initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the joint ventures' net assets. The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the joint venture that forms part of the Group's equity investment. The consolidated statement of profit or loss includes the Group's share of the post-acquisition, post-tax results of the joint ventures for the year, whereas the Group's share of the post-acquisition, post-tax items of the joint ventures' other comprehensive income is recognized in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture. For this purpose, the Group's interest in the 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 joint venture.

When the Group ceases to have 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 recognized in profit or loss. Any interest retained in that former investee at the date when joint control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

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

(e) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's share of the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities as of the acquisition date.

Goodwill is stated at cost less accumulated impairment losses and is tested regularly for impairment (Note 1(k)).

Any excess of the Group's share of the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities as of the acquisition date over the cost of a business combination is recognized immediately in profit or loss as a gain on a bargain purchase.

On disposal of an entity, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

1 Significant Accounting Policies (Continued)

(f) Properties

1. *Investment properties and investment properties under development*

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

Investment properties are stated at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably measured at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognized in profit or loss. Rental income from investment properties is accounted for as described in note 1(t).

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, 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 1(g).

2. *Properties held for development for sale*

Properties held for development for sale are classified under current assets and stated at the lower of cost and net realizable value. Costs include the acquisition cost of land, aggregate cost of development, borrowing costs capitalized (Note 1(q)) and other direct expenses. Net realizable value represents the estimated selling price as determined by reference to management estimates based on prevailing market conditions, less estimated costs of completion and costs to be incurred in selling the property.

3. *Completed properties for sale*

Completed properties for sale are classified under current assets and stated at the lower of cost and net realizable value. Cost is determined by apportionment of the total development costs, including borrowing costs capitalized (Note 1(q)), attributable to unsold properties. Net realizable value represents the estimated selling price as determined by reference to management estimates based on prevailing market conditions, less costs to be incurred in selling the property.

1 Significant Accounting Policies (Continued)

(g) Other property, plant and equipment

1. Other property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses (Note 1(k)). Gains or losses arising from the retirement or disposal of an item of other property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

2. ***Leased assets***

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

(i) Classification of assets leased to the Group

Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as finance leases. Leases of assets under which the lessor has not transferred substantially all the risks and benefits of ownership 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 is accounted for as if held under a finance lease; and
- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

(ii) Assets acquired 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 property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. 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.

1 Significant Accounting Policies (Continued)

(g) Other property, plant and equipment (Continued)

2. *Leased assets* *(Continued)*

(iii) Operating leases charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognized 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.

(h) Depreciation

1. *Investment properties*

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

2. *Other property, plant and equipment*

Depreciation on other property, plant and equipment is calculated to write off the cost, less their estimated residual value, if any, on a straight line basis over their estimated useful lives as follows:

Buildings	50 years or unexpired lease term, whichever is shorter
Furniture and equipment	4 – 20 years
Motor vehicles	5 years

(i) Investments in equity instruments

Investments in equity instruments are classified and measured at fair value through profit or loss (i.e. FVTPL) except when the equity investment is not held for trading and an election is made to present the fair value changes in other comprehensive income (i.e. FVTOCI). This election is made on an investment-by-investment basis on initial recognition and is irrevocable. The gains or losses (both on subsequent measurement and derecognition) of investments that are measured at FVTPL are recognized in profit or loss. If the equity investment is designated as at FVTOCI, all gains and losses are recognized in other comprehensive income and are not subsequently reclassified to profit or loss, except for dividend income that is generally recognized in profit or loss in accordance with the policy set out in note 1(t)(5).

Investments are recognized/derecognized on the date the Group commits to purchase/sell the investments.

1 Significant Accounting Policies (Continued)

(j) Derivative financial instruments and hedge accounting

Derivative financial instruments are recognized 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 recognized immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting.

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognized asset or liability or a highly probable forecast transaction, the effective portion of changes in fair value of the hedging instruments is recognized in other comprehensive income and accumulated in a hedging reserve as a separate component of equity. Any ineffective portion of changes in fair value is recognized immediately in profit or loss. The amount accumulated in the hedging reserve is reclassified from equity to profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

(k) Impairment of assets

- For property, plant and equipment other than investment properties and investment properties under development, investments in joint ventures, goodwill and investments in subsidiaries in the Company's statement of financial position, an assessment is carried out at the end of each reporting period to determine whether there is objective evidence these assets are impaired. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment. The recoverable amount 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. An impairment loss is recognized in profit or loss if the carrying amount exceeds the recoverable amount. An impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognized. An impairment loss in respect of goodwill is not reversed.
- For trade and other receivables and other financial assets measured at amortized cost (including cash and deposits with banks, advances to unlisted investee companies and amount due from joint ventures), the Group recognizes a loss allowance equal to 12-month expected credit losses unless the balance is a trade receivable or there has been a significant increase in credit risk of the financial asset since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime expected credit losses.

  Expected credit losses are a probability-weighted estimate of credit losses measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive), unless the balances are credit-impaired at the end of the reporting period where expected credit losses are measured as the difference between the gross carrying amount and the present value of estimated future cash flows.

  At the end of each reporting period, the Group assesses whether the balances are credit-impaired (i.e. when one or more events that have a detrimental impact on the estimated future cash flows of the financial assets have occurred, such as significant financial difficulty of the debtor).

1 Significant Accounting Policies (Continued)

(k) Impairment of assets (Continued)

The allowance for expected credit losses is presented in the statement of financial position as a deduction from the gross carrying amount of the assets. The adjustment to the allowance for credit losses is recognized in profit or loss, as an impairment or reversal of impairment.

The gross carrying amount is written off to the extent that there is no realistic prospect of recovery. Subsequent recoveries that were previously written off are recognized as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(l) Trade and other receivables

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost using the effective interest method, less allowance for credit losses (Note 1(k)), except where the receivables are interest-free loans without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for credit losses (Note 1(k)).

(m) 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. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for expected credit losses in accordance with the policy set out in note 1(k).

(n) Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are measured at the lower of their carrying amount and fair value less costs to sell, except that financial assets, deferred tax assets and investment properties continue to be measured in accordance with the Group's accounting policies.

(o) Trade and other payables (including contract liabilities)

Trade and other payables are initially recognized at fair value. Except for financial guarantee liabilities measured in accordance with note 1(r), trade and other payables are subsequently stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

A contract liability is recognized when the customer pays non-refundable consideration before the Group recognizes the revenue arising from contract with customers within the scope of HKFRS 15, *Revenue from contracts with customers*. A contract liability would also be recognized if the Group has an unconditional right to receive non-refundable consideration before the Group recognizes the related revenue. In such cases, a corresponding receivable would also be recognized.

1 Significant Accounting Policies (Continued)

(p) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost using the effective interest method. Interest expense is recognized in accordance with the Group's accounting policy for borrowing costs (see note 1(q)).

(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 capitalized as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalization 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. Capitalization of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying assets for its intended use or sale are interrupted or complete.

(r) 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.

Financial guarantees issued are initially recognized within trade and other payables at fair value, which is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or 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 recognized 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 recognized in profit or loss.

Subsequent to initial recognition, the amount initially recognized as deferred income is amortized in profit or loss over the term of the guarantee as income from financial guarantees issued.

The Group monitors the risk that the specified debtor will default on the contract and recognizes a provision when expected credit losses on the financial guarantees are determined to be higher than the amount carried in trade and other payables in respect of the guarantees (i.e. the amount initially recognized, less accumulated amortization).

1 Significant Accounting Policies (Continued)

(r) Financial guarantees issued (Continued)

To determine expected credit losses, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month expected credit loss is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime expected credit loss is measured.

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

(s) Provisions and contingent liabilities

Provisions are recognized when the Group has a legal or constructive obligation arising as a result of 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 the 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.

(t) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of properties, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognized when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue and other income recognition policies are as follows:

1. *Sale of properties*

Policy applicable on or before December 31, 2017

Revenue from sale of completed properties is recognized upon the later of the signing of sale and purchase agreements or the issue of occupation permit 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.

1 Significant Accounting Policies (Continued)

(t) Revenue and other income (Continued)

1. *Sale of properties* (Continued)

Policy applicable from January 1, 2018

Revenue from sale of completed properties is recognized when the legal assignment is completed, which is the point in time when the buyer has the ability to direct the use of the property and obtain substantially all of the remaining benefits of the property.

2. *Rental income*

Rental income under operating leases is recognized on a straight line basis over the terms of the respective leases, 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 recognized in profit or loss as an integral part of the aggregate net lease payment receivable. Contingent rentals are recognized as income in the accounting period in which they are earned.

3. *Building management fees and other rental related income*

Building management fees and other rental related income are recognized when the related services are rendered.

4. *Interest income*

Interest income is recognized as it accrues using the effective interest method.

5. *Dividends*

Dividends are recognized when the right to receive payment is established.

(u) Taxation

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 recognized in profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

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

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

1 Significant Accounting Policies (Continued)

(u) Taxation (Continued)

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

When investment properties and investment properties under development are carried at their fair value in accordance with the accounting policy set out in note 1(f)(1), the amount of deferred tax recognized is measured using the tax rates that would apply on sale of those assets at their carrying value at the end of the reporting period unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognized is measured based on the expected manner of realization 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 utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

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

(v) Translation of foreign currencies

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity (functional currency).

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

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rate ruling at the transaction dates. The transaction date is the date on which the Group initially recognizes such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair values are translated using the foreign exchange rates ruling at the dates the fair value was determined.

1 Significant Accounting Policies (Continued)

(v) Translation of foreign currencies (Continued)

The results and financial position of all operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

1. assets and liabilities are translated at the closing exchange rates at the end of the reporting period;
2. income and expenses are translated at the exchange rates approximating the exchange rates ruling at the dates of the transactions; and
3. all resulting exchange differences are recognized in other comprehensive income and accumulated separately in equity in the exchange reserve.

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

(w) Related parties

1. A person, or a close member of that person's family, is related to the Group if that person:
   (i) has control or joint control over the Group;
   (ii) has significant influence over the Group; or
   (iii) is a member of the key management personnel of the Group or the Group's parent.
2. An entity is related to the Group if any of the following conditions applies:
   (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
   (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
   (iii) Both entities are joint ventures of the same third party.
   (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
   (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
   (vi) The entity is controlled or jointly controlled by a person identified in (1).
   (vii) A person identified in (1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
   (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or the Group's parent.

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

1 Significant Accounting Policies (Continued)

(x) Segment reporting

Operating segments are reported in a manner consistent with the Group's internal financial reporting to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of the Group's various lines of business and geographical locations. For disclosure purpose, a reportable segment comprises either one or more operating segments which can be aggregated together because they share similar economic characteristics and nature of the regulatory environment, or single operating segments which are disclosable separately because they cannot be aggregated or they exceed quantitative thresholds.

(y) Employee benefits

1. *Short term employee benefits and contributions to defined contribution retirement schemes*

Salaries, annual bonuses, paid annual leave, the cost of non-monetary benefits and obligation for contributions to defined contribution retirement schemes, including those payables in mainland China and Hong Kong under relevant legislation, are accrued in the year in which the associated services are rendered by employees of the Group.

2. *Share-based payments*

The fair value of share options granted to employees is measured at grant date, taking into account the terms and conditions upon which the options were granted, and is expensed on a straight line basis over the vesting period taking into account the probability that the options will vest, with a corresponding increase in equity (employee share-based compensation reserve).

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognized in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the employee share-based compensation reserve. On vesting date, the amount recognized as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the employee share-based compensation reserve).

At the time when the share options are exercised, the related employee share-based compensation reserve is transferred to share capital. If the options expire or lapse after the vesting period, the related employee share-based compensation reserve is transferred directly to retained profits.

2 Changes in Accounting Policies

The HKICPA has issued a number of new or amended HKFRSs that are first effective for the current accounting period of the Group. Except for HKFRS 15, the adoption of these new or amended HKFRSs does not have significant impact on the Group's financial statements. The Group has early adopted the complete version of HKFRS 9, *Financial instruments*, since January 1, 2017.

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

The key changes to the Group's accounting policies resulting from the adoption of HKFRS 15 are summarized below.

HKFRS 15 establishes a comprehensive framework for recognizing revenue from contracts with customers. HKFRS 15 replaces the previous revenue standard, HKAS 18, *Revenue*, which covers revenue arising from sale of goods and rendering of services.

HKFRS 15 contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. The five steps are as follows:

1. Identify the contract with the customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations
5. Recognize revenue when (or as) the entity satisfies a performance obligation

The core principle of HKFRS 15 is that revenue is recognized when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

2 Changes in Accounting Policies (Continued)

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

(i) Timing of revenue recognition

Previously the Group recognized revenue from property sales upon the later of the signing of the sale and purchase agreement and the issue of occupation permit by the relevant government authorities, which was taken to be the point in time when the risks and rewards of ownership of the property were transferred to the customer. Under the transfer-of-control approach in HKFRS 15, revenue from property sales is generally recognized 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.

The adoption of HKFRS 15 would result in the revenue from sale of completed properties recognized later than it would have been under the previous accounting policy.

(ii) Presentation of contract assets and liabilities

Under the scope of HKFRS 15, a receivable is recognized only if the Group has an unconditional right to consideration. If the Group recognizes the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognized when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognizes the related revenue.

Previously, for sales of completed properties, contract balances due from customers were presented in the statement of financial position under “trade and other receivables” when the revenue was recognized for the reasons explained in paragraph (i) above before the Group was being unconditionally entitled to the consideration, while there were no contract balances relating to receipts in advance from customers.

Transition

The Group has elected to use the cumulative effect transition method and has recognized the cumulative effect of the initial application of HKFRS 15 as an adjustment to the opening balance of equity at January 1, 2018. Therefore, the comparative information has not been restated and continues to be reported under HKAS 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before January 1, 2018.

2 Changes in Accounting Policies (Continued)

Impacts on the consolidated financial statements

No adjustments to the opening balance of equity at January 1, 2018 have been made on the initial application of HKFRS 15 as the Group did not have contracts that were not completed before January 1, 2018 but would materially affect the opening balance of equity.

The following tables summarize the estimated impact of the adoption of HKFRS 15 on the Group's consolidated financial statements for the year ended December 31, 2018, by comparing the amounts reported under HKFRS 15 with estimates of the hypothetical amounts that would have been recognized under HKAS 18 if it had continued to be applied in 2018 instead of HKFRS 15. These tables show only those line items impacted by the adoption of HKFRS 15.

(i) Consolidated statement of profit or loss (extract)

HK$ Million	Impact of changes in accounting policies		
For the year ended December 31, 2018	**Amounts reported in accordance with HKFRS 15**	**Estimated impact of the adoption of HKFRS 15**	**Hypothetical amounts under HKAS 18**
Other net income	100	2	102
Net increase in fair value of properties	4,298	(2)	4,296

(ii) Consolidated statement of financial position (extract)

HK$ Million	Impact of changes in accounting policies		
At December 31, 2018	**Amounts reported in accordance with HKFRS 15**	**Estimated impact of the adoption of HKFRS 15**	**Hypothetical amounts under HKAS 18**
Assets			
Trade and other receivables	2,061	3	2,064
Assets held for sale	101	(3)	98

(iii) Consolidated cash flow statement

The adoption of HKFRS 15 has no impact to the net cash flow from operating, investing and financing activities on the consolidated cash flow statement.

3 Revenue and Segment Information

The Group manages its businesses according to the nature of services and products provided. Management has determined three reportable operating segments for the measurement of performance and the allocation of resources. The segments are property leasing in mainland China, property leasing in Hong Kong and property sales in Hong Kong.

Property leasing segments include property leasing operation. The Group's investment properties portfolio, which mainly consists of retail, office, residential, serviced apartments and carparks, are primarily located in mainland China and Hong Kong. Property sales segment includes development and sale of the Group's trading properties in Hong Kong.

Management evaluates performance primarily based on profit before taxation.

Segment assets principally comprise all non-current assets and current assets directly attributable to each segment with the exception of interest in joint ventures, other assets, deferred tax assets, cash and deposits with banks and assets held for sale. The investment properties of the Group are included in segment assets at their fair values whilst the changes in fair value of properties are not included in segment profits. No segment liabilities analysis is presented as the Group monitors and manages its liabilities on a group basis.

(a) Disaggregation of revenue

Revenue for the year is analyzed as follows:

HK$ Million	**2018**	2017
Under the scope of HKAS 17, *Leases:*		
Rental income	**7,803**	7,454
Under the scope of HKFRS 15, *Revenue from contracts with customers:*		
Sales of completed properties	**1,231**	3,420
Building management fees and other rental related income	**981**	900
	2,212	4,320
	10,015	11,774

The Group has applied practical expedient in paragraph 121 of HKFRS 15 to exempt the disclosure of revenue expected to be recognized in the future arising from contracts with customers in existence at the reporting date to its building management fees and other rental related income as the Group recognizes revenue at the amount to which it has a right to invoice, which corresponds directly with the value to the customer of the Group's performance completed to date.

The Group has also applied practical expedient in paragraph 121 of HKFRS 15 to exempt the disclosure of revenue expected to be recognized in the future arising from contracts with customers in existence at the reporting date to its revenue from sales of completed properties as the performance obligation is part of a contract that has an original expected duration of one year or less.

3 Revenue and Segment Information (Continued)

(b) Revenue and results by segments

HK$ Million	Revenue		Profit before taxation	
	2018	2017	**2018**	2017
Segment				
Property leasing				
– Mainland China	**4,686**	4,372	**3,034**	2,734
– Hong Kong	**4,098**	3,982	**3,450**	3,340
	8,784	8,354	**6,484**	6,074
Property sales				
– Hong Kong	**1,231**	3,420	**765**	2,238
Segment total	**10,015**	11,774	**7,249**	8,312
Other net income			**100**	550
Administrative expenses			**(707)**	(656)
Operating profit before change in fair value of properties			**6,642**	8,206
Net increase in fair value of properties			**4,298**	3,085
– property leasing in Hong Kong			**3,993**	3,352
– property leasing in mainland China			**305**	(267)
Net interest expense			**(715)**	(727)
– interest income			**465**	567
– finance costs			**(1,180)**	(1,294)
Share of profits of joint ventures			**435**	221
Profit before taxation			**10,660**	10,785

3 Revenue and Segment Information (Continued)

(c) Total assets by segments

HK$ Million	Total assets	
	2018	2017
Segment		
Property leasing		
– Mainland China	**109,121**	101,283
– Hong Kong	**68,910**	64,479
	178,031	165,762
Property sales		
– Hong Kong	**2,464**	2,166
Segment total	**180,495**	167,928
Interest in joint ventures	**4,040**	3,650
Other assets	**1,449**	1,445
Deferred tax assets	**3**	2
Cash and deposits with banks	**12,509**	22,223
Assets held for sale	**101**	540
Total assets	**198,597**	195,788

4 Other Net Income

HK$ Million	**2018**	2017
Gain on disposal of investment properties	**71**	464
Gain on disposal of assets held for sale	**27**	–
Dividend income from unlisted investments	**4**	–
Ineffectiveness on cash flow hedges	**(1)**	(5)
Net exchange (loss)/gain	**(1)**	89
Others	**–**	2
	100	550

Others mainly comprised forfeiture of unclaimed dividends and net gain or loss on disposal of other property, plant and equipment.

5 Net Interest Expense

HK$ Million	2018	2017
Interest income on bank deposits	**465**	567
Interest expense on bank loans and other borrowings	**1,350**	1,225
Finance charges on finance leases obligations	**16**	8
Other borrowing costs	**65**	117
Total borrowing costs	**1,431**	1,350
Less: Borrowing costs capitalized (Note)	**(251)**	(56)
Finance costs	**1,180**	1,294
Net interest expense	**(715)**	(727)

Note:

The borrowing costs were capitalized at an average rate of 4.8% (2017: 4.8%) per annum to properties under development.

6 Profit Before Taxation

HK$ Million	2018	2017
Profit before taxation is arrived at after charging:		
Cost of properties sold	**374**	938
Staff costs, including employee share-based payments of HK$71 million (2017: HK$78 million)	**1,658**	1,509
Depreciation	**46**	44
Auditors' remuneration		
– audit services	**13**	13
– non-audit services	**4**	5
and after crediting:		
Rental and related income from investment properties less direct outgoings of HK$2,300 million (2017: HK$2,280 million), including contingent rentals of HK$432 million (2017: HK$381 million)	**6,484**	6,074

7 Emoluments of Directors and Senior Management

The Nomination and Remuneration Committee consists of three Independent Non-Executive Directors. The Committee makes recommendation to the Board on the Non-Executive Directors' and Independent Non-Executive Directors' remuneration packages and determines the remuneration package of individual Executive Directors. The emoluments of Executive Directors are determined by their scope of responsibility and accountability, and performance, taking into consideration of the Group's performance and profitability, market practice and prevailing business conditions, etc.

(a) Directors' emoluments

Details of directors' emoluments are summarized below:

HK$ Million Name	Fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Gratuity	The Group's contributions to retirement scheme	2018	2017
Executive Directors							
Ronnie C. Chan	**1.9**	**27.0**	**8.1**	**–**	**2.7**	**39.7**	39.6
Weber W.P. Lo (Appointed on May 16, 2018)	**0.9**	**11.3**	**13.8**	**–**	**0.6**	**26.6**	–
H.C. Ho	**1.4**	**5.2**	**3.2**	**–**	**0.4**	**10.2**	10.4
Adriel W. Chan	**1.4**	**5.5**	**2.7**	**–**	**0.4**	**10.0**	9.3
Non-Executive Directors							
Gerald L. Chan	**0.7**	**–**	**–**	**–**	**–**	**0.7**	0.7
George K.K. Chang	**0.9**	**–**	**–**	**–**	**–**	**0.9**	0.9
Roy Y.C. Chen	**0.7**	**–**	**–**	**–**	**–**	**0.7**	0.7
Independent Non-Executive Directors							
Simon S.O. Ip	**1.1**	**–**	**–**	**–**	**–**	**1.1**	1.1
P.W. Liu	**1.0**	**–**	**–**	**–**	**–**	**1.0**	1.0
L.C. Tsui	**0.9**	**–**	**–**	**–**	**–**	**0.9**	0.9
Martin C.K. Liao	**0.8**	**–**	**–**	**–**	**–**	**0.8**	0.8
Ex-Director							
Philip N.L. Chen (Retired as executive director on July 16, 2018)	**0.7**	**13.9**	**–**	**40.0**	**1.0**	**55.6**	36.7
2018	**12.4**	**62.9**	**27.8**	**40.0**	**5.1**	**148.2**	102.1
2017	12.2	60.2	24.6	–	5.1	102.1	

7 Emoluments of Directors and Senior Management (Continued)

(b) Individuals with highest emoluments

Of the five individuals with the highest emoluments, all (2017: four) are existing or retired directors of the Company whose emoluments are disclosed in note 7(a). The emoluments in respect of the remaining one individual in 2017 are as follows:

HK$ Million	2017
Salaries, allowances and benefits in kind	5.3
Discretionary bonuses	2.1
The Group's contributions to retirement scheme	0.2
	7.6

(c) In addition to the above emoluments, certain directors of the Company were granted share options under the share option schemes of Hang Lung Properties Limited (HLP), details of which are disclosed in note 28(b).

8 Taxation in the Consolidated Statement of Profit or Loss and Other Comprehensive Income

(a) Taxation in the consolidated statement of profit or loss represents:

HK$ Million	**2018**	2017
Current tax		
Hong Kong Profits Tax	**493**	723
Under-provision in prior years	**8**	–
	501	723
Mainland China Income Tax	**698**	648
Total current tax	**1,199**	1,371
Deferred tax		
Changes in fair value of properties	**63**	(4)
Other origination and reversal of temporary differences	**102**	80
Total deferred tax (Note 21(b))	**165**	76
Total income tax expense	**1,364**	1,447

Provision for Hong Kong Profits Tax is calculated at 16.5% (2017: 16.5%) of the estimated assessable profits for the year. Mainland China Income Tax mainly represents mainland China Corporate Income Tax calculated at 25% (2017: 25%) and mainland China withholding income tax calculated at the applicable rates. A withholding tax of 5% is levied on the Hong Kong companies in respect of dividend distributions arising from profits of foreign investment enterprises in mainland China earned after January 1, 2008.

(b) Share of joint ventures' taxation for the year ended December 31, 2018 of HK$25 million (2017: HK$30 million) is included in the share of profits of joint ventures.

8 Taxation in the Consolidated Statement of Profit or Loss and Other Comprehensive Income (Continued)

(c) Reconciliation between actual tax expense and profit before taxation at applicable tax rates is as follows:

HK$ Million	**2018**	2017
Profit before taxation	**10,660**	10,785
Notional tax on profit before taxation at applicable rates	**1,943**	1,922
Tax effect of non-taxable income	**(714)**	(677)
Tax effect of non-deductible expenses	**50**	55
Tax effect of tax losses utilized and other deductible temporary differences	**(111)**	(100)
Tax effect of unrecognized tax losses	**188**	247
Under-provision in prior years	**8**	–
Actual tax expense	**1,364**	1,447

(d) There is no tax effect relating to the components of the other comprehensive income for the year.

9 Dividends

(a) Dividends attributable to the year

HK$ Million	**2018**	2017
Interim dividend declared and paid of HK19 cents (2017: HK19 cents) per share	**258**	258
Final dividend of HK61 cents (2017: HK61 cents) per share proposed after the end of the reporting period	**831**	831
	1,089	1,089

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

(b) The final dividend of HK$831 million (calculated based on HK61 cents per share and the total number of issued shares as of the dividend pay-out date) for the year ended December 31, 2017 was approved and paid in the year ended December 31, 2018 (2017: HK$831 million).

10 Earnings Per Share

(a) The calculation of basic and diluted earnings per share is based on the following data:

HK$ Million	**2018**	2017
Earnings for calculation of basic and diluted earnings per share (net profit attributable to shareholders)	**5,285**	5,314

Million	**Number of shares**	
	2018	2017
Weighted average number of shares used in calculating basic and diluted earnings per share (Note)	**1,362**	1,362

Note:

Diluted earnings per share were the same as the basic earnings per share for the years as there were no dilutive potential ordinary shares in existence during both years.

(b) The underlying net profit attributable to shareholders which excluded changes in fair value of properties net of related deferred tax and non-controlling interests, is calculated as follows:

HK$ Million	**2018**	2017
Net profit attributable to shareholders	**5,285**	5,314
Effect of changes in fair value of properties	**(4,298)**	(3,085)
Effect of corresponding deferred tax	**63**	(4)
Effect of changes in fair value of investment properties of joint ventures	**(289)**	(92)
	(4,524)	(3,181)
Non-controlling interests	**1,870**	1,181
	(2,654)	(2,000)
Underlying net profit attributable to shareholders	**2,631**	3,314

The earnings per share based on underlying net profit attributable to shareholders are:

	2018	2017
Basic	**HK$1.93**	HK$2.43
Diluted	**HK$1.93**	HK$2.43

11 Property, Plant and Equipment

HK$ Million	Investment properties	Investment properties under development	Others	Total
Cost or valuation:				
At January 1, 2017	133,005	17,282	813	151,100
Exchange adjustment	5,083	1,204	23	6,310
Additions	1,385	3,106	2	4,493
Acquisition of a subsidiary (Note 25)	391	–	–	391
Disposals	(4)	–	(90)	(94)
Net increase in fair value	3,085	–	–	3,085
Transfer to assets held for sale (Note 17)	(539)	–	–	(539)
At December 31, 2017 and January 1, 2018	142,406	21,592	748	164,746
Exchange adjustment	**(3,625)**	**(896)**	**(15)**	**(4,536)**
Additions (Note 11(a))	**1,102**	**11,085**	**49**	**12,236**
Disposals	**(103)**	**–**	**(9)**	**(112)**
Net increase in fair value	**4,298**	**–**	**–**	**4,298**
Transfer in/(out)	**595**	**(595)**	**–**	**–**
Transfer to assets held for sale (Note 17)	**(101)**	**–**	**–**	**(101)**
At December 31, 2018	**144,572**	**31,186**	**773**	**176,531**
Accumulated depreciation:				
At January 1, 2017	–	–	489	489
Exchange adjustment	–	–	11	11
Charge for the year	–	–	44	44
Written back on disposals	–	–	(14)	(14)
At December 31, 2017 and January 1, 2018	–	–	530	530
Exchange adjustment	**–**	**–**	**(8)**	**(8)**
Charge for the year	**–**	**–**	**46**	**46**
Written back on disposals	**–**	**–**	**(8)**	**(8)**
At December 31, 2018	**–**	**–**	**560**	**560**
Net book value:				
At December 31, 2018	**144,572**	**31,186**	**213**	**175,971**
At December 31, 2017	142,406	21,592	218	164,216

Cost or valuation of the property, plant and equipment is made up as follows:

	Investment properties	Investment properties under development	Others	Total
December 31, 2018				
Valuation	**144,572**	**31,186**	**–**	**175,758**
Cost	**–**	**–**	**773**	**773**
	144,572	**31,186**	**773**	**176,531**
December 31, 2017				
Valuation	142,406	21,592	–	163,998
Cost	–	–	748	748
	142,406	21,592	748	164,746

11 Property, Plant and Equipment (Continued)

(a) The additions during the year ended December 31, 2018 included partial payment to Hangzhou Land Resources Bureau for acquiring the land in Xiacheng District, Hangzhou, Zhejiang Province, PRC.

(b) Fair value measurement of properties

(i) Fair value hierarchy

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

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

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

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

HK$ Million	**Fair value measurement at December 31, 2018**		
	Level 1	**Level 2**	**Level 3**
Investment properties	**–**	**144,572**	**–**
Investment properties under development	**–**	**–**	**31,186**

HK$ Million	Fair value measurement at December 31, 2017		
	Level 1	Level 2	Level 3
Investment properties	–	142,406	–
Investment properties under development	–	–	21,592

The Group's policy is to recognize transfers between levels of fair value hierarchy at the time at which they occur. During the year, other than the transfers from investment properties under development to investment properties upon their completion, there were no transfers between levels of fair value hierarchy (2017: Nil).

The Group's investment properties and investment properties under development were revalued as of December 31, 2018 by Mr. Charles C.K. Chan, Registered Professional Surveyor (General Practice), of Savills Valuation and Professional Services Limited, on a market value basis. Management has discussions with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date.

11 Property, Plant and Equipment (Continued)

(b) Fair value measurement of properties (Continued)

(ii) Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of the Group's investment properties is determined by using income capitalization approach with reference to current market rents and capitalization rates using market data.

(iii) Information about Level 3 fair value measurements

The fair value of investment properties under development in mainland China is determined by using direct comparison approach, with reference to comparable market transactions as available in the market to derive the fair value of the property assuming it was completed and, where appropriate, after deducting the following items:

- Estimated development costs to be expended to complete the properties that would be incurred by a market participant; and
- Estimated profit margin that a market participant would require to hold and develop the property to completion.

The higher the estimated development costs or profit margin, the lower the fair value of investment properties under construction.

The main Level 3 unobservable inputs used by the Group are as follows:

The total estimated development costs of each of the Group's investment properties under development ranged from HK$1.7 billion to HK$17.2 billion (2017: HK$1.8 billion to HK$18.1 billion). The estimates are largely consistent with the budgets developed internally by the Group based on management experience and knowledge of market conditions.

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

HK$ Million	Investment properties under development – Mainland China	
	2018	2017
At January 1	**21,592**	17,282
Exchange adjustment	**(896)**	1,204
Additions	**11,085**	3,106
Transfer to investment properties	**(595)**	–
Increase in fair value	**–**	–
At December 31	**31,186**	21,592
Total gain for the year included in profit or loss	**–**	–

Fair value adjustments of investment properties and investment properties under development is recognized in "Net increase in fair value of properties" in the consolidated statement of profit or loss.

11 Property, Plant and Equipment (Continued)

(c) An analysis of net book value of investment properties and investment properties under development is as follows:

HK$ Million	Investment properties		Investment properties under development	
	2018	2017	**2018**	2017
In Hong Kong				
– long-term leases (over 50 years)	**42,519**	40,034	**–**	–
– medium-term leases (10 to 50 years)	**25,825**	23,970	**–**	–
Outside Hong Kong				
– long-term leases (over 50 years)	**–**	1,241	**912**	923
– medium-term leases (10 to 50 years)	**76,228**	77,161	**30,274**	20,669
	144,572	142,406	**31,186**	21,592

(d) The net book value of other property, plant and equipment of the Group included long term leases of HK$10 million (2017: HK$10 million) in respect of land and building held in Hong Kong, medium term leases of HK$5 million (2017: HK$6 million) and long term leases of HK$33 million (2017: HK$37 million) in respect of land and buildings held outside Hong Kong respectively.

(e) The net book value of investment properties of the Group includes an amount of HK$557 million (2017: HK$513 million) in respect of an asset held under a finance lease.

(f) The Group leases out its properties under operating leases. Leases typically run for an initial period of two to five years, with some having the option to renew, at which time all terms are renegotiated. Long term leases contain rent review or adjustment clauses and the Group has a regular proportion of its leases up for renewal each year. Certain leases include contingent rentals calculated with reference to the revenue of tenants.

Total future minimum lease payments receivable under non-cancellable operating leases in respect of investment properties are as follows:

HK$ Million	**2018**	2017
Within 1 year	**5,863**	5,725
After 1 year but within 5 years	**7,279**	7,326
After 5 years	**921**	710
	14,063	13,761

12 Interest in Joint Ventures

HK$ Million	**2018**	2017
Share of net assets	**3,325**	2,935
Amounts due from joint ventures	**722**	722
Amounts due to joint ventures	**(7)**	(7)
	4,040	3,650

Amounts due from joint ventures are unsecured, interest-free with no fixed terms of repayment and classified as non-current assets as they are not expected to be recoverable within the next 12 months.

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

At December 31, 2018, the Group had financial guarantees payable on demand of an amount not exceeding HK$500 million issued to a bank in respect of a banking facility granted to a joint venture. This guarantee is not recognized in the Group's statement of financial position as its fair value is considered immaterial and the initial transaction price was nil.

Details of principal joint ventures are set out in note 38. The aggregate financial information related to the Group's share of joint ventures that are not individually material are as follows:

HK$ Million	**2018**	2017
Non-current assets	**4,398**	3,808
Current assets	**286**	182
Non-current liabilities	**(1,151)**	(890)
Current liabilities	**(208)**	(165)
Net assets	**3,325**	2,935

HK$ Million	**2018**	2017
Revenue	**247**	237
Profit and total comprehensive income for the year	**435**	221

13 Other Assets

HK$ Million	**2018**	2017
Investments in unlisted equity instruments at FVTOCI	**109**	106
Advances to unlisted investee companies	**158**	157
Intangible assets (Note)	**1,182**	1,182
	1,449	1,445

Note:

Intangible assets represent goodwill arising from the Group's additions in equity interests in its subsidiary, HLP, for transactions before July 1, 2009. At the end of the reporting period, an impairment test was performed by comparing the goodwill with its recoverable amount and no impairment was recorded.

13 Other Assets (Continued)

The investments in equity securities at FVTOCI comprise the following individual investments:

HK$ Million	2018	2017
Investment in Ever Light Limited	**93**	85
Others	**16**	21
	109	106

The FVTOCI designation was made because the investments are expected to be held for long-term for strategic purposes.

14 Cash and Deposits with Banks

HK$ Million	2018	2017
Cash at banks	**1,032**	1,452
Time deposits recoverable within 1 year	**9,624**	17,066
	10,656	18,518
Time deposits recoverable after 1 year	**1,853**	3,705
Cash and deposits with banks in the consolidated statement of financial position	**12,509**	22,223
Less: Bank deposits with maturity greater than 3 months	**(3,807)**	(11,733)
Cash and cash equivalents in the consolidated cash flow statement	**8,702**	10,490

During the year, the Group's cash and deposits with banks were interest-bearing at an average rate of 2.5% (2017: 2.4%) per annum. The currencies of cash and deposits with banks at the year end date were as follows:

HK$ Million	2018	2017
Hong Kong Dollars	**4,737**	12,805
Hong Kong Dollars equivalent of:		
Renminbi	**7,757**	9,408
United States Dollars	**15**	10
	12,509	22,223

After deducting cash and deposits from bank loans and other borrowings, the net debt position of the Group at the end of the reporting period was as follows:

HK$ Million	2018	2017
Bank loans and other borrowings (Note 18)	**30,651**	28,039
Less: Cash and deposits	**(12,509)**	(22,223)
Net debt	**18,142**	5,816

15 Trade and Other Receivables

(a) Included in trade and other receivables are trade receivables (based on the due date) with the following aging analysis:

HK$ Million	**2018**	2017
Not past due or less than 1 month past due	**14**	511
1 – 3 months past due	**5**	6
More than 3 months past due	**2**	3
	21	520

The Group measures loss allowances for trade receivables at an amount equal to lifetime expected credit losses, which are calculated using a provision matrix. Given the Group has not experienced any significant credit losses in the past and holds sufficient rental deposits from tenants to cover the potential exposure to credit risk, the allowance for expected credit losses is therefore insignificant. The details on the Group's credit policy are set out in note 30(c).

(b) Included in other receivables of the Group is a deposit of land acquisition in mainland China of HK$285 million (2017: HK$299 million).

16 Properties for Sale

HK$ Million	**2018**	2017
Completed properties for sale located in Hong Kong		
– long-term leases (over 50 years)	**1,234**	1,557
– medium-term leases (10 to 50 years)	**22**	73
	1,256	1,630
Completed properties for sale located outside Hong Kong		
– medium-term leases (10 to 50 years)	**4**	4
Properties held for development for sale located in Hong Kong		
– medium-term leases (10 to 50 years)	**1,203**	–
	2,463	1,634

17 Assets Held for Sale

On December 14, 2018, the Group entered into a provisional sale and purchase agreement with an independent third party to dispose of a wholly owned subsidiary together with its subsidiary and the related shareholder's loan. The assets held by the subsidiaries were a residential unit and several car parking spaces at Garden Terrace in Hong Kong. The completion of the transaction is scheduled to take place in April 2019.

On December 28, 2018, the Group entered into a sale and purchase agreement with an independent third party to dispose of a car parking space at The Long Beach in Hong Kong. The completion of the transaction is scheduled to take place in February 2019.

Accordingly, the following assets and liabilities are presented as a disposal group/assets held for sale.

HK$ Million	**2018**	2017
Investment properties	**101**	539
Properties for sale	**–**	1
Assets held for sale	**101**	540
Deposits received	**–**	2
Deferred tax liabilities	**3**	–
Liabilities directly associated with the assets held for sale	**3**	2

The balance at December 31, 2017 represented items as below:

- a disposal group relating to the retail arcade and some car parking spaces at Carmel-on-the-Hill in Hong Kong held by certain subsidiaries which were disposed of in January 2018; and
- investment properties of certain commercial units, kindergarten premise and car parking spaces at Bayview Garden in Hong Kong which were disposed of in April 2018.

The investment properties were stated at fair value with reference to the agreed selling prices as stated in the sale and purchase agreements and the fair value measurement of the properties was classified as Level 2 valuation (see note 11(b)(i)) as there was no significant unobservable input.

18 Bank Loans and Other Borrowings

At the end of the reporting period, bank loans and other borrowings were unsecured and repayable as follows:

HK$ Million	**2018**	2017
Bank loans (Note (a))		
Within 1 year or on demand	**3,408**	2,647
After 1 year but within 2 years	**3,630**	4,859
After 2 years but within 5 years	**7,729**	6,383
Over 5 years	**2,463**	1,485
	17,230	15,374
Other borrowings (Note (b))		
Within 1 year or on demand	**–**	375
After 1 year but within 2 years	**435**	–
After 2 years but within 5 years	**12,178**	10,779
Over 5 years	**970**	1,650
	13,583	12,804
	30,813	28,178
Less: unamortized front end fees	**(162)**	(139)
Total bank loans and other borrowings	**30,651**	28,039
Amount due within 1 year included under current liabilities	**(3,360)**	(3,017)
	27,291	25,022

(a) All bank loans are interest-bearing at rates ranging from 1.2% to 5.7% (2017: 1.0% to 5.3%) per annum during the year.

Certain of the Group's borrowings are attached with financial covenants which require that at any time, the Group's 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. During the year, all these covenants have been complied with by the Group.

At December 31, 2018, the Group had HK$20,984 million (2017: HK$15,009 million) committed undrawn banking facilities.

(b) The Group has a USD3 billion (2017: USD3 billion) Medium Term Note Program and a RMB10 billion (2017: Nil) green bond program. These bonds were issued with coupon rates ranging from 2.95% to 5.00% (2017: 2.95% to 4.75%) per annum.

19 Trade and Other Payables

HK$ Million	2018	2017
Creditors and accrued expenses (Note (a))	**3,786**	4,669
Contract liabilities (Note (b))	**56**	–
Deposits received (Note (c))	**2,569**	2,500
	6,411	7,169

(a) Creditors and accrued expenses include retention money payable of HK$323 million (2017: HK$460 million) which is not expected to be settled within one year.

(b) Contract liabilities represent building management fees and other rental related income received in advance of HK$56 million (January 1, 2018: HK$42 million). Upon the adoption of HKFRS 15, such receipts in advance are re-classified from creditors and accrued expenses to contract liabilities.

Building management fees and other rental related charges are due for payment on the first day of the service period. The fees and charges received before the payment due date are classified as contract liabilities and recognized as revenue when the services are rendered.

(c) In the amount of deposits received, HK$1,507 million (2017: HK$1,384 million) are not expected to be settled within one year.

Included in trade and other payables are trade creditors with the following aging analysis:

HK$ Million	2018	2017
Due within 3 months	**1,992**	2,063
Due after 3 months	**866**	1,977
	2,858	4,040

20 Finance Lease Obligations

The minimum lease payments under finance lease and their present values are as follows:

HK$ Million	2018			2017		
	Present value of minimum lease payments	**Interest expense in future periods**	**Total minimum lease payments**	Present value of minimum lease payments	Interest expense in future periods	Total minimum lease payments
Payable within 1 year	**22**	**–**	**22**	19	–	19
Payable after 1 year but within 5 years	**79**	**12**	**91**	81	12	93
Payable after 5 years	**219**	**175**	**394**	238	200	438
	320	**187**	**507**	338	212	550

21 Taxation in the Consolidated Statement of Financial Position

(a) Current taxation

HK$ Million	**2018**	2017
Hong Kong Profits Tax	**262**	259
Mainland China Income Tax	**319**	252
	581	511

(b) Deferred taxation

HK$ Million	**2018**	2017
Deferred tax liabilities	**9,895**	10,173
Deferred tax assets	**(3)**	(2)
Net deferred tax liabilities	**9,892**	10,171

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

HK$ Million	**Depreciation allowances in excess of related depreciation**	**Revaluation of properties**	**Future benefit of tax losses**	**Others**	**Total**
At January 1, 2017	1,754	7,655	(2)	65	9,472
Exchange adjustment	91	531	–	1	623
Charged/(Credited) to profit or loss (Note 8(a))	108	(4)	(40)	12	76
At December 31, 2017 and January 1, 2018	1,953	8,182	(42)	78	10,171
Exchange adjustment	**(69)**	**(373)**	**–**	**1**	**(441)**
Charged/(Credited) to profit or loss (Note 8(a))	**118**	**63**	**(24)**	**8**	**165**
Transfer to liabilities directly associated with assets held for sale (Note 17)	**(3)**	**–**	**–**	**–**	**(3)**
At December 31, 2018	**1,999**	**7,872**	**(66)**	**87**	**9,892**

Included in “Others” are mainly deferred tax liabilities recognized in respect of undistributed profits of foreign investment enterprises in mainland China.

21 Taxation in the Consolidated Statement of Financial Position (Continued)

(c) Deferred tax assets not recognized

The Group has not recognized deferred tax assets in respect of tax losses of HK$7,087 million (2017: HK$6,470 million) sustained in the operations of certain subsidiaries as the availability of future taxable profits against which the assets can be utilized is not probable at December 31, 2018. The tax losses arising from Hong Kong operations do not expire under current tax legislation. The tax losses arising from the operations in mainland China expire five years after the relevant accounting year end date.

22 Share Capital

Movement of the Company's ordinary shares is set out below:

	2018		2017	
	Number of shares Million	**Amount of share capital HK$ Million**	Number of shares Million	Amount of share capital HK$ Million
Ordinary shares, issued and fully paid	**1,362**	**4,065**	1,362	4,065

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the Company do not have a par value.

23 Reserves

(a) The Group

HK$ Million	Other reserves								
	Exchange reserve	Hedging reserve	Investment revaluation reserve	Employee share-based compensation reserve	General reserve	Other capital reserve	Total	Retained profits	Total reserves
At January 1, 2017	(1,641)	–	67	442	275	2,859	2,002	69,658	71,660
Profit for the year	–	–	–	–	–	–	–	5,314	5,314
Exchange difference arising from translation to presentation currency	2,958	–	–	–	–	–	2,958	–	2,958
Cash flow hedges: net movement in hedging reserve	–	(75)	–	–	–	–	(75)	–	(75)
Net change in fair value of equity investments	–	–	1	–	–	–	1	–	1
Total comprehensive income for the year	2,958	(75)	1	–	–	–	2,884	5,314	8,198
Final dividend in respect of previous year	–	–	–	–	–	–	–	(831)	(831)
Interim dividend in respect of current year	–	–	–	–	–	–	–	(258)	(258)
Employee share-based payments	–	–	–	(37)	–	–	(37)	85	48
Change in non-controlling interests arising from increase of the Group's shareholding in a subsidiary	–	–	–	–	–	255	255	–	255
At December 31, 2017 and January 1, 2018	1,317	(75)	68	405	275	3,114	5,104	73,968	79,072
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**5,285**	**5,285**
Exchange difference arising from translation to presentation currency	**(2,105)**	**–**	**–**	**–**	**–**	**–**	**(2,105)**	**–**	**(2,105)**
Cash flow hedges: net movement in hedging reserve	**–**	**(5)**	**–**	**–**	**–**	**–**	**(5)**	**–**	**(5)**
Net change in fair value of equity investments	**–**	**–**	**1**	**–**	**–**	**–**	**1**	**–**	**1**
Total comprehensive income for the year	**(2,105)**	**(5)**	**1**	**–**	**–**	**–**	**(2,109)**	**5,285**	**3,176**
Final dividend in respect of previous year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(831)**	**(831)**
Interim dividend in respect of current year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(258)**	**(258)**
Employee share-based payments	**–**	**–**	**–**	**18**	**–**	**–**	**18**	**37**	**55**
Change in non-controlling interests arising from increase of the Group's shareholding in a subsidiary	**–**	**–**	**–**	**–**	**–**	**1,168**	**1,168**	**–**	**1,168**
At December 31, 2018	**(788)**	**(80)**	**69**	**423**	**275**	**4,282**	**4,181**	**78,201**	**82,382**

23 Reserves (Continued)

(a) The Group (Continued)

The retained profits of the Group at December 31, 2018 included HK$631 million (2017: HK$623 million) in respect of statutory reserves of the subsidiaries in mainland China.

The exchange reserve of the Group comprises exchange differences arising from the translation of the financial statements of the Group's operations in mainland China.

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss as the hedged cash flows affect profit or loss (Note 1(j)).

The investment revaluation reserve comprises the cumulative net change in the fair value of equity investments measured at FVTOCI (Note 1(i)).

The employee share-based compensation reserve comprises the fair value of share options granted which are not yet exercised, as explained in note 1(y).

The general reserve was derived from retained profits and is distributable.

The other capital reserve represents any difference between the cost of the additional investment and the carrying amount of the net assets acquired at the date of exchange when acquiring an additional non-controlling interest in an existing subsidiary.

(b) The Company

HK$ Million	General reserve	Retained profits	Total reserves
At January 1, 2017	862	13,520	14,382
Profit and total comprehensive income for the year	–	2,790	2,790
Final dividend in respect of previous year	–	(831)	(831)
Interim dividend in respect of current year	–	(258)	(258)
At December 31, 2017 and January 1, 2018	862	15,221	16,083
Profit and total comprehensive income for the year	**–**	**1,926**	**1,926**
Final dividend in respect of previous year	**–**	**(831)**	**(831)**
Interim dividend in respect of current year	**–**	**(258)**	**(258)**
At December 31, 2018	**862**	**16,058**	**16,920**

The aggregate amount of the Company's reserves available for distribution to equity shareholders of the Company at December 31, 2018 was HK$16,920 million (2017: HK$16,083 million).

23 Reserves (Continued)

(c) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits to other stakeholders, and to secure 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 leveraging ratio (net debt to equity and debt to equity) and cash flow requirements, taking into account its future financial obligations and commitments. Net debt represents bank loans and other borrowings less cash and deposits with banks. Equity comprises shareholders' equity and non-controlling interests.

The Group has a net debt position as of December 31, 2018 (Note 14). Net debt to equity ratio and debt to equity ratio as of December 31, 2018 were 12.0% (2017: 3.9%) and 20.3% (2017: 18.7%), respectively. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

24 Cash Generated from Operations

HK$ Million	**2018**	2017
Profit before taxation	**10,660**	10,785
Adjustments for:		
Gain on disposal of investment properties	**(71)**	(464)
Gain on disposal of assets held for sale	**(27)**	–
Ineffectiveness on cash flow hedges	**1**	5
Interest income on bank deposits	**(465)**	(567)
Dividend income from unlisted investments	**(4)**	–
Finance costs	**1,180**	1,294
Depreciation	**46**	44
Loss on disposal of other property, plant and equipment	**1**	–
Net increase in fair value of properties	**(4,298)**	(3,085)
Share of profits of joint ventures	**(435)**	(221)
Employee share-based payments	**71**	78
Decrease in properties for sale	**371**	739
(Increase)/Decrease in trade and other receivables	**(16)**	1,987
Increase/(Decrease) in creditors and accrued expenses and contract liabilities	**70**	(109)
Increase in deposits received	**140**	208
Cash generated from operations	**7,224**	10,694

25 Acquisition of Subsidiaries

During the year, the Group acquired a group comprising several subsidiaries. The fair values of assets acquired and liabilities assumed were as follows:

HK$ Million	**2018** (Note)	2017
Investment properties	**–**	391
Loan from the vendor of the acquired companies	**(787)**	–
Trade and other receivables	**96**	1
Properties for sale	**1,200**	–
Trade and other payables	**–**	(1)
Net assets acquired	**509**	391
Acquisition of a loan from the vendor of the acquired companies	**787**	–
Total consideration	**1,296**	391
Less: consideration payable in future included in trade and other payables (Note)	**(96)**	–
Cash outflow on acquisition	**1,200**	391

Note:

According to the terms and conditions of the sale and purchase agreement, the consideration payable will be settled when the trade and other receivables balance amounting to HK$96 million is received by the Group.

26 Reconciliation of Liabilities Arising from Financing Activities

HK$ Million	**2018**			2017		
	Bank loans and other borrowings (Note 18)	**Finance lease obligations** (Note 20)	**Total**	Bank loans and other borrowings (Note 18)	Finance lease obligations (Note 20)	Total
At January 1	**28,039**	**338**	**28,377**	31,119	–	31,119
Cash flows	**3,211**	**(19)**	**3,192**	(4,085)	–	(4,085)
Non-cash changes:						
New finance leases	**–**	**–**	**–**	–	318	318
Unwind of discount and amortization of transaction costs	**49**	**16**	**65**	101	8	109
Exchange adjustment	**(648)**	**(15)**	**(663)**	904	12	916
At December 31	**30,651**	**320**	**30,971**	28,039	338	28,377

27 Commitments

At the end of the reporting period, capital commitments not provided for in the financial statements were as follows:

HK$ Million	**2018**	2017
Contracted for	**14,267**	12,686
Authorized but not contracted for	**20,568**	22,952
	34,835	35,638

The above commitments include mainly the land costs and construction related costs to be incurred in respect of the Group's development of its properties in various cities in mainland China.

28 Employee Benefits

(a) Retirement benefits

The Group operates a defined contribution provident fund scheme for its employees. The assets of the scheme are held separately from those of the Group by an independent corporate trustee and managed by professional fund managers.

Contributions are made by both the employer and the employees at a certain percentage of employees' basic salaries, the percentage varying with their length of service. When an employee leaves the scheme prior to his or her interest in the Group's contributions being fully vested, forfeited contributions are refunded to the Group. Total contributions made by the Group for the year amounted to HK$34 million (2017: HK$31 million) and forfeited sums refunded to the Group amounted to HK$3 million (2017: HK$4 million).

A master trust Mandatory Provident Fund Scheme (the "MPF Scheme") is operated by an independent service provider. Mandatory contributions are made by both the employer and the employees at 5% of the employees' monthly relevant income, up to a limit of HK$30,000. The Group's contributions will be fully and immediately vested in the employees' accounts as their accrued benefits in the scheme. Total MPF contributions made by the Group for the year amounted to HK$7 million (2017: HK$7 million).

As the Group's provident fund scheme is an MPF Exempted Occupational Retirement Scheme (the "ORSO Scheme"), eligibility for membership of the ORSO and MPF schemes is identical. New employees are offered a one-off option to join either the ORSO or the MPF scheme.

Staff in the Company's subsidiaries operating in mainland China are members of a retirement benefits scheme (the "Mainland RB Scheme") operated by the local municipal government in mainland China. The only obligation of the subsidiaries in mainland China is to contribute a certain percentage of their payroll to Mainland RB Scheme to fund the retirement benefits. The local municipal government in mainland China undertakes to assume the retirement benefits obligations of all existing and future retired employees of subsidiaries in mainland China. Total contributions made by subsidiaries in mainland China for the year amounted to HK$68 million (2017: HK$59 million).

28 Employee Benefits (Continued)

(b) Equity compensation benefits

The share option scheme adopted by the Company's subsidiary, HLP, on November 22, 2002 (the "2002 Share Option Scheme") was terminated upon the adoption of a new share option scheme on April 18, 2012 (the "2012 Share Option Scheme", together with the 2002 Share Option Scheme are referred to as the "Schemes"). No further options shall be offered under the 2002 Share Option Scheme, but in all other respects the provisions of the 2002 Share Option Scheme shall remain in full force and effect and all options granted prior to such termination and not exercised at the date of termination shall remain valid. The 2012 Share Option Scheme remains in force for a period of 10 years commencing on its adoption date and expiring on the tenth anniversary thereof.

The purposes of the Schemes are to enable HLP to grant options to selected participants as incentives or rewards for their contributions to HLP group, to attract skilled and experienced personnel, to incentivize them to remain with HLP group and to motivate them to strive for the future development and expansion of HLP group by providing them with the opportunity to acquire equity interests in HLP.

Under the Schemes, the board of directors of HLP is authorized to grant options to selected participants, including employees and directors of any company in HLP group, subject to the terms and conditions such as performance targets as the board of directors of HLP may specify on a case-by-case basis or generally. The exercise price of the options is determined by the board of directors of HLP at the time of grant, and shall not be less than the higher of the nominal value of HLP shares, the closing price of HLP shares at the date of grant and the average closing price of HLP shares for the five business days immediately preceding the date of grant. The period open for acceptance of the option and amount payable thereon, the vesting period, the exercisable period and the number of HLP shares subject to each option are determined by the board of directors of HLP at the time of grant.

As of the date of this report, the total number of HLP shares available for issue under the 2012 Share Option Scheme is 235,846,253 shares, representing 5.24% of the total number of issued shares of HLP. The total number of HLP shares issued and to be issued upon exercise of options (including both exercised and outstanding) granted to each participant in any 12-month period shall not exceed 1% of HLP shares in issue.

28 Employee Benefits (Continued)

(b) Equity compensation benefits (Continued)

The movements of share options of HLP during the year are as follows:

(i) 2002 Share Option Scheme

	Number of share options					
Date granted	Outstanding on January 1, 2018	Exercised	Forfeited/ Lapsed	**Outstanding on December 31, 2018**	Period during which options are exercisable	Exercise price (HK$)
April 1, 2008 to December 31, 2008	12,372,000	(143,000)	(12,229,000)	**–**	April 1, 2009 to December 30, 2018	17.36 – 27.90
February 8, 2010 to June 1, 2010	13,380,000	–	–	**13,380,000**	February 8, 2012 to May 31, 2020	26.46 – 27.27
July 29, 2010 to June 13, 2011	31,210,000	–	(220,000)	**30,990,000**	July 29, 2012 to June 12, 2021	30.79 – 36.90
Total	56,962,000	(143,000)	(12,449,000)	**44,370,000**		

All the above options may vest after one/two to five years of the grant date and are exercisable up to the tenth anniversary of the date of grant, after which they will lapse. No options were cancelled during the year.

During the year, 340,000 (2017: 140,000) options were forfeited upon cessations of grantee's employments and 12,109,000 (2017: 19,040,000) options lapsed due to the expiry of the period for exercising the options.

Movements in the number of share options of HLP outstanding and their related weighted average exercise prices are as follows:

	2018		2017	
	Weighted average exercise price (HK$)	**Number of options**	Weighted average exercise price (HK$)	Number of options
Outstanding at January 1	**27.71**	**56,962,000**	26.99	76,142,000
Exercised	**17.36**	**(143,000)**	–	–
Forfeited	**26.05**	**(340,000)**	30.79	(140,000)
Lapsed	**18.47**	**(12,109,000)**	24.83	(19,040,000)
Outstanding at December 31	**30.28**	**44,370,000**	27.71	56,962,000
Exercisable at December 31	**30.28**	**44,370,000**	27.71	56,962,000

No share options were exercised by the directors during the year. The weighted average closing price of the shares of HLP immediately before the dates of exercise by the employees during the year was HK$18.60.

The weighted average closing share price of HLP at the dates of exercise for share options during the year was HK$18.64.

28 Employee Benefits (Continued)

(b) Equity compensation benefits (Continued)

(i) 2002 Share Option Scheme (Continued)

The weighted average remaining contractual life of HLP options outstanding at the end of the reporting period was 1.8 years (2017: 2.4 years).

(ii) 2012 Share Option Scheme

Date granted	Number of share options: Outstanding on January 1, 2018	Granted	Forfeited/ Lapsed	**Outstanding on December 31, 2018**	Period during which options are exercisable	Exercise price (HK$)
June 4, 2013	28,218,000	–	(868,000)	**27,350,000**	June 4, 2015 to June 3, 2023	28.20
December 5, 2014	25,412,000	–	(1,790,000)	**23,622,000**	December 5, 2016 to December 4, 2024	22.60
August 10, 2017	43,310,000	–	(3,815,000)	**39,495,000**	August 10, 2019 to August 9, 2027	19.98
May 16, 2018	–	10,000,000	–	**10,000,000**	May 16, 2020 to May 15, 2028	18.98
Total	96,940,000	10,000,000	(6,473,000)	**100,467,000**		

All the above options may vest after two to five years of the grant date and are exercisable up to the tenth anniversary of the date of grant, after which they will lapse. No options of HLP were exercised or cancelled during the year.

The closing price of HLP shares immediately before the date of grant during the year was HK$19.14.

During the year, 6,473,000 (2017: 4,524,000) options were forfeited upon cessations of the grantees' employments.

Movements in the number of share options of HLP outstanding and their related weighted average exercise prices are as follows:

	2018		2017	
	Weighted average exercise price (HK$)	**Number of options**	Weighted average exercise price (HK$)	Number of options
Outstanding at January 1	**23.06**	**96,940,000**	25.49	57,704,000
Granted	**18.98**	**10,000,000**	19.98	43,760,000
Forfeited	**21.81**	**(6,473,000)**	24.26	(4,524,000)
Outstanding at December 31	**22.73**	**100,467,000**	23.06	96,940,000
Exercisable at December 31	**26.29**	**41,523,200**	26.46	24,554,400

28 Employee Benefits (Continued)

(b) Equity compensation benefits (Continued)

(ii) 2012 Share Option Scheme (Continued)

The weighted average remaining contractual life of options of HLP outstanding at the end of the reporting period was 6.9 years (2017: 7.7 years).

The fair value of share options granted was estimated at the date of grant using the Black-Scholes pricing model taking into account the terms and conditions upon which the options were granted. In respect of the share options granted during the year, the fair value, terms and conditions, and assumptions are as follows:

Fair value at grant date	HK$2.84
HLPL share price at grant date	HK$18.98
Exercise price	HK$18.98
Risk-free interest rate	2.14%
Expected life (in years)	6
Expected volatility	23.86%
Expected dividends per share	HK$0.75

The expected volatility is based on the historical volatility and the expected dividends per share are based on historical dividends. Changes in the above assumptions could materially affect the fair value estimate.

(iii) The directors of the Company, who were also directors of HLP, during the year held share options of HLP. The related charge recognized for such options for the year ended December 31, 2018, estimated in accordance with the Group's accounting policy in note 1(y)(2) was as follows:

(1) Mr. Ronnie C. Chan, HK$5.2 million (2017: HK$6.6 million);
(2) Mr. Weber W.P. Lo, HK$4.9 million (2017: Nil);
(3) Mr. H.C. Ho, HK$3.5 million (2017: HK$4.4 million);
(4) Mr. Adriel W. Chan, HK$1.6 million (2017: HK$0.4 million); and
(5) Mr. Philip N.L. Chen, HK$4.8 million (retired on July 16, 2018 but remained as director of HLP) (2017: HK$7.0 million).

29 Material Related Party Transactions

Except for the emoluments to directors and key management personnel disclosed in notes 7 and 28(b) and the transactions and balances already disclosed elsewhere in the financial statements, the Group did not have any material related party transactions in its ordinary course of business.

None of the above related party transactions constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

30 Financial Risk Management Objectives and Policies

Exposure to interest rate, liquidity, credit and currency risks arises in the normal course of the Group's business. The Group has policies and practices approved by management as described below in managing these risks.

(a) Interest rate risk

The Group's interest rate risk arises primarily from deposits with banks and floating rate bank borrowings. Interest rate trends and movements are closely monitored and, if appropriate, existing borrowings will be replaced with new bank facilities when favorable pricing opportunities arise. In addition, the Group maintains the Medium Term Note Program and a green bond program which facilitate the Group to mitigate future interest rate volatility and re-financing risks.

The interest rates of interest-bearing financial assets and liabilities are disclosed in notes 14 and 18.

Based on the simulations performed at year end in relation to the Group's bank deposits and borrowings, it was estimated that the impact of a 100 basis-point increase in market interest rates from the rates applicable at the year end date, with all other variables held constant, would decrease (2017: increase) the Group's profit after taxation and total equity by approximately HK$50 million (2017: HK$65 million).

This analysis is based on a hypothetical situation, as in practice market interest rates rarely change in isolation, and should not be considered a projection of likely future profits or losses. The analysis assumes the following:

- changes in market interest rates affect the interest income and interest expense of floating rate financial instruments and bank borrowings; and
- all other financial assets and liabilities are held constant.

The analysis was performed on the same basis for 2017.

30 Financial Risk Management Objectives and Policies (Continued)

(b) Liquidity risk

The Group manages its surplus cash centrally and the liquidity risk of the Company and its subsidiaries at the corporate level. The objective is to ensure that an adequate amount of cash and committed bank facilities are available to meet all funding requirements. Significant flexibility is achieved through diverse sources of committed credit lines for capturing future expansion opportunities.

HK$ Million		Contractual undiscounted cash flow				
	Carrying amount	**Total**	**Within 1 year or on demand**	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**More than 5 years**
Bank loans and other borrowings	**30,651**	**36,074**	**4,788**	**5,296**	**21,821**	**4,169**
Trade and other payables	**6,411**	**6,411**	**4,580**	**908**	**766**	**157**
Finance lease obligations	**320**	**507**	**22**	**22**	**69**	**394**
At December 31, 2018	**37,382**	**42,992**	**9,390**	**6,226**	**22,656**	**4,720**

HK$ Million		Contractual undiscounted cash flow				
	Carrying amount	Total	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
Bank loans and other borrowings	28,039	32,470	4,194	5,904	19,020	3,352
Trade and other payables	7,169	7,169	5,325	1,029	707	108
Finance lease obligations	338	550	19	22	71	438
At December 31, 2017	35,546	40,189	9,538	6,955	19,798	3,898

30 Financial Risk Management Objectives and Policies (Continued)

(c) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables with tenants and deposits held with reputable banks and financial institutions.

The Group maintains a defined credit policy including stringent credit evaluation on and payment of a rental deposit from tenants. In addition to the payment of rental deposits, tenants are required to pay monthly rents in respect of leased properties in advance. Receivables are regularly reviewed and closely monitored to minimize any associated credit risk.

Surplus cash is placed with reputable banks and financial institutions in accordance with pre-determined limits based on credit ratings and other factors to minimize concentration risk.

The Group does not provide any financial guarantee which would expose the Group to material credit risk.

There are no significant concentrations of credit risk within the Group.

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 measures loss allowances for trade receivables with tenants in accordance with note 1(k). The allowance for expected credit losses is insignificant.

(d) Currency risk

The Group adopts a conservative risk management policy to manage foreign currency exposure. The level of hedge is decided through cost and benefit analysis with reference to prevailing market situation. If appropriate, the Group may use derivative financial instruments solely for hedging purposes. These derivatives reduce the uncertainty of interest payments and principal repayments of foreign currency debts and can be entered into on or after the issuance of a foreign currency debt.

Currency risk arises from assets and liabilities denominated in a currency other than the functional currency of the Group's entities to which they related. The Group has bonds outstanding amounting to USD1,000 million (2017: USD1,000 million). The currency risk arising from the USD denominated bonds is hedged by back-to-back USD/HKD cross currency swaps, at exchange rate of 7.75 HKD/USD and fixed interest rates ranging from 4.395% to 4.715% per annum. These swaps will mature in 2021 and 2022.

30 Financial Risk Management Objectives and Policies (Continued)

(d) Currency risk (Continued)

The Group has designated the cross currency swaps in their entirety as the hedging instruments of the foreign currency risk arising from the USD denominated bonds. The table below summarizes the effect of the hedge accounting:

Notional amount of hedging instruments HK$ Million	Carrying amounts of hedging instruments – assets/(liabilities) HK$ Million	Line items in the statement of financial position where hedging instruments are included	Change in fair value used for measuring hedge ineffectiveness		Hedge ineffectiveness* recognized in profit or loss – other net loss HK$ Million	Change in fair value of hedging instruments recognized in other comprehensive income HK$ Million	Amount reclassified from hedging reserve to profit or loss that are charged/(credited) to	
			Hedging instruments HK$ Million	Hedged items HK$ Million			Finance costs HK$ Million	Other net loss HK$ Million
2018								
7,750	**1**	**Trade and other receivables**	**(5)**	**(4)**	**(1)**	**(4)**	**11**	**(16)**
	(10)	**Trade and other payables**						
2017								
7,750	7	Trade and other receivables	(91)	(86)	(5)	(86)	12	(60)
	(3)	Trade and other payables						

* The hedge ratio is determined to be 1:1 as all critical terms were matched. However, as the cross currency swaps were not entered into on January 1, 2017 (the date designated as the hedging instruments), ineffectiveness arose as terms of cross currency swaps were not exactly the same as the market position of the bonds.

The Group engages in property development and investments in mainland China through its local subsidiaries whose net assets are exposed to currency risk. In addition, the Group has Renminbi deposits of RMB6,804 million (2017: RMB7,863 million), for which there are currency risks but which are held to meet its ongoing Renminbi payment obligations in relation to its development projects in mainland China. Where appropriate, the Group seeks to minimize its exposure to currency risk in mainland China through borrowings denominated in Renminbi.

Management estimated that a 5% (2017: 5%) appreciation/depreciation of Renminbi against Hong Kong dollar would increase/decrease the Group's equity attributable to shareholders by HK$2,376 million (2017: HK$2,175 million).

The above analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and that all other variables, in particular interest rates, remain constant. The analysis was performed on the same basis for 2017.

30 Financial Risk Management Objectives and Policies (Continued)

(e) Fair value

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

- Level 1 valuations: Fair value measured using only level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using level 2 inputs i.e. observable inputs which fail to meet level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs

(i) Financial assets and liabilities measured at fair value

Derivative financial instruments – cross currency swaps

The fair value of cross currency swaps as of December 31, 2018 of HK$1 million (2017: HK$7 million) recorded under "Trade and other receivables" and HK$10 million (2017: HK$3 million) recorded under "Trade and other payables" in Level 2 is determined based on the amount that the Group would receive or pay to terminate the swaps at the end of the reporting period taking into account current interest rates and current creditworthiness of the swap counter-parties.

Investment in equity instruments

The fair value of non-publicly traded equity investments as of December 31, 2018 of HK$109 million (2017: HK$106 million) in Level 3 is determined by reference to the net asset value of these investments.

Transfers of instruments between the three-level fair value hierarchy

During the year, there were no transfers of instruments between Level 1 and Level 2, or transfers into or out of Level 3 (2017: Nil). The Group's policy is to recognize transfers between levels of fair value hierarchy as of the end of the reporting period in which they occur.

(ii) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortized cost were not materially different from their fair values as of December 31, 2017 and 2018.

31 Significant Accounting Estimates and Judgments

Key sources of estimation uncertainty

Notes 11(b), 28(b) and 30(e) contain information about the assumptions and their risk relating to valuation of investment properties and investment properties under development, fair value of share options granted and derivative financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Properties held for sale

The Group determines the net realizable value of unsold properties based on estimation of future selling price less costs to be incurred in relation to the sale, with reference to the prevailing market data and market survey reports available from independent property valuers.

(b) Income taxes

There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business and judgment is required in determining the provision for income taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

(c) Recognition of deferred tax assets

The amount of the deferred tax assets included in the consolidated statement of financial position of the Group is recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences and unused tax losses can be utilized. The recognition of deferred tax assets requires the Group to make judgments based on the assessment of future financial performance, the amount of future taxable profits and the timing of when these will be realized.

32 Company-Level Statement of Financial Position

At December 31, 2018

HK$ Million	Note	2018	2017
Non-current assets			
Interest in subsidiaries	33	**21,579**	20,705
Current assets			
Cash and deposits with banks		**5**	1
Current liabilities			
Trade and other payables		**16**	15
Net current liabilities		**(11)**	(14)
Total assets less current liabilities		**21,568**	20,691
Non-current liabilities			
Amounts due to subsidiaries	33(b)	**583**	543
NET ASSETS		**20,985**	20,148
Capital and reserves			
Share capital	22	**4,065**	4,065
Reserves	23	**16,920**	16,083
TOTAL EQUITY		**20,985**	20,148

Weber W.P. Lo
Chief Executive Officer

H.C. Ho
Chief Financial Officer

33 Interest in Subsidiaries

HK$ Million	2018	2017
Unlisted shares, at cost	**181**	181
Amounts due from subsidiaries (Note (a))	**21,398**	20,524
	21,579	20,705

Details of principal subsidiaries are set out in note 37.

The following table lists out the information relating to HLP in which the Group has material non-controlling interest (NCI). The summarized financial information presented below represents the amounts before any inter-company elimination.

HK$ Million	2018	2017
NCI percentage at the end of the reporting period	**42.4%**	44.3%
Non-current assets	**171,354**	161,323
Current assets	**15,099**	22,263
Current liabilities	**(8,946)**	(9,289)
Non-current liabilities	**(33,913)**	(32,052)
Net assets	**143,594**	142,245
Carrying amount of NCI	**58,326**	60,318
Revenue	**9,408**	11,199
Profit for the year	**8,652**	8,550
Total comprehensive income for the year	**4,993**	13,622
Profit allocated to NCI	**3,425**	3,599
Dividend paid to NCI	**1,470**	1,513
Net cash flow:		
generated from operating activities	**5,738**	8,557
used in investing activities	**(5,259)**	(14,323)
used in financing activities	**(1,926)**	(8,087)

(a) Amounts due from subsidiaries are unsecured, interest-free with no fixed terms of repayment and classified as non-current assets as they are not expected to be recoverable within the next 12 months.

(b) Amounts due to subsidiaries are unsecured, interest-free with no fixed terms of repayment and classified as non-current liabilities as they are not expected to be repaid within the next 12 months.

34 Possible Impact of Amendments, New Standards and Interpretations Issued but not yet Effective for the Year Ended December 31, 2018

The Group has not early applied the following amendments and new standards which have been issued by the HKICPA but are not yet effective for the year ended December 31, 2018.

		Effective for accounting periods beginning on or after
HKFRS 16	Leases	January 1, 2019
Annual Improvements to HKFRSs	2015-2017 Cycle	January 1, 2019
Amendments to HKAS 28	Long-term interest in associates and joint ventures	January 1, 2019

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 it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

35 Comparative Figures

The Group has initially applied HKFRS 15 at January 1, 2018. Under the transition method chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2.

36 Approval of Financial Statements

The financial statements were approved and authorized for issue by the Board of Directors on January 30, 2019.

37 Principal Subsidiaries

At December 31, 2018

Company	Issued Share Capital (HK$)	% Held by the Group	% Held by the Company	Activity	Place of Incorporation and Operations
Akihiro Company Limited	2	100	100	Property development & leasing	Hong Kong
Antonis Limited*	10,000	57.6	–	Property leasing	Hong Kong
AP City Limited	2	57.6	–	Property leasing	Hong Kong
AP Joy Limited	2	57.6	–	Property development & leasing	Hong Kong
AP Properties Limited				Property development & leasing	Hong Kong
‘A’ shares	34	57.6	–		
‘B’ shares	6	57.6	–		
AP Star Limited*	2	57.6	–	Investment holding	Hong Kong
AP Success Limited	2	57.6	–	Property leasing	Hong Kong
AP Universal Limited*	2	57.6	–	Property leasing	Hong Kong
AP Win Limited*	1,000,000	57.6	–	Property leasing	Hong Kong
AP World Limited	2	57.6	–	Property development & leasing	Hong Kong
Bayliner Investment Ltd.*	US$1	100	100	Investment holding	British Virgin Islands
Believecity Limited*	2	100	–	Investment holding & securities trading	Hong Kong
Bonna Estates Company Limited	1,000,000	57.6	–	Property leasing	Hong Kong
Caddo Enterprises, Limited*	4,000,000	57.6	–	Property leasing	Hong Kong
Cokage Limited*	2	100	100	Investment holding	Hong Kong
Country Bond Development Limited				Investment holding	Hong Kong
‘A’ shares	990	56.1	–		
‘B’ share	1	57.6	–		
Country First Enterprises Limited	2	100	–	Investment holding	Hong Kong
Country Link Enterprises Limited	5,000,000	58.1	–	Investment holding	Hong Kong
Curicao Company Limited*	2	100	–	Investment holding	Hong Kong
Dokay Limited*	2	57.6	–	Property leasing	Hong Kong
Dynamia Company Limited	2	100	100	Property development & leasing	Hong Kong

37 Principal Subsidiaries (Continued)

At December 31, 2018

Company	Issued Share Capital (HK$)	% Held by the Group	% Held by the Company	Activity	Place of Incorporation and Operations
Ease Smart Development Limited				Investment holding	Hong Kong
'A' share	1	100	–		
'B' share	1	57.6	–		
Easegood Enterprises Limited	2	57.6	–	Investment holding	Hong Kong
Ever Brilliant Investment Limited	2	100	100	Investment holding	Hong Kong
Fu Yik Company Limited*	3	57.6	–	Property leasing	Hong Kong
Gala Ruby Limited*	2	57.6	–	Investment holding	Hong Kong
Glory View Properties Limited*	2	100	100	Property leasing	Hong Kong
Gowily Limited	2	57.6	–	Property leasing	Hong Kong
Grand Centre Limited	4	57.6	–	Property leasing	Hong Kong
Grand Hotel Group Limited	10,200	57.6	–	Apartment operating & management	Hong Kong
Grand Hotel Holdings Limited				Investment holding	Hong Kong
'A' shares	62,163,123	57.6	–		
'B' shares	6,000,000	57.6	–		
Great Cheer Development Limited	2	100	100	Property development	Hong Kong
Hang Chui Company Limited	2	57.6	–	Property leasing	Hong Kong
Hang Far Company Limited*	2	57.6	–	Investment holding	Hong Kong
Hang Fine Company Limited	200	57.6	–	Property leasing	Hong Kong
Hang Kong Company Limited*	2	100	–	Investment holding	Hong Kong
Hang Kwok Company Limited*	10,000	57.6	–	Property leasing	Hong Kong
Hang Lung (Administration) Limited	10,000	57.6	–	Management services	Hong Kong
Hang Lung (China) Limited	2	100	100	Investment holding	Hong Kong
Hang Lung (Dalian) Limited	1	57.6	–	Investment holding	Hong Kong
Hang Lung (Jiangsu) Limited	1	57.6	–	Investment holding	Hong Kong
Hang Lung (Jinan) Limited	1	57.6	–	Investment holding	Hong Kong
Hang Lung (Kunming) Limited	1	57.6	–	Investment holding	Hong Kong
Hang Lung (Liaoning) Limited	1	57.6	–	Investment holding	Hong Kong
Hang Lung (Shenyang) Limited	2	57.6	–	Investment holding	Hong Kong
Hang Lung (Tianjin) Limited	2	57.6	–	Investment holding	Hong Kong

37 Principal Subsidiaries (Continued)

At December 31, 2018

Company	Issued Share Capital (HK$)	% Held by the Group	% Held by the Company	Activity	Place of Incorporation and Operations
Hang Lung (Wuhan) Limited	1	57.6	–	Investment holding	Hong Kong
Hang Lung (Wuxi) Limited	1	57.6	–	Investment holding	Hong Kong
Hang Lung Enterprises Limited*	2	100	100	Investment holding	Hong Kong
Hang Lung Financial Services Limited	2	100	100	Financial services	Hong Kong
Hang Lung Gala Place Limited (formerly known as Hang Lung Park-In Limited)	2	57.6	–	Property leasing	Hong Kong
Hang Lung Investments Limited*	2	100	100	Investment holding	Hong Kong
Hang Lung Project Management Limited*	10,000	57.6	–	Project management	Hong Kong
Hang Lung Properties Limited	4,497,575,670	57.6	–	Investment holding	Hong Kong
Hang Lung Property Management Limited*	100,000	57.6	–	Property management	Hong Kong
Hang Lung Real Estate Agency Limited*	2	57.6	–	Property agencies	Hong Kong
Hang Lung Treasury Limited	2	100	100	Financial services	Hong Kong
Hebo Limited	2	100	100	Property development	Hong Kong
HL Enterprises Limited*	2	100	100	Investment holding	Hong Kong
HL Mortgage (HTG) Limited*	2	100	100	Financial services	Hong Kong
HL Mortgage (NH) Limited*	2	100	100	Financial services	Hong Kong
HL Mortgage (NP) Limited*	2	100	100	Financial services	Hong Kong
HLP (China) Administrative Limited	1	57.6	–	Management services	Hong Kong
HLP (China) Limited	2	57.6	–	Investment holding	Hong Kong
HLP Finance Limited#	US$1	57.6	–	Financial services	British Virgin Islands
HLP Financial Services Limited	RMB1	57.6	–	Financial services	Hong Kong
HLP Treasury Limited	2	57.6	–	Financial services	Hong Kong
HLP Treasury Services Limited*	2	57.6	–	Financial services	Hong Kong
Hoi Sang Limited*	2	57.6	–	Investment holding	Hong Kong

37 Principal Subsidiaries (Continued)

At December 31, 2018

Company	Issued Share Capital (HK$)	% Held by the Group	% Held by the Company	Activity	Place of Incorporation and Operations
Kindstock Limited*	2	100	–	Investment holding	Hong Kong
Lockoo Limited*	1,000,002	57.6	–	Property development	Hong Kong
Luckyson Investments Limited	10,000	100	–	Investment holding	Hong Kong
Lungsun Mortgage (PV) Limited*	20	89.7	–	Financial services	Hong Kong
Mansita Limited*	2	57.6	–	Property leasing	Hong Kong
Modalton Limited	2	57.6	–	Property leasing	Hong Kong
Nikco Limited	2	100	–	Property leasing	Hong Kong
Palex Limited*	2	57.6	–	Property leasing	Hong Kong
Passion Success Limited*	1	57.6	–	Investment holding	Hong Kong
Pocaliton Limited	2	57.6	–	Property leasing	Hong Kong
Prosperland Housing Limited	1,560,000	100	100	Investment holding	Hong Kong
Purotat Limited*	2	100	100	Investment holding	Hong Kong
Rago Star Limited	2	57.6	–	Property leasing	Hong Kong
Scotat Limited	2	89.7	–	Investment holding	Hong Kong
Stanman Properties Limited	20	100	100	Property development & leasing	Hong Kong
Stooket Limited	2	57.6	–	Property leasing	Hong Kong
Success Cosmos Development Limited*	2	100	100	Property development	Hong Kong
Superlane Development Limited	1,000	57.6	–	Property development & investment	Hong Kong
Tegraton Limited	2	57.6	–	Property leasing	Hong Kong
Topnic Limited	2	100	100	Property leasing	Hong Kong
Total Select Limited	1	57.6	–	Property development	Hong Kong
Wai Luen Investment Company, Limited*	100,000	57.6	–	Property leasing	Hong Kong
Yangli Limited*	2	57.6	–	Property leasing	Hong Kong
Yee Fly Investment Limited*	1,000	100	100	Investment holding & securities trading	Hong Kong

37 Principal Subsidiaries (Continued)

At December 31, 2018

Wholly Foreign Owned Enterprises in mainland China	Registered Capital	% Held by the Group	% Held by the Company	Activity	Place of Incorporation and Operations
Dalian Hang Lung Properties Ltd.	RMB4,136,877,355	57.6	–	Property development & leasing	Mainland China
Hangzhou Hang Lung Properties Ltd.	RMB11,267,500,000	57.6	–	Property development	Mainland China
Hubei Hang Lung Property Development Co., Ltd.	RMB4,850,000,000	57.6	–	Property development	Mainland China
Kunming Hang Ying Properties Ltd.	RMB5,887,321,800	57.6	–	Property development	Mainland China
Liaoning Hang Lung Properties Ltd.	RMB6,040,096,324	57.6	–	Property development & leasing	Mainland China
Shandong Hang Lung Properties Ltd.	US$385,000,000	57.6	–	Property development & leasing	Mainland China
Shenyang Hang Lung Properties Ltd.	US$349,990,000	57.6	–	Property development & leasing	Mainland China
Tianjin Hang Lung Properties Ltd.	HK$4,229,600,000	57.6	–	Property development & leasing	Mainland China
Wuxi Hang Lung Properties Ltd.	RMB4,241,746,261	57.6	–	Property development & leasing	Mainland China
Wuxi Hang Ying Properties Ltd.	RMB576,716,180	57.6	–	Property development	Mainland China

Equity Joint Ventures in mainland China	Registered Capital (US$)	% Held by the Group	% Held by the Company	Activity	Place of Incorporation and Operations
Shanghai Hang Bond Property Development Co., Ltd.	167,004,736	55.8	–	Property development & leasing	Mainland China
Shanghai Heng Cheng Real Estate Development Co., Ltd.	17,766,000	70	–	Property development	Mainland China
Shanghai Kong Hui Property Development Co., Ltd.	165,000,000	54.6	–	Property development & leasing	Mainland China

Operated in Hong Kong

* Not audited by KPMG

The above list gives the principal subsidiaries of the Group which in the opinion of the directors, principally affect the profit and assets of the Group.

38 Principal Joint Ventures

At December 31, 2018

Company	Issued Share Capital (HK$)	% Held by the Group	% Held by the Company	Activity	Place of Incorporation and Operations
Daily Win Development Limited	400	25	–	Property leasing	Hong Kong
Hang Hing Mortgage (TH) Limited	2	50	–	Financial services	Hong Kong
Hang Lung-Hakuyosha Dry Cleaning Limited	519,000	50	–	Dry and laundry cleaning	Hong Kong
Metro Classic Holdings Limited	US$1	20	–	Property development	British Virgin Islands
Metro Trade International Limited	US$60	20	–	Property development	British Virgin Islands
Newfoundworld Finance Limited	100,000	20	–	Financial services	Hong Kong
Newfoundworld Holdings Limited	2,000,000	20	–	Investment holding	Hong Kong
Newfoundworld Investment Holdings Limited	US$5	20	–	Investment holding	British Virgin Islands
Newfoundworld Limited	2,000,000	20	–	Property development	Hong Kong
Pure Jade Limited	1,000,000	20	–	Property development	Hong Kong
Star Play Development Limited	3	19.2	–	Property leasing	Hong Kong

The above companies are not audited by KPMG.

The above list gives the principal joint ventures of the Group which in the opinion of the directors, principally affect the profit and assets of the Group.

Ten-Year Financial Summary

HK$ Million (unless otherwise stated)	For the years ended December 31			
	2018	2017	2016	2015
CONSOLIDATED STATEMENT OF PROFIT OR LOSS				
Revenue				
Property leasing	**8,784**	8,354	8,326	8,330
Property sales	**1,231**	3,420	5,322	1,198
	10,015	**11,774**	**13,648**	**9,528**
Gross profit				
Property leasing	**6,484**	6,074	6,129	6,110
Property sales	**765**	2,238	3,209	845
	7,249	**8,312**	**9,338**	**6,955**
Underlying net profit attributable to shareholders	**2,631**	**3,314**	**3,772**	**2,700**
Effect of changes in fair value of properties	**2,654**	2,000	(59)	511
Net profit attributable to shareholders	**5,285**	**5,314**	**3,713**	**3,211**
Dividends for the year/period	**(1,089)**	(1,089)	(1,089)	(1,084)
Retained profits for the year/period	**4,196**	**4,225**	**2,624**	**2,127**
CONSOLIDATED STATEMENT OF FINANCIAL POSITION				
Net assets employed (Note 2)				
Investment properties	**144,572**	142,406	133,005	137,338
Investment properties under development	**31,186**	21,592	17,282	16,709
Properties for sale	**2,463**	1,634	2,374	3,852
Other assets	**7,867**	7,933	9,184	6,325
	186,088	173,565	161,845	164,224
Other liabilities	**(17,210)**	(18,193)	(17,237)	(18,074)
	168,878	**155,372**	**144,608**	**146,150**
Financed by				
Shareholders' equity	**86,447**	83,137	75,658	75,470
Non-controlling interests	**64,289**	66,419	62,355	64,832
Net debt/(cash)	**18,142**	5,816	6,595	5,848
	168,878	155,372	144,608	146,150
Number of shares issued (in million)	**1,362**	1,362	1,362	1,355
PER SHARE DATA				
Basic earnings (HK$)	**$3.88**	$3.90	$2.73	$2.37
Dividends (HK cents)	**80¢**	80¢	80¢	80¢
Interim	**19¢**	19¢	19¢	19¢
Final	**61¢**	61¢	61¢	61¢
Shareholders' equity (HK$)	**$63.5**	$61.0	$55.5	$55.7
Net assets (HK$)	**$110.7**	$109.8	$101.3	$103.5
Dividend payout ratio	**21%**	20%	29%	34%
Underlying dividend payout ratio	**41%**	33%	29%	40%
FINANCIAL INDICATORS				
Net debt to equity	**12.0%**	3.9%	4.8%	4.2%
Debt to equity	**20.3%**	18.7%	22.5%	26.6%
Interest cover (times)	**7**	10	14	14
Return on average shareholders' equity	**6.2%**	6.7%	4.9%	4.2%

Notes:

1. In November 2011, the Board of Directors approved the change of the Group's financial year end date from June 30 to December 31. Thus, the Group has a six-month financial period from July 1 to December 31, 2011.
2. Net assets employed are presented by excluding net debt/cash.

For the years ended December 31			July–December	For the years ended June 30		
2014	2013	2012	2011 (Note 1)	2011	2010	2009
7,792	7,216	6,711	3,168	5,711	5,069	4,685
9,814	2,518	1,275	193	3	7,511	11
17,606	**9,734**	**7,986**	**3,361**	**5,714**	**12,580**	**4,696**
5,987	5,731	5,313	2,503	4,574	4,096	3,813
7,419	1,521	847	150	2	5,256	3
13,406	**7,252**	**6,160**	**2,653**	**4,576**	**9,352**	**3,816**
5,730	**3,071**	**3,564**	**1,000**	**1,733**	**3,695**	**1,454**
1,095	1,486	1,698	578	1,796	9,444	1,105
6,825	**4,557**	**5,262**	**1,578**	**3,529**	**13,139**	**2,559**
(1,097)	(1,079)	(1,066)	(512)	(1,025)	(1,017)	(941)
5,728	**3,478**	**4,196**	**1,066**	**2,504**	**12,122**	**1,618**
128,357	115,818	106,102	101,833	94,003	88,633	69,958
25,611	30,478	24,482	23,613	21,524	15,326	7,570
4,068	5,717	6,139	6,145	5,994	5,886	7,714
7,014	7,248	5,997	5,348	5,572	4,815	3,802
165,050	159,261	142,720	136,939	127,093	114,660	89,044
(20,582)	(17,533)	(15,643)	(14,226)	(14,269)	(13,377)	(8,441)
144,468	**141,728**	**127,077**	**122,713**	**112,824**	**101,283**	**80,603**
76,026	70,572	65,224	60,510	58,972	52,973	40,640
68,670	65,836	64,391	60,658	61,225	49,372	38,129
(228)	5,320	(2,538)	1,545	(7,373)	(1,062)	1,834
144,468	141,728	127,077	122,713	112,824	101,283	80,603
1,355	1,350	1,350	1,348	1,348	1,339	1,334
$5.04	$3.38	$3.90	$1.17	$2.62	$9.83	$1.92
81¢	80¢	79¢	38¢	76¢	76¢	70.5¢
19¢	19¢	19¢	–	19¢	19¢	16.5¢
62¢	61¢	60¢	38¢	57¢	57¢	54¢
$56.1	$52.3	$48.3	$44.9	$43.7	$39.6	$30.5
$106.8	$101.0	$96.0	$89.9	$89.2	$76.4	$59.0
16%	24%	20%	32%	29%	8%	37%
19%	35%	30%	51%	59%	28%	65%
0.0%	3.9%	0.0%	1.4%	0.0%	0.0%	2.8%
27.7%	33.0%	29.0%	22.9%	17.4%	10.5%	14.6%
25	23	60	44	63	33	21
9.3%	6.7%	8.4%	5.3%	6.3%	28.1%	6.6%

Glossary

Financial Terms

Finance costs	Total of interest expense on total borrowings and other borrowing costs, net of amount capitalized
Total borrowings	Total of bank loans & other borrowings, net of unamortized other borrowing costs
Net debt	Total borrowings net of cash and deposits with banks
Net profit attributable to shareholders	Profit for the year (after tax) less amounts attributable to non-controlling interests
Underlying net profit attributable to shareholders	Net profit attributable to shareholders excluded changes in fair value of properties net of related deferred tax and non-controlling interests

Financial Ratios

$$\text{Basic earnings per share} = \frac{\text{Profit attributable to shareholders}}{\text{Weighted average number of shares in issue during the year}}$$

$$\text{Debt to equity} = \frac{\text{Total borrowings}}{\text{Total equity}}$$

$$\text{Net asset per share} = \frac{\text{Net assets}}{\text{Weighted average number of shares in issue during the year}}$$

$$\text{Net debt to equity} = \frac{\text{Net debt}}{\text{Total equity}}$$

$$\text{Interest cover} = \frac{\text{Operating profit before changes in fair value of properties}}{\text{Finance costs on borrowings before capitalization less interest income}}$$

General Terms

AGM	annual general meeting of the Company
Articles of Association	the articles of association of the Company
Board	board of directors of the Company
Board Member(s) or **Directors of the Board**	director(s) of the Board
CG Code	Corporate Governance Code contained in Appendix 14 to the Listing Rules
Companies Ordinance	Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
Company	Hang Lung Group Limited
ERM	enterprise risk management
ESG Guide	Environmental, Social and Governance Reporting Guide contained in Appendix 27 to the Listing Rules
Executive Board Members	executive directors of the Board
Group	the Company and its subsidiaries
HKEx	Hong Kong Exchanges and Clearing Limited
HKSAR	the Hong Kong Special Administrative Region of the People's Republic of China
HLP	Hang Lung Properties Limited (the Company's listed subsidiary)
INED(s)	independent non-executive director(s)
Listing Rules	Rules Governing the Listing of Securities on the Stock Exchange
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
NED(s)	non-executive director(s)
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Stock Exchange	The Stock Exchange of Hong Kong Limited
UK	the United Kingdom
US or **USA**	the United States of America

Corporate Information

Directors

Ronnie C. Chan *GBM (Chairman)*
Weber W.P. Lo *(Chief Executive Officer)*
Gerald L. Chan[#]
Simon S.O. Ip *GBS, CBE, JP*[*]
P.W. Liu *SBS, JP*[*]
L.C. Tsui *OC, GBM, GBS, JP*[*]
Martin C.K. Liao *SBS, JP*[*]
George K.K. Chang[#]
Roy Y.C. Chen[#]
H.C. Ho *(Chief Financial Officer)*
Adriel W. Chan

[#] *Non-Executive Director*
[*] *Independent Non-Executive Director*

Audit Committee

Simon S.O. Ip *GBS, CBE, JP (Chairman)*
P.W. Liu *SBS, JP*
L.C. Tsui *OC, GBM, GBS, JP*
George K.K. Chang

Nomination and Remuneration Committee

P.W. Liu *SBS, JP (Chairman)*
Simon S.O. Ip *GBS, CBE, JP*
Martin C.K. Liao *SBS, JP*

Authorized Representatives

Weber W.P. Lo
Margaret K.M. Yan

Company Secretary

Margaret K.M. Yan

Registered Office

28th Floor, Standard Chartered Bank Building
4 Des Voeux Road Central, Hong Kong
Tel : 2879 0111
Fax : 2868 6086

Internet Address

Website: http://www.hanglunggroup.com
Email address: HLGroup@hanglung.com

Auditor

KPMG
Certified Public Accountants

Financial Calendar

2018

July

Announcement of interim results	July 30, 2018

September

Interim dividend paid	September 27, 2018

2019

January

Announcement of annual results	January 30, 2019

April

Latest time for lodging transfers (for attending and voting at annual general meeting)	4:30 p.m. on April 24, 2019
Closure of share register (for attending and voting at annual general meeting)	April 25 to 30, 2019 (both days inclusive)
Annual general meeting (Details are set out in the notice of annual general meeting accompanying this annual report)	11:00 a.m. on April 30, 2019

May

Latest time for lodging transfers (for final dividend)	4:30 p.m. on May 6, 2019
Closure of share register (for final dividend)	May 7, 2019
Proposed final dividend payable	May 21, 2019

Listing Information

At December 31, 2018

1,361,618,242 shares listed on The Stock Exchange of Hong Kong Limited

Stock Code

Hong Kong Stock Exchange: 00010
Reuters: 0010.HK
Bloomberg: 10 HK

Board Lot Size (Share)

1,000

American Depositary Receipt (ADR)

Sponsored Level-1 (Over the Counter)
CUSIP Number/Ticker Symbol: 41043E102/HNLGY
ADR to Underlying Share Ratio: 1:5
Depositary Bank: The Bank of New York Mellon
Website: http://www.adrbnymellon.com

Share Registrar

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre
183 Queen's Road East, Wan Chai, Hong Kong
Tel : 2862 8555
Fax: 2865 0990

Investor Relations Contact

C.F. Kwan
Email address: ir@hanglung.com

Share Information

	Share Price		Total Trading Volume
	High HK$	Low HK$	Number of Shares ('000)
2018			
First quarter	31.50	25.60	56,623
Second quarter	25.95	21.70	86,176
Third quarter	23.30	19.50	73,741
Fourth quarter	22.15	19.12	95,158
Share Price as at December 31, 2018:			**HK$19.94**
Market Capitalization as at December 31, 2018:			**HK$27.15 billion**

	Share Price		Total Trading Volume
	High HK$	Low HK$	Number of Shares ('000)
2017			
First quarter	35.90	26.75	70,084
Second quarter	34.95	30.55	45,579
Third quarter	32.50	27.50	42,214
Fourth quarter	29.25	26.10	50,873
Share Price as at December 31, 2017:			**HK$28.75**
Market Capitalization as at December 31, 2017:			**HK$39.15 billion**

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STOCK CODE

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