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**CK ASSET HOLDINGS LIMITED**

**長江實業集團有限公司**

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1113)

## THE CHAIRMAN'S STATEMENT FOR 2018

### HIGHLIGHTS

	2018	2017	Change
	HK\$ Million	HK\$ Million	
Revenue <sup>Note</sup>	<b>64,481</b>	63,780	
Profit before investment property ("IP") revaluation and disposal	<b>24,134</b>	20,320	
IP revaluation (after tax and non-controlling interests)	<b>4,155</b>	9,805	
IP disposal (after tax and non-controlling interests)	<b>11,828</b>	-	
Profit attributable to shareholders	<b>40,117</b>	30,125	
Earnings per share - profit before IP revaluation and disposal	<b>HK\$6.53</b>	HK\$5.44	+20%
- profit attributable to shareholders	<b>HK\$10.85</b>	HK\$8.07	+34%
Final dividend per share	<b>HK\$1.43</b>	HK\$1.28	+12%
Full year dividend per share	<b>HK\$1.90</b>	HK\$1.70	+12%

*Note : Revenue includes the Group's revenue of HK\$50,368 million and the Group's share of revenue of joint ventures of HK\$14,113 million.*

### PROFIT FOR THE YEAR

The Group's audited profit attributable to shareholders for the year ended 31 December 2018 amounted to HK\$40,117 million (2017 – HK\$30,125 million). Earnings per share were HK\$10.85 (2017 – HK\$8.07), an increase of 34% when compared with last year.

### DIVIDEND

The Directors recommend the payment of a final dividend of HK\$1.43 per share in respect of 2018 to shareholders whose names appear on the Register of Members of the Company at the close of business on Wednesday, 22 May 2019. This together with the interim dividend of HK\$0.47 per share paid on 13 September 2018 gives a total of HK\$1.90 per share for the year (2017 – HK\$1.70 per share). The proposed final dividend will be paid on Friday, 31 May 2019 following approval at the 2019 Annual General Meeting.

## **PROSPECTS**

### **Growth in Asset Values through Quality Earnings Enhancement based on Solid Foundations**

#### **Business Review**

2018 was a year of solid advancement for CK Asset Holdings Limited (the “Group”). Since my appointment as Chairman, the Group’s strategic direction remains unchanged. We continue to build on the Group’s heritage and adhere to the motto of “advancing without foregoing stability”. The property business produced robust results. Our recurrent income base has been enhanced by the active expansion and diversification of the infrastructure and utility assets portfolios. The Group’s balance sheet is solidly managed with ample liquidity to make continued quality investments creating long-term value for shareholders. The Group’s results for 2018 were in line with expectations, reflecting the continued stable performance of the property business portfolio and strong profit contributions from the newly acquired businesses.

The macro environment was challenging in 2018 amid global economic and political uncertainties. The Group is resilient in the face of cyclical market volatility through continual enhancement of portfolio quality and diversity.

### ***Property Development***

The Hong Kong property market has exhibited signs of consolidation since August last year amid ongoing Mainland-US trade disputes, volatility in financial markets, as well as an uptrend in local interest rates. Home prices in China remained generally stable during 2018 as government policies supported healthy market development. An increase in property sales contribution was recorded as compared to 2017 after taking into account the profit recognised for Century Link in Shanghai which was sold in 2016 and completed in 2018.

### ***Property Investment***

Revenue from property rental was similar to that of last year. While the completion of the disposal of The Center in May 2018 resulted in decreased contribution from property rental, the acquisition of 5 Broadgate in London in June 2018 has generated immediate enhanced rental income which partly off-sets the rental income loss from the disposals. The Group is actively evaluating appropriate acquisition opportunities, and will continue to optimise the investment property mix in order to maintain a balanced portfolio generating quality steady income yield and long-term capital growth.

### ***Hotel and Serviced Suite Operation***

The local hotel sector has benefited from improved inbound tourism in 2018 with a visible increase in Mainland visitor arrivals. A modest improvement in average hotel room occupancy rates and average achieved hotel room rates was recorded for the Group's hotel portfolio. Contribution from the Group's hotel and serviced suite operation improved over the previous year. The addition of a total of approximately 1,200 rooms from two hotel projects in Hong Kong, which are expected to open in 2019, will enhance its underlying ability to provide strong income streams for the Group. The Group's hotel and serviced suite portfolio will comprise approximately 15,000 rooms.

### ***Infrastructure and Utility Asset Operation***

Our infrastructure and utility asset operations reported favourable results and generated a first full-year contribution in 2018 and are a key contributor of steady recurring income to the Group. CK William Group (privatised DUET Group in 2017) in Australia contributed HK\$1,605 million from its businesses comprising electricity distribution, gas transmission and distribution, as well as the provision of electricity generation solutions for remote customers. A contribution of HK\$1,021 million from Reliance Home Comfort, a Canadian provider of building equipment and services, and a contribution of HK\$1,299 million from ista, a fully integrated energy management services provider with the main market being Germany were also recorded. The Group will continue to source global diversified infrastructure and utility assets, and related investments with low perceived risks and high predictability of revenue, to strengthen quality cash flows and enhance the overall portfolio value.

### ***Aircraft Leasing***

The aircraft leasing business provides steady income streams to the Group on a medium to long term basis. With solid operational performance in 2018, contribution for the year amounted to HK\$1,276 million as lease income improved over last year due to the increase in the number of aircraft.

## Outlook

Lower global growth in most countries is expected in 2019 amid an increasingly complicated and volatile economic and political landscape. The China-US trade frictions have yet to be fully resolved while the Brexit deadlock has continued. These uncertainties pose potential risks in economic growth and warrant market caution.

China's real GDP growth has moderated to 6.6% in 2018. The Chinese economy is envisaged to grow steadily and sustain healthy development as it continues to deepen its economic reform and focus on quality growth over pace. Major initiatives such as One Belt, One Road, and the Greater Bay Area development are expected to generate growth opportunities for the nation, and in particular, Hong Kong.

Slowing global growth and heightened market uncertainties will inevitably weigh on Hong Kong's economy and the stability of the property market. Housing policies will continue to be a determining factor for the property sector. The Group has a pipeline of property projects which are under varying stages of planning and development, and are poised to generate profit contributions in the years to come. We will continue to enhance our property development portfolio by pursuing quality investments in varying ways as suitable opportunities arise.

Against this challenging environment, our targeted strategy to increase stable recurrent income adopted since 2016 has proven successful. The growth in steady revenue streams from newly acquired businesses has contributed to an increase of over 50% in the Group's recurrent profit contribution as compared to 2016. Such contribution is expected to continue to increase steadily. The Group will continue to focus on quality investments with strong growth potential and revenue predictability to propel earnings growth and improve strategic flexibility.

The Group has a very strong cash flow with a debt ratio below 4% as at the year end date. The Group obtained "A/Stable" and "A2 Stable" credit ratings from Standard & Poor's and Moody's respectively. Our solid financial base, coupled with strong fundamentals based on an increasingly diversified global business portfolio rich in stability and potential, will enable further diversification across sectors and geographies which underpins future returns. The Group will continue its prudent strategy of creating long term sustainable value for its shareholders by ensuring that the theme guiding investment decisions in the years ahead is focused on the asset growth that results from improving quality earnings; all based on and benefiting from the Group's solid financial and organisational foundations. We remain prudently optimistic about the Group's future prospects.

**Acknowledgement**

Intelligent, creative, dedicated, experienced and loyal employees are the Group's most valuable asset in this extremely competitive and challenging global environment. I have had the pleasure of working with many capable colleagues at the CK Group over the past 30 years. I take this opportunity to thank our colleagues on the Board and diligent employees for their hard work, loyal service and contributions during the year.

**Victor T K Li**  
Chairman

Hong Kong, 21 March 2019

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

### Major Business Activities

#### 1. Developments Completed during 2018:

Name	Location	Gross Floor Area (sq.ft.)	Group's Interest
Ocean Pride Development	Tsuen Wan Town Lot No. 401	1,798,648	Joint Venture
Ocean Pride and Ocean Supreme OP Mall		436,476	100%*
Borrett Road Project Phase 1	Inland Lot No. 8949	286,163	100%
My Central	Inland Lot No. 9038	159,414	Joint Venture
Seanorama	Sha Tin Town Lot No. 574	562,156	100%
Hupan Mingdi Land No. 905	Jiading District, Shanghai	1,633,185	100%
Yuhu Mingdi Phase 2(1)	Huangpu District, Guangzhou	177,349	80%
Upper West Shanghai Phase 2 Tenders 1 and 2, and Phase 4 Tender 1	Putuo District, Shanghai	2,160,799	60%
Noble Hills Phases 4A and 5B	Wangcheng District, Changsha	762,515	100%
Le Parc Phase 6C	Chengdu High-Tech Zone, Chengdu	2,148,671	100%
Regency Hills Land Nos. 13A and 13B	Yangjiashan, Nanan District, Chongqing	1,984,438	95%
Laguna Verona Phase G1b/G2a Zone 2	Hwang Gang Lake, Dongguan	687,856	99.8%
Noble Hills Phases 2A and 2B	Zengcheng, Guangzhou	805,197	100%
City Link	Jing An District, Shanghai	726,757	60%
Chelsea Waterfront Chartwell House and Compton House	Chelsea/Fulham, London	98,138	95%

\* As the purchaser under an Agreement for Sale and Purchase dated 24 May 2017 and a Supplemental Agreement dated 28 December 2018, pending completion of the relevant sale and purchase.

## 2. Developments in Progress and Scheduled for Completion in 2019:

Name	Location	Gross Floor Area (sq.ft.)	Group's Interest
Harbour Glory and Hotel Alexandra	Inland Lot No. 8920	755,626	100%
Borrett Road Project Phase 2	Inland Lot No. 8949	149,123	100%
Stars of Kovan	Upper Serangoon Road, Singapore	326,063	100%
Yuhu Mingdi Phase 3	Huangpu District, Guangzhou	685,868	80%
Upper West Shanghai Phase 2 Tender 3, Phase 3 Tender 1, Phase 4 Tender 2, and Phase 5	Putuo District, Shanghai	4,944,796	60%
La Grande Ville Phase 5	Shun Yi District, Beijing	1,063,878	100%
Noble Hills Phase 4B	Wangcheng District, Changsha	882,801	100%
Le Parc Phase 7B	Chengdu High-Tech Zone, Chengdu	519,121	100%
Regency Hills Land Nos. 13B and 14	Yangjiashan, Nanan District, Chongqing	887,704	95%
Noble Hills Phases 2B, 3A and 3B	Zengcheng, Guangzhou	1,696,520	100%
Regency Cove Phase 2A	Caidian District, Wuhan	733,592	100%
Emerald Cove	Wuguishan, Zhongshan	687,953	100%
Chelsea Waterfront West Tower	Chelsea/Fulham, London	157,004	95%



### **3. New Acquisitions and Joint Developments and Other Major Events:**

- (1) June 2018: A wholly owned subsidiary of the Group acquired 5 Broadgate in London, the United Kingdom at a consideration of GBP1 billion (approximately HK\$10.6 billion). This is a Grade-A office building with a gross external area of approximately 1.2 million sq.ft. The existing tenancy agreement of 5 Broadgate is signed through to 2035.
- (2) July 2018: The Group announced its plan to redevelop Hutchison House into a 41-storeys building with 185 car park spaces, offering over 490,000 sq. ft. of premier office space at the prestigious location in Central. The redevelopment program is estimated to complete in 2023.
- (3) August 2018: A wholly owned subsidiary of the Group successfully won in a public tender for the joint development with MTR Corporation Limited of Site C of Aberdeen Inland Lot No. 467. With an area of approximately 240,928 sq.ft., the site is earmarked for a residential and commercial development estimated to have a developable gross floor area of approximately 1,505,870 sq.ft.
- (4) August 2018: A wholly owned subsidiary of the Group (“CKA Sub”) entered into an economic benefits agreement (“Economic Benefits Agreement”) with a wholly owned subsidiary of Cheung Kong (Holdings) Limited (“CKH Sub”) and CK Hutchison Holdings Limited (“CK Hutchison”) pursuant to which, CKA Sub would pay CKH Sub a consideration of approximately US\$1,222.93 million (approximately HK\$9,600 million) and CKH Sub would, on an on-going basis, pay CKA Sub economic benefits amounts which refers to the sums equal to 40% of the economic benefits that Cheung Kong (Holdings) Limited receives or is entitled to receive from its interests in six infrastructure businesses in Europe, Australia and Canada respectively. CK Hutchison has unconditionally and irrevocably guaranteed to CKA Sub the obligations of CKH Sub under the Economic Benefits Agreement.
- (5) September 2018: A wholly owned subsidiary of the Group and another developer, reached a land exchange agreement with the Government in respect of the site of various lots in D.D. 379, Siu Sau, Tuen Mun for an area of approximately 266,945 sq.ft. The joint development site is designated for residential development and estimated to have a developable gross floor area of approximately 347,028 sq.ft.

- (6) October 2018: A wholly owned subsidiary of the Group updated the existing US\$5,000 million Euro Medium Term Note Programme (the “Programme”) as guaranteed by the Company for the purpose of issuing notes (the “Notes”) which may be denominated in any currency as agreed with the dealer(s) from time to time. The Programme provides that the Notes may be listed on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) or such other stock exchange(s) as may be agreed with the relevant dealer(s). As at 31 December 2018, Notes of an aggregate nominal amount of approximately US\$1,294.3 million were issued and outstanding under the Programme.
- (7) December 2018: A wholly owned subsidiary of the Group acquired OP Mall in Tsuen Wan in May 2017, and the supplemental agreement of the Agreement for Sale and Purchase was entered into by the relevant parties in December 2018. The acquisition is scheduled for completion in around 2019/2020. The Group’s retail property portfolio is set to become stronger following the completion of the acquisition.
- (8) March 2019: The Group accepted the offer for the particulars and conditions of a proposed land exchange with the Government of the Hong Kong Special Administrative Region in respect of a lot at Yau Tong. The lot is designated for private residential purposes and project design and planning are now underway.

## Property Sales

Revenue of property sales (including share of joint ventures) recognised for the year was HK\$34,767 million (2017 – HK\$42,851 million), comprising mainly (i) sale of residential units of The Zumurud and Seanorama in Hong Kong; (ii) sale of residential and commercial units of various projects on the Mainland – Laguna Verona in Dongguan, The Harbourfront in Qingdao, Upper West Shanghai and Hupan Mingdi in Shanghai, Noble Hills in Guangzhou, Le Parc in Chengdu and Regency Hills in Chongqing; and (iii) sale of residential units of Chelsea Waterfront in the United Kingdom, and is summarised by locations as follows:

Location	2018 HK\$ Million	2017 HK\$ Million
Hong Kong	11,497	12,792
The Mainland	22,142	29,555
Overseas	1,128	504
	<b>34,767</b>	42,851

Contribution from property sales (including share of joint ventures) for the year was HK\$12,003 million (2017 – HK\$16,251 million) and was derived from the following locations:

Location	2018 HK\$ Million	2017 HK\$ Million
Hong Kong	3,580	4,889
The Mainland	7,783	11,106
Overseas	640	256
	<b>12,003</b>	<b>16,251</b>

After taking into account the sale of Century Link developed in Shanghai through the sale of the Group's 50% interest in a joint venture and a profit of HK\$6,989 million recognised during the year, the total contribution from property sales for the year amounted to HK\$18,992 million, an increase of HK\$2,741 million when compared with last year.

The presales of residential units of My Central, Harbour Glory, Ocean Pride and Ocean Supreme in Hong Kong as well as Stars of Kovan in Singapore were successful and contribution to group profit is expected when property sales are recognised after completion of these projects. Sales of properties slowed down on the Mainland due to tight pricing and credit policies on property markets.

Property sales contracted (including share of joint ventures) but not yet recognised at 31 December 2018 were as follows:

Location	Scheduled for Sales Recognition		
	In 2019 HK\$ Million	After 2019 HK\$ Million	Total HK\$ Million
Hong Kong	46,781	5,628	52,409
The Mainland	3,412	4,444	7,856
Overseas	352	2,503	2,855
	<b>50,545</b>	<b>12,575</b>	<b>63,120</b>

At the year end date, the Group had a development land bank (including developers' interests in joint development projects but excluding agricultural land and completed properties) of approximately 104 million sq.ft., of which 4 million sq.ft., 96 million sq.ft. and 4 million sq.ft. were located in Hong Kong, on the Mainland and overseas respectively.

## Property Rental

Revenue of property rental (including share of joint ventures) for the year was HK\$7,635 million (2017 – HK\$7,830 million), comprising rental income derived from leasing of office, retail, industrial and other properties as follows:

	<b>2018</b>	2017
Use of Property	<b>HK\$ Million</b>	HK\$ Million
Office	<b>3,132</b>	3,223
Retail	<b>3,334</b>	3,354
Industrial	<b>722</b>	785
Others	<b>447</b>	468
	<b>7,635</b>	7,830

The Group's investment properties are mostly located in Hong Kong, including Cheung Kong Center, China Building and Hutchison House in Central, 1881 Heritage in Tsimshatsui, Whampoa Garden in Hunghom, Hutchison Logistics Centre in Kwai Chung and others.

Contribution from property rental (including share of joint ventures) for the year was HK\$6,930 million (2017 – HK\$7,130 million) and was derived from the following locations:

	<b>2018</b>	2017
Location	<b>HK\$ Million</b>	HK\$ Million
Hong Kong	<b>5,706</b>	6,304
The Mainland	<b>638</b>	503
Overseas	<b>586</b>	323
	<b>6,930</b>	7,130

The disposal of The Center in Hong Kong was completed in May 2018 and a surplus of HK\$11.6 billion over its carrying value was recognised upon completion.

In June 2018, the Group acquired a commercial property at 5 Broadgate, London for £1 billion (approximately HK\$10.6 billion) as an investment property which generated immediate rental income contribution to group profit and offset part of the rental loss due to disposal of The Center.

At the year end date, the Group had an investment property portfolio of approximately 17 million sq.ft. (including share of joint ventures but excluding car parking spaces) as follows:

	Office	Retail	Industrial	Total
Location	Million sq.ft.	Million sq.ft.	Million sq.ft.	Million sq.ft.
Hong Kong	3	3	7	13
The Mainland	1	1	-	2
Overseas	1	1	-	2
	5	5	7	17

An increase in fair value of investment properties of HK\$3,993 million (2017 – HK\$9,525 million) was recorded at 31 December 2018 based on a professional valuation using capitalisation rates ranging from approximately 4% to 8%. The Group also shared an increase in fair value of investment properties of HK\$18 million (2017 – HK\$14 million) of joint ventures.

## Hotel and Serviced Suite Operation

Revenue of hotel and serviced suite operation (including share of joint ventures) for the year was HK\$5,152 million (2017 – HK\$4,798 million), comprising revenue generated mainly by Harbour Grand Hotels, Harbour Plaza Hotels & Resorts and Horizon Hotels & Suites operated by the Group in Hong Kong.

Contribution (including share of joint ventures) after depreciation charge of HK\$393 million on properties was HK\$1,924 million (2017 – HK\$1,572 million), an increase of HK\$352 million when compared with last year, and was derived from the following locations:

Location	2018 HK\$ Million	2017 HK\$ Million
Hong Kong	<b>1,978</b>	1,745
The Mainland	<b>(21)</b>	(71)
Overseas	<b>(33)</b>	(102)
	<b>1,924</b>	1,572

Profit contribution of hotels and serviced suites in Hong Kong increased as tourist arrivals continued to grow during the year and operating losses on the Mainland and overseas decreased following the disposal of a few non-core hotels. An average occupancy rate of 90.1% was achieved for the year and the average hotel operating profit per square foot was HK\$26 per month, representing an annual yield of 23.3% on the carrying amount of the completed hotel and serviced suite properties at the year end date.

During the second half year, the Group leased out the Hullett House at 1881 Heritage in Hong Kong and disposed of Bahamas Grand Lucayan in The Bahamas at a profit of HK\$675 million.

The Group's hotel and serviced suite portfolio comprises 18 hotel and serviced suite properties, including hotel development and extension projects scheduled for completion in 2019, and provides approximately 15,000 rooms for guest accommodation.

## Property and Project Management

Revenue of property and project management (including share of joint ventures) for the year was HK\$884 million (2017 – HK\$626 million), comprising mainly management fees received for provision of property management and related services to property projects developed and sold by the Group.

Contribution from property and project management (including share of joint ventures) for the year was HK\$371 million (2017 – HK\$275 million) and was derived from the following locations:

Location	2018 HK\$ Million	2017 HK\$ Million
Hong Kong	261	210
The Mainland	71	39
Overseas	39	26
	<b>371</b>	<b>275</b>

During the year, the Group increased its shareholding in the manager of Hui Xian Real Estate Investment Trust to 70%, which has since become a subsidiary of the Group and provided further contribution to group profit.

At the year end date, the total floor area of properties managed by the Group was approximately 272 million sq.ft. and this is expected to grow steadily following gradual completion of the Group's property development projects in the years ahead. The Group is committed to providing high quality services to the properties under its management.

## Aircraft Leasing

Revenue of aircraft leasing (including share of joint ventures) for the year was HK\$2,949 million (2017 – HK\$2,192 million), comprising lease income derived from leasing of narrow body and wide body aircraft to airlines.

Contribution (including share of joint ventures) after depreciation charge of HK\$1,456 million on aircraft was HK\$1,276 million (2017 – HK\$984 million), an increase of HK\$292 million when compared with last year as the Group continued to acquire more aircraft during the year, and is analysed by location with reference to lessee's place of operation as follows:

Location	2018 HK\$ Million	2017 HK\$ Million
Asia	518	373
Europe	300	256
North America	302	224
Latin America	156	131
	<b>1,276</b>	<b>984</b>

At the year end date, the Group (including interest in joint ventures) owned 120 narrow body aircraft and 5 wide body aircraft with an average age of 5.7 years and an average remaining lease term of 5.1 years, and had commitments (including share of joint ventures) of approximately HK\$9.1 billion for acquisition of another 38 aircraft.

## Infrastructure and Utility Asset Operation

At the year end date, the Group had equity interests in the following joint ventures in infrastructure and utility asset operation:

Joint Venture	Principal Activities	Equity Interest
CK William JV (since May 2017)	An owner and operator of energy utility assets in Australia, the United States, Canada and the United Kingdom	40%
CKP (Canada) JV (since July 2017)	A building equipment and service provider under the consumer brand identity of “Reliance Home Comfort” in Canada	75%
Sarvana JV (since October 2017)	A fully integrated energy management service provider operated by ista Group in Europe	65%

The Group’s share of revenue for the first full year since acquisitions of these joint ventures in 2017 amounted to HK\$13,094 million (2017 – HK\$5,483 million):

Joint Venture	2018 HK\$ Million	2017 HK\$ Million
CK William JV	4,355	2,823
CKP (Canada) JV	3,376	1,565
Sarvana JV	5,363	1,095
	<b>13,094</b>	<b>5,483</b>

In October 2018, the Group paid US\$1.2 billion (approximately HK\$9.6 billion) to CK Hutchison group for a 40% share of economic benefits of some of its infrastructure businesses (“Economic Benefits of Infrastructure Businesses”) comprising (a) 50% interest in Park’N Fly, the largest off-airport car park provider in Canada; (b) 40% interest in Northumbrian Water, one of the 10 regulated water and sewerage companies in England and Wales; (c) 27.51% interest in Australian Gas Networks, one of the largest distributors of natural gas in Australia; (d) 30% interest in Wales & West Gas Networks, a gas distributor that serves Wales and the South West of England; (e) 50% interest in UK Rails, one of the three major rolling stock operating companies in the United Kingdom; and (f) 35% interest in Dutch Enviro Energy, the largest energy-from-waste company in the Netherlands.

Contribution from infrastructure and utility asset operation for the year amounted to HK\$4,034 million (2017 – HK\$1,969 million), and was derived from the following locations:

	Australia	Europe	North America	2018 Total	2017 Total
	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million
CK William JV	1,596	(18)	27	<b>1,605</b>	1,264
CKP (Canada) JV	-	-	1,021	<b>1,021</b>	440
Sarvana JV	-	1,299	-	<b>1,299</b>	265
Economic Benefits of Infrastructure Businesses	-	95	14	<b>109</b>	-
	1,596	1,376	1,062	<b>4,034</b>	1,969

## Interests in Real Estate Investment Trusts

At the year end date, the Group had equity interests in the following listed real estate investment trusts (“REITs”):

	Principal Activities	Equity Interest
Hui Xian REIT	Investment in hotels and serviced suites, office and retail properties on the Mainland	32.4%
Fortune REIT	Investment in retail properties in Hong Kong	27.3%
Prosperity REIT	Investment in office, retail and industrial properties in Hong Kong	18.5%

During the year, the Group shared a profit of HK\$218 million (2017 – HK\$549 million) of Hui Xian REIT, an associate, and received distributions in the total amount of HK\$583 million (2017 – HK\$551 million). Decrease in profit of Hui Xian REIT was mainly due to exchange loss on translation of its Hong Kong dollar bank borrowings at the year end date.

For investments in Fortune REIT and Prosperity REIT, cash distributions received during the year in the total amount of HK\$320 million (2017 – HK\$312 million) were recognised as income and a decrease in fair value of HK\$453 million (2017 – increase in fair value of HK\$529 million) was recorded according to closing market price at 31 December 2018.



## **FINANCIAL REVIEW**

### **Liquidity and Financing**

The Group monitors its liquidity requirements on a short to medium term basis and arranges bank and other borrowings accordingly. In September 2018, the Group issued HK\$2 billion notes with a 10-year term under the Euro Medium Term Note programme.

At the year end date, the Group's bank and other borrowings amounted to HK\$69.5 billion, a decrease of HK\$2.5 billion from the last year end date. The maturity profile was spread over a period of 10 years, with HK\$1.8 billion repayable within 1 year, HK\$61.0 billion within 2 to 5 years and HK\$6.7 billion beyond 5 years.

The Group's net debt to net total capital ratio at 31 December 2018 was approximately 3.6%. Net debt is arrived at by deducting bank balances and deposits of HK\$56.7 billion from bank and other borrowings, and net total capital is the aggregate of total equity and net debt.

With plenty of cash on hand as well as available banking facilities, the Group's liquidity position remains strong and the Group has sufficient financial resources to satisfy its commitments and working capital requirements.

### **Treasury Policies**

The Group maintains a conservative approach on foreign exchange exposure management and borrows principally on a floating rate basis. The Group manages and reviews its exposure to foreign exchange rates and interest rates on a regular basis. For investment overseas and at times of exchange rate and interest rate uncertainty or volatility, hedging instruments including swaps and forwards are used in the management of exposure to foreign exchange rate and interest rate fluctuations.

At the year end date, the Group's borrowings were primarily in HK\$ and US\$, bank loans in RMB were borrowed for property development projects on the Mainland and bank loans in AUD were borrowed for investments in infrastructure and utility asset operation in Australia. The Group derives its revenue from property businesses mainly in HK\$ and RMB and maintains bank balances and deposits substantially in HK\$ and RMB. Income in foreign currencies is generated by the Group's overseas projects and joint venture operations, and cash in these foreign currencies is maintained for operational requirements.

## Charges on Assets

At the year end date, properties amounting to HK\$13,393 million (2017 – HK\$15,512 million) were charged to secure bank loans arranged for property development projects on the Mainland.

## Contingent Liabilities

At the year end date, the Group provided guarantees for (i) the hotel revenue to be shared by the land owner of a hotel property amounting to HK\$536 million (2017 – HK\$552 million); and (ii) the mortgage loans provided by banks to purchasers of properties developed and sold by the Group on the Mainland amounting to HK\$3,005 million (2017 – HK\$4,103 million).

## Employees

At the year end date, the Group (including its subsidiaries) employed approximately 18,900 employees and remuneration for the year (excluding directors' emoluments) amounted to approximately HK\$5,973 million. The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance related basis, together with reference to the profitability of the Group, remuneration benchmarks in the industry, and prevailing market conditions within the general framework of the Group's salary and bonus system. The Group does not have any share option scheme for employees.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2018, the Company bought back a total of 4,098,000 shares of a nominal value of HK\$1.00 each in the capital of the Company ("Shares") on the Stock Exchange, with the aggregate consideration paid (before expenses) amounting to HK\$230,556,350. All the Shares bought back were subsequently cancelled during the year. As at 31 December 2018, the total number of Shares in issue was 3,693,400,500.

Particulars of the share buy-backs during the year are as follows:

Month	Number of Shares bought back	Purchase price per Share		Aggregate consideration (before expenses) (HK\$)
		Highest (HK\$)	Lowest (HK\$)	
September 2018	<u>4,098,000</u>	57.35	55.55	<u>230,556,350</u>

Save as disclosed above, during the year ended 31 December 2018, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## CORPORATE GOVERNANCE CODE

The Board of Directors (“Board”) and the management of the Company are committed to the maintenance of good corporate governance practices and procedures. The corporate governance principles of the Company emphasize a quality Board, sound internal controls, and transparency and accountability to all shareholders.

The Company had applied the principles and complied with all code provisions (except as stated below) and, where applicable, the recommended best practices of the Corporate Governance Code (“CG Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) throughout the year ended 31 December 2018. In respect of code provision A.2.1 of the CG Code, the positions of the Chairman of the Board (the “Chairman”) and the Managing Director are held by the same individual, namely, Mr. Victor T K Li, following the retirement of Mr. Li Ka-shing as Chairman and Executive Director of the Company after the conclusion of the annual general meeting of the Company held on 10 May 2018 (“2018 AGM”). Although the positions of the Chairman and the Managing Director are not separately held, the Board is of the view that this is the most appropriate arrangement in the interest of the shareholders as a whole, especially given that Mr. Victor T K Li, has worked side-by-side with Mr. Li Ka-shing at the CK Group for 33 years. All major decisions will, in accordance with current practice, be continued to be made in consultation with members of the Board and relevant board committees and key personnel of the Group after thorough discussions. In addition, Mr. Li Ka-shing has agreed to stay on as Senior Advisor of the Company at the request of the Board and in that capacity to continue to contribute to the Group on significant matters. Furthermore, the Board comprises five Independent Non-executive Directors who will continue to provide their views and comments to Mr. Victor T K Li as Chairman and Managing Director as they have done so previously. In respect of code provisions A.5.1 to A.5.4 of the CG Code, the Company did not have a nomination committee during the year 2018. During the year, the full Board was responsible for reviewing the structure, size and composition of the Board and the appointment of new Directors from time to time to ensure that it had a balanced and diversified composition of skills and experience appropriate for the requirements of the businesses of the Company, and the Board as a whole was also responsible for reviewing the succession plan for the Directors, in particular the positions of Chairman and Managing Director. In respect of code provision A.6.7 of the CG Code, an Independent Non-executive Director was not in a position to attend the 2018 AGM due to indisposition.

The Group is committed to achieving and maintaining standards of openness, probity and accountability. In line with this commitment and in compliance with the CG Code, the Company has established the Procedures for Reporting Possible Improprieties in Matters of Financial Reporting, Internal Control or Other Matters. In addition, the Company has also established the Policy on Handling of Confidential Information, Information Disclosure, and Securities Dealing for compliance by the Company’s employees.

## **AUDIT COMMITTEE**

The Listing Rules require every listed issuer to establish an audit committee comprising at least three members who must be non-executive directors only, and the majority thereof must be independent non-executive directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. The Company established an audit committee (“Audit Committee”) on 26 February 2015 and has formulated its written terms of reference, which have from time to time been modified, in accordance with the prevailing provisions of the CG Code.

The Audit Committee comprises five Independent Non-executive Directors, namely, Mr. Cheong Ying Chew, Henry (Chairman of the Audit Committee), Mr. Chow Nin Mow, Albert, Ms. Hung Siu-lin, Katherine, Mr. Colin Stevens Russel and Mr. Donald Jeffrey Roberts. The principal duties of the Audit Committee include: the review and supervision of the Group’s financial reporting system, risk management and internal control systems; review of the Group’s financial information; review of the relationship with the external auditor of the Company; and performance of the corporate governance functions delegated by the Board.

The Group’s annual results for the year ended 31 December 2018 have been reviewed by the Audit Committee and audited by the independent auditor of the Company, Deloitte Touche Tohmatsu.

## **REMUNERATION COMMITTEE**

In compliance with the CG Code, the Company established its remuneration committee (“Remuneration Committee”) on 26 February 2015 with a majority of the members thereof being Independent Non-executive Directors. The Remuneration Committee comprises the Chairman and Managing Director, Mr. Victor T K Li and two Independent Non-executive Directors, namely, Ms. Hung Siu-lin, Katherine (Chairman of the Remuneration Committee) and Mr. Cheong Ying Chew, Henry.

## **NOMINATION COMMITTEE**

The Company established its nomination committee (“Nomination Committee”) on 1 January 2019 which comprises all Directors of the Company, and the Chairman of the Board is the Chairman of the Nomination Committee. When the need to select, nominate or re-elect Directors arises, a sub-committee will be established comprising members from the Nomination Committee in compliance with the requirements under the Listing Rules in relation to the composition of the Nomination Committee.

## **ANNUAL GENERAL MEETING**

The 2019 Annual General Meeting of the shareholders of the Company will be held at the Grand Ballroom, 1st Floor, Harbour Grand Kowloon, 20 Tak Fung Street, Hung Hom, Kowloon, Hong Kong on Thursday, 16 May 2019 at 2:45 p.m. and the Notice of Annual General Meeting will be published and despatched to the shareholders in the manner as required by the Listing Rules in due course.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Friday, 10 May 2019 to Thursday, 16 May 2019, both days inclusive, during which period no transfer of shares will be effected. In order to determine the entitlement to attend and vote at the 2019 Annual General Meeting, all share certificates with completed transfer forms, either overleaf or separately, must be lodged with the Company's Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Thursday, 9 May 2019.

The final dividend is payable to shareholders whose names appear on the Register of Members of the Company at the close of business on Wednesday, 22 May 2019, being the record date for determination of entitlement to the final dividend. In order to qualify for the proposed final dividend, all share certificates with completed transfer forms, either overleaf or separately, must be lodged with the Company's Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Wednesday, 22 May 2019.

The Directors of the Company as at the date of this document are Mr. LI Tzar Kuoi, Victor (*Chairman and Managing Director*), Mr. KAM Hing Lam (*Deputy Managing Director*), Mr. IP Tak Chuen, Edmond (*Deputy Managing Director*), Mr. CHUNG Sun Keung, Davy, Mr. CHIU Kwok Hung, Justin, Mr. CHOW Wai Kam, Ms. PAU Yee Wan, Ezra and Ms. WOO Chia Ching, Grace as Executive Directors; and Mr. CHEONG Ying Chew, Henry, Mr. CHOW Nin Mow, Albert, Ms. HUNG Siu-lin, Katherine, Mr. Colin Stevens RUSSEL and Mr. Donald Jeffrey ROBERTS as Independent Non-executive Directors.

**Consolidated Income Statement**  
**For the year ended 31 December 2018**

	2018 HK\$ Million	2017 HK\$ Million
Group revenue	50,368	57,546
Share of revenue of joint ventures	14,113	6,234
Total	<u>64,481</u>	<u>63,780</u>
<b>Group revenue</b>	<b>50,368</b>	<b>57,546</b>
Interest from joint ventures	2,175	988
Investment and other income	2,013	1,932
Operating costs		
Property and related costs	(22,755)	(26,503)
Salaries and related expenses	(3,873)	(3,807)
Interest and other finance costs	(1,079)	(1,222)
Depreciation	(1,771)	(1,573)
Other expenses	(559)	(543)
	(30,037)	(33,648)
Profit on disposal of a property development joint venture	6,989	-
Gain on financial instruments	511	633
Change in fair value of investment properties	3,993	9,525
Surplus on disposal of investment properties	11,850	-
Profit on disposal of hotel properties	675	363
Share of profit of joint ventures	420	239
Share of profit of associates	218	549
<b>Profit before taxation</b>	<b>49,175</b>	<b>38,127</b>
Taxation	(7,541)	(7,239)
<b>Profit after taxation</b>	<b>41,634</b>	<b>30,888</b>
Profit attributable to		
Non-controlling interests	(977)	(428)
Holders of perpetual capital securities	(540)	(335)
<b>Profit attributable to shareholders</b>	<b>40,117</b>	<b>30,125</b>
<b>Earnings per share</b>	<b>HK\$10.85</b>	<b>HK\$8.07</b>

	2018 HK\$ Million	2017 HK\$ Million
<b>Dividends</b>		
Interim dividend paid	1,738	1,553
Final dividend proposed	5,282	4,733
	<u>7,020</u>	<u>6,286</u>
<b>Dividends per share</b>		
Interim dividend	HK\$0.47	HK\$0.42
Final dividend	HK\$1.43	HK\$1.28

**Consolidated Statement of Comprehensive Income**  
**For the year ended 31 December 2018**

	<b>2018</b> <b>HK\$ Million</b>	2017 HK\$ Million
<b>Profit after taxation</b>	<b>41,634</b>	30,888
Other comprehensive income (loss) - reclassifiable to profit or loss		
Translation of financial statements of operations outside Hong Kong		
Exchange gain (loss)	<b>(5,635)</b>	5,494
Exchange loss reclassified to profit or loss	<b>175</b>	166
Exchange gain (loss) on translation of bank loans for hedging	<b>759</b>	(48)
Gain (loss) on derivative financial instruments		
Net investment hedges	<b>4,127</b>	(2,075)
Cash flow hedges	<b>358</b>	18
Change in fair value of investments	<b>(4)</b>	1
Share of other comprehensive income (loss) of joint ventures	<b>(1,417)</b>	730
Other comprehensive income (loss) - not reclassifiable to profit or loss		
Gain (loss) on remeasurement of defined benefit obligations	<b>(17)</b>	75
Share of other comprehensive income (loss) of joint ventures and associates	<b>25</b>	(12)
<b>Other comprehensive income (loss)</b>	<b>(1,629)</b>	4,349
<b>Total comprehensive income</b>	<b>40,005</b>	35,237
Total comprehensive income attributable to		
Non-controlling interests	<b>(794)</b>	(611)
Holders of perpetual capital securities	<b>(540)</b>	(335)
<b>Total comprehensive income attributable to shareholders</b>	<b>38,671</b>	34,291

**Consolidated Statement of Financial Position  
As at 31 December 2018**

	2018 HK\$ Million	2017 HK\$ Million
Non-current assets		
Fixed assets	37,660	35,337
Investment properties	123,478	135,998
Joint ventures	59,842	65,293
Associates	7,256	7,402
Investments	16,796	6,706
Loan receivables	3,848	2,776
Derivative financial instruments	3,006	129
Deferred tax assets	3,134	2,720
	<u>255,020</u>	<u>256,361</u>
Current assets		
Properties for sale	143,373	135,589
Debtors, prepayments and others	3,710	3,709
Loan receivables	17,117	1,270
Joint venture contracted for sale	-	1,493
Bank balances and deposits	56,725	54,917
	<u>220,925</u>	<u>196,978</u>
Current liabilities		
Bank and other loans	1,829	14,342
Creditors, accruals and others	15,622	19,958
Customers' deposits received	33,916	35,680
Provision for taxation	3,080	3,426
	<u>54,447</u>	<u>73,406</u>
Net current assets	<u>166,478</u>	<u>123,572</u>
Non-current liabilities		
Bank and other loans	67,663	57,650
Deferred tax liabilities	12,474	11,655
Derivative financial instruments	167	1,317
Pension obligations	166	131
	<u>80,470</u>	<u>70,753</u>
<b>Net assets</b>	<u><u>341,028</u></u>	<u><u>309,180</u></u>
<b>Representing:</b>		
Share capital and share premium	245,639	245,875
Reserves	77,881	45,677
Shareholders' funds	323,520	291,552
Perpetual capital securities	11,670	11,670
Non-controlling interests	5,838	5,958
<b>Total equity</b>	<u><u>341,028</u></u>	<u><u>309,180</u></u>



Notes:

(1) Revenue by principal activities is as follows:

	Group		Joint ventures		Total	
	2018	2017	2018	2017	2018	2017
	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million
Property sales	34,763	42,825	4	26	34,767	42,851
Property rental	7,479	7,689	156	141	7,635	7,830
Hotel and serviced suite operation	5,136	4,774	16	24	5,152	4,798
Property and project management	826	511	58	115	884	626
Aircraft leasing	2,164	1,747	785	445	2,949	2,192
Infrastructure and utility asset operation	-	-	13,094	5,483	13,094	5,483
	<b>50,368</b>	<b>57,546</b>	<b>14,113</b>	<b>6,234</b>	<b>64,481</b>	<b>63,780</b>

and is derived from the following locations:

	2018	2017
	HK\$ Million	HK\$ Million
Hong Kong	23,094	24,576
The Mainland	23,809	30,917
Overseas	17,578	8,287
	<b>64,481</b>	<b>63,780</b>

Profit contribution by principal activities after allocation of operating costs and other income is as follows:

	Group		Joint ventures		Total	
	2018	2017	2018	2017	2018	2017
	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million
Property sales	12,003	16,235	-	16	12,003	16,251
Property rental	6,791	7,010	139	120	6,930	7,130
Hotel and serviced suite operation	1,944	1,588	(20)	(16)	1,924	1,572
Property and project management	331	232	40	43	371	275
Aircraft leasing	872	704	404	280	1,276	984
Infrastructure and utility asset operation	109	-	3,925	1,969	4,034	1,969
	<b>22,050</b>	<b>25,769</b>	<b>4,488</b>	<b>2,412</b>	<b>26,538</b>	<b>28,181</b>
Interest and other finance costs	(1,079)	(1,222)	(1,184)	(804)	(2,263)	(2,026)
	<b>20,971</b>	<b>24,547</b>	<b>3,304</b>	<b>1,608</b>	<b>24,275</b>	<b>26,155</b>
Profit on disposal of a property development joint venture					6,989	-
Interests in real estate investment trusts					538	861
Gain on financial instruments					511	633
Change in fair value of investment properties						
Group					3,993	9,525
Joint ventures					18	14
Surplus on disposal of investment properties					11,850	-
Profit on disposal of hotel properties					675	363
Others					717	829
Taxation						
Group					(7,541)	(7,239)
Joint ventures					(391)	(253)
Profit attributable to non-controlling interests and holders of perpetual capital securities					(1,517)	(763)
Profit attributable to shareholders					<b>40,117</b>	<b>30,125</b>

(2) Profit before taxation is arrived at after charging:

	2018 HK\$ Million	2017 HK\$ Million
Interest and other finance costs		
Bank and other loans	2,010	1,894
Less: amount capitalised	(931)	(672)
	1,079	1,222
Costs of properties sold	19,869	23,324

(3) Taxation

	2018 HK\$ Million	2017 HK\$ Million
Current tax		
Hong Kong	1,707	1,694
Outside Hong Kong	5,205	5,962
Deferred tax	629	(417)
	7,541	7,239

(4) During the year, the Company bought back 4,098,000 of its own issued shares on The Stock Exchange of Hong Kong Limited for a total consideration (including expenses) of \$232 million and cancelled all the shares bought back.

The calculation of earnings per share is based on profit attributable to shareholders and on the weighted average of 3,696,161,344 shares (2017 – 3,732,203,704 shares) in issue during the year.

(5) Ageing analysis of trade debtors with reference to terms of agreements is as follows:

	2018 HK\$ Million	2017 HK\$ Million
Current to one month	458	502
Two to three months	76	48
Over three months	65	50
	599	600

Ageing analysis of trade creditors with reference to invoice dates and credit terms is as follows:

	2018 HK\$ Million	2017 HK\$ Million
Current to one month	4,999	4,852
Two to three months	28	54
Over three months	22	18
	5,049	4,924

(6) The International Accounting Standards Board has issued a number of new and revised International Financial Reporting Standards ("IFRSs"). IFRS 9 "Financial Instruments" was early adopted in 2017 and its impacts were described in note 2(a) to the consolidated financial statements for the year ended 31 December 2017. The adoption of other IFRSs effective for the Group's annual accounting periods beginning on 1 January 2018 has no significant impact on the Group's results and financial position. For those which are not yet effective, the Group is in the process of assessing their impact on the Group's results and financial position. Based on preliminary assessment, no significant impact is anticipated for the adoption of IFRSs scheduled to be effective in 2019.

(7) Certain comparative information has been reclassified to conform to the current year's presentation.

(8) The annual results have been reviewed by the Audit Committee.