WHARF

Established 1886

THE WHARF (HOLDINGS) LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 4)

2018 Final Results Announcement

Focus on Properties Unchanged

HIGHLIGHTS

- With a combined book value of about HK$165 billion, properties represented nearly 80% of total non-cash assets and accounted for nearly 80% of Group revenue, 90% of operating profit and 90% of underlying net profit.

- Development Properties ("DP") reported another good year of earnings in Mainland China but lower recognition in Hong Kong more than erased the gains from other segments.

- Investment Properties ("IP") reported promising gains.

- Logistics with a combined book value of HK$16 billion declined in the midst of Hong Kong's loss of competitiveness to other ports in the region and will be seeking to reverse that trend through a strategic alliance among the local operators.

- CME2 with a combined book value of HK$16 billion is still at a formative stage. Additions to the position during the year were insignificant and no disposal was reported.

GROUP RESULTS

Group underlying net profit for the year decreased by 59% to HK$6,511 million (2017: HK$15,924 million), equivalent to HK$2.14 per share (2017: HK$5.25 per share), mainly due to the demerger of Wharf Real Estate Investment Company Limited ("Wharf REIC") in November 2017. Adjusting out the demerged Wharf REIC for a more meaningful comparison, Group underlying net profit decreased by 11% (2017: HK$7,328 million).

Group profit attributable to equity shareholders, including IP revaluation surplus and other items, decreased by 70% to HK$6,623 million (2017: HK$21,876 million). Basic earnings per share were HK$2.18 (2017: HK$7.21). Adjusting for the Wharf REIC demerger, the decrease was 50% (2017: HK$13,119 million), which was mainly due to inclusion of gain on disposal of 8 Bay East of HK$4,499 million in 2017.

DIVIDENDS

A first interim dividend of HK$0.25 per share was paid on 12 September 2018. In lieu of a final dividend, a second interim dividend of HK$0.40 per share will be paid on 23 April 2019 to Shareholders on record as at 6:00 p.m., 3 April 2019. Total distribution for the year 2018 will amount to HK$0.65 per share (2017: total cash dividend of HK$1.59 per share and special interim dividends equivalent to HK$65.33 per share by way of distribution in specie of all shares held by the Group in i-CABLE Communications Limited ("i-CABLE") and Wharf REIC).

2018 BUSINESS REVIEW

Reporting for the first year without the demerged Wharf REIC, 2017 comparatives in the Business Review have been adjusted to make comparison meaningful.

HONG KONG PROPERTIES

The Group's portfolio mainly comprises prime projects on the Peak, Kowloon Tong and the new CBD2 in Kowloon East.

Mount Nicholson was the dominant contributor to revenue and profitability during the year. Due to lower recognition, revenue decreased to HK$1,667 million and operating profit to HK$1,067 million on an attributable basis.

The Peak Portfolio

The Group's Peak Portfolio redefines the concept of luxury living with a collection of the rarest and most prestigious residences, epitomising a unique and exclusive lifestyle at the most sought-after addresses in town.

Mount Nicholson, a 50:50 joint venture development, offers ultra-luxury residences with an enchanting uninterrupted view over Victoria Harbour. This collection of 19 ultra-luxury houses and 48 apartments nestled on the Peak was highly-acclaimed since its launch in early 2016. During the year, two houses and three apartments were sold for combined proceeds of HK$3.8 billion or an average of HK$125,000 per square foot.

Superstructure works for the re-development of 11 Plantation Road and 77 Peak Road were completed in 2017. These superb developments are set to provide seven houses (total GFA: 46,300 square feet) and eight houses (total GFA: 42,200 square feet), respectively.

The re-development of 1 Plantation Road is well underway and will feature 20 houses (total GFA: 91,000 square feet). Meanwhile, Chelsea Court and Strawberry Hill have been leasing well.

Kowloon East Waterfront Portfolio

The Government's visionary "Energizing Kowloon East" initiative is gaining momentum with the injection of new developments, vibrancy and diversity into the Kowloon East area. With the driving force of office decentralization in the city, this is gradually emerging as another core business district. This vibrant transformation is providing a vast potential for the Group's "Kowloon East Waterfront Portfolio", represented by the Kowloon Godown and 15%-owned Yau Tong Bay joint-venture project.

Lying along the coastline with a spectacular Victoria Harbour view, Kowloon Godown comprises a warehouse and an open yard with an existing operating GFA of one million square feet. Different re-development options are under evaluation. General building plans for a revitalisation scheme for the warehouse was approved in June 2018. In addition, applications for lease modification for a commercial scheme at the open yard and warehouse sites were submitted in 2017.

Yau Tong Bay is a harbourfront residential project with a compelling panoramic view of Victoria Harbour. Spanning a total GFA of four million square feet within accessible walking distance to the MTR station, the project is set to provide 6,300 residential units in Kowloon East. General building plans have been approved. Lease modification is under way.

New land site in Kowloon Tong

This 436,000 square feet (total developable GFA) residential development site stands at the junction of Lion Rock Tunnel Road and Lung Cheung Road. Strategically located adjacent to the traditional luxury residential cluster of Beacon Hill, this exclusive location enjoys a spectacular view. With a proven track record in ultra-luxury residences, the Group is set to raise the bar of luxury and ultra-exclusive residences in the Kowloon Peninsula. Approval has been granted to build four blocks of 13-storey residential buildings.

CHINA DP

The Group reported another year of good earnings with margin improvement. General cooling measures have done relatively little to dampen the underlying demand for quality properties, especially in the first- and second-tier cities.

Inclusive of joint ventures and associates on an attributable basis, revenue decreased by 21% to HK$22,236 million but operating profit increased by 19% to HK$7,949 million. Operating profit margin increased by 12 percentage points to 36%. 778,000 square metres of GFA were completed and recognised in 2018 (2017: 973,000 square metres).

The timing of sales launch continued to be dictated by local government approval to sell at full or close to full market price. Nevertheless, against the backdrop of a more flexible policy environment towards the end of the year, new launches increased and sales momentum was regained. Full year attributable contracted sales of RMB22.8 billion exceeded target by 4%. The net order book increased to RMB21.8 billion for 0.7 million square metres at year-end.

During the year, 12 sites in Suzhou, Hangzhou, Foshan and Guangzhou were acquired for RMB18.1 billion (GFA: 0.81 million square metres) on an attributable basis. The DP land bank at year-end amounted to 3.7 million square metres.

CHINA IP

Location, product, critical mass and value-add management continued to drive this segment's performance. Its unrivalled leadership in retail management is further solidified with the successful opening of Changsha International Finance Square ("IFS") in May 2018. Resounding performance of the trend-setting and award-winning IFS series promises to fuel further growth in the years to come.

During the year, revenue increased by 30% to HK$3,429 million and operating profit by 28% to HK$1,872 million.

Changsha IFS

Located at the heart of the city, Changsha IFS enjoys a premier address in Furong District entertainment and business hub with underground linkage to the busy Wuyi Plaza Station (the interchange station for Metro Lines 1 and 2) and directly opposite to one of the busiest pedestrian streets – Huangxing Road, ensuring high connectivity and footfalls.

Retail

Impressive performance has been achieved since opening on 7 May 2018. Occupancy reached 98% and opening rate 96% by year-end, demonstrating retailers' confidence in the mall's success. Average monthly retail sales in 2018 surpassed RMB 300 million soon after business began, exceeding expectation.

The enormous 246,000-square-metre retail podium houses more than 370 brands with over 70 debut brands for Hunan Province, including Hermès, Dior, Saint Laurent Paris, Balenciaga, Valentino, Bulgari, Tiffany, and Cova, over 30 split-gender duplex flagships, including Louis Vuitton, Gucci, Prada, Dolce & Gabbana, Burberry, Moncler and Bottega Veneta, and over 100 brands who have made a foray into collaborating with Wharf in the Mainland, including Parkson Beauty, Tesla, and a league of premium internationalized local designers' labels. Strategically calibrated trade mix helps to create critical mass in well-defined zones covering high-end luxury, affordable luxury, high street, internationalized Chinese designers' labels, fast fashion, sportswear, kids, entertainment and F&B.

Changsha IFS is injecting new impetus in the central China region as it emerges as the community hub for the city, bringing a vast array of exhibitions, cultural activities, festivals, and art collaborations with famous artists such as KAWS, Tom Claassen and Steven Harrington. "The Magical Maze" by German architect Ben Busche became a new interactive check point for Changsha media and locals.

Exciting line up of promotion and events included National Holiday promotions, and an O2O promotion on 11 November Singles Day targeting online customers and youngsters. Moreover, the New Year's Eve countdown party attracted unprecedented footfall, with Hunan TV's 8-hour live broadcast on TV, online news and APP platforms, covering over 30 million audiences nationwide.

Office and Hotel

Two top-notch office towers include the 452-metre towering city icon, being the tallest building in the Hunan province. With the most-coveted address in the heart of the Wuyi CBD along lively Jiefang West Road, the office complexes are set to raise the bar of Grade A workplace for financial institutions and major corporations.

Soft-opened in late October 2018, Niccolo Changsha is central China's tallest hotel, ushering in a new era of impeccable hospitality and effortless luxury. Niccolo Changsha houses 243 contemporary chic rooms and spectacular suites, offering sophisticated, international standards of hospitality for global travellers and local residents.

Chengdu IFS

This iconic landmark in the western China metropolis continues its growth momentum during the year. Overall revenue grew by 27% to HK$1,568 million and operating profit by 59% to HK$783 million.

Retail

With exhilarating one-stop "retailtainment" and upscale experiences, Chengdu IFS continues to stand out from the Western China market in sales productivity. The extensive 204,000-square-metre flagship shopping mall reported full occupancy. Tenant sales witnessed a robust growth of 20% while foot traffic grew by 18%.

Offering an exceptional shopping experience, Chengdu IFS showcases an extensive collection of over 600 top-tier international brands, with over 100 debuts in China. Tenant mix refinement is an ongoing initiative to provide a captivating experience for all shoppers. New additions included 7 For All Mankind, adidas Originals, Chaumont, Goyard, Heytea Black, Mr & Mrs Italy and Sunglass Hut. In addition to compelling entertainment offerings including an IMAX movie theatre and an ice skating rink, the 7,700-square-metre Sculpture Garden is the landmark urban public space to enrich the city's cultural life by hosting diverse art exhibitions and cultural activities.

Exciting and innovative events and promotion are in place throughout the year to surprise the consumers, including "MAGIC WONDERLAND" with installation of 3D Holographic Projection Technology and Christmas market themed desserts pop up, Chengdu International Fashion Week 2018, "Midnight in Paris" VIP Christmas Ball and Nature Connects Art with LEGO Bricks.

Office, Hotel and IFS Residences

Commitment rate at the three premium Grade A office towers climbed to 77% with rental rates standing among the highest in the city. Selective tenant portfolio includes multinationals, financial institutions and major corporations in China West.

Niccolo Chengdu remained the city's market leader in room yield with room occupancy increasing to 85% and revenue per available room ("RevPAR") growing by 28%. Meanwhile, IFS Residences was recognised as the "2018 Most Influential Serviced Apartment" by Chengdu Daily.

Chongqing IFS

Officially opened in September 2017, Chongqing IFS is located at Jiangbeizui CBD, an emerging financial hub for south-western China. Standing on top of the 109,000-square-metre world-class retail podium, the iconic 300-metre towering landmark comprises Grade A offices and Niccolo Chongqing with spectacular view along riverbanks of the Yangtze River and Jialing River.

Featuring the largest cluster of first-tier brands in Chongqing, the IFS mall is home to over 170 brands, among which nearly 30 brands are exclusive or debut in the city. One-stop lifestyle experiences also include delectable international cuisines, a real-ice skating rink and a high-end cinema. Occupancy reached 98% at year-end.

Successfully positioning itself as a prestigious luxury brand in the city, Niccolo Chongqing ranked among the city's top hotels in room yield since its soft opening in September 2017 and started to report an impressive operating margin in its first full year of operation.

In addition to the direct linkage to the interchange station (Jiangbei Town Station) for metros Line 6 and Line 9 (under construction), various infrastructures have been commenced to enhance the connectivity of the surrounding areas. A bridge between Chongqing IFS and financial city was opened in mid-December of 2018, providing additional option of vehicle traffic to the complex.

Shanghai Wheelock Square

The iconic skyscraper in prime location of Puxi, a compelling office addresses for multinationals and major corporations, maintained a high occupancy rate of 95% with lease renewal retention rate standing firm at 90%.

Shanghai Times Square

With a prestigious location in the heart of Huaihai Zhong Road shopping, entertainment and business hub, Shanghai Times Square is a prominent retail destination and ideal office choice for multinational enterprises. Retail space maintained at full occupancy. Offices were 93% leased. Times Square Apartments overall commitment rate was 90%.

Times Outlets Chengdu

Times Outlets Chengdu witnessed a solid growth for retail sales of 11% and ranks among the most visited outlet destinations nationwide.

WHARF HOTELS

Currently, the Group manages 17 hotels in the Asia Pacific region under the Marco Polo flag and the luxury Niccolo flag, a collection of contemporary chic hotels with the most desirable, highly prized addresses. During the year, Niccolo Hotels celebrated the opening of its third and fourth properties, respectively The Murray, Hong Kong and Niccolo Changsha.

The Murray, Hong Kong has rapidly garnered multiple notable accolades since inauguration in January 2018, including "World's Greatest Places 2018" – Places to Stay by TIME Magazine, "The Hot List" – The Best New Hotels in the World 2018 and "Readers' Choice Awards 2018" – Top Hotels in China by Condé Nast Traveler, "Big Sleep Awards 2018" – City Slicker by National Geographic Traveller, "The Best New Business Hotel in Asia 2018" by Bloomberg and "The Luxe List 2018" – Best New Hotels in the Asia-Pacific Region by DestinAsian Magazine.

Niccolo Changsha ushers in a new era of hospitality, following the footsteps of its sister hotels, The Murray, Hong Kong, and Niccolo hotels in Chengdu and Chongqing. Commanding scenic views of the Changsha skyline and Xiang River, Niccolo Changsha offers 243 contemporary chic rooms and spectacular suites, and three sky-high dining and social destinations: Niccolo Kitchen, the Tea Lounge and BAR 93.

Niccolo Suzhou is the newest addition under development and is scheduled to open in the first quarter of 2020.

LOGISTICS

The logistics industry is facing headwinds from growing global protectionism, economic slowdown and geopolitical uncertainties. During the year, segment revenue from Modern Terminals ("MTL") and Hong Kong Air Cargo Terminals ("HACTL") decreased by 4% to HK$2,616 million and operating profit by 9% to HK$597 million.

MODERN TERMINALS

Intensifying regional competition is challenging Hong Kong's role as a major hub and gateway to the world. South China's container throughput was consistent with last year, with Shenzhen's throughput increasing by 3% and that of Kwai Tsing decreasing by 5%, respectively. Market shares of Shenzhen and Kwai Tsing were 62% and 38% respectively.

Throughput handled by MTL in Hong Kong recorded a mild growth of 2% to 5.3 million TEUs. In Shenzhen, throughput at DaChan Bay Terminals (MTL's stake: 65%) was down by 7% to 1.2 million TEUs, at Shekou Container Terminals (MTL's stake: 20%) up by 7% to 5.6 million TEUs and at Chiwan Container Terminal (MTL's stake: 8%) increased to 2.4 million TEUs.

Driven by continued change in throughput trend with more barge and transshipment in the volume mix, consolidated revenue decreased to HK$2,606 million (2017: HK$2,703 million). Operating profit decreased to HK$587 million (2017: HK$649 million).

The uncertainties and volatilities from trade tensions and regional competition continued to squeeze Hong Kong's port industry. In response to the fast changing industry dynamics and growing competition from other ports in the region, the Group is proactively taking all necessary actions to rebuild the competitiveness of Hong Kong's port business. In January 2019, MTL entered into a Joint Operating Agreement with three other terminal operators to form Hong Kong Seaport Alliance to jointly operate 23 berths in the Kwai Tsing Container Terminals to achieve higher efficiency and to provide a higher standard of service to customers.

HONG KONG AIR CARGO TERMINALS

HACTL, a leading air cargo terminal operator in Hong Kong with four decades of operational experience, is 20.8% owned by the Group. Total cargo handled in 2018 dropped slightly to 1.65 million tonnes.

CME2

CME2 is the Group's long-term investment, representing a strategic initiative in new economy infrastructure to re-invest the capital and profit released from the earlier exit from CME1 in Hong Kong in a progressive CME2 arena that covers much larger markets with greater growth potential.

With a combined book value of HK$16 billion, CME2 is still at a formative stage. Additions to the position during the year were insignificant and no disposal was reported.

FINANCIAL REVIEW

(I) Review of 2018 results

(A) <u>Comparison Excluding Wharf REIC from 2017 Results</u>

The demerger of Wharf REIC in November 2017 (the "Demerger") renders direct comparison of the Group's financials to 2017 less relevant. Accordingly, 2017 financial results have been adjusted by excluding Wharf REIC for meaningful comparison as follows.

<u>Revenue and Operating profit ("OP")</u>

Group revenue decreased by 13% to HK$21,055 million (2017: HK$24,321 million), reflecting 28% growth for IP, but 24% drop for DP and exit from CME1.

OP increased by 36% to HK$8,752 million (2017: HK$6,458 million), mainly resulting from 26% growth for IP, 33% for DP and exit from CME1.

IP revenue increased by 28% to HK$3,586 million (2017: HK$2,796 million) and operating profit by 26% to HK$1,984 million (2017: HK$1,571 million). Driven by maturing Chengdu International Finance Square ("IFS") and the newly-opened Changsha IFS, Mainland IP revenue increased by 30% and OP by 28%.

DP subsidiaries recognised 24% lower revenue of HK$12,914 million (2017: HK$16,887 million), but operating profit increased by 33% to HK$5,603 million (2017: HK$4,203 million) benefitting from completion of higher margin projects. DP joint ventures are equity accounted with share of their results included in associates/ joint ventures.

Hotel revenue increased by 64% to HK$463 million (2017: HK$283 million) and OP doubled to HK$90 million (2017: HK$43 million) resulting from the growth in hotel management fees and improved performance of Niccolo Chengdu.

Logistics revenue decreased by 4% to HK$2,616 million (2017: HK$2,711 million) and operating profit fell by 9% to HK$597 million (2017: HK$657 million) resulting from a shift in container terminal throughput mix handled by Modern Terminals in Hong Kong to lower yield cargo.

Exit from CME1 was completed in September 2017 after distribution of all i-CABLE shares in specie to the Company's shareholders, which discontinued the Group's CME1 revenue and operating loss.

Investment and others revenue increased by 59% to HK$1,476 million (2017: HK$926 million) and OP by 91% to HK$1,016 million (2017: HK$532 million), mainly due to increase in dividend income from the Group's enlarged investment portfolio.

<u>DP Sales and Net Order Book</u>

Total DP contracted sales, inclusive of joint venture projects on an attributable basis, decreased by 16% to HK$27,958 million (2017: HK$33,379 million).

Mainland contracted sales fell by 5% to RMB22,815 million (2017: RMB23,946 million). Revenue recognition decreased by 21% to HK$22,236 million (2017: HK$27,971 million) yet operating profit grew by 19% to HK$7,949 million (2017: HK$6,656 million) with improved overall profit margin. Net order book rose to RMB21,766 million (December 2017: RMB19,196 million).

Hong Kong contracted sales were mainly from the Mount Nicholson project which, on an attributable basis, amounted to HK$1,919 million (2017: HK$4,733 million). Sales recognition decreased to HK$1,667 million (2017: HK$5,279 million), which contributed an operating profit of HK$1,062 million (2017: HK$2,907 million). Attributable sales recognition of HK$260 million was deferred under the new accounting standard that requires recognition at the time of assignment instead of signing of formal agreement.

Fair Value Gain of Investment Properties

Total value of the Group's IP portfolio as at 31 December 2018 was HK$74.7 billion (2017: HK$82.1 billion) with substantially all stated at fair value based on independent valuation (2017: HK$65.5 billion), which produced a revaluation gain of HK$985 million (2017: HK$1,831 million). The attributable net revaluation gain of HK$465 million (2017: HK$1,261 million), after related deferred tax and non-controlling interests, was credited to the consolidated income statement.

Other net (charge)/income

Other net charge of HK$770 million (2017: income HK$4,672 million) primarily included net foreign exchange loss, while 2017 included a gain of HK$4,499 million arising from disposal of 8 Bay East.

Finance Costs

Finance costs amounted to HK$512 million (2017: HK$87 million) which included an unrealised mark-to-market gain of HK$375 million (2017: HK$292 million) on cross currency and interest rate swaps for hedging in accordance with prevailing accounting standards.

Excluding the unrealised mark-to-market gain, finance costs after capitalisation were HK$887 million, representing a 134% increase as affected by the financing rearrangement for the Demerger.

Share of Results (after tax) of Associates and Joint Ventures

Associates' attributable profit decreased by 4% to HK$1,279 million (2017: HK$1,326 million) mainly due to lower profit contributions from Mainland DP.

Joint ventures attributable profit decreased by 63% to HK$1,103 million (2017: HK$2,972 million) due to deferral of profit recognition for Mount Nicholson and lower recognition from various Mainland DP projects.

Income Tax

Taxation charge for the year increased by 5% to HK$4,126 million (2017: HK$3,934 million), which included deferred taxation of HK$522 million (2017: HK$572 million) provided for the current year's revaluation gain attributable to investment properties in the Mainland.

Excluding the above deferred taxation, the tax charge increased by 7% to HK$3,604 million

(2017: HK$3,362 million), which was mainly attributable to the higher profits from IP and Mainland DP segments coupled with increase in land appreciation tax on certain Mainland DP projects sold at relatively high profit margins.

Profit to Shareholders

Group underlying net profit is a performance indicator of the Group's major business segments and arrived at after excluding the attributable net IP revaluation gain, mark-to-market and exchange gain/loss on certain financial instruments and exceptional items.

Group underlying net profit decreased by 11% to HK$6,511 million (2017: HK$7,328 million) with IP increasing by 43% to account for 16% (2017: 10%) of Group total, DP decreasing by 26% to account for 71% (2017: 85%) of Group total and Logistics decreasing by 12% to account for 7% (2017: 7%) of Group total.

Including the net IP revaluation gain of HK$465 million (2017: HK$1,261 million) and other non-core items, Group profit attributable to equity shareholders decreased by 50% to HK$6,623 million (2017: HK$13,119 million). Basic earnings per share were HK$2.18, based on weighted average of 3,045 million shares (2017: HK$4.32 based on 3,034 million shares).

Results Summary by Excluding Wharf REIC from 2017 as follows:

	2018	Excluding Wharf REIC 2017
	(HK$'M)	(HK$'M)
Revenue	**21,055**	**24,321**
IP	3,586	2,796
DP	12,914	16,887
Hotels	463	283
Logistics	2,616	2,711
CME1	-	874
Investments and others	1,476	770

	2018	Excluding Wharf REIC 2017
	(HK$'M)	(HK$'M)
Operating profit	**8,752**	**6,458**
IP	1,984	1,571
DP	5,603	4,203
Hotels	90	43
Logistics	597	657
CME1	-	(294)
Investments and others	478	278
Increase in fair value of IP	985	1,831
Other net (charges) / income	(770)	4,672
Finance costs	(512)	(87)
Associates / Joint ventures	2,382	4,298
Income tax	(4,126)	(3,934)
Non-controlling interests	(88)	(119)
Profit to shareholders	**6,623**	**13,119**
Underlying net profit	**6,511**	**7,328**
IP	1,067	747
DP	4,648	6,239
Hotels	76	25
Logistics	462	524
CME1	-	(157)
Investments and others	258	(50)

(B) <u>Comparison Including Wharf REIC in 2017 Results</u>

Group revenue decreased by 51% to HK$21,055 million (2017: HK$43,273 million) and OP by 58% to HK$8,752 million (2017: HK$20,622 million).

IP revenue decreased by 75% to HK$3,586 million (2017: HK$14,599 million) and OP by 84% to HK$1,984 million (2017: HK$12,029 million).

DP revenue decreased by 43% to HK$12,914 million (2017: HK$22,608 million) and OP by 28% to HK$5,603 million (2017: HK$7,753 million).

Hotel revenue declined by 69% to HK$463 million (2017: HK$1,487 million) and OP by 73% to HK$90 million (2017: HK$328 million).

Logistics revenue decreased by 7% to HK$2,616 million (2017: HK$2,817 million) and OP by 10% to HK$597 million (2017: HK$667 million). Exit from the CME1 segment discontinued the Group's CME1 revenue and operating loss. Investment and others revenue increased by 41% to HK$1,476 million (2017: HK$1,044 million) and OP by 75% to HK$1,016 million (2017: HK$579 million).

<u>Finance Costs</u>

Finance costs amounted to HK$512 million (2017: HK$1,013 million) which included an unrealised mark-to-market gain of HK$375 million (2017: HK$292 million) on cross currency and interest rate swaps in accordance with prevailing accounting standards.

The effective borrowing rate for 2018 was 3.5% (2017: same). Excluding the unrealised mark-to-market gain, finance costs before capitalisation were HK$1,436 million (2017: HK$1,674 million), representing a 14% decrease. Finance costs after capitalisation were HK$887 million (2017: HK$1,305 million), fell by 32% with higher interest capitalised on DP projects.

<u>Income Tax</u>

Taxation charge for the year decreased by 48% to HK$4,126 million (2017: HK$7,967 million). Excluding the deferred taxation provided for the current year's revaluation gain attributable to investment properties in the Mainland, the tax charge decreased by 51% to HK$3,604 million (2017: HK$7,395 million).

<u>Non-controlling interests</u>

Group profit attributable to non-controlling interests decreased to HK$88 million (2017: HK$727 million).

<u>Profit to Shareholders</u>

Group underlying net profit decreased by 59% to HK$6,511 million (2017: HK$15,924 million).

Group profit attributable to shareholders decreased by 70% to HK$6,623 million (2017: HK$21,876 million).

Basic earnings per share were HK$2.18, based on weighted average of 3,045 million shares (2017: HK$7.21 based on 3,034 million shares).

(II) Liquidity, Financial Resources and Capital Commitments

Shareholders' and Total Equity

As at 31 December 2018, shareholders' equity stood at HK$135.5 billion (2017: HK$142.0 billion), equivalent to HK$44.45 per share based on 3,047 million issued shares (2017: HK$46.75 per share based on 3,037 million issued shares), which has been impacted by a net exchange deficit of HK$4.2 billion arising from translation of Renminbi ("RMB") net assets and an investment revaluation deficit of HK$5.6 billion for the year.

Total equity including non-controlling interests of HK$3.3 billion (2017: HK$3.5 billion) increased to HK$138.8 billion (2017: HK$145.5 billion).

Assets

Total assets as at 31 December 2018 amounted to HK$227.3 billion (2017: HK$222.6 billion) following the increase in DP and other long term investments. Total business assets, excluding bank deposit and cash, financial and deferred tax assets, increased to HK$181.0 billion (2017: HK$161.7 billion).

Geographically, Mainland business assets, mainly comprising properties and terminals, amounted to HK$135.3 billion (2017: HK$127.5 billion), representing 75% (2017: 79%) of total business assets.

Investment properties

Included in total assets is the IP portfolio of HK$74.7 billion (2017: HK$82.1 billion), representing 41% (2017: 51%) of total business assets. This portfolio comprised Mainland IP at valuation of HK$54.4 billion (2017: HK$45.8 billion).

Properties for sale

DP assets increased significantly to HK$46.0 billion (2017: HK$25.2 billion), reflecting the acquisition of Lung Cheung Road site at HK$12.5 billion and construction cost incurred for China DP.

Interests in associates and joint ventures

Interests in associates and joint ventures amounted to HK$41.9 billion (2017: HK$30.5 billion), mainly representing DP projects in Hong Kong and the Mainland.

Other long term investments

Other long term investments amounted to HK$30.5 billion (2017: HK$19.1 billion), including mainly the Group's strategic investment in Greentown China Holdings Limited ("Greentown") of HK$3.2 billion and a portfolio of blue chips of HK$27.3 billion held for long term growth with reasonable dividend return. The portfolio performed overall in line with the market and each investment within which is individually not material to the Group's total assets. The revaluation of portfolio produced a net deficit of HK$5.6 billion (2017: surplus HK$2.7 billion) as reflected in the other comprehensive income. The revaluation deficit excluding Greentown was more than fully recovered subsequent to the year-end 2018.

Deposits from sale of properties

Deposits from sale of properties amounted to HK$9.3 billion (2017: HK$9.1 billion) pending for recognition in the coming years.

Net Debt/(Cash) and Gearing

Net debt as at 31 December 2018 amounted to HK$25.6 billion, turning from net cash of HK$9.3 billion at 2017 year end, mainly resulting from re-investment in DP in Hong Kong and the Mainland as well as in other long term investments. Net debt comprised of HK$17.5 billion in bank deposits and cash and HK$43.1 billion in debts. It includes Modern Terminals' net debt of HK$6.3 billion (2017: HK$6.8 billion), which is non-recourse to the Company and its other subsidiaries. Excluding non-recourse debts, the Group's net debt was HK$19.3 billion (2017: net cash HK$16.1 billion). At 31 December 2018, the ratio of net debt to total equity is 18.5%.

Finance and Availability of Facilities

Total available loan facilities and issued debt securities as at 31 December 2018 amounting to HK$66.6 billion, of which HK$43.1 billion utilised, are analysed as below:

	31 December 2018		
	Available Facility HK$ Billion	**Total Debts HK$ Billion**	**Undrawn Facility HK$ Billion**
Company/wholly-owned subsidiaries			
Committed and uncommitted bank facilities	32.6	12.3	20.3
Debt securities	23.4	23.4	-
	56.0	35.7	20.3
Non-wholly-owned subsidiaries			
Committed and uncommitted			
- Modern Terminals	10.6	7.4	3.2
	66.6	43.1	23.5

Of the above debts, HK$7.4 billion (2017: HK$4.8 billion) was secured by mortgages over certain IP, DP and other properties, plant and equipment with total carrying value of HK$26.5 billion (2017: HK$18.6 billion).

The Group diversified the debt portfolio across a bundle of currencies including primarily United States dollar ("USD"), Hong Kong dollar ("HKD") and Renminbi. Funds sourced from such debt portfolio were mainly used to finance IP, DP and port investments.

The use of derivative financial instruments is strictly monitored and controlled. The majority of the derivative financial instruments entered into are primarily used for management of interest rate and currency exposures.

The Group continued to maintain a strong financial position with ample surplus cash and undrawn committed facilities to facilitate business and investment activities. In addition, the Group also maintained a portfolio of liquid listed investments with an aggregate market value of HK$29.2 billion (2017: HK$19.1 billion), which is available for use if necessary.

Cash Flows for the Group's Operating and Investing Activities

For the year under review, the Group recorded net cash inflows before changes in working capital of HK$8.4 billion (2017: HK$21.0 billion). The changes in working capital led to a net cash used in operating activities to HK$8.1 billion (2017: net inflow of HK$5.2 billion) mainly as a result of increase in DP. For investing activities, the Group recorded a net outflow of HK$22.6 billion (2017: net inflow of HK$36.7 billion), mainly for increase in associates and other long term investments during the year.

Major Capital and Development Expenditures

Major expenditures incurred in 2018 are analysed as follows:

	Hong Kong HK$ Million	Mainland China HK$ Million	Total HK$ Million
Properties			
IP	289	4,607	4,896
DP	12,540	27,687	40,227
	12,829	32,294	45,123
Others	208	11	219
Group total	13,037	32,305	45,342

i. IP expenditure was mainly for construction costs of the IFS projects in Mainland.

ii. DP and IP expenditures included HK$12.8 billion for property projects undertaken by associates and joint ventures.

iii. Other expenditure was mainly related to terminal equipment.

Commitment

As at 31 December 2018, major expenditure to be incurred in the coming years was estimated at HK$27.2 billion, of which HK$13.8 billion was committed. They are analysed by segment as below:

	As at 31 December 2018		
	Committed HK$ Million	**Uncommitted HK$ Million**	**Total HK$ Million**
IP			
Hong Kong	894	-	894
Mainland China	54	267	321
	948	267	1,215
DP			
Hong Kong	81	-	81
Mainland China	9,163	13,041	22,204
	9,244	13,041	22,285
Others	3,612	70	3,682
Group total	13,804	13,378	27,182

Properties commitments are mainly for land cost and construction cost, inclusive of attributable commitments to associates and joint ventures, to be incurred by stages.

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

(III) Dividend Policy

Apart from compliance with the applicable legal requirements, the Company would adopt a dividend policy which targets to provide shareholders with reasonably stable and consistent dividends and intend to pay no less than 30% of the underlying net profit of the Group. The actual dividend payout from year to year will be subject to upward or downward adjustments as decided by the Board after taking into account of the Group's immediate as well as expected prevailing financial performance, cash flow, financial position, capital commitments and future requirements as well as the general business and economic environments.

The Board will review this policy for change from time to time with reference to its future prospect, capital requirements and other changing circumstances both internally and externally.

(IV) Human Resources

The Group had approximately 8,700 employees as at 31 December 2018, including about 2,300 employed by managed operations. Employees are remunerated according to their job responsibilities and the market pay trend with a discretionary annual performance bonus as variable pay for rewarding individual performance and contributions to the respective group's achievement and results.

CONSOLIDATED INCOME STATEMENT
For The Year Ended 31 December 2018

	Note	**2018 HK$ Million**	2017 HK$ Million
Revenue	2	**21,055**	43,273
Direct costs and operating expenses		**(9,691)**	(19,403)
Selling and marketing expenses		**(613)**	(929)
Administrative and corporate expenses		**(1,356)**	(1,381)
Operating profit before depreciation, amortisation, interest and tax		**9,395**	21,560
Depreciation and amortisation		**(643)**	(938)
Operating profit	2 & 3	**8,752**	20,622
Increase in fair value of investment properties		**985**	2,310
Other net (charge) / income	4	**(770)**	4,362
		8,967	27,294
Finance costs	5	**(512)**	(1,013)
Share of results after tax of:			
Associates		**1,279**	1,331
Joint ventures		**1,103**	2,958
Profit before taxation		**10,837**	30,570
Income tax	6	**(4,126)**	(7,967)
Profit for the year		**6,711**	22,603
Profit attributable to:			
Equity shareholders		**6,623**	21,876
Non-controlling interests		**88**	727
		6,711	22,603
Earnings per share	7		
Basic		**HK$2.18**	HK$7.21
Diluted		**HK$2.17**	HK$7.21

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For The Year Ended 31 December 2018

	2018 HK$ Million	2017 HK$ Million
Profit for the year	**6,711**	22,603
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Fair value changes on equity investments	**(5,605)**	2,660
Revaluation on reclassification of other properties	**-**	1,427
	(5,605)	4,087
Items that may be reclassified subsequently to profit or loss:		
Exchange difference on translation of foreign operations	**(3,420)**	4,290
Share of other comprehensive income of associates/joint ventures	**(892)**	1,054
Others	**6**	(1)
Other comprehensive income for the year	**(9,911)**	9,430
Total comprehensive income for the year	**(3,200)**	32,033
Total comprehensive income attributable to:		
Equity shareholders	**(3,152)**	30,896
Non-controlling interests	**(48)**	1,137
	(3,200)	32,033

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2018

	Note	**31 December 2018 HK$ Million**	31 December 2017 HK$ Million
Non-current assets			
Investment properties		**74,738**	82,128
Property, plant and equipment		**13,670**	13,201
Interest in associates		**20,092**	16,608
Interest in joint ventures		**21,767**	13,837
Other long term investments		**30,544**	19,109
Goodwill and other intangible assets		**298**	298
Deferred tax assets		**737**	954
Derivative financial assets		**200**	180
Other non-current assets		**20**	134
		162,066	146,449
Current assets			
Properties for sale		**45,954**	25,200
Trade and other receivables	9	**1,722**	5,192
Derivative financial assets		**159**	109
Bank deposits and cash		**17,448**	45,697
		65,283	76,198
Total assets		**227,349**	222,647
Non-current liabilities			
Derivative financial liabilities		**(440)**	(578)
Deferred tax liabilities		**(11,637)**	(11,252)
Bank loans and other borrowings		**(31,847)**	(26,267)
		(43,924)	(38,097)
Current liabilities			
Trade and other payables	10	**(20,427)**	(16,982)
Deposits from sale of properties		**(9,263)**	(9,083)
Derivative financial liabilities		**(268)**	(343)
Taxation payable		**(3,468)**	(2,529)
Bank loans and other borrowings		**(11,239)**	(10,142)
		(44,665)	(39,079)
Total liabilities		**(88,589)**	(77,176)
NET ASSETS		**138,760**	145,471
Capital and reserves			
Share capital		**30,173**	29,760
Reserves		**105,251**	112,214
Shareholders' equity		**135,424**	141,974
Non-controlling interests		**3,336**	3,497
TOTAL EQUITY		**138,760**	145,471

NOTES TO THE FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES AND BASIS OF PREPARATION

These financial information have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual HKFRSs, 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 Companies Ordinance (Cap. 622 of the laws of Hong Kong). These financial information also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies and methods of computation used in the preparation of the financial information are consistent with those used in the annual financial statements for the year ended 31 December 2017 except for the changes mentioned below.

The HKICPA has issued a number of new standards and amendments to Hong Kong Financial Reporting Standards ("HKFRSs") which are first effective for the current accounting year of the Group. Of these, the following developments are relevant to the Group's financial statements:

HKFRS 15	Revenue from contracts with customers
Amendments to HKFRS 2	Share-based payment, Classification and measurement of share-based payment transactions
HK(IFRIC) 22	Foreign currency transactions and advance consideration
Amendment to HKAS40	Investment property: Transfers of investment property

HKFRS 9 has been early adopted in the year ended 31 December 2016, and the other of the above development has had no significant impact on the Group's results and financial position for the current and prior periods have been prepared or presented.

HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 replaces HKAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specified the accounting for construction contracts.

The Group has elected to use the cumulative effect transition method for the adoption of HKFRS 15. As allowed by HKFRS 15, the Group applied the new requirements only to contracts that were not completed before 1 January 2018. Since the number of "open" contracts for sale of development properties at 31 December 2017 is immaterial, there was no material impact on the Group's result and financial position.

Further details of the nature and the changes in accounting policies are set out below:

(a) Timing of revenue recognition

HKFRS 15 does not have significant impact on how the Group recognises revenue from logistics and hotel operations. However, the timing of revenue recognition for sale of development properties in Hong Kong and Mainland China is affected. Taking into account the contract terms, the Group's business practice and the respective local legal and regulatory environment of Hong Kong and Mainland China, the Group has assessed that its property sales contracts in Hong Kong and Mainland China do not meet the criteria for recognising revenue over time and therefore revenue from property sales in Hong Kong and Mainland China continues to be recognised at a point in time.

Previously the Group recognised revenue from property sales upon the later of the signing of the sale and purchase agreement and the issue of occupation permit/completion certificate by the relevant government authorities, which was taken to be the point in time when the risks and rewards of ownership of the property had been transferred to the customers. Under the transfer-of-control approach of HKFRS 15, revenue from sale of development properties in Hong Kong and Mainland China is generally recognised when legal assignment is completed or the property is accepted by the customer, which is the point in time when the customer has the ability to direct the use of the property and obtain substantially all of the remaining benefits of the property. This resulted in the Group's revenue from sale of development properties being recognised later than the time it was recognised under the previous accounting policy.

(b) Significant financing component

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance or in arrears. Previously, the Group did not apply such a policy when payments were received in advance.

Payments received in advance of revenue recognition are common in the Group's arrangements with its customers in its development property segment, when residential properties are marketed by the Group while the property is still under construction. In some situations, the customers agree to pay the balance of the consideration early while construction is still ongoing, rather than when legal assignment is completed or the property is accepted by the customer.

In assessing whether such advance payments schemes include a significant financing component, the Group has considered the length of time between the payment date and the completion date of legal assignment based on typical arrangements entered into with customers.

Where such advance payment schemes include a significant financing component, the transaction price is adjusted to separately account for this component. Such adjustment will result in interest expense being accrued by the Group to reflect the effect of the financing benefits obtained from the customers during the period between the payment date and either the completion date of legal assignment or the date when the property is accepted by the customer, with a corresponding increase in revenue recognised from the sale of properties when control of the completed property is transferred to the customer.

(c) Presentation of contract assets and liabilities

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises 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 recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

Previously, contract liabilities relating to sale of properties were presented in the statement of financial position as deposits from sale of properties. These deposits are regarded as contract liabilities upon the adoption of HKFRS 15.

Except for the foregoing, the Group has not adopted any new standard or interpretation that is not yet effective for the current accounting period.

The financial information relating to the financial years ended 31 December 2018 and 2017 included in this announcement of annual results does not constitute the Company's statutory annual financial statements for those financial years but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 31 December 2017 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the financial statements for the year ended 31 December 2018 in due course. The Company's auditor has reported on those financial statements for both years. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

2. SEGMENT INFORMATION

The Group manages its diversified businesses according to the nature of services and products provided. Management has determined four reportable operating segments for measuring performance and allocating resources. The segments are investment property ("IP"), development property ("DP"), hotels and logistics. The Group completed the exit from communications and media and entertainment ("CME1") in September 2017 on distribution of i-CABLE Communications Limited's shares in specie to the Company's shareholders. No operating segments have been aggregated to form the reportable segments.

In November 2017, six Hong Kong prime investment properties including Harbour City, Times Square, Plaza Hollywood, Wheelock House, Crawford House and The Murray, Hong Kong were spun off through the distribution and separate listing of Wharf Real Estate Investment Company Limited ("Wharf REIC").

Investment property segment primarily includes property leasing operations. After Wharf REIC's spinoff, the Group's properties portfolio, which mainly consists of retail, office and serviced apartments is primarily located in Mainland China.

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

Hotels segment includes hotel operations in the Asia Pacific region. After Wharf REIC's spinoff, the Group operates 17 hotels (five of which are owned by Wharf REIC) in the Asia Pacific region, four of which owned by the Group.

Logistics segment mainly includes the container terminal operations in Hong Kong and Mainland China undertaken by Modern Terminals Limited ("Modern Terminals"), and Hong Kong Air

Cargo Terminals Limited ("Hactl").

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

Segment business assets principally comprise all tangible assets, intangible assets and current assets directly attributable to each segment with the exception of bank deposits and cash, certain financial investments, deferred tax assets and other derivative financial assets.

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

2. SEGMENT INFORMATION

a. Analysis of segment revenue and results

For the year ended 31 December 2018	Revenue HK$ Million	Operating profit HK$ Million	Increase in fair value of Investment properties HK$ Million	Other net (charge)/ income HK$ Million	Finance costs HK$ Million	Share of results after tax of associates HK$ Million	Share of results after tax of joint ventures HK$ Million	Profit before taxation HK$ Million
Investment property	**3,586**	**1,984**	**985**	**23**	**(246)**	**-**	**95**	**2,841**
Hong Kong	**157**	**112**	**417**	**-**	**(33)**	**-**	**-**	**496**
Mainland China	**3,429**	**1,872**	**568**	**23**	**(213)**	**-**	**95**	**2,345**
Development property	**12,914**	**5,603**	**-**	**78**	**(226)**	**1,006**	**991**	**7,452**
Hong Kong	**-**	**(5)**	**-**	**-**	**(86)**	**-**	**892**	**801**
Mainland China	**12,914**	**5,608**	**-**	**78**	**(140)**	**1,006**	**99**	**6,651**
Hotels	**463**	**90**	**-**	**8**	**-**	**-**	**7**	**105**
Logistics	**2,616**	**597**	**-**	**(50)**	**(191)**	**272**	**10**	**638**
Terminals	**2,606**	**587**	**-**	**(9)**	**(191)**	**176**	**10**	**573**
Others	**10**	**10**	**-**	**(41)**	**-**	**96**	**-**	**65**
Segment total	**19,579**	**8,274**	**985**	**59**	**(663)**	**1,278**	**1,103**	**11,036**
Investment and others	**1,476**	**1,016**	**-**	**(829)**	**151**	**1**	**-**	**339**
Corporate expenses	**-**	**(538)**	**-**	**-**	**-**	**-**	**-**	**(538)**
Group total	**21,055**	**8,752**	**985**	**(770)**	**(512)**	**1,279**	**1,103**	**10,837**
For the year ended 31 December 2017								
Investment property	14,599	12,029	2,310	(10)	(1,104)	-	-	13,225
Hong Kong	11,964	10,571	1,199	-	(944)	-	-	10,826
Mainland China	2,635	1,458	1,111	(10)	(160)	-	-	2,399
Development property	22,608	7,753	-	602	(25)	1,053	2,948	12,331
Hong Kong	18	9	-	-	-	2	2,389	2,400
Mainland China	22,590	7,744	-	602	(25)	1,051	559	9,931
Hotels	1,487	328	-	-	(3)	-	-	325
Logistics	2,817	667	-	104	(184)	278	12	877
Terminals	2,703	649	-	145	(184)	170	12	792
Others	114	18	-	(41)	-	108	-	85
CME1	874	(294)	-	86	(7)	-	-	(215)
Inter-segment revenue	(156)	-	-	-	-	-	-	-
Segment total	42,229	20,483	2,310	782	(1,323)	1,331	2,960	26,543
Investment and others	1,044	579	-	3,580	310	-	(2)	4,467
Corporate expenses	-	(440)	-	-	-	-	-	(440)
Group total	43,273	20,622	2,310	4,362	(1,013)	1,331	2,958	30,570

2. SEGMENT INFORMATION

b. Analysis of inter-segment revenue

	2018			2017		
	Total Revenue HK$ Million	**Inter-segment revenue HK$ Million**	**Group Revenue HK$ Million**	Total Revenue HK$ Million	Inter-segment revenue HK$ Million	Group Revenue HK$ Million
Investment property	**3,586**	**-**	**3,586**	14,599	(126)	14,473
Development property	**12,914**	**-**	**12,914**	22,608	-	22,608
Hotels	**463**	**-**	**463**	1,487	-	1,487
Logistics	**2,616**	**-**	**2,616**	2,817	-	2,817
CME1	**-**	**-**	**-**	874	(2)	872
Investment and others	**1,476**	**-**	**1,476**	1,044	(28)	1,016
	21,055	**-**	**21,055**	43,429	(156)	43,273

c. Disaggregation of revenue

Revenue from contracts with customers recognised in accordance with the accounting standard HKFRS 15 amounted to HK$16,445 million (2017: HK$28,142 million), which included revenue from development property, hotels, logistics and property management fee HK$452 million (2017: HK$1,230 million) as included in investment property segment.

d. Analysis of segment business assets

	2018 HK$ Million	2017 HK$ Million
Investment property	**75,454**	86,613
Hong Kong	**20,410**	22,165
Mainland China	**55,044**	64,448
Development property	**86,875**	56,810
Hong Kong	**18,486**	5,076
Mainland China	**68,389**	51,734
Hotels	**2,482**	1,458
Logistics	**16,176**	16,803
Terminals	**15,287**	15,865
Others	**889**	938
Total segment business assets	**180,987**	161,684
Unallocated corporate assets	**46,362**	60,963
Total assets	**227,349**	222,647

Unallocated corporate assets mainly comprise certain financial investments, deferred tax assets, bank deposits and cash and other derivative financial assets.

Segment assets held through associates and joint ventures included in above are:

	2018 HK$ Million	2017 HK$ Million
Development property	**37,231**	25,764
Logistics	**4,628**	4,681
Group total	**41,859**	30,445

2. SEGMENT INFORMATION

e. Other segment information

	Capital expenditure		Increase in interests in associates and joint ventures		Depreciation and amortisation	
	2018	2017	**2018**	2017	**2018**	2017
	HK$ Million	HK$ Million	**HK$ Million**	HK$ Million	**HK$ Million**	HK$ Million
Investment property	**4,896**	4,231	**-**	-	**156**	117
Hong Kong	**289**	1,716	**-**	-	**5**	22
Mainland China	**4,607**	2,515	**-**	-	**151**	95
Development property	**-**	-	**9,868**	6,332	**-**	-
Hong Kong	**-**	-	**7**	4	**-**	-
Mainland China	**-**	-	**9,861**	6,328	**-**	-
Hotels	**1**	994	**-**	-	**3**	140
Logistics	**218**	406	**-**	1	**484**	456
Terminals	**218**	406	**-**	1	**484**	454
Others	**-**	-	**-**	-	**-**	2
CME1	**-**	135	**-**	-	**-**	225
Group total	**5,115**	5,766	**9,868**	6,333	**643**	938

In 2017, the CME1 segment incurred HK$74 million for its programming library. The Group had no significant non-cash expenses other than i) provision of HK$17 million (2017: write-back of provision HK$1,104 million) made for certain development projects and assets, and ii) depreciation and amortisation.

2. SEGMENT INFORMATION

f. Geographical information

	Revenue		Operating Profit	
	2018	2017	**2018**	2017
	HK$ Million	HK$ Million	**HK$ Million**	HK$ Million
Hong Kong	**3,368**	16,685	**1,288**	11,447
Mainland China	**17,657**	26,537	**7,436**	9,124
Others	**30**	51	**28**	51
Group total	**21,055**	43,273	**8,752**	20,622

	Specified non-current assets		Total business assets	
	2018	2017	**2018**	2017
	HK$ Million	HK$ Million	**HK$ Million**	HK$ Million
Hong Kong	**32,547**	31,569	**45,662**	34,221
Mainland China	**98,018**	94,618	**135,325**	127,463
Group total	**130,565**	126,187	**180,987**	161,684

Specified non-current assets excluded deferred tax assets, certain financial investments, derivative financial assets and certain non-current assets.

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

3. OPERATING PROFIT

Operating profit is arrived at:

	2018 HK$ Million	2017 HK$ Million
After charging/(crediting):		
Depreciation and amortisation on		
- assets held for use under operating leases	**168**	167
- property, plant and equipment	**413**	627
- leasehold land	**62**	63
- programming library	**-**	81
Total depreciation and amortisation	**643**	938
Reversal of impairment of trade receivables	**(4)**	-
Staff costs (Note a)	**1,922**	2,797
Auditors' remuneration		
- audit services	**18**	20
- other services	**5**	1
Cost of trading properties for recognised sales	**6,976**	14,203
Gross rental revenue from investment properties (Note b)	**(3,586)**	(14,599)
Direct operating expenses of investment properties	**1,592**	2,268
Rental income under operating leases in respect of owned plant and equipment	**(8)**	(28)
Interest income (Note c)	**(450)**	(489)
Dividend income from other long term investments	**(525)**	(151)
Loss on disposal of property, plant and equipment	**1**	8

Notes:

a. Staff costs include contributions to defined contribution pension schemes of HK$221 million (2017: HK$259 million), which included equity-settled share-based payment expenses of HK$18 million (2017: HK$40 million).

b. Rental income includes contingent rentals of HK$727 million (2017: HK$1,148 million).

c. Interest income of HK$450 million (2017: HK$489 million) was in respect of financial assets, mainly comprising bank deposits, that are stated at amortised cost.

4. OTHER NET (CHARGE) / INCOME

Other net charge for the year which amounted to HK$770 million (2017: income HK$4,362 million) mainly comprises:

a. Net foreign exchange loss of HK$727 million (2017: HK$706 million) which included a fair value gain on forward foreign exchange contracts of HK$14 million (2017: loss of HK$345 million).

b. 2017 included write-back of impairment provision of HK$1,104 million on certain development projects and assets.

c. 2017 included a gain of HK$4,499 million arising from disposal of an investment property.

5. FINANCE COSTS

	2018 HK$ Million	2017 HK$ Million
Interest charged on:		
Bank loans and overdrafts	**561**	907
Other borrowings	**836**	635
Total interest charge	**1,397**	1,542
Other finance costs	**39**	132
Less: Amount capitalised	**(549)**	(369)
	887	1,305
Fair value (gain)/loss:		
Cross currency interest rate swaps	**(242)**	(433)
Interest rate swaps	**(133)**	141
	(375)	(292)
Total	**512**	1,013

6. INCOME TAX

Taxation charged to the consolidated income statement includes:

	2018 HK$ Million	2017 HK$ Million
Current income tax		
Hong Kong		
- provision for the year	**170**	1,676
- over-provision in respect of prior years	**(13)**	(10)
Outside Hong Kong		
- provision for the year	**1,374**	2,608
- under/ (over)-provision in respect of prior years	**9**	(36)
	1,540	4,238
Land appreciation tax (“LAT”) (Note c)	**1,537**	2,431
Deferred tax		
Change in fair value of investment properties	**522**	572
Origination and reversal of temporary differences	**527**	726
	1,049	1,298
Total	**4,126**	7,967

a. The provision for Hong Kong profits tax is based on the profit for the year as adjusted for tax purposes at a rate of 16.5% (2017: 16.5%).

b. Income tax on assessable profits outside Hong Kong is mainly China corporate income tax calculated at a rate of 25% (2017: 25%) and China withholding tax at a rate of up to 10%.

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

d. Tax attributable to associates and joint ventures for the year ended 31 December 2018 of HK$1,145 million (2017: HK$1,420 million) is included in the share of results of associates and joint ventures.

7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders for the year of HK$6,623 million (2017: HK$21,876 million) and the weighted average of 3,045 million ordinary shares in issue during the year (2017: 3,034 million ordinary shares).

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders for the year of HK$6,623 million (2017: HK$21,876 million) and the weighted average of 3,048 million ordinary shares (2017: 3,036 million ordinary shares) which is the weighted average number of ordinary shares in issue during the year after adjusting for the effect of deemed issue of shares under the Company’s share option scheme.

8. DIVIDENDS ATTRIBUTABLE TO EQUITY SHAREHOLDERS

	2018 HK$ per share	**2018 HK$ Million**	2017 HK$ per share	2017 HK$ Million
First interim dividend declared and paid	**0.25**	**762**	0.64	1,943
Second interim dividend declared after the end of the reporting period (note b)	**0.40**	**1,219**	0.95	2,893
	0.65	**1,981**	1.59	4,836
Distribution in specie in the form of shares in i-CABLE	**-**	**-**	0.19	562
Distribution in specie in the form of shares in Wharf REIC	**-**	**-**	65.14	197,779
	-	**-**	65.33	198,341
Total	**0.65**	**1,981**	66.92	203,177

a. The second interim dividend based on 3,047 million issued ordinary shares (2017: 3,039 million shares) declared after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

b. The second interim dividend of HK$2,893 million for 2017 was approved and paid in 2018.

9. TRADE AND OTHER RECEIVABLES

Included in this item are trade receivables (net of allowance for bad and doubtful debts) with an ageing analysis based on the invoice date as at 31 December 2018 as follows:

	2018 HK$ Million	2017 HK$ Million
Trade receivables		
0 - 30 days	**203**	177
31 – 60 days	**46**	37
61 – 90 days	**19**	14
Over 90 days	**90**	108
	358	336
Other receivables and prepayments	**1,364**	4,856
	1,722	5,192

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

10. TRADE AND OTHER PAYABLES

Included in this item are trade payables with an ageing analysis based on the invoice date as at 31 December 2018 as follows:

	2018 HK$ Million	2017 HK$ Million
Trade payables		
0 - 30 days	**440**	313
31 - 60 days	**206**	187
61 - 90 days	**16**	33
Over 90 days	**65**	108
	727	641
Rental and customer deposits	**1,033**	1,017
Construction costs payable	**8,744**	7,113
Amounts due to associates	**2,709**	2,933
Amounts due to joint ventures	**3,070**	592
Other payables	**4,144**	4,686
	20,427	16,982

11. REVIEW OF FINANCIAL RESULTS

The financial results for the year ended 31 December 2018 have been reviewed with no disagreement by the Audit Committee of the Company. The figures in respect of the announcement of the Group's results for the year ended 31 December 2018 have been agreed by the Company's Auditors to the amounts set out in the Group's consolidated financial statements for the year.

CORPORATE GOVERNANCE CODE

During the financial year ended 31 December 2018, all the code provisions set out in the Corporate Governance Code in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited were met by the Company, with one exception as regards Code Provision A.2.1 providing for the roles of the chairman and chief executive to be performed by different individuals.

Such deviation is deemed appropriate as it is considered to be more efficient to have one single person to be Chairman of the Company as well as to discharge the executive functions of a chief executive thereby enabling more effective planning and better execution of long-term strategies. The Board of Directors believes that the balance of power and authority is adequately ensured by the operations of the Board which comprises experienced and high calibre individuals, with half of them being Independent Non-executive Directors.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

RELEVANT DATES FOR SECOND INTERIM DIVIDEND AND ANNUAL GENERAL MEETING

<u>Second Interim Dividend</u>

Ex-entitlement date	2 April 2019 (Tue)
Latest time to lodge share transfer	4:30 p.m., 3 April 2019 (Wed)
Record date/ time	6:00 p.m., 3 April 2019 (Wed)
Payment date	23 April 2019 (Tue)

In order to qualify for the second interim dividend, all transfer, accompanied by the relevant share certificates, must be lodged with the Company's Registrars, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Wednesday, 3 April 2019.

<u>Annual General Meeting ("AGM")</u>

Ex-entitlement date	2 May 2019 (Thu)
Latest time to lodge share transfer	4:30 p.m., 3 May 2019 (Fri)
Book closure period	6 May 2019 (Mon) to 9 May 2019 (Thu), both days inclusive
Record date	6 May 2019 (Mon)
AGM date/ time	11:15 a.m., 9 May 2019 (Thu)

In order to be eligible for attending and voting at the AGM, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Registrars, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Friday, 3 May 2019.

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

Hong Kong, 7 March 2019

As at the date of this announcement, the Board of Directors of the Company comprises Mr. Stephen T. H. Ng, Mr. Andrew O. K. Chow, Ms. Doreen Y. F. Lee, Mr. Paul Y. C. Tsui and Mr. K. P. Chan, together with five Independent Non-executive Directors, namely Professor Edward K. Y. Chen, Mr. Vincent K. Fang, Mr. Hans Michael Jebsen, Ms. Elizabeth Law and Mr. David Muir Turnbull.

The English text of this announcement shall prevail over the Chinese text in the event of inconsistency.