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 (For information purpose only)	2017 RMB Million (For information purpose only)
Revenue	3(a)	**9,408**	11,199	**7,914**	9,735
Direct costs and operating expenses		**(2,586)**	(3,289)	**(2,173)**	(2,856)
Gross profit		**6,822**	7,910	**5,741**	6,879
Other net income	4	**93**	549	**78**	471
Administrative expenses		**(637)**	(580)	**(539)**	(503)
Operating profit before changes in fair value of properties		**6,278**	7,879	**5,280**	6,847
Net increase in fair value of properties	11	**4,170**	2,599	**3,531**	2,194
Operating profit after changes in fair value of properties		**10,448**	10,478	**8,811**	9,041
Interest income		**445**	548	**373**	477
Finance costs		**(1,069)**	(1,202)	**(902)**	(1,043)
Net interest expense	5	**(624)**	(654)	**(529)**	(566)
Share of profits of joint ventures	12	**97**	78	**82**	68
Profit before taxation	3(b) & 6	**9,921**	9,902	**8,364**	8,543
Taxation	8(a)	**(1,269)**	(1,352)	**(1,114)**	(1,176)
Profit for the year		**8,652**	8,550	**7,250**	7,367
Attributable to:					
Shareholders	23	**8,078**	8,124	**6,763**	6,998
Non-controlling interests		**574**	426	**487**	369
		8,652	8,550	**7,250**	7,367
Earnings per share	10(a)				
Basic		**HK$1.80**	HK$1.81	**RMB1.50**	RMB1.56
Diluted		**HK$1.80**	HK$1.81	**RMB1.50**	RMB1.56

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		**8,652**	8,550	**7,250**	7,367
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		**(3,658)**	5,206	**2,801**	(3,718)
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		**8**	–	**7**	–
		(3,659)	5,072	**2,800**	(3,837)
Total comprehensive income for the year		**4,993**	13,622	**10,050**	3,530
Total comprehensive income attributable to:					
Shareholders		**4,703**	12,803	**9,565**	3,162
Non-controlling interests		**290**	819	**485**	368
		4,993	13,622	**10,050**	3,530

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	For information purpose only 2018 RMB Million	2017 RMB Million
Non-current assets					
Property, plant and equipment					
Investment properties		**136,676**	134,444	**119,895**	112,374
Investment properties under development		**31,186**	21,592	**27,325**	18,049
Other property, plant and equipment		**216**	220	**189**	184
	11	**168,078**	156,256	**147,409**	130,607
Interest in joint ventures	12	**1,330**	1,277	**1,168**	1,067
Other assets	13	**93**	85	**82**	71
Deposits with banks	14	**1,853**	3,705	**1,628**	3,097
		171,354	161,323	**150,287**	134,842
Current assets					
Cash and deposits with banks	14	**10,510**	18,401	**9,222**	15,379
Trade and other receivables	15	**2,046**	2,036	**1,794**	1,702
Properties for sale	16	**2,442**	1,612	**2,145**	1,347
Assets held for sale	17	**101**	214	**89**	179
		15,099	22,263	**13,250**	18,607
Current liabilities					
Bank loans and other borrowings	18	**2,414**	2,112	**2,116**	1,765
Trade and other payables	19	**5,974**	6,673	**5,236**	5,579
Finance lease obligations	20	**22**	19	**19**	16
Current tax payable	21(a)	**533**	483	**470**	404
Liabilities directly associated with the assets held for sale	17	**3**	2	**3**	2
		8,946	9,289	**7,844**	7,766
Net current assets		**6,153**	12,974	**5,406**	10,841
Total assets less current liabilities		**177,507**	174,297	**155,693**	145,683
Non-current liabilities					
Bank loans and other borrowings	18	**24,839**	22,708	**21,792**	18,980
Finance lease obligations	20	**298**	319	**261**	267
Deferred tax liabilities	21(b)	**8,776**	9,025	**7,690**	7,527
		33,913	32,052	**29,743**	26,774
NET ASSETS		**143,594**	142,245	**125,950**	118,909
Capital and reserves					
Share capital	22	**39,915**	39,912	**37,433**	37,431
Reserves	23	**97,646**	96,246	**83,231**	76,390
Shareholders' equity		**137,561**	136,158	**120,664**	113,821
Non-controlling interests		**6,033**	6,087	**5,286**	5,088
TOTAL EQUITY		**143,594**	142,245	**125,950**	118,909

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				Non-controlling interests	Total equity
	Share capital (Note 22)	Other reserves (Note 23)	Retained profits (Note 23)	Total		
At January 1, 2017	39,912	(2,354)	89,092	126,650	5,580	132,230
Profit for the year	–	–	8,124	8,124	426	8,550
Exchange difference arising from translation to presentation currency	–	4,813	–	4,813	393	5,206
Cash flow hedges: net movement in hedging reserve	–	(134)	–	(134)	–	(134)
Total comprehensive income for the year	–	4,679	8,124	12,803	819	13,622
Final dividend in respect of previous year	–	–	(2,608)	(2,608)	–	(2,608)
Interim dividend in respect of current year	–	–	(765)	(765)	–	(765)
Employee share-based payments	–	(74)	152	78	–	78
Dividends paid to non-controlling interests	–	–	–	–	(312)	(312)
At December 31, 2017 and January 1, 2018	39,912	2,251	93,995	136,158	6,087	142,245
Profit for the year	**–**	**–**	**8,078**	**8,078**	**574**	**8,652**
Exchange difference arising from translation to presentation currency	**–**	**(3,374)**	**–**	**(3,374)**	**(284)**	**(3,658)**
Cash flow hedges: net movement in hedging reserve	**–**	**(9)**	**–**	**(9)**	**–**	**(9)**
Net change in fair value of equity investments	**–**	**8**	**–**	**8**	**–**	**8**
Total comprehensive income for the year	**–**	**(3,375)**	**8,078**	**4,703**	**290**	**4,993**
Final dividend in respect of previous year	**–**	**–**	**(2,609)**	**(2,609)**	**–**	**(2,609)**
Interim dividend in respect of current year	**–**	**–**	**(765)**	**(765)**	**–**	**(765)**
Issue of shares	**3**	**–**	**–**	**3**	**–**	**3**
Employee share-based payments	**–**	**7**	**64**	**71**	**–**	**71**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**(344)**	**(344)**
At December 31, 2018	**39,915**	**(1,117)**	**98,763**	**137,561**	**6,033**	**143,594**

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	37,431	1,589	74,519	113,539	4,991	118,530
Profit for the year	–	–	6,998	6,998	369	7,367
Exchange difference arising from translation to presentation currency	–	(3,717)	–	(3,717)	(1)	(3,718)
Cash flow hedges: net movement in hedging reserve	–	(119)	–	(119)	–	(119)
Total comprehensive income for the year	–	(3,836)	6,998	3,162	368	3,530
Final dividend in respect of previous year	–	–	(2,305)	(2,305)	–	(2,305)
Interim dividend in respect of current year	–	–	(643)	(643)	–	(643)
Employee share-based payments	–	(61)	129	68	–	68
Dividends paid to non-controlling interests	–	–	–	–	(271)	(271)
At December 31, 2017 and January 1, 2018	37,431	(2,308)	78,698	113,821	5,088	118,909
Profit for the year	**–**	**–**	**6,763**	**6,763**	**487**	**7,250**
Exchange difference arising from translation to presentation currency	**–**	**2,803**	**–**	**2,803**	**(2)**	**2,801**
Cash flow hedges: net movement in hedging reserve	**–**	**(8)**	**–**	**(8)**	**–**	**(8)**
Net change in fair value of equity investments	**–**	**7**	**–**	**7**	**–**	**7**
Total comprehensive income for the year	**–**	**2,802**	**6,763**	**9,565**	**485**	**10,050**
Final dividend in respect of previous year	**–**	**–**	**(2,115)**	**(2,115)**	**–**	**(2,115)**
Interim dividend in respect of current year	**–**	**–**	**(669)**	**(669)**	**–**	**(669)**
Issue of shares	**2**	**–**	**–**	**2**	**–**	**2**
Employee share-based payments	**–**	**4**	**56**	**60**	**–**	**60**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**(287)**	**(287)**
At December 31, 2018	**37,433**	**498**	**82,733**	**120,664**	**5,286**	**125,950**

Consolidated Cash Flow Statement

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)
Operating activities					
Cash generated from operations	24	**6,801**	10,333	**5,737**	8,962
Tax paid					
Hong Kong Profits Tax paid		**(491)**	(1,080)	**(414)**	(935)
Mainland China Income Tax paid		**(572)**	(696)	**(477)**	(601)
Net cash generated from operating activities		**5,738**	8,557	**4,846**	7,426
Investing activities					
Payment for property, plant and equipment		**(12,859)**	(4,160)	**(10,871)**	(3,601)
Acquisition of subsidiaries	25	**(1,200)**	(616)	**(1,054)**	(537)
Net sale proceeds from disposal of property, plant and equipment		**161**	560	**137**	485
Net sale proceeds from disposal of assets held for sale		**237**	–	**192**	–
Interest received		**453**	518	**378**	452
Dividends received from joint ventures		**44**	50	**38**	43
Repayment of advances to unlisted investee companies		**–**	2	**–**	2
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		**(5,259)**	(14,323)	**(4,515)**	(12,405)
Financing activities					
Proceeds from new bank loans and other borrowings	26	**9,081**	1,234	**7,666**	1,069
Repayment of bank loans and other borrowings	26	**(6,028)**	(4,479)	**(5,081)**	(3,880)
Capital element of finance lease rentals paid	26	**(3)**	–	**(3)**	–
Proceeds from exercise of share options		**3**	–	**2**	–
Interest and other borrowing costs paid		**(1,245)**	(1,157)	**(1,049)**	(1,007)
Interest element of finance lease rentals paid	26	**(16)**	–	**(14)**	–
Dividends paid		**(3,374)**	(3,373)	**(2,784)**	(2,948)
Dividends paid to non-controlling interests		**(344)**	(312)	**(287)**	(271)
Net cash used in financing activities		**(1,926)**	(8,087)	**(1,550)**	(7,037)
Decrease in cash and cash equivalents		**(1,447)**	(13,853)	**(1,219)**	(12,016)
Effect of foreign exchange rate changes		**(370)**	847	**56**	(300)
Cash and cash equivalents at January 1		**10,373**	23,379	**8,670**	20,986
Cash and cash equivalents at December 31	14	**8,556**	10,373	**7,507**	8,670

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 and advances to unlisted investee companies), 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	93	2	95
Net increase in fair value of properties	4,170	(2)	4,168

(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	2,046	3	2,049
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, 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	**7,344**	7,015
Under the scope of HKFRS 15, *Revenue from contracts with customers:*		
Sales of completed properties	**1,227**	3,420
Building management fees and other rental related income	**837**	764
	2,064	4,184
	9,408	11,199

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	**4,244**	3,958	**2,739**	2,454
– Hong Kong	**3,937**	3,821	**3,321**	3,218
	8,181	7,779	**6,060**	5,672
Property sales				
– Hong Kong	**1,227**	3,420	**762**	2,238
Segment total	**9,408**	11,199	**6,822**	7,910
Other net income			**93**	549
Administrative expenses			**(637)**	(580)
Operating profit before changes in fair value of properties			**6,278**	7,879
Net increase in fair value of properties			**4,170**	2,599
– property leasing in Hong Kong			**3,852**	2,855
– property leasing in mainland China			**318**	(256)
Net interest expense			**(624)**	(654)
– interest income			**445**	548
– finance costs			**(1,069)**	(1,202)
Share of profits of joint ventures			**97**	78
Profit before taxation			**9,921**	9,902

3 Revenue and Segment Information (Continued)

(c) Total assets by segments

HK$ Million	Total assets	
	2018	2017
Segment		
Property leasing		
– Mainland China	**103,489**	95,414
– Hong Kong	**66,634**	62,361
	170,123	157,775
Property sales		
– Hong Kong	**2,443**	2,129
Segment total	**172,566**	159,904
Interest in joint ventures	**1,330**	1,277
Other assets	**93**	85
Cash and deposits with banks	**12,363**	22,106
Assets held for sale	**101**	214
Total assets	**186,453**	183,586

4 Other Net Income

HK$ Million	**2018**	2017
Gain on disposal of investment properties	**71**	464
Gain on disposal of assets held for sale	**25**	–
Ineffectiveness on cash flow hedges	**(1)**	(5)
Net exchange (loss)/gain	**(1)**	89
Others	**(1)**	1
	93	549

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	**445**	548
Interest expense on bank loans and other borrowings	**1,271**	1,164
Finance charges on finance leases obligations	**16**	8
Other borrowing costs	**33**	86
Total borrowing costs	**1,320**	1,258
Less: Borrowing costs capitalized (Note)	**(251)**	(56)
Finance costs	**1,069**	1,202
Net interest expense	**(624)**	(654)

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	**373**	938
Staff costs, including employee share-based payments of HK$71 million (2017: HK$78 million)	**1,568**	1,427
Depreciation	**45**	43
Auditors' remuneration		
– audit services	**9**	9
– non-audit services	**3**	5
and after crediting:		
Rental and related income from investment properties less direct outgoings of HK$2,121 million (2017: HK$2,107 million), including contingent rentals of HK$431 million (2017: HK$381 million)	**6,060**	5,672

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 Director's 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	**0.9**	**27.0**	**8.1**	**–**	**2.7**	**38.7**	38.6
Weber W.P. Lo (Appointed on May 16, 2018)	**0.4**	**11.3**	**13.8**	**–**	**0.6**	**26.1**	–
H.C. Ho	**0.7**	**5.2**	**3.2**	**–**	**0.4**	**9.5**	9.7
Adriel W. Chan	**0.7**	**5.5**	**2.7**	**–**	**0.4**	**9.3**	8.6
Philip N.L. Chen (Re-designated from Executive Director to Non-Executive Director on July 16, 2018)	**0.4**	**13.9**	**–**	**40.0**	**1.0**	**55.3**	36.0
Non-Executive Director							
Philip N.L. Chen (Re-designated from Executive Director to Non-Executive Director on July 16, 2018)	**0.3**	**3.5**	**–**	**–**	**0.3**	**4.1**	–
Independent Non-Executive Directors							
Ronald J. Arculli	**0.9**	**–**	**–**	**–**	**–**	**0.9**	0.9
Nelson W.L. Yuen	**0.7**	**–**	**–**	**–**	**–**	**0.7**	0.7
Dominic C.F. Ho	**1.1**	**–**	**–**	**–**	**–**	**1.1**	1.1
Andrew K.C. Chan	**0.9**	**–**	**–**	**–**	**–**	**0.9**	0.9
H.K. Chang	**1.0**	**–**	**–**	**–**	**–**	**1.0**	1.0
Anita Y.M. Fung	**0.9**	**–**	**–**	**–**	**–**	**0.9**	0.9
2018	**8.9**	**66.4**	**27.8**	**40.0**	**5.4**	**148.5**	98.4
2017	8.5	60.2	24.6	–	5.1	98.4	

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 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 the Company, 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	**482**	715
Under-provision in prior years	**7**	1
	489	716
Mainland China Income Tax	**635**	588
Total current tax	**1,124**	1,304
Deferred tax		
Changes in fair value of properties	**66**	(1)
Other origination and reversal of temporary differences	**79**	49
Total deferred tax (Note 21(b))	**145**	48
Total income tax expense	**1,269**	1,352

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$9 million (2017: HK$10 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	**9,921**	9,902
Notional tax on profit before taxation at applicable rates	**1,854**	1,778
Tax effect of non-taxable income	**(705)**	(590)
Tax effect of non-deductible expenses	**33**	41
Tax effect of tax losses utilized and other deductible temporary differences	**(108)**	(125)
Tax effect of unrecognized tax losses	**188**	247
Under-provision in prior years	**7**	1
Actual tax expense	**1,269**	1,352

(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 HK17 cents (2017: HK17 cents) per share	**765**	765
Final dividend of HK58 cents (2017: HK58 cents) per share proposed after the end of the reporting period	**2,609**	2,609
	3,374	3,374

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$2,609 million (calculated based on HK58 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$2,608 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)	**8,078**	8,124

Million	Number of shares	
	2018	2017
Weighted average number of shares used in calculating basic earnings per share	**4,498**	4,498
Effect of dilutive potential shares – share options	**–**	1
Weighted average number of shares used in calculating diluted earnings per share	**4,498**	4,499

(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	**8,078**	8,124
Effect of changes in fair value of properties	**(4,170)**	(2,599)
Effect of corresponding deferred tax	**66**	(1)
Effect of changes in fair value of investment properties of joint ventures	**(48)**	(25)
	(4,152)	(2,625)
Non-controlling interests	**167**	31
	(3,985)	(2,594)
Underlying net profit attributable to shareholders	**4,093**	5,530

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

	2018	2017
Basic	**HK$0.91**	HK$1.23
Diluted	**HK$0.91**	HK$1.23

11 Property, Plant and Equipment

HK$ Million	Investment properties	Investment properties under development	Others	Total
Cost or valuation:				
At January 1, 2017	125,421	17,282	608	143,311
Exchange adjustment	4,702	1,204	22	5,928
Additions	1,323	3,106	–	4,429
Acquisition of subsidiaries (Note 25)	616	–	–	616
Disposals	(4)	–	(83)	(87)
Net increase in fair value	2,599	–	–	2,599
Transfer to assets held for sale (Note 17)	(213)	–	–	(213)
At December 31, 2017 and January 1, 2018	134,444	21,592	547	156,583
Exchange adjustment	**(3,357)**	**(896)**	**(14)**	**(4,267)**
Additions (Note 11(a))	**1,028**	**11,085**	**48**	**12,161**
Disposals	**(103)**	**–**	**(7)**	**(110)**
Net increase in fair value	**4,170**	**–**	**–**	**4,170**
Transfer in/(out)	**595**	**(595)**	**–**	**–**
Transfer to assets held for sale (Note 17)	**(101)**	**–**	**–**	**(101)**
At December 31, 2018	**136,676**	**31,186**	**574**	**168,436**
Accumulated depreciation:				
At January 1, 2017	–	–	281	281
Exchange adjustment	–	–	10	10
Charge for the year	–	–	43	43
Written back on disposals	–	–	(7)	(7)
At December 31, 2017 and January 1, 2018	–	–	327	327
Exchange adjustment	**–**	**–**	**(8)**	**(8)**
Charge for the year	**–**	**–**	**45**	**45**
Written back on disposals	**–**	**–**	**(6)**	**(6)**
At December 31, 2018	**–**	**–**	**358**	**358**
Net book value:				
At December 31, 2018	**136,676**	**31,186**	**216**	**168,078**
At December 31, 2017	134,444	21,592	220	156,256

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	**136,676**	**31,186**	**–**	**167,862**
Cost	**–**	**–**	**574**	**574**
	136,676	**31,186**	**574**	**168,436**
December 31, 2017				
Valuation	134,444	21,592	–	156,036
Cost	–	–	547	547
	134,444	21,592	547	156,583

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	**–**	**136,676**	**–**
Investment properties under development	**–**	**–**	**31,186**

HK$ Million	Fair value measurement at December 31, 2017		
	Level 1	Level 2	Level 3
Investment properties	–	134,444	–
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)	**23,546**	21,847	**–**	–
Outside Hong Kong				
– long-term leases (over 50 years)	**–**	–	**912**	923
– medium-term leases (10 to 50 years)	**70,611**	72,563	**30,274**	20,669
	136,676	134,444	**31,186**	21,592

(d) The net book value of other property, plant and equipment of the Group included long-term leases of HK$14 million (2017: HK$14 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	**5,442**	5,328
After 1 year but within 5 years	**6,979**	7,096
After 5 years	**921**	710
	13,342	13,134

12 Interest in Joint Ventures

HK$ Million	**2018**	2017
Share of net assets	**1,330**	1,277

Details of joint ventures are set out in note 39. 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	**1,359**	1,306
Current assets	**5**	5
Non-current liabilities	**(8)**	(8)
Current liabilities	**(26)**	(26)
Net assets	**1,330**	1,277

HK$ Million	**2018**	2017
Revenue	**70**	74
Profit and total comprehensive income for the year	**97**	78

13 Other Assets

As of December 31, 2018, other assets comprised investments in unlisted equity instruments of HK$93 million (2017: HK$85 million) in respect of the investment in Ever Light Limited. These investments were designated as at FVTOCI 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	994	1,389
Time deposits recoverable within 1 year	9,516	17,012
	10,510	18,401
Time deposits recoverable after 1 year	1,853	3,705
Cash and deposits with banks in the consolidated statement of financial position	12,363	22,106
Less: Bank deposits with maturity greater than 3 months	(3,807)	(11,733)
Cash and cash equivalents in the consolidated cash flow statement	8,556	10,373

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	4,673	12,761
Hong Kong Dollars equivalent of:		
Renminbi	7,681	9,341
United States Dollars	9	4
	12,363	22,106

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)	27,253	24,820
Less: Cash and deposits	(12,363)	(22,106)
Net debt	14,890	2,714

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	**13**	510
1 – 3 months past due	**4**	6
More than 3 months past due	**2**	3
	19	519

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)	**5**	55
Properties held for development for sale located in Hong Kong		
– medium-term leases (10 to 50 years)	**1,203**	–
	2,442	1,612

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**	213
Properties for sale	**–**	1
Assets held for sale	**101**	214
Deposits received	**–**	2
Deferred tax liabilities	**3**	–
Liabilities directly associated with the assets held for sale	**3**	2

The disposal group at December 31, 2017 was related 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.

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	**2,458**	1,737
After 1 year but within 2 years	**3,080**	3,609
After 2 years but within 5 years	**5,789**	5,283
Over 5 years	**2,463**	1,485
	13,790	12,114
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
	27,373	24,918
Less: unamortized front end fees	**(120)**	(98)
Total bank loans and other borrowings	**27,253**	24,820
Amount due within 1 year included under current liabilities	**(2,414)**	(2,112)
	24,839	22,708

(a) All bank loans are interest-bearing at rates ranging from 1.3% to 5.7% (2017: 1.3% 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$16,224 million (2017: HK$9,969 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))	**3,528**	4,348
Contract liabilities (Note (b))	**47**	–
Deposits received (Note (c))	**2,399**	2,325
	5,974	6,673

(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$47 million (January 1, 2018: HK$39 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$1,430 million (2017: HK$1,309 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	**1,737**	1,759
Due after 3 months	**850**	1,768
	2,587	3,527

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	**242**	244
Mainland China Income Tax	**291**	239
	533	483

(b) Deferred tax liabilities

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	1,385	6,952	(1)	75	8,411
Exchange adjustment	70	495	–	1	566
Charged/(Credited) to profit or loss (Note 8(a))	84	(1)	(40)	5	48
At December 31, 2017 and January 1, 2018	1,539	7,446	(41)	81	9,025
Exchange adjustment	**(51)**	**(339)**	**–**	**(1)**	**(391)**
Charged/(Credited) to profit or loss (Note 8(a))	**101**	**66**	**(24)**	**2**	**145**
Transfer to liabilities directly associated with assets held for sale (Note 17)	**(3)**	**–**	**–**	**–**	**(3)**
At December 31, 2018	**1,586**	**7,173**	**(65)**	**82**	**8,776**

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$5,053 million (2017: HK$4,434 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

Movements of the Company's ordinary shares are 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:				
At January 1	**4,498**	**39,912**	4,498	39,912
Shares issued under share option scheme	**–**	**3**	–	–
At December 31	**4,498**	**39,915**	4,498	39,912

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	Total	Retained profits	Total reserves
At January 1, 2017	(3,240)	–	85	801	(2,354)	89,092	86,738
Profit for the year	–	–	–	–	–	8,124	8,124
Exchange difference arising from translation to presentation currency	4,813	–	–	–	4,813	–	4,813
Cash flow hedges: net movement in hedging reserve	–	(134)	–	–	(134)	–	(134)
Total comprehensive income for the year	4,813	(134)	–	–	4,679	8,124	12,803
Final dividend in respect of previous year	–	–	–	–	–	(2,608)	(2,608)
Interim dividend in respect of current year	–	–	–	–	–	(765)	(765)
Employee share-based payments	–	–	–	(74)	(74)	152	78
At December 31, 2017 and January 1, 2018	1,573	(134)	85	727	2,251	93,995	96,246
Profit for the year	**–**	**–**	**–**	**–**	**–**	**8,078**	**8,078**
Exchange difference arising from translation to presentation currency	**(3,374)**	**–**	**–**	**–**	**(3,374)**	**–**	**(3,374)**
Cash flow hedges: net movement in hedging reserve	**–**	**(9)**	**–**	**–**	**(9)**	**–**	**(9)**
Net change in fair value of equity investments	**–**	**–**	**8**	**–**	**8**	**–**	**8**
Total comprehensive income for the year	**(3,374)**	**(9)**	**8**	**–**	**(3,375)**	**8,078**	**4,703**
Final dividend in respect of previous year	**–**	**–**	**–**	**–**	**–**	**(2,609)**	**(2,609)**
Interim dividend in respect of current year	**–**	**–**	**–**	**–**	**–**	**(765)**	**(765)**
Employee share-based payments	**–**	**–**	**–**	**7**	**7**	**64**	**71**
At December 31, 2018	**(1,801)**	**(143)**	**93**	**734**	**(1,117)**	**98,763**	**97,646**

23 Reserves (Continued)

(a) The Group (Continued)

The retained profits of the Group at December 31, 2018 included HK$921 million (2017: HK$911 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).

(b) The Company

HK$ Million	Employee share-based compensation reserve	Retained profits	Total reserves
At January 1, 2017	801	15,899	16,700
Profit and total comprehensive income for the year	–	10,649	10,649
Final dividend in respect of previous year	–	(2,608)	(2,608)
Interim dividend in respect of current year	–	(765)	(765)
Employee share-based payments	(74)	152	78
At December 31, 2017 and January 1, 2018	727	23,327	24,054
Profit and total comprehensive income for the year	**–**	**1,630**	**1,630**
Final dividend in respect of previous year	**–**	**(2,609)**	**(2,609)**
Interim dividend in respect of current year	**–**	**(765)**	**(765)**
Employee share-based payments	**7**	**64**	**71**
At December 31, 2018	**734**	**21,647**	**22,381**

The aggregate amount of the Company's reserves available for distribution to equity shareholders of the Company at December 31, 2018 was HK$21,647 million (2017: HK$23,327 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 10.4% (2017: 1.9%) and 19.0% (2017: 17.4%), 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	**9,921**	9,902
Adjustments for:		
Gain on disposal of investment properties	**(71)**	(464)
Gain on disposal of assets held for sale	**(25)**	–
Ineffectiveness on cash flow hedges	**1**	5
Interest income on bank deposits	**(445)**	(548)
Finance costs	**1,069**	1,202
Depreciation	**45**	43
Loss on disposal of other property, plant and equipment	**1**	–
Net increase in fair value of properties	**(4,170)**	(2,599)
Share of profits of joint ventures	**(97)**	(78)
Employee share-based payments	**71**	78
Decrease in properties for sale	**370**	739
(Increase)/Decrease in trade and other receivables	**(33)**	2,000
Increase/(Decrease) in creditors and accrued expenses and contract liabilities	**25**	(129)
Increase in deposits received	**139**	182
Cash generated from operations	**6,801**	10,333

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	**–**	616
Loan from the vendor of the acquired companies	**(787)**	(41)
Trade and other receivables	**96**	1
Properties for sale	**1,200**	–
Trade and other payables	**–**	(1)
Net assets acquired	**509**	575
Acquisition of a loan from the vendor of the acquired companies	**787**	41
Total consideration	**1,296**	616
Less: consideration payable in future included in trade and other payables (Note)	**(96)**	–
Cash outflow on acquisition	**1,200**	616

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	**24,820**	**338**	**25,158**	27,082	–	27,082
Cash flows	**3,053**	**(19)**	**3,034**	(3,245)	–	(3,245)
Non-cash changes:						
New finance leases	**–**	**–**	**–**	–	318	318
Unwind of discount and amortization of transaction costs	**28**	**16**	**44**	79	8	87
Exchange adjustment	**(648)**	**(15)**	**(663)**	904	12	916
At December 31	**27,253**	**320**	**27,573**	24,820	338	25,158

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	**14,255**	12,660
Authorized but not contracted for	**20,556**	22,914
	34,811	35,574

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$62 million (2017: HK$53 million).

28 Employee Benefits (Continued)

(b) Equity compensation benefits

The share option scheme adopted by the Company 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 the Company to grant options to selected participants as incentives or rewards for their contributions to the Group, to attract skilled and experienced personnel, to incentivize them to remain with the Group and to motivate them to strive for the future development and expansion of the Group by providing them with the opportunity to acquire equity interests in the Company.

Under the Schemes, the board of directors of the Company (the "Board") is authorized to grant options to selected participants, including employees and directors of any company in the Group, subject to the terms and conditions such as performance targets as the Board may specify on a case-by-case basis or generally. The exercise price of the options is determined by the Board at the time of grant, and shall not be less than the higher of the nominal value of the shares, the closing price of the shares at the date of grant and the average closing price of the 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 shares subject to each option are determined by the Board at the time of grant.

As of the date of this report, the total number of 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 the Company. The total number of 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 shares of the Company in issue.

28 Employee Benefits (Continued)

(b) Equity compensation benefits (Continued)

The movements of share options during the year are as follows:

(i) 2002 Share Option Scheme

Date granted	Number of share options: Outstanding on January 1, 2018	Number of share options: Exercised	Number of share options: Forfeited/ Lapsed	Number of share options: **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 the grantees' 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 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 immediately before the dates of exercise by the employees during the year was HK$18.60.

The weighted average closing share price 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 options outstanding at the end of the reporting period was 1.8 years (2017: 2.4 years).

(ii) 2012 Share Option Scheme

	Number of share options					
Date granted	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 were exercised or cancelled during the year.

The closing price of 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 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 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
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) In respect of share options granted to the directors, the related charge recognized 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 (2017: HK$7.0 million).

29 Material Related Party Transactions

Except for the transactions and balances already disclosed elsewhere in the financial statements, the Group had the following material related party transactions in its ordinary course of business:

(a) Emoluments to directors and key management personnel have been disclosed in notes 7 and 28(b).

(b) During the year ended December 31, 2017, the Group acquired the entire share capital in Wentworth Limited together with the assumption of its aggregate amount of shareholder's loan from a wholly-owned subsidiary of its ultimate holding company, Hang Lung Group Limited, at a total consideration of HK$225 million to prepare for the re-development of the Amoycan Industrial Centre in Ngau Tau Kok, Kowloon, Hong Kong.

Except for emoluments to directors and key management personnel, these related party transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The Group has complied with the disclosure requirements in accordance with 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$22 million (2017: HK$92 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	**27,253**	**32,344**	**3,743**	**4,681**	**19,751**	**4,169**
Trade and other payables	**5,974**	**5,974**	**4,221**	**870**	**726**	**157**
Finance lease obligations	**320**	**507**	**22**	**22**	**69**	**394**
At December 31, 2018	**33,547**	**38,825**	**7,986**	**5,573**	**20,546**	**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	24,820	29,080	3,222	4,616	17,890	3,352
Trade and other payables	6,673	6,673	4,904	979	682	108
Finance lease obligations	338	550	19	22	71	438
At December 31, 2017	31,831	36,303	8,145	5,617	18,643	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: Hedging instruments HK$ Million	Change in fair value used for measuring hedge ineffectiveness: Hedged items HK$ Million	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: Finance costs HK$ Million	Amount reclassified from hedging reserve to profit or loss that are charged/(credited) to: 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 RMB6,738 million (2017: RMB7,807 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$3,753 million (2017: HK$3,508 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$93 million (2017: HK$85 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	**84,537**	84,696
Current assets			
Cash and deposits with banks		**–**	4
Trade and other receivables		**4**	10
		4	14
Current liabilities			
Trade and other payables		**49**	22
Net current liabilities		**(45)**	(8)
Total assets less current liabilities		**84,492**	84,688
Non-current liabilities			
Borrowings		**1,136**	–
Amounts due to subsidiaries	33(c)	**21,060**	20,722
		22,196	20,722
NET ASSETS		**62,296**	63,966
Capital and reserves			
Share capital	22	**39,915**	39,912
Reserves	23	**22,381**	24,054
TOTAL EQUITY		**62,296**	63,966

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	**8**	8
Amounts due from subsidiaries (Note (b))	**84,529**	84,688
	84,537	84,696

(a) Details of principal subsidiaries are set out in note 38.

(b) Except for the amount due from a subsidiary of HK$1,136 million (2017: Nil) which is interest bearing at 5.25% per annum and repayable in July 2021, 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.

(c) 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 Ultimate Holding Company

The ultimate holding company is Hang Lung Group Limited, a company incorporated in Hong Kong.

35 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.

36 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.

37 Approval of Financial Statements

The financial statements were approved and authorized for issue by the Board of Directors on January 30, 2019.

38 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
Antonis Limited*	10,000	100	100	Property leasing	Hong Kong
AP City Limited	2	100	–	Property leasing	Hong Kong
AP Joy Limited	2	100	–	Property development & leasing	Hong Kong
AP Properties Limited				Property development & leasing	Hong Kong
'A' shares	34	100	–		
'B' shares	6	100	–		
AP Star Limited*	2	100	–	Investment holding	Hong Kong
AP Success Limited	2	100	–	Property leasing	Hong Kong
AP Universal Limited*	2	100	–	Property leasing	Hong Kong
AP Win Limited*	1,000,000	100	–	Property leasing	Hong Kong
AP World Limited	2	100	100	Property development & leasing	Hong Kong
Bonna Estates Company Limited	1,000,000	100	100	Property leasing	Hong Kong
Caddo Enterprises, Limited*	4,000,000	100	–	Property leasing	Hong Kong
Country Bond Development Limited				Investment holding	Hong Kong
'A' shares	990	79.8	–		
'B' share	1	100	–		
Dokay Limited*	2	100	–	Property leasing	Hong Kong
Easegood Enterprises Limited	2	100	–	Investment holding	Hong Kong
Fu Yik Company Limited*	3	100	–	Property leasing	Hong Kong
Gala Ruby Limited*	2	100	100	Investment holding	Hong Kong
Gowily Limited	2	100	–	Property leasing	Hong Kong
Grand Centre Limited	4	100	–	Property leasing	Hong Kong
Grand Hotel Group Limited	10,200	100	–	Apartment operating & management	Hong Kong
Grand Hotel Holdings Limited				Investment holding	Hong Kong
'A' shares	62,163,123	100	–		
'B' shares	6,000,000	100	–		
Hang Chui Company Limited	2	100	–	Property leasing	Hong Kong
Hang Far Company Limited*	2	100	–	Investment holding	Hong Kong
Hang Fine Company Limited	200	100	–	Property leasing	Hong Kong
Hang Kwok Company Limited*	10,000	100	–	Property leasing	Hong Kong
Hang Lung (Administration) Limited	10,000	100	100	Management services	Hong Kong
Hang Lung (Dalian) Limited	1	100	–	Investment holding	Hong Kong
Hang Lung (Jiangsu) Limited	1	100	–	Investment holding	Hong Kong

38 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 (Jinan) Limited	1	100	–	Investment holding	Hong Kong
Hang Lung (Kunming) Limited	1	100	–	Investment holding	Hong Kong
Hang Lung (Liaoning) Limited	1	100	–	Investment holding	Hong Kong
Hang Lung (Shenyang) Limited	2	100	–	Investment holding	Hong Kong
Hang Lung (Tianjin) Limited	2	100	–	Investment holding	Hong Kong
Hang Lung (Wuhan) Limited	1	100	–	Investment holding	Hong Kong
Hang Lung (Wuxi) Limited	1	100	–	Investment holding	Hong Kong
Hang Lung Gala Place Limited (formerly known as Hang Lung Park-In Limited)	2	100	–	Property leasing	Hong Kong
Hang Lung Project Management Limited*	10,000	100	100	Project management	Hong Kong
Hang Lung Property Management Limited*	100,000	100	–	Property management	Hong Kong
Hang Lung Real Estate Agency Limited*	2	100	100	Property agencies	Hong Kong
HLP (China) Administrative Limited	1	100	–	Management services	Hong Kong
HLP (China) Limited	2	100	100	Investment holding	Hong Kong
HLP Finance Limited^	US$1	100	100	Financial services	British Virgin Islands
HLP Financial Services Limited	RMB1	100	–	Financial services	Hong Kong
HLP Treasury Limited	2	100	100	Financial services	Hong Kong
HLP Treasury Services Limited*	2	100	–	Financial services	Hong Kong
Hoi Sang Limited*	2	100	–	Investment holding	Hong Kong
Lockoo Limited*	1,000,002	100	–	Property development	Hong Kong
Mansita Limited*	2	100	–	Property leasing	Hong Kong
Modalton Limited	2	100	–	Property leasing	Hong Kong
Palex Limited*	2	100	–	Property leasing	Hong Kong
Passion Success Limited*	1	100	–	Investment holding	Hong Kong
Pocaliton Limited	2	100	–	Property leasing	Hong Kong
Rago Star Limited	2	100	–	Property leasing	Hong Kong
Stooket Limited	2	100	100	Property leasing	Hong Kong
Superlane Development Limited	1,000	100	–	Property development & investment	Hong Kong
Tegraton Limited	2	100	–	Property leasing	Hong Kong
Total Select Limited	1	100	–	Property development	Hong Kong
Wai Luen Investment Company, Limited*	100,000	100	–	Property leasing	Hong Kong
Yangli Limited*	2	100	–	Property leasing	Hong Kong

38 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	100	–	Property development & leasing	Mainland China
Hangzhou Hang Lung Properties Ltd.	RMB11,267,500,000	100	–	Property development	Mainland China
Hubei Hang Lung Property Development Co., Ltd.	RMB4,850,000,000	100	–	Property development	Mainland China
Kunming Hang Ying Properties Ltd.	RMB5,887,321,800	100	–	Property development	Mainland China
Liaoning Hang Lung Properties Ltd.	RMB6,040,096,324	100	–	Property development & leasing	Mainland China
Shandong Hang Lung Properties Ltd.	US$385,000,000	100	–	Property development & leasing	Mainland China
Shenyang Hang Lung Properties Ltd.	US$349,990,000	100	–	Property development & leasing	Mainland China
Tianjin Hang Lung Properties Ltd.	HK$4,229,600,000	100	–	Property development & leasing	Mainland China
Wuxi Hang Lung Properties Ltd.	RMB4,241,746,261	100	–	Property development & leasing	Mainland China
Wuxi Hang Ying Properties Ltd.	RMB576,716,180	100	–	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	82	–	Property development & leasing	Mainland China
Shanghai Kong Hui Property Development Co., Ltd.	165,000,000	69.3#	–	Property development & leasing	Mainland China

^ Operated in Hong Kong

* Not audited by KPMG

Represents the Group's attributable interest in the commercial portion of the properties held either directly or indirectly by the subsidiary

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.

39 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
Country Link Enterprises Limited	5,000,000	36.8	–	Investment holding	Hong Kong
Ease Smart Development Limited				Investment holding	Hong Kong
'A' share	1	–	–		
'B' share	1	100	–		
Star Play Development Limited*	3	33.3	–	Property leasing	Hong Kong

* Not audited by KPMG