Pacific Century Premium Developments
盈科大衍地產發展

STOCK CODE: 00432

ANNUAL REPORT 2018

BROADENING **OUR VISION**

The name **Pacific Century Premium Developments** signifies the company's sharp focus on the high-end segment of property markets in the region.

In Chinese, the name takes on a more aspirational meaning that invites reflection on the company's origins and progress to the present day, as well as its ambitions for the future.

The structure of the name contains a reference to rivers and streams leading to the sea. According to ancient literature, all such waterways share that destiny and tend to be individually active and dynamic in making their way to the coast, where they finally achieve success together.

The Chinese version of PCPD's name also symbolises vigorous growth into prosperity and can be likened to acorns developing into oak trees, which are well known for their towering size, solid stature and longevity. Interestingly, this analogy is very similar to the popular English saying: 'From tiny acorns do mighty oak trees grow'.

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CORPORATE PROFILE

Majority-owned by PCCW Limited ("PCCW", SEHK: 00008), Pacific Century Premium Developments Limited ("PCPD" or the "Group", SEHK: 00432) is principally engaged in the development and management of premium-grade property and infrastructure projects as well as premium-grade property investments.

PROPERTY DEVELOPMENT AND INVESTMENT

PCPD completed its signature Bel-Air project at the end of 2008. This has since become one of the city's most prestigious developments. The Group also developed ONE Pacific Heights, a prime residential project situated in the western part of Hong Kong Island.

The Group continues to explore potential investment opportunities around the world. In line with this strategy, the Group has drawn up long-term plans for the development of world-class resorts in Hokkaido, Japan and Phang-nga, Thailand.

The Group acquired a site located in Sudirman CBD, Jakarta, Indonesia in 2013 and developed it into a premium Grade A office building.

In 2018, the Group added to its portfolio by acquiring 3-6 Glenealy, Central, Hong Kong. The Group intends to redevelop the site into a luxury residential property or for commercial use (subject to obtaining relevant government approvals).

PROPERTY AND ASSET MANAGEMENT

Leveraging on its extensive experience and expertise, the Group provides property and asset management services for various kinds of premises.

STATEMENT FROM THE CHAIRMAN

PCPD made steady progress in all its overseas projects last year despite the challenging environment.

The global economy started off steadily at the beginning of 2018 but the momentum faded and growth has slowed during the latter part of the year. In 2019, rising interest rates, trade tensions and political uncertainty, including Brexit, may continue to cloud the outlook and the World Bank and IMF both have revised their global economic growth projections downwards to 2.9% and 3.5% for 2019 respectively.

The US Federal Reserve in December raised its benchmark interest rates for the fourth time in the year and the ninth time since it began normalising rates in December 2015. The US Federal Reserve is expected to raise rates at least once or twice in 2019.

Meanwhile, Japan's economy shrank 2.5% in the July-September quarter in 2018 following various natural disasters but we believe the setback is likely to be temporary. Recent government figures show that the number of foreign visitors to Japan in 2018 topped 30 million, marking an all-time high record on an annual basis. With the Japanese government's supporting measures and upcoming international events such as the G20 Summit and the Tokyo 2020 Summer Olympics, the economy will likely see a rebound.

I am pleased that PCPD made steady progress in all its overseas projects last year despite the challenging environment.

In Hokkaido, Japan, the Group managed to sell most of the available units at the Park Hyatt Niseko Hanazono Residences ("Branded Residences"). The Group will continue to market and sell the remaining units over the coming year. The Branded Residences are expected to be completed in late 2019 and we are committed to delivering top-quality homes and excellent services to our buyers.

In Jakarta, Indonesia, the office leasing market remained competitive. During the year, our premium Grade A office investment, Pacific Century Place, Jakarta ("PCP, Jakarta"), attracted a wide array of leading and international tenants. We believe that the strategic location together with award-winning environmentally sustainable features will set our project apart from the peers.

As for our project in Phang-nga, southern Thailand, we commenced infrastructure works as well as on the design development of phase 1.

I would like to take this opportunity to thank our management team and all staff members in Hong Kong and overseas offices for their contribution over the past year.

Richard Li
Chairman

February 21, 2019

STATEMENT FROM THE CHIEF EXECUTIVE OFFICER

Approximately 84% of the office floor space of the Group's investment, Pacific Century Place, Jakarta has been reserved or occupied.

The Group recorded the consolidated revenue of approximately HK$300 million for the financial year ended December 31, 2018. This represented an increase of approximately 83% compared to the Group's revenue of approximately HK$164 million for 2017.

The Group's consolidated operating loss amounted to approximately HK$228 million for 2018 compared to the consolidated operating loss of approximately HK$286 million for 2017.

The consolidated net loss attributable to equity holders of the company totalled approximately HK$437 million in 2018 compared to the consolidated loss of approximately HK$339 million for 2017. Basic loss per share was approximately 27.55 Hong Kong cents compared to the basic loss per share of 21.38 Hong Kong cents for 2017.

The Board of Directors has not recommended a final dividend for the year ended December 31, 2018.

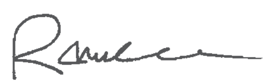
The Group's investment, PCP, Jakarta, is a 40-storey premium Grade A office building with an aggregate GFA of approximately 93,000 square meters. During the year, the building saw the completion of two upgrades, namely a new gym and a food pavilion.

To date, approximately 84% of the office floor space has been reserved or occupied. More companies have expressed their interest in moving their regional headquarters or Indonesia representative offices to the building.

As for the project at Niseko, Hokkaido, Japan, Park Hyatt Hotel and Branded Residences are expected to be completed in late 2019. During the year, successful sales events were held in Japan and Thailand, achieving good results. I am delighted that 98 of the total 114 units have been sold/reserved to date. The Group expects to launch the remaining units in Asia over the coming year.

In early 2018, the Group acquired a prime site at 3-6 Glenealy, Central, Hong Kong. The Group intends to redevelop the site into either a luxury residential building or for commercial use (subject to obtaining relevant government approvals).

Our project in Phang-nga, Thailand is also proceeding with the first phase design as well as commencing infrastructure construction.



Robert Lee
Deputy Chairman and Chief Executive Officer

February 21, 2019

KEY BUSINESS STRATEGIES

The Group is principally engaged in the development and management of premium-grade property and infrastructure projects as well as premium-grade property investments. PCPD aims to create and enhance value for our shareholders through engaging in development projects, acquisitions, and joint ventures.

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For this purpose, we embrace two key business strategies:

1. ***Maintain long-term growth and profitability by developing and investing in premium-grade properties***

   We are proactively seeking suitable premium development projects to generate favourable returns and sustain long-term growth for the Group.

2. ***Enhance our opportunities in real estate markets worldwide by leveraging on our experience, expertise, and brand established in developing and managing luxury residential, resort and hotel properties, and premium-grade buildings***

   We intend to replicate our success and maximize the strengths of our brand through new projects. Approached from time to time by potential strategic partners, we are looking at opportunities to participate in mega projects with the benefit of economies of scale, and to acquire and upgrade existing properties for investment or sale, whether through by way of joint ventures or by setting up real estate funds.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's discussion and analysis of the audited consolidated financial results and operations relating to the business of Pacific Century Premium Developments Limited ("Company") and its subsidiaries (together with the Company, "Group") for the year ended December 31, 2018 is set out below.

REVIEW OF OPERATIONS

Property investment

Indonesia

The Group's investment, PCP, Jakarta, had a stable performance in 2018. Located in the heart of the Sudirman CBD of Jakarta, the 40-storey premium Grade A office building was awarded the final LEED Platinum Certification for commercial buildings in 2018.

During the year, the demand for premium office space remained healthy. To date, approximately 84% of the office floor space at PCP, Jakarta, has been reserved or committed. We expect the state-of-the-art sustainable features of the building and the new facilities such as the gym and the food pavilion to be favourable to the office leasing market.

The Group's gross rental income amounted to approximately HK$138 million for the year ended December 31, 2018, as compared to approximately HK$3 million in 2017.

Property development

Japan

The project in Hokkaido, Japan will comprise the Park Hyatt Niseko, Hanazono and 114 luxury Branded Residences named Park Hyatt Niseko Hanazono Residences. A selection of specialty restaurants, extensive meeting space, a golf clubhouse, a ski shop and valet, a destination spa, a fitness centre and a swimming pool will be available.

In 2018, the Group arranged several successful sales events in Japan and Thailand. 98 units have been sold or reserved to date. The development is expected to be completed in late 2019.

Thailand

The Group is proceeding with the design of the first phase of the project in Phang-nga, South Thailand as well as commencing infrastructure construction.

In December 2018, the Group announced the construction of golf course and supporting facilities which are considered beneficial to the overall development.

Hong Kong

In January 2018, the Group acquired 3-6 Glenealy in Central and planned to redevelop it into either a luxury residence or for commercial use (subject to obtaining relevant government approvals).

Recreation and leisure

Japan

The Group's all-season recreational operation is located in Niseko, Hokkaido, Japan, which is one of the premium ski destinations in the world. Various facilities and recreational activities, including ski lifts, ski equipment rental, a ski school and snowmobile tours in winter and rafting tours and golfing in summer, are operated by the Group.

The planning and construction of the new ski centre and ski lifts are in progress, which we expect upon completion would be beneficial to the Group's all-season recreational operation located in Niseko, Hokkaido, Japan.

The Group's revenue from its all-season recreational activities amounted to approximately HK$108 million for the year ended December 31, 2018, as compared to approximately HK$96 million for 2017.

Property and facilities management

Hong Kong

The Group provides exceptional property management and facilities management services to its clients in Hong Kong and generated revenue of approximately HK$28 million for the year ended December 31, 2018, as compared to approximately HK$28 million in 2017.

Other businesses

Other businesses of the Group mainly include property investment in Hong Kong and asset management in Mainland China. The revenue from these other businesses amounted to approximately HK$5 million for the year ended December 31, 2018, as compared to approximately HK$17 million in 2017. The decrease in revenue was mainly due to the end of the asset management business in Mainland China at the end of December 2017.

FINANCIAL REVIEW

Review of results

The consolidated revenue of the Group was approximately HK$300 million for the year ended December 31, 2018, representing an increase of approximately 83 per cent from approximately HK$164 million in 2017. The increase was mainly due to the full operation of the premium Grade A office building in Jakarta, Indonesia.

The consolidated gross profit of the Group for the year ended December 31, 2018 was approximately HK$250 million, representing an increase of approximately 97 per cent from approximately HK$127 million in 2017. For the year ended December 31, 2018, the gross profit margin was 83 per cent as compared to 77 per cent in 2017.

The general and administrative expenses were approximately HK$489 million for the year ended December 31, 2018, representing an increase of approximately 13 per cent from approximately HK$433 million in 2017. Such increase was mainly due to increases in building management costs and professional fees spent for the operation of PCP, Jakarta and increased marketing expenses and professional fees were incurred for property development projects.

The consolidated operating loss for the year ended December 31, 2018 decreased to approximately HK$228 million, as compared to approximately HK$286 million in 2017. Such decrease was mainly due to the operating profits generated from PCP, Jakarta.

The Group recorded higher finance costs of approximately HK$201 million for the year ended December 31, 2018, as compared to approximately HK$86 million for 2017, as the Group had fewer qualifying assets for borrowing costs to be capitalised during the year. The consolidated net loss after taxation of approximately HK$437 million for the year ended December 31, 2018 was reported, as compared to approximately HK$339 million in 2017. Basic loss per share during the year under review was 27.55 Hong Kong cents, as compared to basic loss per share of 21.38 Hong Kong cents in 2017.

Current assets and liabilities

As at December 31, 2018, the Group held current assets of approximately HK$2,729 million (December 31, 2017: HK$ 4,469 million), mainly comprising properties under development held for sale, cash and bank balances, sales proceeds held in stakeholders' accounts, restricted cash and prepayments, deposits and other current assets. The decrease in current assets was mainly attributable to the combined effect of the following: (1) in a transaction where the Group acquired interests in companies which hold properties in Hong Kong, the Group made a cash payment in 2018 for approximately HK$2,164 million; and (2) certain properties under development which were non-current assets have been reclassified to become current assets. Sales proceeds held in stakeholders' accounts amounted to approximately HK$507 million as at December 31, 2018 (December 31, 2017: HK$508 million). The level of restricted cash remained at approximately HK$98 million as at December 31, 2018 (December 31, 2017: HK$98 million). As at December 31, 2018, the current ratio was 2.63 (December 31, 2017: 4.80).

As at December 31, 2018, the Group's total current liabilities amounted to approximately HK$1,039 million, as compared to approximately HK$932 million as at December 31, 2017. The increase was mainly due to the combined effect of the following: (1) the receipt of deposits from the sale of properties; and (2) the decrease in trade payables and accruals and other payables.

Capital structure, liquidity and financial resources

As at December 31, 2018, the Group's borrowings amounted to approximately HK$6,094 million (December 31, 2017: HK$4,473 million). The current reporting period balance represented the amortised cost of financial liabilities in respect of the guaranteed notes of US$570 million issued (equivalent to approximately HK$4,464 million), the drawdown of the principal amount of Japanese Yen ("JPY") 1,500 million under the term loan facility of JPY1,500 million (equivalent to approximately HK$106 million), the drawdown of the principal amount of JPY10,980 million (equivalent to approximately HK$775 million) under the term loan facility of JPY20,000 million (equivalent to approximately HK$1,412 million) together with the HK$808 million drawdown under the Hong Kong dollar loan facility.

On March 9, 2017, PCPD Capital Limited ("PCPD Capital"), an indirect wholly-owned subsidiary of the Company, issued US$570 million 4.75 per cent guaranteed notes ("Notes") due 2022, which are listed on the Singapore Exchange Securities Trading Limited. The Notes are irrevocably and unconditionally guaranteed by the Company and rank pari passu with all other outstanding unsecured and unsubordinated obligations of PCPD Capital and the Company.

On June 9, 2017, an indirect wholly-owned subsidiary of the Company entered into a term loan facility agreement under which the lender had agreed to make available a term loan facility up to an aggregate amount of JPY1,500 million ("JPY Facility 2028"). The maturity date of the JPY Facility is in December 2028. Such facility is secured by the land and buildings and a bank account of the indirect wholly-owned subsidiary and the indirect wholly-owned subsidiary is subject to certain financial covenants which are commonly found in lending arrangements with financial institutions. As at December 31, 2018, none of the covenants were breached. As at December 31, 2018, JPY1,500 million (December 31, 2017: JPY785 million) has been drawn down and the carrying value of the borrowing represents the loan drawdown of JPY1,500 million (December 31, 2017: JPY785 million) offset by the deferred loan arrangement costs of JPY45 million (December 31, 2017: JPY46 million).

On March 19, 2018, an indirect non-wholly owned subsidiary of the Company entered into a loan agreement under which the lender had agreed to make available a loan facility up to an aggregate amount of HK$808 million ("HK$ Loan"). The maturity date of the HK$ Loan is in March 2020. Such facility is secured by the land and buildings, bank accounts, shares and other assets of the indirect non-wholly owned subsidiaries and the indirect non-wholly owned subsidiary is subject to certain financial ratios covenants which are commonly found in lending arrangements with financial institutions. As at December 31, 2018, none of the covenants were breached and the carrying value of the borrowing represents the loan drawdown of HK$808 million offset by the deferred loan arrangement costs of HK$5 million.

On March 29, 2018, an indirect wholly-owned subsidiary of the Company (the "Borrower") entered into a term loan facility agreement under which the lender agreed to make available term loan facilities up to an aggregate amount of JPY20,000 million by December 31, 2019. The facility comprises (1) a JPY10,000 million facility for the construction of a branded residence ("JPY Facility 2021") which matures on February 14, 2020 with option to extend to March 31, 2021 and (2) a JPY10,000 million facility for the construction of a branded hotel ("JPY Facility 2023") with maturity date of March 31, 2023. Such facilities are secured by certain land and/or property in case either one of the loans is in default, the reserve accounts, and ordinary and/or preferred shares of the Borrower and an indirect wholly-owned subsidiary (the "Hotel Operator"). The Borrower and the Hotel Operator are subject to certain financial ratios covenants which are commonly found in lending arrangements with financial institutions. As at December 31, 2018, none of the covenants were breached and the carrying value of the borrowing represents the loan drawdown of JPY10,980 million offset by the deferred loan arrangement costs of JPY380 million.

As at December 31, 2018, the net debt-to-equity ratio was 128.8 per cent (as at December 31, 2017: 18.4 per cent). The net debt is calculated from the principal face amount of borrowings of HK$6,153 million less the cash and cash equivalents of HK$864 million.

The Group's borrowings were denominated in US dollars, Hong Kong dollars, and Japanese Yen while the cash and bank deposits were held mainly in US dollars and Hong Kong dollars. The Group has foreign operations, and certain of its net assets are exposed to the risk of foreign currency exchange rate fluctuations. As at December 31, 2018, the assets of the Group in Indonesia, Thailand and Japan represented approximately 37 per cent, 6 per cent and 24 per cent of the Group's total assets respectively. The Group's currency exposure with respect to these operations is subject to fluctuations in the exchange rates of Indonesian Rupiah, Thai Baht and Japanese Yen.

Net cash used in operating activities for the year ended December 31, 2018 was approximately HK$3,006 million, as compared to cash used in operating activities of approximately HK$274 million in 2017 as the Group has made a cash payment in March 2018 for approximately HK$2,164 million in its acquisition of interests in companies which hold properties in Hong Kong, and paid construction costs for the property development project in Japan.

Income tax

The Group's income tax for the year ended December 31, 2018 were approximately HK$48 million, as compared to approximately HK$26 million in 2017. The increase was mainly due to tax charges on the revenue earned from the premium Grade A office building in Jakarta.

Security on assets

As at December 31, 2018, certain assets of the Group with an aggregated carrying value of approximately HK$4,089 million were mortgaged and pledged to the bank as security for the loan facility (December 31, 2017: HK$89 million). Asset with carrying value of approximately HK$5 million pledged for a short-term performance bond as of December 31, 2017 was released during the year of 2018.

EMPLOYEES AND REMUNERATION POLICIES

As at December 31, 2018, the Group employed a total number of 802 staff (inclusive of property management staff borne by owners' account) in Hong Kong and overseas. The remuneration policies of the Group are in line with prevailing industry practices. Bonuses are paid on a discretionary basis taking into account factors such as performances of individual employees and the Group's performance as a whole. The Group provides comprehensive employee benefits, including medical insurance, a choice of provident fund or mandatory provident fund as well as training programs. The Group is also a participating member of the PCCW employee share incentive award schemes.

The Company operates a share option scheme which was adopted by its shareholders at the Company's annual general meeting held on May 6, 2015, and became effective on May 7, 2015 following its approval by PCCW's shareholders ("2015 Scheme"). The 2015 Scheme is valid and effective for a period of 10 years commencing on May 7, 2015. Under the 2015 Scheme, the Board shall be entitled to offer to grant a share option to any eligible participant whom the Board may, at its absolute discretion, select.

DIVIDENDS AND DISTRIBUTION

The Board did not recommend the payment of a final dividend to shareholders nor a final distribution to bonus convertible noteholders for the year ended December 31, 2018 (2017: Nil).

The Board did not declare an interim dividend to shareholders nor an interim distribution to bonus convertible noteholders for the year ended December 31, 2018 (2017: Nil).

CLOSURE OF REGISTER OF MEMBERS AND CLOSURE OF REGISTER OF NOTEHOLDERS

The Company's register of members will be closed from May 2, 2019 to May 8, 2019, both days inclusive, during which period no transfer of shares will be effected. In order to be entitled to attend and vote at the forthcoming annual general meeting of the Company, all transfers, accompanied by the relevant share certificates, should be lodged with the branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on April 30, 2019.

The Company's register of noteholders of bonus convertible notes will be closed from May 2, 2019 to May 8, 2019, both days inclusive, during which period no transfer of bonus convertible notes will be effected. In order to be entitled to attend the forthcoming annual general meeting of the Company, all transfers, accompanied by the relevant note certificates, should be lodged with the bonus convertible note registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on April 30, 2019.

OUTLOOK

The US Federal Reserve raised its benchmark interest rates for the fourth time this year in December 2018. The central bank also hinted one to two more hikes for the coming year as the economy remains healthy according to key economic indicators. The global economy is likely to continue moderate expansion.

The office leasing market in Jakarta, Indonesia is expected to stay competitive. The record supply of office space, especially in the premium Grade A segment, is expected to slow down over the next two years. However, a relatively high supply may continue to suppress office rents in CBD Jakarta in 2019.

Japan's economy may continue its slow growth in 2019. The government is strengthening its effort in the tourism sector, aiming to host 40 million inbound tourists in 2020. Tourism is likely to be established as a key growth sector. Park Hyatt Niseko, Hanazono, the Group's first co-branded luxury hotel in Japan which is expected to be completed in late 2019, is poised to benefit from the growing number of tourists.

The management will continue to seek potential projects around the world, including Hong Kong, Southeast Asia and London.

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

LI Tzar Kai, Richard

Chairman

Mr Li, aged 52, is an Executive Director and the Chairman of Pacific Century Premium Developments Limited ("PCPD"), the Chairman of PCPD's Executive Committee of the board of directors ("Board"), a member of PCPD's Remuneration Committee and Nomination Committee of the Board. He became a director of PCPD in May 2004. He also holds positions in the following companies:

(1) Chairman and Executive Director of PCCW Limited ("PCCW");
(2) Chairman of PCCW's Executive Committee;
(3) a member of PCCW's Nomination Committee of the PCCW board;
(4) Executive Chairman and Executive Director of HKT Limited ("HKT") and HKT Management Limited, the trustee-manager of the HKT Trust;
(5) Chairman of HKT's Executive Committee;
(6) a member of HKT's Nomination Committee of the HKT board;
(7) Chairman and Chief Executive of the Pacific Century Group; and
(8) Chairman and Executive Director of Singapore-based Pacific Century Regional Developments Limited ("PCRD"), and the Chairman of PCRD's Executive Committee.

Mr Li is a member of the Center for Strategic and International Studies' International Councillors' Group in Washington, D.C., and a member of the Global Information Infrastructure Commission. Mr Li was awarded the Lifetime Achievement Award by the Cable & Satellite Broadcasting Association of Asia in November 2011.

LEE Chi Hong, Robert

Deputy Chairman and
Chief Executive Officer

Mr Lee, aged 67, is an Executive Director, the Deputy Chairman, the Chief Executive Officer of PCPD, a member of PCPD's Executive Committee of the Board and is a Director of certain PCPD subsidiaries. He became a director of PCPD in May 2004. He is also an Executive Director of PCCW and a member of PCCW's Executive Committee and is a Director of certain PCCW subsidiaries.

Mr Lee was previously an Executive Director of Sino Land Company Limited ("Sino Land"), at which his responsibilities included sales, finance, acquisitions, investor relations, marketing and property management. Prior to joining Sino Land, Mr Lee was a senior partner at Deacons in Hong Kong, where he specialized in banking, property development, corporate finance and dispute resolution in Hong Kong and mainland China. Before that, he was a solicitor with the London firm Pritchard Englefield & Tobin. He was enrolled as a solicitor in the United Kingdom in 1979 and admitted as a solicitor in Hong Kong in 1980. He became a Notary Public in Hong Kong in 1991.

Mr Lee had also served as a member of the panel of arbitrators of the China International Economic and Trade Arbitration Commission of the China Council for the Promotion of International Trade in Beijing.

Mr Lee is a member of the International Council of the Louvre as well as an Ambassador for the Louvre in China.

Mr Lee graduated from Cornell University in the United States in 1975 with a bachelor's degree in Political Science.

James CHAN

Mr Chan, aged 65, is an Executive Director, the Project Director of PCPD, a member of PCPD's Executive Committee of the Board and is a Director of certain PCPD subsidiaries. He became a director of PCPD in August 2005. Mr Chan is responsible for managing various property projects of PCPD and its subsidiaries. He was responsible for the project execution of the Cyberport project and has overall responsibility for all aspects of the construction works. Mr Chan has become an Independent Non-Executive Director of Beijing Properties (Holdings) Limited since June 2011 and a Non-Executive Director of Viva China Holdings Limited since June 2013.

Prior to joining PCCW in October 2002, Mr Chan was a practising architect and had worked for a major developer in Hong Kong, with comprehensive experience in design, planning and land matters, design development and construction management of major investment properties, which included a wide range of industrial and warehousing, commercial, retail and residential developments in Hong Kong and overseas. Mr Chan possesses a wide spectrum of experience in the real estate industry and has been active in the real estate business for more than 40 years.

Mr Chan holds a Bachelor of Arts in Architectural Studies degree from The University of Hong Kong, a Bachelor of Architecture degree from University of Dundee in Scotland and an Executive Master of Business Administration degree from Tsinghua University. He is qualified as the Authorised Person (List I) and Registered Architect in Hong Kong, and is a member of The Hong Kong Institute of Architects, The Royal Institute of British Architects and The Australian Institute of Architects.

HUI Hon Hing, Susanna

Ms Hui, aged 54, is an Executive Director of PCPD. She became a director of PCPD in May 2018. She was the Chief Financial Officer of PCPD from July 2009 to November 2011. She is and has been the Group Chief Financial Officer of PCCW since April 2007 and an Executive Director of PCCW since May 2010. She is a member of PCCW's Executive Committee. Ms Hui is and has been an Executive Director and the Group Managing Director of HKT and HKT Management Limited, the trustee-manager of the HKT Trust, since November 2011. She is a member of HKT's Executive Committee. Prior to her appointment as the Group Chief Financial Officer of PCCW, Ms Hui was the Director of Group Finance of the PCCW group from September 2006 to April 2007, and the Director of Finance of the PCCW group with responsibility for the telecommunications services sector and regulatory accounting. She was also the Group Chief Financial Officer of HKT from November 2011 to August 2018.

Prior to joining Cable & Wireless HKT Limited (which was subsequently acquired by PCCW) in September 1999, Ms Hui was the chief financial officer of a listed company engaged in hotel and property investment and management.

Ms Hui graduated with a bachelor's degree in social sciences from the University of Hong Kong with first class honours. She is a qualified accountant and a member of both the Hong Kong Institute of Certified Public Accountants and the American Institute of Certified Public Accountants.

NON-EXECUTIVE DIRECTOR

Dr Allan ZEMAN, GBM, GBS, JP

Dr Zeman, aged 70, is a Non-Executive Director of PCPD, and a member of PCPD's Nomination Committee of the Board. He became a director of PCPD in June 2004.

Dr Zeman is the Chairman of Lan Kwai Fong Group, a major property owner and developer in Hong Kong's Lan Kwai Fong, one of Hong Kong's popular tourist attractions and entertainment districts. Dr Zeman is also an Independent Non-Executive Director of Sino Land, Tsim Sha Tsui Properties Limited, Global Brands Group Holding Limited, Television Broadcasts Limited, Fosun Tourism Group and a board member of The "Star" Ferry Company, Limited. Besides all the board appointments in Hong Kong, Dr Zeman is an Independent Non-Executive Director of Wynn Macau, Limited ("Wynn"), a prominent gaming company in Macau and the Non-Executive Chairman of Wynn.

Having lived in Hong Kong for over 48 years, Dr Zeman has been very involved in Government services as well as community activities. He is the appointed member of the General Committee of the Hong Kong General Chamber of Commerce, a member of the Board of Governors of The Canadian Chamber of Commerce in Hong Kong and a member of the Asian Advisory Board of the Richard Ivey School of Business, The University of Western Ontario. In January 2015, Dr Zeman was appointed by the Chief Executive of the Hong Kong Special Administrative Region ("HKSAR") Government to be a Representative of Hong Kong China to the Asia-Pacific Economic Cooperation Business Advisory Council. In June 2015, Dr Zeman was appointed as a board member of the Airport Authority of Hong Kong. Dr Zeman is also a board member of The Hong Kong Entrepreneurs Fund of Alibaba Group which was launched in November 2015. In March 2018, Dr Zeman was appointed as a member of HKSAR Chief Executive's Council of Advisers on Innovation and Strategic Development and a member of HKSAR Human Resources Planning Commission. Dr Zeman was the Chairman of Hong Kong Ocean Park from July 2003 to June 2014 and he is now the honorary advisor to the Park.

Dr Zeman is a holder of Honorary Doctorate of Laws Degree from The University of Western Ontario, Canada. He is also a holder of Honorary Doctorate of Business Administration from City University of Hong Kong as well as The Hong Kong University of Science and Technology.

BOARD OF DIRECTORS

INDEPENDENT NON-EXECUTIVE DIRECTORS

Prof WONG Yue Chim, Richard, SBS, JP

Prof Wong, aged 66, is an Independent Non-Executive Director of PCPD, the Chairman of PCPD's Audit Committee of the Board and a member of PCPD's Remuneration Committee and Nomination Committee of the Board. He became a director of PCPD in July 2004.

Prof Wong is Professor of Economics at The University of Hong Kong. He was awarded the Silver Bauhinia Star in 1999 by the Government of the HKSAR for his contributions in education, housing, industry and technology development. In addition, Prof Wong was appointed a Justice of the Peace in July 2000. He studied Economics at the University of Chicago and graduated with a Doctorate in Philosophy.

Prof Wong is currently an Independent Non-Executive Director of the following listed companies in Hong Kong:

(1) Great Eagle Holdings Limited;
(2) Orient Overseas (International) Limited; and
(3) Sun Hung Kai Properties Limited.

Prof Wong was an Independent Non-Executive Director of Link Asset Management Limited (the manager of Link Real Estate Investment Trust, a Hong Kong listed company) from September 2007 to July 2016.

CHIANG Yun

Ms Chiang, aged 51, is an Independent Non-Executive Director of PCPD, the Chairlady of PCPD's Remuneration Committee of the Board and a member of PCPD's Audit Committee and Nomination Committee of the Board. She became a director of PCPD in May 2015.

Ms Chiang has over 25 years of private equity investment experience and is now the founding managing partner of Prospere Capital Limited. She was previously a founding managing partner of Pacific Alliance Equity Partners, the private equity division of Pacific Alliance Group ("PAG"). Prior to joining PAG, she was a vice president in AIG Investment Corporation. She is currently an Independent Non-Executive Director of the following listed companies in Hong Kong:

(1) Sands China Ltd.;
(2) Goodbaby International Holdings Limited;

and an Independent Non-Executive Director of the following listed company in London:

(3) Merlin Entertainments Plc.

Ms Chiang obtained a Bachelor of Science degree, cum laude, from Virginia Polytechnic Institute and State University in 1992 and an Executive Master of Business Administration degree from The Kellogg Graduate School of Management of North-western University and Hong Kong University of Science and Technology in 1999.

Dr Vince FENG

Dr Feng, aged 46, is an Independent Non-Executive Director of PCPD, the Chairman of PCPD's Nomination Committee of the Board and a member of PCPD's Audit Committee of the Board. He became a director of PCPD in March 2018.

Dr Feng is the Cofounder and Managing Director of Ocean Arete Limited, an investment manager based in Hong Kong that manages the global macro hedge fund Arete Macro Fund. Dr Feng is also a Non-Executive Independent Director of TIH Limited (formerly known as Transpac Industrial Holdings Limited), a listed company in Singapore, where he also serves as Chairman of the Remuneration Committee and a member of the Audit Committee and Board Investment Committee. Dr Feng also serves as a director of various funds and asset management firms.

Dr Feng has been working in the financial services industry since 1994. Prior to founding Arete Macro Fund in 2012, Dr Feng was a Cofounder and Managing Director of Ocean Capital Management Limited from 2009 to 2010. Dr Feng has also previously served as a Managing Director of General Atlantic LLC, a US$17 billion global private equity firm focused on growth sectors, overseeing their North Asian operations and serving on the boards of numerous technology companies in Greater China, such as Lenovo, Digital China, Ren Ren, Data Systems, and Vimicro. Prior to that, Dr Feng was a financial analyst with Goldman Sachs (Asia) LLC in Hong Kong, working in the Direct Private Investing (formerly PIA) and Mergers and Acquisitions areas.

Dr Feng received his Doctor of Philosophy (PhD) in Economic Sociology and Bachelor of Arts (BA) degree (Honors) in Social Studies, both from Harvard University, and his Master of Business Administration (MBA) degree from Stanford University.

CORPORATE GOVERNANCE REPORT

Pacific Century Premium Developments Limited ("PCPD" or "Company") and its subsidiaries ("Group") have made continued efforts to incorporate the key elements of sound corporate governance into its management structure and internal procedures. The Group is committed to high standards of ethics and integrity in all aspects of business and to ensuring that its affairs are conducted in accordance with applicable laws and regulations and for the benefits and in the interests of shareholders of the Company.

CORPORATE GOVERNANCE CODE

The Company is committed to maintaining a high standard of corporate governance, the principles of which serve to uphold a high standard of ethics, transparency, responsibility and integrity in all aspects of business and to ensure that its affairs are conducted in accordance with applicable laws and regulations.

The Company has applied the principles and complied with all applicable code provisions 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 ("Stock Exchange") ("Listing Rules") during the year ended December 31, 2018, except for code provision E.1.2 as the Chairman of the Board was unable to attend the Company's annual general meeting held on May 9, 2018 due to an urgent business trip. Prof Wong Yue Chim, Richard, the Independent Non-Executive Director, chaired the annual general meeting pursuant to the Company's Bye-laws and was available to answer questions.

MODEL CODE SET OUT IN APPENDIX 10 TO THE LISTING RULES

The Company has adopted its own code of conduct regarding securities transactions, namely the PCPD Code of Conduct for Securities Transactions ("PCPD Code"), which applies to all directors and employees of the Company on terms no less exacting than the required standard indicated by the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

The Company has made specific enquiries with all the directors of the Company and they confirmed that they had complied with the requirements under the PCPD Code for the year ended December 31, 2018.

BOARD OF DIRECTORS

As at the date of this report, the board of directors of the Company ("Board") comprises four executive directors, one non-executive director and three independent non-executive directors. The biographies of all the directors as of the date of this report are set out on pages 10 to 12 of this annual report.

BOARD OF DIRECTORS – CONTINUED

The Board is responsible for the management of the Company. Its key responsibilities include formulation of overall strategies of the Group, setting targets for management and supervision of management performance. The Board confines itself to making broad policy decisions and exercising its reserved powers, as set out below:

1. those functions and matters as set out in the terms of reference of various committees of the Board (as amended from time to time) for which approval of the Board must be sought from time to time;

2. those functions and matters for which approval of the Board must be sought in accordance with the Group's internal policies (as amended from time to time);

3. consideration and approval of financial statements in interim reports and annual reports, announcements and press releases of interim and final results;

4. consideration of dividend policy and dividend amounts; and

5. monitoring of the corporate governance practices and procedures; and maintenance of appropriate and effective risk management and internal control systems of the Group to ensure compliance with the applicable rules and regulations.

The executive committee of the Board ("Executive Committee") is, under the leadership of the Chairman of the Board, responsible for considering in detail the policy decisions of the Board and implementing such decisions.

Mr Li Tzar Kai, Richard is the Chairman of the Board and Mr Lee Chi Hong, Robert is the Chief Executive Officer of the Company. The role of the Chairman is separated from that of the Chief Executive Officer. The Chairman is responsible for ensuring that the Board functions effectively, for providing leadership for the Board in setting goals and objectives for the Company and for ensuring that good corporate governance practices and procedures are established and enforced. The Chief Executive Officer is responsible for the day-to-day management of the Group's businesses and operations and for ensuring effective implementation of the Group's strategies. Mr Lee Chi Hong, Robert is also the Deputy Chairman of the Board.

All of the directors have full access to all the relevant information and have been furnished with relevant information in a timely manner, including monthly updates from the management, reports from each committee of the Board and briefings on significant legal, regulatory or accounting issues affecting the Group. Directors are also entitled to seek independent professional advice with costs to be borne by the Company.

All directors have confirmed that they have given sufficient time and attention to the Company's affairs. The Company has requested that each director shall disclose to the Company at the time of his/her appointment the number and nature of offices held in public companies or organisations and other significant commitments and with an indication of the time involved and disclose in a timely manner any changes thereto.

BOARD OF DIRECTORS – CONTINUED

The Board has a structured process to evaluate its own performance and directors' contribution on an annual basis including a self-evaluation questionnaire which has been completed by each director. The objectives of the evaluation are to assess whether the Board and the committees, as well as the directors have adequately and effectively performed its/their roles and fulfilled its/their responsibilities; and have devoted sufficient time commitment to the Company's affairs; and to recommend areas for improvement. The evaluation process has confirmed that the Board and committees continue to operate effectively and that the performance of the directors and time commitment in discharging their duties as directors of the Company for the year ended December 31, 2018 were generally satisfactory.

The directors acknowledge their responsibilities for preparing the financial statements for each financial year, which give a true and fair view of the financial position of the Company and the Group and of the financial performance and cash flows of the Group for the year in accordance with the Hong Kong Financial Reporting Standards, the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and the Listing Rules. In preparing the financial statements for the year ended December 31, 2018, the directors and the Chief Financial Officer have selected suitable accounting policies and applied them consistently, made judgments and estimates that were prudent and reasonable, stated the reasons for any significant departure from applicable accounting standards in Hong Kong and prepared the financial statements on a going concern basis. The directors and the Chief Financial Officer are responsible for keeping proper accounting records which would reflect with reasonable accuracy at any time the financial position, results of operations, cash flows and changes in equity of the Group. The statement of the external auditor of the Company relating to their reporting responsibilities on the financial statements of the Company is set out in the Independent Auditor's Report on pages 60 to 66.

More than one-third of the members of the Board are independent non-executive directors and hence the requirement under Rule 3.10A of the Listing Rules is complied with. In addition, the qualification and experience of Ms Chiang Yun, one of the independent non-executive directors of the Company, fulfil the requirement under Rule 3.10(2) of the Listing Rules; therefore, the requirement under Rule 3.10 of the Listing Rules is complied with. The Company has received from each of its independent non-executive directors a written confirmation confirming his/her independence to the Company and the Company considers that they are independent in accordance with Rule 3.13 of the Listing Rules.

Each of the non-executive directors of the Company is appointed for a term of two years from the date of his/her appointment or re-election. However, all the directors of the Company are subject to retirement by rotation and re-election at the annual general meeting at least once every three years in accordance with the Bye-laws of the Company and in compliance with the CG Code. The Company has issued formal letters of appointment to its directors setting out the key terms of their appointments as required under the Listing Rules.

Independent non-executive directors are identified in all of the corporate communications in which the names of the directors are disclosed. An updated list of the Company's directors identifying the independent non-executive directors and the roles and functions of the directors is maintained on the websites of the Company and Hong Kong Exchanges and Clearing Limited ("HKEX").

In the year ended December 31, 2018, four Board meetings were held. The attendance record of individual directors at the board meetings is set out in the table on page 26.

EXECUTIVE COMMITTEE

The Executive Committee operates as a general management committee with the overall delegated authority from the Board. This ensures that decisions can be taken quickly to enable the Group to seize opportunities in the fast-moving business environment. The Executive Committee is responsible for determining Group strategies, reviewing trading performance, ensuring adequate funding, examining major investment opportunities and monitoring management performance. The authority and duties of the Executive Committee are set out in writing in its terms of reference.

Current members of the Executive Committee are:

1. Li Tzar Kai, Richard *(Chairman)*

2. Lee Chi Hong, Robert

3. James Chan

REMUNERATION COMMITTEE

The remuneration committee of the Board ("Remuneration Committee") is responsible for ensuring that formal and transparent procedures are in place for developing the remuneration policy of the Company, for overseeing the remuneration packages of individual executive directors and senior management, and for providing effective oversight and administration of the share option scheme of the Company. The authority and duties of the Remuneration Committee are set out in writing in its terms of reference which specify, among other things, that it must comprise at least three members, and the majority of whom shall be independent non-executive directors; and the Chairman of the Remuneration Committee must be an independent non-executive director of the Company. The terms of reference are posted on the websites of the Company and the HKEX.

The Company has adopted the model by which determination of the remuneration packages of individual executive directors and senior management is delegated to the Remuneration Committee. The Remuneration Committee is provided with sufficient resources to perform its duties and can seek advice from remuneration consultants or other independent external professional advisers if necessary.

The Remuneration Committee is chaired by an independent non-executive director. Current members of the Remuneration Committee are:

1. Chiang Yun *(Chairlady)*

2. Li Tzar Kai, Richard

3. Prof Wong Yue Chim, Richard

REMUNERATION COMMITTEE – CONTINUED

The majority of the members of the Remuneration Committee are independent non-executive directors.

In the year ended December 31, 2018, one Remuneration Committee meeting was held. The attendance record of individual directors at the committee meeting is set out in the table on page 26.

The following is a summary of the work performed by the Remuneration Committee in 2018:

A. reviewed the remuneration of certain executive directors for 2018 and approved their 2017 incentive bonus and performance incentives in 2018;

B. reviewed the fees and remuneration of the non-executive directors for 2018 and made recommendations to the Board for such to be approved, if thought fit; and

C. reviewed the terms of reference of the Remuneration Committee and concluded that no revision was required.

Details of the remuneration of each director are set out in the consolidated financial statements on pages 100 to 101.

NOMINATION COMMITTEE

The nomination committee of the Board ("Nomination Committee") is responsible for ensuring that a set of fair and transparent procedures is in place for the appointment and re-appointment of directors to the Board. The authority and duties of the Nomination Committee are set out in writing in its terms of reference which specify, among other things, that it must comprise at least three members, the majority of whom shall be independent non-executive directors and the Chairman of the Nomination Committee can be either the Chairman of the Board or an independent non-executive director of the Company. The terms of reference are posted on the websites of the Company and the HKEX.

The Company has formal procedures for the appointment of a new director to the Board, and the appointment process is fair and transparent. The Nomination Committee reviews the structure, size, composition and the balance of skills, knowledge, experience and diversity of perspectives of the Board, identifies suitably qualified candidates to become Board members and makes recommendations to the Board on the selection of candidates nominated for directorships and on succession planning for directors. During the process, the Nomination Committee makes the selection of candidate based on merits and with due regard to the benefits of diversity he/she can bring to the Board.

The Board adopted a board diversity policy ("Board Diversity Policy") on February 25, 2013 with the primary objective of enhancing the effectiveness of the Board and the corporate governance standard of the Group. The Company recognises the importance of having a diverse team of board members, which is an essential element in maintaining a competitive advantage. The Nomination Committee has been delegated the authority to review and assess the diversity of the Board by way of considering all aspects of diversity including but not limited to, age, cultural and educational background, gender and ethnicity, and professional experience, skills and knowledge with an objective of maintaining an appropriate mix and balance of skills, knowledge, experience and diversity of perspectives on the Board.

NOMINATION COMMITTEE – CONTINUED

The Nomination Committee will review and access the Board Diversity Policy at least annually and make recommendation to the Board regarding appointment and re-appointment of directors. The Nomination Committee will give consideration to the Board Diversity Policy when identifying and selecting suitably qualified candidates. Selection of candidates will be based on a range of diversity perspectives, as well as professional experience, skills and knowledge, and how the candidate would contribute to the diversity of the Board. The diverse culture helps promote critical thinking and foster constructive debate, thereby enabling the Board in attaining its strategic objectives and achieving sustainable and balanced development for the Group.

The Board adopted a nomination policy on November 13, 2018 which sets out the procedures and criteria to be used by the Nomination Committee for the selection, appointment and re-appointment of directors of the Board.

In assessing the suitability of proposed candidate, the Nomination Committees has considered key factors which include but not limit to accomplishment, expertise, experience and diversity that the candidate can bring to the Board in all its aspects and the candidate's commitment in respect of available time and relevant interest. The Nomination Committee shall make recommendations for the Board's consideration and approval in respect of candidates to stand for election at a general meeting or for filling a casual vacancy. The Board has the ultimate responsibility for selection and appointment of directors as permitted in the Company's Bye-laws and shall have the final decision on all matters relating to its recommendation of candidates to stand for election at any general meeting.

The Nomination Committee is chaired by an independent non-executive director. Current members of the Nomination Committee are:

1. Dr Vince Feng *(Chairman)*

2. Li Tzar Kai, Richard

3. Prof Wong Yue Chim, Richard

4. Dr Allan Zeman

5. Chiang Yun

The majority of the members of the Nomination Committee are independent non-executive directors.

NOMINATION COMMITTEE – CONTINUED

The Nomination Committee is provided with sufficient resources to perform its duties and can seek advice from independent external professional advisers if necessary. In the year ended December 31, 2018, two Nomination Committee meetings were held. The attendance record of individual directors at the committee meetings is set out in the table on page 26.

The following is a summary of the work performed by the Nomination Committee in 2018:

A. reviewed and assessed the independence of all independent non-executive directors and advised the Board as to which of the directors were due to retire pursuant to the applicable laws of Bermuda, the Bye-laws of the Company and the CG Code and recommended the list of retiring directors for re-election at the 2018 annual general meeting;

B. annual review of the structure, size and composition (including the skills, knowledge and experience) of the Board based on the Board Diversity Policy according to the Listing Rules; and with a recommendation to the Board for approval;

C. recommended to the Board for approval of the re-designation of Dr Allan Zeman as a non-executive director of the Company;

D. recommended to the Board for approval of the appointments of Dr Vince Feng as an independent non-executive director of the Company and Ms Hui Hon Hing, Susanna as an executive director of the Company after consideration of a range of diversity perspectives;

E. recommended to the Board on the changes in composition of the Board committees; and

F. reviewed the terms of reference of the Nomination Committee which was subsequently revised and approved by the Board on November 13, 2018.

At its meeting on February 21, 2019, the Nomination Committee reviewed the structure, size and composition and the balance of skills, knowledge, experience and diversity of perspectives of the Board and formed the view that the Board has a balance of skills, knowledge, experience and diversity of perspectives which was appropriate for the business of the Company for the year ended December 31, 2018, and had made recommendation to the Board for approval of the same. In performing its duties, the Nomination Committee can seek advice from outside legal counsels or other independent professionals at the Company's expenses if necessary.

AUDIT COMMITTEE

The audit committee of the Board ("Audit Committee") is responsible for ensuring (i) the objectivity and credibility of the Group's financial reporting; (ii) that the directors have exercised due care, diligence and skills prescribed by law when presenting results to the shareholders; (iii) that effective systems of risk management and internal controls are in place; (iv) that good corporate governance standards and practices are maintained by the Group; and (v) the Company's general compliance with regulatory obligations. The authority and duties of the Audit Committee are set out in writing in its terms of reference which are posted on the websites of the Company and the HKEX.

The major duties of the Audit Committee include (i) making recommendation of appointment, re-appointment and removal of the external auditor, compensation and supervision of the external auditor and to ensure the independence of the external auditor by reviewing the fees for audit and non-audit services provided to the Group by the external auditor in accordance with its adopted procedures; and (ii) maintaining of good corporate governance standards and practices and the whistleblower policy of the Group.

In addition, the Audit Committee will (i) evaluate the adequacy and review the effectiveness of the Company's disclosure controls and processes for financial reporting; (ii) review the design, implementation and monitoring of the Group's risk management and internal control systems on an ongoing basis; (iii) consider the changes in the nature and extent of significant risks, and the Company's ability to respond to changes in its business and the external environment; (iv) consider the scope and quality of management's ongoing monitoring of risks and of the internal control systems; and (v) consider significant control failings or weaknesses that have been identified during the period.

The Audit Committee also reviews the Group's financial statements and internal financial reports.

Current members of the Audit Committee are:

1. Prof Wong Yue Chim, Richard *(Chairman)*

2. Chiang Yun

3. Dr Vince Feng

All members of the Audit Committee are independent non-executive directors.

The Audit Committee is provided with sufficient resources to discharge its duties and meets regularly with management, internal auditor and external auditor and reviews their reports. In the year ended December 31, 2018, two Audit Committee meetings were held. The attendance record of individual directors at the committee meetings is set out in the table on page 26.

AUDIT COMMITTEE – CONTINUED

The following is a summary of the work performed by the Audit Committee in 2018:

A. reviewed the financial statements of the Company for the year ended December 31, 2017 and the related annual results announcement and made recommendations to the Board that the same be approved;

B. reviewed the report of the external auditor and made recommendations to the Board for their re-appointment at the 2018 annual general meeting;

C. reviewed the financial statements of the Company for the six months ended June 30, 2018 and the related interim results announcement and made recommendations to the Board that the same be approved;

D. reviewed external auditor's reports to the Audit Committee for the year ended December 31, 2017 and the six months ended June 30, 2018 and their terms of engagement, communications plan and audit plan for the Group for the financial year ended December 31, 2018;

E. reviewed various internal audit reports;

F. reviewed risk management report and effectiveness of risk management and internal control systems;

G. reviewed the results of the directors' self- evaluation and the Board's self-assessment questionnaire to evaluate the performance of the Board;

H. reviewed and updated the terms of reference of the Audit Committee;

I. reviewed the corporate governance report of the Company for the year ended December 31, 2017;

J. reviewed the fees for audit and non-audit services provided by the external auditor;

K. reviewed the Group's continuing connected transactions and external auditor's report thereon; and

L. met with the external auditor in the absence of management.

Subsequent to the year end, the Audit Committee reviewed the consolidated financial statements for the year ended December 31, 2018 and the related annual results announcement and auditor's report and the corporate governance report, and made recommendations to the Board that the same be approved.

SUSTAINABILITY COMMITTEE

The sustainability committee of the Board ("Sustainability Committee") reports to the senior officers of the Company, including the Chief Executive Officer, the Project Director and the Chief Financial Officer, and the Board. It comprises all department heads or representatives of the Company and head of the Risk Management and Compliance department of the Company's parent company, PCCW Limited.

The Sustainability Committee ensures that the Company operates in a manner that enhances its positive contribution to society and the environment. It is also responsible for reviewing the Company's sustainability strategy, principles and policies; setting guidance, direction and overseeing practices and procedures; and monitoring progress on the Company's sustainability and related activities.

EXTERNAL AUDITOR

The external auditor of the Group is PricewaterhouseCoopers. During the year ended December 31, 2018, the total fees in respect of audit and non-audit services provided by PricewaterhouseCoopers (which for this purpose included any entity that is under the common control, ownership or management of the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as being part of the firm, either nationally or internationally) amounted to approximately HK$4.5 million.

The significant non-audit services covered by these fees included the following:

Nature of service	Fees paid (HK$ million)
Non-statutory review services	0.8

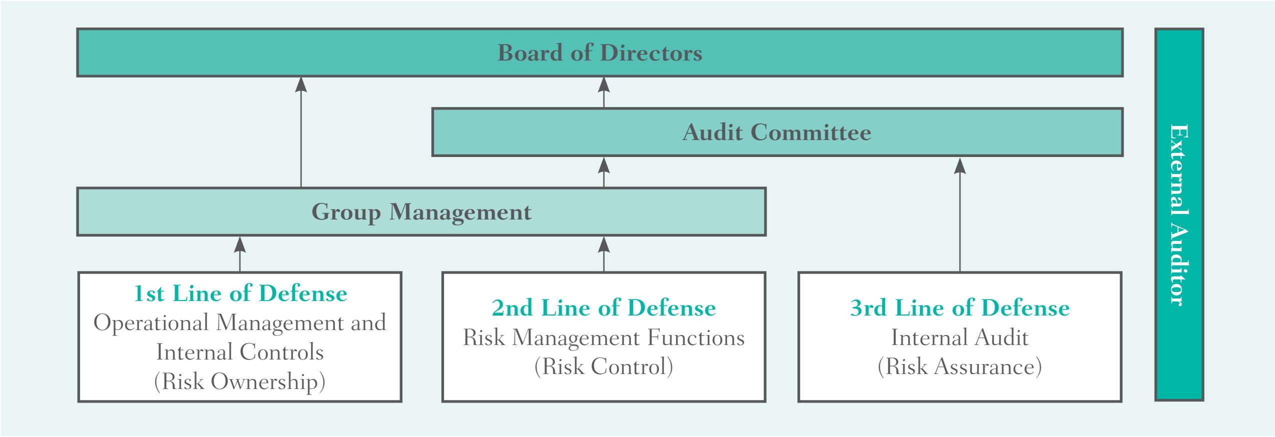
RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for overseeing the risk management and internal control systems of the Group and reviewing their effectiveness at least annually through the Audit Committee. The Audit Committee assists the Board in fulfilling its oversight and corporate governance roles in the Group's financial, operational, compliance, risk management and internal controls, and the resourcing of the finance and internal audit functions.

The Group has established an organizational structure with defined levels of responsibility and reporting procedures. The Risk Management and Compliance department and Group Internal Audit assist the Board and/or the Audit Committee in the review of the effectiveness of the Group's risk management and internal control systems on an ongoing basis. The directors through the Audit Committee are kept regularly apprised of significant risks that may impact on the Group's performance.

Appropriate policies and controls have been designed and established to ensure that assets are safeguarded against improper use or disposal, relevant rules and regulations are adhered to and complied with, reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements, and key risks that may impact on the Group's performance are appropriately identified and managed. The systems and internal controls can only provide reasonable and not absolute assurance against material misstatement or loss, as they are designed to manage, rather than eliminate the risk of failure to achieve business objectives.

The Group's risk management framework is guided by the "Three Lines of Defense" model as shown below:



The Risk Management and Compliance department, which co-ordinates enterprise risk management activities and reviews significant aspects of risk management for the Group, reports to the Audit Committee at each regularly scheduled meeting including amongst other things, significant risks of the Group and the appropriate mitigation and/or transfer of identified risks. The operating units of the Group, as risk owners, identify, evaluate, mitigate and monitor their own risks, and report such risk management activities to Risk Management and Compliance department on a half-yearly basis.

RISK MANAGEMENT AND INTERNAL CONTROLS – CONTINUED

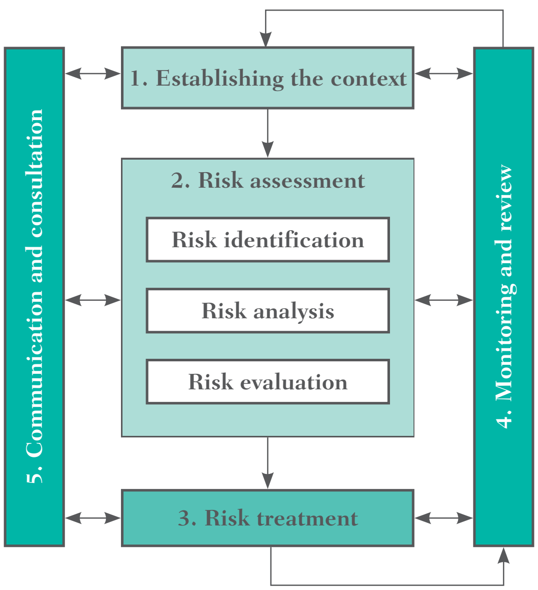
Group Internal Audit reports to the Audit Committee at each regularly scheduled meeting throughout the year the results of their activities during the preceding period pertaining to the adequacy and effectiveness of internal controls, including but not limited to, any indications of failings or material weaknesses in those controls.

Group Internal Audit adopts a risk-and-control-based audit approach. The annual work plan of Group Internal Audit covers major activities and processes of the Group's operations, businesses and service units. Special reviews are also performed at management's request. The results of these audit activities are communicated to the Audit Committee. Audit issues are tracked, followed up for proper implementation, and their progress are reported to the Audit Committee periodically.

Group Internal Audit provides independent assurance to the Board, the Audit Committee and the executive management of the Group on the adequacy and effectiveness of internal controls for the Group. The Head of Group Internal Audit reports directly to the Chairman of the Audit Committee, the Chief Executive Officer and the Chief Financial Officer of the Group.

The senior management of the Group, supported by the Risk Management and Compliance department and Group Internal Audit, is responsible for the design, implementation and monitoring of the risk management and internal control systems, and for providing regular reports to the Board and/or the Audit Committee on the effectiveness of these systems.

The Group adopts the principles of ISO 31000:2009 Risk Management – Principles and Guidelines as its approach to manage its business and operational risks. The following diagram illustrates the key processes used to identify, evaluate and manage the Group's significant risks:



1	Risk Management and Compliance department establishes common risk language and risk assessment criteria for the Group.
2	Business Units identify the risks which may potentially impact the achievement of their business objectives, and analyze and evaluate the significance of such risks.
3	Business Units assess the adequacy of existing controls, determine and implement treatment plans where risk mitigants are actionable.
4, 5	Business Units monitor risk mitigating activities. Risk Management and Compliance department tracks the progress of risk mitigating activities; reports the consolidated view of risks regularly to Audit Committee and other committees as appropriate; and share risk knowledge across Business Units to enhance the risk management standard of the Group. Group Internal Audit reports regularly to the Board to provide independent assurance on the effectiveness of risk management function.

RISK MANAGEMENT AND INTERNAL CONTROLS – CONTINUED

The Group has adopted policies and procedures for assessing and, where prudent, improving the effectiveness of its risk management and internal control systems, including requiring the executive management of the Group to regularly assess and at least annually to personally certify that such matters are appropriate and functioning effectively in the belief that this will enhance the corporate governance of the Group and its business practices in the future.

The Group has embedded its risk management systems into the core operating practices of the business. On an ongoing basis, the respective operating units of the Company will review and assess the status of potential risks which may impact on their ability to achieve their business objectives and/or those of the Company. This review process includes assessment as to whether the existing system of internal controls continues to remain relevant, adequately addresses potential risks, and/or should be supplemented. The results of these reviews are recorded in the operating units risk registers for monitoring and incorporated into the Group's consolidated risk register for analysis of potential strategic implications and for regular reporting to the senior management and directors of the Company.

The Audit Committee has established and oversees a whistleblower policy and a set of comprehensive procedures whereby employees, customers, suppliers and other concerned parties can report any actual or suspected occurrence of improper conduct involving the Company, and for such matters to be investigated and dealt with efficiently in an appropriate and transparent manner. The Chairman of the Audit Committee has designated the Head of Group Internal Audit to receive on his behalf any such reports, to oversee the conduct of subsequent investigations, and to provide information, including recommendations arising from any investigations to them for consideration by the Audit Committee.

The Group regulates the handling and dissemination of inside information as set out in the Corporate Responsibility Policy and various subsidiary procedures to ensure inside information remains confidential until the disclosure of such information is appropriately approved, and the dissemination of such information is efficiently and consistently made.

During 2018, the Risk Management and Compliance department has worked closely with the operating units, senior management, and the directors to enhance the risk management systems. Such activities have included, amongst other matters, increasing the number of training sessions and risk workshops; further standardization of risk reporting language, classification, and quantification; more closely aligning the assessment of internal controls with their potential risks; and increasing the depth and frequency of interaction with the designated directors on the Company's risk management system's design, operation, and findings. The Risk Management and Compliance department has presented update reports to the Board and the Audit Committee on the monitoring of the risk management and assisted the directors in the review of the effectiveness of the risk management and internal control systems of the Group during the year.

The Company has implemented processes to undertake extensive detailed testing of its internal controls, as well as annual certification as to these matters by the management of the Company to support its assessment of the effectiveness of its risk management and internal control systems.

During 2018, Group Internal Audit conducted selective reviews of the effectiveness of the systems of risk management and internal controls of the Group over financial, operational and compliance controls with emphasis on information technology and security, data privacy and protection, business continuity management and procurement. Additionally, the heads of major business and corporate functions of the Group were required to undertake control self-assessments of their key controls. These results were assessed by Group Internal Audit and reported to the Audit Committee, which then reviewed and reported the same to the Board. The Audit Committee and the Board were not aware of any areas of concern that would have a material impact on the financial position or results of operations of the Group and considered the risk management and internal control systems to be generally effective and adequate including the adequacy of resources, staff qualifications and experience, training programs and budget of the accounting, internal audit and financial reporting functions.

In addition to the review of risk management and internal controls undertaken within the Group, the external auditor also assessed the adequacy and effectiveness of certain key risk management and internal controls as part of their statutory audits. Where appropriate, the external auditor's recommendations are adopted and enhancements to the risk management and internal controls will be made.

ATTENDANCE AT MEETINGS

All directors actively participate in the Company's business. The attendance records of all directors for the Board meetings, meetings of the Board committees and annual general meeting during the year ended December 31, 2018 are set out below:

	Meetings attended/held in 2018				
Directors	**Board Meeting**	**Audit Committee Meeting**	**Nomination Committee Meeting**	**Remuneration Committee Meeting**	**Annual General Meeting**
Executive directors					
Li Tzar Kai, Richard *(Chairman of the Board)*	3/4	N/A	1/2	1/1	0/1
Lee Chi Hong, Robert *(Deputy Chairman and Chief Executive Officer)*	4/4	N/A	N/A	N/A	1/1
James Chan	4/4	N/A	N/A	N/A	1/1
Hui Hon Hing, Susanna *(Note 1)*	2/2	N/A	N/A	N/A	N/A
Non-executive director					
Dr Allan Zeman *(Note 2)*	4/4	1/1	2/2	N/A	0/1
Independent non-executive directors					
Prof Wong Yue Chim, Richard	3/4	2/2	2/2	1/1	1/1
Chiang Yun	4/4	2/2	2/2	1/1	1/1
Dr Vince Feng *(Note 3)*	2/3	1/1	1/1	N/A	0/1

Notes:

1. Appointed as an executive director of the Company with effect from the conclusion of the annual general meeting held on May 9, 2018.

2. Re-designated from an independent non-executive director to a non-executive director of the Company, re-designated from Chairman to a member of the Nomination Committee and ceased to be a member of the Audit Committee with effect from March 16, 2018.

3. Appointed as an independent non-executive director of the Company, Chairman of the Nomination Committee and a member of the Audit Committee with effect from March 16, 2018.

TRAINING AND SUPPORT FOR DIRECTORS

Every newly appointed director of the Company will meet with fellow directors and senior management to ensure he/she has an understanding of the Company's operations and business, and will receive a tailored induction handbook containing the Company's governance structure, key policies and an overview of director's responsibilities, as well as a briefing by qualified professional on the general and specific duties of director under legal and regulatory requirements.

Directors' training is an ongoing process. During the year, all directors received regular updates and presentations on the developments of the Group's business and important amendments to the Listing Rules and other applicable regulatory requirements. These updates aim at enhancing directors' knowledge and skills; and assisting them to comply with good corporate governance practices. In 2018, the Directors as at December 31, 2018 have participated in various training and continuous professional development activities and the summary of which is as follows:

	Types of training
Executive directors	
Li Tzar Kai, Richard *(Chairman of the Board)*	A, B
Lee Chi Hong, Robert *(Deputy Chairman and Chief Executive Officer)*	B
James Chan	A, B
Hui Hon Hing, Susanna	A, B
Non-executive director	
Dr Allan Zeman	A, B
Independent non-executive directors	
Prof Wong Yue Chim, Richard	A, B
Chiang Yun	B
Dr Vince Feng	A, B

A: attending relevant seminars and/or conferences and/or forums; or delivering speeches at relevant seminars and/or conferences and/or forums

B: reading or writing relevant newspapers, journals and articles relating to general economy, general business, corporate governance or directors' duties

COMPANY SECRETARY

On August 10, 2018, Mr Tsang Sai Chung has resigned and Mr Timothy Tsang has been appointed as the company secretary of the Company. During the year ended December 31, 2018, Mr Timothy Tsang has received no less than 15 hours of relevant professional training to refresh his skills and knowledge.

All directors have access to the advice and services of the company secretary, who is responsible for ensuring that the board procedures are followed, for advising the Board on all corporate governance matters, and for arranging induction programs including briefings on the general and specific duties of directors under legal and regulatory requirements for newly appointed directors. The company secretary facilitates the induction and professional development of directors.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company is committed to promoting and maintaining effective communication with the shareholders and other stakeholders. A Shareholders Communication Policy has been adopted for ensuring the Company provides the shareholders and the investment community with appropriate and timely information about the Company in order to enable the shareholders to exercise their rights in an informed manner, and to allow the investment community to engage actively with the Company. The Shareholders Communication Policy is available on the Company's website (www.pcpd.com).

The Company encourages two-way communication with both institutional and private investors. Information on the activities of the Company is provided in the interim reports and annual reports as well as on the websites of the Company and the HKEX. There are regular dialogues between institutional investors and the Company. Enquiries from individuals on matters relating to their shareholdings and the business of the Company are welcomed and they are dealt with in an informative and timely manner. Relevant contact information is provided on page 156 of this annual report.

CONSTITUTIONAL DOCUMENTS

During the year ended December 31, 2018, there were no changes to the constitutional documents of the Company. An up to date set of Bye-laws of the Company is available on the websites of the Company and HKEX.

SHAREHOLDERS' RIGHTS

1. *Procedures by which shareholders can convene a special general meeting*

Pursuant to the Bye-laws of the Company, the Board shall, on the requisition in writing of the shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company, proceed to call a special general meeting for the transaction of any business specified in such requisition ("Requisition"). The Requisition must state the purposes of the general meeting, be signed by the shareholder(s) concerned and may consist of several documents in like form, each signed by one or more of those shareholders. A special general meeting must be held within two months after deposit of the Requisition.

If within twenty-one days of such deposit the Board fails to proceed to convene such special general meeting, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves do so in accordance with the provisions of Section 74(3) of the Companies Act 1981 of Bermuda ("Act").

2. *Procedures by which enquiries may be put to the Board*

Shareholders may, at any time, direct enquiries to the Board. Such enquiries can be addressed to the company secretary in writing by mail to the Company's principal place of business in Hong Kong at 8th Floor, Cyberport 2, 100 Cyberport Road, Hong Kong ("Hong Kong Principal Office").

SHAREHOLDERS' RIGHTS – CONTINUED

3. *Procedures for putting forward proposals at general meetings*

To put forward a proposal at a shareholders' meeting, shareholders are requested to follow the requirements and procedures as set out in the Bye-laws of the Company and the Act.

Pursuant to the Act, (i) shareholder(s) of the Company holding not less than one-twentieth of the total voting rights of all the shareholders having the right to vote at the general meeting; or (ii) not less than 100 shareholders, can submit a written request stating the resolution intended to be moved at the annual general meeting; or a statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at a particular general meeting.

The written request/statements must be signed by the shareholder(s) concerned and deposited at the Company's registered office in Bermuda at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda ("Registered Office") and its Hong Kong Principal Office, for the attention of the company secretary, not less than six weeks before the annual general meeting in the case of a requisition requiring notice of a resolution and not less than one week before the general meeting in the case of any other requisition.

If the written request is in order, the company secretary will take necessary actions pursuant to the Act.

4. *Procedures for shareholders to propose a person for election as a Director*

Pursuant to the Bye-laws of the Company, if a shareholder, who is duly qualified to attend and vote at the general meeting convened to deal with appointment or election of director(s), wishes to propose a person (other than a retiring director and the shareholder himself/herself) for election as a director at that general meeting, such shareholder can deposit a notice in writing of the intention to propose that person for election as a director and a notice in writing by that person of his willingness to be elected at the Company's Registered Office or the Hong Kong Principal Office at least seven days before the date of the general meeting. The period for lodging such notice will commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and no later than seven days prior to the date of such meeting.

If a shareholder wishes to nominate a person to stand for election as a director, the following documents must be validly served on the company secretary, namely (i) notice of intention to propose a resolution to elect a person as a director ("Nominated Candidate") at the general meeting; (ii) notice in writing executed by the Nominated Candidate of his/her willingness to be elected; and (iii) the information as required to be disclosed under Rule 13.51(2) of the Listing Rules and such other information as required by the Listing Rules and the Bye-laws of the Company from time to time.

On behalf of the Board

Timothy TSANG
Company Secretary

Hong Kong, February 21, 2019

FINANCIAL INFORMATION

REPORT OF THE DIRECTORS

The board of directors of Pacific Century Premium Developments Limited ("Company") ("Board") presented its annual report together with the audited consolidated financial statements of the Company and its subsidiaries ("Group") for the year ended December 31, 2018.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the development and management of premium-grade property and infrastructure projects as well as premium-grade property investments.

Details of segment information are set out in note 5 to the consolidated financial statements.

BUSINESS REVIEW

A review of the businesses of the Group during the year, a discussion on the Group's future business development and an analysis of the Group's performance during the year using financial key performance indicators are provided in the Statement from the Chairman on page 3, the Statement from the Chief Executive Officer on page 4 and the Management's Discussion and Analysis on pages 6 to 9 of this annual report and notes 37 and 38 to the consolidated financial statements.

Description of the principal risks and uncertainties that the Group faces and the Group's environmental policies and performance, relationships with its key stakeholders and compliance with laws and regulations which have a significant impact on the Group are set out below.

Principal Risks and Uncertainties

The directors are aware that the Group is exposed to various risks, including some which are specific to the Group or the property development industries in which the Group operates as well as other risks that are common to most if not all other businesses. The Group has been following the risk management policy of its parent company, PCCW Limited ("PCCW"), to ensure that significant risks which may adversely affect the Group's performance and ability to deliver on its strategies, as well as those which may present positive opportunities, are identified, reported, monitored and managed on a continuous basis.

The following list out the key risks and uncertainties facing the Group. It is a non-exhaustive list and there may be other risks and uncertainties further to the key risk areas outlined below. Besides, this annual report does not constitute a recommendation or an advice for anyone to invest in the securities of the Company and investors are advised to make their own judgement or consult their own investment advisors before making any investment in the securities of the Company.

BUSINESS REVIEW – CONTINUED

Principal Risks and Uncertainties – Continued

Market Risk

The Group's revenue is derived from operations in Indonesia, Japan and Hong Kong. As a result, the general state of the monetary policies including taxation in Indonesia, Japan and Hong Kong, and the changes in: (1) the economy, legislative, regulatory and government policies and regional political conditions in these areas; (2) the office rental market in Jakarta, Indonesia; and (3) the tourist market and climate change for the skiing activities in Hokkaido, Japan, could significantly impact the Group's operating results and financial conditions.

People Risk

The Group's success and ability to grow depends largely on its ability to attract, train, retain and motivate highly skilled and qualified managerial, sales, marketing, administrative, operating and technical personnel. The loss of key personnel, or the inability to find qualified personnel for replacement, could materially and adversely affect the Group's prospects and results of operations.

Regulatory and Operational Compliance Risk

The Group operates in markets and industries which require compliance with numerous licenses, local laws and regulations, which relate to aspects including but not limited to competition, anti-trust, personal data security, property management and construction. In addition, the Group also operates in countries where the Group is required to adhere to various requirements according to the local authorities and central banks' regulations.

Geopolitical Risk

The Group may also be exposed to the risks of foreign policy changes, foreign currency fluctuations, territorial disputes, interest rate changes, demand-supply imbalance, terrorism, the overall economic conditions, the availability of credit and the cost of borrowing, which may pose an adverse impact on the Group's businesses.

The Group maintains good banking relationship to ensure sufficient credit is available to meet its new projects and operating requirements.

For details of the Group's financial management policies and strategies in managing its exposure to adverse fluctuations in foreign currency exchange rates and interest rates, please refer to note 37 to the consolidated financial statements.

BUSINESS REVIEW – CONTINUED

Principal Risks and Uncertainties – Continued

Construction Risk

The time and costs involved in completing construction can be adversely affected by many factors, including shortage of materials, equipment and labour, adverse weather conditions, natural disasters, labour disputes with contractors and subcontractors, accidents, changes in government priorities, and other unforeseen problems or circumstances. The occurrence of any of these factors could give rise to delays in the completion of a project, which may result in cost overruns and potential disputes and claims from service recipients. This may also result in the profit on development for a particular property not being recognised in the year in which it was originally anticipated to be recognised.

Environmental Policies and Performance

The Group has established its Sustainability Committee and adopted its own Sustainability Policy which includes its environmental policy:

– Strive to achieve green building certification for all our new developments;
– Identify significant environmental impacts associated with our activities, adopt measures to manage and minimise the environmental impacts during design, construction and operation of all our properties;
– Reduce energy consumption and enhance energy efficiency in our properties;
– Minimise waste generated by our operations, and ensure that waste is reused or recycled as much as possible, with the disposal of any remaining waste occurring in a responsible manner;
– Ensure that we operate in a way that exceeds the standard imposed by legal requirements, and integrate industry environmental best practices; and
– Monitor and measure our progress and set targets to continually improve our environmental performance.

For its property development projects, the Group aims to develop green buildings by meeting internationally-recognised standards in environmental protection and sustainable development through the adoption of energy-efficient building designs, efficient use of materials in construction and environmental management plan during site operation. Further to the recognition of special contribution in sustainable development by winning the award in Indonesia Property Awards 2016, PCP, Jakarta, the Group's major office building project in Jakarta has been finally certified by U.S. Green Building Council ("USGBC") with LEED Platinum rating. It is the first ever building in Indonesia with such highest rating certified by the USGBC.

BUSINESS REVIEW – CONTINUED

Environmental Policies and Performance – Continued

Our Environment

The Group's property management division, Island South Property Management Limited ("ISPML"), in Hong Kong has been accredited the ISO 14001 since 2005. With the aim of keeping it current and relevant for the marketplace, a migration of the latest edition of ISO 14001 was completed successfully. This revised environmental management system efficiently responds to latest trends and ensures its compatibility with other management system standards under Integrated Management System. To promote environmental awareness with the managed properties, "Recycle and Get Rewarded!" campaign was launched to encourage occupants to recycle and reduce waste wisely.

ISPML was awarded Excellent Grade in Management aspect of BEAM Plus Existing Buildings V2.0 Selective Scheme by Hong Kong Green Building Council and is honour to be the recipient of The Best Landscape Award (Gold and Environmental Efficiency) by Leisure and Cultural Services Department, and certified as Hong Kong Green Organisation by Environmental Campaign Committee during the reporting year. The effectiveness is also sustained by the accreditations of: Water Supplies Department's Quality Water Supply Scheme For Buildings – Fresh Water (Management System) (Gold), Flushing Water complies with the standard of the Quality Water Supply Scheme For Buildings – Flush Water, Environmental Protection Department's Indoor Air Quality Award in recognition of 10 years commitment to the IAQ Certification Scheme, and Environmental Protection Department's Indoor Air Quality Certificate (Excellent Class).

Apart from the recognitions for its efforts in promoting sustainable community, throughout the past years it has put in place many green initiatives in areas of waste recycling, and reduction in emission and waste by signing of environmental protection charters such as Energy Saving Charter on "No ILB" by Electrical and Mechanical Services Department and Environmental Bureau, Food Wise Charter by Food Wise Hong Kong, and Food Wise Eateries by Environmental Protection Department.

Relationships with Key Stakeholders

The Group is committed to operating in a sustainable manner while balancing the interest of various stakeholders including our employees, customers, suppliers, business partners and the community.

Relationships with employees

The Group considers its employees the key to sustainable business growth and is committed to providing all employees with a safe and harassment-free work environment with equal opportunities in relation to employment, reward management, training and career development. Workplace safety is a priority of the Group. The Group is keen in ensuring health and safety measures are followed while in the performance of duties by our employees in order to reduce total time lost to work injuries. The Group has in place a fair and effective performance appraisal system and incentive bonus schemes designed to motivate and reward employees at all levels to deliver their best performance and achieve business performance targets. For continuous development, the Group offers job-related trainings and provides sponsorship/subsidies to employees who are committed to personal development and learning.

The Group's property management division in Hong Kong received three awards from 2017/18 Family-Friendly Employers Award Scheme organised by Family Council, which include (1) Meritorious Family-Friendly Employers 2017/18, (2) Special Mention (Gold) 2017/18, and (3) Awards for Breastfeeding Support 2017/18. This achievement underlines our commitment to family-friendly employment policies and practices, also devotion in creating a better working environment.

BUSINESS REVIEW – CONTINUED

Relationships with Key Stakeholders – Continued

Relationships with customers

Save as disclosed in the Management's Discussion and Analysis, one of the major sources of revenue for the Group is ownership and operation of a ski and golf resort, property management and holiday letting business in Niseko, Hokkaido of Japan. The Group offers a complete all-season holiday solution for discerning guests, offering a complete suite of resort services including ski-lifting, snow-sports and guiding schools, specialty retail, equipment rental, restaurant operations, golf and white water rafting activities. Renowned for its consistent deep powder snow, Niseko has become a magnet for international ski tourists from across the globe. Tourism to the Niseko area continues to increase significantly, particularly in winter, with international visitors accounting for some 70% – 80% of total winter visitation. Embracing the mix of different cultures and languages, the business division works closely and collaboratively with government agencies at all levels and continues to maintain important strategic working relationships with all local companies. The Group aims to offer a safe, diverse, interesting and culturally sensitive experience for all levels of customers, no matter families, children, elders or sports enthusiasts. The Group is committed to providing Niseko's finest holiday experience, delivering quality service that sets a new benchmark in Japan.

For the property management and facilities management services in Hong Kong, the property management division has developed various channels to communicate with residents in order to build a better customer experience from Bel-Air hotline, mobile apps, electronic mail to website (www.bel-air-hk.com). Residents are also encouraged to visit the concierge counters at different tower lobbies, service centres or club houses to express their valuable opinions and suggestions.

To enhance its service quality, customer satisfaction survey is conducted every year so as to help ISPML understand residents' views on its services and to ensure that could meet the residents' expectations. Regular meetings with Owner's Committee and sub-committee members are held to discuss the estate issues and the ways that the property management division can further improve its service standard. Residents' opinions and suggestions are considered as valuable assets. As such, the property management division would study the feasibility of each suggestion made by the aforesaid committees. All residents' feedbacks would be responded in a timely manner.

The Group owns and operates PCP, Jakarta, a premium Grade A office building located in the heart of the financial hub of Sudirman Central Business District (SCBD) Jakarta. The building is tenanted by worldwide multinational companies. PCP, Jakarta, is the first office building in Indonesia to achieve LEED Platinum Grade certification awarded by the USGBC. The building provides a comfortable, smoke free, energy efficient working environment to all tenants. The building has a clear headroom height of 3.05 meters, floor loading capacity of 5 kPa, and is built with steel and reinforced concrete to achieve seismic standard 25% over the existing government requirement. This enables PCP, Jakarta to be one of the most sought after office buildings in Jakarta. PCP, Jakarta is built with a vision to provide tenants with work/health balance in mind. The building is the first to have a state-of-the-art gym with an outdoor pool and trainers are internationally certified. A food pavilion and fully equipped function rooms are some of the facilities for tenants to enjoy.

The building's Tenant Relations Officers provide services such as greeting of tenants and making courtesy calls to tenants on regular basis to review service standards. Feedback forms are placed at the concierge desk in the main lobby to encourage tenants to provide feedback for improvement on services. All feedbacks are addressed promptly and attended to within the day. The Tenant Relations Officers also regularly conduct checks of public forum on reviews of PCP, Jakarta and to thank the contributors for their feedback, comments and suggestions. The Tenant Relations Officers aim to provide excellent service by anticipating tenants' needs and enquiries.

BUSINESS REVIEW – CONTINUED

Relationships with Key Stakeholders – Continued

Relationships with suppliers and contractors

The Group is committed to delivering prestigious high quality sustainable development projects. It is imperative that suppliers and contractors share the same vision and mission. The Group adopts a partnership approach to solicit the commitments of the stakeholders to create the all-win situation. A procedure has also been established to ensure that procurement process is fair and transparent. Procedures are also put in place to monitor and audit the deliverables from suppliers and contractors and there are adequate channels to provide feedback to them.

Relationships with community

As a responsible corporate citizen, PCPD has been sponsoring and co-organising charitable events in Hong Kong. The Group participated in the Healthbank Cookie Campaign by Helping Hand and A Day with Food Angel. The Group is awarded the Caring Company Logo in 2018/19.

Being a long-term partner of the Hong Kong Society for Rehabilitation, PCPD stepped up its effort in 2018. The Group not only supported the organization in terms of sponsorship, but also actively participated in volunteer services.

The Group has participated the "Business-School Partnership Programme" organized by Hong Kong General Chamber of Commerce for the second consecutive year. Students from partner school Pui Tak Canossian College ("Pui Tak") were invited to join a career talk to learn about the career path and job opportunities in the property management industry and that was followed by a guided tour to club Bel-Air. Students were also invited to co-organise the Group's Christmas Party 2018 held on December 17, 2018.

For details of the above programs, please refer to the "Community" section of the Sustainability Report.

PCPD has voluntarily disclosed its carbon footprint data for inclusion into the Environmental Protection Department's Carbon Footprint Repository since 2017.

ISPML, the property management division has been awarded the Caring Company Logo for 11 consecutive years in recognition of its efforts to promote building a cohesive society through strategic partnership with non-profitable organisations and social enterprises. During the reporting period, its volunteer team participated and co-organised a number of community service events such as Christmas Trees and Peach Blossom Trees Recycling by Environmental Protection Department, Mooncake Donation Program by the Salvation Army, Hong Kong and Macau Command, Christmas Toys Recycling for Toy Bank of YMCA and Christmas Volunteer Visit at New Life Psychiatric Rehabilitation Association etc. Additionally, ISPML is a recipient of three awards under 2017/18 Family-Friendly Employers Award Scheme in recognition of its efforts in building a more family-friendly workplace: Meritorious Family-Friendly Employers Award, Special Mention (Gold) Award (a newly added award given to three times' award recipients of this biennial award scheme), and Awards for Breastfeeding Support.

BUSINESS REVIEW – CONTINUED

Compliance with Laws and Regulations

Among the principal activities of the Group is property management in Hong Kong. Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations, in particular, those that have significant impact on the property management industry; any changes in the applicable laws, rules and regulations affecting property management are brought to the attention of relevant employees and relevant operation teams from time to time. The Group is also committed to safeguarding the security of personal data. When collecting and processing such data, the Group complies with the Personal Data (Privacy) Ordinance and the guidelines issued by the Office of the Privacy Commissioner for Personal Data.

In Japan, the Group operates all-season recreational activities for customers and manages the related facility and assets, including operating and maintaining ski lifts, and also engages in property management and property development businesses. The operating vehicles in Japan hold the required licences for the business activities they carry out. The local management team checks to ensure that the subsidiaries in Japan have complied with the applicable local laws and regulations for their principal business activities, such as the Railway Business Act, National Parks Law, Food Hygiene Law, Real Estate Law and Hotel & Ryokan Management Law in Japan.

As for the Group's property investment in Indonesia, the Group complies with the applicable laws and regulations governing property operation, including occupation permit, business license and other applicable permits that are required by the relevant government bodies.

As for the Group's property development in Thailand, the Group complies with all applicable laws and regulations governing property development, including planning and construction, lease and/or sales, and property management, implemented by the relevant government bodies.

Other Corporate and Administrative Requirements

The Group is also subject to various corporate and administrative requirements under other laws and regulations such as the Companies Ordinance (Cap. 622), the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules") and the Employment Ordinance. Through various internal controls and approval procedures that are in place, the Company seeks to ensure the compliance with these requirements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2018 are set out in the accompanying consolidated statement of comprehensive income on page 67.

For the year ended December 31, 2018, the Board did not declare any interim dividend to shareholders nor any interim distribution to bonus convertible noteholders (2017: Nil). The Board did not recommend the payment of a final dividend to shareholders nor a final distribution to bonus convertible noteholders for the year ended December 31, 2018 (2017: Nil).

FINANCIAL SUMMARY

A summary of the consolidated results and the assets and liabilities of the Group for the last five financial years is set out on page 153.

SUBSIDIARIES

Particulars of the principal subsidiaries of the Company are set out in note 20 to the consolidated financial statements.

PRINCIPAL PROPERTIES

Details of the principal properties under development/held for development and held for investment purposes are set out on pages 154 to 155.

BORROWINGS

Particulars of the borrowings of the Group are set out in note 22 to the consolidated financial statements.

SHARES ISSUED

There were no new shares of the Company issued during the year ended December 31, 2018.

Details of shares issued by the Company during the year are set out in note 25 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at December 31, 2018, the Company's reserves available for distribution, calculated under the Companies Act 1981 of Bermuda (as amended), amounted to HK$4,431 million (2017: HK$4,437 million).

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2018, the aggregate sales attributable to the Group's five largest customers represented less than 30 per cent of the Group's total sales.

For the year ended December 31, 2018, the aggregate amount of purchases attributable to the Group's five largest suppliers represented approximately 74.21 per cent of the Group's total purchases, while the purchases attributable to the largest supplier for the Group accounted for approximately 55.34 per cent of the Group's total purchases. As at December 31, 2018, none of the directors of the Company, their close associates nor any shareholder which to the knowledge of the directors own more than 5 per cent of the issued shares of the Company had any beneficial interest in the Group's major suppliers.

DIRECTORS

The directors of the Company who have held office during the year and up to the date of this report are:

Executive Directors

Li Tzar Kai, Richard *(Chairman)*
Lee Chi Hong, Robert *(Deputy Chairman and Chief Executive Officer)*
James Chan
Hui Hon Hing, Susanna *(appointed with effect from the conclusion of the annual general meeting held on May 9, 2018)*

Non-Executive Director

Dr Allan Zeman, GBM, GBS, JP *(re-designated from an independent non-executive director to a non-executive director with effect from March 16, 2018)*

Independent Non-Executive Directors

Prof Wong Yue Chim, Richard, SBS, JP
Chiang Yun
Dr Vince Feng *(appointed with effect from March 16, 2018)*

In accordance with bye-law 86(2) of the Bye-laws of the Company, Ms Hui Hon Hing, Susanna shall retire at the forthcoming annual general meeting and, being eligible, offer herself for re-election.

In accordance with bye-law 87 of the Bye-laws of the Company, Mr Li Tzar Kai, Richard, Mr Lee Chi Hong, Robert and Mr James Chan shall retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of the directors of the Company are set out in the section headed "Board of Directors" on pages 10 to 12.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive directors an annual confirmation of his/her independence and the Company considers that they are independent based on the terms of the independence guidelines as set out in Rule 3.13 of the Listing Rules.

DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has with the Group an unexpired service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, SHARE STAPLED UNITS, UNDERLYING SHARES, UNDERLYING SHARE STAPLED UNITS AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at December 31, 2018, the directors and the chief executives of the Company and their respective close associates had the following interests and short positions in the shares, share stapled units, underlying shares, underlying share stapled units and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules:

1. The Company

As at December 31, 2018, none of the directors or chief executives of the Company or their respective close associates had any interests or short positions in the shares or underlying shares or debentures of the Company as recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code of the Listing Rules.

2. Associated Corporations of the Company

A. Interests in PCCW

The table below sets out the aggregate long positions of the directors and the chief executives of the Company in the shares of PCCW, the ultimate holding company of the Company, as at December 31, 2018:

	Number of ordinary shares held					
Name of director/ chief executive	Personal interests	Family interests	Corporate interests	Other interests	Total	Approximate percentage of the total number of shares of PCCW in issue
Li Tzar Kai, Richard	–	–	307,694,369 *(Note I (a))*	1,928,842,224 *(Note I (b))*	2,236,536,593	28.97%
Lee Chi Hong, Robert	992,600 *(Note II (a))*	511 *(Note II (b))*	–	–	993,111	0.01%
Hui Hon Hing, Susanna	5,397,585	–	–	1,367,629 *(Note III)*	6,765,214	0.09%

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, SHARE STAPLED UNITS, UNDERLYING SHARES, UNDERLYING SHARE STAPLED UNITS AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS – CONTINUED

2. Associated Corporations of the Company – Continued

A. Interests in PCCW – Continued

Notes:

I. (a) Of these shares of PCCW, Pacific Century Diversified Limited ("PCD"), a wholly-owned subsidiary of Chiltonlink Limited ("Chiltonlink"), held 269,471,956 shares and Eisner Investments Limited ("Eisner") held 38,222,413 shares. Li Tzar Kai, Richard owned 100% of the issued share capital of Chiltonlink and Eisner.

(b) These interests represented:

(i) a deemed interest in 175,312,270 shares of PCCW held by Pacific Century Group Holdings Limited ("PCGH"). Li Tzar Kai, Richard was the founder of certain trusts which held 100% interests in PCGH. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 175,312,270 shares of PCCW held by PCGH; and

(ii) a deemed interest in 1,753,529,954 shares of PCCW held by Pacific Century Regional Developments Limited ("PCRD"), a company in which PCGH had, through itself and certain wholly-owned subsidiaries being Anglang Investments Limited, Pacific Century Group (Cayman Islands) Limited, Pacific Century International Limited and Borsington Limited, an aggregate of 88.58% interest. Li Tzar Kai, Richard was the founder of certain trusts which held 100% interests in PCGH. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 1,753,529,954 shares of PCCW held by PCRD. Li Tzar Kai, Richard was also deemed to be interested in 1.06% of the issued share capital of PCRD through Hopestar Holdings Limited, a company wholly-owned by Li Tzar Kai, Richard.

II. (a) These shares were held jointly by Lee Chi Hong, Robert and his spouse.

(b) These shares were held by the spouse of Lee Chi Hong, Robert.

III. These interests represented awards made to Hui Hon Hing, Susanna which were subject to certain vesting conditions pursuant to an award scheme of PCCW, namely the Purchase Scheme.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, SHARE STAPLED UNITS, UNDERLYING SHARES, UNDERLYING SHARE STAPLED UNITS AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS – CONTINUED

2. Associated Corporations of the Company – Continued

B. Interests in the HKT Trust and HKT Limited

The table below sets out the aggregate long positions in the share stapled units ("Share Stapled Units") jointly issued by the HKT Trust and HKT Limited, an associated corporation of the Company, held by the directors and the chief executives of the Company as at December 31, 2018:

	Number of Share Stapled Units held					Approximate percentage of the total number of Share Stapled Units of HKT Trust and HKT Limited
Name of director/ chief executive	**Personal interests**	**Family interests**	**Corporate interests**	**Other interests**	**Total**	**in issue**
Li Tzar Kai, Richard	–	–	66,247,614 *(Note I (a))*	158,764,423 *(Note I (b))*	225,012,037	2.97%
Lee Chi Hong, Robert	50,924 *(Note II (a))*	25 *(Note II (b))*	–	–	50,949	0.0007%
Hui Hon Hing, Susanna	3,049,620	–	–	629,253 *(Note III)*	3,678,873	0.05%

Each Share Stapled Unit confers an interest in:

(a) one voting ordinary share of HK$0.0005 in HKT Limited ("HKT"); and

(b) one voting preference share of HK$0.0005 in HKT,

for the purposes of Part XV of the SFO, in addition to an interest in one unit in the HKT Trust.

Under the trust deed dated November 7, 2011 constituting the HKT Trust entered into between HKT Management Limited (in its capacity as the trustee-manager of the HKT Trust) and HKT as supplemented, amended or substituted from time to time and the amended and restated articles of association of HKT, the number of ordinary shares and preference shares of HKT in issue must be the same at all times and must also, in each case, be equal to the number of units of the HKT Trust in issue; and each of them is equal to the number of Share Stapled Units in issue.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, SHARE STAPLED UNITS, UNDERLYING SHARES, UNDERLYING SHARE STAPLED UNITS AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS – CONTINUED

2. Associated Corporations of the Company – Continued

B. Interests in the HKT Trust and HKT Limited – Continued

Notes:

I. (a) Of these Share Stapled Units, PCD held 20,227,614 Share Stapled Units and Eisner held 46,020,000 Share Stapled Units.

(b) These interests represented:

(i) a deemed interest in 13,159,619 Share Stapled Units held by PCGH. Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 13,159,619 Share Stapled Units held by PCGH; and

(ii) a deemed interest in 145,604,804 Share Stapled Units held by PCRD. Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 145,604,804 Share Stapled Units held by PCRD.

II. (a) These Share Stapled Units were held jointly by Lee Chi Hong, Robert and his spouse.

(b) These Share Stapled Units were held by the spouse of Lee Chi Hong, Robert.

III. These interests represented awards made to Hui Hon Hing, Susanna which were subject to certain vesting conditions pursuant to the relevant award schemes of PCCW and HKT, namely the Purchase Scheme and the HKT Share Stapled Units Purchase Scheme.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, SHARE STAPLED UNITS, UNDERLYING SHARES, UNDERLYING SHARE STAPLED UNITS AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS – CONTINUED

2. Associated Corporations of the Company – Continued

C. Interests in PCPD Capital Limited ("PCPD Capital")

The table below sets out the aggregate long positions in the 4.75% bonds due 2022 (the "2022 Bonds") issued by PCPD Capital, an associated corporation of the Company, held by the directors and the chief executives of the Company as at December 31, 2018:

Name of director/ chief executive	Principal amount of the 2022 Bonds held (US$) Personal interests	Family interests	Corporate interests	Other interests	Total
Li Tzar Kai, Richard	–	–	70,000,000 *(Note I)*	–	70,000,000
Lee Chi Hong, Robert	2,250,000 *(Note II)*	–	–	–	2,250,000

Notes:

I. These 2022 Bonds were held by Ultimate Talent Limited, a wholly-owned subsidiary of Elderfield Limited ("Elderfield"). Li Tzar Kai, Richard owned 100% of the issued share capital of Elderfield.

II. These 2022 Bonds were held jointly by Lee Chi Hong, Robert and his spouse.

D. Interests in Easy Treasure Limited ("Easy Treasure")

The table below sets out the aggregate long position in the shares issued by Easy Treasure, an associated corporation of the Company, held by the director of the Company as at December 31, 2018:

Name of director/ chief executive	Number of ordinary shares held Personal interests	Family interests	Corporate interests	Other interests	Total	Approximate percentage of the total number of shares of Easy Treasure in issue
Allan Zeman	–	–	999 *(Note)*	–	999	9.99%

Note:

These shares were held by Paradise Pinetree Development Limited ("Paradise"). Allan Zeman owned 100% of the issued share capital of Paradise.

Save as disclosed in the foregoing, as at December 31, 2018, none of the directors or chief executives of the Company or their respective close associates had any interests or short positions in any shares, Share Stapled Units, underlying shares, underlying Share Stapled Units or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code of the Listing Rules.

SHARE OPTIONS AND DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

The Company operates a share option scheme which was adopted by its shareholders at the Company's annual general meeting held on May 6, 2015, and became effective on May 7, 2015 following its approval by PCCW's shareholders ("2015 Scheme"). The 2015 Scheme is valid and effective for a period of 10 years commencing on May 7, 2015. Under the 2015 Scheme, the Board shall be entitled to offer to grant a share option to any eligible participant whom the Board may select at its absolute discretion. The major terms of the 2015 Scheme are set out below:

(1) The purpose of the 2015 Scheme is to provide eligible participants with the opportunity to acquire proprietary interests in the Company and to encourage eligible participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole.

(2) Eligible participants include any director, executive director, non-executive director, independent non-executive director, officer and/or employee of the Group or any member of it, whether in full time or part time employment of the Group or any member of it, and any consultant, adviser, supplier, customer, or sub-contractor of the Group or any member of it, and any other person whomsoever is determined by the Board as having contributed to the development, growth or benefit of the Group or any member of it or as having spent any material time in or about the promotion of the Group or its business; and provided always, that an eligible participant can be an individual or any other person permitted under the 2015 Scheme.

(3) The maximum number of shares of the Company in respect of which options may be granted under the 2015 Scheme shall not in aggregate exceed 10% of the shares of the Company in issue as at the date of adoption of the 2015 Scheme. Subject to the Listing Rules requirements, the 10% limit may be renewed with prior shareholders' approval. The overall limit on the number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2015 Scheme and other share option schemes of the Company must not exceed 30% of the shares of the Company in issue from time to time. As at the date of this annual report, the total number of shares of the Company available for issue in respect of which options may be granted under the 2015 Scheme is 40,266,831, representing approximately 10% of the shares of the Company in issue as at that date.

(4) The total number of shares of the Company issued and to be issued upon exercise of options granted and to be granted to any single eligible participant (other than a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates) under the 2015 Scheme in any 12-month period shall not exceed 1% of the shares of the Company in issue at the relevant time. For options granted or to be granted to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, the said limit is reduced to 0.1% of the shares of the Company in issue and HK$5 million in aggregate value based on the closing price of the shares of the Company on the date of each grant. Any further grant of share options in excess of such limits is subject to shareholders' approval at general meeting.

(5) The 2015 Scheme does not specify a minimum period for which an option must be held nor a performance target which must be achieved before an option can be exercised. The terms and conditions under and the period within which an option may be exercised under the 2015 Scheme shall be determined by the Board, provided that such terms and conditions shall not be inconsistent with the 2015 Scheme and no option may be exercised 10 years after the date of grant.

SHARE OPTIONS AND DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES – CONTINUED

(6) The 2015 Scheme does not specify any consideration which is payable on the acceptance of an option. An option shall be deemed to have been granted and accepted by the grantee and to have taken effect upon the date of grant of such option unless the grantee rejects the grant in writing within 14 days after the date of grant.

(7) The exercise price in relation to each option shall not be less than the higher of (i) the closing price of the shares of the Company as stated in the daily quotation sheet of the Stock Exchange on the date of grant; and (ii) the average closing price of the shares of the Company as stated in the daily quotation sheet of the Stock Exchange for the 5 days last preceding the date of grant on which days it has been possible to trade the shares of the Company on the Stock Exchange.

(8) Subject to the early termination by an ordinary resolution in general meeting of shareholders or resolutions of the Board, the 2015 Scheme shall be valid and effective for a period of 10 years commencing on the date of adoption, after which period no further options shall be granted but the provisions of the 2015 Scheme shall remain in full force and effect in all other respects.

No share options have been granted under the 2015 Scheme since its adoption and up to and including December 31, 2018.

Save as disclosed above, at no time during the year under review was the Company or any of its subsidiaries, holding companies or fellow subsidiaries a party to any arrangement that may enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the directors or chief executives of the Company or their spouses or children under 18 years of age had any right to subscribe for equity or debt securities of the Company or any of its associated corporations or had exercised any such right during the year under review.

EQUITY-LINKED AGREEMENTS

Share Option Scheme

Details of the share option scheme of the Company are set out in the section headed "Share Options and Directors' Rights to Acquire Shares or Debentures" above and note 27 to the consolidated financial statements.

Bonus Convertible Notes

As a result of the issue of bonus convertible notes in the aggregate amount of HK$592,572,154.40 convertible into a total of 1,185,144,308 shares of the Company at a conversion price of HK$0.50 per share (after adjustment made as a consequence of a share consolidation of the Company which became effective on June 25, 2012) in 2012, up to December 31, 2018, bonus convertible notes in the aggregate amount of HK$18,800.00 (December 31, 2017: HK$18,800.00) were converted into 37,600 shares (December 31, 2017: 37,600 shares) of the Company at the conversion price of HK$0.50 per share. As at December 31, 2018, the Company's outstanding bonus convertible notes were in the aggregate amount of HK$592,553,354.40 convertible into a total of 1,185,106,708 shares of the Company at the conversion price of HK$0.50 per share. The bonus convertible notes can be converted into shares of the Company at any time provided that the Company's minimum public float requirements under the Listing Rules could be complied with.

Supporting Agreement and Investor Agreements

On May 23, 2013, the Group entered into a supporting agreement ("Supporting Agreement") with ACE Equity Holdings Limited ("Supporter"), whereby the Group will settle part of the services received in the value of US$23 million by means of, among other things, issuing non-voting, non-contributory but dividend participating class B shares ("Melati Class B Shares") representing not more than 6.388 per cent of the share capital of the Company's indirect wholly-owned subsidiary, Melati Holding Limited ("Melati"), to the Supporter. The Group also granted a put option to the Supporter to require the Group to purchase all the Melati Class B Shares after the expiry of 5 years from the date of issue of the shares based on then consolidated net asset value of Melati and its subsidiaries.

On May 23, 2013, the Group also entered into a subscription agreement and a loan purchase agreement ("Investor Agreements") with an independent third party ("Investor") pursuant to which the Group will allot to the Investor 9.99 per cent shares ("Rafflesia Shares") of Rafflesia Investment Limited ("Rafflesia") which is an indirect wholly-owned subsidiary of the Company held by Melati and assign 9.99 per cent of the shareholder's loan to Rafflesia ("Rafflesia Loan") at a consideration to be determined at the time of the allotment based on the total investment costs incurred by the Group on the Indonesian development project plus finance charge. The Group also granted a put option to the Investor to require the Group, at any time on or after May 23, 2023, to purchase all the Rafflesia Shares and the Rafflesia Loan based on then consolidated net asset value of Rafflesia and its subsidiaries.

Details of the Supporting Agreement and the Investor Agreements are set out in the joint announcement issued by the Company and PCCW dated May 23, 2013, the circular issued by the Company dated June 25, 2013 and in notes 27(c)(i) and 27(c)(ii) to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS – CONTINUED

Sale and Purchase Agreement

As disclosed in the joint announcement of the Company and PCCW dated January 15, 2018 ("Joint Announcement"), Silvery Sky Holdings Limited ("Silvery Sky", a wholly-owned subsidiary of the Company), as purchaser entered into a sale and purchase agreement ("SPA") with CSI Properties Limited ("CSI") as vendor's guarantor and Radiant Talent Holdings Limited ("Radiant Talent", a wholly-owned subsidiary of CSI), as vendor whereby Silvery Sky would acquire from Radiant Talent the entire issued share capital of Fast Million Limited ("Fast Million") and the entire shareholder's loan owing to Radiant Talent by Fast Million, for the purpose of joint redevelopment of certain properties owned by Fast Million (through its wholly-owned subsidiaries) for a consideration comprising an initial cash payment of HK$2,018 million (subject to adjustments) and the allotment and issue of one non-voting participating share of Silvery Sky credited as fully paid up (the "NPS") at an issue price of US$1.00 to Radiant Talent upon completion of the SPA. Upon completion on March 23, 2018, Fast Million became a wholly-owned subsidiary of Silvery Sky which in turn through its wholly-owned subsidiaries owned entire interest of certain properties.

The NPS would, among others, entitle Radiant Talent to the right to be paid or distributed 50% of the dividends declared or distributions made by Fast Million. Subject to certain contingent event having occurred which would give rise to the right to Conversion (as defined below) of NPS and subject to, amongst others, payment to Concept Plus Holdings Limited, a wholly-owned subsidiary of the Company, by Radiant Talent in accordance with the shareholders' memorandum entered into at completion of the SPA, the NPS held by Radiant Talent would be converted to one new fully paid up ordinary share of Silvery Sky (the "Conversion"), representing 50% of the entire issued share capital of Silvery Sky immediately following the Conversion. As at December 31, 2018, the Conversion has not occurred.

Details of the SPA are set out in the Joint Announcement issued by the Company and PCCW dated January 15, 2018 and in note 17(b) to the consolidated financial statements.

Joint Venture Agreement

As disclosed in the announcement of the Company dated March 16, 2018 (the "Announcement"), Gold Estate Limited ("Gold Estate", a wholly-owned subsidiary of the Company), entered into a joint venture agreement (the "JV Agreement") with Paradise Pinetree Development Limited ("Paradise", a company wholly-owned by Dr Allan Zeman who is a director of the Company) to form a joint venture entity (the "JV Company") for the investment in and development of a site (the "Project Site") within the land in Phang Nga Province of Thailand owned by Thai land holding companies ("Thai Land Holding Companies") which are consolidated in the consolidated financial statements of the Company. Pursuant to the JV Agreement, Gold Estate would contribute US$20 million (approximately HK$156 million) as initial capital contribution by way of transfer of the legal and/or beneficial ownership and all rights over the Project Site by the Thai Land Holding Companies and Paradise would inject US$2,219,753 (approximately HK$17.3 million) as initial capital contribution in cash, and Gold Estate and Paradise would subscribe for 9,000 and 999 ordinary shares of the JV Company at par of US$1.00 each respectively, with the remaining balances to constitute the principal amounts of the shareholder loans. Immediately following completion of the JV formation and upon satisfaction of certain conditions as disclosed in the Announcement, on April 30, 2018, a total of 9,999 new ordinary shares were issued and the total issued share capital of the JV Company was held as to 90.01% and 9.99% by Gold Estate and Paradise respectively.

Details of the JV Agreement are set out in the Announcement issued by the Company dated March 16, 2018.

INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF SUBSTANTIAL SHAREHOLDER

1. Interests in the shares and underlying shares of the Company

As at December 31, 2018, the following person (other than any directors or the chief executives of the Company) was substantial shareholder of the Company (as defined in the Listing Rules) and had interests in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name of shareholder	Capacity	Number of shares/ underlying shares held
PCCW	Beneficial owner	1,470,155,332 *(Note)*

Note: These interests comprised (a) an interest in 285,088,666 shares of the Company held by Asian Motion Limited ("Asian Motion"), a wholly-owned subsidiary of PCCW; and (b) an interest in 1,185,066,666 underlying shares of the Company in relation to the bonus convertible notes in the aggregate amount of HK$592,533,333.20 as held by Asian Motion.

2. Short positions in shares and underlying shares of the Company

As at December 31, 2018, the Company had not been notified of any person who had short positions in the shares or underlying shares of the Company to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Save as disclosed above, as at December 31, 2018, the Company had not been notified of any other person who had interests or short positions in the shares and underlying shares of the Company to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Saved as disclosed in the sections headed "Connected Transactions and Continuing Connected Transactions" and "Related Party Transactions" of this report, no other transactions, arrangements or contracts of significance in relation to the Group's business to which the Company, or any of its subsidiaries, fellow subsidiaries or parent company was a party, and in which a director of the Company or his/her connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended December 31, 2018, the director of the Company had the following interests in businesses which competed or were likely to compete, either directly or indirectly, with the Group's businesses:

Name of director	Names of company	Nature of business	Nature of interests
Li Tzar Kai, Richard	CK Hutchison Holdings Limited ("CK Hutchison") and its subsidiaries	Ports and related services, retail, infrastructure, energy and telecommunications	*(Note)*
	CK Asset Holdings Limited ("CK Asset") and its subsidiaries	Property development and investment, hotel and serviced suite operation, property and project management, joint ventures in infrastructure and utility asset operation and aircraft leasing	*(Note)*

Note: Li Tzar Kai, Richard has a personal interest in 75,240 shares in each of CK Hutchison and CK Asset, and is one of the discretionary beneficiaries of certain discretionary trusts which hold units in unit trusts which in turn are interested in certain shares of CK Hutchison and CK Asset. Certain businesses of CK Hutchison and CK Asset may compete with certain aspects of the businesses of the Group during the year.

In addition, Li Tzar Kai, Richard is a director of certain private companies (the "Private Companies") which are engaged in property development and investment.

Further, Li Tzar Kai, Richard is a director and chairman of PCRD. PCRD is an investment holding company with interests in telecommunications and media (through PCCW), logistics, property and infrastructure investment and development in the Asia Pacific region.

The business interests of the Private Companies in Hong Kong are not significant when compared with the business of the Group and it is unlikely that such business interests will compete with the business of the Group. The business interests in Japan and the Asia Pacific region are also unlikely to compete with the existing business of the Group.

Li Tzar Kai, Richard has a controlling interest in some of the Private Companies. Further, he is or may be regarded as interested in PCRD and PCGH due to the interests as disclosed under the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Share Stapled Units, Underlying Shares, Underlying Share Stapled Units and Debentures of the Company and its Associated Corporations" of this report.

As PCRD and the Private Companies are involved in the development and/or investment of properties of different types and/or in different locations, the Group has been operating independently of, and at arm's length from, the businesses of those companies.

Save as disclosed above, none of the directors is interested in any business, apart from the Group's businesses, which competes or is likely to compete, either directly or indirectly, with the Group's businesses.

PERMITTED INDEMNITY

Pursuant to bye-law 166(1) of the Bye-laws of the Company, every director and other officers of the Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto, provided that the indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of said persons. The Company has arranged directors' and officers' liability insurance coverage for the directors and officers of the Company during the year.

DONATIONS

During the year, the Group made charitable and other donations in the aggregate amount of approximately HK$1.4 million (2017: 0.12 million).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended December 31, 2018, the Company repurchased a total of 280,000 ordinary shares of HK$0.50 each in the capital of the Company on the Stock Exchange, with the aggregate consideration paid (before expenses) amounting to HK$652,510.00. All the shares repurchased were subsequently cancelled. As at December 31, 2018, the total number of shares of the Company in issue was 402,189,313.

Particulars of the share repurchase are as follows:

Date	Number of shares repurchased	Purchase price per share Highest	Lowest	Aggregate consideration (before expenses)
		HK$	*HK$*	*HK$*
October 12, 2018	170,000	2.32	2.31	394,170.00
October 19, 2018	110,000	2.35	2.33	258,340.00
	280,000			652,510.00

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

MANAGEMENT CONTRACTS

Save for the directors' service contracts or employment contracts, no other contracts concerning the management and administration of the whole or any substantial part of any business of the Company were entered into or subsisted during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year ended December 31, 2018 and up to the date of this report, the Group has entered the following transactions which constituted connected transactions and continuing connected transactions (as defined in the Listing Rules) of the Company and details of which are set out below in accordance with the Listing Rules.

Connected transactions

1. As disclosed in the joint announcement of the Company and PCCW dated January 15, 2018 (the "Joint Announcement"), Silvery Sky Holdings Limited ("Silvery Sky", a wholly-owned subsidiary of the Company) as purchaser entered into a sale and purchase agreement (the "SPA") with CSI Properties Limited ("CSI") as vendor's guarantor and Radiant Talent Holdings Limited ("Radiant Talent", a wholly-owned subsidiary of CSI) as vendor whereby Silvery Sky would acquire from Radiant Talent the entire issued share capital of Fast Million Limited ("Fast Million") and the entire shareholder's loan owing to Radiant Talent by Fast Million, for the purpose of joint redevelopment of certain properties owned by Fast Million (through its wholly-owned subsidiaries) for a consideration comprising an initial cash payment of HK$2,018 million (subject to adjustments) and the allotment and issue of one non-voting participating share of Silvery Sky credited as fully paid up (the "NPS") at an issue price of US$1.00 to Radiant Talent upon completion of the SPA. Upon completion on March 23, 2018, Fast Million became a wholly-owned subsidiary of Silvery Sky which in turn through its wholly-owned subsidiaries owned entire interest of certain properties.

   The NPS would, among others, entitle Radiant Talent to the right to be paid or distributed 50% of the dividends declared or distributions made by Silvery Sky. Subject to certain contingent event having occurred which would give rise to the right to Conversion (as defined below) of NPS and subject to, amongst others, payment to Concept Plus Holdings Limited, a wholly-owned subsidiary of the Company, by Radiant Talent in accordance with the shareholders' memorandum (the "Shareholders' Memorandum") entered into at completion of the SPA, the NPS held by Radiant Talent would be converted to one new fully paid up ordinary share of Silvery Sky (the "Conversion"), representing 50% of the entire issued share capital of Silvery Sky immediately following the Conversion. As at December 31, 2018, the Conversion has not occurred.

   The controlling shareholder and director of CSI, Chung Cho Yee, Mico, is also a director of certain subsidiaries of PCCW, including as a non-executive director of HKT Management Limited (the trustee-manager of HKT Trust) and of HKT, HKT Trust and HKT are both listed on the Stock Exchange, and was a former director of a subsidiary of the Company in the last 12 months from the date when the SPA was entered, CSI and Radiant Talent are therefore connected persons at the subsidiary level of both PCCW and the Company within the meaning of Rule 14A.06(9) of the Listing Rules. Accordingly, the entering into of the SPA and the Shareholders' Memorandum and the transactions contemplated thereunder including the formation of the joint venture contemplated under the SPA and the Shareholders' Memorandum and the Conversion (the "Transactions") constituted connected transactions for both PCCW and the Company, and PCCW and the Company issued the Joint Announcement to disclose the Transactions in accordance with the requirements under Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS – CONTINUED

Connected transactions – Continued

2. As disclosed in the announcement of the Company dated March 16, 2018 (the "Announcement"), Gold Estate Limited ("Gold Estate", a wholly-owned subsidiary of the Company), entered into a joint venture agreement (the "JV Agreement") with Paradise Pinetree Development Limited ("Paradise", a company wholly-owned by Dr Allan Zeman who is a director of the Company) to form a joint venture entity (the "JV Company") for the investment in and development of a site (the "Project Site") within the land in Phang Nga Province of Thailand (the "Land") owned by Thai land holding companies (the "Thai Land Holding Companies") which are consolidated in the consolidated financial statements of the Company. Pursuant to the JV Agreement, Gold Estate would contribute US$20 million (approximately HK$156 million) as initial capital contribution by way of transfer of the legal and/or beneficial ownership and all rights over the Project Site by the Thai Land Holding Companies and Paradise would inject US$2,219,753 (approximately HK$17.3 million) as initial capital contribution in cash, and Gold Estate and Paradise would subscribe for 9,000 and 999 ordinary shares of the JV Company at par of US$1.00 each respectively, with the remaining balances to constitute the principal amounts of the shareholder loans. Immediately following completion of the JV formation and upon satisfaction of certain conditions as disclosed in the Announcement, on April 30, 2018, a total of 9,999 new ordinary shares were issued and the total issued share capital of the JV Company was held as to 90.01% and 9.99% by Gold Estate and Paradise respectively.

   On the completion date of April 30, 2018 (the "Completion Date"), a Thai company ("Developer Co 3"), which is consolidated in the consolidated financial statements of the Company, entered into the Master Layout Planning Agreement (the "MLP Agreement") with Andaman Property Development Co., Ltd. ("Andaman Property", an associate of Dr Allan Zeman who is a director of the Company) with a term of 1 year commencing from the Completion Date, whereby Developer Co 3 would engage Andaman Property to provide master layout planning services in relation to the Land (including the Project Site), which such services include overall infrastructure planning, logistics arrangements, phasing of works and continuous study for business models, and submission of the master layout plan to Thai authorities for approval, for a service fee of approximately US$590,000 (approximately HK$5 million) payable in stages according to agreed milestones under the MLP Agreement.

   Since Paradise and Andaman Property constitute associates (as defined under the Listing Rules) of Dr Allan Zeman, a director of the Company, each of Paradise and Andaman Property is a connected person of the Company with the meaning of Rule 14A.06 of the Listing Rules. Accordingly the transactions contemplated under the JV Agreement and MLP Agreement constituted connected transactions of the Company under Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS – CONTINUED

Continuing connected transactions

1. As disclosed in the announcement of the Company dated December 23, 2016, PCPD Facilities Management Limited ("PCPD FM", a wholly-owned subsidiary of the Company) had entered into a facilities management services agreement and a lease & tenant management services agreement (the "Agreements") with Reach Networks Hong Kong Limited ("Reach Networks", a wholly-owned subsidiary of Reach Ltd., which is an associate of PCCW) on December 23, 2016 in relation to the facilities management services and lease & tenant management services it provides to Reach Networks from January 1, 2017 onwards for a term of two years until December 31, 2018 through a tender executed by Reach Networks at the fees calculated in accordance with the terms of the Agreements, subject to the annual caps of HK$8 million for 2017 and 2018. The aggregate fees charged by PCPD FM under the Agreements for the year ended December 31, 2018 was approximately HK$7.26 million for facilities management services and lease & tenant management services.

   In the announcement dated December 27, 2018, the Company announced that PCPD FM and Reach Networks entered into new facilities management services agreement and lease & tenant management services agreement (the "New Agreements") on that day for the provision of the facilities management services and lease & tenant management services by PCPD FM to Reach Networks from January 1, 2019 onwards for a term of two years until December 31, 2020 at the fees calculated in accordance with the terms of the New Agreements, subject to the annual caps of HK$8 million for each of the financial years ending December 31, 2019 and December 31, 2020.

2. As disclosed in the announcement of the Company dated December 23, 2016, PCPD Operations Limited ("PCPDOL", an indirect wholly-owned subsidiary of the Company) had on that day entered into a master agreement for supply and procurement of goods and services with each of the following parties: (i) PCCW Solutions Limited, an indirect wholly-owned subsidiary of PCCW (PCCW together with its subsidiaries, "PCCW Group"; PCCW Group excluding the Group and the HKT Group (as defined below), "Parent Group") (the agreement with this entity shall be referred to as the "Parent Group 2016 Master Agreement"); and (ii) Hong Kong Telecommunications (HKT) Limited ("HKTL"), an indirect wholly-owned subsidiary of HKT (together with its subsidiaries, "HKT Group") (the agreement with this entity shall be referred to as the "HKT Group 2016 Master Agreement"). Such agreements set out the frameworks for the provision of certain goods and services by the Parent Group and the HKT Group respectively to the Group for a term of three years from January 1, 2017 to December 31, 2019 at prices to be determined in accordance with the terms stipulated therein and subject to the annual caps as disclosed in the announcement. The categories of goods and services as provided under (i) the Parent Group 2016 Master Agreement are (a) Information Technology Solutions and Services and (b) Corporate Services and Other Services, and those provided under (ii) the HKT Group 2016 Master Agreement are (a) Telecommunications and Related Equipment and Services and (b) Corporate Services and Other Services.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS – CONTINUED

Continuing connected transactions – Continued

2. – Continued

The aggregate contract amounts for transactions contemplated under the Parent Group 2016 Master Agreement for the financial year ended December 31, 2018 are set out below:

Categories of Goods and Services	Approximate aggregate contract amount for the financial year ended December 31, 2018	Annual Cap for the financial year ended December 31, 2018
	HK$'000	*HK$'000*
Information Technology Solutions and Services (not including those fully exempt as consumer goods and services)	352	2,900
Corporate Services and Other Services	490	1,300

The aggregate contract amounts for transactions contemplated under the HKT Group 2016 Master Agreement for the financial year ended December 31, 2018 are set out below:

Categories of Goods and Services	Approximate aggregate contract amount for the financial year ended December 31, 2018	Annual Cap for the financial year ended December 31, 2018
	HK$'000	*HK$'000*
Telecommunications and Related Equipment and Services (not including those fully exempt as consumer goods and services)	817	1,500
Corporate Services and Other Services	3,592	4,200

As at December 31, 2018, PCCW, a substantial shareholder of the Company, held approximately 70.88% and approximately 51.97% equity interest in the Company and HKT respectively.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS – CONTINUED

Continuing connected transactions – Continued

3. As disclosed in the announcement of the Company dated January 20, 2016, an agreement was reached between PT Prima Bangun Investama ("PT PBI", a wholly-owned subsidiary of the Company) as landlord, and PT FWD Life Indonesia ("PT FWD", an associate of Li Tzar Kai, Richard, a director of the Company) as tenant, by way of acceptance by PT FWD of a binding letter of offer (with a pro forma form of lease agreement attached thereto) issued by PT PBI (the "2016 Lease Agreement") in relation to the key terms of the lease of whole 20th Floor and a portion of the Ground Floor ("Premises") and the signage right of the premium Grade A office building which is situated at Jl. Jenderal Sudirman Kavling. 52-53, SCBD Lot 10, Jakarta 12190, Indonesia. The parties signed the formal lease agreement (the "2016 Formal Lease Agreement") on September 20, 2017 upon the Premises was ready for delivery to PT FWD. The tenor of the lease is three years from the lease commencement date which was tentatively on or after January 1, 2018. As the Premises were ready for early delivery, both parties agreed the actual lease commencement date to be November 13, 2017 and the lease expiry date to be November 12, 2020. According to final confirmation of the area, the fees calculated as in accordance with the terms of the 2016 Lease Agreement, with the total aggregate amount subject to an annual cap of IDR23,102.3 million (approximately HK$13 million) for each of the three financial years ending December 31, 2020. The aggregate amounts charged by PT PBI under the 2016 Formal Lease Agreement for the year ended December 31, 2018 was IDR20,115.4 million (approximately HK$11.06 million) for rentals, service charges, parking charges and signage charges.

4. As disclosed in the announcement of the Company dated July 23, 2018, PT Prima Bangun Investama ("PT PBI", a wholly-owned subsidiary of the Company), as landlord, and PT FWD Life Indonesia ("PT FWD", an associate of Li Tzar Kai, Richard, a director of the Company), as tenant, had entered into a lease agreement (the "2018 Lease Agreement") on that day in relation to the key terms of the lease of a portion of 39th Floor of the building namely Pacific Century Place situated at JI. Jenderal Sudirman Kavling. 52-53, SCBD Lot 10, Jakarta 12190, Indonesia from July 2, 2018 onwards for a term of three years at the fees calculated in accordance with the terms of the 2018 Lease Agreement, subject to an annual cap of IDR4,700 million (approximately HK$2.55 million, including rentals, service charges and parking charges) for each of the three years ending July 1, 2021. The aggregate amount charged by PT PBI under the 2018 Lease Agreement for the period ended December 31, 2018 was IDR2,306.5 million (approximately HK$1.23 million) for rentals, service charges, and parking charges.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS – CONTINUED

Continuing connected transactions – Continued

5. As disclosed in the announcement of the Company dated March 16, 2018, on the completion date of April 30, 2018 (the "Completion Date"), a Thai company ("Developer Co 1", being an entity over which the Company has control) which is consolidated in the consolidated financial statements of the Company, entered into the Phase 1A Development Management Agreement ("Phase 1A Development Management Agreement") with Andaman Property Development Co., Ltd. ("Andaman Property", an associate of Dr Allan Zeman who is a director of the Company) with a term of 3 years commencing from the Completion Date, whereby Developer Co 1 would engage Andaman Property as the development manager of the phase 1A development and the development of the phase 1 associated facilities (excluding the golf course upgrade) within the Project Site (as defined under P.53), which services shall include construction management, design services relating to architecture, civil, structural and MEP engineering and quantity surveying (the "Development Management Services"), at the fees calculated in accordance with the terms of the Phase 1A Development Management Agreement subject to the annual cap set out below. The aggregate fees charged by Andaman Property under the Phase 1A Development Management Agreement for the year ended December 31, 2018 was approximately HK$6.6 million for Development Management Services.

   On the Completion Date, a Thai company ("Developer Co 2", being an entity over which the Company has control) which is consolidated in the consolidated financial statements of the Company, entered into the Remaining Phase 1 Development Management Agreement (the "Remaining Phase 1 Development Management Agreement") with Andaman Property with a term of 3 years commencing from the Completion Date, whereby Developer Co 2 would engage Andaman Property as the development manager of the remaining phase 1 development and the development of the phase 1 associated facilities (excluding the golf course upgrade) within the Project Site, which services shall include construction management, design services relating to architecture, civil, structural and MEP engineering and quantity surveying, at the fees calculated in accordance with the terms of the Remaining Phase 1 Development Management Agreement subject to the annual cap set out below. There is no fee charged by Andaman Property under the Remaining Phase 1 Development Management Agreement for the year ended December 31, 2018.

   The aggregate annual fees payable under the Phase 1A Development Management Agreement and the Remaining Phase 1 Development Management Agreement shall be subject to the annual cap of HK$36 million during the term of the agreements.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS – CONTINUED

Continuing connected transactions – Continued

The independent non-executive directors of the Company had reviewed and confirmed that the continuing connected transactions for the financial year ended December 31, 2018 have been entered into:

A. in the ordinary and usual course of the business of the Group;

B. on normal commercial terms or better; and

C. according to the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditor of the Company was engaged to report on the continuing connected transactions entered into by the Group for the year ended December 31, 2018 in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules.

RELATED PARTY TRANSACTIONS

Details of the material related party transactions undertaken by the Group in the normal course of business are set out in note 36 to the consolidated financial statements. Those related party transactions which constituted connected transactions or continuing connected transactions under the Listing Rules had complied with the applicable requirements under Chapter 14A of the Listing Rules.

PUBLIC FLOAT

As at the date of this report, the Company maintained the prescribed public float as required under the Listing Rules, based on information that was publicly available to the Company and within the knowledge of the directors of the Company.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the "Corporate Governance Report" on pages 13 to 29 of this annual report.

AUDITOR

The consolidated financial statements for the financial year ended December 31, 2018 were audited by PricewaterhouseCoopers who will retire at the conclusion of the forthcoming annual general meeting. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Company will be proposed at that meeting.

On behalf of the Board

Timothy TSANG
Company Secretary

Hong Kong, February 21, 2019

INDEPENDENT AUDITOR'S REPORT

pwc

羅兵咸永道

TO THE SHAREHOLDERS OF PACIFIC CENTURY PREMIUM DEVELOPMENTS LIMITED

(Incorporated in Bermuda with limited liability)

OPINION

What we have audited

The consolidated financial statements of Pacific Century Premium Developments Limited (the "Company") and its subsidiaries (the "Group") set out on pages 67 to 152, which comprise:

- the consolidated statement of financial position as at December 31, 2018;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Key Audit Matters

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Valuation of investment property in Indonesia
- Carrying values of properties under development and properties held for development
- Uncertain tax positions

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of investment property in Indonesia *Refer to note 14 to the consolidated financial statements.*	
The Group's investment properties were carried at HK$3,599 million out of which HK$3,543 million as at December 31, 2018 related to the completed investment property in Indonesia. Management has engaged an independent professional valuer to determine the fair value of the investment property. The fair value was derived using the income capitalisation approach. The valuation was inherently subjective due to the significant estimates used which included the expected market rent and capitalisation rate. Significant changes in these estimates could result in material changes to the valuation of the property.	Our procedures in relation to management's valuation of the investment property included: • Assessing the competence, capability and objectivity of the independent professional valuer; • Discussing the valuation methodology and key assumptions with the valuer; • Involving our internal valuation specialists to compare the expected market rent in the valuation to our independently formed market expectations, and to compare the capitalisation rate to a range of expected yields determined with reference to published market yields; and • Checking, on a sample basis, the accuracy and reasonableness of information, such as the rental income and lease period, used by the valuer, to the underlying lease agreements. We found the valuation of the investment property to be supported by the available evidence.

Key Audit Matter	How our audit addressed the Key Audit Matter
Carrying values of properties under development and properties held for development *Refer to note 17 to the consolidated financial statements.*	
The carrying values of properties under development and properties held for development were HK$1,134 million and HK$2,822 million respectively as at December 31, 2018. For the properties under development in Japan with carrying value of HK$1,134 million and the properties held for development in Hong Kong with carrying value of HK$2,172 million, management determined the net realisable values of the properties using the discounted cash flow forecast or residual method, wherever appropriate, which involved significant estimates and assumptions such wherever as selling prices, construction costs and discount rate. For the properties held for development in Thailand with carrying value of HK$650 million, management determined the net realisable value of the properties by the direct comparison approach, which involved the use of estimates and assumptions including recent sales price of similar properties with adjustments for any difference in nature, locality and condition of the properties. Based on their determination of these net realisable values, management concluded that the carrying values of the properties under development and properties held for development were appropriate.	Our procedures in relation to management's assessment of the carrying values of properties under development and properties held for development included: • Assessing the appropriateness of the methodologies used by management for the assessments of the net realisable values of properties under development and properties held for development; • For the properties under development in Japan with the carrying value of HK$1,134 million and properties held for development in Hong Kong with carrying value of HK$2,172 million, comparing the estimated selling prices, construction costs and discount rate used in the assessments to our independently formed market expectations and country-specific market and industry data. We also performed sensitivity analysis on the key assumptions used in the assessments; and • For the properties held for development in Thailand with carrying value of HK$650 million, comparing management's estimates of selling prices for similar properties to market data. We also considered whether the adjusting factors used in management's assessment fell within a reasonable range with reference to our property industry knowledge in the country which the properties are located. We also performed sensitivity analysis on the key assumptions used in the assessment. We found the carrying values of the properties under development and properties held for development to be supported by the available evidence.

Key Audit Matter	How our audit addressed the Key Audit Matter
Uncertain tax positions *Refer to note 34 to the consolidated financial statements.* The Group operates across several jurisdictions and is subject to Hong Kong and overseas taxes. From time to time, there are queries raised by relevant tax authorities in respect of the tax treatment of certain matters. Significant judgement was used to estimate the outcome of these matters and determine the appropriate amount of current tax provision.	Our procedures in relation to management's assessment on uncertain tax positions included: • Assessing the appropriateness of the tax position at the year end, according to the tax rules in different jurisdictions; • Understanding from management the basis and rationale of the current tax provision; • Discussing with management the estimated outcome of queries raised by relevant tax authorities and obtaining relevant supporting information; • Evaluating the competence, capability and objectivity of the independent professional tax consultant, and reading their opinion on the tax queries; and • Assessing the appropriateness and adequacy of the relevant disclosures made in the Group's consolidated financial statements. We found the tax positions to be supported by the available evidence.

Other Information

The directors of the Company are responsible for the other information. The other information comprises all the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and the Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Lo Pui Shan.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, February 21, 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2018

HK$ million	Note(s)	2018	2017 (Restated)
Revenue	4, 5	**300**	164
Cost of sales		**(50)**	(37)
Gross profit		**250**	127
General and administrative expenses		**(489)**	(433)
Other income		**6**	8
Other gains, net	6	**1**	12
Surplus on revaluation of investment properties	14	**4**	—
Operating loss		**(228)**	(286)
Interest income		**40**	59
Finance costs	7	**(201)**	(86)
Loss before taxation	8	**(389)**	(313)
Income tax	11	**(48)**	(26)
Loss attributable to equity holders of the Company		**(437)**	(339)
Other comprehensive (loss)/income:			
Item that may be reclassified subsequently to profit or loss			
Currency translation differences:			
Exchange differences on translating foreign operations		**(250)**	55
Total comprehensive loss		**(687)**	(284)
Loss per share (expressed in Hong Kong cents per share)			
Basic and diluted	13	**(27.55) cents**	(21.38) cents

The notes on pages 72 to 152 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2018

2018

HK$ million	Issued equity	Capital reserve	Currency translation reserve	Convertible notes reserve	Other reserves	Retained earnings	Attributable to equity holders of the Company	Attributable to non-controlling interests	Total equity
Balance at January 1, 2018	2,847	(565)	(553)	592	10	2,330	4,661	—	4,661
Impact of early adoption of HKFRS 16 (net of tax)	—	—	—	—	—	—	—	—	—
Balance at January 1, 2018, as restated	2,847	(565)	(553)	592	10	2,330	4,661	—	4,661
Total comprehensive loss for the year	—	—	(250)	—	—	(437)	(687)	—	(687)
Shares repurchased and cancelled (note 25(d))	(1)	—	—	—	—	—	(1)	—	(1)
Acquisition of subsidiaries (note 17(b))	—	—	—	—	—	—	—	133	133
Balance at December 31, 2018	2,846	(565)	(803)	592	10	1,893	3,973	133	4,106

2017

HK$ million	Issued equity	Capital reserve	Currency translation reserve	Convertible notes reserve	Other reserves	Retained earnings	Attributable to equity holders of the Company	Attributable to non-controlling interests	Total equity
Balance at January 1, 2017, as previously reported	2,847	(565)	(608)	592	10	2,670	4,946	—	4,946
Impact of early adoption of HKFRS 16 (net of tax)	—	—	—	—	—	(1)	(1)	—	(1)
Balance at January 1, 2017, as restated	2,847	(565)	(608)	592	10	2,669	4,945	—	4,945
Total comprehensive income/(loss) for the year	—	—	55	—	—	(339)	(284)	—	(284)
Balance at December 31, 2017, as restated	2,847	(565)	(553)	592	10	2,330	4,661	—	4,661

The notes on pages 72 to 152 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2018

HK$ million	Note	December 31, 2018	December 31, 2017 (Restated)	January 1, 2017 (Restated)
ASSETS AND LIABILITIES				
Non-current assets				
Investment properties	14	**3,599**	3,822	3,266
Property, plant and equipment	15	**1,328**	534	174
Right-of-use assets	16	**101**	45	51
Properties under development	17(a)	**364**	612	402
Properties held for development	17(b)	**2,822**	598	544
Goodwill	18	**5**	3	3
Financial assets at fair value through profit or loss	19	**—**	—	3
Restricted cash	21(b)	**217**	—	—
Prepayments and other receivables		**407**	311	273
		8,843	5,925	4,716
Current assets				
Properties under development	17(a)	**770**	—	—
Sales proceeds held in stakeholders' accounts	21(a)	**507**	508	510
Restricted cash	21(b)	**98**	98	103
Trade receivables, net	21(c)	**19**	14	10
Prepayments, deposits and other current assets		**462**	110	158
Amounts due from fellow subsidiaries	36(c)	**1**	—	1
Amounts due from related companies	36(c)	**4**	6	6
Financial assets at fair value through profit or loss	19	**4**	81	4
Short-term deposits		**—**	1,019	3
Cash and cash equivalents		**864**	2,633	868
		2,729	4,469	1,663

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2018

HK$ million	Note	December 31, 2018	December 31, 2017 (Restated)	January 1, 2017 (Restated)
Current liabilities				
Short-term borrowings	22	**—**	—	457
Current portion of long-term borrowings	22	**11**	—	—
Trade payables	21(d)	**14**	23	23
Accruals and other payables	21(e)	**335**	442	297
Deferred income and contract liabilities	23	**309**	118	—
Lease liabilities		**41**	22	39
Amount payable to the HKSAR Government under the Cyberport Project Agreement	24	**322**	321	321
Current income tax liabilities		**7**	6	4
		1,039	932	1,141
Net current assets		**1,690**	3,537	522
Total assets less current liabilities		**10,533**	9,462	5,238
Non-current liabilities				
Long-term borrowings	22	**6,083**	4,473	—
Other payables		**171**	206	208
Deferred income and contract liabilities	23	**81**	74	50
Lease liabilities		**62**	23	13
Deferred income tax liabilities	29(a)	**30**	25	22
		6,427	4,801	293
Net assets		**4,106**	4,661	4,945
CAPITAL AND RESERVES				
Issued equity	25	**2,846**	2,847	2,847
Reserves		**1,127**	1,814	2,098
Capital and reserves attributable to equity holders of the Company		**3,973**	4,661	4,945
Non-controlling interests	20	**133**	—	—
		4,106	4,661	4,945

Lee Chi Hong, Robert
Director

James Chan
Director

The notes on pages 72 to 152 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2018

HK$ million	Note	2018	2017 (Restated)
NET CASH USED IN OPERATING ACTIVITIES	30	**(3,006)**	(274)
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(793)**	(286)
Payment for investment properties		**(176)**	(431)
Payment for acquisition of a subsidiary, net of cash acquired	35	**(4)**	—
Disposal/(purchase) of financial assets at fair value through profit or loss		**80**	(78)
Proceeds from disposal of property, plant and equipment		**1**	1
Decrease/(increase) in short-term deposits with original maturity more than three months		**1,019**	(1,016)
NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES		**127**	(1,810)
FINANCING ACTIVITIES			
Proceeds from bank borrowings, net		**1,594**	52
Proceeds from issue of guaranteed notes		—	4,391
Repayment of bank borrowing		—	(465)
Payment for borrowing costs		**(230)**	(112)
Payment for lease liabilities (including interest)		**(42)**	(46)
Repurchase of shares		**(1)**	—
Increase in restricted cash		**(221)**	—
NET CASH GENERATED FROM FINANCING ACTIVITIES		**1,100**	3,820
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(1,779)**	1,736
Exchange difference		**10**	29
CASH AND CASH EQUIVALENTS			
Balance at January 1,		**2,633**	868
Balance at December 31,		**864**	2,633
Analysis of cash and cash equivalents			
Cash and bank balances		**864**	3,652
Less: Short-term deposits		—	(1,019)
Cash and cash equivalents at December 31,		**864**	2,633

The notes on pages 72 to 152 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018 (Amount expressed in Hong Kong dollars unless otherwise stated)

1. GENERAL INFORMATION

Pacific Century Premium Developments Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in the development and management of premium-grade property and infrastructure projects as well as premium-grade property investments.

The Company is a limited liability company incorporated in Bermuda and its securities are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

At December 31, 2018, the directors consider the immediate holding company of the Group to be Asian Motion Limited, a company incorporated in British Virgin Islands, and the ultimate holding company of the Group to be PCCW Limited ("PCCW"), a company incorporated in Hong Kong. PCCW produces financial statements available for public use.

These consolidated financial statements set out on pages 67 to 152 were approved by the board of directors (the "Board") on February 21, 2019.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

a. Statement of compliance

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Companies Ordinance of Hong Kong.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

b. Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended December 31, 2018 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the consolidated financial statements is the historical cost convention, except that the following assets are stated at fair value as explained in the accounting policies set out below:

– investment properties (see note 2(g)); and
– financial assets at fair value through profit or loss (see note 2(n)).

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 3.

The HKICPA has issued certain new and revised HKFRS that are first effective or available for early adoption for the current accounting period of the Group. The following sets out the changes in accounting policies for the current and prior accounting periods reflected in these consolidated financial statements.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

b. Basis of preparation of the consolidated financial statements – Continued

i. Adoption of new/revised accounting standards

Standards and amendments effective for the annual period beginning on January 1, 2018 adopted by the Group

HKAS 40 (Amendment)	Transfers of Investment Property
HKFRS 2 (Amendment)	Classification and Measurement of Share-based Payment Transactions
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HKFRS 15 (Amendment)	Clarifications to HKFRS 15 Revenue from Contracts with Customers
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Annual Improvements to HKFRS 2014 – 2016 Cycle	

The adoption of HKAS 40 (Amendment), HKFRS 2 (Amendment), HK(IFRIC) – Int 22 and Annual Improvements to HKFRS 2014 – 2016 Cycle had no significant impact on the Group's consolidated financial statements.

HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 and HKFRS 15 (Amendment) apply to all revenue arising from contracts with customers, unless those contracts are in the scope of other HKFRS. HKFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and the revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferred goods or services to customers. HKFRS 15 requires the Group to exercise judgement, taking into consideration of all the relevant facts and circumstances when applying each step of the model to contract with their customers. HKFRS 15 also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

In prior reporting periods, the Group accounted for sales of properties when significant risks and rewards of ownership of properties have been transferred to the customers.

Under HKFRS 15, revenue from the sales of properties is recognised when or as the control of the asset is transferred to the customer. Depending on the terms of the contracts and the laws that are applicable to the contracts, control of the properties under development may transfer over time or at a point in time. If properties have no alternative use to the Group contractually and the Group has an enforceable right to payment from the customers for performance completed to date, the Group satisfies the performance obligation over time and therefore, recognises revenue over time in accordance with the input method for measuring progress. Otherwise, revenue is recognised at a point in time when the customer obtains control of the completed property, which is typically when the property is legally or physically transferred to the customer.

The excess of the cumulative revenue recognised in profit or loss over the cumulative payments made by customers is recognised as contract assets. A contract asset becomes a receivable when the receipt of the consideration is conditional only on the passage of time.

The excess of cumulative payments made by customers over the cumulative revenue recognised in profit or loss is recognised as contract liabilities.

The effect on the adoption of HKFRS 15 is set out in note 2(b)(iv).

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

b. Basis of preparation of the consolidated financial statements – Continued

i. Adoption of new/revised accounting standards – Continued

HKFRS 9 "Financial Instruments"
HKFRS 9 requires the Group to record an allowance for forward-looking expected credit loss for all loans and other debt financial assets not held at fair value through profit or loss. Expected credit losses are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate. For trade and other receivables, the Group is required to revise its impairment methodology under HKFRS 9 for these receivables.

The Group has applied the standard's simplified approach by measuring the expected credit loss at an amount equal to lifetime expected credit losses. The Group uses a provision matrix that is based on the Group's historical credit loss experience which is adjusted for forward-looking factors specific to the debtors and the economic environment.

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards or in the absence of transitional provisions and have been retroactively applied in accordance with the requirements of HKAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

ii. Early adoption of HKFRS 16 "Leases"

HKFRS 16 is effective for annual periods beginning on or after January 1, 2019.

The Group has elected to early adopt HKFRS 16 for the year ended December 31, 2018, as management believes the new accounting standard provides more reliable and relevant information for users. On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of HKAS 17 "Leases". These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate. Lease payments include the following:

– fixed payments (including in-substance fixed payments), less any lease incentives receivable; and
– variable lease payments that are based on an index or a rate.

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position.

Each lease payment is allocated between the principal repayment of lease liability and finance cost. The finance cost is charged to the consolidated statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the lease liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The effect on the early adoption of HKFRS 16 is set out in note 2(b)(iv).

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

b. Basis of preparation of the consolidated financial statements – Continued

iii. Standards, amendments to standards and interpretations which are not yet effective

The following new standards, amendments and interpretations have been issued but are not yet effective for the year ended December 31, 2018 and which the Group has not early adopted:

HKAS 1 (Amendment) and HKAS 8 (Amendment)	Amendments to Definition of Material [2]
HKFRS 3 (Amendment)	Definition of a Business [2]
HKFRS 9 (Amendment)	Prepayment Features with Negative Compensation [1]
HKFRS 10 and HKAS 28 (Amendment)	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture [4]
HKFRS 17	Insurance Contracts [3]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments [1]
Annual Improvements to HKFRS 2015 – 2017 Cycle [1]	

Note:

1 Effective for annual periods beginning on or after January 1, 2019
2 Effective for annual periods beginning on or after January 1, 2020
3 Effective for annual periods beginning on or after January 1, 2021
4 Effective date to be determined

The Group does not expect the adoption of the above standards that are not yet effective will have a material impact on the Group's future reporting periods and foreseeable future transactions.

iv. Impact on adoption of new accounting standards

HKFRS 15 "Revenue from Contracts with Customers"

The Group has adopted HKFRS 15 "Revenue from Contracts with Customers" from January 1, 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. In accordance with the transition provisions in HKFRS 15, the Group has adopted the new rules retrospectively and has restated comparative numbers for the 2017 financial year. In summary, the deposits received from the sale of properties and other revenue receipt in advance of HK$71 million and HK$231 million under HKAS 18 "Revenue" were reclassified to "Deferred income and contract liabilities" in the consolidated statement of financial position at the date of initial application (January 1, 2018) and December 31, 2018 respectively (note 23).

The adoption of HKFRS 15 has no impact to the consolidated statement of comprehensive income and the consolidated statement of cash flows.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

b. Basis of preparation of the consolidated financial statements – Continued

iv. Impact on adoption of new accounting standards – Continued

HKFRS 16 "Leases"

The Group has early adopted HKFRS 16 "Leases" from January 1, 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. In accordance with the transition provisions in HKFRS 16, the Group has adopted the new rules retrospectively and has restated comparative numbers for the 2017 financial year. In summary, the following adjustments were made to the amounts recognised in the consolidated statement of comprehensive income and the consolidated statement of financial position at the date of initial application (January 1, 2018):

Consolidated Statement of Comprehensive Income

HK$ million	Year ended December 31, 2018	2017
Decrease/(increase) in comprehensive loss:		
Decrease in rental expenses	**41**	46
Increase in depreciation	**(41)**	(44)
Increase in finance costs	**(2)**	(1)
Total (increase)/decrease in loss attributable to equity holders of the Company	**(2)**	1
(Increase)/decrease in loss per share (expressed in Hong Kong cents per share)		
Basic and Diluted	**(0.12)**	0.06

Consolidated Statement of Financial Position

HK$ million	As at December 31, 2018	As at December 31, 2017	As at January 1, 2017
Increase in right-of-use assets	**101**	45	51
Increase in lease liabilities – current	**41**	22	39
Increase in lease liabilities – non-current	**62**	23	13
Decrease in retained earnings	**2**	—	1

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

c. Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

The Group uses the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purpose of subsequently accounting for the retained interest as an associate, joint arrangement or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's statement of financial position, investment in a subsidiary is stated at cost less any impairment losses (note 2(h)). The results of subsidiaries are recognised by the Company to the extent of dividends received and receivable at the end of the reporting period.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

d. Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and that the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the consolidated statement of comprehensive income as follows:

(i) Sales of properties

Revenue is recognised when or as the control over the property has been transferred to the customer. Depending on the terms of the contracts and the laws that are applicable to the contracts, control of the properties under development may transfer over time or at a point in time. If properties have no alternative use to the Group contractually and the Group has an enforceable right to payment from the customers for performance completed to date, the Group satisfies the performance obligation over time and therefore, recognises revenue over time in accordance with the input method for measuring progress. Otherwise, revenue is recognised at a point in time when the customer obtains control of the completed property, which is typically when the property is legally or physically transferred to the customer. The revenue is measured at the transaction price agreed under the contract. In most cases, the consideration is due when legal title has been transferred.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in the consolidated statement of comprehensive income in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the consolidated statement of comprehensive income as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

Receipts of rental income in advance are deferred and recorded as "Deferred income and contract liabilities" in the consolidated statement of financial position. The amounts are then recognised as revenue based on the actual utilisation of the rental usage of the investment properties.

(iii) Service income

Service income is recognised when the related services are rendered to customers.

For the property and facilities management services provided for fixed period, service income is recognised on a straight-line basis over the respective period.

(iv) Interest income

Interest income from bank deposits is accrued on a time-apportioned basis using the effective interest method by reference to the principal outstanding and the rates applicable.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

e. Property, plant and equipment and depreciation

Land and buildings are stated at cost less impairment losses (note 2(h)) less subsequent depreciation for buildings. Land has an indefinite useful life and is not subject to depreciation.

Property, plant and equipment held for own use are stated at cost less accumulated depreciation and impairment losses (note 2(h)). The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use, including qualifying borrowing costs (note 2(s)). Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset and is depreciated over the original remaining useful life of the asset when it is probable that future economic benefits will flow to the Group and the costs can be measured reliably. All other subsequent expenditure, such as repairs and maintenance and overhaul costs, is recognised as an expense in the period in which it is incurred.

Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the consolidation statement of comprehensive income on the date of retirement or disposal.

Land and construction in progress are not depreciated. Depreciation on other property, plant and equipment is calculated to write off the cost on a straight-line basis over the estimated useful lives as follows:

Buildings and structures	5 to 51 years
Other plant and equipment	2 to 20 years

The useful lives of property, plant and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

f. Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Such determination is made on an evaluation of the substance of the arrangement, regardless of whether the arrangements take the legal form of a lease.

(i) Assets leased to the Group

Leases are initially recognised as a right-of-use asset and corresponding liability at the date of which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the consolidated statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets leased by the Group and the corresponding liabilities are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

– fixed payments (including in-substance fixed payments), less any lease incentives receivable; and
– variable lease payments that are based on an index or a rate.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the incremental borrowing rate of the respective entities. Right-of-use assets are measured at cost comprising the following:

– the amount of the initial measurement of lease liability;
– any lease payments made at or before the commencement date, less any lease incentive received;
– any initial direct costs; and
– restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the consolidated statement of comprehensive income. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise equipment and small items of office furniture.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

f. Leased assets – Continued

(ii) Assets leased out by the Group

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

Where the Group leases out assets under operating leases, the assets are included in the consolidated statement of financial position according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies. Impairment losses are accounted for in accordance with the accounting policy as set out in the note 2(h). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies as set out in the note 2(d)(ii).

g. Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation, and which are not occupied by the Group. It also includes properties that are being constructed or developed for future use as investment properties.

Land held under operating leases are classified and accounted for as an investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment properties are initially measured at their cost, including directly attributable construction costs, borrowing costs and other related transaction costs. After initial recognition, investment properties are stated in the consolidated statement of financial position at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee and are prepared or reviewed periodically by independent external valuers. The fair value of investment properties reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the properties. Changes in fair value arising on the revaluation of investment properties are recognised in the consolidated statement of comprehensive income.

Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to the profit or loss in the period in which they are incurred.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

h. Impairment of investment in a subsidiary and non-financial assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- right-of-use assets;
- goodwill; and
- investment in a subsidiary (at Company level).

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the profit or loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash inflows (a cash-generating unit).

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and its value in use. Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(ii) Reversals of impairment losses

An impairment loss of an asset other than goodwill is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the profit or loss in the year in which the reversals are recognised.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

i. Properties under development/held for development

Properties under development are carried at the lower of cost and the estimated net realisable value. Cost includes original land acquisition costs, costs of land use rights, construction expenditures incurred and other direct development costs attributable to such properties, including interest incurred on loans directly attributable to the development prior to the completion of construction. The net realisable value is determined by reference to estimated sale proceeds of properties sold in the ordinary course of business less all estimated selling expenses.

Properties under development with the development expected to be completed within one year from the end of the reporting period, which have either been pre-sold or are intended for sale, are classified under current assets.

Properties held for development represent interests in land held for future development which are stated at cost less accumulated impairment losses.

j. Goodwill

Goodwill represents the excess of the aggregate of the fair value of the consideration transferred and the fair value of non-controlling interest over the Group's interest in the net fair value of the acquiree's net identifiable assets, liabilities and contingent liabilities at the date of acquisition.

Goodwill is stated in the consolidated statement of financial position at cost less accumulated impairment losses (note 2(h)). Goodwill is allocated to cash-generating units and is tested annually for impairment. Impairment losses on goodwill are not reversed. On disposal of an entity or business unit, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

k. Contract assets/liabilities

In the case of fixed price contracts, the customer pays the fixed amount based on a payment schedule. If the performance obligations fulfilled by the Group exceed the total payments received to date, a contract asset is recognised. If the total payments received to date exceed the performance obligation fulfilled, a contract liability is recognised. The contract assets are transferred to receivables when the Group's rights to the contract consideration become unconditional.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

l. Trade and other receivables

Trade and other receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing component, when they are recognised at fair value. The Group holds trade and other receivables with the objective to collect the contractual cash flows and therefore measured them subsequently at amortised cost using the effective interest method, less loss allowance for expected credit losses.

For trade receivables, the Group applies the simplified approach to providing for expected credit losses, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. When measuring expected credit losses, the Group considers the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and possibility that no credit loss occurs.

For other receivables, the Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition by considering available reasonable and supportive forwarding-looking information. Indicators may include:

- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- actual or expected significant changes in the operating results of the borrower; and
- significant changes in the expected performance and behavior of the borrower, including changes in the payment status of borrowers in the Group.

Trade and other receivables are included in current assets, except for maturities greater than twelve months after the end of the reporting period. These are classified as non-current assets. Trade and other receivables are included in the consolidated statement of financial position under "Trade receivables, net" and "Prepayments, deposits and other current assets" under current assets and "Prepayments and other receivables" under non-current assets.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

m. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition, less bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

n. Financial assets at fair value through profit or loss

The Group classifies its investments in equity securities, other than investment in a subsidiary, as financial assets at fair value through profit or loss. This category comprises financial assets held for trading and those designated as fair value through profit or loss at inception.

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownerships.

At initial recognition, the Group measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the consolidated statement of comprehensive income. At the end of each reporting period, the fair value is re-measured, changes in the fair value of financial assets are recognised in "Other gains, net" in the consolidated statement of comprehensive income.

o. Financial guarantee contracts

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

p. Trade and other payables

Trade and other payables are recognised initially at fair value and thereafter stated at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. They are included in current liabilities, except for maturities greater than twelve months after the end of the reporting period. These are classified as non-current liabilities.

q. Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate of the amount required to settle the obligation. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of resources will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

r. Borrowings

Borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost with any difference between the amount initially recognised, being the proceeds net of transaction costs, and the redemption value being recognised in the consolidated statement of comprehensive income over the period of the borrowings, using the effective interest method.

s. Borrowing costs

Borrowing costs are expensed in the consolidated statement of comprehensive income in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

Ancillary costs incurred in connection with arranging borrowings, to the extent that they are regarded as adjustments to interest costs, are recognised as expenses over the period of the borrowing using the effective interest method.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

t. Income tax

Income tax for the year comprises current income tax and movements in deferred income tax assets and liabilities. Income tax is recognised in the consolidated statement of comprehensive income.

(i) Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

(ii) Deferred income tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases respectively. Deferred income tax assets also arise from unused tax losses and unused tax credits.

All deferred income tax liabilities are recognised while deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2(g), the amount of deferred income tax recognised is measured using the tax rates that would be applied on sale of those assets at their carrying value in the statement of financial position unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred income tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred income tax assets and liabilities are not discounted.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

t. Income tax – Continued

(iii) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to offset current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

u. Employee benefits

(i) Salaries, annual bonuses, annual leave entitlements, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, provisions are made for the estimated liability as a result of services rendered by employees up to the end of the reporting period.

(ii) Defined contribution retirement schemes (including the Mandatory Provident Fund) are offered to employees of the Group. The schemes are operated by PCCW and the assets of such schemes are generally held in separate trustee-administered funds. The schemes are generally funded by payments from the relevant companies of the PCCW Group including the Group and, in some cases, employees themselves, taking into account of the recommendations of independent qualified actuaries.

The Group's contributions to the defined contribution retirement schemes are recognised as expenses in the consolidated statement of comprehensive income in the period to which the contributions relate. Under the defined contribution retirement schemes, the employer is required to make contributions to the scheme at rates specified under the rules of the scheme. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

u. Employee benefits – Continued

(iii) The Group and PCCW operate share option schemes where employees (including directors) are granted options to acquire shares of the Company or PCCW at specified exercise prices. The fair value of the employee services received in exchange for the grant of the options is recognised as staff costs in the consolidated statement of comprehensive income with a corresponding increase in an employee share-based compensation reserve under equity. The fair value of the options granted is measured at grant date using the trinomial option pricing model, taking into account the terms and conditions upon which the options were granted, and spread over the respective vesting period during which the employees become unconditionally entitled to the options. At the end of each reporting period, the Group revises its estimates of the number of share options that is expected to become vested. The impact of the revision of original estimates, if any, is recognised in the profit or loss with a corresponding adjustment to the employee share-based compensation reserve over the remaining vesting period. On vesting date, the amount recognised as staff costs is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the employee share-based compensation reserve). The equity amount is recognised in the employee share-based compensation reserve until either the share options are exercised (when it is transferred to the share premium account) or the share options expire (when it is released directly to retained earnings). When the share options are exercised, the proceeds received, net of any directly attributable transaction cost, are credited to share capital (nominal value) and share premium.

(iv) The Board of directors of PCCW may also grants shares of PCCW or share stapled units of HKT Limited ("HKT"), a fellow subsidiary of the Group, to the employees of the Group at nil consideration under its share award scheme; which the awarded shares or share stapled units are either newly issued at par value (the "Subscription Scheme") or are purchased from the open market (the "Purchase Scheme").

Awards under the Purchase Scheme and the Subscription Scheme, are accounted for as cash-settle share-based payments. The fair value of the awarded PCCW shares and HKT share stapled units represents the quoted market price of PCCW shares and HKT share stapled units purchased from the open market under the Purchase Scheme and the issue price of PCCW shares and HKT share stapled units under the Subscription Scheme are recognised as financial assets at fair value through profit or loss, and subsequently measured at fair value. The fair value of the employee services received in exchange for the grant of PCCW shares and HKT share stapled units are recognised as staff costs in the consolidated statement of comprehensive income over the respective vesting period with a corresponding obligation being recognised. On vesting date, the amount recognised as staff costs is adjusted to reflect the actual number of awarded PCCW shares and HKT share stapled units that vest (with a corresponding adjustment to the obligation) and the carrying amount of awarded PCCW shares and HKT share stapled units recognised in the financial assets at fair value through profit or loss is offset with the obligation.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

v. Share-based payment transactions with cash alternatives

Share-based payment transactions are those arrangements which the terms provide either the Group or the counterparty with a choice of whether the Group settles the transaction in cash (or other assets) or by issuing equity instruments. Upon the vesting conditions, if any, are met, the Group shall account for that transaction, or the components of that transaction, as a cash-settled share-based payment transaction if, and to the extent that, the Group has incurred a liability to settle in cash (or other assets). Otherwise, the share-based payment transaction is accounted for as an equity-settled share-based payment transaction if, and to the extent that, no such liability has been incurred.

w. Foreign currency translation

The Group maintains their books and records in the primary currencies of their operations (the "functional currencies"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

Foreign currencies transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in the consolidated statement of comprehensive income.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of transactions. Items included in the consolidated statement of financial position of foreign operations, including goodwill arising on consolidation of foreign operations acquired, are translated into Hong Kong dollars at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in the currency translation reserve under equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are recognised in other comprehensive income and accumulated separately currency translation reserve under equity. On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in the currency translation reserve under equity which relate to that foreign operation is included in the calculation of the gain or loss on disposal.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES – CONTINUED

x. Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

y. Dividend distribution

Dividend distribution to the Company's shareholders/bonus convertible noteholders is recognised as a liability in the consolidated financial statements and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom be equal to the related actual results. Management has also made judgements in applying the Group's accounting policies. These judgements and the key sources of estimation uncertainty are discussed below:

(i) Estimated valuation of investment properties

The best evidence of fair value is current prices in an active market for similar properties. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its estimates, the Group considers both (i) information from the valuations of investment properties performed by external professional valuers on a market value basis and (ii) other principal assumptions, including the current and expected capitalisation rate, market price and market rent in view of the current usage and condition of the investment properties to determine the fair value of the investment properties. Had the Group used different capitalisation rate, market prices, market rents or other assumptions, the fair value of the investment properties would be different and thus caused impact to the consolidated statement of comprehensive income. As at December 31, 2018, the fair value of the investment properties was HK$3,599 million.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – CONTINUED

(ii) Cost of sales and amount payable to the HKSAR Government under the Cyberport Project Agreement

Pursuant to the agreement dated May 17, 2000 entered into with the HKSAR Government ("Cyberport Project Agreement"), the HKSAR Government is entitled to receive approximately 65 per cent of the surplus cash flow earned from the Cyberport project. The amounts paid and payable to the HKSAR Government are part of the Group's costs of developing the Cyberport project.

The estimated cost of developing the Cyberport project, including construction costs and the amounts paid and payable to the HKSAR Government is recognised as cost of properties sold. Had the estimates of development costs been revised, this would have affected the costs of properties sold recorded in the consolidated statement of comprehensive income.

(iii) Creditability of value added tax

As at December 31, 2018, the Group has value added tax ("VAT") payment of Indonesian Rupiah ("IDR") 183,834.4 million (equivalent to HK$98.4 million) arising from the acquisition of a plot of land in Jakarta, Indonesia in October 2013 ("Land VAT") which is classified as "Prepayments and other receivables" under non-current assets. Such Land VAT has been reported as creditable input VAT pending to compensate future output VAT after the tax assessment in 2014. During the year, the Indonesian tax office ("ITO") has performed a tax re-audit and issued an assessment notice stating that the Land VAT is non-creditable resulting in a tax underpayment of IDR183,834.4 million and a penalty of IDR183,834.4 million. The total of tax and penalty of IDR367,668.8 million (approximately HK$197 million) has been paid in advance in August 2018 and included in "Prepayments, deposits and other current assets". After consideration of professional advice, the Group has filed an objection to the ITO against the tax assessment. In case the ITO rejects our objection, impairment to the balances would be made and any impairment losses would be recognised in the consolidated statement of comprehensive income. Further details are disclosed in note 34.

(iv) Deferred income tax

While deferred income tax liabilities are provided in full on all taxable temporary differences, deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. In assessing the amount of deferred income tax assets that need to be recognised, the Group considers future taxable income and ongoing prudent and feasible tax planning strategies. In the event that the Group's estimates of projected future taxable income and benefits from available tax strategies are changed, or changes in current tax regulations are enacted that would impact the timing or extent of the Group's ability to utilise the tax benefits carried forward in the future, adjustments to the recorded amount of net deferred income tax assets and income tax would be made. As at December 31, 2018, no deferred income tax assets were netted off against the deferred income tax liabilities recognised in the consolidated statement of financial position (note 29(a)).

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – CONTINUED

(v) Impairment of investment in a subsidiary and non-financial assets

At the end of each reporting period, the Group reviews internal and external sources of information to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- right-of-use assets;
- goodwill;
- properties under development/held for development; and
- investment in a subsidiary (at Company level).

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the profit or loss whenever the carrying amount of an asset exceeds its recoverable amount.

The sources used to identify indications of impairment are often subjective in nature and the Group is required to use judgement in applying such information to its business. The Group's interpretation of this information has a direct impact on whether an impairment assessment is performed as at the end of any given reporting period.

If an indication of impairment is identified, such information is further subject to an exercise that requires the Group to estimate the recoverable value. The recoverable value of property, plant and equipment, right-of-use assets, goodwill and investment in a subsidiary represents the greater of the asset's fair value less cost to sell or its value in use while the recoverable value of properties under development/held for development refers to the net realisable value. Depending on the Group's assessment of the overall materiality of the asset under review and complexity of deriving reasonable estimates of the recoverable value, the Group may perform such assessment utilising internal resources or the Group may engage external advisors to counsel the Group in making this assessment. Regardless of the resources utilised, the Group is required to make many assumptions to make this assessment, including the utilisation of such asset, the cash flows to be generated, appropriate market discount rates and the projected market and regulatory conditions. Changes in any of these assumptions could result in a material change to future estimates of the recoverable value of any asset.

4. REVENUE

Revenue comprises the revenue recognised in respect of the following businesses:

HK$ million	2018	2017
All-season recreational activities in Japan	**108**	96
Property investment in Indonesia	**138**	3
Property and facilities management in Hong Kong	**28**	28
Property management in Japan	**21**	20
Other businesses	**5**	17
	300	164

a. Unsatisfied long-term contracts

The following table shows unsatisfied performance obligations resulting from fixed-price contracts.

HK$ million	2018
Aggregate amount of the transaction price allocated to long-term contracts that are partially or fully unsatisfied as at December 31*	**1,509**

* As permitted under the transitional provisions in HKFRS 15, the transaction price allocated to (partially) unsatisfied performance obligations as of December 31, 2017 is not disclosed.

Management expects that 6% of the transaction price allocated to the unsatisfied contracts as of December 31, 2018 will be recognised as revenue during the year ending December 31, 2019. The remaining 94% will be recognised in the year ending December 31, 2020. The amount disclosed above does not include variable consideration which is constrained.

All other unsatisfied performance obligation of the Group's contracts with customer has duration of one year or less or is billed based on time incurred.

b. Assets recognised from costs to obtain a contract

As at December 31, 2018, the Group recognised an asset of approximately HK$16 million (2017: HK$5 million) in relation to the costs incurred to obtain the property sale contracts which was presented within "Prepayments and other receivables" under non-current assets. The asset will be charged to the consolidated statement of comprehensive income consistent with the pattern of recognition of the associated revenue. No amortisation or impairment loss was recognised during the year ended December 31, 2018.

5. SEGMENT INFORMATION

Information regarding the Group's reportable segments as provided to the Group's senior executive management for the purposes of resources allocation and assessment of segment performance for the year ended December 31 is set out below:

a. Business segments

	Revenue						Results		Other information	
	Revenue from external customers		Inter-segment revenue		Reportable segment revenue		Segment results before taxation		Additions to non-current segment assets	
HK$ million	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017 (Restated)**	**2018**	**2017**
All-season recreational activities in Japan	**108**	96	**—**	—	**108**	96	**4**	4	**119**	13
Property investment in Indonesia	**138**	3	**—**	—	**138**	3	**53**	(47)	**63**	650
Property development in Thailand	**—**	—	**—**	—	**—**	—	**(10)**	(4)	**54**	5
Property development in Japan	**—**	—	**—**	—	**—**	—	**(41)**	(39)	**1,162**	478
Property and facilities management in Hong Kong	**28**	28	**—**	—	**28**	28	**3**	2	**—**	—
Property development in Hong Kong	**—**	—	**—**	—	**—**	—	**(14)**	—	**2,172**	—
Property management in Japan	**21**	20	**—**	—	**21**	20	**1**	2	**—**	—
Other businesses (note i)	**5**	17	**2**	2	**7**	19	**2**	3	**—**	—
Elimination	**—**	—	**(2)**	(2)	**(2)**	(2)	**—**	—	**—**	—
Total of reported segments	**300**	164	**—**	—	**300**	164	**(2)**	(79)	**3,570**	1,146
Unallocated	**—**	—	**—**	—	**—**	—	**(387)**	(234)	**8**	1
Consolidated	**300**	164	**—**	—	**300**	164	**(389)**	(313)	**3,578**	1,147

5. SEGMENT INFORMATION – CONTINUED

a. Business segments – Continued

HK$ million	Assets 2018	Assets 2017 (Restated)	Liabilities 2018	Liabilities 2017 (Restated)
All-season recreational activities in Japan	**279**	144	**30**	27
Property investment in Indonesia	**4,241**	4,380	**413**	489
Property development in Thailand	**695**	605	**19**	10
Property development in Japan	**2,523**	1,043	**1,096**	147
Property and facilities management in Hong Kong	**17**	20	**1**	3
Property development in Hong Kong	**2,302**	—	**806**	—
Property management in Japan	**32**	27	**5**	6
Other businesses (note i)	**71**	75	**8**	11
Total of reported segments	**10,160**	6,294	**2,378**	693
Unallocated	**1,412**	4,100	**5,088**	5,040
Consolidated	**11,572**	10,394	**7,466**	5,733

(i) Revenue from segment below the quantitative thresholds under HKFRS 8 is mainly attributable to the property investment in Hong Kong. This segment has never met any of the quantitative thresholds for determining reportable segments.

(ii) For the year ended December 31, 2018, apart from the rental income from property investment in Indonesia, property investment in Hong Kong and other businesses of HK$140 million (2017: HK$17 million), revenue of all other segments of HK$160 million (2017: HK$147 million) are recognised over time.

5. SEGMENT INFORMATION – CONTINUED

b. Geographical information

The following table sets out the information about geographical location of (i) the Group's revenue from external customers and (ii) the Group's investment properties, property, plant and equipment, right-of-use assets, properties under development, properties held for development, goodwill, restricted cash and prepayments and other receivables ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the assets, in the case of investment properties, property, plant and equipment, right-of-use assets, properties under development and properties held for development, and the location of the operation to which they are allocated, in case of goodwill, restricted cash and prepayments and other receivables.

	Revenue from external customers		**Specified non-current assets**	
HK$ million	**2018**	**2017**	**2018**	**2017 (Restated)**
Japan	**132**	116	**1,894**	1,081
Hong Kong (place of domicile)	**30**	33	**2,348**	77
Mainland China	**—**	12	**—**	1
Thailand	**—**	—	**658**	598
Indonesia	**138**	3	**3,943**	4,168
	300	164	**8,843**	5,925

6. OTHER GAINS, NET

HK$ million	**2018**	**2017**
Fair value gain on financial assets at fair value through profit or loss	**1**	1
Reversal of provision related to disposal of subsidiaries in prior years	**—**	11
	1	12

7. FINANCE COSTS

HK$ million	2018	2017 (Restated)
Interest expenses:		
– Bank borrowings	**25**	40
– Guaranteed notes	**220**	177
– Lease liabilities	**2**	1
– Other finance costs	**3**	3
	250	221
Less:		
– Interest capitalised into investment properties	—	(114)
– Interest capitalised into properties under development	**(32)**	(19)
– Interest capitalised into property, plant and equipment	**(17)**	(2)
	201	86

Borrowing costs have been capitalised at the weighted average rate of the Group's borrowings at 4.61 per cent per annum in 2018 (2017: 5.30 per cent).

8. LOSS BEFORE TAXATION

Loss before taxation is stated after crediting and charging the following:

HK$ million	2018	2017 (Restated)
Crediting:		
Gross rental income from investment properties	**140**	5
Other rental income	**—**	12
Less: outgoings	**(7)**	(5)
Charging:		
Depreciation of property, plant and equipment	**27**	22
Depreciation of right-of-use assets		
– properties	**40**	43
– equipment and others	**1**	1
Staff costs, included in:		
– cost of sales	**24**	20
– general and administrative expenses	**154**	157
Contributions to defined contribution retirement schemes, included in:		
– cost of sales	**1**	—
– general and administrative expenses	**6**	5
Share-based compensation expenses	**10**	6
Auditor's remuneration		
– audit services	**4**	5
– non-audit services	**1**	2
Net foreign exchange loss	**1**	6
Short-term leases expenses	**5**	3

9. DIRECTORS' EMOLUMENTS

Directors' emoluments comprise the aggregate amounts paid/payable by the Group to each of the directors of the Company in connection with their employment as directors of the Company or its subsidiaries undertaking during the year.

HK$'000	Directors' fee	Salaries	Bonuses (note i)	Allowances	Benefits in kind (note ii)	Employer's contribution to retirement scheme	Total
				2018			
Executive Directors							
Li Tzar Kai, Richard	—	—	—	—	—	—	—
Lee Chi Hong, Robert (note iii)	—	7,680	—	3,291	104	1,152	12,227
James Chan (note iv)	—	4,855	12,100	2,081	11	728	19,775
Hui Hon Hing, Susanna (note v)	—	—	—	—	—	—	—
Non-executive Directors							
Dr. Allan Zeman, GBM, GBS, JP (note vi)	183	—	—	—	—	—	183
Independent Non-executive Directors							
Chiang Yun	228	—	—	—	—	—	228
Prof Wong Yue Chim, Richard, SBS, JP	228	—	—	—	—	—	228
Dr. Vince Feng (note vii)	181	—	—	—	—	—	181
	820	12,535	12,100	5,372	115	1,880	32,822

HK$'000	Directors' fee	Salaries	Bonuses	Allowances	Benefits in kind (note ii)	Employer's contribution to retirement scheme	Total
				2017			
Executive Directors							
Li Tzar Kai, Richard	—	—	—	—	—	—	—
Lee Chi Hong, Robert (note iii)	—	7,210	—	3,090	99	1,081	11,480
James Chan (note iv)	—	4,558	—	1,953	11	684	7,206
Independent Non-executive Directors							
Chiang Yun	228	—	—	—	—	—	228
Prof Wong Yue Chim, Richard, SBS, JP	228	—	—	—	—	—	228
Dr. Allan Zeman, GBM, GBS, JP	228	—	—	—	—	—	228
	684	11,768	—	5,043	110	1,765	19,370

9. DIRECTORS' EMOLUMENTS – CONTINUED

(i) Refers to bonuses in respect of 2017 and 2018, paid in 2018.

(ii) Benefits in kind mainly includes medical insurance premium.

(iii) Mr. Lee Chi Hong, Robert is also the Chief Executive Officer of the Company.

(iv) Mr. James Chan is also the Project Director of the Company.

(v) Ms. Hui Hon Hing, Susanna has been appointed as an Executive Director of the Company with effect from May 9, 2018.

(vi) Dr. Allan Zeman has been re-designated from an independent non-executive director to a non-executive director of the Company with effect from March 16, 2018.

(vii) Dr. Vince Feng has been appointed as an independent non-executive director with effect from March 16, 2018.

(viii) No director offered to waive the basic salary and housing benefits during the year of 2018 (2017: Nil).

(ix) No directors' emoluments, retirements benefits, payments or benefits in respect of termination of directors' services have been paid to or are receivable by the directors during the year ended December 31, 2018 (2017: Nil).

(x) No consideration was provided to or receivable by third parties for making available directors' services during the year ended December 31, 2018 (2017: Nil).

(xi) Save as disclosed in the Report of The Directors, there are no loans, quasi-loans and other dealings entered into by the Company or its subsidiary undertaking of the Company, in favour of directors, their controlled bodies corporate and connected entities during the year ended December 31, 2018 (2017: Nil).

(xii) Save as disclosed in the Report of The Directors, there are no other significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended December 31, 2018 (2017: Nil).

10. FIVE TOP-PAID EMPLOYEES

a. Of the five highest paid individuals in the Group, two (2017: two) are directors whose emoluments are set out in note 9. Details of the emoluments of the remaining three highest paid individuals (2017: three) are as follows:

HK$ million	2018	2017
Salaries and other short-term employee benefits	**16**	16
Bonuses (note i)	**14**	12
Retirement scheme contributions	**1**	1
Shared-based compensation expenses	**10**	6
	41	35

(i) Bonuses were included in the year of payment.

b. The emoluments of the remaining three individuals (2017: three) are within the emolument ranges as set out below:

	Number of individuals	
	2018	**2017**
HK$2,500,001 – HK$3,000,000	**1**	—
HK$3,000,001 – HK$3,500,000	**—**	1
HK$14,000,001 – HK$14,500,000	**—**	1
HK$18,000,001 – HK$18,500,000	**1**	1
HK$20,000,001 – HK$20,500,000	**1**	—
	3	3

11. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5 per cent (2017: 16.5 per cent) on the estimated assessable profits for the year.

Taxation for subsidiaries outside Hong Kong has been calculated on the estimated assessable profits for the year at the rates prevailing in the respective jurisdictions.

HK$ million	2018	2017
Hong Kong profits tax		
– Provision for current year	1	—
Income tax outside Hong Kong		
– Provision for current year	42	23
Deferred income tax		
– Other origination and reversal of temporary differences	5	3
	48	26

Reconciliation between income tax and the Group's accounting loss at applicable tax rates is set out below:

HK$ million	2018	2017 (Restated)
Loss before taxation	(389)	(313)
Notional tax on loss before taxation, calculated at applicable tax rate of 16.5 per cent (2017: 16.5 per cent)	(64)	(52)
Effect of different tax rates of subsidiaries operating overseas	(9)	—
Tax effect of income not subject to taxation	(10)	(13)
Tax effect of expenses not deductible for taxation purposes	88	64
Tax losses for which no deferred income tax asset was recognised	14	8
Utilisation of previously unrecognised tax losses	(1)	(1)
Withholding tax	21	15
Others	9	5
Income tax	48	26

12. DIVIDEND

HK$ million	2018	2017
Final dividend	—	—

There was no final dividend paid for 2018 and 2017.

13. LOSS PER SHARE

The calculations of basic and diluted loss per share based on the share capital of the Company are as follows:

	2018	2017 (Restated)
Loss (HK$ million)		
Loss for the purpose of calculating the basic and diluted loss per share	**(437)**	(339)
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating the basic and diluted loss per share	**1,587,539,200**	1,587,576,022

Pursuant to the terms of the applicable deed poll, the bonus convertible notes confer upon the holders the same economic interests attached to the bonus shares. The aggregated amount of HK$592,553,354.40 (2017: HK$592,553,354.40) for the outstanding bonus convertible notes which could be converted into 1,185,106,708 (2017: 1,185,106,708) fully paid ordinary shares of HK$0.50 each is included in the weighted average number of ordinary shares for calculating the basic loss per share for the years ended December 31, 2018 and December 31, 2017.

14. INVESTMENT PROPERTIES

HK$ million	2018	2017
At January 1,	**3,822**	3,266
Additions	**44**	647
Surplus on revaluation of investment properties	**4**	—
Transfer to property, plant and equipment (note i)	**—**	(93)
Exchange differences	**(271)**	2
At December 31,	**3,599**	3,822

(i) During the year ended December 31, 2017, a portion of the property has been changed from investment property held for rental purpose to owner-occupied property at the commencement of owner occupation and the respective fair value of HK$93 million has been reclassified to property, plant and equipment at the date of transfer.

(ii) As at December 31, 2018, value added tax receivables of approximately HK$255 million and HK$11 million (December 31, 2017: HK$275 million and HK$6 million) in relation to the land acquisition and construction of the investment property are included in non-current assets "Prepayments and other receivables" and current assets "Prepayment, deposits and other current assets" in the consolidated statement of financial position respectively.

14. INVESTMENT PROPERTIES – CONTINUED

a. The following tables analyse the investment properties which are carried at fair value. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets (level 1)
- Inputs other than quoted prices that are observable either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for asset that are not based on observable market data (level 3)

	Fair value measurement as at December 31, 2018		
HK$ million	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Recurring fair value measurement			
Investment properties			
– Indonesia	**—**	**—**	**3,543**
– Hong Kong	**—**	**—**	**56**

	Fair value measurement as at December 31, 2017		
HK$ million	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Recurring fair value measurement			
Investment properties			
– Indonesia	—	—	3,770
– Hong Kong	—	—	52

During the years ended December 31, 2018 and December 31, 2017, there were no transfers between different levels.

14. INVESTMENT PROPERTIES – CONTINUED

Information about level 3 fair value measurements

		As at December 31, 2018	
Investment properties	**Valuation technique**	**Unobservable inputs**	**Rate**
– Indonesia	**Income capitalisation approach**	**Capitalisation rate**	**7%**
		Monthly gross market rent:	
		for office	**Rp 340,000/sq.m. to Rp 480,000/sq.m.**
		for retail	**Rp 330,000/sq.m. to Rp 600,000/sq.m.**
– Hong Kong	**Income capitalisation approach**	**Capitalisation rate**	**4.5%**
		Monthly gross market rent	**HK$10/sq. ft.**

		As at December 31, 2017	
Investment properties	**Valuation technique**	**Unobservable inputs**	**Rate**
– Indonesia	Income capitalisation approach	Capitalisation rate	7%
		Monthly gross market rent:	
		for office	Rp 340,000/sq.m. to Rp 479,000/sq.m.
		for retail	Rp 330,000/sq.m. to Rp 600,000/sq.m.
– Hong Kong	Income capitalisation approach	Capitalisation rate	4.5%
		Monthly gross market rent	HK$9.27/sq. ft.

Rp represents Indonesian rupiah

For the years ended December 31, 2018 and December 31, 2017, the fair value of investment property in Indonesia is determined by an independent professional valuer using the income capitalisation approach. The valuation takes into account of expected market rental and capitalisation rate. A significant change in the expected market rental or capitalisation rate would result in a significant change in the fair value of the investment property.

For the investment property in Hong Kong, the usage of this property is constrained by the Group's undertaking to the lessee. Management has performed valuation of the fair value as at December 31, 2018 and December 31, 2017 using the income capitalisation approach assuming such constraint and the current tenancy agreement will continue in its existing manner in the foreseeable future. The valuation takes into account expected market rental and capitalisation rate. A significant change in the expected market rental or capitalisation rate would result in a significant change in the fair value of the investment property.

14. INVESTMENT PROPERTIES – CONTINUED

b. The carrying amount of investment properties is analysed as follows:

HK$ million	2018	2017
Held in Indonesia		
On medium-term lease (10-50 years)	**3,543**	3,770
Held in Hong Kong		
On long lease (over 50 years)	**56**	52
	3,599	3,822

15. PROPERTY, PLANT AND EQUIPMENT

HK$ million	Land	Buildings and structures	Other plant and equipment	Construction in progress	Total
At January 1, 2017					
At cost	41	99	183	18	341
Less: Accumulated depreciation	—	(26)	(141)	—	(167)
Net book value	41	73	42	18	174
Net book value at January 1, 2017	41	73	42	18	174
Additions	31	10	19	227	287
Transfer from investment properties (note 14(i))	5	64	24	—	93
Transfers	—	39	22	(61)	—
Depreciation	—	(5)	(17)	—	(22)
Disposal	—	(2)	(3)	—	(5)
Exchange differences	3	1	4	(1)	7
Net book value at December 31, 2017	80	180	91	183	534
At December 31, 2017					
At cost	80	210	247	183	720
Less: Accumulated depreciation	—	(30)	(156)	—	(186)
Net book value	80	180	91	183	534
Net book value at January 1, 2018	**80**	**180**	**91**	**183**	**534**
Additions	**—**	**13**	**19**	**778**	**810**
Acquisition of a subsidiary (note 35)	**2**	**—**	**1**	**—**	**3**
Transfers	**—**	**24**	**—**	**(24)**	**—**
Depreciation	**—**	**(9)**	**(18)**	**—**	**(27)**
Exchange differences	**2**	**2**	**1**	**3**	**8**
Net book value at December 31, 2018	**84**	**210**	**94**	**940**	**1,328**
At December 31, 2018					
At cost	**84**	**251**	**268**	**940**	**1,543**
Less: Accumulated depreciation	**—**	**(41)**	**(174)**	**—**	**(215)**
Net book value	**84**	**210**	**94**	**940**	**1,328**

16. RIGHT-OF-USE ASSETS

HK$ million	2018	2017
Properties	**100**	42
Equipment and others	**1**	3
	101	45

The Group leases various properties, equipment and vehicles. Rental contracts are typically made for fixed periods of 1 to 6 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Additions to the right-of-use assets during the year ended December 31, 2018 were HK$98 million (2017: HK$38 million).

During the year ended December 31, 2018, total cash outflow for leases of HK$42 million was included in net cash generated from financing activities (2017: HK$46 million).

17. PROPERTIES UNDER DEVELOPMENT/HELD FOR DEVELOPMENT

a. Properties under development

HK$ million	2018	2017
At January 1,	**612**	402
Additions	**505**	208
Exchange differences	**17**	2
At December 31,	**1,134**	612
Less: Properties under developments classified as non-current assets	**(364)**	(612)
Properties under developments classified as current assets	**770**	—

(i) Properties under development as at December 31, 2018 represents the freehold land under development in Japan which is held by an indirect wholly-owned subsidiary. Management has performed an assessment of the net realisable value of the development project in Japan included in properties under development as at December 31, 2018. The assessment is based on the discounted cash flow forecast of the development project which involves the use of significant estimates and assumptions such as selling prices, construction costs and discount rate. Changes in the assumptions adopted in the valuation may result in a change in future estimate of the net realisable value of the development project.

17. PROPERTIES UNDER DEVELOPMENT/HELD FOR DEVELOPMENT – CONTINUED

b. Properties held for development

HK$ million	2018	2017
At January 1,	**598**	544
Additions	**2,219**	5
Exchange differences	**5**	49
At December 31,	**2,822**	598

Properties held for development as at December 31, 2018 represents freehold land in Thailand and a property in Hong Kong, for which the Group intends to hold for future development projects.

The land in Thailand is held by the Group through a long-term operating lease agreement with the legal owners, 39 per cent owned entities, established to hold the land, whose financial statements have been consolidated into these consolidated financial statements with the carrying amount of HK$650 million (December 31, 2017: HK$598 million).

Management has performed assessments on the net realisable value of the property interest together with the costs of improvements spent on the land in Thailand included in properties held for development as at December 31, 2018. The valuation is based on the direct comparison approach which involves the use of estimates and assumptions including the recent sales prices of similar properties with adjustments for any difference in nature, locality and condition of the properties. Changes in the assumptions adopted in the valuation may result in a change in future estimates of the net realisable value of the development project.

Included in the additions is the Group's completed acquisition of the property located at Nos. 3-6 Glenealy, Central, Hong Kong in March 2018. The consideration comprised (i) an initial cash consideration of HK$2,018 million and an adjustment to initial cash consideration of HK$146 million; and (ii) the allotment and issuance of one non-voting participating share of the Company's wholly-owned subsidiary to the seller which entitles the seller the right to 50 per cent of the dividend distributions of the development project. The fair value of the non-voting participating share is estimated to be approximately HK$133 million and is recognised as non-controlling interests in the consolidated statement of financial position as at December 31, 2018. As at December 31, 2018, the carrying amount of HK$2,172 million was recorded as properties held for development in the consolidated statement of financial position. Management has performed assessment of the net realisable value of the development project based on the residual method which involves the use of significant estimates and assumptions such as expected selling prices and construction costs. Changes in the assumptions adopted in the valuation may result in a change in future estimate of the net realisable value of the development project.

As at December 31, 2018, the carrying value of leasehold land included in properties held for development was approximately HK$2,172 million (December 31, 2017: Nil).

18. GOODWILL

HK$ million	2018	2017
Costs:		
At January 1,	**99**	99
Acquisition of a subsidiary operating laundry services in Japan (note 35)	**2**	—
At December 31,	**101**	99
Accumulated impairment losses:		
At January 1, and December 31,	**(96)**	(96)
Carrying amount:		
At December 31,	**5**	3

Goodwill is allocated to the Group's cash-generating unit identified as follows:

HK$ million	2018	2017
Other business – property management	**3**	3
Other business – laundry services	**2**	—
At December 31,	**5**	3

Management has performed assessments of the recoverable amounts of the property management and laundry services based on the cash flow forecast of the businesses. Management considered that there is no impairment of goodwill in relation to these operations as at December 31, 2018 (December 31, 2017: Nil).

The impairment losses recognised in prior years related to the property development division and ski operation.

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

HK$ million	2018	2017
Listed equity securities, Hong Kong	**4**	2
Unlisted non-equity liquidity fund	**—**	79
	4	81
Less: Amount classified as current assets	**(4)**	(81)
	—	—

20. PRINCIPAL SUBSIDIARIES AND ENTITIES CONSOLIDATED INTO THE CONSOLIDATED FINANCIAL STATEMENTS

a. The following list contains only the particulars of subsidiaries and entities which principally affected the results, assets and liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Company name	Place of incorporation/ operations	Principal activities	Amount of issued capital/ registered capital	Equity interest attributable to the Company Directly	Indirectly
北京裕澤諮詢服務有限公司[1]	The People's Republic of China	Property management and leasing	US$100,000	—	100%
City Charm Enterprises Limited 城創企業有限公司	British Virgin Islands	Investment holding	US$1	—	100%
Cyber-Port Limited 資訊港有限公司	Hong Kong	Property development	HK$2	—	100%
Dong Si (Holdings) Limited 盈科優質創建有限公司	Hong Kong	Provision of leasing and financing	HK$1	—	100%
Easy Treasure Limited	Cayman Islands	Investment holding	US$10,000	—	90.01%
Garhing Investment Company, Limited[2] 家卿置業有限公司	Hong Kong	Property development and investment	HK$500,000	—	50%
Harmony TMK	Japan	Property development	JPY14,150,000,000 (JPY100,000,000 specified capital and JPY14,050,000,000 preferred capital)	—	100%

DECEMBER 31, 2018 (Amount expressed in Hong Kong dollars unless otherwise stated)

20. PRINCIPAL SUBSIDIARIES AND ENTITIES CONSOLIDATED INTO THE CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

Company name	Place of incorporation/ operations	Principal activities	Amount of issued capital/ registered capital	Equity interest attributable to the Company Directly	Equity interest attributable to the Company Indirectly
Interstate Holdings Limited	Hong Kong	Property development management	HK$3,975,836,001	—	100%
Ipswich Holdings Limited	British Virgin Islands	Investment holding	US$2	100%	—
Island South Property Management Limited 南盈物業管理有限公司	Hong Kong	Property management	HK$2	—	100%
Kabushiki Kaisha Niseko Management Service	Japan	Property management and travel agency	JPY10,000,000	—	100%
Madeline Investments Limited 盈科大衍地產發展有限公司	Hong Kong	Trademark registrant	HK$2	—	100%
Melati Holding Limited	British Virgin Islands	Investment holding	US$93,612	—	100%
Million Base Properties Limited[2] 百寶置業有限公司	Hong Kong	Property development and investment	HK$2	—	50%
Million Basis Property Limited[2]	British Virgin Islands/ Hong Kong	Property development and investment	US$1	—	50%
Nihon Harmony Resorts KK	Japan	Ski operation	JPY405,000,000	—	100%
PCPD Capital Limited	Cayman Islands	Investment holding and financing	US$1	—	100%
PCPD Facilities Management Limited	Hong Kong	Provision of property management services	HK$2	—	100%
PCPD Real Estate Agency Limited	Hong Kong	Property sales agency	HK$2	—	100%

20. PRINCIPAL SUBSIDIARIES AND ENTITIES CONSOLIDATED INTO THE CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

Company name	Place of incorporation/ operations	Principal activities	Amount of issued capital/ registered capital	Equity interest attributable to the Company Directly	Indirectly
PCPD Services Limited	Hong Kong	Provision of administrative services	HK$2	—	100%
PCPD South Village Hotel Co., Ltd.	Japan	Hotel management	JPY199,000,000	—	100%
PCPD Wealth Limited	Hong Kong	Provision of financial services	HK$1	—	100%
Phang-nga Leisure Limited	Thailand	Property holding and leasing	THB2,000,000	—	39%
Phang-nga Paradise Limited	Thailand	Property holding and leasing	THB2,000,000	—	39%
PT Prima Bangun Investama	Indonesia	Property development and management	US$26,000,000	—	100%
Rafflesia Investment Limited	British Virgin Islands	Investment holding	US$90,010	—	100%
Silvery Sky Holdings Limited	British Virgin Islands	Investment holding	US$2	—	50%
Talent Master Investments Limited	British Virgin Islands/ Hong Kong	Property investment	US$1	—	100%
Triple8 KK	Japan	Property development and hotel management	JPY199,000,000	—	100%
White Pacific Limited[2]	British Virgin Islands/ Hong Kong	Property development and investment	US$1	—	50%

Note:

1 This company is a wholly foreign owned enterprise.

2 These companies are wholly-owned subsidiaries of Silvery Sky Holdings Limited (collectively the "Silvery Sky Group").

20. PRINCIPAL SUBSIDIARIES AND ENTITIES CONSOLIDATED INTO THE CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

b. Summarised financial information of subsidiaries with material non-controlling interest

Set out below is the summarised consolidated financial information for Silvery Sky Group which are subsidiaries that have non-controlling interests that are material to the Group. Silvery Sky Group holds the property located at Nos 3-6 Glenealy, Central, Hong Kong which were acquired during the year ended December 31, 2018.

Summarised statement of financial position as at December 31, 2018 is as follows:

HK$ million	**Silvery Sky Group 2018**
Non-current assets	**2,039**
Current assets	**1,077**
Total assets	**3,116**
Non-current liabilities	**(803)**
Current liabilities	**(2,360)**
Net liabilities	**(47)**

Summarised financial information for the year ended December 31, 2018 is as follows:

HK$ million	**Silvery Sky Group 2018**
Other income	**6**
Loss before income tax	**(46)**
Income tax	**(1)**
Loss for the year	**(47)**

20. PRINCIPAL SUBSIDIARIES AND ENTITIES CONSOLIDATED INTO THE CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

b. Summarised financial information of subsidiaries with material non-controlling interest – Continued

Summarised cash flows for the year ended December 31, 2018 are as follows:

HK$ million	Silvery Sky Group 2018
Net cash generated from operating activities	3
Net cash used in investing activities	(2,163)
Net cash generated from financing activities	2,163
Net increase in cash and cash equivalents	3
Cash and cash equivalents at January 1	—
Cash and cash equivalents at December 31	3

The information above represents amounts before inter-company eliminations and group consolidation adjustments.

21. CURRENT ASSETS AND LIABILITIES

a. Sales proceeds held in stakeholders' accounts

The balance represents proceeds from the sales of properties of the Group's property development project that are retained in bank accounts opened and maintained by stakeholders. The amount is related to the residential portion of the Cyberport project and will be transferred to specific bank accounts, which are restricted in use, pursuant to certain conditions and procedures as stated in the Cyberport Project Agreement. The sales proceeds held in stakeholders' accounts of HK$507 million as at December 31, 2018 (December 31, 2017: HK$508 million) are exposed to minimum credit risk.

b. Restricted cash

Pursuant to the Cyberport Project Agreement, the Group has a restricted cash balance of approximately HK$94 million as at December 31, 2018 (December 31, 2017: HK$93 million) held in specific bank accounts. The uses of the funds are specified in the Cyberport Project Agreement.

In addition to the above, restricted cash balance of HK$221 million representing the cash held in specific reserve accounts pledged for bank borrowing purposes has been recognised as at December 31, 2018 (note 22(c) and (e)) of which HK$4 million was classified under current assets and HK$217 million was classified under non-current assets in the consolidated statement of financial position.

As at December 31, 2017, the balance of HK$5 million represents a cash deposit set aside as security for a short-term performance bond in favour of a new tenant of the Group's premium Grade A office building in Jakarta, Indonesia.

21. CURRENT ASSETS AND LIABILITIES – CONTINUED

c. Trade receivables, net

(i) Aging analysis

An aging analysis of trade receivables, based on invoice date and before provision for receivable impairment, is set out below:

HK$ million	2018	2017
1 – 30 days	**11**	12
31 – 90 days	**8**	2
	19	14

Trade receivables have a normal credit period which ranges up to 30 days from the date of the invoice unless there is separate mutual agreement on extension of the credit period. Details about the Group's impairment policies are provided in (noted 2(l)).

(ii) The Group applies the HKFRS 9 (2014) simplified approach to measure loss allowance for expected credit losses which uses a lifetime expected loss allowance for trade receivables.

As at December 31, 2018, trade receivables of HK$19 million (December 31, 2017: HK$14 million) are exposed to credit risk. No trade receivable was impaired (December 31, 2017: Nil) and no provision was made as at December 31, 2018 (December 31, 2017: Nil). The amounts in trade receivables balance relate to a wide range of customers for whom there is no recent history of default.

As at December 31, 2018, trade receivables of HK$8 million were past due but not impaired (December 31, 2017: HK$2 million).

(iii) The carrying amounts of the Group's trade receivables are denominated in the following currencies:

HK$ million	2018	2017
Renminbi	**—**	3
Hong Kong dollar	**1**	2
Japanese yen	**7**	6
Indonesian rupiah	**11**	3
	19	14

21. CURRENT ASSETS AND LIABILITIES – CONTINUED

d. Trade payables

An aging analysis of trade payables, based on invoice date, is set out below:

HK$ million	2018	2017
1 – 30 days	**14**	23

e. Accruals and other payables

Accruals and other payables represents accruals for construction costs and operating costs, retention payables, interest payables and tenants deposits.

22. BORROWINGS

HK$ million	2018	2017
Borrowings, repayable within a period		
– not exceeding one year	**11**	—
– over one year, but not exceeding two years	**1,231**	6
– over two years, but not exceeding five years	**4,802**	4,438
– over five years	**50**	29
	6,094	4,473
Representing:		
Guaranteed notes (note b)	**4,439**	4,422
Bank borrowings (notes a, c, d and e)	**1,655**	51
	6,094	4,473
Secured	**1,655**	51
Unsecured	**4,439**	4,422

22. BORROWINGS – CONTINUED

a. On January 21, 2014, indirect wholly-owned subsidiaries of the Company entered into USD facilities agreements ("USD Facility") which the lenders would make available term loan facilities in an aggregate amount of US$200 million, comprising a term loan facility for US$140 million (the "USD Facility A") and a term loan facility for US$60 million (the "USD Facility B"), for financing the development of a premium Grade A office building in Jakarta, Indonesia. The USD Facility must be repaid on or before six months after the completion of the building or December 31, 2017, whichever is earlier. The USD Facility are secured by the shares and assets of the indirect wholly-owned subsidiaries and one of the indirect wholly-owned subsidiaries is subject to certain financial ratios covenants which are commonly found in lending arrangements with financial institutions. During the year ended December 31, 2017, the USD Facility B of US$60 million has been fully repaid and the USD Facility A has been cancelled.

b. On March 9, 2017, PCPD Capital Limited ("PCPD Capital"), an indirect wholly-owned subsidiary of the Company, issued US$570 million 4.75% guaranteed notes ("Notes") due 2022, which are listed on the Singapore Exchange Securities Trading Limited. The Notes are irrevocably and unconditionally guaranteed by the Company and rank pari passu with all other outstanding unsecured and unsubordinated obligations of PCPD Capital and the Company.

c. On June 9, 2017, an indirect wholly-owned subsidiary of the Company entered into a term loan facility agreement which the lender had agreed to make available a term loan facility up to an aggregate amount of JPY1,500 million ("JPY Facility 2028"). The maturity date of the JPY Facility is in December 2028. Such facility is secured by the land and buildings and a bank account of the indirect wholly-owned subsidiary and the indirect wholly-owned subsidiary is subject to certain financial covenants which are commonly found in lending arrangements with financial institutions. As at December 31, 2018, none of the covenants were breached. The carrying value of the borrowing as at December 31, 2018 represents the loan drawdown of JPY1,500 million (equivalent to HK$106 million) (December 31, 2017: JPY785 million) offset by the deferred arrangement fees of JPY45 million (equivalent to HK$3 million) (December 31, 2017: JPY46 million).

d. On March 19, 2018, an indirect non-wholly owned subsidiary of the Company entered into a loan agreement which the lender had agreed to make available a loan facility up to an aggregate amount of HK$808 million ("HK$ Loan"). The maturity date of the HK$ Loan is in March 2020. Such facility is secured by the land and buildings, bank accounts, shares and other assets of the indirect non-wholly owned subsidiaries and the indirect non-wholly owned subsidiary is subject to certain financial ratios covenants which are commonly found in lending arrangements with financial institutions. As at December 31, 2018, none of the covenants were breached and the carrying value of the borrowing represents the loan drawdown of HK$808 million offset by the deferred loan arrangement costs of HK$5 million.

22. BORROWINGS – CONTINUED

e. On March 29, 2018, an indirect wholly-owned subsidiary of the Company (the "Borrower") entered into a term loan facility agreement under which the lender agreed to make available term loan facilities up to an aggregate amount of JPY20,000 million by December 31, 2019. The facility comprises (1) a JPY10,000 million facility for the construction of a branded residence ("JPY Facility 2021") which matures on February 14, 2020 with option to extend to March 31, 2021 and (2) a JPY10,000 million facility for the construction of a branded hotel ("JPY Facility 2023") with maturity date of March 31, 2023. Such facilities are secured by certain land and/or property in case either one of the loans is in default, the reserve accounts, and ordinary and/or preferred shares of the Borrower and an indirect wholly-owned subsidiary (the "Hotel Operator"). The Borrower and the Hotel Operator are subject to certain financial ratios covenants which are commonly found in lending arrangements with financial institutions. As of December 31, 2018, none of the covenants were breached and the carrying value of the total borrowings of JPY Facility 2021 and JPY Facility 2023 represents the loan drawdown of JPY10,980 million (equivalent to HK$775 million) offset by the deferred loan arrangement costs of JPY380 million (equivalent to HK$27 million).

23. DEFERRED INCOME AND CONTRACT LIABILITIES

HK$ million	**2018**	**2017**
Deferred income:		
Rental income from investment properties	**159**	121
Less: Amount classified as non-current liabilities	**(81)**	(74)
	78	47
Contract liabilities:		
Deposits received from sale of properties and other revenue receipt in advance	**231**	71
Deferred income and contract liabilities classified as current liabilities	**309**	118

24. AMOUNT PAYABLE TO THE HKSAR GOVERNMENT UNDER THE CYBERPORT PROJECT AGREEMENT

Pursuant to the Cyberport Project Agreement, the Government of the Hong Kong Special Administrative Region (the "HKSAR Government") shall be entitled to receive payments of approximately 65 per cent from the surplus cashflow arising from the sales of the residential portion of the Cyberport project, net of certain allowable costs incurred on the project, as stipulated under certain terms and conditions of the Cyberport Project Agreement. The amount payable to the HKSAR Government is based on surplus from sales proceeds of the residential portion after the development costs of the Cyberport project. As at December 31, 2018, the amount attributable to the HKSAR Government share under Cyberport Project Agreement was HK$322 million (December 31, 2017: HK$321 million).

25. ISSUED EQUITY

	The Group	
	Number of shares	**Issued equity HK$ million**
	(note a)	**(note a)**
Ordinary shares of HK$0.50 each at January 1, 2017, December 31, 2017 and January 1, 2018	402,469,313	2,847
Shares repurchased and cancelled (note d)	(280,000)	(1)
Ordinary shares of HK$0.50 each at December 31, 2018 (note e)	**402,189,313**	**2,846**

a. Due to the use of reverse acquisition basis of accounting (as stated in note 2(d) to the 2004 Financial Statements), the amount of issued equity, which includes share capital and share premium in the consolidated statement of financial position, represents the amount of issued equity of the legal subsidiary, Ipswich Holdings Limited, at the date of completion of the reverse acquisition plus equity changes attributable to the Group after the reverse acquisition. The equity structure (i.e. the number and type of shares) reflects the equity structure of the legal parent, Pacific Century Premium Developments Limited, for all accounting periods presented.

b. The following is the movement in the share capital of the Company:

	The Company	
	Number of shares	**Nominal value HK$ million**
Authorised:		
Ordinary shares of HK$0.50 each at December 31, 2017 and December 31, 2018	**4,000,000,000**	**2,000**
Issued and fully paid:		
Ordinary shares of HK$0.50 each at January 1, 2017, December 31, 2017 and January 1, 2018	402,469,313	201
Shares repurchased and cancelled (note d)	(280,000)	—
Ordinary shares of HK$0.50 each at December 31, 2018 (note e)	**402,189,313**	**201**

25. ISSUED EQUITY – CONTINUED

c. Pursuant to an ordinary resolution passed at the special general meeting of the Company held on May 2, 2012 and the announcements dated May 16, 2012 and June 21, 2012 in relation to the bonus issue of shares (with a right for shareholders to elect to receive bonus convertible notes in lieu of bonus shares), 405,378,544 bonus shares of HK$0.10 each were allotted and issued on June 22, 2012 on the basis of four (4) bonus shares for every one (1) issued share held by the qualifying shareholders of the Company whose names appeared on the register of members of the Company on May 30, 2012 (other than those qualifying shareholders who had elected to receive bonus convertible notes in lieu of all of their entitlement to the bonus shares).

Bonus convertible notes of HK$592,572,154.40 at the conversion price of HK$0.10 per share were issued by the Company on June 22, 2012. Immediately after the share consolidation which took effect on June 25, 2012, the conversion price of the bonus convertible notes was adjusted from HK$0.10 per share to HK$0.50 per share pursuant to the terms of the applicable deed poll.

The bonus convertible notes are unlisted and irredeemable but have conversion rights entitling the noteholders to convert into an equivalent number of shares as the number of bonus shares which the noteholders would otherwise be entitled to receive under the bonus issue had the shareholder not elected for the bonus convertible notes. The bonus convertible notes do not carry voting rights at any general meeting of shareholders of the Company. The noteholders can exercise the conversion rights at any time after the issue of bonus convertible notes, subject to the terms and conditions of the applicable deed poll constituting the bonus convertible notes. The bonus convertible notes were recognised as equity and are presented in "Convertible notes reserve" in the consolidated statement of changes in equity.

d. During the year ended December 31, 2018, 280,000 ordinary shares of HK$0.50 each were repurchased on the market for cancellation at total consideration of HK$0.7 million. These shares were subsequently cancelled after repurchase.

e. As at December 31, 2018, the number of the total issued and fully paid consolidated ordinary shares of HK$0.50 each was 402,189,313.2. Fractional shares amounted to 1.2 ordinary shares of HK$0.50 each were generated from the share consolidation on June 25, 2012 and are retained by the Company in accordance with the terms of the share consolidation. Such fractional shares are registered under the name of an indirect wholly-owned subsidiary of the Company. Amongst such 1.2 fractional shares, 0.2 shares of which are not tradable on the main board of the Stock Exchange and such 0.2 shares are not shown in this section.

26. EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement schemes

Employees of the Group are entitled to join the defined contribution retirement schemes operated by PCCW, including the Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The schemes are administered by independent trustees.

Under the defined contribution retirement scheme, the employer is required to make contributions to the scheme at rates specified under the rules of the scheme. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group.

Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at specific rates pursuant to the rules of the MPF scheme. Contributions to the scheme vest immediately upon the completion of the service in the relevant service period.

27. SHARE-BASED PAYMENT TRANSACTIONS

a. Share option scheme

The Group operates a share option scheme which was adopted by the Company's shareholders at the annual general meeting of the Company held on May 6, 2015, and became effective on May 7, 2015, following its approval by PCCW's shareholders (the "2015 Scheme"). The 2015 Scheme is valid and effective for a period of 10 years commencing on May 7, 2015.

Under the 2015 Scheme, save as disclosed in the Report of the Directors, the board of directors of the Company may, at its discretion, grant share options to any eligible person to subscribe for shares in the Company subject to the terms and conditions stipulated therein. The exercise price of the options under the 2015 Scheme is determined by the board of directors of the Company in its absolute discretion but in any event shall not be less than the higher of (i) the closing price of the shares of the Company as stated in the daily quotation sheet of the Stock Exchange on the date of grant; and (ii) the average closing price of the shares of the Company as stated in the daily quotation sheet of the Stock Exchange for the last five days preceding the date of grant on which days it has been possible to trade shares on the Stock Exchange. The overall limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2015 Scheme and any other share option schemes of the Company must not exceed 30 per cent of the shares in issue from time to time. In addition, the maximum number of shares in respect of which options may be granted under the 2015 Scheme shall not (when aggregated with any shares subject to any grants made after May 7, 2015 pursuant to any other share option schemes of the Company) exceed the limit of 10 per cent of the issued share capital of the Company on May 7, 2015 (or some other date if renewal of this limit is approved by shareholders). The maximum entitlement of any eligible person (other than a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates) under the 2015 Scheme is the total number of shares issued and to be issued upon exercise of all options granted and to be granted in any 12-month period up to and including the date of the latest grant up to a maximum of one (1) per cent of the shares of the Company in issue at the relevant time. Any further grant of share options in excess of this limit is subject to shareholders' approval at a general meeting.

No share options had been granted or exercised under the 2015 Scheme during the years ended December 31, 2018 and December 31, 2017. There were no share options outstanding as at December 31, 2018 and December 31, 2017.

DECEMBER 31, 2018 (Amount expressed in Hong Kong dollars unless otherwise stated)

27. SHARE-BASED PAYMENT TRANSACTIONS – CONTINUED

b. Share award scheme

PCCW established two employee share incentive award schemes under which awards of shares may be granted to employees of participating subsidiaries. The Group is a participating member of the PCCW employee share incentive award schemes. Under both schemes, following the making of an award to an employee, the relevant shares are held on trust for the employee and then vest over a period of time provided that he/she remains employee of the Group at the relevant time and satisfies any other conditions specified at the time the award is made.

Details of the accounting policies for the shares granted to the employees of the Group are described in note 2 (u)(iv). Since PCCW shares and HKT share stapled units were purchased, the Group recognised it as cash-settled share-based payment transaction.

A summary of movements in PCCW shares and HKT share stapled units held under the share award scheme that is attributable to the Group during the year is as follows:

	Number of PCCW shares	
	2018	**2017**
At January 1,	**269,629**	957,342
Purchased from market by the trustee at average market price of HK$4.63 per PCCW share in 2018	**810,000**	—
Vested	**(674,065)**	(687,713)
At December 31,	**405,564**	269,629

	Number of HKT share stapled units	
	2018	**2017**
At January 1,	**121,844**	243,000
Purchased from market by the trustee at average market price of HK$9.89 per HKT share stapled unit in 2018	**367,000**	—
Vested	**(304,932)**	(121,156)
At December 31,	**183,912**	121,844

27. SHARE-BASED PAYMENT TRANSACTIONS – CONTINUED

b. Share award scheme – Continued

Details of PCCW shares and HKT share stapled units awarded pursuant to the Purchase Scheme during the year and the PCCW shares and HKT share stapled units unvested, are as follows:

(i) Movements in the number of unvested PCCW shares and HKT share stapled units and their related weighted average fair value on the date of award

	2018		2017	
	Weighted average fair value on date of award HK$	**Number of PCCW shares**	**Weighted average fair value on date of award HK$**	**Number of PCCW shares**
At January 1,	**4.78**	**878,084**	5.27	956,864
Awarded (note iii)	**4.63**	**1,108,612**	4.60	608,933
Vested	**4.82**	**(674,065)**	5.29	(687,713)
At December 31, (note ii)	**4.63**	**1,312,631**	4.78	878,084

	2018		2017	
	Weighted average fair value on date of award HK$	**Number of HKT share stapled units**	**Weighted average fair value on date of award HK$**	**Number of HKT share stapled units**
At January 1,	**10.39**	**398,437**	11.18	242,311
Awarded (note iii)	**9.90**	**510,631**	10.04	277,282
Vested	**10.44**	**(304,932)**	11.18	(121,156)
At December 31, (note ii)	**9.95**	**604,136**	10.39	398,437

DECEMBER 31, 2018 (Amount expressed in Hong Kong dollars unless otherwise stated)

27. SHARE-BASED PAYMENT TRANSACTIONS – CONTINUED

b. Share award scheme – Continued

(ii) Details of unvested PCCW shares and HKT share stapled units as at December 31,

Date of award	Vesting period	Fair value on the date of award HK$	Number of PCCW shares 2018	2017
June 8, 2016	June 8, 2016 to April 5, 2018	5.20	—	269,151
April 3, 2017	April 3, 2017 to April 3, 2018	4.60	—	304,467
April 3, 2017	April 3, 2017 to April 3, 2019	4.60	**304,466**	304,466
March 7, 2018	March 7, 2018 to April 3, 2019	4.50	**100,446**	—
April 10, 2018	April 10, 2018 to April 10, 2019	4.66	**453,860**	—
April 10, 2018	April 10, 2018 to April 10, 2020	4.66	**453,859**	—
			1,312,631	878,084

Date of award	Vesting period	Fair value on the date of award HK$	Number of HKT share stapled units 2018	2017
June 8, 2016	June 8, 2016 to April 5, 2018	11.18	—	121,155
April 3, 2017	April 3, 2017 to April 3, 2018	10.04	—	138,641
April 3, 2017	April 3, 2017 to April 3, 2019	10.04	**138,641**	138,641
March 7, 2018	March 7, 2018 to April 3, 2019	9.71	**45,135**	—
April 10, 2018	April 10, 2018 to April 10, 2019	9.94	**210,180**	—
April 10, 2018	April 10, 2018 to April 10, 2020	9.94	**210,180**	—
			604,136	398,437

The PCCW shares and HKT share stapled units unvested at December 31, 2018 had a weighted average remaining vesting period of 0.61 years (2017: 0.60 years) and 0.62 years (2017: 0.60 years), respectively.

27. SHARE-BASED PAYMENT TRANSACTIONS – CONTINUED

b. Share award scheme – Continued

(iii) Details of PCCW shares and HKT share stapled units awarded during the year

Date of award	Vesting period	Fair value on the date of award HK$	Number of PCCW shares 2018	2017
April 3, 2017	April 3, 2017 to April 3, 2018	4.60	—	304,467
April 3, 2017	April 3, 2017 to April 3, 2019	4.60	—	304,466
March 7, 2018	March 7, 2018 to April 3, 2018	4.50	**100,447**	—
March 7, 2018	March 7, 2018 to April 3, 2019	4.50	**100,446**	—
April 10, 2018	April 10, 2018 to April 10, 2019	4.66	**453,860**	—
April 10, 2018	April 10, 2018 to April 10, 2020	4.66	**453,859**	—
			1,108,612	608,933

Date of award	Vesting period	Fair value on the date of award HK$	Number of HKT share stapled units 2018	2017
April 3, 2017	April 3, 2017 to April 3, 2018	10.04	—	138,641
April 3, 2017	April 3, 2017 to April 3, 2019	10.04	—	138,641
March 7, 2018	March 7, 2018 to April 3, 2018	9.71	**45,136**	—
March 7, 2018	March 7, 2018 to April 3, 2019	9.71	**45,135**	—
April 10, 2018	April 10, 2018 to April 10, 2019	9.94	**210,180**	—
April 10, 2018	April 10, 2018 to April 10, 2020	9.94	**210,180**	—
			510,631	277,282

27. SHARE-BASED PAYMENT TRANSACTIONS – CONTINUED

c. Share-based payment transactions with cash alternatives

(i) On May 23, 2013, the Group entered into the Supporting Agreement with an affiliated company of the seller of a plot of land in Jakarta, Indonesia (the "Supporter") under which the Group will settle part of the supporting services received for the value of US$23 million (subject to certain downward adjustments) by means of issuing non-voting, non-contributory but dividend participating class B shares that represent not more than 6.388 per cent (subject to certain downward adjustments) of the share capital in an indirect wholly-owned subsidiary ("Melati") (the "Supporter Shares") and by assignment of the shareholder's loan to Melati (the "Supporter Shareholder's Loans").

In addition, the Group granted to the Supporter a right (but not an obligation) to require the Group, after the expiry of 5 years from the date on which the Supporter Shares are issued and the Supporter Shareholder's Loans assigned, to purchase from the Supporter all (but not part) of the Supporter Shares and to take assignment of all the then outstanding Supporter Shareholder's Loans (the "Supporter Put Option"). The Supporter Put Option is granted at no premium.

When the consolidated net asset value of Melati is positive, the Supporter Shareholder's Loans are to be assigned at the face amount and the Supporter Shares are to be issued at its corresponding portion of the consolidated net asset value of Melati; or when the consolidated net asset value of Melati is negative, the Supporter Shareholder's Loans are to be assigned at the face amount after deduction of the absolute value of the corresponding portion of the consolidated net asset value of Melati, and the Supporter Shares are to be issued at nominal value of US$1.

A financial liability would be recognised in the consolidated statement of financial position in relation to the Supporter Put Option until the exercise of the Supporter Put Option by the Supporter. Management considered the fair value of the Supporter Shares is positively correlated to the consolidated net asset value of Melati which is minimal as at December 31, 2018, therefore the fair value of the Supporter Shares is nil (December 31, 2017: Nil).

27. SHARE-BASED PAYMENT TRANSACTIONS – CONTINUED

c. Share-based payment transactions with cash alternatives – Continued

(ii) On May 23, 2013, the Group entered into the Investor Subscription Agreement and the Investor Loan Purchase Agreement with an independent third party (the "Investor"), the Group will allot to the Investor 9.99 per cent shares of an indirect wholly-owned subsidiary ("Rafflesia") (the "Investor Shares") and assign to the Investor 9.99 per cent of all the unsecured and non-interest bearing shareholder's loan to Rafflesia (the "Investor Shareholder's Loans") at the time when the occupation permit of the premium Grade A office building in Jakarta, Indonesia is issued. This arrangement will allow the Investor to have 9.99 per cent of the Group's Indonesian development project at a consideration of an amount which represents the same percentage (9.99 per cent) of the total investment cost incurred by the Group in the Indonesian development project plus finance charge from the completion date of the land acquisition to the time the shares are subscribed.

In addition, the Group granted to the Investor a right (but not an obligation) to require the Group, at any time on or after May 23, 2023, to purchase from the Investor all (but not part) of the Investor Shares and to take assignment of all the then outstanding Investor Shareholder's Loans (the "Investor Put Option"). The Investor Put Option enables a structure which allows the Investor to realise its investment and prevents unknown parties from becoming a stakeholder in Rafflesia, so far as practicable. The Investor Put Option is granted at no premium.

When the consolidated net asset value of Rafflesia is positive, Investor Shareholder's Loans are to be assigned at the face amount and the Investor Shares are to be issued at its corresponding portion of the consolidated net asset value of Rafflesia; or when the consolidated net asset value of Rafflesia is negative, the Investor Shareholder's Loans are to be assigned at the face amount after deduction of the absolute value of the corresponding portion of the consolidated net asset value of Rafflesia (in case of any shortfall after the deduction), the Investor is required to settle the shortfall. The Investor Shares are to be issued at nominal value of US$1.

Management considered the fair value of the Investor Shares is positively correlated to the consolidated net asset value of Rafflesia which is minimal as at December 31, 2018, therefore the fair value of the Investor Shares is nil (December 31, 2017: Nil).

28. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

a. Statement of Financial Position of the Company

HK$ million	Note	2018	2017
ASSETS AND LIABILITIES			
Non-current asset			
Investment in a subsidiary		**2,870**	2,870
Current assets			
Prepayments		**1**	1
Amounts due from subsidiaries		**7,058**	7,063
		7,059	7,064
Current liabilities			
Accruals and other payables		**2**	2
Amounts due to subsidiaries		**4,702**	4,701
		4,704	4,703
Net current assets		**2,355**	2,361
Total assets less current liabilities		**5,225**	5,231
Net assets		**5,225**	5,231
CAPITAL AND RESERVES			
Share capital	25 (b)	**201**	201
Reserves	28 (b)	**5,024**	5,030
		5,225	5,231

Lee Chi Hong, Robert
Director

James Chan
Director

28. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY – CONTINUED

b. Reserves of the Company

			2018		
HK$ million	**Share premium**	**Capital redemption reserve**	**Convertible notes reserve**	**Retained earnings**	**Total**
Balance at January 1, 2018	**2,448**	**1**	**592**	**1,989**	**5,030**
Total comprehensive loss for the year	**—**	**—**	**—**	**(5)**	**(5)**
Shares repurchased and cancelled (note 25(d))	**(1)**	**—**	**—**	**—**	**(1)**
Balance at December 31, 2018	**2,447**	**1**	**592**	**1,984**	**5,024**

			2017		
HK$ million	**Share premium**	**Capital redemption reserve**	**Convertible notes reserve**	**Retained earnings**	**Total**
Balance at January 1, 2017	2,448	1	592	1,994	5,035
Total comprehensive loss for the year	—	—	—	(5)	(5)
Balance at December 31, 2017	2,448	1	592	1,989	5,030

29. DEFERRED INCOME TAX

a. The components of deferred income tax liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

HK$ million	Accelerated tax depreciation	Revaluation of properties	Others	Total
At January 1, 2017	3	5	14	22
Charged to the consolidated statement of comprehensive income	—	—	3	3
At December 31, 2017	3	5	17	25
At January 1, 2018	**3**	**5**	**17**	**25**
Charged to the consolidated statement of comprehensive income	**—**	**1**	**4**	**5**
At December 31, 2018	**3**	**6**	**21**	**30**

There were no deferred income tax assets netted off against deferred income tax liabilities recognised in the consolidated statement of financial position as at December 31, 2018 (December 31, 2017: Nil).

b. The deferred income tax liabilities as at December 31, 2018 of HK$30 million (December 31, 2017: HK$25 million) are expected to be recovered after more than 12 months.

c. The Group has unrecognised estimated tax losses of HK$574 million as at December 31, 2018 (December 31, 2017: HK$449 million) to be carried forward for deduction against future taxable profits. HK$233 million (December 31, 2017: HK$205 million) tax losses relating to subsidiaries operating outside Hong Kong would be expired within one to nine years from December 31, 2018 (December 31, 2017: one to nine years). The remaining HK$341 million (December 31, 2017: HK$244 million) tax losses are mainly related to Hong Kong companies which can be carried forward indefinitely.

30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

a. Reconciliation of loss before taxation to net cash used in operating activities

HK$ million	2018	2017 (Restated)
Loss before taxation	**(389)**	(313)
Adjustments for:		
– interest income	**(40)**	(59)
– finance costs	**201**	86
– depreciation of property, plant and equipment	**27**	22
– depreciation of right-of-use assets	**41**	44
– fair value gain on financial assets at fair value through profit or loss	**(1)**	(1)
– loss on disposal of property, plant and equipment	**—**	4
– reversal of provision related to disposal of subsidiaries in prior years	**—**	(11)
– surplus on revaluation of investment properties	**(4)**	—
Operating loss before changes in working capital	**(165)**	(228)

30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS – CONTINUED

a. Reconciliation of loss before taxation to net cash used in operating activities – Continued

HK$ million	2018	2017 (Restated)
(Increase)/decrease in operating assets:		
– properties under development	**(473)**	(185)
– properties held for development	**(2,086)**	(5)
– financial assets at fair value through profit or loss	**(2)**	4
– non-current prepayment and other receivables	**(116)**	(55)
– prepayments, deposits and other current assets	**(376)**	(16)
– sales proceeds held in stakeholders' accounts	**1**	2
– restricted cash	**4**	5
– trade receivables, net	**(4)**	(3)
– amounts due from fellow subsidiaries	**(1)**	1
– amounts due from related companies	**2**	—
(Decrease)/increase in operating liabilities:		
– trade payables, accruals and other payables	**(19)**	50
– deferred income and contract liabilities	**212**	141
– amount payable to the HKSAR Government under the Cyberport Project Agreement	**1**	—
– other non-current payables	**1**	(5)
Cash used in operations	**(3,021)**	(294)
Interest received	**56**	42
Tax refunded/(paid)		
– in Hong Kong	**1**	(1)
– outside Hong Kong	**(42)**	(21)
Net cash used in operating activities	**(3,006)**	(274)

30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS – CONTINUED

b. Movements of assets and liabilities in the consolidated statement of financial position arising from financing activities

HK$ million	Restricted cash (note 21(b))	Interest payables (included in accruals and other payables)	Lease liabilities	Long-term borrowings (including current portion)	Total
			2018		
At January 1, 2018, as restated	—	66	45	4,473	4,584
Cash flows in financing activities					
Proceeds from bank borrowings, net	—	—	—	1,594	1,594
Payment for borrowing costs	—	(230)	—	—	(230)
Payment for lease liabilities (including interest)	—	—	(42)	—	(42)
Increase in restricted cash	(221)	—	—	—	(221)
Cash flows in financing activities	(221)	(230)	(42)	1,594	1,101
Non-cash changes	—	231	100	27	358
At December 31, 2018	(221)	67	103	6,094	6,043

30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS – CONTINUED

b. Movements of assets and liabilities in the consolidated statement of financial position arising from financing activities – Continued

	2017 (Restated)					
HK$ million	**Prepaid finance costs (included in Prepayments, deposits and other current assets)**	**Short-term borrowings**	**Interest payables (included in accruals and other payables)**	**Leases liabilities**	**Long-term borrowings**	**Total**
At January 1, 2017	(26)	457	—	52	—	483
Cash flows in financing activities						
Proceeds from bank borrowings, net	—	—	—	—	52	52
Proceeds from issue of guaranteed notes, net	—	—	—	—	4,391	4,391
Payment for borrowing costs	(2)	(4)	(106)	—	—	(112)
Repayment of bank borrowing	—	(465)	—	—	—	(465)
Payment for lease liabilities (including interest)	—	—	—	(46)	—	(46)
Cash flows in financing activities	(2)	(469)	(106)	(46)	4,443	3,820
Non-cash changes	28	12	172	39	30	281
At December 31, 2017	—	—	66	45	4,473	4,584

31. COMMITMENTS

a. Capital

Capital expenditure contracted for at the end of the year but not yet incurred is as follows:

HK$ million	2018	2017
Contracted but not provided for		
Property development projects	**919**	167
Investment properties	**18**	19
Property, plant and equipment	**992**	290
	1,929	476

b. Short-term leases

As at December 31, 2018, the total minimum future lease payments under short-term leases are payable as follows:

HK$ million	2018	2017
Land and buildings	**1**	2

c. Lease receivables

As at December 31, the total future minimum lease receivables under non-cancellable operating leases are as follows:

Land and buildings (as lessor)

HK$ million	2018	2017
Within one year	**65**	57
After one year but within two years	**80**	73
After two years but within three years	**102**	78
After three years but within four years	**97**	103
After four years but within five years	**91**	99
After five years	**211**	320
	646	730

The leases typically run for an initial period of one to ten years (2017: two to ten years). Nine (2017: One) of the lease includes contingent rentals with reference to the revenue of the lease operations.

32. GUARANTEES

Save as disclosed elsewhere in the consolidated financial statements,

a. On March 9, 2017, the Company had executed guarantees in favour of the note holders of the Notes, in principal amount of US$570 million issued by PCPD Capital (note 22 (b)).

b. On March 19, 2018, the Company had executed guarantee in favour of the lender whom agreed to make available a loan facility up to an aggregate amount of HK$808 million (note 22 (d)).

c. On March 29, 2018, the Company had executed guarantee in favour of the lender whom agreed to make available term loan facilities up to an aggregate amount of JPY20,000 million (note 22 (e)).

33. BANKING FACILITY

The banking facility as at December 31, 2018 was HK$2,326 million (December 31, 2017: HK$104 million) of which HK$637 million remained undrawn by the Group (2017: HK$50 million) (note 22).

Security pledged for the banking facilities includes:

HK$ million	2018	2017
Property, plant and equipment	**923**	89
Properties under development	**770**	—
Properties held for development	**2,172**	—
Restricted cash	**221**	—
Cash & cash equivalents	**3**	—
	4,089	89

34. CONTINGENT LIABILITIES

During the year ended December 31, 2018, the Company's indirect wholly-owned subsidiary (the "Taxpayer") in Indonesia received a tax assessment notice ("2018 Assessment") from the ITO in relation to the creditability of VAT arising from the acquisition of a plot of land in Jakarta, Indonesia in October 2013 ("Land VAT") which amounted to IDR183,834.4 million (approximately HK$98.4 million).

Such Land VAT has been reported as creditable input VAT in the monthly VAT report for the period of October 2013 to compensate future output VAT after the tax assessment issued in 2014. However, after a tax re-audit which was performed by the ITO during the year, the ITO issued an assessment notice stating that the Land VAT is non-creditable resulting in a tax underpayment of IDR183,834.4 million (approximately HK$98.4 million) and a penalty of IDR183,834.4 million (approximately HK$98.4 million). According to the tax assessment notice, the Taxpayer is required to pay the tax underpayment and penalty totalling IDR367,668.8 million (approximately HK$197 million). After consideration of professional advice, the Group is of the view that the ITO has no basis to issue the 2018 Assessment and an objection has been filed to the ITO against the tax assessment in August 2018 and pending a reply from the ITO. The amounts of tax and penalty demanded in the assessment have been paid in advance in August 2018 and included in "Prepayments, deposits and other current assets" in the consolidated statement of financial position as at December 31, 2018. No provision of impairment has been recognised for the VAT balance as at December 31, 2018.

In addition to the above, the Taxpayer received tax assessment letters from the ITO in dispute of the applicable withholding tax rate that was applied on the shareholder's loan interest payments in the years 2014 and 2015. The tax underpayment including interest charge for the years of 2014 and 2015 amounted to IDR8,095 million (approximately HK$4 million) and IDR14,071 million (approximately HK$8 million) respectively and the Group has filed an objection for the assessments and pending a reply from the ITO. The amounts have been paid in advance in June 2018 and included in "Prepayment, deposits and other current assets" in the consolidated statement of financial position.

35. BUSINESS COMBINATION

On May 30, 2018, the Group acquired 100 per cent of the share capital of Yugenkaisha Hakuousha Cleaning Company, a company incorporated in Japan, which provides laundry services in Hokkaido, Japan. The acquired business contributed revenues and net loss of approximately HK$0.8 million and HK$0.2 million to the Group for the period from May 30, 2018 to December 31, 2018 respectively.

HK$ million	The Group 2018
Purchase consideration in cash for laundry services operation of Yugenkaisha Hakuousha Cleaning Company	**4**
Fair value of net assets acquired (note (a))	**(2)**
Goodwill	**2**

The goodwill is attributable to future profit generated from the laundry services operation.

a. The material assets and liabilities of the laundry services operations as at May 30, 2018 were as follows:

HK$ million	Fair value	Acquiree's carrying amount
Property, plant and equipment	**3**	**1**
Trade receivables, net	**1**	**1**
Accruals, other payables and deferred income	**(2)**	**(2)**
Net assets acquired	**2**	—

HK$ million	The Group 2018
Purchase consideration settled in cash	**(4)**
Cash and cash equivalents of laundry services operation acquired	—
Cash outflow on acquisition of laundry services operation	**(4)**

36. MATERIAL RELATED PARTY TRANSACTIONS

The Group is controlled by PCCW which owns 70.88 per cent (2017: 70.83 per cent) of the Company's shares. The remaining 29.12 per cent (2017: 29.17 per cent) of the shares are held by public as at December 31, 2018.

In addition to the transactions and balances disclosed elsewhere in these consolidated financial statements, the following transactions were carried out with related parties:

a. During the year, the Group had the following significant transactions with related companies:

HK$ million	2018	2017
Sales of services:		
– Fellow subsidiaries		
Office leases rental	**2**	2
– Related companies		
Facility management services	**7**	7
Office leases rental	**12**	1
Other services	**1**	3
Purchases of services:		
– Fellow subsidiaries		
Corporate services	**4**	3
Information technology and other logistic services	**3**	3
Purchases of property, plant and equipment:		
– Fellow subsidiaries	**1**	—

The above transactions were carried out after negotiations between the Group and the related parties in the ordinary course of business.

36. MATERIAL RELATED PARTY TRANSACTIONS – CONTINUED

b. Details of key management compensation

HK$ million	2018	2017
Salaries and other short-term employee benefits	**18**	17
Bonuses	**12**	—
Directors' fee	**1**	1
Retirement scheme contribution	**2**	2
	33	20

c. Year-end balances arising from sales of services

HK$ million	2018	2017
Receivables from related parties:		
– Fellow subsidiaries	**1**	—
– Related companies	**4**	6
	5	6

37. FINANCIAL RISK MANAGEMENT

The Group's investment policy is to prudently invest all surplus funds managed by the Group in a manner which will satisfy liquidity requirements, safeguard financial assets and manage risks while optimising return on investments.

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's performance.

Financial risk management is carried out by a central treasury department ("Group Treasury") under policies approved by the Board. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's business units. The Board provides principal policies for overall financial risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investing excess liquidity.

a. Foreign exchange risk

At the reporting date, the Group's exposure to foreign currency risk arising from significant recognised financial assets is as follows:

HK$ million	**2018** **US dollar**	**2017** **US dollar**
Financial assets at fair value through profit or loss	—	79
Cash and cash equivalents and short-term deposits	**627**	3,354
	627	3,433

The Group operates in the Asia-Pacific region and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The risk management policy is to have the liquid assets mainly denominated in Hong Kong dollars and US dollars. As US dollar is pegged to Hong Kong dollar, the Group does not expect any significant movements in the US dollar/Hong Kong dollar exchange rate. The Group ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances. In addition, the Group may use derivative financial instruments to hedge the risk exposure when appropriate.

The Group has certain investments in foreign operations, where the net assets are exposed to foreign currency translation risk. The Group's currency exposures with respect to these operations are mainly from Thai baht, Japanese yen and Indonesian rupiah.

37. FINANCIAL RISK MANAGEMENT – CONTINUED

a. Foreign exchange risk – Continued

Sensitivity analysis for foreign currency exposure

The table below summarises the impact on profit after tax and equity if Hong Kong dollar had appreciated by, one (1) per cent against US dollar or five (5) per cent against other currencies including Thai baht, Japanese yen and Indonesian rupiah at December 31, 2018. This represents the translation of financial assets and liabilities at the end of the reporting period. It assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2017.

HK$ million	2018 Increase/ (decrease) in profit after tax	2018 Decrease in other comprehensive income for currency translation	2017 Increase in profit after tax	2017 Decrease in other comprehensive income for currency translation
US dollar	**39**	**—**	11	—
Thai baht	**—**	**(33)**	—	(29)
Japanese yen	**(1)**	**(70)**	—	(46)
Indonesian rupiah	**—**	**(177)**	—	(182)

b. Credit risk

The Group is exposed to credit risk, which is the risk that a counterparty will be unable to pay outstanding amounts in full when due. The Group has policies in place to ensure that the sale of the properties is binding and enforceable. For the property investment and other business segments, the Group obtained rental deposits from the tenants while for other businesses, certain customers are fellow subsidiaries and related parties which the credit risk is relatively low and other individual customers are with good repayment history. Overall expected credit risk of trade and other receivables and amounts due from fellow subsidiaries and related parties is considered minimal.

As at December 31, 2018, the Group has a certain concentration of credit risk as 43 per cent (December 31, 2017: 57 per cent) of the total trade receivables was due from three customers.

37. FINANCIAL RISK MANAGEMENT – CONTINUED

b. Credit risk – Continued

The credit quality of cash and cash equivalents, short-term deposits and restricted cash balances can be assessed by reference to Moody's ratings (if available) as follows:

Cash and cash equivalents

HK$ million	2018	2017
Aa2	**27**	—
Aa3	**6**	37
A1	**598**	1,017
A2	**—**	640
A3	**124**	794
Baa1	**1**	—
Baa2	**41**	17
Unrated	**67**	128
	864	2,633

Short-term deposits

HK$ million	2018	2017
A1	**—**	1,017
Baa2	**—**	2
	—	1,019

Restricted cash

HK$ million	2018	2017
Aa2	**94**	93
A1	**221**	—
Unrated	**—**	5
	315	98

37. FINANCIAL RISK MANAGEMENT – CONTINUED

c. Liquidity risk

Due to the dynamic nature of the Group's underlying businesses, prudent liquidity risk management implies maintaining sufficient cash and cash equivalents to meet operational needs and possible investment opportunities.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows (including interest payments computed using contractual rates or if floating, based on most current interest rates at the end of the reporting period).

HK$ million	Within 1 year or on demand	More than 1 year but within 2 years	More than 2 years but within 5 years	More than 5 years	Total contractual undiscounted cash flow	Carrying Amount
At December 31, 2018						
Trade payables	**14**	**—**	**—**	**—**	**14**	**14**
Accruals and other payables	**335**	**—**	**—**	**—**	**335**	**335**
Amount payable to the HKSAR Government under the Cyberport Project Agreement	**322**	**—**	**—**	**—**	**322**	**322**
Current portion of long-term borrowings (including interest)	**11**	**—**	**—**	**—**	**11**	**11**
Long-term borrowings (including interest)	**249**	**1,474**	**5,108**	**63**	**6,894**	**6,083**
Lease liabilities	**44**	**42**	**20**	**—**	**106**	**103**
Other non-current payables	**—**	**5**	**—**	**180**	**185**	**171**
At December 31, 2017, as restated						
Trade payables	23	—	—	—	23	23
Accruals and other payables	442	—	—	—	442	442
Amount payable to the HKSAR Government under the Cyberport Project Agreement	321	—	—	—	321	321
Long-term borrowings (including interest)	213	430	4,725	39	5,407	4,473
Lease liabilities	23	10	14	—	47	45
Other non-current payables	—	42	—	180	222	206

37. FINANCIAL RISK MANAGEMENT – CONTINUED

d. Interest rate risks

Apart from the cash and cash equivalents and short-term deposits which are for working capital, the Group has no significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises primarily from long-term borrowings. Borrowings at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

The following table details the interest rate profile of the Group's borrowings.

	2018		2017	
	Effective interest rate	**HK$ million**	**Effective interest rate**	**HK$ million**
Fixed rate borrowings:				
Guaranteed notes (note 22)	**4.88%**	**4,439**	4.88%	4,422
Variable rate borrowings:				
Bank borrowings (note 22)	**2.80%**	**1,655**	2.69%	51
Total borrowings		**6,094**		4,473

If interest rate on variable rate borrowings had increased/decreased by 50 basis points as at December 31, 2018 (December 31, 2017: 50 basis points) with all other variables held constant, the Group's finance costs recognised in the consolidated statement of comprehensive income for the year ended December 31, 2018 would have increased/decreased by approximately HK$4 million (December 31, 2017: minimal change) and the Group's loss after tax would have increased/decreased by approximately HK$4 million (December 31, 2017: unchanged), taking into account of the capitalisation of finance cost into investment properties, properties under development and property, plant and equipment.

38. CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher level of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital. Net debt is calculated as short-term and long-term borrowings less cash and cash equivalents. Adjusted capital comprises the issued equity, retained earnings and non-controlling interests.

The debt-to-adjusted capital ratio at both December 31, 2018 and December 31, 2017 are as follows:

HK$ million	**2018**	**2017 (Restated)**
Current portion of long-term borrowings	**11**	—
Long-term borrowings	**6,083**	4,473
Less: Cash and cash equivalents	**(864)**	(2,633)
Net debt	**5,230**	1,840
Issued equity	**2,846**	2,847
Add: Retained earnings	**1,893**	2,330
Add: Non-controlling interests	**133**	—
Adjusted capital	**4,872**	5,177
Debt-to-adjusted capital ratio	**107%**	36%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements, except for the financial covenant requirements under the loan facility agreements with external parties (note 22).

39. FAIR VALUE ESTIMATION

a. Financial instruments carried at fair value

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

– Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
– Inputs other than quoted prices that are observable either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
– Inputs for asset or liability that are not based on observable market data (level 3).

See note 14 for disclosure of the investment properties that are measured at fair value.

		2018		
HK$ million	**Level 1**	**Level 2**	**Level 3**	**Total**
Recurring fair value measurements				
Assets				
Financial assets at fair value through profit or loss	**4**	**—**	**—**	**4**

		2017		
HK$ million	**Level 1**	**Level 2**	**Level 3**	**Total**
Recurring fair value measurements				
Assets				
Financial assets at fair value through profit or loss	2	79	—	81

During the years ended December 31, 2018 and December 31, 2017, there were no transfers of financial instruments between different levels. There were no changes in valuation techniques during the years.

39. FAIR VALUE ESTIMATION – CONTINUED

b. Fair value of financial liabilities measured at amortised cost

All financial instruments are carried at amounts not materially different from their fair values as at December 31, 2018 and December 31, 2017 except as follows:

	2018		2017	
HK$ million	Carrying amount	Fair value	Carrying amount	Fair value
Guaranteed notes (note 22)	**4,439**	**4,339**	4,422	4,545

The fair values of short-term and long-term borrowings are the net present value of the estimated future cash flows discounted at the prevailing market rates. The fair values are within level 2 of the fair value hierarchy.

(i) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily listed equity investments classified as financial assets at fair value through profit or loss.

(ii) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) are determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. Instrument included in level 2 comprises an investment in liquidity fund classified as financial assets at fair value through profit or loss.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments;
- Dealer quoted price, taking into account of the spot and forward exchange rates that are quoted in an active market and the observable yield curves and the implied volatility; and
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

FIVE-YEAR FINANCIAL SUMMARY

(Expressed in Hong Kong dollars)

Results

HK$ million	2018	2017 (Restated)	2016*	2015*	2014*
Revenue by Principal Activities					
Property investment	**140**	5	2	2	151
All-season recreational activities	**108**	96	92	78	77
Other businesses	**52**	63	80	85	87
	300	164	174	165	315
Operating (loss)/profit	**(228)**	(286)	(357)	(280)	381
Gain on disposal of subsidiaries, net of tax	**—**	—	—	—	1,390
Finance (costs)/income, net	**(161)**	(27)	11	12	(65)
(Loss)/profit before taxation	**(389)**	(313)	(346)	(268)	1,706
Income tax	**(48)**	(26)	(18)	187	(215)
(Loss)/profit attributable to equity holders of the Company	**(437)**	(339)	(364)	(81)	1,491

Assets and Liabilities, as at December 31,

HK$ million	2018	2017 (Restated)	2016 (Restated)	2015*	2014*
Total non-current assets	**8,843**	5,925	4,716	3,375	3,129
Total current assets	**2,729**	4,469	1,663	2,890	4,368
Total current liabilities	**(1,039)**	(932)	(1,141)	(777)	(1,748)
Net current assets	**1,690**	3,537	522	2,113	2,620
Total assets less current liabilities	**10,533**	9,462	5,238	5,488	5,749
Total non-current liabilities	**(6,427)**	(4,801)	(293)	(233)	(187)
Net assets	**4,106**	4,661	4,945	5,255	5,562

* Comparative figures of the results for the years ended December 31, 2014, 2015 and 2016 and assets and liabilities as at December 31, 2014 and 2015 have not been restated to reflect the impacts of adoption of HKFRS 15, HKFRS 16 and HKFRS 9 (2014) as the directors are of the opinion that it is costs over benefits to do so.

SCHEDULE OF PRINCIPAL PROPERTIES

1 Major completed properties for investment and/or own use

Address	Use	Approximate gross sit area (sq.m.)	Approximate gross floor area (sq.m.)	Category of the lease*	Percentage held by the Group
Indonesia					
Pacific Century Place, Jakarta JI. Jenderal Sudirman Kavling. 52-53, SCBD Lot 10, Jakarta 12190, Indonesia	Commercial	9,277	93,316	Medium	100%
Japan					
Midtown EAST @ Niseko 91-3 Aza Yamada, Kutchan-cho, Abuta-gun, Hokkaido, Japan	Eco Hotel	2,913	2,488	Freehold	100%

* Medium term: Lease less than 50 years but not less than 10 years

2 Major properties under development for sale and/or own use

Address	Use	Stage of completion	Expected date of completion	Approximate gross site area (sq.m.)	Approximate gross floor area (sq.m.)	Percentage held by the Group
Japan						
Park Hyatt Niseko Hanazono Residences	Residential	Construction in progress	2019	24,118	32,624	100%
Park Hyatt Niseko, Hanazono	Hotel	Construction in progress	2019	20,448	23,339	100%
Remaining phases	Commercial and residential	Design phase	N/A	743,944	563,742	100%
328-1 Aza Iwaobetsu, Kutchan-cho, Abuta-gun, Hokkaido, Japan						
Midtown WEST @ Niseko 91-17 Aza Yamada, Kutchan-cho, Abuta-gun, Hokkaido, Japan	Eco Hotel	Construction in progress	2019	7,007	11,170	100%

3 Major properties held for development

Address	Approximate gross site area (sq.m.)	Percentage held by the Group
Thailand		
Moo 3 & 9, Thai Muang Subdistrict, Thai Muang District Phang-nga, 82120 Thailand	1,700,465	39%
Hong Kong		
Nos. 3-6 Glenealy, Central, Hong Kong	1,090	50%

INVESTOR RELATIONS

LISTING

The Company's ordinary shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited and the stock code is 00432.

Any enquiries regarding the Company should be addressed to Investor Relations at the address provided on this page.

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Lee Chi Hong, Robert *(Deputy Chairman and Chief Executive Officer)*
James Chan
Hui Hon Hing, Susanna

Non-Executive Director

Dr Allan Zeman, GBM, GBS, JP

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