

Report of the Directors

The Directors have pleasure in submitting to shareholders their annual report together with the audited financial statements for the year ended 31 December 2018.

Principal Activities

The Company is an investment holding company and the principal activities of its subsidiaries during the year were property development and investment, construction, hotel operation, finance, department store operation, project management, investment holding and property management.

An analysis of the Group's revenue and contribution from operations by business and geographical segments is set out in note 14 to the financial statements on pages 208 to 214.

Business Review

A review of the business of the Group during the year and a discussion on the Group's future business development are provided in the Chairman's Statement and Review of Operations on pages 10 to 75 of this Annual Report. Possible risks and uncertainties that the Group may be facing are set out in the Financial Review on pages 78 to 91 and the Corporate Governance Report on pages 96 to 112. Particulars of important events affecting the Group since the end of the financial year (if any) are provided in the Chairman's Statement on pages 10 to 41 and the Financial Statements on pages 143 to 263. An analysis of the Group's performance during the year using financial key performance indicators is provided in the Five Year Financial Summary on pages 92 and 93 of this Annual Report. An environmental policy of the Group has been put in place to give due consideration to environmental issues and minimise the impact of business operations of the Group on environment. In addition, discussions on the Group's environmental policy and relationships with employees, customers, suppliers and other stakeholders are contained in the Sustainability and CSR and the Corporate Governance Report on pages 94 and 95 and pages 96 to 112 of this Annual Report respectively as well as the standalone Sustainability and CSR Report. The Chairman's Statement, the Review of Operations, the Financial Review, the Sustainability and CSR and the Corporate Governance Report form part of this report.

The Residential Properties (First-hand Sales) Ordinance (Cap. 621) ("RPFSSO") regulates the sales and marketing activities in relation to the first-hand residential properties in Hong Kong, with a view to enhancing the transparency, fairness and consumer protection of the sales of first-hand residential properties. The Group takes particular care to comply with the requirements of the RPFSSO through established internal procedures, as well as by engaging external professional advisors including architects, surveyors and solicitors in the checking of the accuracy of the information contained in sales brochures and other relevant documents made available to the public in connection with such sales.

The Group is also committed to safeguarding the security and proper use of personal data. When collecting, processing and using such data in the course of leasing, sale and marketing of properties, the Group complies with the Personal Data (Privacy) Ordinance (Cap. 486) and the guidelines issued by the Office of the Privacy Commissioner for Personal Data from time to time, with a view to protecting the privacy of, amongst others, the purchasers of its properties, in relation to personal data under its management.

In addition, the Group observes the requirements of trademarks, copyrights and other intellectual properties by obtaining the trademark and copyright owners' consent before the use of their products and artworks for the sale promotion of residential units. For the proper use and the protection of the Group's interests, chosen prestige brand names and chosen property names are registered under the Trade Marks Ordinance (Cap. 559) in Hong Kong.

Report of the Directors

The Company has complied with the requirements under the Companies Ordinance (Cap. 622), the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and the Securities and Futures Ordinance (Cap. 571) for, among other things, the disclosure of information and corporate governance. The Company has also adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as the code of dealing in securities of the Company by the Directors.

Subsidiaries

Particulars of the principal subsidiaries of the Company as at 31 December 2018 are set out on pages 255 to 261.

Group Profit

The profit of the Group for the year ended 31 December 2018 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 143 to 263.

Dividends

An interim dividend of HK\$0.50 per share was paid on 18 September 2018. The Directors have recommended the payment of a final dividend of HK\$1.30 per share to shareholders whose names appear on the Register of Members of the Company on Wednesday, 5 June 2019, and such final dividend will not be subject to any withholding tax in Hong Kong.

The proposed final dividend will be payable in cash and is expected to be distributed to shareholders on Monday, 17 June 2019.

Issue of Bonus Shares

The Board of Directors proposes to make a bonus issue of one new share for every ten shares held (2017: one bonus share for every ten shares held) to shareholders whose names appear on the Register of Members of the Company on Wednesday, 5 June 2019. The relevant resolution will be proposed at the forthcoming annual general meeting, and if passed and upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of and permission to deal in such new shares, share certificates for the bonus shares will be posted on Monday, 17 June 2019.

Charitable Donations

Charitable donations made by the Group during the year amounted to HK\$28,000,000 (2017: HK\$25,000,000).

Investment Properties and Other Property, Plant and Equipment

Particulars of the movements in investment properties and other property, plant and equipment during the year are set out in note 15 to the financial statements on pages 215 to 221.

Bank Loans, Guaranteed Notes and Medium Term Note Programme

Particulars of bank loans, Guaranteed Notes and Medium Term Note Programme of the Company and the Group as at 31 December 2018 are set out in notes 28 and 29 to the financial statements on pages 239 to 241, respectively.

Interest Capitalised

The amount of interest capitalised by the Group during the year ended 31 December 2018 is set out in note 7(a) to the financial statements on page 193.

Reserves

Particulars of the movements in reserves of the Company during the year ended 31 December 2018 are set out in note 39(b) to the financial statements on page 252.

Shares Issued and Share Capital

During the year, the Company issued 400,114,628 bonus shares on the basis of one share for every ten shares held. The reason for the bonus shares issuance was to enable the shareholders to enjoy a pro-rata increase in the number of shares being held in the Company without incurring any costs.

Details of the Company's share capital are set out in note 39(c) to the financial statements on page 253.

Group Financial Summary

The results, assets and liabilities of the Group for the last five years ended 31 December 2018 are summarised on pages 92 and 93.

Development and Investment Properties

Particulars of development and investment properties of the Group are set out on pages 42 to 75.

Directors' Emoluments

Particulars of the Directors' emoluments disclosed pursuant to the Companies Ordinance (Cap. 622) and Appendix 16 of the Listing Rules are set out in note 8 to the financial statements on pages 195 to 197.

Report of the Directors

Directors

The Directors of the Company during the financial year and up to the date of this report were:

Executive Directors	Non-executive Directors	Independent Non-executive Directors
Dr Lee Shau Kee <i>(Chairman and Managing Director)</i>	Lee Pui Ling, Angelina Lee Tat Man	Kwong Che Keung, Gordon Professor Ko Ping Keung Wu King Cheong Woo Ka Biu, Jackson Leung Hay Man <i>(passed away on 11 October 2018)</i> Professor Poon Chung Kwong Au Siu Kee, Alexander <i>(appointed on 13 December 2018)</i>
Dr Lee Ka Kit <i>(Vice Chairman)</i>		
Dr Lam Ko Yin, Colin <i>(Vice Chairman)</i>		
Lee Ka Shing <i>(Vice Chairman)</i>		
Yip Ying Chee, John		
Suen Kwok Lam		
Fung Lee Woon King		
Lau Yum Chuen, Eddie		
Kwok Ping Ho		
Wong Ho Ming, Augustine		

Mr Au Siu Kee, Alexander, who was appointed by the Board of Directors after the Company's 2018 annual general meeting, shall retire at the forthcoming annual general meeting in accordance with Article 99 of the Company's Articles of Association and, being eligible, has offered himself for re-election.

Mr Kwok Ping Ho, Mr Wong Ho Ming, Augustine, Mr Lee Tat Man, Mr Kwong Che Keung, Gordon, Professor Ko Ping Keung and Mr Wu King Cheong shall retire by rotation at the forthcoming annual general meeting in accordance with Article 116 of the Company's Articles of Association and the Corporate Governance Code and, being eligible, have offered themselves for re-election.

The list of directors of the subsidiaries of the Company during the financial year and up to the date of this report is kept at the Company's registered office and available for inspection by the Company's shareholders during office hours.

Disclosure of Interests

Directors' Interests in Shares

As at 31 December 2018, the interests and short positions of each Director of the Company in the shares, underlying shares 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 under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the SFO or the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Ordinary Shares (unless otherwise specified)

Long Positions

Name of Company	Name of Director	Note	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	% Interest
Henderson Land Development Company Limited	Lee Shau Kee	1	14,135,152		3,190,711,619		3,204,846,771	72.82
	Lee Ka Kit	1				3,190,711,619	3,190,711,619	72.50
	Lee Ka Shing	1				3,190,711,619	3,190,711,619	72.50
	Lee Tat Man	2	200,272				200,272	0.00
	Lee Pui Ling, Angelina	3	58,686				58,686	0.00
	Fung Lee Woon King	4	2,266,490				2,266,490	0.05
	Woo Ka Biu, Jackson	5			3,542		3,542	0.00
Henderson Investment Limited	Lee Shau Kee	6			2,110,868,943		2,110,868,943	69.27
	Lee Ka Kit	6				2,110,868,943	2,110,868,943	69.27
	Lee Ka Shing	6				2,110,868,943	2,110,868,943	69.27
	Lee Tat Man	7	6,666				6,666	0.00
The Hong Kong and China Gas Company Limited	Lee Shau Kee	8			6,389,357,019		6,389,357,019	41.53
	Lee Ka Kit	8				6,389,357,019	6,389,357,019	41.53
	Lee Ka Shing	8				6,389,357,019	6,389,357,019	41.53
	Poon Chung Kwong	9				200,442	200,442	0.00
Hong Kong Ferry (Holdings) Company Limited	Lee Shau Kee	10	799,220		119,017,090		119,816,310	33.63
	Lee Ka Kit	10				119,017,090	119,017,090	33.41
	Lee Ka Shing	10				119,017,090	119,017,090	33.41
	Lam Ko Yin, Colin	11	150,000				150,000	0.04
	Fung Lee Woon King	12	465,100				465,100	0.13
Miramar Hotel and Investment Company, Limited	Lee Shau Kee	13			336,481,980		336,481,980	48.70
	Lee Ka Kit	13				336,481,980	336,481,980	48.70
	Lee Ka Shing	13				336,481,980	336,481,980	48.70
Towngas China Company Limited	Lee Shau Kee	14			1,895,264,270		1,895,264,270	67.45
	Lee Ka Kit	14				1,895,264,270	1,895,264,270	67.45
	Lee Ka Shing	14				1,895,264,270	1,895,264,270	67.45

Report of the Directors

Ordinary Shares (unless otherwise specified) (continued)

Long Positions

Name of Company	Name of Director	Note	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	% Interest
Henderson Development Limited	Lee Shau Kee	15			8,190 (Ordinary A Shares)		8,190 (Ordinary A Shares)	100.00
	Lee Shau Kee	16			3,510 (Non-voting B Shares)		3,510 (Non-voting B Shares)	100.00
	Lee Shau Kee	17	35,000,000 (Non-voting Deferred Shares)		15,000,000 (Non-voting Deferred Shares)		50,000,000 (Non-voting Deferred Shares)	100.00
	Lee Ka Kit	15				8,190 (Ordinary A Shares)	8,190 (Ordinary A Shares)	100.00
	Lee Ka Kit	16				3,510 (Non-voting B Shares)	3,510 (Non-voting B Shares)	100.00
	Lee Ka Kit	17				15,000,000 (Non-voting Deferred Shares)	15,000,000 (Non-voting Deferred Shares)	30.00
	Lee Ka Shing	15				8,190 (Ordinary A Shares)	8,190 (Ordinary A Shares)	100.00
	Lee Ka Shing	16				3,510 (Non-voting B Shares)	3,510 (Non-voting B Shares)	100.00
	Lee Ka Shing	17				15,000,000 (Non-voting Deferred Shares)	15,000,000 (Non-voting Deferred Shares)	30.00
Best Homes Limited	Lee Shau Kee	18			26,000		26,000	100.00
	Lee Ka Kit	18				26,000	26,000	100.00
	Lee Ka Shing	18				26,000	26,000	100.00
Feswin Investment Limited	Lee Ka Kit	19			5,000	5,000	10,000	100.00

Report of the Directors

Ordinary Shares (unless otherwise specified) (continued)

Long Positions

Name of Company	Name of Director	Note	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	% Interest
Fordley Investment Limited	Fung Lee Woon King	20	2,000				2,000	20.00
Furnline Limited	Lee Shau Kee	21			100 (A Shares)		100 (A Shares)	100.00
	Lee Shau Kee	22			1 (B Share)		1 (B Share)	100.00
	Lee Ka Kit	21				100 (A Shares)	100 (A Shares)	100.00
	Lee Ka Kit	22				1 (B Share)	1 (B Share)	100.00
	Lee Ka Shing	21				100 (A Shares)	100 (A Shares)	100.00
	Lee Ka Shing	22				1 (B Share)	1 (B Share)	100.00
Gain Base Development Limited	Fung Lee Woon King	23	50				50	5.00
Perfect Bright Properties Inc.	Lee Shau Kee	24			100 (A Shares)		100 (A Shares)	100.00
	Lee Shau Kee	25			1 (B Share)		1 (B Share)	100.00
	Lee Ka Kit	24				100 (A Shares)	100 (A Shares)	100.00
	Lee Ka Kit	25				1 (B Share)	1 (B Share)	100.00
	Lee Ka Shing	24				100 (A Shares)	100 (A Shares)	100.00
	Lee Ka Shing	25				1 (B Share)	1 (B Share)	100.00

Save as disclosed above, none of the Directors or the Chief Executive of the Company or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations as defined in the SFO.

Report of the Directors

Substantial Shareholders' and Others' Interests

As at 31 December 2018, the interests and short positions of every person, other than Directors of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Long Positions

	No. of shares in which interested	% Interest
Substantial Shareholders		
Rimmer (Cayman) Limited (Note 1)	3,190,711,619	72.50
Riddick (Cayman) Limited (Note 1)	3,190,711,619	72.50
Hopkins (Cayman) Limited (Note 1)	3,190,711,619	72.50
Henderson Development Limited (Note 1)	3,188,055,214	72.44
Yamina Investment Limited (Note 1)	1,436,609,062	32.64
Believegood Limited (Note 1)	725,352,667	16.48
South Base Limited (Note 1)	725,352,667	16.48
Persons other than Substantial Shareholders		
Cameron Enterprise Inc. (Note 1)	337,404,922	7.67
Richbond Investment Limited (Note 1)	432,547,181	9.83

Report of the Directors

Notes:

1. *Of these shares, Dr Lee Shau Kee was the beneficial owner of 14,135,152 shares, and for the remaining 3,190,711,619 shares, (i) 1,318,898,971 shares were owned by Henderson Development Limited (“HD”); (ii) 432,547,181 shares were owned by Richbond Investment Limited which was a wholly-owned subsidiary of HD; (iii) 337,404,922 shares were owned by Cameron Enterprise Inc.; 725,352,667 shares were owned by Believegood Limited which was wholly-owned by South Base Limited; 138,997,867 shares were owned by Prosglass Investment Limited which was wholly-owned by Jayasia Investments Limited; 127,901,783 shares were owned by Fancy Eye Limited which was wholly-owned by Mei Yu Ltd.; 106,951,823 shares were owned by Spreadral Limited which was wholly-owned by World Crest Ltd.; and Cameron Enterprise Inc., South Base Limited, Jayasia Investments Limited, Mei Yu Ltd. and World Crest Ltd. were wholly-owned subsidiaries of Yamina Investment Limited which in turn was 100% held by HD; and (iv) 2,656,405 shares were owned by Fu Sang Company Limited (“Fu Sang”). Hopkins (Cayman) Limited (“Hopkins”) as trustee of a unit trust (the “Unit Trust”) owned all the issued ordinary shares of HD and Fu Sang. Rimmer (Cayman) Limited (“Rimmer”) and Riddick (Cayman) Limited (“Riddick”), as trustees of respective discretionary trusts, held units in the Unit Trust. The entire issued share capital of Hopkins, Rimmer and Riddick were owned by Dr Lee Shau Kee. Dr Lee Shau Kee was taken to be interested in these shares by virtue of the SFO. As Directors of the Company and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Dr Lee Ka Kit and Mr Lee Ka Shing were taken to be interested in these shares by virtue of the SFO.*
2. *Mr Lee Tat Man was the beneficial owner of these shares.*
3. *Mrs Lee Pui Ling, Angelina was the beneficial owner of these shares.*
4. *Madam Fung Lee Woon King was the beneficial owner of these shares.*
5. *These shares were owned by the wife of Mr Woo Ka Biu, Jackson.*
6. *Of these shares, 843,249,284 shares, 602,398,418 shares, 363,328,900 shares, 217,250,000 shares and 84,642,341 shares were respectively owned by Banshing Investment Limited, Markshing Investment Limited, Covite Investment Limited, Gainwise Investment Limited and Darnman Investment Limited, all of which were wholly-owned subsidiaries of Kingslee S.A. which in turn was 100% held by the Company. Dr Lee Shau Kee was taken to be interested in the Company as set out in Note 1 and Henderson Investment Limited by virtue of the SFO. As Directors of the Company and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Dr Lee Ka Kit and Mr Lee Ka Shing were taken to be interested in these shares by virtue of the SFO.*
7. *Mr Lee Tat Man was the beneficial owner of these shares.*
8. *Of these shares, 3,556,972,015 shares and 1,381,550,426 shares were respectively owned by Disralei Investment Limited and Medley Investment Limited, both of which were wholly-owned subsidiaries of Timpani Investments Limited; 1,450,834,578 shares were owned by Macrostar Investment Limited, a wholly-owned subsidiary of Chelco Investment Limited; and Timpani Investments Limited and Chelco Investment Limited were wholly-owned subsidiaries of Faxson Investment Limited which in turn was 100% held by the Company. Dr Lee Shau Kee was taken to be interested in the Company as set out in Note 1 and The Hong Kong and China Gas Company Limited (“China Gas”) by virtue of the SFO. As Directors of the Company and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Dr Lee Ka Kit and Mr Lee Ka Shing were taken to be interested in these shares by virtue of the SFO.*
9. *These shares were owned by Professor Poon Chung Kwong and his wife jointly.*
10. *Of these shares, Dr Lee Shau Kee was the beneficial owner of 799,220 shares, and for the remaining 119,017,090 shares, 48,817,090 shares were held by Wiselin Investment Limited, 23,400,000 shares each were respectively owned by Graf Investment Limited, Mount Sherpa Limited and Paillard Investment Limited, all of which were wholly-owned subsidiaries of Pataca Enterprises Limited which in turn was 100% held by the Company. Dr Lee Shau Kee was taken to be interested in the Company as set out in Note 1 and Hong Kong Ferry (Holdings) Company Limited by virtue of the SFO. As Directors of the Company and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Dr Lee Ka Kit and Mr Lee Ka Shing were taken to be interested in these shares by virtue of the SFO.*
11. *Dr Lam Ko Yin, Colin was the beneficial owner of these shares.*
12. *Madam Fung Lee Woon King was the beneficial owner of these shares.*

Report of the Directors

13. *Of these shares, 120,735,300 shares, 119,140,680 shares and 96,606,000 shares were respectively owned by Higgins Holdings Limited, Multiglade Holdings Limited and Threadwell Limited, all of which were wholly-owned subsidiaries of Aynbury Investments Limited which in turn was 100% held by the Company. Dr Lee Shau Kee was taken to be interested in the Company as set out in Note 1 and Miramar Hotel and Investment Company, Limited by virtue of the SFO. As Directors of the Company and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Dr Lee Ka Kit and Mr Lee Ka Shing were taken to be interested in these shares by virtue of the SFO.*
14. *These shares were owned by Hong Kong & China Gas (China) Limited, Planwise Properties Limited and Superfun Enterprises Limited, wholly-owned subsidiaries of China Gas. Dr Lee Shau Kee was taken to be interested in China Gas as set out in Note 8 and Towngas China Company Limited by virtue of the SFO. As Directors of the Company and discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust, Dr Lee Ka Kit and Mr Lee Ka Shing were taken to be interested in these shares by virtue of the SFO.*
15. *These shares were held by Hopkins as trustee of the Unit Trust.*
16. *These shares were held by Hopkins as trustee of the Unit Trust.*
17. *Of these shares, Dr Lee Shau Kee was the beneficial owner of 35,000,000 shares, and Fu Sang owned the remaining 15,000,000 shares.*
18. *Of these shares, (i) 10,400 shares were owned by the Company; and (ii) 15,600 shares were owned by Manifest Investments Limited which was 100% held by HD.*
19. *Of these shares, (i) 5,000 shares were owned by Applecross Limited which was wholly-owned by Dr Lee Ka Kit; and (ii) 5,000 shares were owned by Henderson (China) Investment Company Limited, a wholly-owned subsidiary of Andco Limited which was wholly-owned by Henderson China Holdings Limited, an indirect wholly-owned subsidiary of the Company.*
20. *Madam Fung Lee Woon King was the beneficial owner of these shares.*
21. *These shares were owned by Jetwin International Limited. Triton (Cayman) Limited as trustee of a unit trust owned all the issued share capital of Jetwin International Limited. Triumph (Cayman) Limited and Victory (Cayman) Limited, as trustees of respective discretionary trusts, held units in the unit trust. The entire share capital of Triton (Cayman) Limited, Triumph (Cayman) Limited and Victory (Cayman) Limited were owned by Dr Lee Shau Kee who was taken to be interested in such shares by virtue of the SFO. As Directors of the Company and discretionary beneficiaries of the discretionary trusts holding units in such unit trust, Dr Lee Ka Kit and Mr Lee Ka Shing were taken to be interested in such shares by virtue of the SFO.*
22. *This share was owned by Sunnice Investment Limited, a wholly-owned subsidiary of Profit Best Development Limited which in turn was wholly-owned by the Company.*
23. *Madam Fung Lee Woon King was the beneficial owner of these shares.*
24. *These shares were owned by Jetwin International Limited.*
25. *This share was owned by Sunnice Investment Limited, a wholly-owned subsidiary of Profit Best Development Limited which in turn was wholly-owned by the Company.*

Share Option Schemes

The Company and its subsidiaries have no share option schemes.

Arrangements to Purchase Shares or Debentures

At no time during the year ended 31 December 2018 was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to 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.

Equity-linked Agreements

No equity-linked agreements entered into by the Company were subsisting as at 31 December 2018 and the Company did not enter into any equity-linked agreements during the year under review.

Interests in Transactions, Arrangements or Contracts and Connected Transactions/Continuing Connected Transactions

During the year under review, the Group had the transactions, arrangements and contracts as described below with persons who are “connected persons” for the purposes of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”):

- (1) Henderson Finance Company Limited, a wholly-owned subsidiary of Henderson Development Limited, made unsecured advances from time to time to subsidiaries of the Company up to a maximum aggregate sum of approximately HK\$12,776 million during the year, with interest chargeable on the balances outstanding from time to time by reference to HIBOR quoted by banks. As at 31 December 2018, the aggregate sum owing by subsidiaries of the Company to Henderson Finance Company Limited amounted to approximately HK\$1,100 million, which has been included in the financial statements under “Amount due to a fellow subsidiary”.

Dr Lee Shau Kee, Dr Lee Ka Kit and Mr Lee Ka Shing were taken to be interested in the transactions, arrangements and contracts referred to in the above as directors of the Company’s ultimate holding company, Henderson Development Limited (and as more particularly described in the section “Disclosure of Interests” above) with respect to their interests in Henderson Development Limited or the trust.

- (2) The Company had the following continuing connected transactions/connected transaction, each of which, as disclosed by way of announcement, was subject to the reporting and announcement requirements but exempt from independent shareholders’ approval requirements under Chapter 14A of the Listing Rules:

Sunlight Real Estate Investment Trust (“Sunlight REIT”) being a trust in accordance with Code on Real Estate Investment Trusts issued by the Securities and Futures Commission of Hong Kong (the “REIT Code”) was regarded by the Stock Exchange as a connected person of the Company under the Listing Rules so long as the aggregate percentage unitholdings in Sunlight REIT held by the Group and the Shau Kee Financial Enterprises Limited group (“SKFE Group”) (controlled by a family trust of Dr Lee Shau Kee, the Chairman and Managing Director of the Company) is above 30%. Accordingly, the transactions between the Group and Sunlight REIT group constitute connected transactions of the Company under the Listing Rules.

Report of the Directors

As disclosed in the announcement dated 16 May 2018, new annual cap amounts in respect of each of the three financial years ending up to 31 December 2021 were set for the continuing connected transactions between the Group and Sunlight REIT group contemplated under the following agreements/deeds:

- (a) a property management agreement dated 29 November 2006 was entered into between Henderson Sunlight Asset Management Limited (“HSAM”), a wholly-owned subsidiary of the Company, as manager of Sunlight REIT, and Henderson Sunlight Property Management Limited (the “Property Manager”), a wholly-owned subsidiary of the Company, as property manager of the Sunlight REIT, and the property holding companies under Sunlight REIT group had also subsequently acceded thereto. The property management agreement was thereafter supplemented by four supplemental agreements dated 28 April 2009, 25 June 2012, 12 May 2015 and 15 May 2018 respectively. The agreement related to the provision of certain property management and lease management as well as marketing services in respect of the properties of Sunlight REIT at a fee of not exceeding 3% per annum of the gross property revenue of the relevant properties of Sunlight REIT plus a commission on the base rent or licence fee for a tenancy or a licence secured. By the last supplemental agreement entered into between HSAM and the Property Manager, the term of the appointment of the Property Manager for the provision of the said property related management services (the “Property Management Transactions”) has been extended to 30 June 2021;
- (b) a trust deed dated 26 May 2006 (as supplemented by supplemental deeds dated 1 June 2006, 28 November 2006, 28 April 2009, 23 July 2010 and 30 April 2012, and further supplemented by the supplemental deed dated 16 March 2015 which related to the expansion of the investment scope of Sunlight REIT in alignment with the amendments to the REIT Code, etc.) was entered into between Uplite Limited, a subsidiary of SKFE Group, as settlor, HSAM as manager, and HSBC Institutional Trust Services (Asia) Limited as trustee in respect of, among other things, the appointment of HSAM as the manager of Sunlight REIT for the management and operation of Sunlight REIT at a base fee not exceeding 0.4% per annum of the property values of Sunlight REIT for the relevant financial year and a variable fee of 3% per annum of the relevant net property income of Sunlight REIT payable in the form of cash and/or Sunlight REIT units as HSAM may elect. HSAM is also entitled to an acquisition fee in respect of acquisition of real estate by Sunlight REIT, and a divestment fee in respect of any real estate sold or divested by Sunlight REIT (where applicable) and certain reimbursement (the “Asset Management Transactions”);
- (c) agreements are entered into from time to time between the Property Manager and Megastrength Security Services Company Limited (“Megastrength”), a wholly-owned subsidiary of the Company, in respect of the provision of security and related services for property(ies) of the Sunlight REIT for various terms, typically of durations ranging from short intervals up to 24 months at fees determined through a tendering/quotation procedure or on the basis of commercial negotiations. By a letter of award dated 24 April 2017, the Property Manager awarded the security services contract to Megastrength for an initial term of 14 months commencing from 1 May 2017 (the “First Security Services Contract”), which is renewable at the option of the Property Manager to a further term of 12 months subject to the same terms and conditions. On 11 May 2018, the Property Manager and Megastrength entered into a new services contract to renew the First Security Services Contract for a further term of 12 months commencing on 1 July 2018 which was on the same terms and conditions as the First Security Services Contract. The monthly service fee is fixed at approximately HK\$228,000 for the first 12 months ended on 1 May 2018 and approximately HK\$235,000 for the remaining term ending on 1 July 2019 (collectively the “Security Services Transactions”); and

Report of the Directors

- (d) agreements or arrangements are to be entered into from time to time between members of the Group and members of Sunlight REIT group for the provision of other ancillary property services for the properties of Sunlight REIT (the “Other Ancillary Property Services Transactions”).

The maximum aggregate sums to be paid by the Sunlight REIT group to the Group under the Property Management Transactions, the Asset Management Transactions, the Security Services Transactions and the Other Ancillary Property Services Transactions will not exceed the following:

Financial year ended 31 December 2018 (HK\$ million)	Financial year ending 31 December 2019 (HK\$ million)	Financial year ending 31 December 2020 (HK\$ million)	Financial year ending 31 December 2021 (HK\$ million)
219	198	218	241

For the year ended 31 December 2018, the Group received HK\$51,510,000 for the Property Management Transactions, HK\$97,307,000 for the Asset Management Transactions and HK\$2,770,400 for the Security Services Transactions which in aggregate amounted to HK\$151,587,400; while no fee was received for the Other Ancillary Property Services Transactions (collectively the “Sunlight REIT Transactions”).

The Audit Department has reviewed the Sunlight REIT Transactions together with the relevant internal controls and confirmed to the Independent Non-executive Directors of the Company that the Sunlight REIT Transactions were conducted in accordance with the pricing mechanism and the terms under the relevant agreements. The Independent Non-executive Directors of the Company have reviewed and confirmed that such transactions are (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms; and (c) in accordance with the terms of the respective agreements/deeds relating to the transactions in question and are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Auditor of the Company has also confirmed that nothing has come to the Auditor’s attention that causes it to believe that the Sunlight REIT Transactions (a) have not received the approval of the Board; (b) were not, in all material respects, in accordance with the pricing policies of the Group; (c) were not entered into, in all material respects, in accordance with the relevant agreements/deeds governing such transactions; and (d) have exceeded the respective caps as aforesaid.

The Company’s Auditor was engaged to report on the Group’s continuing connected transactions 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 its unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed by the Group in this Annual Report in accordance with Rule 14A.56 of the Listing Rules. The Company will provide a signed copy of the said letter to the Stock Exchange.

The material related party transactions set out in note 38 to the financial statements on pages 248 to 250 include transactions that constitute connected transactions/continuing connected transactions for which the disclosure requirements under the Listing Rules have been met.

Save as disclosed above, no other transaction, arrangement or contract that is significant in relation to the Company’s business to which the Company, its holding company or any of its subsidiaries or fellow subsidiaries was a party, and in which a Director of the Company had, directly or indirectly, a material interest, subsisted at the year end or at any time during the year.

Report of the Directors

Directors' Interests in Competing Business

Pursuant to Rule 8.10 of the Listing Rules, the interests of Directors of the Company in businesses which might compete with the Group during the year ended and as at 31 December 2018 were as follows:

Dr Lee Shau Kee, the Chairman of the Company, and Dr Lee Ka Kit and Mr Lee Ka Shing, Directors of the Company, have deemed interests and/or held directorships in companies engaged in the same businesses of property investment, development and management in Hong Kong and mainland China as the Group. As those companies which engage in the same businesses as the Group are involved in the investment, development and management of properties of different types and/or in different locations, and the Group has been operating independently of, and at arm's length from, the businesses of those companies, no competition is considered to exist.

Service Contracts

None of the Directors has a service contract with the Company or any of its subsidiaries which is of a duration exceeding three years or which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

Management Contracts

No contracts (as defined in Section 543 of the Companies Ordinance (Cap. 622)) relating to the management and/or administration of the whole or any substantial part of the business of the Company were entered into or subsisted during the year.

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

Except for the issue of bonus shares on 21 June 2018, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year.

Major Customers and Suppliers

For the year ended 31 December 2018, the aggregate amount of revenue attributable to the Group's largest customer and five largest customers accounted for approximately 30% and 34% respectively, of the Group's total revenue; and the aggregate amount of purchases attributable to the Group's largest supplier and five largest suppliers accounted for approximately 38% and 42% respectively, of the Group's total purchases.

So far as the Company is aware, none of the Directors of the Company or any of his/her close associates, or shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued shares), had any interest in those customers or suppliers.

Management Discussion and Analysis

A management discussion and analysis of the Group's results for the year ended 31 December 2018 is shown on pages 78 to 91.

Sustainability and Corporate Social Responsibility

The standalone Sustainability and CSR Report is to be published on the same date of this Annual Report and posted on the Company's website.

Retirement Benefits Scheme

The Group's Hong Kong employees participate in the Henderson Staff Provident Fund (the "Fund"), a defined contribution provident fund scheme as defined in the Occupational Retirement Schemes Ordinance (Cap. 426) or in another defined contribution scheme (the "Scheme") as mentioned below or in schemes (the "MPF Schemes") registered under the Mandatory Provident Fund Scheme Ordinance (Cap. 485) ("MPFO").

Contributions to the Fund are made by the participating employers at rates ranging from 4% to 6%, and by the employees at 2%, of the employees' basic monthly salaries. The portion of employers' contributions to which the employees are not entitled and which has been forfeited shall not be used to reduce the future contributions of the participating employers.

As for the Scheme, contributions are made by both the employers and the employees at the rate of 5% of the employees' basic monthly salaries. Forfeited contributions can be applied towards reducing the amount of future contributions payable by the employers. There were no forfeited contributions of the Scheme utilised during the year ended 31 December 2018 (2017: Nil). As at 31 December 2018, there were no forfeited contributions that could be utilised to reduce the Group's contributions to the Scheme (2017: Nil).

No employees of the Group were eligible to join the Fund or the Scheme on or after 1 December 2000.

Employees of the Group who are not members of the Fund or the Scheme participate in the MPF Schemes. In addition to the minimum benefits set out in the MPFO, the Group provides certain voluntary top-up benefits to employees participating in the MPF Schemes. The portion of employer's contributions to which the employees are not entitled and which has been forfeited can be used by the Group to reduce the future contributions. The total amount so utilised during the year ended 31 December 2018 was HK\$2,500,000 (2017: HK\$2,000,000) and there was no balance available to be utilised as at 31 December 2018 (2017: Nil).

The Group also participates in the state-organised pension scheme operated by the Government of the PRC for its PRC employees and contributes a certain percentage of the employees' covered payroll to fund the benefits.

The Group's retirement costs charged to the profit and loss account for the year ended 31 December 2018 were HK\$96,000,000 (2017: HK\$90,000,000).

Permitted Indemnity

The Articles of Association of the Company provide that every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities (to the fullest extent permitted by the Companies Ordinance (Cap. 622)) which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto.

In addition, the indemnity agreements made by the Company, which are currently in force and were in force throughout the financial year, contained permitted indemnity provisions (as permitted in Section 469(2) of the Companies Ordinance (Cap. 622)), for the benefit of the Directors of the Company. The Company has also taken out and maintained Director's liability insurance throughout the financial year, which provides appropriate cover for the Directors.

Revolving Credit Agreements with Covenants of the Controlling Shareholders

The Company through a wholly-owned subsidiary as borrower had obtained the 5-year term loan and revolving credit facilities of up to HK\$18,000,000,000 in March 2015 from groups of syndicate of banks under a guarantee given by the Company.

In connection with the above credit facilities, it will be an event of default if the Company is deemed to be ultimately controlled by any person(s) other than Dr Lee Shau Kee and/or his family and/or companies controlled by any of them or any trust in which Dr Lee Shau Kee and/or his family and/or companies controlled by any of them are beneficiaries. If any event of default occurs, the outstanding amounts (if any) under the credit facilities may become due and payable on demand.

Public Float

As at the date of this report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

Auditor

A resolution for the re-appointment of KPMG as Auditor of the Company is to be proposed at the forthcoming annual general meeting.

Corporate Governance

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 96 to 112.

On behalf of the Board

Lee Shau Kee

Chairman

Hong Kong, 20 March 2019