Financial Review

Management discussion and analysis

Results of operations

The following discussions should be read in conjunction with the Company's audited consolidated financial statements for the year ended 31 December 2018.

Restatement under the adoption of new accounting standards

Hong Kong Financial Reporting Standard 9 ("HKFRS 9"), *Financial instruments*, became effective for the Group commencing on 1 January 2018, under which investments in securities are classified as either investments designated as financial assets at fair value through other comprehensive income or investments measured as financial assets at fair value through profit or loss, depending on the nature and characteristics of the securities and changes in fair value are recognised in other comprehensive income and profit or loss respectively. Such changes in accounting policies have been applied retrospectively but do not restate the comparative figures in accordance with the transitional provisions of HKFRS 9, except that the opening balances of the Group's fair value reserve (classified as "recycling" and "non-recycling" under HKFRS 9), retained profits and non-controlling interests at 1 January 2018 have been restated.

Hong Kong Financial Reporting Standard 15 ("HKFRS 15"), *Revenue from contracts with customers*, became effective for the Group commencing on 1 January 2018, which requires revenue from sale of goods and provision of services by the Group to be recognised when the customer obtains control of the promised goods or services in the contract. The Group has assessed that the adoption of HKFRS 15 would be relevant to the recognition of revenue relating to the Group's sale of properties held for sale and gain on disposal of investment properties, under which the revenue from the sale of properties held for sale and the gain on disposal of investment properties during the accounting period are recognised in the Group's consolidated statement of profit or loss on the basis that control over the ownership of the property has been passed to the buyer during the current accounting period. Previously, the revenue from the sale of properties held for sale and the gain on disposal of investment properties were recognised upon the later of the signing of the sale and purchase agreement and the issue of an occupation permit/a completion certificate by the relevant government authorities, which was taken to be the point in time when the risks and rewards of ownership of the property had been passed to the buyer. The adoption of HKFRS 15 requires retrospective application by restating the opening balances of the Group's consolidated statements of financial position at 1 January 2017 and 1 January 2018, with consequential adjustments to comparatives for the period from 1 January 2017 to 31 December 2017. Accordingly, this has resulted in the restatement of the Group's consolidated statement of profit or loss for the corresponding year ended 31 December 2017, and of the Group's consolidated statements of financial position at 1 January 2017 and 31 December 2017.

Revenue and profit

	Revenue			Profit contribution from operations		
	Year ended 31 December			Year ended 31 December		
	2018	2017 *(restated)*	*Increase/ (Decrease)*	**2018**	2017 *(restated)*	*Increase/ (Decrease)*
	HK$ million	HK$ million	*%*	**HK$ million**	HK$ million	*%*
Reportable segments						
– Property development *(2017 – restated)*	**13,335**	20,029	*-33%*	**5,273**	5,459	*-3%*
– Property leasing	**6,020**	5,678	*+6%*	**4,520**	4,287	*+5%*
– Department store operation	**1,496**	834	*+79%*	**296**	265	*+12%*
– Other businesses	**1,131**	1,419	*-20%*	**705**	1,004	*-30%*
	21,982	27,960	*-21%*	**10,794**	11,015	*-2%*

	Year ended 31 December		
	2018	2017 *(restated)*	*Increase*
	HK$ million	HK$ million	*%*
Profit attributable to equity shareholders of the Company			
– including the Group's attributable share of changes in fair value of investment properties and investment properties under development (net of deferred taxation) held by the Group's subsidiaries, associates and joint ventures	**31,157**	30,809	*+1%*
– excluding the Group's attributable share of changes in fair value of investment properties and investment properties under development (net of deferred taxation) held by the Group's subsidiaries, associates and joint ventures ("Underlying Profit") *(Note 1)*	**19,765**	19,516	*+1%*

Note 1: Underlying profit attributable to equity shareholders of the Company ("Underlying Profit") excludes the Group's attributable share of fair value changes (net of deferred taxation) of the investment properties and investment properties under development held by subsidiaries, associates and joint ventures. In order to fully exclude the aforesaid effects of changes in fair value from the Underlying Profit, the Group's attributable share of the cumulative fair value change (net of tax) of investment properties and investment properties under development disposed of during the year (which has been included in calculating the net gain on disposal of investment properties and investment properties under development and hence the profit attributable to equity shareholders of the Company during the year) of HK$5,423 million (2017 (as restated for the effect of HKFRS 15): HK$2,208 million) was added back in arriving at the Underlying Profit.

Excluding the effects of certain one-off income/expense items from the Underlying Profit for the years ended 31 December 2018 and 2017, the adjusted Underlying Profits for the two financial years are as follows:

	Year ended 31 December 2018 HK$ million	2017 (restated) HK$ million	*Increase/(Decrease) HK$ million*	*%*
Underlying Profit *(2017 – restated)*	**19,765**	19,516	*249*	*+1%*
(Less)/Add:				
One-off (income)/expense items –				
Gain on disposal of investments in corporate bonds (2017: investments in certain available-for-sale securities, net of tax)	**(13)**	(316)	*303*	
Net fair value gain on derivative financial instruments relating to certain interest rate swap contracts and cross currency swap contracts (net of tax) for which there was no hedge accounting applied during the year (2017: net fair value gain on derivative financial instruments relating to certain interest rate swap contracts (net of tax) due to certain ineffective cash flow hedges during the year)	**(76)**	(18)	*(58)*	
Reclassification (net of tax) from hedging reserve to profit or loss upon the revocation of the hedge relationship between certain of the Group's bank loans and their underlying interest rate swap contracts during the year	**433**	293	*140*	
One-off loss on dilution in the Group's shareholding interest in Miramar Hotel and Investment Company, Limited ("Miramar", a listed associate of the Group) arising from the exercise of the subscription rights attached to the warrants of Miramar (which expired on 19 January 2018) by the holders thereof (other than the Group)	**36**	20	*16*	
The Group's attributable share of a one-off provision for assets of The Hong Kong and China Gas Company Limited ("HKCG", a listed associate of the Group)	**83**	–	*83*	
Adjusted Underlying Profit	**20,228**	19,495	*733*	*+4%*

Discussions on the major reportable segments are set out below.

Property development

The comparative figures for the corresponding financial year ended 31 December 2017 have been restated in accordance with the new accounting policy on revenue recognition under HKFRS 15, as referred to in the paragraph headed "Restatement under the adoption of new accounting standards" above. Therefore, the following performances on gross revenue and pre-tax profits of the Group's subsidiaries, associates and joint ventures engaged in property development are evaluated on a comparable basis.

Gross revenue – subsidiaries

The gross revenue from property sales during the years ended 31 December 2018 and 2017 generated by the Group's subsidiaries, and by geographical contribution, is as follows:

	Year ended 31 December			
	2018	2017 *(restated)*	*Decrease*	
	HK$ million	HK$ million	*HK$ million*	*%*
By geographical contribution:				
Hong Kong *(2017 – restated)*	**9,765**	13,062	*(3,297)*	*-25%*
Mainland China	**3,570**	6,967	*(3,397)*	*-49%*
	13,335	20,029	*(6,694)*	*-33%*

During the year ended 31 December 2018, the Group's completed property development projects in Hong Kong comprised "Wellesley" (held by a joint venture of the Group), "Harbour Park" (held by Hong Kong Ferry (Holdings) Company Limited, a listed associate of the Group) and "Seven Victory Avenue" (held by a wholly-owned subsidiary of the Group). In this regard, the sold units of "Wellesley" and "Seven Victory Avenue" cumulative up to 31 December 2018 are scheduled for delivery to the buyers after 31 December 2018. Accordingly, no revenue contribution was recognised from "Seven Victory Avenue" for the year ended 31 December 2018. As such, the gross revenue from property sales in Hong Kong during the year ended 31 December 2018 was mainly contributed as to (i) HK$6,600 million being the sale consideration received by the Group from the transfer of its interest in the entire issued share capital of, and the shareholder's loan to, a wholly-owned subsidiary which owns a project under development at Kwun Chui Road, Area 56, Tuen Mun Town Lot No. 500, the New Territories (the "Tuen Mun Transfer"), which transaction was completed on 5 January 2018; and (ii) HK$3,165 million from the other major completed projects. By comparison, the gross revenue from property sales in Hong Kong during the corresponding financial year ended 31 December 2017, as restated for the effect of HKFRS 15, was contributed as to HK$5,179 million from property development projects which were completed during that year, and as to HK$7,883 million from the other major completed projects.

The gross revenue from property sales in mainland China during the year ended 31 December 2018 was contributed as to HK$2,432 million in relation to Phase 3B of "The Arch of Triumph" in Changsha and Phase 3 of "Riverside Park Site F1F2" in Suzhou which were completed during the year ended 31 December 2018, and as to HK$1,138 million in relation to the other projects (comprising, in particular, "Grand Lakeview" in Yixing, "Island Palace" in Yixing, "Riverside Park" in Suzhou and Towers 1 and 2, Phase G3 of "Riverside Park" in Suzhou) which were completed prior to 1 January 2018. By comparison, the gross revenue from property sales in mainland China during the corresponding financial year ended 31 December 2017 was contributed as to HK$3,184 million in relation to the property development projects which were completed during that year, as to HK$2,447 million from the disposal of property development projects in Shenyang and Anshan, and as to HK$1,336 million in relation to the other projects which were completed prior to 1 January 2017.

Pre-tax profits – subsidiaries, associates and joint ventures

The Group's attributable share of pre-tax profits from property sales, by geographical contribution and from subsidiaries (after deducting non-controlling interests), associates and joint ventures during the years ended 31 December 2018 and 2017, are as follows:

	Year ended 31 December			
	2018 **HK$ million**	2017 *(restated)* HK$ million	*Increase/(Decrease)* *HK$ million*	*%*
By geographical contribution:				
Hong Kong *(2017 – restated)*	**3,571**	3,903	*(332)*	*-9%*
Mainland China	**3,138**	2,537	*601*	*+24%*
	6,709	6,440	*269*	*+4%*

Despite the decrease of 25% in the Group's gross revenue from property sales in Hong Kong during the year ended 31 December 2018 as referred to above, the Group's share of pre-tax profits from property sales in Hong Kong during the year ended 31 December 2018 decreased by a lesser magnitude of HK$332 million, or 9%. This is mainly because the pre-tax profit contribution of HK$2,780 million from the completion of the Tuen Mun Transfer has a relatively higher profit margin.

The increase in the Group's share of pre-tax profits from property sales in mainland China during the year ended 31 December 2018 of HK$601 million (or 24%) is mainly attributable to the aggregate pre-tax profit contribution of HK$605 million from the property sales of Phase 3B of "The Arch of Triumph" in Changsha and Phase 3 of "Riverside Park Site F1F2" in Suzhou, both being projects completed during the year ended 31 December 2018, as well as the year-on-year increase in the Group's attributable share of pre-tax profit contribution of HK$467 million from the property sales of "Henderson • CIFI City" in Suzhou (held by an associate of the Group), which were nevertheless partially offset by the year-on-year decrease in pre-tax profit contribution of HK$193 million from the property sales of "Grand Lakeview" in Yixing and the year-on-year decrease in the Group's attributable share of pre-tax profit contribution of HK$256 million from the property sales of "Henderson • CIFI Centre" in Shanghai (held by an associate of the Group).

	Year ended 31 December			
	2018 **HK$ million**	2017 *(restated)* HK$ million	*Increase/(Decrease)* *HK$ million*	*%*
By contribution from subsidiaries (after deducting non-controlling interests), associates and joint ventures:				
Subsidiaries *(2017 – restated)*	**5,127**	5,214	*(87)*	*-2%*
Associates *(2017 – restated)*	**1,091**	922	*169*	*+18%*
Joint ventures	**491**	304	*187*	*+62%*
	6,709	6,440	*269*	*+4%*

The increase in the Group's share of pre-tax profit contribution from the property sales of associates of HK$169 million (or 18%) during the year ended 31 December 2018 is mainly attributable to (i) the Group's attributable share of pre-tax profit contribution of HK$53 million from the property sales of "Harbour Park" in Hong Kong (2017: Nil); and (ii) the increase in the Group's attributable share of pre-tax profit contribution of HK$467 million from the property sales of "Henderson • CIFI City" in Suzhou, mainland China, which were partially offset by the decrease in the Group's attributable share of pre-tax profit contributions of (iii) HK$76 million from "Bohemian House" in Hong Kong; and (iv) HK$256 million from the property sales of "Henderson • CIFI Centre" in Shanghai, mainland China.

The increase in the Group's share of pre-tax profit contribution from the property sales of joint ventures of HK$187 million (or 62%) during the year ended 31 December 2018 is mainly attributable to the increase in the Group's attributable share of pre-tax profit contributions from the property sales of "Chengdu ICC" in Chengdu, "La Botanica" in Xian and "Henderson • Country Garden Jin Shi Tan Project" in Dalian, all of which are projects in mainland China, in the aggregate amount of HK$150 million.

Property leasing

Gross revenue – subsidiaries

The gross revenue from property leasing during the years ended 31 December 2018 and 2017 generated by the Group's subsidiaries, and by geographical contribution, is as follows:

	Year ended 31 December			
	2018	2017	*Increase*	
	HK$ million	HK$ million	*HK$ million*	*%*
By geographical contribution:				
Hong Kong	**4,200**	3,979	*221*	*+6%*
Mainland China	**1,820**	1,699	*121*	*+7%*
	6,020	5,678	*342*	*+6%*

Pre-tax net rental income – subsidiaries, associates and joint ventures

The Group's attributable share of pre-tax net rental income, by geographical contribution and from subsidiaries (after deducting non-controlling interests), associates and joint ventures during the years ended 31 December 2018 and 2017, is as follows:

	Year ended 31 December			
	2018	2017	*Increase*	
	HK$ million	HK$ million	*HK$ million*	*%*
By geographical contribution:				
Hong Kong	**5,587**	5,305	*282*	*+5%*
Mainland China	**1,438**	1,344	*94*	*+7%*
	7,025	6,649	*376*	*+6%*
By contribution from subsidiaries (after deducting non-controlling interests), associates and joint ventures:				
Subsidiaries	**4,518**	4,284	*234*	*+5%*
Associates	**842**	794	*48*	*+6%*
Joint ventures	**1,665**	1,571	*94*	*+6%*
	7,025	6,649	*376*	*+6%*

For Hong Kong, on an overall portfolio basis, the year-on-year increase of 6% in gross revenue for the year ended 31 December 2018 is attributable to the positive rental reversion from the Group's office investment properties which mainly include AIA Tower, FWD Financial Centre and AIA Financial Centre, the new tenancy leases of Manulife Financial Centre, as well as the increased rental income resulting from the procurement of new tenancy leases after the completion of renovation programs for the Group's commercial investment properties which mainly include Sunshine City Plaza and Fanling Centre. Accordingly, this resulted in a year-on-year increase of 5% in pre-tax net rental income.

For mainland China, on an overall portfolio basis, there was a year-on-year increase of 7% in rental revenue contribution and a year-on-year increase of 7% in pre-tax net rental income contribution for the year ended 31 December 2018. Despite the recent weakening of the Renminbi against Hong Kong dollar, the average exchange rate between Renminbi and Hong Kong dollar had nevertheless appreciated by approximately 3% during the year ended 31 December 2018 when compared with that for the corresponding financial year ended 31 December 2017 which contributed partially to the abovementioned year-on-year increases. Furthermore, the increase in rental revenue and pre-tax net rental income during the year ended 31 December 2018 was also mainly contributed from “World Financial Centre” in Beijing, whose rental revenue and pre-tax net rental income increased by 15% and 20% respectively during the year ended 31 December 2018. However, such increase was partially offset by the decreases of 23% and 50% in the rental revenue and pre-tax net rental income respectively from “Heng Bao Plaza” in Guangzhou which underwent renovation works during the year ended 31 December 2018. On an overall portfolio basis, the ratio of pre-tax net rental income to rental revenue for the year ended 31 December 2018 was 79% (2017: 79%).

Department store operation

Department store operation is carried out by Citistore (Hong Kong) Limited (“Citistore”) and Unicorn Stores (HK) Limited ((“UNY HK”), formerly known as UNY (HK) Co., Limited until 27 July 2018 on which date the current name was adopted), both being wholly-owned subsidiaries of Henderson Investment Limited (“HIL”), a listed subsidiary of the Company. UNY HK was acquired by HIL on 31 May 2018 and hence became a wholly-owned subsidiary of HIL during the period from 1 June 2018 to 31 December 2018.

For the year ended 31 December 2018, revenue contribution from the department store operation amounted to HK$1,496 million (2017: HK$834 million) which represents a year-on-year increase of HK$662 million or 79% over that for the corresponding financial year ended 31 December 2017. The increase in revenue is mainly attributable to (i) a year-on-year increase in revenue contribution from Citistore of HK$43 million during the year ended 31 December 2018 when compared with that for the corresponding financial year ended 31 December 2017, due to a remarkably colder weather during the months of January and February 2018 which resulted in an increase in the sales of winter merchandises as well as a generally improved retail market sentiment in Hong Kong during the year ended 31 December 2018; and (ii) the revenue contribution of HK$619 million (2017: Nil) generated from UNY HK for the period from 1 June 2018 to 31 December 2018 after the completion of HIL’s acquisition of UNY HK on 31 May 2018.

Profit contribution (after the elimination of rental expenditure in respect of the stores which was payable by Citistore to the Group) for the year ended 31 December 2018 also increased by HK$31 million, or 12%, to HK$296 million (2017: HK$265 million). Such increase is mainly attributable to the year-on-year increase in profit contribution from Citistore of HK$26 million for the year ended 31 December 2018 for the reasons as mentioned in item (i) above.

Other businesses

Other businesses mainly comprise hotel operation, construction, provision of finance, investment holding, project management, property management, agency services, cleaning and security guard services, as well as the trading of building materials and disposal of leasehold land.

Revenue and profit contribution of other businesses for the year ended 31 December 2018 amounted to HK$1,131 million and HK$705 million respectively, representing decreases of HK$288 million (or 20%) from the revenue of HK$1,419 million and HK$299 million (or 30%) from the profit contribution of HK$1,004 million for the corresponding year ended 31 December 2017 respectively. This is mainly attributable to the followings:

(i) the decrease in revenue contribution from construction activities of HK$150 million mainly due to the completion of the construction contract for “Harbour Park”;

(ii) the decrease in revenue contribution from the hotel operation of HK$69 million due to the cessation of the Group’s “Newton” hotel business operation;

(iii) the decreases in revenue contribution and profit contribution relating to dividend income and interest income in the aggregate amounts of HK$146 million and HK$146 million respectively, due to the Group's disposal of its investments in certain listed and unlisted equity securities and corporate bonds during the year ended 31 December 2018;

(iv) the decreases in revenue contribution and pre-tax profit contribution from the disposal of leasehold land in the amounts of HK$36 million and HK$29 million respectively;

(v) the recognition of the fair value loss of HK$93 million in relation to the Group's investments in units of Sunlight Real Estate Investment Trust ("Sunlight REIT") for the year ended 31 December 2018, due to the classification of the Group's investments in units of Sunlight REIT as "Investments measured as financial assets at fair value through profit or loss" under HKFRS 9 and which requires such fair value changes on units of Sunlight REIT to be recognised in the statement of profit or loss (2017: Nil, for the reason that any fair value change on units of Sunlight REIT were recognised in the fair value reserve in equity); and

(vi) the non-recurrence of the Group's gain on disposal (before tax) of its investments in certain available-for-sale securities during the corresponding year ended 31 December 2017 in the amount of HK$336 million, due to the change in accounting treatment under the adoption of HKFRS 9 for the year ended 31 December 2018 as referred to in the paragraph headed "Material disposals" below,

which were partially offset by:

(vii) the increases in revenue contribution and pre-tax profit contribution relating to the interest income received from the Group's advancement of first mortgage loans and second mortgage loans to property buyers and term loans to certain corporate borrowers in the amounts of HK$58 million and HK$220 million respectively; and

(viii) the increases in revenue contribution and pre-tax profit contribution generated from the security guard and cleaning services operations in the amounts of HK$69 million and HK$33 million respectively.

Associates

The performance on the Group's attributable share of post-tax profit contribution from associates engaged in property development is evaluated on a comparable basis, by restating the comparative figures for the corresponding financial year ended 31 December 2017 in accordance with the new accounting policy on revenue recognition under HKFRS 15, as referred to in the paragraph headed "Restatement under the adoption of new accounting standards" above.

The Group's attributable share of post-tax profits less losses of associates during the year ended 31 December 2018 amounted to HK$5,265 million (2017: HK$4,955 million (as restated for the effect of HKFRS 15)), representing an increase of HK$310 million, or 6%, over that for the corresponding financial year ended 31 December 2017. Excluding the Group's attributable share of changes in fair value of investment properties held by the associates (net of deferred taxation) during the year and adding back the Group's attributable share of the cumulative fair value change of an investment property disposed of by Miramar during the corresponding financial year ended 31 December 2017, the Group's attributable share of the underlying post-tax profits less losses of associates for the year ended 31 December 2018 amounted to HK$3,998 million (2017: HK$4,033 million (as restated for the effect of HKFRS 15)), representing a decrease of HK$35 million, or 1%, from that for the corresponding financial year ended 31 December 2017. Such year-on-year decrease in the underlying post-tax profits was mainly due to the decrease in the Group's attributable share of post-tax profit contribution of HK$171 million from the property sales of "Henderson • CIFI Centre" in Shanghai, mainland China, which offsets the increase the Group's attributable share of post-tax profit contribution of HK$126 million from HKCG mainly due to the increase in profit contributions from the utility gas operation in mainland China and the new energy operation.

Joint ventures

The Group's attributable share of post-tax profits less losses of joint ventures during the year ended 31 December 2018 amounted to HK$6,947 million (2017: HK$4,378 million), representing an increase of HK$2,569 million, or 59%, over that for the corresponding financial year ended 31 December 2017. Excluding the Group's attributable share of changes in fair value of investment properties held by the joint ventures (net of deferred taxation) during the year, the Group's attributable share of the underlying post-tax profits less losses of joint ventures for the year ended 31 December 2018 amounted to HK$1,651 million (2017: HK$1,449 million), representing an increase of HK$202 million, or 14%, over that for the corresponding financial year ended 31 December 2017. Such year-on-year increase in the underlying post-tax profits was mainly attributable to (i) the increase in the Group's attributable share of post-tax profit contributions from property sales of the joint ventures in mainland China in the net aggregate amount of HK$160 million; and (ii) the increase in the Group's attributable share of post-tax profit contribution from the ifc complex in the amount of HK$47 million.

Finance costs

Finance costs (comprising interest expense and other borrowing costs) before interest capitalisation for the year ended 31 December 2018 amounted to HK$2,178 million (2017: HK$1,534 million). Finance costs after interest capitalisation for the year ended 31 December 2018 amounted to HK$810 million (2017: HK$837 million), and after set-off against the Group's bank interest income of HK$660 million for the year ended 31 December 2018 (2017: HK$633 million), net finance costs recognised as expenses in the Group's consolidated statement of profit or loss for the year ended 31 December 2018 amounted to HK$150 million (2017: HK$204 million).

Overall, as referred to in the paragraph headed "Maturity profile and interest cover" below, the entire amount of the Group's total debt of HK$86,630 million at 31 December 2018 (2017: HK$80,304 million) was represented by the Group's bank and other borrowings in Hong Kong. During the year ended 31 December 2018, the Group's effective borrowing rate was approximately 2.33% per annum (2017: approximately 2.19% per annum).

Revaluation of investment properties and investment properties under development

The Group recognised an increase in fair value on its investment properties and investment properties under development (before deferred taxation and non-controlling interests) of HK$10,465 million in the consolidated statement of profit or loss for the year ended 31 December 2018 (2017: HK$9,911 million).

Financial resources and liquidity

Medium Term Note Programme

On 15 October 2018, the Company increased the maximum aggregate principal amount of notes to be guaranteed by the Company and outstanding at any one time under the Group's Medium Term Note Programme established on 30 August 2011 ("MTN Programme"), from US$3,000 million to US$5,000 million. At 31 December 2018, the aggregate carrying amount of notes guaranteed by the Company and issued under the MTN Programme which remained outstanding was HK$7,732 million (2017: HK$4,015 million), with tenures of between two years and twenty years (2017: between seven years and twenty years). The increase of HK$3,717 million in the carrying amount of the Group's guaranteed notes in issue during the year is mainly attributable to (i) the issuance of guaranteed notes denominated in Hong Kong dollars in the aggregate principal amount of HK$4,889 million during the year ended 31 December 2018 and which have maturity dates ranging from April 2020 to February 2030; less (ii) the repayment of guaranteed notes in the principal amount of S$200 million (equivalent to HK$1,169 million) in September 2018. Such increase in the amount of guaranteed notes issued by the Group serves to finance the Group's capital expenditure requirements as referred to in the paragraph headed "Capital commitments" below. These notes are included in the Group's bank and other borrowings at 31 December 2018 as referred to in the paragraph headed "Maturity profile and interest cover" below.

Maturity profile and interest cover

The maturity profile of the total debt, the cash and bank balances and the gearing ratio of the Group were as follows:

	At 31 December 2018 HK$ million	At 31 December 2017 HK$ million
Bank and other borrowings repayable:		
– Within 1 year	**33,021**	24,675
– After 1 year but within 2 years	**15,924**	20,841
– After 2 years but within 5 years	**20,064**	27,150
– After 5 years	**16,521**	5,884
Amount due to a fellow subsidiary	**1,100**	1,754
Total debt	**86,630**	80,304
Less: Cash and bank balances	**(16,507)**	(24,673)
Net debt	**70,123**	55,631
Shareholders' funds *(2017 – restated)*	**313,153**	292,574
Gearing ratio (%)	**22.4%**	19.0%

The total debt of HK$86,630 million at 31 December 2018 (2017: HK$80,304 million) was unsecured and comprised the Group's bank and other borrowings in Hong Kong. At 31 December 2018, after taking into account the effect of swap contracts, 22% (2017: 23%) of the Group's total debt carried fixed interest rates.

Gearing ratio is calculated based on the net debt and shareholders' funds of the Group at the end of the reporting period.

The interest cover of the Group is calculated as follows:

	Year ended 31 December	
	2018 HK$ million	2017 HK$ million
Profit from operations (including bank interest income and the cumulative fair value change (before tax) of investment properties disposed of during the year, but before changes in fair value of investment properties and investment properties under development for the year) plus the Group's share of the underlying profits less losses of associates and joint ventures *(2017 – restated)*	**22,981**	23,076
Interest expense (before interest capitalisation)	**2,034**	1,374
Interest cover (times) *(2017 – restated)*	**11**	17

With abundant banking facilities in place and the recurrent income generation from its operations, the Group has adequate financial resources in meeting the funding requirements for its ongoing operations as well as its future expansion.

Treasury and financial management

The Group is exposed to interest rate and foreign exchange risks. To efficiently and effectively manage these risks, the Group's financing and treasury activities are centrally co-ordinated at the corporate level. As a matter of policy, all transactions in derivative financial instruments are undertaken solely for risk management purposes and no derivative financial instruments were held by the Group at the end of the reporting period for speculative purposes.

The Group conducts its business primarily in Hong Kong with the related cash flows, assets and liabilities being denominated mainly in Hong Kong dollars. The Group's primary foreign exchange exposure arises from its property developments and investments in mainland China which are denominated in Renminbi ("RMB"), the guaranteed notes ("Notes") which are denominated in United States dollars ("US$"), Pound Sterling ("£") and Japanese Yen ("¥"), the fixed coupon rate bond ("Bond") which is denominated in United States dollars and the bank borrowings which are denominated in Japanese Yen and Australian dollars ("AUD").

In respect of the Group's operations in mainland China, apart from its capital contributions and, in some cases, loan contributions to projects which are denominated in RMB and are not hedged, the Group endeavours to establish a natural hedge by maintaining an appropriate level of external borrowings in RMB. In respect of the Notes and the Bond in the aggregate principal amounts of US$629 million and £50 million at 31 December 2018 (2017: US$629 million, £50 million and S$200 million), cross currency interest rate swap contracts were entered into between the Group and certain counterparty banks for the purpose of hedging against interest rate risk and foreign currency risk during their tenure. Furthermore, (i) in respect of certain of the Group's bank loans denominated in Hong Kong dollars in the aggregate principal amount of HK$11,450 million at 31 December 2018 (2017: HK$11,450 million) and certain Notes denominated in Hong Kong dollars in the aggregate principal amount of HK$5,599 million at 31 December 2018 (2017: HK$1,200 million), interest rate swap contracts were entered into between the Group and certain counterparty banks for the purpose of hedging against interest rate risk during their tenure; and (ii) in respect of the Note and bank loans denominated in Japanese Yen in the aggregate principal amount of ¥32,000 million and certain bank loans denominated in Australian dollars in the aggregate principal amount of AUD173 million at 31 December 2018 (2017: the Note denominated in Japanese Yen in the principal amount of ¥2,000 million), cross currency swap contracts were entered into between the Group and certain counterparty banks for the purpose of hedging against foreign currency risk during their tenure.

Material acquisitions and disposals

Material acquisitions

On 12 February 2018, the Group acquired from (i) HKICIM Fund III, L.P., an independent third party, the entire issued share capital of and shareholder's loan to a company which through its wholly-owned subsidiary holds a land parcel registered in the Land Registry as New Kowloon Inland Lot No. 6562, for a total consideration of approximately HK$6,062 million; and (ii) HKICIM Fund II, L.P., an independent third party, the entire issued share capital of and shareholder's loan to a company which through its wholly-owned subsidiary holds a land parcel registered in the Land Registry as New Kowloon Inland Lot No. 6565, for a total consideration of approximately HK$9,896 million. Completion of the acquisition took place on 14 February 2018 and the Group paid an aggregate cash consideration of approximately HK$15,958 million for the acquisition, which was funded from the Group's bank and other borrowings.

On 7 November 2018, a joint venture in which the Group has 29.3% interest, was awarded a land site registered in the Land Registry as New Kowloon Inland Lot No. 6574 by way of public tender for a tender premium of HK$8,333 million. The Group's attributable share of the tender premium amounted to HK$2,442 million and was settled on 4 December 2018.

Material disposals

On 4 January 2018, the Group entered into an agreement with an independent third party pursuant to which the Group transferred its interest in the entire issued share capital of Trado Investment Limited ("Trado") and the shareholder's loans to Trado and its wholly-owned subsidiary, Glory United Development Limited ("Glory United"), together with the entire interest in Glory United which owns an investment property at No. 18 King Wah Road, North Point, Hong Kong, for a cash consideration of about HK$9,950 million. The transaction was completed on 28 February 2018. Proceeds of HK$9,744 million of the adjusted sale consideration were received by the Group. The Group recognised a gain attributable to the Group's reported profit and underlying profit for the year ended 31 December 2018 in the amount of HK$846 million and HK$5,609 million, respectively.

On 27 July 2018, the Group and a subsidiary of Lai Sun Development Company Limited (collectively as the "Vendors") entered into a conditional agreement with an independent third party (the "Purchaser") pursuant to which, inter alia, the Vendors transferred their entire shareholdings in Best Value International Limited ("Best Value", being a joint venture of the Group) which together with its wholly-owned subsidiaries collectively own an investment property at No. 8 Observatory Road, Kowloon, Hong Kong, for a cash consideration of HK$4,100 million (subject to adjustment). The transfer was completed on 11 March 2019. Proceeds of HK$1,414 million, representing the Group's attributable share of the sale consideration after settlement of the outstanding debt of Best Value, plus an amount of HK$619 million representing the recovery of the outstanding balance of a loan advanced from the Group to Best Value, were received by the Group in the aggregate amount of HK$2,033 million. The Group's underlying profit arising from such transfer of interest in joint ventures amounted to HK$1,305 million.

During the year ended 31 December 2018, the Group disposed of its financial investments in certain listed and unlisted equity securities and corporate bonds for an aggregate consideration of HK$2,118 million (2017: the Group disposed of its financial investments in certain available-for-sale securities for an aggregate consideration of HK$1,833 million), and realised an aggregate net gain on disposal of HK$104 million of which (i) an amount of HK$91 million, representing the net aggregate cumulative fair value gains (based on the sale proceeds) of the equity securities disposed of, was transferred from the fair value reserve (non-recycling) to retained profits in equity due to the Group's adoption of the accounting policy choice of recognising its financial investments in equity securities as "Investments designated as financial assets at fair value through other comprehensive income" under HKFRS 9; and (ii) an amount of HK$13 million, representing the net aggregate gain on disposal of the financial investments in corporate bonds, was recognised in the consolidated statement of profit or loss due to the classification of the Group's financial investments in corporate bonds as "Financial assets measured at amortised cost" under HKFRS 9 (2017: the Group recognised an aggregate gain on disposal of certain available-for-sale securities (net of tax) of HK$316 million in the consolidated statement of profit or loss).

Save for the aforementioned, the Group did not undertake any other significant acquisitions or any other significant disposals of subsidiaries or assets during the year ended 31 December 2018.

Completion during the year ended 31 December 2018 of a significant transaction entered into during the previous year ended 31 December 2017

Reference is made to the agreement entered into by the Group with an independent third party on 28 November 2017 in relation to the Tuen Mun Transfer for a cash consideration of HK$6,600 million. The transaction was completed on 5 January 2018. Proceeds of HK$6,611 million representing the full sale consideration (as adjusted) were received by the Group. The Group recognised a gain attributable to the Group's reported profit and underlying profit for the year ended 31 December 2018 in the amount of HK$2,780 million.

Charge on assets

Except for a pledged bank deposit of HK$101,158 at 31 December 2018 (2017: Nil), assets of the Group's subsidiaries were not charged to any third parties at 31 December 2018 and 31 December 2017.

Capital commitments

At 31 December 2018, capital commitments of the Group amounted to HK$33,040 million (2017: HK$27,548 million). In addition, the Group's attributable share of capital commitments undertaken by joint ventures and certain associates at 31 December 2018 amounted to HK$7,128 million (2017: HK$6,222 million).

The Group plans to finance its capital expenditure requirements for the year ending 31 December 2019 by way of the Group's own internally generated cash flow, bank deposits, banking facilities and funds raised from the capital market during the year and in previous years.

Contingent liabilities

At 31 December 2018, the Group's contingent liabilities amounted to HK$2,232 million (2017: HK$2,115 million), which include:

(i) an amount of HK$443 million (2017: HK$1,237 million) relating to performance bonds, guarantees and undertakings for the due and proper performance of the obligations of the Group's subsidiaries and projects, and the substantial decrease of which is mainly attributable to the gradual completion of the construction activities of "Eden Manor", a residential development project of the Group in Hong Kong, during the year ended 31 December 2018. The amount of HK$443 million at 31 December 2018 mainly comprises a guarantee by the Group to a bank in the amount of HK$425 million against a finance undertaking issued by such bank in favour of the HKSAR Government during the year ended 31 December 2018 for the completion of the Group's residential development project "Reach Summit - Sereno Verde Phase 5" in Hong Kong under the terms and conditions of the relevant land grant;

(ii) an amount of HK$1,458 million (2017: HK$837 million) relating to guarantees given by the Group to financial institutions on behalf of purchasers of property units in mainland China in relation to which the related Building Ownership Certificate (房產證) had not yet been issued at 31 December 2018 (and such guarantees will be released upon the issuance of the Building Ownership Certificate), and the substantial increase of which is mainly attributable to the mortgage loans granted to the buyers during the year ended 31 December 2018 in respect of the sold units of "Grand Lakeview" in Yixing and "Riverside Park" in Suzhou;

(iii) an amount of HK$320 million (2017: HK$30 million) relating to the Group's attributable and proportional share of contingent liabilities in respect of an irrevocable, unconditional and several guarantee to the lending bank in relation to the amount drawn down on a loan facility which was entered into between a joint venture, in which the Group has a 20% interest, and such lending bank on 2 May 2017; and

(iv) an irrevocable and unconditional guarantee issued by the Company in favour of the Urban Renewal Authority ("URA") in relation to the obligations of the Developer (as defined below) under the Development Agreement (as defined below) which includes the construction and delivery by the Developer, on or before certain prescribed dates, of certain properties whose ownership shall be retained by URA absolutely for such purposes and usages to be decided by URA at its sole discretion, in accordance with a development agreement dated 21 November 2018 ("Development Agreement") between the URA and a wholly-owned subsidiary of the Company (the "Developer") in relation to a land parcel registered in the Land Registry as New Kowloon Inland Lot No. 6585.

Employees and remuneration policy

At 31 December 2018, the Group had 8,954 (2017: 8,590) full-time employees. The increase in the Group's full-time employees headcount of 364 during the year ended 31 December 2018 is mainly due to the contribution of 459 full-time employees from UNY HK, following the completion of acquisition by HIL on 31 May 2018.

The remuneration of the employees is in line with the market and commensurate with the level of pay in the industry. Discretionary year-end bonuses are payable to the employees based on individual performance. Other benefits to the employees include medical insurance, retirement scheme, training programmes and education subsidies.

Total staff costs charged to profit or loss for the year ended 31 December 2018 amounted to HK$2,409 million (2017: HK$2,284 million), representing a year-on-year increase of HK$125 million, or 5%, which is in line with the increase in the Group's full-time employees headcount during the year ended 31 December 2018 as referred to above. Staff costs for the year ended 31 December 2018 comprised (i) staff costs included under directors' remuneration of HK$153 million (2017: HK$149 million); and (ii) staff costs (other than directors' remuneration) of HK$2,256 million (2017: HK$2,135 million).