

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



恒隆集團有限公司
HANG LUNG GROUP LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00010)

2018 ANNUAL RESULTS

CONTENTS

	Page
Financial Highlights	1
Review of Operations	2
Consolidated Financial Statements	19
Notes to the Consolidated Financial Statements	22
Other Information	37
Glossary	39

FINANCIAL HIGHLIGHTS

in HK\$ Million (unless otherwise stated)

RESULTS

	2018	2017	Change
Revenue	10,015	11,774	-15%
Property Leasing	8,784	8,354	5%
Property Sales	1,231	3,420	-64%
Operating Profit	7,249	8,312	-13%
Property Leasing	6,484	6,074	7%
Property Sales	765	2,238	-66%
Net Profit Attributable to Shareholders	5,285	5,314	-1%
Earnings Per Share (HK\$)	\$3.88	\$3.90	-1%
Dividends Per Share (HK\$)	\$0.80	\$0.80	-
Interim (Paid)	\$0.19	\$0.19	-
Final (Proposed)	\$0.61	\$0.61	-

UNDERLYING RESULTS

	2018	2017	Change
Underlying Net Profit Attributable to Shareholders	2,631	3,314	-21%
Underlying Earnings Per Share (HK\$)	\$1.93	\$2.43	-21%

FINANCIAL POSITION

	At December 31		
	2018	2017	Change
Shareholders' Equity	86,447	83,137	4%
Net Assets	150,736	149,556	1%
Net Debt	18,142	5,816	212%
Financial Ratio			
Net Debt to Equity Ratio	12.0%	3.9%	8.1 pts
Debt to Equity Ratio	20.3%	18.7%	1.6 pts
Shareholders' Equity Per Share (HK\$)	\$63.5	\$61.0	4%
Net Assets Per Share (HK\$)	\$110.7	\$109.8	1%

REVIEW OF OPERATIONS

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	2017	Change	2018	2017	Change
	HK\$ Million	HK\$ Million		HK\$ Million	HK\$ Million	
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 an 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

City and Name of Property	Revenue (RMB Million)			Occupancy Rate*	
	2018	2017	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%		
<i>Total in HK\$ Million equivalent</i>	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 (HK\$ Million)			Occupancy Rate [*]
	2018	2017	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%
<i>Denominated in USD</i>	7,832	25.6%	7,816	27.9%
<i>Denominated in HKD</i>	4,540	14.8%	4,894	17.5%
<i>Denominated in RMB</i>	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	<i>% of Total</i>	HK\$ Million	<i>% of Total</i>
Denominated in:				
HKD	4,737	<i>37.9%</i>	12,805	<i>57.6%</i>
RMB	7,757	<i>62.0%</i>	9,408	<i>42.3%</i>
USD	15	<i>0.1%</i>	10	<i>0.1%</i>
Total cash and bank balances	12,509	<i>100%</i>	22,223	<i>100%</i>

(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.

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) in 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.

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS
 FOR THE YEAR ENDED DECEMBER 31, 2018 (AUDITED)**

	Note	2018		2017	
		HK\$ Million	HK\$ Million	RMB Million	RMB Million
				<i>For information purpose only</i>	
				2018	2017
				RMB Million	RMB Million
Revenue	2(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	3	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		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	4	(715)	(727)	(606)	(629)
Share of profits of joint ventures		435	221	366	190
Profit before taxation	2(b) & 5	10,660	10,785	8,987	9,297
Taxation	6(a)	(1,364)	(1,447)	(1,145)	(1,259)
Profit for the year		9,296	9,338	7,842	8,038
Attributable to:					
Shareholders		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	8(a)				
Basic		HK\$3.88	HK\$3.90	RMB3.27	RMB3.36
Diluted		HK\$3.88	HK\$3.90	RMB3.27	RMB3.36

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
 COMPREHENSIVE INCOME
 FOR THE YEAR ENDED DECEMBER 31, 2018 (AUDITED)**

	Note	2018		2017	
		HK\$ Million	HK\$ Million	RMB Million	RMB Million
Profit for the year		9,296	9,338	7,842	8,038
Other comprehensive income	6(b)				
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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT DECEMBER 31, 2018 (AUDITED)

	Note			<i>For information purpose only</i>	
		2018 HK\$ Million	2017 HK\$ Million	2018 RMB Million	2017 RMB Million
Non-current assets					
Property, plant and equipment					
Investment properties	9	144,572	142,406	126,818	119,030
Investment properties under development	9	31,186	21,592	27,325	18,049
Other property, plant and equipment		213	218	187	182
		175,971	164,216	154,330	137,261
Interest in joint ventures		4,040	3,650	3,548	3,051
Other assets		1,449	1,445	1,273	1,208
Deposits with banks		1,853	3,705	1,628	3,097
Deferred tax assets		3	2	3	2
		183,316	173,018	160,782	144,619
Current assets					
Cash and deposits with banks		10,656	18,518	9,350	15,477
Trade and other receivables	10	2,061	2,078	1,807	1,737
Properties for sale		2,463	1,634	2,163	1,366
Assets held for sale	12	101	540	89	451
		15,281	22,770	13,409	19,031
Current liabilities					
Bank loans and other borrowings		3,360	3,017	2,947	2,522
Trade and other payables	11	6,411	7,169	5,623	5,992
Finance lease obligations		22	19	19	16
Current tax payable		581	511	509	427
Liabilities directly associated with the assets held for sale	12	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		27,291	25,022	23,946	20,914
Finance lease obligations		298	319	261	267
Deferred tax liabilities		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		4,065	4,065	3,164	3,164
Reserves		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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The financial information relating to the years ended December 31, 2018 and 2017 included in this announcement of annual results does not constitute the statutory annual consolidated financial statements of Hang Lung Group Limited (the “Company”) and its subsidiaries (collectively the “Group”) for those years but is derived from those consolidated financial statements in accordance with section 436 of the Hong Kong Companies Ordinance (Cap.622). The Company has delivered the consolidated financial statements for the year ended December 31, 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance and will deliver the consolidated financial statements for the year ended December 31, 2018 in due course. The Company’s auditor has reported on the consolidated financial statements for both years. The auditor’s reports were unqualified and they did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports, and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

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 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, *Revenue from contracts with customers*, 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 significant accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended December 31, 2017, except for the changes summarized below.

1. Basis of preparation (Continued)

Impact of adoption of HKFRS 15, Revenue from contracts with customers

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.

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

1. Basis of preparation (Continued)

(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.

1. Basis of preparation (Continued)

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.

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.

(a) Consolidated statement of profit or loss (Extract)

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

1. Basis of preparation (Continued)

(b) Consolidated statement of financial position (Extract)

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

(c) 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.

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 on the same basis as 2017.

2. 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 car parks, 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:

	2018	2017
	HK\$ Million	HK\$ Million
Under the scope of HKAS 17, Leases:		
Rental income	<u>7,803</u>	<u>7,454</u>
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
	<u>2,212</u>	<u>4,320</u>
	<u>10,015</u>	<u>11,774</u>

2. Revenue and segment information (Continued)

(b) Revenue and results by segments

<u>Segment</u>	<u>Revenue</u>		<u>Profit before taxation</u>	
	2018 HK\$ Million	2017 HK\$ Million	2018 HK\$ Million	2017 HK\$ Million
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 changes 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

2. Revenue and segment information (Continued)

(c) Total assets by segments

<u>Segment</u>	Total assets	
	2018	2017
	HK\$ Million	HK\$ Million
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

3. Other net income

	2018	2017
	HK\$ Million	HK\$ Million
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 hedge	(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.

4. Net interest expense

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

5. Profit before taxation

	2018	2017
	HK\$ Million	HK\$ Million
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	<u>46</u>	<u>44</u>

6. Taxation

- (a) 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.

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

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

7. Dividends

(a) Dividends attributable to the year

	2018	2017
	HK\$ Million	HK\$ Million
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
Total dividends attributable to the year	<u>1,089</u>	<u>1,089</u>

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).

8. Earnings per share

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

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

8. Earnings per share (Continued)

(a) (Continued)

	Number of shares	
	2018	2017
	(Million)	(Million)
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 periods 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:

	2018	2017
	HK\$ Million	HK\$ Million
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

9. Investment properties and investment properties under development

(a) Addition

During the year, additions to investment properties and investment properties under development amounted to HK\$12,187 million (2017: HK\$4,491 million). The additions included partial payment to Hangzhou Land Resources Bureau for acquiring the land in Xiacheng District, Hangzhou, Zhejiang Province, PRC.

(b) Valuation

The investment properties and investment properties under development of the Group 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.

10. Trade and other receivables

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

	2018	2017
	HK\$ Million	HK\$ Million
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
	<u>21</u>	<u>520</u>

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. The allowance for expected credit losses is insignificant.

(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).

11. Trade and other payables

Included in trade and other payables are trade creditors with the following aging analysis:

	2018	2017
	HK\$ Million	HK\$ Million
Due within 3 months	1,992	2,063
Due after 3 months	866	1,977
	<u>2,858</u>	<u>4,040</u>

12. 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.

	2018	2017
	HK\$ Million	HK\$ Million
Investment properties	101	539
Properties for sale	-	1
Assets held for sale	<u>101</u>	<u>540</u>
Deposits received	-	2
Deferred tax liabilities	3	-
Liabilities directly associated with the assets held for sale	<u>3</u>	<u>2</u>

12. Assets held for sale (Continued)

The balance at December 31, 2017 represented items as below:

- (a) 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
- (b) 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.

OTHER INFORMATION

Employees

As at December 31, 2018, the number of employees was 4,648 (comprising 1,199 Hong Kong employees and 3,449 mainland China employees). The total employee costs for the year ended December 31, 2018, amounted to HK\$1,658 million. We provide competitive remuneration packages for all employees including discretionary bonuses payable based on individual performance. We regularly review the remuneration packages to ensure that they comply with relevant regulatory requirements and market conditions. The Group has share option schemes for the executives and provides professional and high-quality training for all employees.

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.

Compliance with Corporate Governance Code

During the year, the Company complied with the code provisions set out in the Corporate Governance Code as stated in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Audit Committee

The annual results for the year ended December 31, 2018, have been reviewed by the Audit Committee of the Company. The Group's consolidated financial statements have been audited by the Company's auditor, KPMG, and it has issued an unmodified opinion.

Book Close Dates

For ascertaining shareholders' right to attend and vote at the Annual General Meeting (AGM)

Book close dates (both days inclusive)	April 25 to 30, 2019
Latest time to lodge transfers	4:30 pm on April 24, 2019
Record date	April 30, 2019
AGM	April 30, 2019

For ascertaining shareholders' entitlement to the proposed final dividend

Book close date	May 7, 2019
Latest time to lodge transfers	4:30 pm on May 6, 2019
Record date	May 7, 2019
Final dividend payment date	May 21, 2019

On Behalf of the Board

Ronnie C. Chan

Chairman

Hong Kong, January 30, 2019

As of the date of this announcement, the board of directors of the Company comprises the following directors:

Executive Directors: Mr. Ronnie C. CHAN, Mr. Weber W.P. LO, Mr. H.C. HO and Mr. Adriel W. CHAN

Non-Executive Directors: Mr. Gerald L. CHAN, Mr. George K.K. CHANG and Mr. Roy Y.C. CHEN

Independent Non-Executive Directors: Mr. Simon S.O. IP, Prof. P.W. LIU, Prof. L.C. TSUI and Mr. Martin C.K. LIAO

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

Basic earnings per share	=	$\frac{\text{Profit attributable to shareholders}}{\text{Weighted average number of shares in issue during the year}}$	Debt to equity	=	$\frac{\text{Total borrowings}}{\text{Total equity}}$
--------------------------	---	--	----------------	---	---

Net assets per share	=	$\frac{\text{Net assets}}{\text{Weighted average number of shares in issue during the year}}$	Net debt to equity	=	$\frac{\text{Net debt}}{\text{Total equity}}$
----------------------	---	---	--------------------	---	---

Interest cover	=	$\frac{\text{Operating profit before changes in fair value of properties}}{\text{Finance costs on borrowings before capitalization less interest income}}$
----------------	---	--