Hysan Development Company Limited
希慎興業有限公司

(Incorporated in Hong Kong with limited liability)
(Stock Code：00014)

PRELIMINARY ANNOUNCEMENT OF THE FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

- **Satisfactory 2018 results were due to a steady retail market and a robust office sector portfolio performance**
- **The opening of Lee Garden Three was a meaningful contributor to our results**
- **Turnover and Recurring Underlying Profit increased by 9.6% and 8.0% respectively**
- **Reported Profit increase mainly due to changes in fair value of investment properties**
- **Occupancies of Retail and Office portfolio improved to 98% and 97% respectively**

RESULTS

		Year ended 31 December		
		2018	2017	
	Notes	**HK$ million**	HK$ million	Change
Turnover	*1*	**3,890**	3,548	+9.6%
Recurring Underlying Profit	*2*	**2,536**	2,349	+8.0%
Underlying Profit	*3*	**2,536**	2,491	+1.8%
Reported Profit	*4*	**6,033**	3,636	+65.9%
		HK cents	HK cents	
Basic earnings per share, based on:				
Recurring Underlying Profit	*2*	**242.40**	224.68	+7.9%
Underlying Profit	*3*	**242.40**	238.26	+1.7%
Reported Profit	*4*	**576.66**	347.78	+65.8%
Full-year dividends per share		**144.00**	137.00	+5.1%

		As at 31 December		
		2018	2017	
		HK$ million	HK$ million	
Shareholders' Funds	*5*	**74,431**	69,953	+6.4%
		HK$	HK$	
Net Asset Value per Share	*6*	**71.12**	66.89	+6.3%

Notes:

1. ***Turnover*** *comprises gross rental income from leasing of investment properties located in Hong Kong and management fee income from the provision of property management services for the year.*
2. ***Recurring Underlying Profit*** *is a performance indicator of the Group's core property investment business and is arrived at by excluding from Underlying Profit items that are non-recurring in nature.*
3. ***Underlying Profit*** *is arrived at by excluding from Reported Profit unrealised fair value changes on investment properties.*
4. ***Reported Profit*** *is the profit attributable to owners of the Company. It is prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance.*
5. ***Shareholders' Funds*** *is the equity attributable to owners of the Company.*
6. ***Net Asset Value per Share*** *represents Shareholders' Funds divided by the number of issued shares at year-end.*

CHAIRMAN'S STATEMENT

The local economy experienced healthy expansion in 2018 with a year-on-year growth of 3.7% in the first three quarters of the year. Labour market conditions remained tight, but the residential property market and stock market were less bullish during the second half of the year. Visitor arrivals figures, meanwhile, continued their upward trend, with 17.9% growth in 2018, as compared to the year before (Mainland China visitors increased by 21.0%).

Hong Kong's retail sales saw robust growth of 13.4% in the first half of 2018, while the second half growth of just 4.3% mirrored the slow-down in overall economic growth. Full year 2018 Hong Kong retail sales grew 8.8%. All categories rose when compared to 2017, with Jewellery and Watches, as well as Medicines and Cosmetics among the best performers.

2018 was a productive year for Hysan. Footfall in our portfolio saw improvement and our estimated tenant sales growth outperformed Hong Kong's general retail sales growth. Office rental reversion was robust and occupancy improved. Nevertheless, market challenges persist, from macroeconomic issues to structural changes in tenants' and consumers' demands.

The Lee Gardens portfolio has many natural advantages: we have a rich and dynamically-curated retail and commercial portfolio set in a unique neighbourhood, which combines the latest high-rise with Hong Kong heritage buildings, enhanced by strong physical, visual and virtual connectivity. These natural attributes, together with our public events, have enabled us to create a strong sense of community.

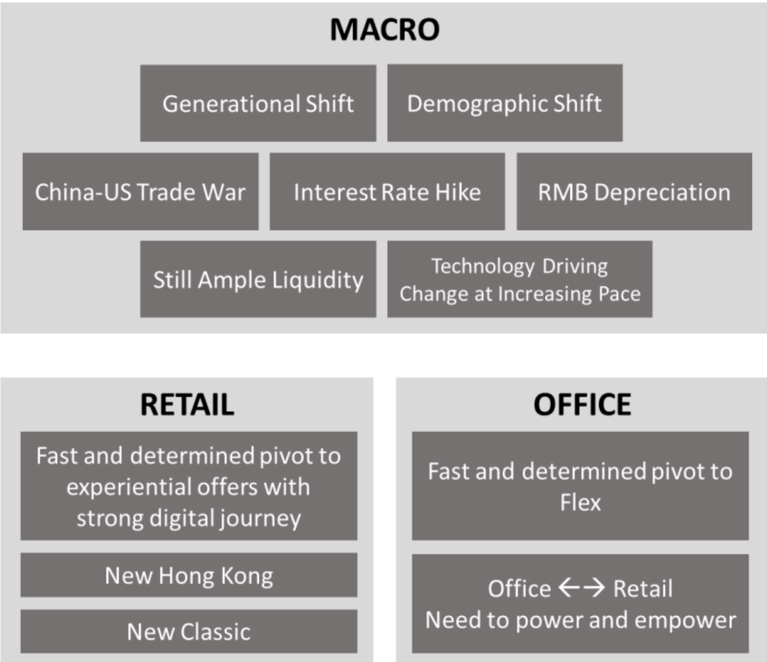
Hysan's Progress in 2018

The market challenges we faced in 2018 were not dissimilar to the year before. There were added factors including the macro issues of interest rate hikes, as well as Mainland China's economic slowdown and Renminbi (RMB) depreciation. These were compounded by the China-U.S. trade tensions.

Retail consumers demand experiential and digital offers. Demographic shifts saw "New Hong Kong residents" (those who have settled in Hong Kong in the past decade or so) become a strong and growing spending force. Moreover, generational changes have meant millennials and younger shoppers now seek "new classic" products and services that are personalised, sophisticated and aspirational. Health and wellness as well as lifestyle offerings are high on their agenda. For parents, quality children's items and experiences are highly coveted.

Unique, new and relevant retail offerings are key to attracting top quality office tenants. The demand for “flex” space by companies propelled an increased commitment to forge partnerships with some of the best-known co-working brands. We have constructed a balanced portfolio of co-work tenants to cater to different organisational requirements from multinational institutions to small startups. Lee Gardens portfolio is now home to co-working operators like Spaces, theDesk and Compass. They will soon be joined by another major operator, WeWork.

Apart from co-working, traditional Banking and Finance institutions have chosen Lee Gardens for its quality hardware as well as amenities, convenience and vibrant community, all of which are key to staff engagement. Lee Garden Three is now home to a number of top international financial institutions, including Goldman Sachs and Maybank.



Lee Garden Three, which officially opened in November 2018, is the perfect catalyst to extend our commitment to lifestyle. The building houses some very unique food and beverage destinations, along with a range of wellness and children’s products that are priority items for this generation of consumers.

Our new office tenants in Lee Garden Three, together with a more fluid and diverse office user population from our co-work office tenants located throughout our portfolio, have created a new consumer demographic. This in turn has influenced our retail tenant recruitment strategy and mix. We analyse and curate our portfolio as a holistic offering that feeds on and influences footfall, spending power and the staying power of our consumers within the Lee Gardens neighbourhood. We have introduced new destination restaurants and more drinking elements, all of which have proven popular with our new office tenants. These newcomers are growing into loyal customers of our portfolio’s offerings.

Our loyalty clubs, too, help enhance the spending and staying power of those who visit the portfolio. Lee Gardens Plus for general shoppers and Club Avenue for VIPs, are gaining considerable traction. Lee Gardens Plus saw its membership more than doubled over the year. Through multiple channels, including a powerful but simple to use app, we have created a platform to appeal to a wider audience. In the meantime, we have also enhanced our offerings and level of service to our VIPs through Club Avenue.

In regard to tenant partnership enhancement, the introduction of our regular town-hall meetings and our tenant engagement team have contributed significantly to further strengthen our relationships through tenant-centric win-win events and campaigns. During the year, we held a number of special exclusive events in partnership with tenants to attract high spenders. A close relationship also enabled the successful roll-out of Hysan's much anticipated paperless e-coupon project.

The Lee Gardens area has always had an eclectic mix of different characteristics. In recent times, and especially in 2018, we have been knitting these elements together into a community tapestry of rich contrast and diversity. Cutting edge buildings stand alongside heritage low-rise; premium luxury brands rub shoulders with traditional businesses; multinational financial institutions share buildings with co-working spaces. We leverage and enhance our existing strength in children, health and wellness offerings. In addition, Hysan's role is to continuously inject new elements into this community to stimulate stakeholder interactions. The earthy scent of our Urban Farm harvest; the glittering giant puppets of the Night Parade; the stream of pop-up stores which surprise and delight shoppers; the heart-warming Hysan 95 social media stories about Causeway Bay's past, present and the future: all these are woven together with our ever-strengthening digital offerings. Our area-wide high-speed Wi-Fi that beams from all our buildings across our entire portfolio; the easy-to-use and environmentally-friendly e-coupons and the forthcoming improved loyalty apps: these too are helping to enrich our community with the very latest technology.

The combined power of our diverse office tenant mix, improved retail offerings, robust marketing efforts, burgeoning loyalty clubs, ever-tightening partnerships with tenants, and rich community elements, is contributing to the improvement of the business environment for our retail tenants. The success of our tenants is reflected in satisfactory positive rental reversions in most cases, which in turn has given us the opportunity to take proactive and bold steps to continue to innovate and reposition our portfolio.

The founder of our Group, Mr. Lee Hysan bought East Point Hill 95 years ago and renamed it Lee Gardens. From the very beginning his vision was to build a place of entertainment and relaxation, so that families from all walks of life could come to spend the whole day and enjoy the offerings. We have not really deviated from his far-sighted ideals. We would like Lee Gardens to remain a unique and sustainable destination, a community where people would choose to work, live and play, now and for generations to come.

Business Performance

The Group's 2018 turnover was HK$3,890 million, up 9.6% from HK$3,548 million in 2017. Occupancies of our retail and office portfolio were 98% and 97% respectively at year-end 2018. Meanwhile, the occupancy of our residential portfolio improved to 88%.

Recurring Underlying Profit, the key measurement of our core leasing business performance, was up 8.0% to HK$2,536 million (2017: HK$2,349 million). Our Underlying Profit in 2018, was also HK$2,536 million, up by 8% from 2017 on a normalised basis after excluding the one-off compensation received from a retail tenant in 2017. Basic earnings per share based on Recurring Underlying Profit and Underlying Profit correspondingly rose to HK242.40 cents (2017: HK224.68 cents and HK238.26 cents respectively), up 7.9% and 1.7% respectively.

The Group's Reported Profit for 2018 was HK$6,033 million (2017: HK$3,636 million). This mainly reflected a fair value gain of HK$3,532 million (2017: HK$853 million) on the Group's investment properties' valuation. As at year-end 2018, the valuation of the Group's investment property portfolio increased by 6.9% to HK$77,442 million (2017: HK$72,470 million). This reflected a combination of factors: a generally positive rental outlook for our core portfolio, and a number of asset enhancement works completed. The capitalisation rates used in valuing each portfolio remained unchanged from those used as at 31 December 2017.

Shareholders' Funds increased by 6.4% to HK$74,431 million (2017: HK$69,953 million), principally reflecting the valuation change of the investment properties.

Our financial position remained strong, with net interest coverage of 18.1 times (2017: 17.1 times) and net debt to equity ratio of 4.7% (2017: 5.0%).

Dividends

The Board of Directors (the "Board") is pleased to declare a second interim dividend of HK117 cents per share (2017: HK111 cents). Together with the first interim dividend of HK27 cents per share (2017: HK26 cents), the total distribution is HK144 cents per share (2017: HK137 cents), representing a year-on-year increase of 5.1%. The dividend will be payable in cash.

Appreciation and Outlook

I would like to use this opportunity to welcome our new Independent Non-Executive Director Wong Ching Ying Belinda. Belinda is the Chief Executive Officer of Starbucks China and has extensive experience leading different organisations in the Asia Pacific region. I trust Belinda will bring her strong professional expertise to further strengthen the Board. I would like to thank the management team for all their hard work in 2018, and also to offer a big thank you to my fellow directors for their support and advice throughout the year.

Hong Kong's economic growth slowed considerably in the second half of 2018. Waning confidence in both the property and equity markets will be further affected by anticipated headwinds from macro issues in 2019. These include the structural slowdown in China and the trade war between China and the United States.

Hysan has implemented a range of measures to weather the uncertainties in the macro-environment, as well as to tackle the structural changes in the retail and office sectors. Lee Garden Three's completion has added greater impetus to the changes in both sectors of our commercial portfolio. We have a comprehensive plan to continue to curate the Lee Gardens community with the support of our neighbourhood stakeholders. We look forward to another successful year ahead.

Lee Irene Yun-Lien
Chairman

Hong Kong, 21 February 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

Strategy

The Group is committed to providing our shareholders with sustainable returns from our property portfolio, which is predominantly located in Hong Kong's prime commercial area of Causeway Bay. This district will remain the core of our investment and operational focus. The Group also continues to seek investment opportunities beyond our core geographical area.

We continuously strive to enhance the value of our properties through asset enhancement, repositioning and redevelopment. We also focus on curating the contents of the Lee Gardens community for our tenants and other stakeholders. We are proud of our team of passionate, responsible and forward-looking professionals who strategically plan and manage our portfolio while ensuring everything we do is underpinned by sound financial management.

Review of Results of the Group

	2018 HK$ million	2017 HK$ million	Change %
Turnover	**3,890**	3,548	+9.6
Recurring Underlying Profit	**2,536**	2,349	+8.0
Underlying Profit	**2,536**	2,491	+1.8
Reported Profit	**6,033**	3,636	+65.9

The Group's turnover in 2018 was HK$3,890 million, an increase of 9.6% from HK$3,548 million in 2017, mainly attributable to the meaningful contribution from Lee Garden Three and the strong performance of the office sector.

Recurring Underlying Profit, the key measurement of our core leasing business performance, was up 8.0% to HK$2,536 million (2017: HK$2,349 million). Our Underlying Profit in 2018, was also HK$2,536 million, up by 8% from 2017 on a normalised basis after excluding the one-off compensation received from a retail tenant in 2017. Basic earnings per share based on Recurring Underlying Profit and Underlying Profit correspondingly rose to HK242.40 cents (2017: HK224.68 cents and HK238.26 cents respectively), up 7.9% and 1.7% respectively.

The Group's Reported Profit for 2018 was HK$6,033 million (2017: HK$3,636 million). A fair value gain of HK$3,532 million (2017: HK$853 million) on the Group's investment properties' valuation was the key contributor. As at year-end 2018, the external valuation of the Group's investment property portfolio increased by 6.9% to HK$77,442 million (2017: HK$72,470 million). This reflected a combination of factors: a generally positive rental outlook for our core portfolio, and a number of asset enhancement works completed. The capitalisation rates used in valuing each portfolio remained unchanged from those used as at 31 December 2017.

Review of Operations

Hysan's portfolio of retail, office and residential investment properties has a total gross floor area of approximately 4.5 million square feet. As at 31 December 2018, about 85% of the Group's investment properties by gross floor area were retail and office properties in Causeway Bay. The remaining 15% was represented by residential properties mainly in the Mid-Levels.

The turnover of each sector is shown as below:

				Contribution to Turnover	
	2018 HK$ million	2017 HK$ million	Change %	**2018 %**	2017 %
Retail sector	**1,923**	1,925	-0.1	**49.4**	54.3
Office sector	**1,688**	1,359	+24.2	**43.4**	38.3
Residential sector	**279**	264	+5.7	**7.2**	7.4
	3,890	3,548	+9.6	**100.0**	100.0

The increased weight from the Office sector towards turnover was mainly due to the new Lee Garden Three, which provided predominantly office space, together with higher positive rental reversion achieved by other office buildings in our portfolio.

Key Performance Indicators

The Group's turnover growth and occupancy rate are the key measurements used for assessment of our core leasing business performance. Cost effectiveness is assessed by the Group's management using the property expenses ratio (as a percentage of turnover).

Key Performance Indicators	**Definition**	**Business Performance**		
		Portfolio	**2018**	**2017**
Turnover Growth	Rental revenue in current year vs that in last year	Retail Office Residential	-0.1% +24.2% +5.7%	-2.2% +5.2% -3.6%
Occupancy Rate	Percentage of total lettable area leased / total lettable area of each portfolio at year end	Retail* Office* Residential	98% 97% 88%	97% 96% 75%
Property Expenses Ratio	Property expenses divided by turnover	N/A	13.4%	12.7%

** 2017 percentages did not include Lee Garden Three, the redevelopment of which was completed in December 2017.*

Note: Except for the occupancy rate mentioned above, no changes have been made to the source data or calculation methods used when compared to 2017.

Retail Portfolio

The Group's retail portfolio turnover was on par with last year at HK$1,923 million (2017: HK$1,925 million). There was good contribution from turnover rent of HK$81 million (2017: HK$48 million). The overall rental reversion in renewals, rent review and new lettings was largely neutral reflecting satisfactory positive reversions mixed with the impact from targeted tenant repositioning. The portfolio's occupancy, including the new Lee Garden Three's retail portion, was 98%, as at 31 December 2018 (31 December 2017: 97%, excluding Lee Garden Three).

Foot traffic in Hysan's retail portfolio saw an increase of around 11% in 2018, as compared to full year 2017. There was also a general improvement in the estimated overall tenant sales within the portfolio. Estimated tenant sales increased by around 16.2% as compared to 2017, outperforming Hong Kong's year-on-year retail sales growth of 8.8%.

Lee Garden Three held its official opening in November 2018. The event was attended by hundreds of well-wishers as well as members of the media, and was Hysan's stand-out event of the year. Lee Garden Three is well known for its lifestyle shops such as HOMELESS, Tavolo Kids Living, BoConcept, KitchenAid and Stressless, plus hair stylist M Plus. The building's food and beverage outlets have also become some of the most popular dining destinations in town, with Belgos, John Anthony, Starbucks flagship store, Next Door Café and Bar, NOC Coffee, Reserva Ibérica Tapas Bar & Café, Sweet Fashion House and Zentro East offering a wide variety of food and drinks. A Happy Pancake, renowned for its long lines of customers, rounds off the list.

The new building's opening was a good opportunity for us to further energise the rest of the portfolio. 2018 saw a significant improvement in our "content" provision. Initiatives included an enhanced tenant mix, strong tenant and third-party partnerships, unique experiences and events, key branding programmes, improved and expanded loyalty programmes, and the start of a digital transformation.

New tenants included the family members' club Maggie & Rose, a strong addition to our children-focused Lee Garden Two. The Spa by Valmont and Sake Diamond added new lifestyle experiences to the portfolio, while Hysan Place welcomed a number of new or expanded sportswear tenants. In addition to our new food venues in Lee Garden Three, we also welcomed destination restaurants like 10 Shanghai and Ta-ke in Lee Garden Two, the popular experiential Haidilao in Lee Theatre Plaza, and a number of more casual eateries in Hysan Place.

We believe in maintaining strong relationships with our tenants after they move in. In 2018, almost a dozen partnership events were held with tenants and third parties, thereby bringing more attention to the area, generating business for tenants, and providing unique experiences to high-end shoppers. Brunello Cucinelli, BVLGARI, CHANEL BEAUTÉ, Dior, Lancôme, Louis Vuitton, Roger Vivier, rue Madame, The Spa by Valmont and TORY BURCH were among the tenants that hosted exclusive and glamorous events in partnership with Hysan.

We also generated considerable excitement for our general shoppers in the malls. Chinese New Year, Valentine's Day, Mother's Day and a Go Green restaurant campaign saw us hosting popular activities backed by strong promotions. The second half of the year also saw further campaigns for Mid-Autumn Festival with Maxim's, and Christmas and New Year with eslite bookstore. These campaigns combined great shopping or dining opportunities with special experiences.

We are building Lee Gardens' reputation as a venue for quality children's entertainment to attract more family traffic. Absolutely Fabulous Children's Theatre's monthly performances, the Hong Kong International Young Readers' Festival, and the reading of Gruffalo by Kidsfest were among the highlights of the year. There was also a Royal Kids Etiquette series of classes for younger children. More activities for children are planned for 2019.

During 2018, we also took our events outdoors. In the first half of the year, the popular Cathay Pacific/HSBC Rugby Sevens Festival at Lee Gardens and its partner Lee Gardens Egglette Festival attracted the most attention. The remaining months began with Hong Kong Ballet's Alice (in Wonderland) street performances, as well as the November Standard Chartered Art Fun in Causeway Bay Night Parade. Love is NEARBY Christmas Community Festival, where top band Supper Moment and other singers performed at a popular street fair outside Lee Garden One, rounded off the year.

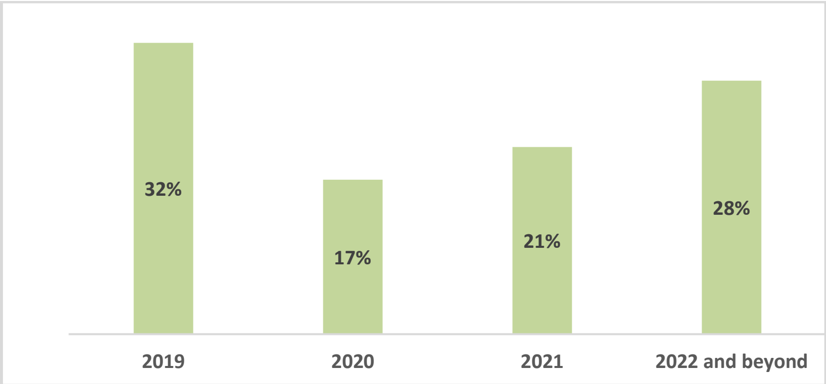
Running alongside more than a hundred of these events and activities were signature key branding programmes, supported by shopper promotion campaigns. Leeisure, Shopaholic, DeLeecious, and Athleeisure were all launched to attract more footfall and spending for different retail segments. In addition, strong efforts were made in both media and social media to drive awareness of Lee Gardens among Mainland Chinese and other tourists. A new and comprehensive tourist booklet was launched, while a VIP membership card for tourists, the Purple Card, was unveiled during the year. Moreover, we reinforced our partnerships with Hong Kong Tourism Board and leading local hotels to further promote our messages.

In regard to our loyalty programmes, Club Avenue for VIPs and Lee Gardens Plus for general shoppers, saw a substantial growth in their membership in 2018, as compared to 2017. Sales attributable to Club Avenue members experienced double-digit percentage growth. We are encouraged by the growth of these and will further invest in the hardware and software of our programmes to benefit all members.

On the technology front, the area-wide high-speed Wi-Fi system was successfully launched. The paperless e-coupon system was also unveiled and was well supported from the outset by a majority of shop tenants. We made substantial inroads into the enhancement of data collection from all touchpoints, with enhanced data privacy protection. In addition, an integrated customer relationship management system is about to be launched. More than 100 digital signs are now under a central control point, while more interactive e-directories have been added. The use of big data, analytics, prediction and artificial intelligence will be key to the future of the retail sector. Hysan is committed to making the best use of available technology to gain better insight and to add value to all our retail tenants.

Growing a community and curating its content require committed buy-in from those who do business in the neighbourhood. Lee Gardens Association has taken on the role of enlivening the area through street events, activities and social media promotions. Many of the area's main events, like the Rugby Sevens Festival, Egglette Festival and Night Parade were spearheaded by the Association. New Association members include several traditional businesses that have operated in the area for decades, and which have taken part in a number of the Association's social media drives. We are heartened that many of the neighbourhood's property owners have expressed interest in the creative business concepts introduced by the Association. Hysan looks forward to more cooperation with the Association to further enhance the area as a popular destination for all.

Retail Lease Expiry Profile by Area Occupied (As at 31 December 2018)

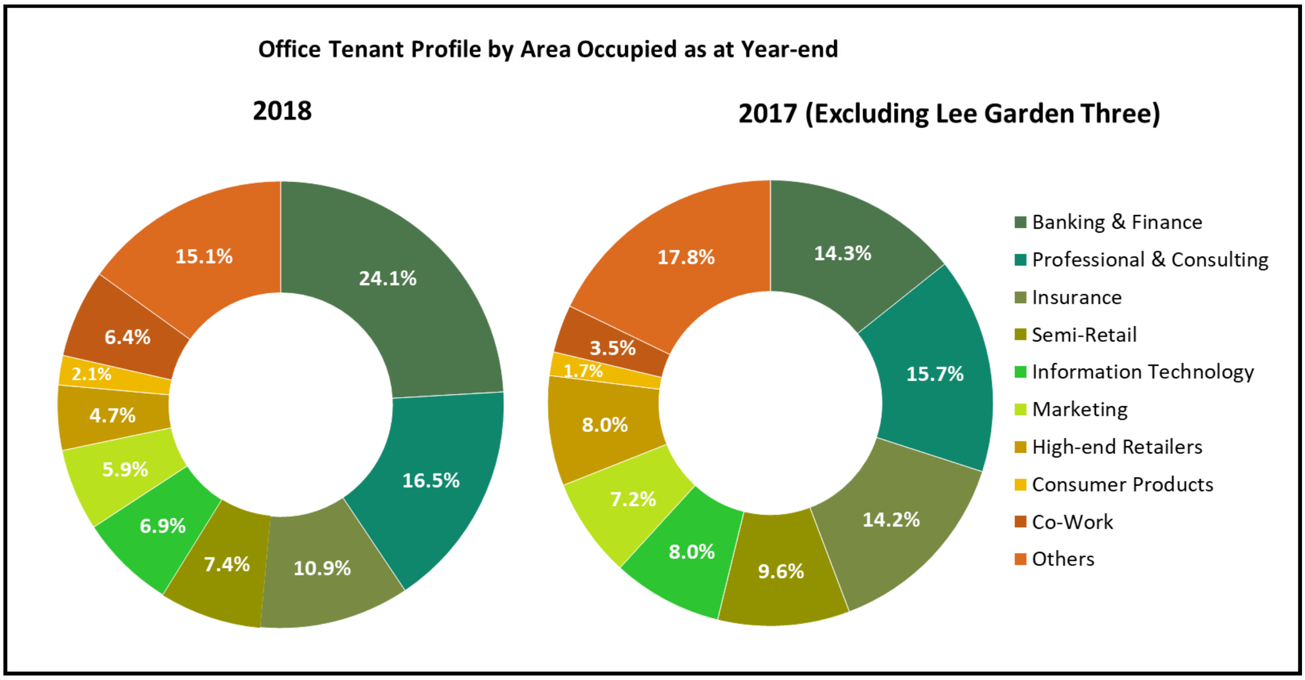


Office Portfolio

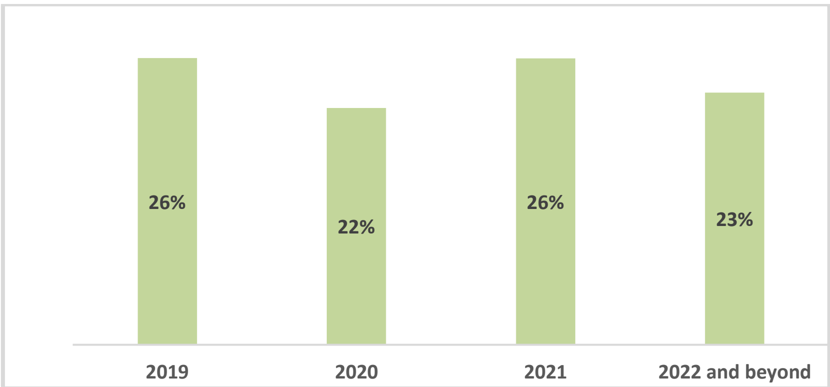
The Group's office portfolio turnover increased by 24.2% to HK$1,688 million (2017: HK$1,359 million). This performance reflected contributions from the newly completed Lee Garden Three, as well as overall robust positive rental reversion on renewals, rent review and new lettings. The office portfolio occupancy was 97%, as at 31 December 2018, including occupancy of the new Lee Garden Three (31 December 2017: 96%, excluding Lee Garden Three).

Tenants demand the highest standards of both building hardware and building service software. Lee Garden Three offers many green and wellness features, including a Hong Kong-first commercial building running track, together with a popular retail podium of restaurants and lifestyle shops. All these amenities are further supplemented by the area's eclectic mix of commercial and social offerings plus ample convenient parking facilities. Lee Gardens has become an established and viable choice for multinational and local firms.

We have maintained a diverse tenant mix over the years. With the completion of Lee Garden Three, which has attracted a number of Banking and Finance tenants, this sector has increased to about 24% and has now overtaken Professional and Consulting as the largest sector area-wise in our office portfolio. Banking and Finance, together with the next three top sectors, including Professional and Consulting, Insurance and Semi-Retail, take up around 59% of our office lettable floor area (2017: 54%).



Office Lease Expiry Profile by Area Occupied (As at 31 December 2018)



Residential Portfolio

Hysan's residential portfolio, comprising mainly the units in Kennedy Road's Bamboo Grove, recorded a 5.7% growth in turnover to HK$279 million (2017: HK$264 million). The residential sector's occupancy improved to 88% (31 December 2017: 75%). The units previously under renovation are now available and have proven to be popular. We continue to make improvements to Bamboo Grove to attract prospective tenants. A small urban farm, for example, is being planned for Bamboo Grove to enhance the community spirit.

The rental reversion was overall positive in renewals, rent review and new lettings.

Tai Po Luxury Residential Project

The design development of our low-density residential development project at Tai Po is making good progress. Various statutory submissions are ongoing. Site work has also commenced.

Financial Review
A review of the Group's results and operations is featured in the preceding sections. This section deals with other significant financial matters.

Operating Costs
The Group's operating costs are generally classified as property expenses (direct costs and front-line staff wages and benefits) and administrative expenses (indirect costs largely representing payroll related costs of management and head office staff).

Property expenses increased by 16.5% to HK$523 million (2017: HK$449 million), reflecting the commencement of operation of Lee Garden Three during the year. The property expenses to turnover ratio thus increased slightly from 12.7% to 13.4% as compared to 2017. Administrative expenses decreased by 8.1% to HK$227 million (2017: HK$247 million).

Finance Costs
Finance costs amounted to HK$222 million in 2018, an increase of 40.5% from HK$158 million in 2017, mainly due to (i) cessation of interest expense capitalisation of HK$51 million upon Lee Garden Three's completion in 2017; and (ii) interest rate increases in 2018, which impacted interest cost of our floating rate debts. If the capitalised interest expenses and related borrowing costs were expensed last year, the Group's finance costs in 2017 would have been HK$209 million. The finance costs of 2018 would then have increased by HK$13 million or 6.2%. The Group's average cost of finance in 2018 was 3.6%, a slight increase from 3.4% reported for 2017.

Further discussion of the Group's treasury policy, including debt and interest rate management, is set out in the "Treasury Policy" section.

Revaluation of Investment Properties
As at 31 December 2018, the Group's investment real estate portfolio was valued at HK$77,442 million, an increase of 6.9% from HK$72,470 million as at 31 December 2017. This valuation was carried out by Knight Frank, an independent professional valuer, on the basis of open market value. The capitalisation rates used in valuing each portfolio remained unchanged from those used as at 31 December 2017.

Fair value gain on investment properties (excluding capital expenditure spent on the Group's investment properties) of HK$3,532 million (2017: HK$853 million) was recognised in the Group's consolidated statement of profit or loss for the year. This figure reflected a combination of factors: a generally positive rental outlook across our portfolio and the completion of a number of asset enhancement works. The following shows the property valuation of each portfolio at year-end.

	2018	2017	Change
	HK$ million	HK$ million	%
Retail	**35,102**	33,188	+5.8
Office	**34,159**	31,325	+9.0
Residential	**8,181**	7,957	+2.8
	77,442	72,470	+6.9

Investment in Associates and a Joint Venture
The Group's investment in associates mainly represents interests in Shanghai Grand Gateway in Shanghai, China. The share of results of associates increased to HK$288 million (2017: HK$220 million). As at 31 December 2018, properties at Shanghai Grand Gateway had been revalued at fair value by an independent professional valuer. The Group's share of the revaluation gain, net of the corresponding deferred tax thereon, amounted to HK$96 million (2017: HK$11 million).

The Group's investment in a joint venture represents interests in a Tai Po residential project. The increase in carrying value represents costs incurred by the project.

Other Investments
In addition to placing surplus funds as time deposits in banks with strong credit ratings, the Group also invested in investment grade debt securities.

Excluding recognition of imputed interest income on interest-free loan to a joint venture company for a residential site development in Tai Po of HK$29 million (2017: HK$28 million), like-for-like interest income increased by 19.5% to HK$49 million (2017: HK$41 million). This figure mainly reflected higher interest rates from deposits.

During 2018, the Group invested in a real estate fund covering certain properties in Hong Kong and other major cities in Asia, with a view to expanding our reach in collaboration with professional property managers and to generate a new source of income and capital.

Cash Flow

Cash flow of the Group during the year is summarised below. Cash include liquid cash and bank deposits with less than 3 months' tenor.

	2018	2017	Change
	HK$ million	HK$ million	%
Cash generated from operations	**3,224**	2,900	+11.2
Net (advance to) repayment from a joint venture company	**(56)**	935	n/m
Net borrowing (repayment)	**46**	(130)	n/m
Interest and taxation	**(636)**	(587)	+8.3
Dividends paid and proceeds on exercise of options	**(1,551)**	(1,524)	+1.8
Capital expenditure	**(1,203)**	(1,947)	-38.2
Other investments	**211**	1,020	-79.3
Net cash inflow	**35**	667	-94.8

n/m: not meaningful

The Group's net cash generated from operations was HK$3,224 million (2017: HK$2,900 million), HK$324 million higher than in 2017, reflecting the growth of our core leasing business.

Net advance to a joint venture company of HK$56 million was for a residential site development in Tai Po. In 2017, net repayment from a joint venture company was HK$935 million after the completion of project financing on land acquisition costs.

Net borrowing was HK$46 million, reflecting net borrowing of fixed rate notes of HK$150 million, and repayment to non-controlling interest of a subsidiary during the year. In 2017, net repayment was HK$151 million during the year.

Cash from other investments was HK$211 million (2017: HK$1,020 million), mainly attributable to reduction in deposits with longer tenor.

The Group paid dividends of HK$1,444 million (2017: HK$1,411 million), being the 2017 second interim dividend of HK111 cents per share (2017: HK109 cents) and the 2018 first interim dividend of HK27 cents per share (2017: HK26 cents).

Capital Expenditure and Management

The Group is committed to enhancing the asset value of our investment property portfolio through selective asset enhancement and redevelopment. The Group has also established a portfolio-wide whole-life cycle maintenance programme as part of our ongoing strategy to pro-actively implement preventive maintenance activities. Total cash outlay of capital expenditure during the year was HK$1,203 million (2017: HK$1,947 million), including the payment of the construction costs of Lee Garden Three.

Treasury Policy

Market Highlights

The global economy performed strongly at the beginning of 2018. However, as sentiment soured amid growing China-U.S. trade tensions, the Hong Kong stock market tumbled more than 20% from its peak in January and global financial markets became more volatile. In view of the 10-year lowest unemployment rate and relatively low inflation rate, the U.S. Federal Reserve raised the federal fund rate by four hikes, amounting to a total of 100 basis points in 2018. With the expectation of market volatility and slowing global economic growth, the Federal Reserve lowered its forecast for interest rate hikes in 2019. Under the currency board system, Hong Kong Monetary Authority also raised its base rate in line with the federal funds rate by 100 basis points during 2018. The Hong Kong dollar (HKD) HIBOR rate also rose sharply during 2018, narrowing the differential with the U.S. dollar LIBOR rate. The 3-month HKD HIBOR increased from around 1.3% at the end of 2017 to around 2.3% at the end of 2018. Despite the increase in HIBOR, the Hong Kong bank loans market continued to be liquid. The credit margin of bank loans for companies with investment grade credit ratings saw a modest decline.

Despite the slow-down in the global economy and uncertainties in the macro environment, the Hong Kong economy is fundamentally in good shape and the unemployment rate at 2.8% is the lowest since 1998. The completion of two mega infrastructure projects, namely the Hong Kong-Zhuhai-Macau Bridge and the Express Rail Link, is set to further increase the number of inbound tourist arrivals from Mainland China. A rise in domestic household spending may further benefit Hong Kong’s economy. However, the Hong Kong economy also saw some signs of slowing down when GDP growth in Q3 retreated to 2.9%, when compared to 4.6% and 3.5% in Q1 & Q2 respectively.

Uncertainties in global political issues and financial markets may worsen our operating environment as well as dampen expansion. It is therefore important for the Group to continue with our prudent financial management policy.

Capital Structure Management

To ensure a healthy financial position and a suitable capital structure servicing the Group’s finance needs and sustainable growth, the Group always strives to diversify its funding sources, maintain a suitable debt maturity profile relative to the overall use of funds, maintain adequate liquidity, keep a low borrowing margin relative to market conditions, and adopt suitable hedging and forex management strategies.

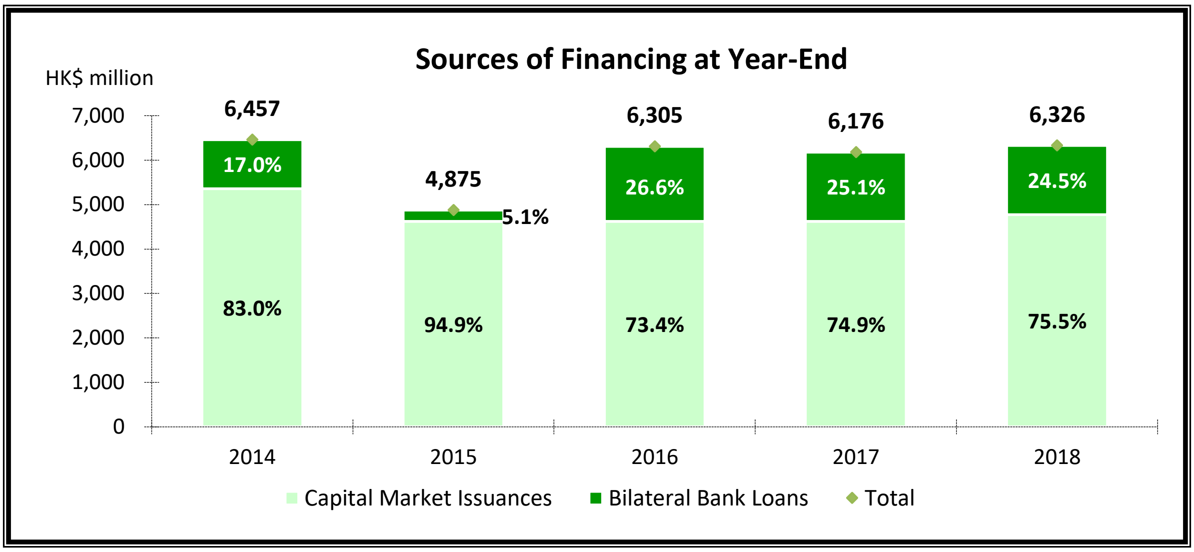
Funding Source

During the year, the Group issued and repaid medium-term notes of HK$300 million and HK$150 million respectively. The Group’s outstanding gross debt[1] was HK$6,326 million (2017: HK$6,176 million) at year-end 2018. All the outstanding borrowings are on an unsecured basis.

At the end of 2018, the proportion of debts sourced from the capital market increased slightly to 75.5% (2017: 74.9%). The Group continued to maintain long-term relationships with a number of local and overseas banks to diversify its funding sources. At year-end of 2018, eight local and overseas banks provided bilateral banking facilities to the Group as funding alternatives.

[1] The gross debt represented the contractual principal payment obligations as at 31 December 2018. However, in accordance with the Group’s accounting policies, the debt was measured at amortised costs, using the effective interest method. As disclosed in the consolidated statement of financial position as at 31 December 2018, the book value of the outstanding debt of the Group was HK$6,322 million (31 December 2017: HK$6,185 million).

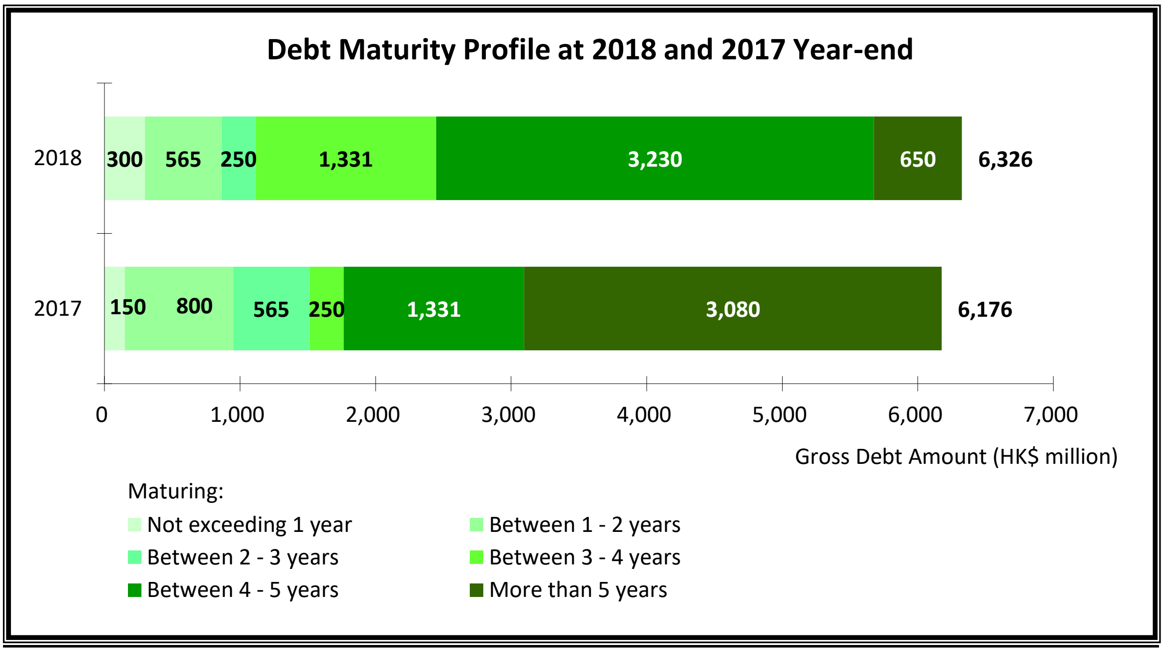
The following graph shows the percentages of total outstanding gross debts sourced from banks and the debt capital markets over the past five years.



The Group also strives to maintain an appropriate debt maturity profile to match with the nature of our assets and operations. As at 31 December 2018, the average maturity of the debt portfolio was about 3.9 years (2017: 4.3 years), of which about HK$300 million or 4.7% of the outstanding gross debt will be due in 2019. Given our strong cash balance, debt repayment will not cast much immediate refinancing pressure.

To further diversify our source of funding into investors who highly regard businesses with green initiatives, the Group has established its Green Finance Framework in late 2018, leveraging our sustainable building development and operations with green initiatives. The framework supports both green bonds and green loans enabling a choice of flexibility in the Group's future financing. After the reporting period, the Group has raised its first green bond of HK$300 million at a coupon rate of 3.33% due in 2026.

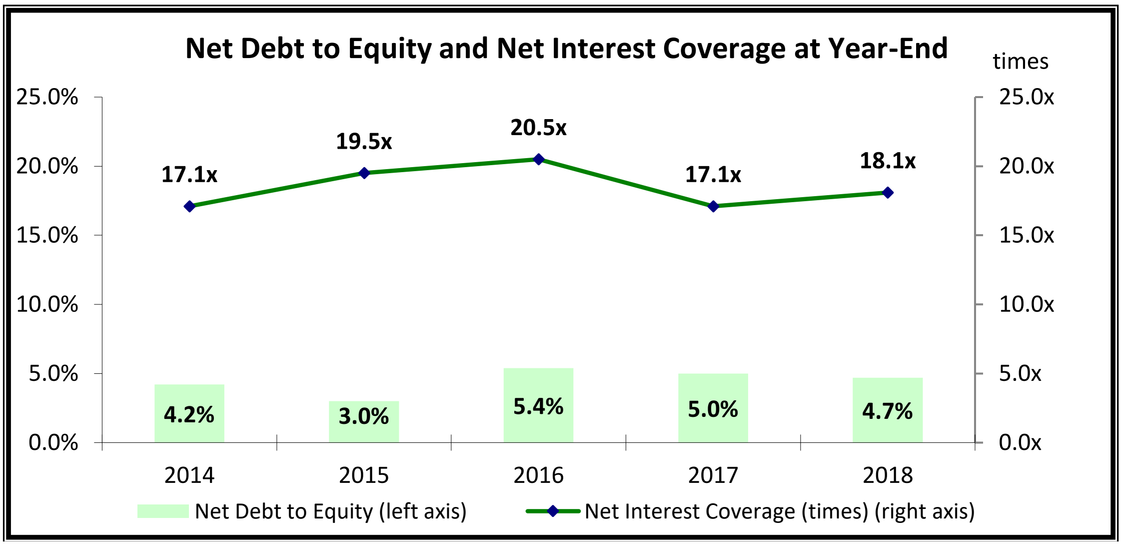
Maturity Profile
The graph below shows the debt maturity profile of the Group at year-end 2018 and 2017.



Gearing ratio and net interest coverage

The Group's gearing ratio, as measured by Net Debt to Equity ratio[1], decreased slightly from 5.0% at year-end of 2017 to 4.7% at year-end of 2018, because of the increase in equity from HK$70 billion at year-end of 2017 to HK$74 billion at year-end of 2018 driven by the increase in fair value of investment properties. The Group's Net Interest Coverage[2] increased to 18.1 times for 2018 (2017: 17.1 times) due to the improved operating results. The low gearing and strong ability to meet interest payments reflected the Group's resilience and capability to raise further debt for new investments and projects, if necessary.

The graph below shows the level of leverage and our ability to meet interest payment obligations over the past five years.



Credit Rating

The Group aims at maintaining investment-grade credit ratings to ensure a stable and lower cost of financing, and reflect our prudent financial management strategy. During the year, Fitch upgraded the Group's credit rating from BBB+ to A-, reflecting the Group's strong financial position.

	2018	**2017**
Moody's	A3	A3
Standard and Poor's	BBB+	BBB+
Fitch	A-	BBB+

Liquidity Management

As at 31 December 2018, the Group had cash and bank deposits totalling about HK$2,817 million (2017: HK$2,662 million). In order to preserve liquidity and enhance interest yields, the Group invested HK$227 million (2017: HK$737 million) in debt securities.

Further liquidity, if needed, is available from the undrawn committed facilities offered by the Group's relationship banks. These facilities, amounted to HK$950 million at year-end 2018 (2017: HK$950 million), essentially allowing the Group to obtain additional liquidity as the need arises.

Interest Rate Management

The fixed rate debt ratio increased slightly to 75.5% at year-end 2018 from 74.9% at year-end 2017. 2018 saw the start of interest rate normalisation cycle and it is expected that interest rate will continue to rise in 2019, although in a slower pace when compared to 2018. We believe we are in a good position to manage our finance costs given our fixed rate debt ratio.

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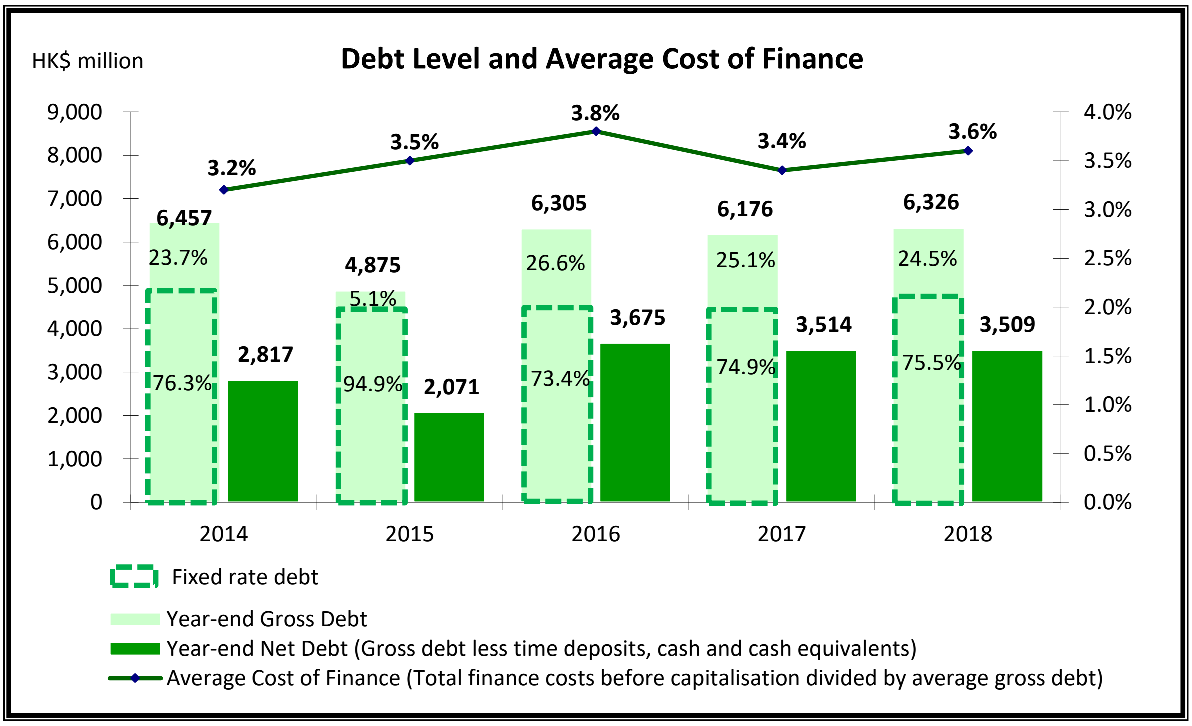
[1] Net Debt to Equity is defined as borrowings less time deposits, cash and cash equivalents divided by shareholders' funds.

[2] Net Interest Coverage is defined as gross profit less administrative expense before depreciation divided by net interest expenses.

The diagram below analyses the Group's debt level in term of gross and net debt, fixed and floating rates, together with average cost of finance over the past five years.



Foreign Exchange Management

The Group aims to achieve minimal currency exposure and does not speculate in currency movements for asset and liability management. Except for US$300 million fixed rate notes, which have been hedged by an appropriate hedging instrument, all of the Group's borrowings were denominated in Hong Kong dollar. For the US$300 million fixed rate notes issued in January 2013, a hedge was entered effectively to convert the borrowing into Hong Kong dollar.

On the investment side, as at 31 December 2018, the Group's outstanding foreign currency balances in cash, time deposits, debt securities and a real estate fund amounted to US$88 million (2017: US$131 million), of which US$28 million (2017: US$70 million) was hedged by foreign exchange forward contracts.

Other foreign exchange exposure mainly relates to investments in the Shanghai project. These unhedged foreign exchange exposures amounted to the equivalent of HK$3,715 million (2017: HK$3,779 million) or 4.3% (2017: 4.6%) of total assets.

Use of Derivatives

As at 31 December 2018, outstanding derivatives were mainly related to the hedging of foreign exchange exposures. Strict internal guidelines have been established to ensure derivatives are used to manage volatilities or to adjust the appropriate risk profile of the Group's treasury assets and liabilities.

Counterparty Credit Risk

All the deposits are placed with banks with strong credit ratings and the counterparty risk is controlled via prescribed limits and is monitored on a regular basis.

Before entering into any hedging transaction, the Group will ensure that its counterparty possesses strong investment-grade ratings to control credit risk. As part of our risk management, a limit on maximum risk-adjusted credit exposure is assigned to each counterparty, which basically reflects the credit quality of the counterparty.

FINANCIAL INFORMATION

The final results of the Group for the year ended 31 December 2018 have been reviewed by the Audit and Risk Management Committee of the Company. The financial information relating to the years ended 31 December 2018 and 2017 in this announcement does not constitute the Company's statutory consolidated financial statements for those years, but represents an extract from those consolidated financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows.

The Company has delivered the consolidated financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the consolidated financial statements for the year ended 31 December 2018 in due course. The Company's auditor has reported on the consolidated financial statements of the Group 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.

Scope of Work of Messrs. Deloitte Touche Tohmatsu

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in the Preliminary Announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	Notes	2018	2017
		HK$ million	*HK$ million*
Turnover	3	**3,890**	3,548
Property expenses		**(523)**	(449)
Gross profit		**3,367**	3,099
Other income	6	**-**	261
Investment income		**78**	69
Other gains and losses		**(16)**	-
Administrative expenses		**(227)**	(247)
Finance costs		**(222)**	(158)
Change in fair value of investment properties		**3,532**	853
Share of results of associates		**288**	220
Profit before taxation		**6,800**	4,097
Taxation	5	**(481)**	(484)
Profit for the year	6	**6,319**	3,613
Profit for the year attributable to:			
Owners of the Company		**6,033**	3,636
Non-controlling interests		**286**	(23)
		6,319	3,613
Earnings per share (expressed in HK cents)	7		
Basic		**576.66**	347.78
Diluted		**576.39**	347.68

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 HK$ million	2017 HK$ million
Profit for the year		**6,319**	3,613
Other comprehensive (expenses) income	8		
Items that will not be reclassified subsequently to profit or loss:			
Gains on revaluation of properties held for own use		**47**	38
Items that may be reclassified subsequently to profit or loss:			
Net adjustments to hedging reserve		**(5)**	(55)
Share of translation reserve of an associate		**(172)**	240
		(177)	185
Other comprehensive (expenses) income for the year (net of tax)		**(130)**	223
Total comprehensive income for the year		**6,189**	3,836
Total comprehensive income attributable to:			
Owners of the Company		**5,903**	3,859
Non-controlling interests		**286**	(23)
		6,189	3,836

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018	2017
		HK$ million	*HK$ million*
Non-current assets			
Investment properties		**77,442**	72,470
Property, plant and equipment		**747**	751
Investments in associates		**3,708**	3,779
Loans to associates		**11**	10
Investment in a joint venture		**145**	147
Loans to a joint venture		**1,062**	982
Fund investment		**294**	21
Term notes		**-**	228
Other financial assets		**1**	2
Other receivables	10	**386**	332
		83,796	78,722
Current assets			
Accounts and other receivables	10	**203**	226
Term notes		**227**	509
Other financial assets		**-**	1
Time deposits		**748**	628
Cash and cash equivalents		**2,069**	2,034
		3,247	3,398
Current liabilities			
Accounts payable and accruals	11	**873**	736
Other financial liabilities		**-**	1
Deposits from tenants		**331**	389
Amounts due to non-controlling interests		**223**	327
Borrowings		**300**	150
Taxation payable		**108**	158
		1,835	1,761
Net current assets		**1,412**	1,637
Total assets less current liabilities		**85,208**	80,359
Non-current liabilities			
Borrowings		**6,022**	6,035
Other financial liabilities		**26**	30
Deposits from tenants		**669**	506
Deferred taxation		**854**	787
		7,571	7,358
Net assets		**77,637**	73,001
Capital and reserves			
Share capital		**7,718**	7,692
Reserves		**66,713**	62,261
Equity attributable to owners of the Company		**74,431**	69,953
Non-controlling interests		**3,206**	3,048
Total equity		**77,637**	73,001

Notes:

1. Basis of Preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

2. Principal Accounting Policies

In the current year, the Group has applied all of the new and amendments to HKFRSs issued by the HKICPA that are relevant to its operations and effective for the Group's financial year beginning on 1 January 2018.

Other than the new accounting policies adopted upon application of all the new and amendments to HKFRSs, the principal accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

Except as described below, the application of these new and amendments to HKFRSs had no material effect on the results and financial position of the Group for the current and/or prior accounting years.

HKFRS 15 "Revenue from Contracts with Customers"

In the current year, the Group has applied HKFRS 15 on limited retrospective basis. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations with no material effect on timing and amount of revenues recognised in the consolidated financial statements and balances related to contracts with customers as at 1 January 2018. Additional disclosure required under HKFRS 15 is included in the notes in this announcement.

HKFRS 9 "Financial Instruments"

Except for the 2010 versions of HKFRS 9 and the new requirements for hedge accounting issued in 2013 that were early applied by the Group in previous years, the Group has applied the remaining sections of HKFRS 9 and the related consequential amendments to other HKFRSs in the current year, whereas the introduction of new requirements for expected credit losses ("ECL") for financial assets is relevant to the Group.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the requirements for ECL retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

Summary of financial impact arising from initial application of ECL model under HKFRS 9

As at 1 January 2018, the Directors of the Company reviewed and assessed the Group's existing financial assets at amortised cost for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with HKFRS 9. The results of the assessment and the impact thereof are detailed below.

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the effect of ECL model under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Loans to a joint venture *HK$ million*	Term notes *HK$ million*	Retained profits *HK$ million*
Closing balance as at 31 December 2017 - HKAS 39	982	737	61,499
Remeasurement Impairment under ECL model	(5)	(1)	(6)
Opening balance as at 1 January 2018 – HKFRS 9	977	736	61,493

Loss allowance for financial assets at amortised cost mainly comprise of loans to a joint venture, and term notes, which is assessed on 12-month ECL basis and there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the additional credit loss allowance of HK$6 million has been recognised against retained profits. The additional loss allowance is charged against the respective asset.

All loss allowances for financial assets including loans to a joint venture, and term notes as at 31 December 2017 reconcile to the opening carrying amount as at 1 January 2018 is as follows:

	Loss allowance for	
	Loans to a joint venture *HK$ million*	Term notes *HK$ million*
As at 31 December 2017	-	-
Amount remeasured through opening retained profits	5	1
As at 1 January 2018	5	1

The Group concluded that the probability of default of the time deposits, financial guarantee contracts and counterparty banks are insignificant and accordingly, no allowance for credit losses is provided as at 1 January 2018.

3. Turnover

Turnover represents gross rental income from leasing of investment properties and management fee income from provision of property management services for the year.

The Group's principal activities are property investment, management and development, and its turnover and results are principally derived from investment properties located in Hong Kong.

As at 31 December 2018, the Group has unsatisfied performance obligations in relation to the management fee income from provision of property management services with aggregate amount of the transaction price allocated approximately to HK$930 million subject to any further revision as set out in the existing contracts. Management expects that the revenue from such services are to be recognised in respective time bands similar to the future minimum lease payments that the Group has contracted with tenants.

For revenue from provision of property management services recognised over time in Hong Kong, the categories for disaggregation of revenue are consistent with the segment information disclosed in note 4.

4. Segment Information

Based on the internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to segments and to assess their performance, the Group's operating and reportable segments are as follows:

Retail segment – leasing of space and related facilities to a variety of retail and leisure operators

Office segment – leasing of high quality office space and related facilities

Residential segment – leasing of luxury residential properties and related facilities

Property development segment – development and sale of properties

Segment turnover and results

The following is an analysis of the Group's turnover and results by operating and reportable segment.

	Retail	Office	Residential	Property Development	Consolidated
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*	*HK$ million*
For the year ended 31 December 2018					
Turnover					
Leasing of investment properties	**1,764**	**1,492**	**251**	**-**	**3,507**
Provision of property management service	**159**	**196**	**28**	**-**	**383**
Segment revenue	**1,923**	**1,688**	**279**	**-**	**3,890**
Property expenses	**(275)**	**(190)**	**(58)**	**-**	**(523)**
Segment profit	**1,648**	**1,498**	**221**	**-**	**3,367**
Investment income					**78**
Other gains and losses					**(16)**
Administrative expenses					**(227)**
Finance costs					**(222)**
Change in fair value of investment properties					**3,532**
Share of results of associates					**288**
Profit before taxation					**6,800**
For the year ended 31 December 2017					
Turnover					
Leasing of investment properties	1,781	1,210	236	-	3,227
Provision of property management service	144	149	28	-	321
Segment revenue	1,925	1,359	264	-	3,548
Property expenses	(253)	(142)	(54)	-	(449)
Segment profit	1,672	1,217	210	-	3,099
Other income					261
Investment income					69
Administrative expenses					(247)
Finance costs					(158)
Change in fair value of investment properties					853
Share of results of associates					220
Profit before taxation					4,097

All of the segment turnover reported above is from external customers.

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies. Segment profit represents the profit earned by each segment without allocation of other income, investment income, other gains and losses, administrative expenses (including central administrative costs and directors' emoluments), finance costs, change in fair value of investment properties and share of results of associates. This is the measure reported to the chief operating decision maker of the Group for the purpose of resource allocation and performance assessment.

Segment assets

The following is an analysis of the Group's assets by operating and reportable segment.

	Retail	Office	Residential	Property Development	Consolidated
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*	*HK$ million*
As at 31 December 2018					
Segment assets	**35,112**	**34,160**	**8,185**	**1,207**	**78,664**
Investments in and loans to associates					**3,719**
Fund investment					**294**
Other assets					**4,366**
Consolidated assets					**87,043**
As at 31 December 2017					
Segment assets	33,195	31,325	7,961	1,129	73,610
Investments in and loans to associates					3,789
Fund investment					21
Other assets					4,700
Consolidated assets					82,120

Segment assets represented the investment properties and accounts receivable of each segment, and investment in and loans to a joint venture under property development segment without allocation of property, plant and equipment, investments in and loans to associates, fund investment, term notes, other financial assets, other receivables, time deposits, and cash and cash equivalents. This is the measure reported to the chief operating decision maker of the Group for the purpose of monitoring segment performances and allocating resources between segments. The investment properties are included in segment assets at their fair values whilst the change in fair value of investment properties is not included in segment profit.

No segment liabilities analysis is presented as the Group's liabilities are monitored on a group basis.

Other than the investment in an associate, which operates in the People's Republic of China with carrying amounts of HK$3,715 million (2017: HK$3,779 million), all the Group's assets are located in Hong Kong.

Other segment information

	Retail *HK$ million*	Office *HK$ million*	Residential *HK$ million*	Property Development *HK$ million*	Consolidated *HK$ million*
For the year ended 31 December 2018					
Additions to non-current assets	**1,133**	**202**	**28**	**-**	**1,363**
For the year ended 31 December 2017					
Additions to non-current assets	826	22	7	-	855
Additions to investment properties under redevelopment *(Note)*					1,129
					1,984

Note:
The investment properties under redevelopment were completed during the year ended 31 December 2017.

5. Taxation

	2018 ***HK$ million***	2017 *HK$ million*
Current tax		
Hong Kong Profits Tax		
- current year	**425**	458
- overprovision in prior years	**(2)**	(2)
	423	456
Deferred tax	**58**	28
	481	484

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

6. Profit For The Year

	2018	2017
	HK$ million	*HK$ million*
Profit for the year has been arrived at after charging (crediting):		
Other income *(Note)*	**-**	(261)
Auditor's remuneration	**3**	3
Depreciation of property, plant and equipment	**17**	22
Gross rental income from investment properties including contingent rentals of HK$81 million (2017: HK$48 million)	**(3,507)**	(3,227)
Less:		
- Direct operating expenses arising from properties that generated rental income	**498**	400
- Direct operating expenses arising from properties that did not generate rental income	**25**	49
	(2,984)	(2,778)
Staff costs (including directors' emoluments)	**245**	271
Share of income tax of associates (included in share of results of associates)	**122**	94

Note:
The amount represented a one-off early surrender compensation received from a tenant which has been recognised as compensation income under other income during the year ended 31 December 2017 at the date of fulfilment of all conditions set out in the surrender agreement.

7. Earnings Per Share

(a) Basic and diluted earnings per share

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	Earnings	
	2018	2017
	HK$ million	*HK$ million*
Earnings for the purposes of basic and diluted earnings per share:		
Profit for the year attributable to owners of the Company	**6,033**	3,636

	Number of shares 2018	2017
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,046,189,778**	1,045,495,841
Effect of dilutive potential ordinary shares: Share options issued by the Company	**501,942**	283,181
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,046,691,720**	1,045,779,022

In both years, the computation of diluted earnings per share does not assume the exercise of certain of the Company's outstanding share options as the exercise prices of those options are higher than the average market price for shares.

(b) Adjusted basic and diluted earnings per share

For the purpose of assessing the performance of the Group's principal activities, the management is of the view that the profit for the year attributable to the owners of the Company should be adjusted in the calculation of basic and diluted earnings per share as follows:

For the year ended 31 December 2018

	Profit *HK$ million*	**Basic earnings per share** *HK cents*	**Diluted earnings per share** *HK cents*
Profit for the year attributable to owners of the Company	**6,033**	**576.66**	**576.39**
Change in fair value of investment properties	**(3,532)**	**(337.60)**	**(337.44)**
Effect of non-controlling interests' shares	**144**	**13.76**	**13.76**
Share of change in fair value of investment properties (net of deferred taxation) of associates	**(96)**	**(9.18)**	**(9.18)**
Imputed interest income on interest-free loan to a joint venture	**(29)**	**(2.77)**	**(2.77)**
Other gains and losses	**16**	**1.53**	**1.53**
Underlying Profit	**2,536**	**242.40**	**242.29**
Recurring Underlying Profit	**2,536**	**242.40**	**242.29**

For the year ended 31 December 2017

	Profit *HK$ million*	Basic earnings per share *HK cents*	Diluted earnings per share *HK cents*
Profit for the year attributable to owners of the Company	3,636	347.78	347.68
Change in fair value of investment properties	(853)	(81.59)	(81.56)
Effect of non-controlling interests' shares	(253)	(24.20)	(24.19)
Share of change in fair value of investment properties (net of deferred taxation) of associates	(11)	(1.05)	(1.05)
Imputed interest income on interest-free loan to a joint venture	(28)	(2.68)	(2.68)
Underlying Profit	2,491	238.26	238.20
One-off early surrender compensation income (net of effect of taxation and non-controlling interests' shares)	(142)	(13.58)	(13.58)
Recurring Underlying Profit	2,349	224.68	224.62

Notes:

(1) Recurring Underlying Profit is arrived at by excluding from Underlying Profit items that are non-recurring in nature. As there were no such adjustments in 2018, the Recurring Underlying Profit was the same as the Underlying Profit.

(2) The denominators used in calculating the adjusted earnings per share are the same as those detailed above for basic and diluted earnings per share.

8. Other Comprehensive (Expenses) Income

	2018 *HK$ million*	2017 *HK$ million*
Other comprehensive (expenses) income comprises:		
Items that will not be reclassified subsequently to profit or loss:		
Revaluation of properties held for own use:		
Gains on revaluation of properties held for own use	**56**	46
Deferred taxation arising on revaluation	**(9)**	(8)
	47	38
Items that may be reclassified subsequently to profit or loss:		
Derivatives designated as cash flow hedges:		
Net gains (losses) arising during the year	**2**	(49)
Reclassification adjustments for net losses included in profit or loss	**(7)**	(6)
	(5)	(55)
Share of translation reserve of an associate	**(172)**	240
	(177)	185
Other comprehensive (expenses) income for the year (net of tax)	**(130)**	223

9. Dividends

(a) Dividends recognised as distribution during the year:

	2018 *HK$ million*	2017 *HK$ million*
2018 first interim dividend paid – HK27 cents per share	**283**	-
2017 first interim dividend paid – HK26 cents per share	**-**	272
2017 second interim dividend paid – HK111 cents per share	**1,161**	-
2016 second interim dividend paid – HK109 cents per share	**-**	1,139
	1,444	1,411

(b) Dividends declared after the end of the reporting period:

	2018 *HK$ million*	2017 *HK$ million*
Second interim dividend (in lieu of a final dividend) - HK117 cents per share (2017: HK111 cents per share)	**1,224**	1,161

The second interim dividend is not recognised as a liability as at 31 December 2018 because it has been declared after the end of the reporting period. It will be payable in cash.

10. Accounts and Other Receivables

	2018	2017
	HK$ million	*HK$ million*
Accounts receivable	**15**	11
Interest receivable	**46**	44
Prepayments in respect of investment properties	**228**	283
Other receivables and prepayments	**300**	220
Total	**589**	558
Analysed for reporting purposes as:		
Current assets	**203**	226
Non-current assets	**386**	332
	589	558

Rents from leasing of investment properties are normally received in advance. At the end of the reporting period, accounts receivable of the Group with carrying amount of HK$15 million (2017: HK$11 million) mainly represented rents receipts in arrears, which were aged less than 90 days.

At the end of the reporting period, HK$5 million (2017: HK$3 million) of the accounts receivable were past due but not impaired as the accounts receivable are generally fully covered by the deposits from corresponding tenants.

11. Accounts Payable and Accruals

	2018	2017
	HK$ million	*HK$ million*
Accounts payable	**257**	215
Interest payable	**74**	74
Other payables	**542**	447
	873	736

At the end of the reporting period, accounts payable of the Group with carrying amount of HK$175 million (2017: HK$157 million) were aged less than 90 days.

ADDITIONAL INFORMATION

Corporate Governance

The Board and management of the Company are committed to maintaining high standards of corporate governance. The Board had adopted a Statement of Corporate Governance Policy which gives guidance on how corporate governance principles are applied to the Company. In addition to complying with applicable statutory requirements, we aim to continually review and enhance our corporate governance practices in the light of local and international best practices.

The Company meets the Corporate Governance Code as set out in Appendix 14 of the Listing Rules. The Board reviews its corporate governance practices continuously to cope with the evolving needs of the Group. Further information on the Company's corporate governance practices is available on our website at www.hysan.com.hk.

Corporate Responsibility and Sustainability

The Group's first corporate responsibility/sustainability report was published in 2006. This year's report is the 13th report we have produced focusing on our social and environmental efforts.

The Group's corporate responsibility and sustainability performance are set out in the "2018 Sustainability Report" in accordance with the Environmental, Social and Governance Reporting Guide set out in Appendix 27 of the Listing Rules. The reported information has been verified by Hong Kong Quality Assurance Agency and will be available on our website at www.hysan.com.hk.

Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code")

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standards set out in the Model Code throughout the review year.

Purchase, Sale or Redemption of the Company's Listed Securities

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

Human Resources Practices

The Group aims to attract, retain and develop high calibre individuals committed to attaining our objectives. The total number of employees as at 31 December 2018 was 485 (2017: 482). The Group's human resources practices are aligned with our corporate objectives so as to maximise shareholder value and achieve growth. Details on our human resources programs, training and development are set out in the "2018 Sustainability Report".

Closure of Register of Members

The second interim dividend will be paid to shareholders whose names appear on the register of members on Friday, 8 March 2019 and the payment date will be on or about Friday, 22 March 2019. The register of members will be closed on Friday, 8 March 2019, on which date no transfer of shares will be registered. The ex-dividend date will be Wednesday, 6 March 2019. In order to qualify for the second interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Registrar, Tricor Standard Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:00 p.m. on Thursday, 7 March 2019.

The register of members will also be closed from Friday, 10 May 2019 to Thursday, 16 May 2019, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the Company's forthcoming annual general meeting (the "AGM"), all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Registrar, Tricor Standard Limited at the abovementioned address, not later than 4:00 p.m. on Thursday, 9 May 2019.

AGM

The AGM will be held at Meeting Room N101, Hong Kong Convention and Exhibition Centre, 1 Expo Drive, Wanchai, Hong Kong (use Expo Drive Entrance) on Thursday, 16 May 2019. The Notice of AGM will be published on the website of the Company (www.hysan.com.hk) and the designated issuer website of the Stock Exchange (www.hkexnews.hk), and despatched to shareholders around end of March 2019.

By Order of the Board
Lee Irene Yun-Lien
Chairman

Hong Kong, 21 February 2019

*As at the date of this announcement, the Board comprises: Lee Irene Yun-Lien (Chairman), Churchouse Frederick Peter**, Fan Yan Hok Philip**, Lau Lawrence Juen-Yee**, Poon Chung Yin Joseph**, Wong Ching Ying Belinda**, Jebsen Hans Michael* (Yang Chi Hsin Trevor as his alternate), Lee Anthony Hsien Pin* (Lee Irene Yun-Lien as his alternate), Lee Chien* and Lee Tze Hau Michael*.*

* *Non-Executive Directors*
** *Independent Non-Executive Directors*

This final results announcement is published on the website of the Company (www.hysan.com.hk) and the designated issuer website of the Stock Exchange (www.hkexnews.hk). The Annual Report 2018 containing all the information required by the Listing Rules will be despatched to shareholders and made available on the above websites around end of March 2019.