

DIRECTORS' REPORT

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and those of its principal subsidiaries are set out on pages 185 to 191.

The principal activities of the Group are development properties ("DP") in Hong Kong, the logistics business in Hong Kong, as well as investment properties ("IP") and DP in the Mainland after the completion of the exit from communication, media and entertainment segment in September 2017 and the demerger of the Hong Kong IP portfolio ("the Demerger") by way of separate listing of Wharf Real Estate Investment Company Limited ("Wharf REIC") on 23 November 2017.

BUSINESS REVIEW

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

- Corporate Profile (pages 1 to 2)
- Chairman's Statement (pages 7 to 13)
- Business Review (pages 16 to 45)
- Financial Highlights (pages 14 to 15) and Financial Review (pages 60 to 68)
- Principal Risks and Uncertainties (pages 102 to 104)
- Events after the reporting period – Note 31 to the Financial Statements (page 164)

In addition, the Group's policies and performance in the area of environmental, social and governance, and compliance with relevant laws and regulations are discussed in the sub-section headed "(L) Environmental, Social and Governance" on pages 104 to 105.

RESULTS, APPROPRIATIONS AND RESERVES

The results of the Group for the financial year ended 31 December 2017 are set out in the Consolidated Income Statement and Consolidated Statement of Comprehensive Income on pages 112 to 113.

Appropriations of profits and movements in reserves of the Group and of the Company during the financial year are set out in the Consolidated Statement of Changes in Equity on page 115 and Note 24 to the Financial Statements on pages 156 to 157.

DIVIDENDS

During the financial year, aside from the first interim dividend in cash of HK\$0.64 per share paid on 12 September 2017, the Company distributed in specie all shares held by the Group in i-CABLE Communications Limited ("i-CABLE Shares") and Wharf REIC shares to Shareholders as special interim dividends amounting to (i) HK\$0.09 per share (on basis of 48.91791 i-CABLE Shares for every 100 shares completed on 7 September 2017); (ii) HK\$0.1 per share (on basis of 27.73135 i-CABLE Shares for every 100 shares completed on 10 October 2017); and (iii) HK\$65.14 per share (on basis of one Wharf REIC share for every one share completed on 23 November 2017).

In lieu of a final dividend, a second interim dividend in cash of HK\$0.95 per share will be paid on 24 April 2018 to Shareholders on record as at 6:00 p.m. on 9 April 2018, making a total cash dividend of HK\$1.59 per share in respect of the financial year 2017. Total distribution for the year, including the aforesaid three special interim dividends of HK\$65.33 per share in aggregate, will amount to HK\$66.92 (2016: HK\$2.15) per share.

DIRECTORS' REPORT

DONATIONS

The Group made donations during the financial year totalling HK\$30 million.

SHARE CAPITAL

During the financial year, as a result of exercises of the share options previously granted under the Company's share option scheme (the "Scheme"), a total of 4,500,000 ordinary shares of the Company, credited as fully paid, were allotted and issued for a total consideration of HK\$225,122,000.

Details of movement in share capital of the Company during the financial year are set out in Note 24 to the Financial Statements on pages 156 to 157.

EQUITY-LINKED AGREEMENT

No equity-linked agreement which may result in the Company issuing shares was entered into or existed during the financial year, save for the Scheme as disclosed on pages 97 to 98 and any outstanding options granted thereunder.

DIRECTORS

The Directors of the Company during the financial year and up to the date of this report are Mr Stephen T H Ng, Mr Andrew O K Chow, Ms Doreen Y F Lee, Mr Paul Y C Tsui, Ms Y T Leng (resigned effective from 23 November 2017), Mr K P Chan, Mr Alexander S K Au (resigned effective from 23 November 2017), Professor Edward K Y Chen, Mr Vincent K Fang, Mr Hans Michael Jebsen, Ms Elizabeth Law (appointed on 1 August 2017), Mr David Muir Turnbull and Professor E K Yeoh (resigned effective from 23 November 2017).

Ms Elizabeth Law (appointed as Director after 2017 Annual General Meeting) is due to retire from the Board in accordance with Article 97 of the Company's Articles of Association and Messrs. Andrew O K Chow, Paul Y C Tsui, K P Chan and Professor Edward K Y Chen are due to retire by rotation from the Board in accordance with Article 106(A) of the Company's Articles of Association, at the forthcoming Annual General Meeting. The retiring Directors, being eligible, offer themselves for re-election. None of the retiring Directors proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

A list of persons who serve/served as directors of the Company's subsidiaries during the financial year and up to the date of this report is set out in the sub-section headed "(M) Directors of Subsidiaries" on page 105.

INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

MANAGEMENT CONTRACTS

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

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

Under the respective rules of the two schemes (such rules being subject to the relevant laws and provisions applicable from time to time), shares of the Company and/or Wheelock would be issued at such respective prices as being not less than the highest of (a) the indicative price as specified in the written offer; (b) the closing price on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant of the options; and (c) the average closing price on the Stock Exchange for the five trading days immediately preceding the date of grant; and the relevant options would be exercisable during such periods, not being beyond the expiration of 10 years from the date of grant of relevant options, as determined by the boards of directors of the Company and/or Wheelock respectively.

During the financial year, a total of 4,500,000 ordinary shares of the Company were allotted and issued to Mr Stephen T H Ng, Mr Andrew O K Chow, Ms Doreen Y F Lee, Mr Paul Y C Tsui, Mr K P Chan (all being current Directors of the Company) and Ms Y T Leng (resigned effective from 23 November 2017) on their exercise of options under the Scheme, and a total of 1,800,000 ordinary shares of Wheelock were allotted and issued to Mr Paul Y C Tsui on his exercise of options under Wheelock's share option scheme. Further information of the share option schemes of the Company and Wheelock is set out on pages 97 to 98.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Articles of Association, every Director is entitled to be indemnified out of the assets of the Company against all costs, expenses, losses or liabilities, which he/she may sustain or incur in or about the execution and discharge of the duties of his/her office, to the extent as permitted by laws.

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

PURCHASE, SALE OR REDEMPTION OF SHARES

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

AUDITORS

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

OTHER CORPORATE INFORMATION

Other corporate information supplementary to this Directors' Report are set out on pages 88 to 105.

By Order of the Board
Kevin C Y Hui
Company Secretary

Hong Kong, 8 March 2018

OTHER CORPORATE INFORMATION

(A) Biographical Details of Directors and Senior Managers

(i) Directors

Mr Stephen Tin Hoi Ng, *Chairman and Managing Director* (Age: 65)

Mr Ng joined the Group in 1981. He has been Managing Director of the Company since 1989 and became Chairman in 2015. He also serves as chairman of the Nomination Committee and a member of the Remuneration Committee.

Mr Ng is the deputy chairman of Wheelock (publicly listed holding company of the Company), chairman and managing director of Wharf REIC, chairman of HCDL and Wheelock Properties (Singapore) Limited ("WPSL") (all being publicly listed fellow subsidiaries of the Company in Hong Kong or Singapore). He also serves as a non-executive chairman of publicly listed Joyce Boutique Holdings Limited ("JBHL") as well as a non-executive director of Hotel Properties Limited (a publicly listed associate of Wheelock). He formerly served as chairman and chief executive officer of i-CABLE Communications Limited ("i-CABLE") until his resignation in September 2017 and a non-executive director of Greentown China Holdings Limited ("Greentown") until his resignation in March 2015 (both being publicly listed in Hong Kong).

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

Under the existing service contract between the Group and Mr Ng, his basic salary and various allowances for the year 2018, exclusive of the amounts which would be borne by Wharf REIC and/or its subsidiaries since the Demerger and calculated on an annualised basis, would be approximately HK\$5.03 million (2017: HK\$7.72 million) per annum.

Mr Andrew On Kiu Chow, *Deputy Chairman* (Age: 67)

Mr Chow has been a Director of the Company since July 2011 and became Deputy Chairman in May 2015. Among various other subsidiaries of the Company of which he serves as a director, he is chairman of Wharf China Development Limited with responsibility to oversee the Group's development property business in Mainland China. He joined the Group in 2006.

Mr Chow is also an Independent Non-executive Director of Hong Kong Economic Times Holdings Limited (being publicly listed in Hong Kong). He was formerly a non-executive director and vice chairman of publicly listed Greentown from March 2015 to July 2015.

Mr Chow has extensive experience in the finance and property sectors in Hong Kong and Mainland China, and formerly held senior executive positions in Tian An China Investments Company Limited and Next Digital Limited. He is a graduate of The University of Hong Kong where he obtained his bachelor's degree in Social Science.

Under the existing service contract between the Group and Mr Chow, his basic salary and various allowances for the year 2018, calculated on an annualised basis, would be approximately HK\$5.67 million (2017: HK\$5.67 million) per annum.

Ms Doreen Yuk Fong Lee, *Vice Chairman* (Age: 61)

Ms Lee has been a Director of the Company since 2003 and became a Vice Chairman in May 2015. She is also chairman and senior managing director of Wharf China Estates Limited with primary responsibility to oversee the Group's portfolio of investment properties in Mainland China. She is a vice chairman and executive director of Wharf REIC, a fellow subsidiary of the Company publicly listed in Hong Kong. Ms Lee is also a non-executive director of JBHL, and a former non-executive director of HCDL from July 2010 to July 2012 (both being publicly listed in Hong Kong).

Ms Lee is a graduate of The University of Hong Kong where she obtained her bachelor's degree in Arts (Hon).

Under the existing service contract between the Group and Ms Lee, her basic salary and various allowances for the year 2018, exclusive of the amounts which would be borne by Wharf REIC and/or its subsidiaries since the Demerger and calculated on an annualised basis, would be approximately HK\$1.6 million (2017: HK\$5.66 million) per annum.

Mr Paul Yiu Cheung Tsui, *Vice Chairman and Group Chief Financial Officer* (Age: 71)

Mr Tsui, *FCCA, FCPA, FCMA, CGMA, CPA, CGA*, is a Vice Chairman and Group Chief Financial Officer of the Company and is also an executive director and group chief financial officer of Wheelock (publicly listed holding company of the Company). He joined the Wheelock/Wharf group in 1996 and became a director of Wheelock in 1998.

Furthermore, Mr Tsui is a non-executive director of publicly listed JBHL and a vice chairman of Wheelock Properties Limited, a wholly-owned subsidiary of Wheelock. He formerly served as a director of HCDL and WPSL (both being publicly listed fellow subsidiaries of the Company in Hong Kong or Singapore) until his resignations in August 2015. He was also formerly a non-executive director of i-CABLE and Greentown (both being publicly listed in Hong Kong) until his resignation in September 2017 and July 2015 respectively.

Mr Tsui is currently a general committee member of the Employers' Federation of Hong Kong ("EFHK") and chairman of EFHK's "Property & Construction" functional group.

Under the existing service contract between the Group and Mr Tsui, his basic salary and various allowances for the year 2018, exclusive of the amounts which would be borne by Wheelock and/or its wholly-owned subsidiary(ies) and calculated on an annualised basis, would be approximately HK\$4.37 million (2017: HK\$4.2 million) per annum.

Mr Kwok Pong Chan, *Director* (Age: 57)

Mr Chan joined the Group in 1993 and has been a Director of the Company since May 2015. He has been involved in various property development projects of the Group in both China and Hong Kong. Among various other subsidiaries of the Company of which he serves as a director, he is an executive director of Wharf China Development Limited and Wharf China Estates Limited with responsibility to work on the Group's China Development Property strategy as well as to oversee the Group's massive China Investment Property construction projects. He was formerly a non-executive director of HCDL (a listed fellow subsidiary of the Company) from April 2013 to May 2015.

Mr Chan graduated from The Hong Kong Polytechnic University with Associateship in Civil & Structural Engineering. He is a member of the Hong Kong Institution of Engineers as well as the Institution of Civil Engineers, UK and also a chartered engineer of the Engineering Council UK.

Under the existing service contract between the Group and Mr Chan, his basic salary and various allowances for the year 2018, calculated on an annualised basis, would be approximately HK\$3.63 million (2017: HK\$3.49 million) per annum.

Professor Edward Kwan Yiu Chen, *GBS, CBE, JP, Director (Age: 73)*

Professor Chen has been an Independent Non-executive Director of the Company since 2002. He is also an Independent Non-executive Director of First Pacific Company Limited (publicly listed in Hong Kong) and Hang Seng Qianhai Fund Management Company Limited. He was formerly an Independent Non-executive Director of publicly listed Asia Satellite Telecommunications Holdings Limited.

Professor Chen is an honorary professor of the Open University of Hong Kong and a distinguished fellow of the Hong Kong Institute for the Humanities and Social Sciences at The University of Hong Kong. He is now chairman of HKU SPACE and a member of the board of directors of the Hong Kong Institute for Monetary Research of the Hong Kong Monetary Authority. He was the president of Lingnan University in Hong Kong from September 1995 to August 2007. He was also a member of the Legislative Council of Hong Kong from 1991 to 1992, and a member of the Executive Council of Hong Kong from 1992 to 1997.

Professor Chen was educated at The University of Hong Kong (Bachelor of Arts and Master of Social Sciences) and Oxford University (Doctor of Philosophy). He was appointed a Justice of the Peace in 1993 and awarded a CBE in 1995. In 2003, he was awarded the Gold Bauhinia Star by the Hong Kong SAR Government.

Mr Vincent Kang Fang, *GBS, JP, Director (Age: 74)*

Mr Fang has been an Independent Non-executive Director of the Company since 1993. He also serves as chairman of the Audit Committee. He is chief executive officer of Topy Company (Hong Kong) Limited and managing director of Fantastic Garments Limited.

Mr Fang is currently Honorary Chairman of the Liberal Party and a director of The Federation of Hong Kong Garment Manufacturers. He was formerly a non-official member of Commission on Strategic Development of the Hong Kong SAR Central Policy Unit and of the Commercial Properties Committee of Housing Department. He served as a member of Legislative Council representing Wholesale and Retail in Functional Constituency since 2004 until his retirement in September 2016. He also served as chairman of Hospital Governing Committee of Princess Margaret Hospital and Kwai Chung Hospital, advisor of the Quality Tourism Services Association, a functional constituency representative for retail and wholesale of the Hong Kong Retail Management Association and a member of the Airport Authority of Hong Kong, the Hong Kong Tourism Board, the Hospital Authority and the Operations Review Committee of the Independent Commission Against Corruption.

Mr Fang is a graduate of North Carolina State University where he obtained both his bachelor's and master's degrees in Science of Textiles Engineering. He was awarded the Silver Bauhinia Star in 2008 and the Gold Bauhinia Star in 2016 by the Hong Kong SAR Government. He is also a Justice of the Peace.

Mr Hans Michael Jebsen, *BBS, Director (Age: 61)*

Mr Jebsen has been an Independent Non-executive Director of the Company since 2001. He also serves as a member of the Audit Committee, Nomination Committee and chairman of Remuneration Committee.

Mr Jebsen is chairman of Jebsen and Company Limited and also a non-executive director of publicly listed Hysan Development Company Limited. He currently holds a number of public offices, namely, chairman and a board member of the Asian Cultural Council Hong Kong, chairman of the Advisory Council of the Business School of The Hong Kong University of Science and Technology, a trustee of World Wide Fund for Nature Hong Kong and a member of Board of Trustees of Asia Society Hong Kong Center, Hong Kong-Europe Business Council of the Hong Kong Trade Development Council as well as Advisory Board of the Hong Kong Red Cross. Since 2015, he has also been a member of the Operations Review Committee of the Independent Commission Against Corruption.

After schooling in Germany and Denmark, Mr Jebsen received a two-year banking education in Germany and the UK and studied Business Administration at the University of St. Gallen in Switzerland from 1978 to 1981.

Mr Jebsen was awarded the Bronze Bauhinia Star by the Hong Kong SAR Government in 2001, made a Knight of the Dannebrog by receiving the Silver Cross of the Order of Dannebrog by H. M. The Queen of Denmark in 2006, was awarded the Merit Cross of the Order of the Merit of the Federal Republic of Germany in 2008 and received the title "Hofjægermester" by H. M. The Queen of Denmark in January 2011. In 2014, Mr Jebsen was awarded the Knight of 1st Class of the Order of Dannebrog, Denmark. In 2015, he was awarded Doctor of Business Administration honoris causa of The Hong Kong University of Science and Technology.

Ms Elizabeth Law, *MH, JP, Director (Age: 63)*

Ms Law has been an Independent Non-executive Director of the Company since August 2017. She also serves as a member of the Audit Committee.

Ms Law is currently an Independent Non-executive Director of Clifford Modern Living Holdings Limited and Sunwah Kingsway Capital Holdings Limited (both being publicly listed in Hong Kong). She also serves as an Independent Non-executive Director of Sunwah International Limited (being publicly listed on the Toronto Stock Exchange).

Ms Law graduated from McGill University, Canada in 1976. She is currently a managing director of Law & Partners CPA Limited, and the proprietor of Stephen Law & Company. Ms Law is a Certified Public Accountants (Practising) in Hong Kong, a member of the Chartered Professional Accountants Canada, a fellow member of The Institute of Chartered Accountants in England & Wales, a fellow member of Certified Public Accountants Australia, and a certified tax adviser in Hong Kong.

Ms Law is also a member of Employees Compensation Assistance Fund Board and deputy convenor of Administration and Finance Committee of Equal Opportunities Commission. She was appointed a Justice of the Peace in 2009.

Ms Law served as President of The Society of Chinese Accountants and Auditors, a council member of Hong Kong Institute of Certified Public Accountants, and the founding president of Association of Woman Accountants (Hong Kong) Limited. She had been an Independent Non-executive Director of China Vanke Company Limited (being publicly listed in Hong Kong) since 2012 until her retirement in June 2017.

Mr David Muir Turnbull, Director (Age: 62)

Mr Turnbull has been an Independent Non-executive Director of the Company since November 2013. He also serves as a member of the Audit Committee, Nomination Committee and Remuneration Committee.

Mr Turnbull is currently chairman and executive director of Pacific Basin Shipping Limited (being publicly listed in Hong Kong). He also serves as a non-executive director of G3 Exploration Limited (Formerly known as "Green Dragon Gas Limited") (being publicly listed on the London Stock Exchange).

Mr Turnbull graduated from Cambridge University in 1976 with a Bachelor of Arts degree in Economics and subsequently earned a Master of Arts degree. He joined the Swire Group upon graduation and held various senior management positions with international responsibilities covering aviation, shipping and property during his 30 years' service thereof. He was appointed as a director of Cathay Pacific Airways Limited in 1994 and took up the positions of deputy managing director in 1994, managing director in 1996 and deputy chairman and chief executive in 1998 before his appointment as chairman in 2005. He is also the former chairman of Swire Pacific Limited from January 2005 to January 2006, and of Hong Kong Aircraft Engineering Company Limited from March 1995 to August 2006. He was formerly an Independent Non-executive Director of Sands China Ltd. from October 2009 to March 2016 and a non-executive director of Greka Drilling Limited from February 2011 to October 2017.

Note: Wheelock (of which Mr Stephen T H Ng and Mr Paul Y C Tsui are directors) has interests in the share capital of the Company discloseable to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (the "SFO").

(ii) *Senior Management*

Various businesses of the Group are respectively under the direct responsibility of the first five Directors named under (A) (i) above, led by the Chairman and Managing Director. Only those five Directors are regarded as members of the Group's senior management.

(B) Directors' Interests in Securities

(i) *Interests in Shares and Debentures*

At 31 December 2017, Directors of the Company had the following beneficial interests, all being long positions, in the shares and/or debentures of the Company, Wheelock (which is the Company's parent company), one fellow subsidiary of the Company, namely, Wharf REIC, one subsidiary of the Company, namely, Modern Terminals Limited ("Modern Terminals"), and one associated corporation of the Company (of which the Company is interested in more than 20% of its issued shares), namely, Greentown. The percentages (where applicable) which the relevant shares represented to the number of shares in issue of the five companies respectively are also set out below:

	Quantity held (percentage, where applicable)	Nature of Interest
The Company		
Stephen T H Ng	9,445 (0.0003%)	Personal Interest
Andrew O K Chow	490,000 (0.0161%)	Personal Interest
K P Chan	230,000 (0.0076%)	Personal Interest
Vincent K Fang	100,000 (0.0033%)	Personal Interest
Wheelock		
Stephen T H Ng	176,000 (0.0086%)	Personal Interest
Paul Y C Tsui	300,000 (0.0147%)	Personal Interest
Wharf REIC		
Stephen T H Ng	1,009,445 (0.0332%)	Personal Interest
Andrew O K Chow	10,000 (0.0003%)	Personal Interest
K P Chan	230,000 (0.0076%)	Personal Interest
Vincent K Fang	100,000 (0.0033%)	Personal Interest
Modern Terminals		
Hans Michael Jebsen	3,787 (5.40%)	Corporate Interest
Greentown		
Andrew O K Chow	260,000 (0.01%)	Personal Interest

Notes:

- (1) The interests in shares disclosed above do not include interests in share options of the Company and/or associated corporation(s) held by Directors as at 31 December 2017. Details of such interests in share options are separately set out below under the sub-sections headed "(ii) Interests in Share Options of the Company" and "(iii) Interests in Share Options of Wheelock".
- (2) The shareholdings classified as "Corporate Interest" in which the Directors concerned were taken to be interested as stated above were interests of corporations at general meetings of which the relevant Director was either entitled to exercise (or taken under Part XV of the SFO to be able to exercise) or control the exercise of one-third or more of the voting power in general meetings of such corporation.

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(ii) Interests in Share Options of the Company

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

Name of Director	Total no. as at 31 December 2017 (percentage based on no. of shares in issue)	Date of grant (Day/Month/Year)	No. of Shares under Option			Subscription Price per Share (HK\$)	Vesting/Exercise Period (Day/Month/Year)	
			As at 1 January 2017	Exercised during the year	As at 31 December 2017			
Stephen T H Ng	5,000,000 (0.16%)	05/06/2013	400,000	(400,000) ⁽¹⁾	-	23.83 ⁽⁶⁾	06/06/2013 – 05/06/2018	
			400,000	(400,000) ⁽¹⁾	-		06/06/2014 – 05/06/2018	
			400,000	(200,000) ⁽¹⁾	200,000		06/06/2015 – 05/06/2018	
			400,000	-	400,000		06/06/2016 – 05/06/2018	
			400,000	-	400,000		06/06/2017 – 05/06/2018	
			Sub-total	2,000,000	(1,000,000) ⁽¹⁾	1,000,000		
		07/07/2016	1,000,000	(1,000,000) ⁽¹⁾	-	15.92 ⁽⁶⁾	08/07/2016 – 07/07/2021	
			1,000,000	-	1,000,000		08/07/2017 – 07/07/2021	
			1,000,000	-	1,000,000		08/07/2018 – 07/07/2021	
			1,000,000	-	1,000,000		08/07/2019 – 07/07/2021	
			1,000,000	-	1,000,000		08/07/2020 – 07/07/2021	
			Sub-total	5,000,000	(1,000,000) ⁽¹⁾	4,000,000		
Andrew O K Chow	4,000,000 (0.13%)	05/06/2013	400,000	(400,000) ⁽²⁾	-	23.83 ⁽⁶⁾	06/06/2013 – 05/06/2018	
			400,000	-	400,000		06/06/2014 – 05/06/2018	
			400,000	-	400,000		06/06/2015 – 05/06/2018	
			400,000	-	400,000		06/06/2016 – 05/06/2018	
			400,000	-	400,000		06/06/2017 – 05/06/2018	
			Sub-total	2,000,000	(400,000) ⁽²⁾	1,600,000		
		07/07/2016	600,000	(600,000) ⁽²⁾	-	15.92 ⁽⁶⁾	08/07/2016 – 07/07/2021	
			600,000	-	600,000		08/07/2017 – 07/07/2021	
			600,000	-	600,000		08/07/2018 – 07/07/2021	
			600,000	-	600,000		08/07/2019 – 07/07/2021	
			600,000	-	600,000		08/07/2020 – 07/07/2021	
			Sub-total	3,000,000	(600,000) ⁽²⁾	2,400,000		
Doreen Y F Lee	3,800,000 (0.13%)	05/06/2013	400,000	-	400,000	23.83 ⁽⁶⁾	06/06/2013 – 05/06/2018	
			400,000	-	400,000		06/06/2014 – 05/06/2018	
			400,000	-	400,000		06/06/2015 – 05/06/2018	
			400,000	-	400,000		06/06/2016 – 05/06/2018	
			400,000	-	400,000		06/06/2017 – 05/06/2018	
			Sub-total	2,000,000	-	2,000,000		
		07/07/2016	600,000	(600,000) ⁽³⁾	-	15.92 ⁽⁶⁾	08/07/2017 – 07/07/2021	
			600,000	-	600,000		08/07/2018 – 07/07/2021	
			600,000	-	600,000		08/07/2019 – 07/07/2021	
			600,000	-	600,000		08/07/2020 – 07/07/2021	
			Sub-total	2,400,000	(600,000) ⁽³⁾	1,800,000		

Name of Director	Total no. as at 31 December 2017 (percentage based on no. of shares in issue)	Date of grant (Day/Month/Year)	No. of Shares under Option			Subscription Price per Share (HK\$)	Vesting/Exercise Period (Day/Month/Year)
			As at 1 January 2017	Exercised during the year	As at 31 December 2017		
Paul Y C Tsui	1,900,000 (0.06%)	05/06/2013	200,000	-	200,000	23.83 ⁽⁶⁾	06/06/2013 – 05/06/2018
			200,000	-	200,000		06/06/2014 – 05/06/2018
			200,000	-	200,000		06/06/2015 – 05/06/2018
			200,000	-	200,000		06/06/2016 – 05/06/2018
			200,000	-	200,000		06/06/2017 – 05/06/2018
Sub-total	1,000,000	-	1,000,000				
		07/07/2016	300,000	(300,000) ⁽⁴⁾	-	15.92 ⁽⁶⁾	08/07/2017 – 07/07/2021
			300,000	-	300,000		08/07/2018 – 07/07/2021
			300,000	-	300,000		08/07/2019 – 07/07/2021
			300,000	-	300,000		08/07/2020 – 07/07/2021
			Sub-total	1,200,000	(300,000) ⁽⁴⁾	900,000	
K P Chan	1,350,000 (0.04%)	05/06/2013	150,000	-	150,000	23.83 ⁽⁶⁾	06/06/2013 – 05/06/2018
			150,000	-	150,000		06/06/2014 – 05/06/2018
			150,000	-	150,000		06/06/2015 – 05/06/2018
			150,000	-	150,000		06/06/2016 – 05/06/2018
			150,000	-	150,000		06/06/2017 – 05/06/2018
Sub-total	750,000	-	750,000				
		07/07/2016	200,000	(200,000) ⁽⁵⁾	-	15.92 ⁽⁶⁾	08/07/2016 – 07/07/2021
			200,000	(200,000) ⁽⁵⁾	-		08/07/2017 – 07/07/2021
			200,000	-	200,000		08/07/2018 – 07/07/2021
			200,000	-	200,000		08/07/2019 – 07/07/2021
			200,000	-	200,000		08/07/2020 – 07/07/2021
Sub-total	1,000,000	(400,000) ⁽⁵⁾	600,000				
Total	20,350,000	(4,300,000)	16,050,000				

Notes:

- (1) The weighted average closing price of the Company's shares immediately before the date(s) of exercise(s) of the options by Mr Stephen T H Ng during the year was HK\$68.84 per share.
- (2) The weighted average closing price of the Company's shares immediately before the date(s) of exercise(s) of the options by Mr Andrew O K Chow during the year was HK\$49.97 per share.
- (3) The closing price of the Company's shares immediately before the date(s) of exercise(s) of the options (all exercised on the same day) by Ms Doreen Y F Lee during the year was HK\$79.65 per share.
- (4) The closing price of the Company's shares immediately before the date(s) of exercise(s) of the options (all exercised on the same day) by Mr Paul Y C Tsui during the year was HK\$79.65 per share.
- (5) The weighted average closing price of the Company's shares immediately before the date(s) of exercise(s) of the options by Mr K P Chan during the year was HK\$64.63 per share.
- (6) With the successful spin-off of Wharf REIC and the special interim dividend declared by the board of directors of the Company by way of allotment and issue of new shares in Wharf REIC (the "Distribution"), the subscription prices applicable to the share options of the Company granted on 5 June 2013 and 7 July 2016 have been adjusted from HK\$70.20 to HK\$23.83 and from HK\$46.90 to HK\$15.92 respectively with effect from 30 November 2017 as a result of the Distribution.
- (7) Except as disclosed above, no option of the Company held by Directors (and/or their associate(s)) lapsed or was exercised or cancelled during the financial year, and no option of the Company was granted to any Director and/or their associate(s) during the financial year.

DIRECTORS' REPORT

(iii) Interests in Share Options of Wheelock

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

Name of Director	Total no. as at 31 December 2017 (percentage based on no. of shares in issue)	Date of grant (Day/Month/Year)	No. of Wheelock's Shares under Option			Subscription Price per Share (HK\$)	Vesting/Exercise period (Day/Month/Year)
			As at 1 January 2017	Exercised during the year	As at 31 December 2017		
Paul Y C Tsui	900,000 (0.04%)	14/06/2013	1,500,000	(1,500,000)	-	39.98	15/06/2017-14/06/2018
			07/07/2016	300,000	(300,000)	-	36.60
			300,000	-	300,000		08/07/2018-07/07/2021
			300,000	-	300,000		08/07/2019-07/07/2021
			300,000	-	300,000		08/07/2020-07/07/2021
		Total	2,700,000	(1,800,000)	900,000		

Note:

(1) Except as disclosed above, no share option of Wheelock held by Directors of the Company (and/or their associate(s)) lapsed or was exercised or cancelled during the financial year and no share option of Wheelock was granted to any Director of the Company and/or their associate(s) during the financial year.

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

(C) Substantial Shareholders' Interests

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

Names	No. of Ordinary Shares (percentage based on total number of shares in issue)
(i) Wheelock and Company Limited	1,882,506,608 (61.99%)
(ii) HSBC Trustee (C.I.) Limited	1,882,506,608 (61.99%)

Notes:

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

(2) Wheelock's deemed shareholding interests stated above included interests held through its wholly-owned subsidiaries, namely, Lynchpin Limited ("LL"), WF Investment Partners Limited ("WIPL"), High Fame Investments Limited ("HFIL") and Wheelock Investments Limited ("WIL"), with 254,929,072 shares (8.40%) being the deemed interests held by LL, 1,367,849,536 shares (45.05%) being the deemed interests held by WIPL, 259,728,000 shares (8.55%) being the deemed interests held by HFIL and 1,882,506,608 shares (61.99%) being the deemed interests held by WIL.

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

(D) Share Option Scheme

(I) Summary of the Scheme

- (a) Purpose of the Scheme:
To provide directors and/or employees with the opportunity of acquiring an equity interest in the Company, to continue to provide them with the motivation and incentive to give their best contribution towards the Group's continued growth and success.
- (b) Eligibility:
Eligible participants include any person(s) who is/are full-time and/or part-time employee(s) and/or Director(s) of the Company, any of its subsidiary(ies), and/or any of its associate(s). "Associates" include jointly-controlled entities and subsidiary(ies) of associates and of jointly-controlled entity(ies).
- (c) (i) Total number of ordinary shares in the capital of the Company (the "Shares") available for issue under the Scheme as at the date of this annual report:
276,144,732
- (ii) Percentage of the issued share capital that it represents as at the date of this annual report:
9.09%
- (d) Maximum entitlement of each eligible participant under the Scheme:
Not to exceed 1% of the Shares in issue in any 12-month period unless approved by Shareholders of the Company
- (e) Period within which the Shares must be taken up under an option:
Within 10 years from the date on which the option is offered or such shorter period as the Directors may determine
- (f) Minimum period for which an option must be held before it can be exercised:
No minimum period unless otherwise determined by the Board
- (g) (i) Price payable on application or acceptance of the option:
HK\$10.00
- (ii) The period within which payments or calls must or may be made:
28 days after the offer date of an option or such shorter period as the Directors may determine
- (iii) The period within which loans for the purposes of the payments or calls must be repaid:
Not applicable
- (h) Basis of determining the subscription price:
The subscription price shall be determined by the Directors at the time of offer but shall not be less than whichever is the highest of:
 - (i) the indicative price per Share for subscription of Shares under the option as specified in the written offer containing the offer of the grant of the option to an eligible participant;
 - (ii) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date of grant of an option, which must be a Stock Exchange trading day;
 - (iii) the average closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five Stock Exchange trading days immediately preceding the date of grant of an option; and
 - (iv) the nominal value of a Share (not applicable due to the abolition of par value upon implementation of the Companies Ordinance, Cap 622 of the laws of Hong Kong).
- (i) The remaining life of the Scheme:
Approximately 3 years (expiring on 8 June 2021)

DIRECTORS' REPORT

(II) Details of Share Options Granted

Details of the Company's share options granted to Directors of the Company and the relevant movement(s) during the financial year are set out in the sub-section headed "(ii) Interests in Share Options of the Company".

Set out below are particulars and movement(s), if any, during the financial year of all of the Company's outstanding share options which were granted to certain employees (five of them being present Directors of the Company), all working under employment contracts that are regarded as "continuous contracts" for the purposes of the Employment Ordinance and are participants with options not exceeding the respective individual limits:

Date of grant (Day/Month/Year)	No. of shares under option			Vesting/Exercise Period (Day/Month/Year)	Subscription Price per Share (HK\$)
	As at 1 January 2017	Exercised during the year	As at 31 December 2017		
05/06/2013	2,100,000	(800,000) ⁽¹⁾	1,300,000	06/06/2013 – 05/06/2018	23.83 ⁽²⁾
	2,100,000	(400,000) ⁽¹⁾	1,700,000	06/06/2014 – 05/06/2018	
	2,100,000	(200,000) ⁽¹⁾	1,900,000	06/06/2015 – 05/06/2018	
	2,100,000	–	2,100,000	06/06/2016 – 05/06/2018	
	2,100,000	–	2,100,000	06/06/2017 – 05/06/2018	
	10,500,000	(1,400,000) ⁽¹⁾	9,100,000		
07/07/2016	1,800,000	(1,800,000) ⁽¹⁾	–	08/07/2016 – 07/07/2021	15.92 ⁽³⁾
	2,900,000	(1,300,000) ⁽¹⁾	1,600,000	08/07/2017 – 07/07/2021	
	2,900,000	–	2,900,000	08/07/2018 – 07/07/2021	
	2,900,000	–	2,900,000	08/07/2019 – 07/07/2021	
	2,900,000	–	2,900,000	08/07/2020 – 07/07/2021	
	13,400,000	(3,100,000) ⁽¹⁾	10,300,000		
Total:	23,900,000	(4,500,000)⁽¹⁾	19,400,000		

Notes:

- (1) The weighted average closing price of the Company's shares immediately before the date(s) of exercise(s) of the option during the financial year was HK\$66.63 per share.
- (2) The subscription price of the Company's share option granted on 5 June 2013 was adjusted from HK\$70.20 per share to HK\$23.83 per share with effect from 30 November 2017 as a result of the Distribution.
- (3) The subscription price of the Company's share option granted on 7 July 2016 was adjusted from HK\$46.90 per share to HK\$15.92 per share with effect from 30 November 2017 as a result of the Distribution.
- (4) Except as disclosed above, no share option of the Company lapsed or was granted, exercised or cancelled during the financial year.

(E) Retirement Benefits Schemes

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

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

(F) Directors' Interests in Competing Business

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

Five Directors of the Company, namely, Messrs Stephen T H Ng, Andrew O K Chow, Paul Y C Tsui, K P Chan and Ms Doreen Y F Lee, being directors of Wheelock, Wharf REIC, and/or certain subsidiary(ies) and/or associate(s) of Wheelock and/or Wharf REIC, are considered as having an interest in Wheelock and/or Wharf REIC under Rule 8.10(2) of the Listing Rules of the Hong Kong Stock Exchange.

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

For safeguarding the interests of the Group, the Independent Non-executive Directors and the Audit Committee of the Company would on a regular basis review the business and operational results of the Group to ensure, *inter alia*, that the Group's (i) development of properties for sale and/or investment; (ii) property leasing businesses; and (iii) hotel businesses are and continue to be run at arm's length from those of Wheelock and Wharf REIC.

(G) Major Customers and Suppliers

For the financial year ended 31 December 2017:

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

(H) Debentures, Bank Loans, Overdrafts and other Borrowings

Particulars of any and all debentures, bank loans, overdrafts and/or other borrowings of the Company and of the Group as at 31 December 2017 which are repayable on demand or within a period not exceeding one year are set out in Note 20 to the Financial Statements on pages 145 and 146. Those which would fall due for repayment after a period of one year are particularised in Note 20 to the Financial Statements on pages 145 and 146.

(I) Public Float

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

DIRECTORS' REPORT

(J) Disclosure of Connected Transactions

Pre-Demerger

(i) Master Tenancy Agreements

During the financial year, there existed various tenancy agreements entered into by certain subsidiaries of Wharf REIC ("Wharf REIC Group", which were wholly-owned subsidiaries of the Company prior to the Demerger) as landlords for the purpose of the letting by the landlords to the tenants certain commercial premises owned by the Wharf REIC Group to Wheelock and its subsidiaries/associates ("Wheelock Group Tenants").

On 26 September 2014, the Company entered into a master tenancy agreement (the "MTA") with Wisdom Gateway Limited ("WGL") for a term of three years from 1 January 2015 to 31 December 2017. The MTA is for the purpose of, *inter alia*, regulating various continuing connected transactions in respect of the leasing of premises owned by members of the Group to WGL's subsidiaries, associates and/or affiliates which are/were connected persons of the Company under the Listing Rules and providing *inter alia*, for the aggregate annual cap amount of rentals, which is fixed at HK\$1,580 million per annum, in relation thereto during the said three-year term.

Wheelock Group Tenants, being affiliates of WGL, are regarded as connected persons of the Company under the Listing Rules due to Wheelock being a substantial shareholder of the Company. Therefore, the tenancy agreements with Wheelock Group Tenants and various transactions contemplated hereunder constitute continuing connected transactions of the Company under the Listing Rules and were governed by the MTA until the completion of the spin-off and separate listing of Wharf REIC on 23 November 2017 ("Demerger Date").

The annual aggregate amount of rental under the MTA, which is subject to the relevant aggregate annual cap amount previously disclosed in the abovementioned announcement dated 26 September 2014, received by the Group from Wheelock Group Tenants for the period ended on the Demerger Date amounted to HK\$73 million.

Post-Demerger

Prior to the Demerger, the Company and/or its subsidiaries (collectively, the "Group") have entered into certain transactions with Wharf REIC and/or its subsidiaries which have become connected persons of the Company upon the Demerger Date. Such pre-existing transactions have become continuing connected transactions of the Company under the Listing Rules following the completion of the Demerger. In order to regulate these pre-existing transactions and any new continuing connected transactions to be entered into between the Group and Wharf REIC Group from time to time, the Company entered into the Master Hotel Services Agreement and the Wharf Leasing Framework Agreement, particulars of which were disclosed in the announcement of the Company dated 8 November 2017.

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

(ii) Master Hotel Services Agreement

On 8 November 2017, the Master Hotel Services Agreement (the "MHSA") was entered into between the Company and Wharf REIC commencing on 23 November 2017, the Demerger Date, and expiring on 31 December 2019. The MHSA is for the purpose of, *inter alia*, regulating the provision of hotel management services comprising management, marketing and technical services and/or any other services relating to the development and/or operation of hotels and/or serviced apartment property(ies) ("Hotel Services") by the Group to Wharf REIC Group from time to time in respect of the hotels owned by Wharf REIC Group, and stipulating, *inter alia*, the annual cap amount of remuneration receivable by the Group from Wharf REIC Group in relation thereto at HK\$30 million, HK\$135 million and HK\$160 million for the two months ending 31 December 2017 and the two financial years ending 31 December 2018 and 2019 respectively.

The aggregate amount of remuneration receivable by the Group under the MHSA, which is subject to the relevant annual cap amount as abovementioned for the period from the Demerger Date to 31 December 2017 amounted to HK\$15 million.

(iii) Wharf Leasing Framework Agreement

On 8 November 2017, the Wharf Leasing Framework Agreement (the "WLFA") was entered into between the Company and Wharf REIC commencing on 23 November 2017, the Demerger Date, and expiring on 31 December 2019. The WLFA is for the purpose of, *inter alia*, regulating the provision of rental services (i.e. leases, tenancies or licenses) ("Rental Services") provided by Wharf REIC Group to the Group from time to time in respect of the premises (including office premises, car parking spaces and building areas but excluding hotel premises) owned by Wharf REIC Group and stipulating, *inter alia*, the annual cap on the amounts payable by the Group to Wharf REIC Group in relation thereto at HK\$8 million, HK\$44 million and HK\$44 million for the two months ending 31 December 2017 and the two financial years ending 31 December 2018 and 2019 respectively.

The aggregate amount payable by the Group under the WLFA, which is subject to the relevant annual cap amount as abovementioned for the period from the Demerger Date to 31 December 2017 amounted to HK\$4 million.

Upon the Demerger Date, Wharf REIC had ceased to be a subsidiary of the Company but remains as a subsidiary of Wheelock which in turn is a substantial shareholder of the Company. Wharf REIC is regarded as a connected person of the Company within the meaning under the Listing Rules and the transactions mentioned under Sections (J)(ii) and (iii) above constitute continuing connected transactions for the Company.

(iv) Confirmation from the Directors and the Auditors

(a) The Directors, including the Independent Non-executive Directors, of the Company have reviewed the continuing connected transactions mentioned under Sections (J)(i) to (J)(iii) above (the "Transactions") and have confirmed that the Transactions were entered into:

- (1) by the Group in the ordinary and usual course of its business;
- (2) on normal commercial terms or better; and
- (3) according to the relevant agreements governing the Transactions on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

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

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

- (1) the Transactions had not been approved by the Company's Board of Directors;
 - (2) the Transactions were not, in all material respects, entered into in accordance with the terms of the related agreements governing the Transactions;
 - (3) the relevant cap amounts, where applicable, have been exceeded during the financial year ended 31 December 2017; and
 - (4) in the event that there would be any transactions involving the provision of goods and services by the Group, the transactions were not, in all material respects, in accordance with the pricing policies of the Group.
- (v) With regard to the Material Related Parties Transactions as disclosed under Note 26 to the Financial Statements on page 159, the transactions stated under paragraphs (a)(ii) and (b) therein constitute connected transactions (as defined under the Listing Rules) of the Company and the one under paragraph (b) constitute a fully exempt connected transaction of the Company, for all of which the applicable requirements under the Listing Rules have been duly complied with.

(K) Principal Risks and Uncertainties

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

Risks pertaining to Development Properties ("DP")

DP segment is the Group's major business, particularly in Mainland China. Accordingly, the DP segment is subject to economic, political and legal developments in Mainland China as well as in the economies in the surrounding region. In recent years, the DP market movements in Mainland China have been concurrently affected by the economic trend and government policies including but not limited to the adoption of category-based regulatory measures and the bilateral regulatory measures for the real estate market, policy changes affecting the issue of pre-sale licenses and permitted selling price, mortgage levels and ownership, interest rate changes, supply and demand conditions as well as the overall economic volatility in Mainland China. The Group's DP segment is expected to continue exposing to these risks, which may affect the Group's investment strategy and business model as well as the performance in DP.

In this respect, the Group actively assesses the overall economic, political and legal developments as well as the property markets both in Hong Kong and other provinces in Mainland China for deciding viable acquisitions and selling strategies. For each potential project, detailed feasibility studies and stress tests with regard to all aspects will be carried out before an acquisition to minimise the commercial and legal risks.

Risks pertaining to Investment Properties ("IP")

IP segment is another Group's core business with IP assets accounted for 37% of the Group's total. With the majority of the properties located in Mainland China, the general economic climate, regulatory changes, government policies and the political conditions in Mainland China may have a significant impact on the Group's overall financial results and condition. The Group's rental income may experience more frequent adjustments resulting from competition arising from oversupply in retail and office areas. Furthermore, rental levels may also be impacted by external economic and market conditions including but not limited to the fluctuations in general supply and demand, performance in stock markets and financial volatility, which may indirectly affect the Group's IP performance.

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

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

Risks pertaining to Logistic Segment

The Group operates container terminals both in Hong Kong and Mainland China. A tepid recovery of global trade flows and a temporary adjustment on the newly-formed alliances phased-in their new vessels, however we expect the first few months of 2018 will be a challenge given we had a strong growth in 2017. We still expect a robust global trade growth which will help the throughput to align with the market.

While continuing to seek additional throughput, Modern Terminals will remain focused on improving operational performance and delivering on customer requirements to maximise cash flow and strengthen the company's balance sheet. We have already implemented our multi-year programme to increase our operational efficiency and infrastructure capability, the benefits of which will flow through in 2018.

Risks pertaining to Hotel Segment

The Group operates 16 hotels in the Asia Pacific region, three of which are owned by the Group. Hotel performance is usually subject to a high degree of fluctuations caused by both predictable and unpredictable factors including seasonality, social stability, epidemic diseases and changes in economic conditions. For instance, the recent Central Government Anti-corruption drive in Mainland, the policy change on the grant of multiple-entry permits to Shenzhen residents, together with the change in the foreign exchanges of the surrounding regions have varied the development pattern of the tourism and hospitality industry in the Mainland.

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

Risks pertaining to Equity Investments

The Group has a portfolio of equity investments, which accounted for about 9% of the Group's total assets. The portfolio is held for long term growth potential with reasonable return that in line with the general market and so diversified as consisting of mainly blue chips with each investment individually immaterial to the Group's total asset. Given that the volatility of the stock market, the portfolio is subject to market fluctuation and may affect the net asset value of the Group yet impacts on Group's results should be insignificant. The performance of the portfolio is assessed and monitored by top management regularly.

DIRECTORS' REPORT

Legal and Regulatory Compliance risks

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

Financial risks

The Group is exposed to financial risks related to interest rate risks, foreign currency risks, equity price and credit in the normal course of its business. For further details of such risks and relevant management policies, please refer to Note 23 to the financial statements from pages 150 to 156.

(L) Environmental, Social and Governance

The Group is committed to integrating social and environmental factors throughout our operations and taking an active part in community investment projects. A three-tier governance structure, consisting of a group-level CSR Steering Committee, Cross-Business Unit ("BU") CSR Group and CSR governance bodies at each business unit, formulates the overall CSR strategy and reviews CSR Guidelines to align with the Group's goals and commitments and improve performance. Executives from BUs oversee the day-to-day management of programmes and meet regularly to exchange ideas and best practices.

In 2016, the Group issued environmental guidelines to govern pollution prevention and waste management, sustainable use of resources, carbon emissions, environmental protection, biodiversity and the restoration of natural habitats. The Group leverages mature technologies to improve energy efficiency, reduce waste and manage resource consumption, and has executed environmental initiatives commensurate with each BU's scale, operations and locations.

The Group's Business Code of Ethics and Code of Conduct clearly state our expectations of ethical behaviour for our employees and other stakeholders, and strictly prohibit any form of bribery and corruption. Whistleblowing Policy and Procedures are in place to enable all employees and business partners to report any misconduct or malpractice in a confidential manner. The Group complies with the Competition Ordinance (Cap 619 of the laws of Hong Kong). Guidelines and trainings were provided to employees to prevent them from engaging in anti-competitive behaviours.

The Group focuses our efforts on further improving the quality of life of our customers. Trainings are provided to equip employees with the knowledge and skills necessary to provide the highest quality of services to our valued customers. Measures tailored to the business nature of the BUs are adopted to protect customer health and safety. The Group complies with legislation in Hong Kong and Mainland China⁽¹⁾ while planning and executing our marketing and communications projects and ensures that the information contained is accurate, fair and transparent. To protect customers' personal information, the Group adheres to the Personal Data (Privacy) Ordinance (Cap 486 of the laws of Hong Kong) and follows a standard procedure in handling customers' information. To better manage our supply chain, vendor management systems are implemented to assess suppliers' social, environmental and technical capabilities.

The Group's development is attributed to our loyal and talented employees. The Group adopts a fair and transparent recruitment process, remunerates employees with welfare packages commensurate to their qualifications and experience, invests in their career development and promotes an inclusive and safe workplace. All company policies and practices conform to the relevant statutory requirements of the respective jurisdiction. The Group complies with the Occupational Safety and Health standards recommended by the government and has safety manuals and management systems in place tailored to different BUs.

The Group believes that our responsibilities go beyond contributing to economic growth. Through our diverse portfolio, the Group provides financial and manpower support for various community programmes, focusing on youth fostering, economic development and social welfare. Employees are encouraged to volunteer and help those in need.

Detailed discussions of the Group's environmental policies and its relationship with customers, suppliers, employees, and other key stakeholders are contained on pages 48 to 59 of this Annual Report. Further details can also be found in the Group's standalone Sustainability Report which is available for download on the Group's corporate website (<http://www.wharfholdings.com>).

Note:

(1) *Anti-Unfair Competition Law, Regulation on Telecommunications, The People's Republic of China; Trade Descriptions Ordinance (Cap 362), HKSAR; consumer rights protection legislation and logo guidelines.*

(M) Directors of Subsidiaries

The names of all persons who, during the financial year and up to 8 March 2018 (the date of the Directors' Report of the Company), served as directors of all those companies included as subsidiaries in the consolidated financial statements of the Company for the financial year ended 31 December 2017 are set out below:

CHAK Hoi Kit Jacques	LI Yongqian*	YICK Chi Ming Frankie
CHAN Kwok Pong	LI Yubin	YIM Kong
CHAN Sik Wah	LING Miu Ngan	YOUNG Stephen Ying Yuen
CHAN Wing Sang Wilson	LO Wai Man	ZHANG Lu
Chavalit Uttasart	NG Tin Hoi Stephen	ZHANG Vicky Yuanyuan
CHEUNG Mark Quintin	OON Hock Neo	ZHANG Yi
CHOW On Kiu	PAO Zen Kwok Peter	毛立鵬*
FU Wai Hung	SIU Wing Koon	王佳宏
GUO Guanghui	SIU Yau Chung Joseph	王玲
GUO Yong	SUN Ligan	周建罡
HENNIG Hans Helmuth	TAN Bee Kim	郭志成
HUI Chung Ying Kevin	TANG See Chui*	陸美麗*
LEE Yuk Fong Doreen	TSO Hok Chiu Vivian	凌學風
LENG Yen Thean	TSUI Yiu Cheung	陳小平
LEUNG Kam Cheung*	WEI Qing Shan	陳信霖
LEVESQUE Peter Jon	WONG Kwong Yiu	劉鳴
LI Jun	WONG Yee Lut Eliot	聶煥新
LI Lei	WOO Chun Kuen Douglas	
LI Qingan	WU Guan	

* ceased to be a director of the Group's subsidiaries on or before 8 March 2018.