KERRY PROPERTIES LIMITED
嘉里建設有限公司

ANNUAL REPORT 2017

Stock Code : 683
(Incorporated in Bermuda with limited liability)


KERRY CENTRE 嘉里中心

ANNUAL REPORT 2017

Kerry Properties Limited ("KPL") is a world-class property company with significant investments in Asia. The Company is known for its property development activities in the People's Republic of China (the "**PRC**") and Hong Kong. In both markets, KPL focuses on investing in premium quality property developments in prime locations. The Company has developed a successful business model for doing this over many years and has considerable experience as a developer and manager of quality properties. We act on principles of fairness and integrity, and we value the many relationships we have developed over our long history with staff, suppliers, partners, government agencies, and other key stakeholders.

CORPORATE INFORMATION & KEY DATES

BOARD OF DIRECTORS

Executive Directors
Mr Wong Siu Kong, *Chairman*
Mr Ho Shut Kan, *Chief Executive Officer*
Mr Bryan Pallop Gaw

Non-executive Director
Mr Kuok Khoon Hua

Independent Non-executive Directors
Mr Ku Moon Lun
Ms Wong Yu Pok, Marina, JP
Mr Chang Tso Tung, Stephen

AUDIT AND CORPORATE GOVERNANCE COMMITTEE

Ms Wong Yu Pok, Marina, JP, *Chairman*
Mr Ku Moon Lun
Mr Chang Tso Tung, Stephen

REMUNERATION COMMITTEE

Ms Wong Yu Pok, Marina, JP, *Chairman*
Mr Wong Siu Kong
Mr Ho Shut Kan
Mr Ku Moon Lun
Mr Chang Tso Tung, Stephen

NOMINATION COMMITTEE

Mr Wong Siu Kong, *Chairman*
Mr Ho Shut Kan
Mr Ku Moon Lun
Ms Wong Yu Pok, Marina, JP
Mr Chang Tso Tung, Stephen

FINANCE COMMITTEE

Mr Wong Siu Kong
Mr Ho Shut Kan

EXECUTIVE COMMITTEE

Mr Wong Siu Kong
Mr Ho Shut Kan
Mr Bryan Pallop Gaw

COMPANY SECRETARY

Ms Li Siu Ching, Liz

AUDITOR

PricewaterhouseCoopers

REGISTERED OFFICE

Canon's Court, 22 Victoria Street
Hamilton HM12, Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

25/F, Kerry Centre, 683 King's Road
Quarry Bay, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited
The Belvedere Building, 69 Pitts Bay Road
Pembroke HM08, Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Abacus Limited
Level 22, Hopewell Centre, 183 Queen's Road East
Hong Kong

CORPORATE COMMUNICATION DEPARTMENT

Kerry Properties Limited
25/F, Kerry Centre, 683 King's Road
Quarry Bay, Hong Kong
Telephone: (852) 2967 2200
Facsimile: (852) 2967 2900
Email: communication@kerryprops.com

INVESTOR RELATIONS DEPARTMENT

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Facsimile: (852) 2967 2900
Email: ir@kerryprops.com

WEBSITE

www.kerryprops.com

STOCK CODES

Stock Exchange of Hong Kong: 683
Bloomberg: 683 HK
Reuters: 683.HK

KEY DATES

Annual General Meeting
18 May 2018

Closure of Registers of Members
15 to 18 and 25 May 2018

Proposed Payment of Final and Special Dividends
5 June 2018

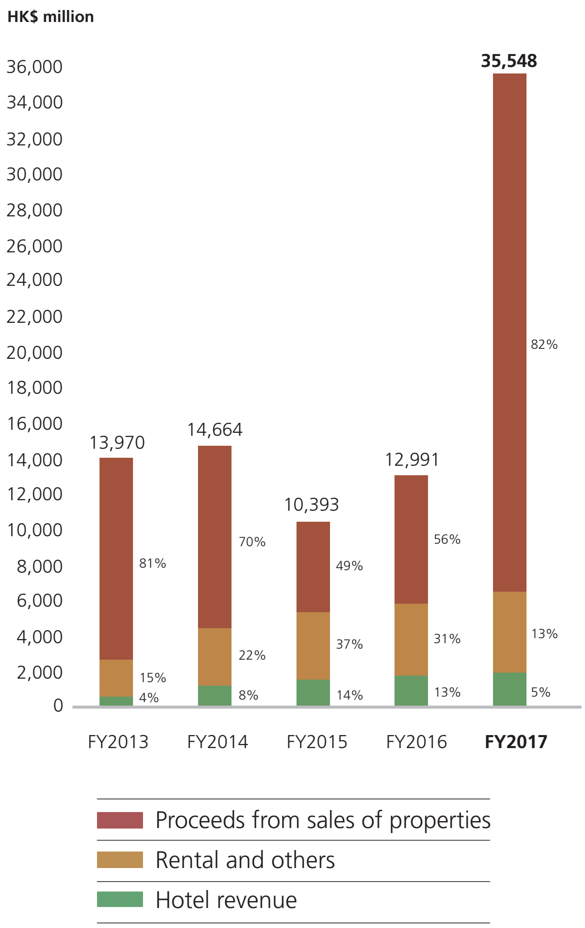
CONTENTS

FINANCIAL HIGHLIGHTS

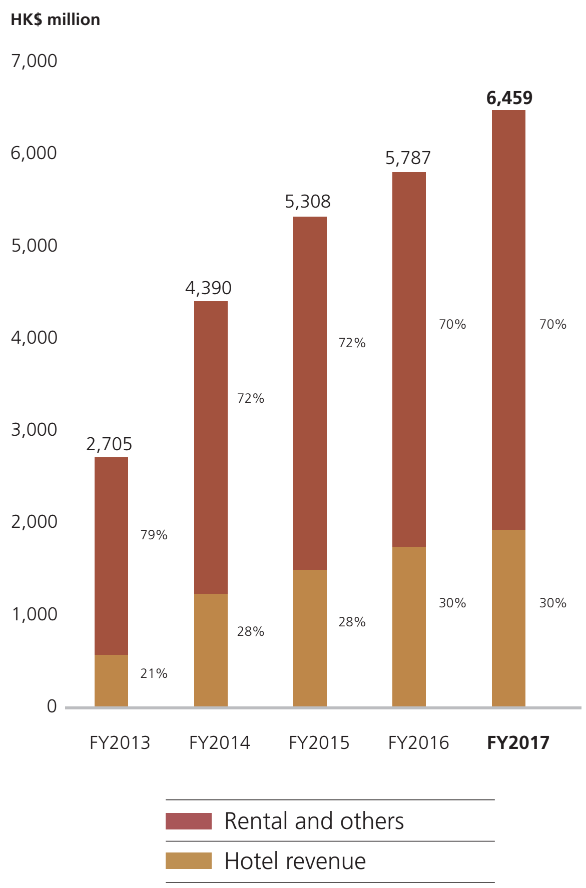
Two-year Overview		FY 2017	FY 2016	% Change
Turnover	(HK$M)	**35,548**	12,991	+174%
Gross profit	(HK$M)	**9,745**	5,856	+66%
Gross profit margin	(%)	**27.4**	45.1	
Operating profit	(HK$M)	**10,938**	8,529	+28%
Operating profit margin	(%)	**30.8**	65.7	
Profit attributable to shareholders	(HK$M)			
– before fair value change of properties		**6,651**	3,671	+81%
– after fair value change of properties		**9,242**	6,537	+41%
Net profit margin	(%)			
– before fair value change of properties		**18.7**	28.3	
– after fair value change of properties		**26.0**	50.3	
Earnings per share	(HK$)			
– before fair value change of properties		**4.61**	2.54	+81%
– after fair value change of properties		**6.40**	4.53	+41%
Shareholders' equity	(HK$M)	**94,349**	82,744	+14%
Net borrowings	(HK$M)	**24,274**	28,852	-16%
Net asset value per share	(HK$)	**65.22**	57.34	+14%
Share price as at 31 December	(HK$)	**35.15**	21.05	
Price earnings ratio#	(times)			
– before fair value change of properties		**7.6**	8.3	
– after fair value change of properties		**5.5**	4.6	
Market capitalisation as at 31 December#	(HK$M)	**50,846**	30,378	
Dividend per share	(HK$)	**1.5**	1.1	+36%
Dividend payout ratio	(%)			
– before fair value change of properties		**32.5**	43.3	
– after fair value change of properties		**23.4**	24.3	
Dividend cover	(times)			
– before fair value change of properties		**3.1**	2.3	
– after fair value change of properties		**4.3**	4.1	
Dividend yield#	(%)	**4.3**	5.2	
Return on shareholders' equity	(%)			
– before fair value change of properties		**7.0**	4.4	
– after fair value change of properties		**9.8**	7.9	
Gearing	(%)	**25.7**	34.9	
Interest cover	(times)			
– before fair value change of properties		**14.2**	8.7	
– after fair value change of properties		**17.5**	13.4	
Current ratio	(times)	**1.7**	1.9	
Liquidity ratio	(times)	**0.8**	0.6	
Discount to net asset value#	(%)	**(46.1)**	(63.3)	

Based on share prices as at 31 December 2017 and 31 December 2016, respectively.

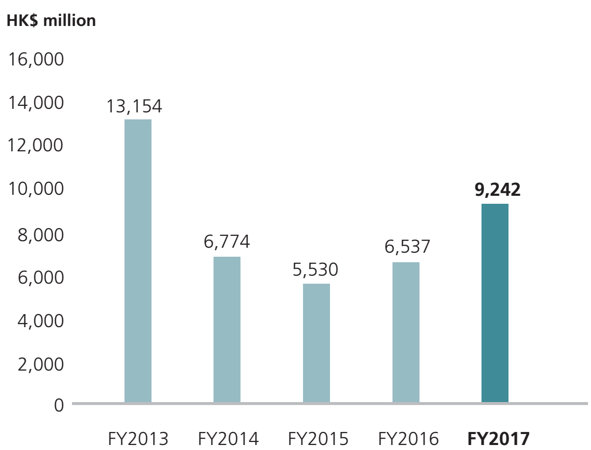
Breakdown of Total Turnover
(excluding discontinued operations)



Breakdown of Recurrent Income
(excluding discontinued operations)



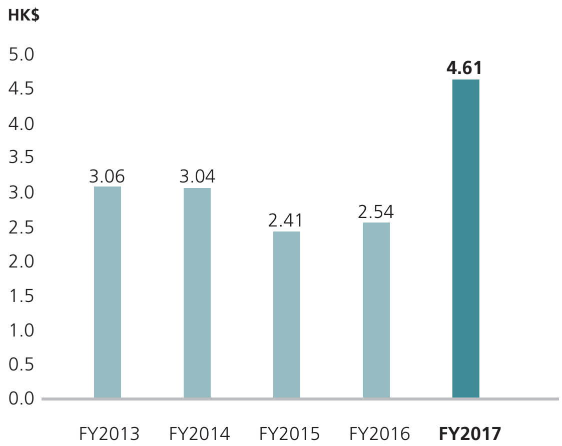
Profit Attributable to Shareholders



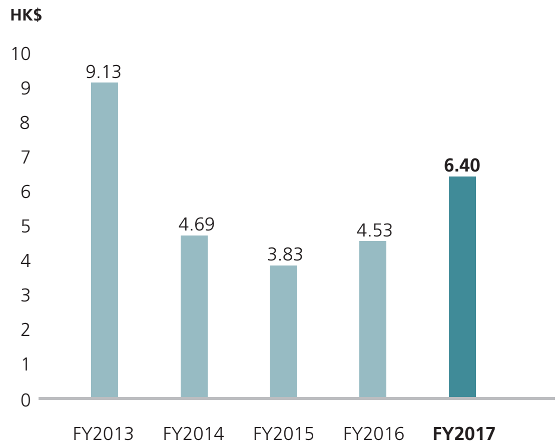
	Total Turnover (excluding discontinued operations) HK$ million	Recurrent Income (excluding discontinued operations) HK$ million	% Weighting	Net Profit before fair value change of properties and spin-off gain HK$ million	Net Profit after fair value change of properties and spin-off gain HK$ million
FY 2013	13,970	2,705	19%	4,413	13,154
FY 2014	14,664	4,390	30%	4,384	6,774
FY 2015	10,393	5,308	51%	3,481	5,530
FY2016	12,991	5,787	44%	3,671	6,537
FY2017	**35,548**	**6,459**	**18%**	**6,651**	**9,242**

FINANCIAL HIGHLIGHTS

Earnings per Share
(before fair value change of properties and spin-off gain)

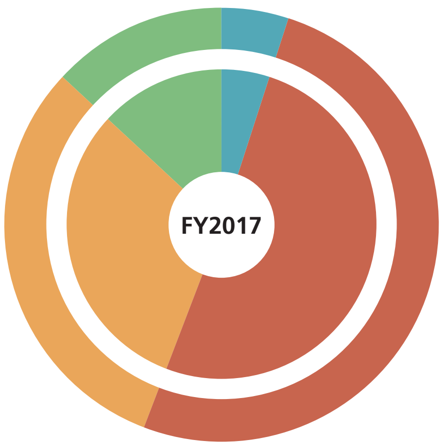


Earnings per Share
(after fair value change of properties and spin-off gain)



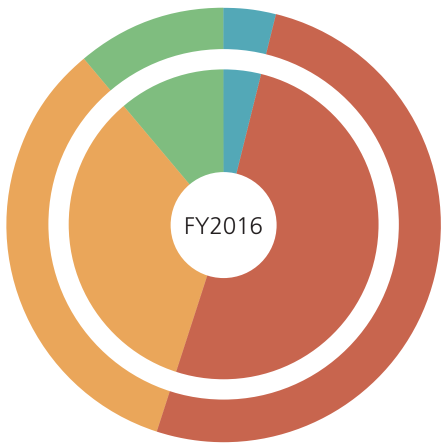
Gross Asset Value of Properties

HK$119,848 million



PRC	51%
Hong Kong Residential	31%
Hong Kong Commercial	13%
Others	5%

HK$123,782 million



PRC	47%
Hong Kong Residential	39%
Hong Kong Commercial	10%
Others	4%

CHAIRMAN'S STATEMENT

Mr Wong Siu Kong
Chairman

Dear Shareholders,

On behalf of the Board, I am pleased to report the annual results of the Group for the year ended 31 December 2017. The Group celebrated another year of strong performance. The consolidated net profit attributable to shareholders for the year, before taking into account the effects of the increase in fair value of investment properties, was HK$6,651 million, representing an increase of 81% compared with the HK$3,671 million reported for 2016. Profit attributable to shareholders for the year, after taking into account the effects of the increase in fair value of investment properties, was HK$9,242 million (2016: HK$6,537 million). Earnings per share for the year were HK$6.40, up 41% compared with HK$4.53 per share as recorded in 2016.

The Board has recommended the payment of a final dividend of HK$0.90 per share and a special dividend of HK$0.15 per share for the year. Together with the interim dividend of HK$0.45 per share, the total cash dividend for the year will be HK$1.50 per share (2016: HK$1.10 per share).

Changing with the Times

It has been a year of accomplishments for Kerry Properties. We are delighted to report another set of solid results, which reflects our efforts to build sustainable development on sound foundations. We are confident that our extensive brand reach, combined with our management strength, will continue to place us in a strong position to win customer advocacy. This unique competence will help secure the Group's long-term growth and resilience.

China enters 2018 at a healthy pace of growth with the economic momentum experienced in 2017 likely to carry over into the coming year. The global upswing in economic activity is also strengthening, with notable growth being experienced in various countries and regions. As the central government in China takes steps to provide affordable housing for society, it will continue to work to maintain a steady and healthy property sector. This policy will set the tone for the sector's ongoing development.

The Group will seize the opportunities that may emerge in China and abroad under these market trends, while at all times complying with stringent risk management principles. We are ready to move with the times, adjusting our pace of development appropriately in order to maintain long-term stable growth.

Building the Land Bank to Drive Sales

The Group's property sales in the Mainland and Hong Kong for 2017 exceeded our targets to reach a new high. The market will continue to be characterised by complex and volatile situations where both opportunities and risks will present themselves. For this reason the Group will follow a prudent strategy, taking appropriate action based on cautious appraisals of the market and macroeconomic policies. At present, the Group holds an adequate reserve of saleable resources, but is still actively seeking investment opportunities in both the Mainland and Hong Kong. We aim to build up a solid land bank to strengthen our foundation for long-term development. A balanced geographical distribution of projects will also be maintained.

The two-phase landmark project in the Qianhai Special Economic Zone will be a key development priority for our PRC division over the next few years. Major sections of the development are scheduled for topping off consecutively, with the apartments portion ready for launch in the coming year. As part of the state plan, Qianhai is slated to become a new economic hub for the Mainland and the nucleus of the Greater Bay Area. Created to foster innovation, market development and international connectivity, Qianhai will house a cluster of global enterprises. We have full confidence in the Qianhai development and will work diligently to ensure that the project is brought to fruition, thus raising our brand to new levels.

Key developments in Hong Kong centre on residential projects in Beacon Hill and Wong Chuk Hang. Beacon Hill is a sought-after area in the city where the Group is now building a selection of low-density, upscale homes. Meanwhile, the project above the Wong Chuk Hang MTR station in Island South will enjoy location and transportation advantages. This above-subway residential property will offer the perfect complement to Hong Kong's dynamic metropolitan lifestyle.

Going forward, the Group will adjust its marketing strategy and pace of sales in response to market conditions. Properties under construction and completed projects in Shenyang, Qinhuangdao, Tianjin, Nanjing, Hangzhou and Hong Kong will continue to be launched for sale.

Strengthening the Rental Income Base

The Group is actively developing large-scale mixed-use projects in the CBDs of major cities in the Mainland where it has successfully built a solid recurrent revenue base. These mixed-use projects, incorporating various types of property, help the Group withstand market fluctuations and provide a stable income. We will work hard to improve workflow, strictly control costs and enhance management, while seeking to increase return on assets.

Looking ahead, rental contribution from office space and serviced apartments and their occupancy rates will remain stable. Commanding prime locations and served by highly professional management, our property portfolio continues to record relatively high tenant renewal rates.

To consolidate the long-term profitability of its retail malls, the Group continues to actively manage the tenant mix so as to optimise the rental income basis. We also work to enhance the customer experience through renovation of facilities and application of technologies. These measures have achieved positive results in the past year, with customer traffic and tenant turnover in Shanghai and Hangzhou recording satisfactory increases. In addition, the shopping mall component of the Shenyang mixed-use development will commence operation in 2018 and contribute further to the investment property portfolio.

Maintaining Stable Growth amid Challenges

Both the Mainland and Hong Kong are facing potential threats to their economies. A stronger recovery of the world economy signals the imminent adoption of contractionary monetary policies and more rate hikes. Although we have not as yet seen an uptick in China's benchmark interest rate, banks will likely shrink their mortgage loans, and this will undoubtedly bring challenges for the property market.

In the face of a complicated external environment, the Group will seek to sustain its financial strength, adopting prudent financial goals to ensure stable development.

A Convergence of Hearts and Minds

The Group is a world-class property company and is well known for our premium property development activities in the Mainland and Hong Kong. More importantly, we are committed to enhancing our performance in respect of the environment, society and corporate governance. The past year marked another milestone as we published our first independent sustainability report in advance of the requirement of the Stock Exchange of Hong Kong.

In order to nurture a growing relationship with our stakeholders, we have over recent years adopted an innovative stakeholder agenda. Collectively with our entire staff team, and through a convergence of hearts and minds, we have empowered ourselves to turn corporate social responsibility into a common goal for all of us.

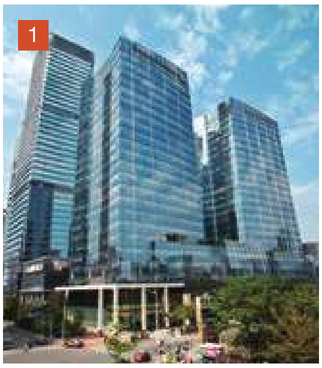
I am therefore very proud of our team's efforts in delivering on our environmental promise, for which we have been presented with the Gold Award for the first time under the Hong Kong Green Awards.

Going forward, the Group will continue to enhance its management and staff efficiency in order to strengthen its long-term development and profitability. Integrity is the cornerstone of our business development. The management is therefore committed to observing ethical business behaviour in an unswerving manner.

With your support, the Group has covered a great deal of positive ground over the past year. On behalf of the Board, I wish to extend my appreciation to the management and all staff members for their professional and passionate work, as well as to all stakeholders for their valuable support.

Wong Siu Kong
Chairman
Hong Kong, 16 March 2018

OVERALL RESULTS



The Group's profit attributable to shareholders for the year ended 31 December 2017 was HK$9,242 million, representing an increase of 41% compared with HK$6,537 million reported for 2016.

The Group measured its investment property portfolio on a fair value basis and recorded an increase in fair value of investment properties (net of deferred taxation) attributable to shareholders of HK$2,591 million for the year ended 31 December 2017 (2016: HK$2,866 million). Profit attributable to shareholders for the year ended 31 December 2017 before taking into account the effect of the aforementioned increase in fair value was HK$6,651 million (2016: HK$3,671 million).

Earnings per share for the year ended 31 December 2017 were HK$6.40, representing an increase of 41% compared with HK$4.53 per share in 2016.

1. Shenzhen Kerry Plaza, Shenzhen, PRC **2.** Residences at Kerry Parkside, Shanghai, PRC **3.** Kerry Centre, Quarry Bay, Hong Kong
4. Mid-Levels Portfolio, Mid-Levels, Hong Kong **5.** Resiglow, Happy Valley, Hong Kong **6.** Hangzhou Kerry Centre, Hangzhou, PRC
7. Beijing Kerry Centre, Beijing, PRC **8.** Jing An Kerry Centre, Shanghai, PRC **9.** MegaBox, Kowloon Bay, Hong Kong
10. An event at Jing An Kerry Centre, Shanghai, PRC

The effect on the Group's profit attributable to shareholders due to the net increase in fair value of the Group's investment properties and related tax effects is as follows:

	Year ended 31 December		
	2017 HK$ million	2016 HK$ million	Change
Profit attributable to shareholders before taking into account the net increase in fair value of investment properties and related tax effects	**6,651**	3,671	81%
Add: Net increase in fair value of investment properties and related tax effects	**2,591**	2,866	
Profit attributable to shareholders after taking into account the net increase in fair value of investment properties and related tax effects	**9,242**	6,537	41%

The Board has recommended the payment of a final dividend of HK$0.90 per share (the "**Final Dividend**") and a special dividend of HK$0.15 per share (the "**Special Dividend**") for the year ended 31 December 2017. Together with the interim dividend of HK$0.45 per share, the total cash dividend for the year ended 31 December 2017 will be HK$1.50 per share (2016: HK$1.10 per share).

Shenzhen Kerry Plaza, Shenzhen, PRC

REVIEW OF PROPERTY BUSINESS

REVIEW OF PROPERTY BUSINESS

OVERVIEW

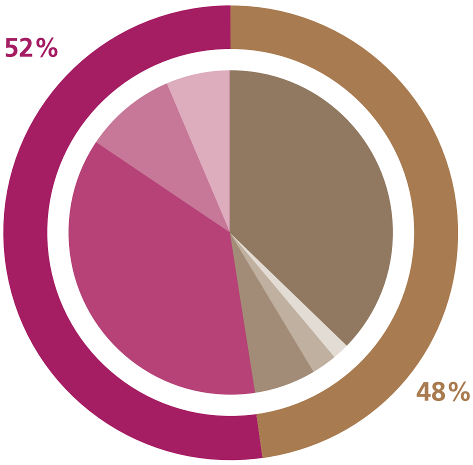
The Group achieved solid growth in turnover from the sales of completed properties during the year ended 31 December 2017. The rental and hotel operations also posted a steady performance founded on a growing asset base.

As at 31 December 2017, the Group held a portfolio comprising properties under development with a gross floor area ("**GFA**") of 18.96 million square feet (2016: 26.16 million square feet), completed investment properties of 12.04 million square feet (2016: 12.17 million square feet), hotel properties of 4.59 million square feet (2016: 3.77 million square feet) and properties held for sale of 3.51 million square feet (2016: 2.44 million square feet). This prime asset base positions the Group firmly for sustainable development.

Property Portfolio Composition

39.10 million square feet in attributable GFA

- By Type



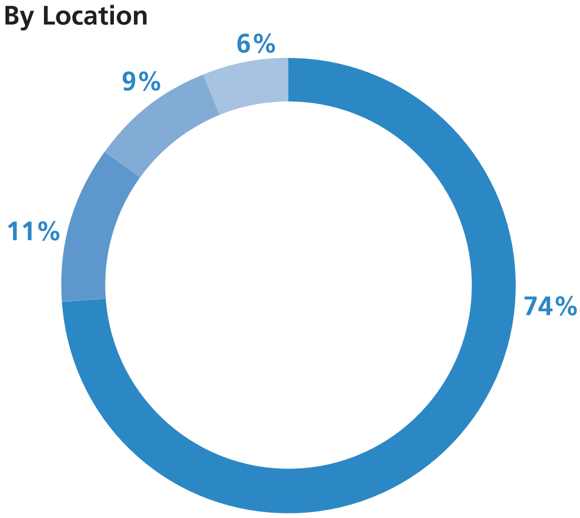
● **Under development**
18.96 million square feet in attributable GFA 48%

●	PRC	78%
●	Hong Kong	4%
●	Overseas	5%
●	Macau	13%

● **Completed investment properties/ Hotel properties/ Properties held for sale**
20.14 million square feet in attributable GFA 52%

●	PRC	71%
●	Hong Kong	18%
●	Overseas	11%

- By Location



●	PRC	74%
●	Hong Kong	11%
●	Overseas	9%
●	Macau	6%

Property Portfolio Composition

As at 31 December 2017:	Group's attributable GFA				
	The PRC	Hong Kong	Macau[(1)]	Overseas	Total
	('000 square feet)				
Completed Investment Properties	7,388	2,863	–	1,792	12,043
Hotel Properties	4,052	38	–	504	4,594
Properties Under Development	14,752	818	2,385	1,007	18,962
Properties Held for Sale	2,833	645	–	32	3,510
Total GFA	**29,025**	**4,364**	**2,385**	**3,335**	**39,109**

Note:

(1) The property portfolio in Macau includes the buildable GFA of a site that was surrendered to the Macau SAR Government in September 2009. According to the Macau SAR Government Notice gazetted on 14 October 2009, a piece of land will be granted in exchange for this, with size and location to be identified and agreed upon.

PRC PROPERTY DIVISION

The PRC Property Division recorded a 21% increase in turnover to HK$13,825 million (2016: HK$11,384 million), reflecting a 27% growth in sales revenue from completed properties and a 15% growth in rental revenue. Gross profit also expanded 19% to HK$5,781 million (2016: HK$4,867 million).

As the housing market gained a more stable footing towards the second half of 2017, the Division's contracted sales recorded satisfactory results for the full year. Meanwhile, the investment property portfolio reported generally robust rental performance.

INVESTMENT PROPERTIES

The PRC portfolio of completed investment properties delivered a turnover, comprising rental and other fees, of HK$3,444 million (2016: HK$2,995 million) during the year. Gross profit was HK$2,713 million (2016: HK$2,381 million), representing an increase of 14% year on year.

As at 31 December 2017, the PRC completed investment property portfolio occupied an aggregate GFA of 7.39 million square feet (2016: 7.53 million square feet), comprising apartment, commercial and office properties. Their respective composition and occupancy rates were as follows:

As at 31 December 2017:	**Group's attributable GFA ('000 square feet)**							**Occupancy Rate**
	Beijing	**Shanghai**	**Shenzhen**	**Tianjin**	**Hangzhou**	**Fuzhou**	**Total**	
Office	**711**	**1,436**	**1,552**	**–**	**100**	**–**	**3,799**	**97%**
Commercial	**98**	**1,096**	**104**	**428**	**812**	**–**	**2,538**	**95%**
Apartment	**277**	**774**	**–**	**–**	**–**	**–**	**1,051**	**91%#**
	1,086	**3,306**	**1,656**	**428**	**912**	**–**	**7,388**	

As at 31 December 2016:	Group's attributable GFA ('000 square feet)							Occupancy Rate
	Beijing	Shanghai	Shenzhen	Tianjin	Hangzhou	Fuzhou	Total	
Office	711	1,453	1,552	–	100	–	3,816	97%
Commercial	98	1,096	212	428	812	12	2,658	93%
Apartment	277	774	–	–	–	–	1,051	89%
	1,086	**3,323**	**1,764**	**428**	**912**	**12**	**7,525**	

 # Excluding an apartment building at Central Residences II, Shanghai where refurbishment commenced in the fourth quarter of 2017.

PRC Properties

29.02 million square feet in attributable GFA

Under development

14.75 million square feet in attributable GFA 51%

By usage

Residential	58%
Hotel	5%
Commercial	13%
Office	24%

By location

Tianjin	4%	Ningbo	2%
Chengdu	1%	Zhengzhou	8%
Hangzhou	13%	Putian	1%
Shenyang	36%	Kunming	2%
Qinhuangdao	13%	Shenzhen	17%
Nanchang	3%		

Completed investment properties/ Hotel properties/ Properties held for sale

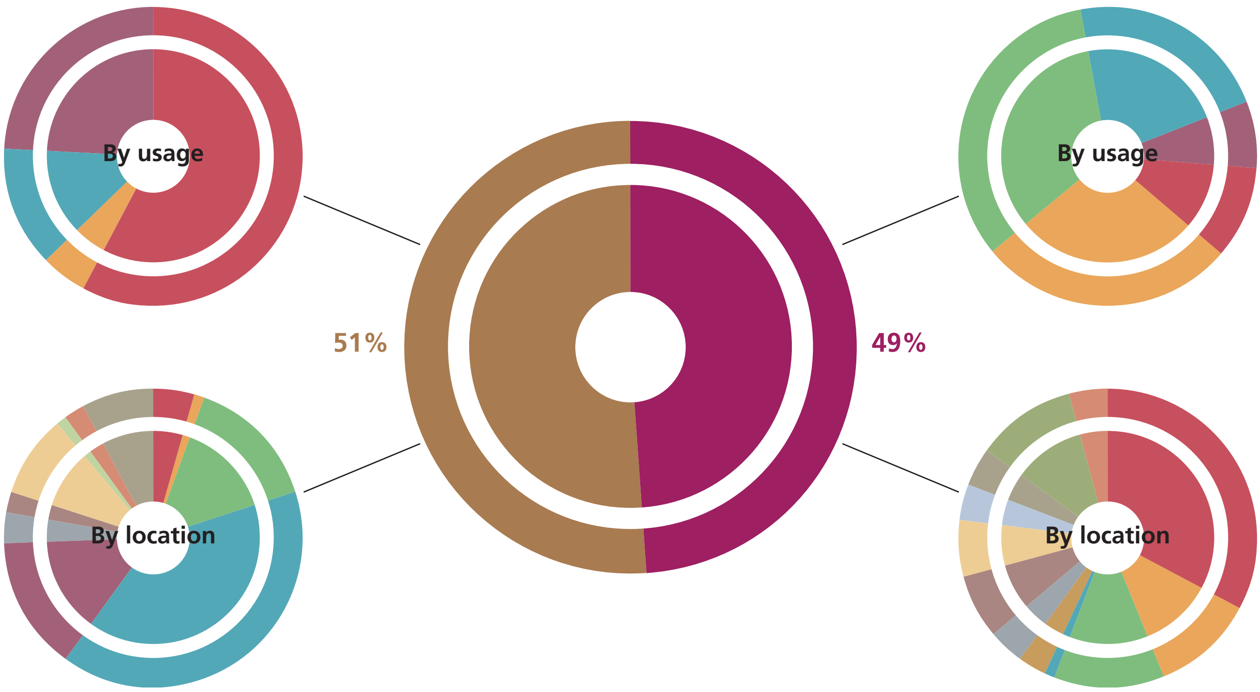
14.27 million square feet in attributable GFA 49%

By usage

Residential	10%
Hotel	28%
Office	33%
Commercial	22%
Apartment	7%

By location

Shanghai	33%	Nanjing	8%
Beijing	11%	Tianjin	7%
Shenzhen	12%	Nanchang	4%
Chengdu	1%	Qinhuangdao	2%
Tangshan	3%	Hangzhou	11%
Shenyang	4%	Jinan	4%



Comparative occupancy rates of key investment properties are outlined below:

Property	Occupancy rate as at 31 December 2017	Occupancy rate as at 31 December 2016
Jing An Kerry Centre Phase I	**95%**	97%
Jing An Kerry Centre Phase II (1)	**98%**	98%
Kerry Parkside (1)	**97%**	94%
Beijing Kerry Centre (1)	**97%**	98%
Shenzhen Kerry Plaza Phase I	**94%**	91%
Shenzhen Kerry Plaza Phase II	**94%**	100%
Hangzhou Kerry Centre (1)	**95%**	87%

Note:

(1) Excluding hotel.

Jing An Kerry Centre, Shanghai, PRC

MAJOR MIXED-USE DEVELOPMENTS IN PRC

REVIEW OF PROPERTY BUSINESS

Jing An Kerry Centre, Shanghai

This landmark mixed-use development stands in the heart of Shanghai's Nanjing Road business district. The Group holds 74.25% and 51% interests in its Phases I and II respectively. With a GFA of 3.74 million square feet, Jing An Kerry Centre integrates hotel, retail, office and residential space overlooking a beautifully landscaped piazza. While the luxurious Shangri-La Hotel is a key feature, the development is also the pre-eminent shopping venue and most exclusive office address in Shanghai. As at 31 December 2017, 98% of the office (2016: 99%) and 99% of the retail space (2016: 96%) were leased. Jing An Shangri-La Hotel achieved an average occupancy rate of 80% during the year (2016: 79%).

GFA 3.74 million square feet

Occupancy Rate 97%@

Kerry Parkside, Shanghai

Kerry Parkside, located in Shanghai's Pudong District, is a 40.8%-held mixed-use property comprising a hotel, offices, serviced apartments, a retail mall and related ancillary facilities. As at 31 December 2017, the retail space and offices were both 100% leased (2016: 95% and 100%, respectively), while the serviced apartments were 85% occupied (2016: 78%). Kerry Hotel Pudong, Shanghai reported an average occupancy rate of 77% (2016: 73%) during the year.

GFA 2.73 million square feet

Occupancy Rate 97%@

Beijing Kerry Centre

Beijing Kerry Centre, located in the heart of the capital city, integrates high-quality office space, a shopping mall, the Kerry Hotel Beijing and serviced apartments. The Group holds a 71.25% interest in this mixed-use development. As at 31 December 2017, the occupancy rate of the retail portion was 94% (2016: 98%), while the offices were 98% leased (2016: 98%). The serviced apartments were 96% leased as at 31 December 2017 (2016: 97%). Kerry Hotel Beijing recorded an average occupancy rate of 85% (2016: 83%) during the year.

GFA 2.23 million square feet

Occupancy Rate 97%@

Shenzhen Kerry Plaza

Shenzhen Kerry Plaza, wholly owned by the Group, comprises three Grade-A office towers. Located at the core of the Futian CBD, it is conveniently connected with Futian railway station on the Guangzhou-Shenzhen-Hong Kong Express Rail Link now under construction. As at 31 December 2017, Phases I and II of the development were both 94% leased (2016: 91% and 100%, respectively).

GFA **1.65** million square feet

Occupancy Rate **94%**

Hangzhou Kerry Centre

Hangzhou Kerry Centre is located at the intersection of Yan'an Road and Qingchun Road, adjacent to the Xihu (West Lake). This 2.2 million square-foot mixed-use property comprises a luxury hotel, Grade-A offices, premium apartments and a retail-mall complex. As at 31 December 2017, the offices were 97% leased (2016: 100%), while 94% of the retail space was leased (2016: 85%). Midtown Shangri-La, Hangzhou reported an average occupancy rate of 76% (2016: 64%) during the year. The Group holds a 75% stake in the project.

GFA **1.77** million square feet#

Occupancy Rate **95%**@

Tianjin Kerry Centre

Tianjin Kerry Centre is located on the east bank of the Haihe CBD in Hedong District, Tianjin, where it enjoys convenient access to a major transportation network. Phase I of this 49%-owned mixed-use project includes a hotel, upscale residences and a shopping mall. The completed Phase I development delivered a GFA of approximately 3.6 million square feet. Phase II of the development is under planning. As at 31 December 2017, the Riverview Place mall was 76% leased (2016: 87%). Shangri-La Hotel, Tianjin reported an average occupancy rate of 71% (2016: 65%) during the year.

GFA **1.65** million square feet#

Occupancy Rate **76%**@

Note:

@ *As at 31 December 2017, excluding hotel.*

Excluding residential and apartment.

SALES OF PROPERTIES

Sales of completed properties in the PRC generated a turnover of HK$8,463 million (2016: HK$6,655 million), mainly from recognised sales of The Metropolis-Arcadia Court Phase II in Chengdu, Jinling Arcadia Court in Nanjing, Castalia Court in Hangzhou, Shenyang Arcadia Court, Lake Grandeur in Hangzhou, Habitat in Qinhuangdao and Nanchang Arcadia Court. A gross profit of HK$2,659 million (2016: HK$2,308 million) was derived therefrom.

The Metropolis – Arcadia Court, Chengdu

The Metropolis – Arcadia Court in Chengdu is located in the southern part of the High-Tech Industrial Development Zone. The Phase I residential units have all been sold and delivered. Phase II has a total GFA of approximately 2.1 million square feet, while most of the residential blocks were completed in 2017. As at 31 December 2017, nearly 100% of the total of 1,905 Phase II residential units had been sold. The Group holds a 55% interest in this project.

▲ The Metropolis - Arcadia Court Phase II, Chengdu, PRC

Jinling Arcadia Court, Nanjing

The Group has developed a residential site located at Da Guang Road in Nanjing's Qin Huai District. This wholly owned project, Jinling Arcadia Court, has a site area of approximately 396,000 square feet and a GFA of approximately 1 million square feet. Project construction was completed in the fourth quarter of 2017. As at 31 December 2017, 77% of the total of 429 units had been sold.

▲ Jinling Arcadia Court, Nanjing, PRC*

Castalia Court, Hangzhou

The Group's wholly-owned residential and commercial development is located in the core area of the Hangzhou Zhijiang National Tourist and Holiday Resort. With an aggregate site area of approximately 1.53 million square feet, the development will yield a GFA of approximately 2.27 million square feet of residential property, which has been named Castalia Court, as well as approximately 210,000 square feet of commercial space. As at 31 December 2017, 97% of the total of 408 Phase I units had been sold.

Construction works for Phases II and III are currently underway. As at 31 December 2017, 89% of the total of 1,275 Phases II and III units had been pre-sold.

▲ Castalia Court, Hangzhou, PRC*

*Artist's Impression

Shenyang Arcadia Court and Enterprise Square

Six towers at Shenyang Arcadia Court and one tower at Enterprise Square have been completed and delivered for occupation. As at 31 December 2017, 98% of all 972 Phase I residential units, and 67% of the total of 229 office units had been sold. The Group holds a 60% interest in this project.

▲ Shenyang Arcadia Court, Shenyang, PRC

Lake Grandeur, Hangzhou

Lake Grandeur, with a GFA of approximately 330,000 square feet, is situated at Hangzhou Kerry Centre. The development, located adjacent to the famous West Lake in Hangzhou, was completed in 2017. As at 31 December 2017, 18% of the total of 121 units had been sold. The Group holds a 75% interest in this development.

▲ Lake Grandeur, Hangzhou, PRC

Habitat, Qinhuangdao

Phase I of Habitat, the Group's 60%-owned deluxe seaside residential project close to Beidaihe in Qinhuangdao, Hebei Province, has been completed. As at 31 December 2017, 72% of the total of 778 Phase I residential units had been sold. The Phase I development has a GFA of approximately 1.6 million square feet.

▲ Habitat, Qinhuangdao, PRC

Nanchang Arcadia Court

Five towers at Nanchang Arcadia Court have been delivered. As at 31 December 2017, 97% of the total of 436 units had been sold. The Group holds an 80% interest in this project.

PROPERTIES UNDER DEVELOPMENT

The Group continues to grow its portfolio of mixed-use property landmarks in the CBDs of major cities, while developing residential projects in prime locations.

Qianhai, Shenzhen

The Group holds a 350,000 square-foot commercial site for development in the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone. This site has a total buildable GFA of approximately 2.2 million square feet, with unobstructed seafront view, and is designated for office, apartment and commercial property development. The project is wholly owned by the Group and represents the first substantial investment in Qianhai by a major Hong Kong corporation. It is expected to be completed in 2019.

The Group also holds a 25% interest in a new project under development on an adjacent site. The Company, Kerry Holdings Limited and The Bank of East Asia, Limited jointly acquired this site, with an area of approximately 207,000 square feet, in December 2016. This project is planned to yield a GFA of approximately 1.3 million square feet for commercial use.

Qianhai is a special economic zone situated in a key location in the Pearl River Delta. Both sites lie conveniently close to the Guangshen-Yanjiang Expressway. The Group believes that the development of the two adjacent sites will create a highly synergistic effect.

▲ Qianhai Kerry Centre, Shenzhen, PRC*

Shenyang

The Group's 60%-owned Shenyang Kerry Centre project is located on the east side of Qingnian Street, to the south of Qingnian Park in Shenyang, the provincial capital of Liaoning Province. Lying at the core of the city's landmark Golden Corridor development, the site will yield a GFA of approximately 13 million square feet. This mixed-use project will include a hotel, offices, a shopping mall and residences. Phase I of the development has been completed. Phases II and III of the development are under construction. As at 31 December 2017, 42% of the total 495 Phase II residential units had been pre-sold.

▲ Shenyang Kerry Centre, Shenyang, PRC*

Nanchang

In Nanchang, the provincial capital of Jiangxi Province, the Group is developing a project through a joint venture with Shangri-La Asia Limited ("**Shangri-La**"). This 80%-held project is situated on the west bank of the Ganjiang River in the heart of the Honggutan Central District. The development includes a hotel, offices, and commercial and high-end residential properties. The hotel and residential portions are completed delivering a GFA of approximately 1.7 million square feet. Planning of the forthcoming office site is in progress.

*Artist's Impression

▲ Nanchang Development, Nanchang, PRC

Zhengzhou

The Group and Shangri-La are also collaborating on a development located on the east side of Huayuan Road and to the south of Weier Road in Zhengzhou City, Henan Province. The site will yield a GFA of approximately 2 million square feet for development into hotel, residential, commercial and office properties. The project is expected to be completed in phases from 2022 onwards. The Group holds a 55% interest in this project.

Kunming

The Group, together with Shangri-La, is developing two adjoining sites in Kunming City, Yunnan Province. The sites are earmarked for hotel and apartment use, with a GFA of approximately 675,000 square feet. The Group holds a 55% interest in this project, which is scheduled to be completed in 2020.

Ningbo

The site under development in Ningbo is located in the Eastern New Town Core Region and is earmarked for The Berylville, a high-end residential project, in which the Group holds a 50% interest. Construction works for Phase I, with a GFA of approximately 400,000 square feet, have been completed. As at 31 December 2017, 98% of the total of 97 Phase I units had been sold, and 99% of the total of 437 Phase II units had also been pre-sold. Construction works for Phase II are in progress and are expected to be completed in 2018.

▲ The Berylville, Ningbo, PRC*

*Artist's Impression

Jinan

The Group has co-developed with Shangri-La a project located in Lixia District, Jinan City. The Group holds a 55% stake in this development, which has a GFA of approximately 1.1 million square feet. The project comprises a hotel, offices and commercial space, and was completed in the fourth quarter of 2017.

▲ Jinan Development, Jinan, PRC

Putian

The Group and Shangri-La are co-developing a hotel property, as part of the Putian project development, at Jiuhua Road, Putian City, Fujian Province. The Group holds a 60% interest in this project. Construction works for Phase I, with a GFA of approximately 368,000 square feet, are now in progress and are expected to be completed in 2020.

▲ Putian Arcadia Court, Putian, PRC

Shanghai

The Group has acquired an equity interest of approximately 24.4% in a project company which owns a site located in Pudong New Area, Shanghai. The site, which land is designated for industrial use, has a gross area of approximately 4.43 million square feet. In May 2016, the Shanghai Municipal Government issued an approval covering the planning change of the site to commercial development use. Subsequently in August 2017, another approval was granted by the Shanghai Municipal Government to include the site as part of the newly planned World Expo Cultural Park.

As the Group's investment was made on the basis of the original government approval on the change of the planning of this site to commercial development use, the Group will seek to discuss and negotiate with the Shanghai Municipal Government at an appropriate time for a mutually acceptable solution.

Properties under development in the PRC

As at 31 December 2017:	Group's Attributable GFA Upon Completion ('000 square feet)				
	Residential	Office	Commercial	Hotel	Total
Tianjin	272	264	–	–	536
Hangzhou	1,721	–	209	–	1,930
Shenyang	2,841	1,068	1,401	–	5,310
Chengdu	144	–	–	–	144
Nanchang	–	410	4	–	414
Qinhuangdao	1,870	–	8	–	1,878
Ningbo	308	–	–	–	308
Zhengzhou	555	349	23	216	1,143
Putian	–	–	21	200	221
Kunming	125	–	5	241	371
Shenzhen	646	1,459	284	108	2,497
Total	**8,482**	**3,550**	**1,955**	**765**	**14,752**

HONG KONG PROPERTY DIVISION

During the year ended 31 December 2017, the Hong Kong Property Division recorded a turnover of HK$21,723 million (2016: HK$1,607 million) and gross profit of HK$3,964 million (2016: HK$989 million).

The Division's turnover for the year was mainly derived from recognised sales of completed residential properties at Mantin Heights and The Bloomsway.

The Hong Kong investment property portfolio continued to achieve high occupancy levels and stable rental rates, generating a steady stream of recurrent income for the Group.

Hong Kong Properties
4.36 million square feet in attributable GFA

Under development
0.81 million square feet in attributable GFA 19%

By usage

Residential	100%

By location

Hong Kong Island	38%
Kowloon	62%

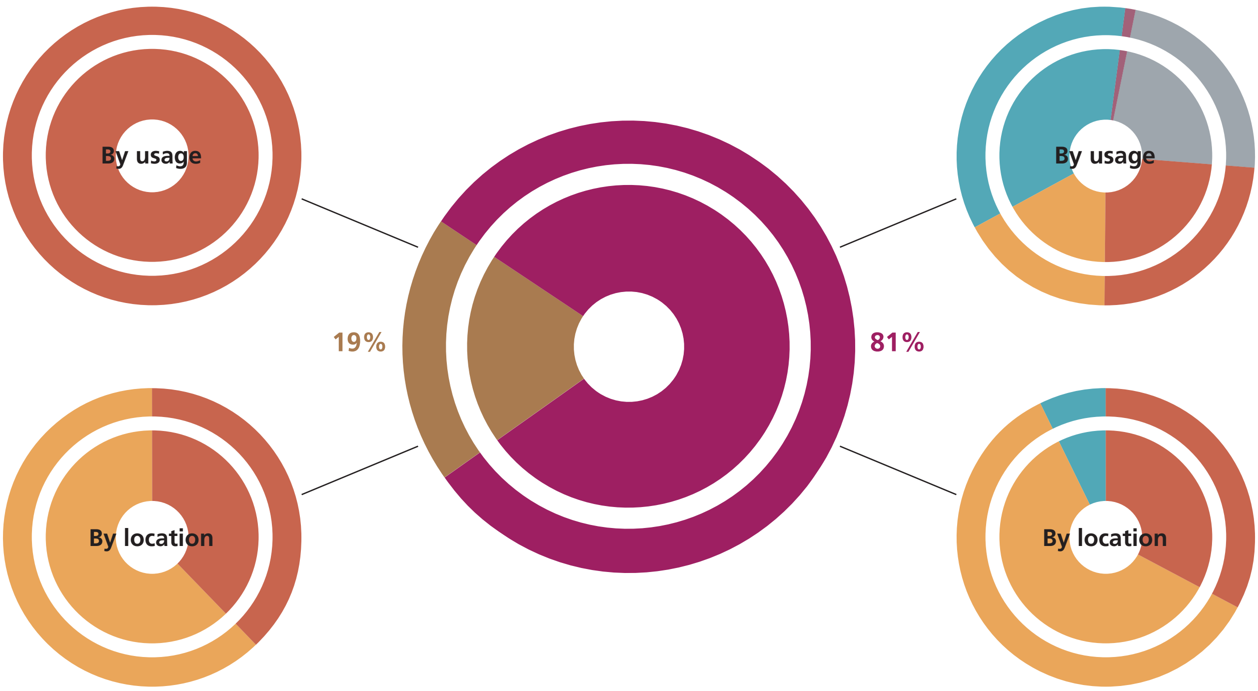
Completed investment properties/ Hotel properties/ Properties held for sale
3.55 million square feet in attributable GFA 81%

By usage

Office	24%
Residential	17%
Commercial	35%
Hotel	1%
Apartment	23%

By location

Hong Kong Island	33%
Kowloon	60%
New Territories	7%



INVESTMENT PROPERTIES

The Group's premier portfolio of residential, commercial and office properties in Hong Kong recorded a steady performance in 2017. Turnover, comprising rental and other fees, generated by the Group's completed investment properties in Hong Kong was HK$1,097 million (2016: HK$1,058 million), yielding a gross profit of HK$874 million (2016: HK$834 million) for the year.

As at 31 December 2017, the Group's completed investment property portfolio in Hong Kong had an aggregate GFA of 2.86 million square feet (2016: 2.78 million square feet). Set out below are the breakdown of GFA and the respective occupancy rates, together with comparative figures:

▲ Mid-Levels Portfolio, Mid-Levels, Hong Kong

	As at 31 December 2017		As at 31 December 2016	
	Group's attributable GFA ('000 square feet)	**Occupancy rate**	Group's attributable GFA ('000 square feet)	Occupancy rate
Apartment	**803**	**99%#**	722	98%
Commercial	**1,219**	**99%**	1,219	99%
Office	**841**	**96%**	841	85%
	2,863		2,782	

Note:

Excluding Resiglow with leasing commenced in the third quarter of 2017.

Enterprise Square Five/MegaBox, Kowloon Bay

MegaBox blends shopping, recreation, dining and sports into one innovatively designed complex in Kowloon East. This pioneering retail and lifestyle hub has a GFA of 1.1 million square feet. During the year, the cinema at MegaBox has been upgraded into a new themed theatre to deliver unique experiences for movie goers. As at 31 December 2017, the mall had an occupancy rate of 99% (2016: 99%).

The two Grade-A office towers of Enterprise Square Five, with a GFA of 519,000 square feet, were 94% leased (2016: 79%) as at 31 December 2017. Occupancy increased as new tenants took up the space vacated during the previous year.

MegaBox continued to record nearly full occupancy and robust rental rates on a dynamic tenant mix designed to serve the shifting consumption and lifestyle trends of local families and shoppers.

▲ An event at MegaBox, Kowloon Bay, Hong Kong

REVIEW OF PROPERTY BUSINESS

Kerry Centre, Quarry Bay

Kerry Centre, at No. 683 King's Road, Quarry Bay, is the Group's 40%-held flagship office property in Hong Kong. This Grade-A office tower has a GFA of approximately 511,000 square feet. Office units at Kerry Centre remained in high demand, with 100% of the space leased (2016: 100%) as at 31 December 2017.

▲ Kerry Centre, Quarry Bay, Hong Kong

Resiglow, Happy Valley

The new residential project, Resiglow, at No. 7A Shan Kwong Road, Happy Valley, provides 106 units, including two penthouses, over a GFA of approximately 81,000 square feet. Resiglow was completed in June 2017 and as at 31 December 2017, 57% of the units were leased.

▲ Resiglow, Happy Valley, Hong Kong

SALES OF PROPERTIES

During the year, recognised sales of completed properties in Hong Kong contributed a turnover of HK$20,626 million (2016: HK$549 million) to the Group. A gross profit of HK$3,090 million (2016: HK$155 million) was generated, mainly from recognised sales of Mantin Heights and The Bloomsway.

The Division also derived a satisfactory profit from the sales of Dragons Range.

Mantin Heights, Ho Man Tin

The Group has developed a residential project at No. 28 Sheung Shing Street, Ho Man Tin, with a saleable area of approximately 992,000 square feet. The project obtained its occupation permit in March 2017. As at 31 December 2017, 71% of the total of 1,429 units had been sold.

The Bloomsway, So Kwun Wat

The Bloomsway is a residential project at Nos. 18, 28 and 29 Tsing Ying Road, So Kwun Wat. The project has a saleable area of approximately 838,000 square feet and obtained its occupation permit in July 2017. As at 31 December 2017, 87% of the total of 1,100 units had been sold.

Dragons Range, Kau To, Sha Tin

Together with Sino Group and Manhattan Group, the Group has co-developed Dragons Range, a residential project with a saleable area of approximately 878,000 square feet. This development, situated at No. 33 Lai Ping Road, Kau To, Sha Tin, has been completed and delivered. The Group holds a 40% stake in the project. All units from the project had been sold as at 31 December 2017.

PROPERTIES UNDER DEVELOPMENT

Hing Hon Road, Sai Ying Pun

The Group is developing a residential project at No. 8 Hing Hon Road, following amalgamation of the original development at Nos. 5-6 with the adjacent development at Nos. 7-8. This redevelopment project will deliver a buildable GFA of approximately 68,000 square feet, and is scheduled to be completed in 2019.

Lung Kui Road, Beacon Hill

The Group is developing a site in Beacon Hill with an area of approximately 115,000 square feet and a buildable GFA of approximately 116,000 square feet. The site is planned to be developed into a low-density premium residential project, and is scheduled for completion in 2018.

The Group acquired a further site in Beacon Hill in 2016. This adjacent site, occupying an area of 235,000 square feet, will be developed into an upscale low-density residential property with a buildable GFA of approximately 343,000 square feet. The project is scheduled to be completed in 2020.

La Salle Road/Boundary Street, Ho Man Tin

Upon completion of the acquisition of the entire building at Nos. 168-168C Boundary Street in Ho Man Tin, the Group is redeveloping this site together with an adjacent plot at No. 10 La Salle Road. Lying next to 8 LaSalle, this redevelopment project will deliver an aggregate buildable GFA of 45,000 square feet and is scheduled for completion in 2020.

Wong Chuk Hang Station Package Two Property Development, Wong Chuk Hang

On 5 December 2017, the Group and Sino Land Company Limited were jointly awarded a tender by MTR Corporation Limited for the Wong Chuk Hang Station Package Two Property Development. The Group holds a 50% stake in the project. Located at the southwestern part of the Wong Chuk Hang Station Property Development, the site is designated for private residential purposes. This project will enjoy direct MTR connection and the upside of the vibrant neighbourhood of Wong Chuk Hang. It occupies an area of approximately 92,000 square feet and will generate a buildable GFA of approximately 493,000 square feet. The project is scheduled for completion in 2022.

Properties under development in Hong Kong

As at 31 December 2017:	Group's attributable GFA upon completion ('000 square feet)
Residential	818
	818

Macau

Development projects in Macau include a site at Nam Van Lake, designated for luxury apartment development, and a further residential project currently under discussion with the Macau SAR Government as regards the land exchange issue.

In respect of the Nam Van Lake project, the land concession period ended on 30 July 2016. Up to date, no declaration of the lease expiry has been published in the Official Gazette of Macau or notified to the registered lessee, a wholly-owned subsidiary of the Group. In view of this, the subsidiary remains the registered lessee of the land.

The Group has sought advice from a legal advisor in Macau. Based on the fact that the non-development was not attributable to the Group, the Group would have a right to pursue a claim for damages and loss of profits should the Macau SAR Government repossess the land without any compensation. Considering the above, the Directors are of the opinion that no provision is required for the Nam Van Lake project as at 31 December 2017.

OVERSEAS PROPERTY DIVISION

The Philippines

The Group maintains a portfolio of upscale properties in the Philippines. These investments are held through Shang Properties, Inc. ("**SPI**"), in which the Division maintains a 34.61% equity interest and a 30.75% interest in its depository receipts. SPI holds a 100% interest in the Shangri-La Plaza Mall, Manila, and a 70.04% interest in The Enterprise Center, an office and commercial property in Makati, Manila's financial district. As at 31 December 2017, the occupancy rates of Shangri-La Plaza Mall and The Enterprise Center were 90% and 97% respectively (2016: 90% and 96%, respectively).

▲ Shangri-La Plaza Mall, Manila, The Philippines

Overseas Properties

3.33 million square feet in attributable GFA

Under development
1 million square feet in attributable GFA 30%

By usage

Residential	94%
Commercial	6%

By location

The Philippines	100%

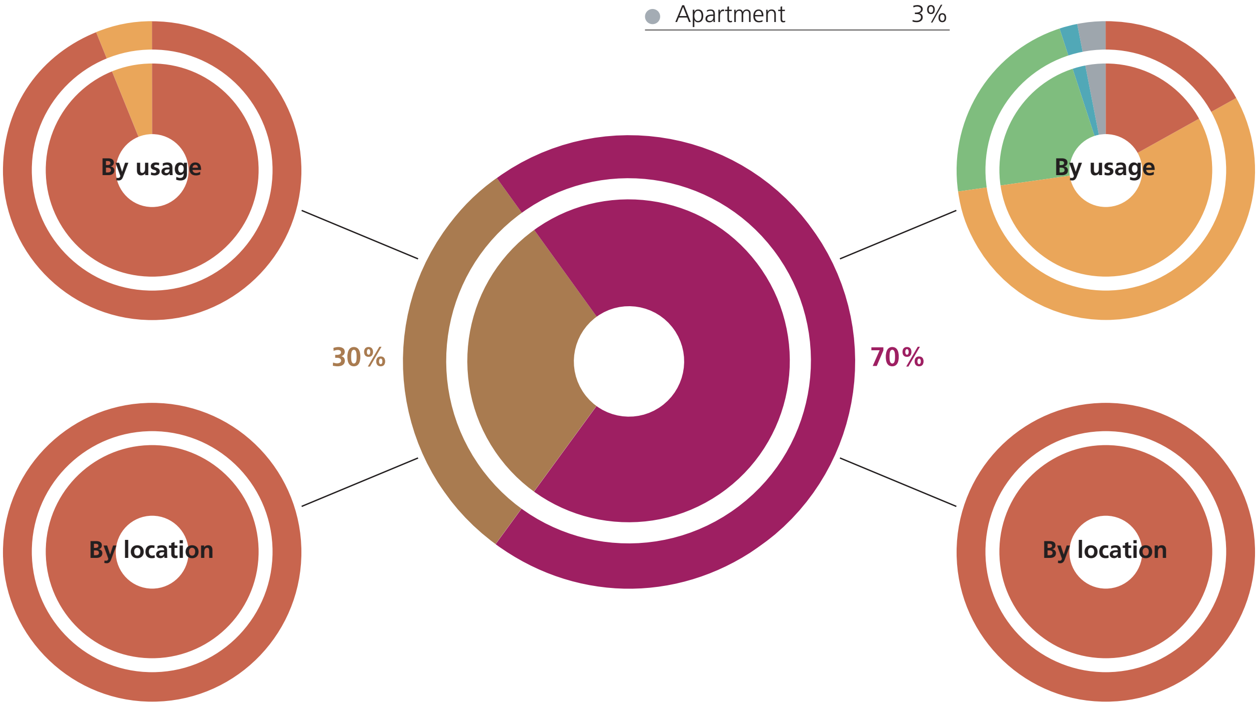
Completed investment properties/ Properties held for sale
2.33 million square feet in attributable GFA 70%

By usage

Office	17%
Commercial	56%
Hotel	22%
Residential	2%
Apartment	3%

By location

The Philippines	100%



During the year, SPI has three major projects under development:

The first is a project in Makati City to redevelop a site into a high-rise residential building, Shang Salcedo Place, with a GFA of approximately 655,000 square feet. As at 31 December 2017, 98% of the total of 749 residential units had been sold.

SPI is also developing a site of more than 116,000 square feet located in Malugay Street, Makati City. This project, The Rise, will have a GFA of approximately 1.63 million square feet, comprising 3,044 residential units and approximately 96,000 square feet of commercial space. Sales of The Rise have met with a strong market response, with 83% of the total of 3,044 units sold as at 31 December 2017.

In addition, SPI holds a 60% interest in a hotel and luxury residential development in Fort Bonifacio, Taguig, Manila. The development includes a hotel with a total area of more than 850,000 square feet, residential and serviced apartment units covering 593,000 square feet, and commercial spaces with a total area of 47,400 square feet. As at 31 December 2017, 96% of the total 98 units available for sale had been sold. The hotel and serviced apartments were opened in March 2016.

Sri Lanka

The Group and SPI have formed a joint venture, Shang Properties (Pvt) Ltd, in Sri Lanka, to develop a mixed-use project strategically located in the heart of Colombo, the country's commercial capital and largest city. The site is situated on a six-acre parcel of leased land on Sir James Peiris Mawatha overlooking Beira Lake in Colombo. The Group holds an 80% stake, while SPI holds a 20% interest in the joint venture.

The project will be developed in two phases with master planning currently underway. In Phase I, a high-rise residential tower with a retail podium will be developed. Construction is expected to commence by the end of 2018. The Phase II development will also comprise residential and retail components. The entire project will take eight to nine years to complete.

The development will be complemented by an integrated podium featuring jogging tracks, a clubhouse fully equipped with swimming pools and other facilities, a garden, and car-parking floors.

Overseas Property Portfolio

As at 31 December 2017:	Group's attributable GFA The Philippines ('000 square feet)
Investment properties	
Office	406
Commercial	1,308
Apartment	78
Sub-total	**1,792**
Hotel properties	
Hotel	169
Hotel lease	335
Sub-total	**504**
Properties under development	
Residential	951
Commercial	56
Sub-total	**1,007**
Properties held for sale	
Residential	32
Sub-total	**32**
Total	**3,335**

OUTLOOK

PRC PROPERTY DIVISION

The PRC Property Division exceeded its contracted sales target in 2017. Our solid performance demonstrates the resilience of our investment strategy. It also reflects our capacity to add value to the asset portfolio with consistently high quality.

The fundamentals shaping the Chinese economy will likely continue into 2018, with a stabilising property sector anticipated in the year ahead. Our strategy remains to grow our recurrent income base by expanding the portfolio of iconic mixed-use developments in the CBDs of major metropolises. This is in line with our goal of delivering steady returns over the long term.

Following years of planning and dedicated effort, our investment property portfolio in the PRC is producing robust results. The Shenyang project is due to be completed in 2018 and will contribute to this asset base. Pre-leasing has commenced with a positive market response. Good progress has also been made in adjusting the tenant mix of shopping malls in Shanghai and Beijing. Despite increasing office supply in the market, our offices in prime locations remain highly competitive. Outlook for the serviced apartments is also stable.

Sales of residential units will continue in Shenyang, Qinhuangdao, Tianjin, Nanjing and Hangzhou. The Division will also schedule the launch of one tower of apartments within its landmark development in Qianhai. We are confident that this premier project will be a driver of growth for the Division in the coming years.

The Group's asset base is the foundation for our continued success. To maintain growth momentum, the Division will seek opportunities to replenish its land bank in major cities and provincial capitals.

The central government has imposed measures to ensure the long-term stable development of the real estate sector. The Division will continue to review and adjust its sales and leasing activities in accordance with the macro environment. We remain confident in the long-term economic growth of China, and thus in the prospects for the Division.

HONG KONG PROPERTY DIVISION

The Hong Kong economy marked a year of growth in 2017. Likewise the Hong Kong Property Division recorded growth in revenue during the year.

Heading into 2018, various local project developments will continue to unfold. Among these, the first of our two residential projects in Beacon Hill is scheduled for completion this year. This development will represent a limited collection of exquisite homes in Hong Kong.

We are also delighted to have won the tender to develop a residential property above the Wong Chuk Hang MTR station. This project will capture the potential of a vibrant community set to ride on the district's upscale evolution. Given its prime Island South location and with the convenience of MTR connectivity, the development will be well positioned to cater to the dynamic lifestyle of modern city dwellers.

The Division's performance is well supported by a strong investment asset base, complemented by our commitment to providing a differentiating experience for tenants. The Mid-Levels portfolio of premier residences, offices in Island East and Kowloon East, and the MegaBox mall are all recording high occupancies and steady rental rates. We are confident that the investment segment will continue to contribute a stable revenue stream to the Group's recurrent income base.

The coming year will present a number of challenges. These will include economic and geopolitical uncertainty and the impact of the interest rate hikes in the United States. The Division will continue to plan its business development prudently, addressing the risks and opportunities in the market while creating value over time. We continue to hold a positive outlook for the Division's long-term development.

FINANCIAL REVIEW

The Group has centralized funding for all its operations. This policy achieves better control of treasury operations and lower average cost of funds.

The Group closely reviews and monitors its foreign exchange exposure. As at 31 December 2017, total foreign currency borrowings (excluding RMB bank loans) amounted to the equivalence of HK$2,337 million and RMB bank loans amounted to the equivalence of HK$7,049 million. Therefore, non-RMB total foreign currency borrowings and RMB bank loans represented approximately 6% and 19% respectively, of the Group's total borrowings of HK$38,022 million as at 31 December 2017.

The non-RMB total foreign currency borrowings of HK$2,337 million include the Fixed Rate Bonds amounting to US$300 million (net of direct issue costs). The Group has arranged cross currency swap contracts amounting to US$297 million to hedge the exchange rate exposure between United States dollars and Hong Kong dollars.

Out of the Group's total borrowings as at 31 December 2017, HK$8,903 million (representing approximately 23%) was repayable within one year, HK$8,264 million (representing approximately 22%) was repayable in the second year and HK$20,855 million (representing approximately 55%) was repayable in the third to fifth years. The Group continued to maintain most of its borrowings on an unsecured basis, with unsecured debt accounting for approximately 91% of total borrowings as at 31 December 2017. The Group will continue to obtain financing on an unsecured basis whenever possible, and supplement such borrowings with secured project financing as and when the need arises.

As at 31 December 2017, the gearing ratio for the Group was 25.7% (2016: 34.9%), calculated based on net debt of HK$24,274 million and shareholders' equity of HK$94,349 million.

As at 31 December 2017, the Group had outstanding interest rate swap contracts which amounted to HK$4,000 million in total, enabling the Group to hedge its interest rate exposure and to have a more stable interest rate profile.

In terms of the Group's available financial resources as at 31 December 2017, the Group had total undrawn bank loan facilities of HK$11,665 million and cash on hand of HK$13,748 million. In addition, the generation of strong recurrent cashflows from the Group's investment property portfolio and hotel operations provides the Group with a strong financial position, and enables the Group to reap the benefits of investment opportunities as and when they arise.

On 15 February 2017, the Group fully redeemed the 5 years US$600 million fixed rate bonds issued in February 2012.

Details of contingent liabilities and pledge of assets are set out in notes 43 and 44 to the financial statements of the Group.

PARTICULARS OF PROPERTIES HELD

Particulars of major properties held by the Group as at 31 December 2017 are as follows:

	Property name	Location	Type	Group's attributable interest %	Approximate gross floor area (square feet)	Approximate number of carpark spaces	Lease term
PRC Properties							
A.	**Completed and held for investment**						
1.	Jing An Kerry Centre Phase II	1218, 1228 and 1238 Yanan Zhong Road 1539, 1551 and 1563 Nanjing Xi Road Jing An District Shanghai	Office Commercial	51.00	646,802 444,478 **1,091,280**	557	Medium lease
2.	Beijing Kerry Centre	1 Guang Hua Road Chaoyang District Beijing	Office Apartment Commercial	71.25	711,121 277,330 98,406 **1,086,857**	423	Medium lease
3.	Hangzhou Kerry Centre	385 Yanan Road Xiacheng District Hangzhou	Commercial Office	75.00	812,271 100,306 **912,577**	376	Medium lease
4.	Shenzhen Kerry Plaza Phase II	1 Zhong Xin Si Road Futian CBD Shenzhen	Office Commercial	100.00	745,425 104,110 **849,535**	335	Medium lease
5.	Shenzhen Kerry Plaza Phase I	1 Zhong Xin Si Road Futian CBD Shenzhen	Office	100.00	**804,709**	306	Medium lease
6.	Kerry Parkside	1155 and 1201 Fangdian Road 1378, 1388 and 1398 Hua Mu Road Pudong Shanghai	Office Commercial Apartment	40.80	417,189 216,592 153,300 **787,081**	475	Medium lease
7.	Jing An Kerry Centre Phase I	1515 Nanjing Road West Jing An District Shanghai	Office Apartment Commercial	74.25	308,584 142,355 103,971 **554,910**	180	Medium lease
8.	Shanghai Central Residences Phase II	166 and 168 Lane 1038 Huashan Road Changning District Shanghai	Apartment	100.00	**478,286**	211	Long lease
9.	Tianjin Kerry Centre Riverview Place	238 Liuwei Road Hedong District Tianjin	Commercial	49.00	**428,485**	387	Medium lease
10.	Kerry Everbright City Phase I	218 Tianmu Road West Jing An District Shanghai	Commercial Office	74.25	330,141 62,184 **392,325**	179	Medium lease
11.	Shenzhen Kerry Centre	2008 Renminnan Road Lowu District Shenzhen	Office	100.00	**1,641**	193	Medium lease
	Total PRC completed investment properties				**7,387,686**	**3,622**	

	Property name	Location	Type	Group's attributable interest %	Approximate gross floor area (square feet)	Approximate number of carpark spaces	Lease term
PRC Properties							
B.	**Hotel properties**						
1.	Shangri-La Hotel, Nanchang	669 Cui Lin Road Honggutan New District Nanchang	Hotel	80.00	**602,987**	182	Medium lease
2.	Kerry Hotel Beijing	1 Guang Hua Road Chaoyang District Beijing	Hotel	71.25	**499,642**	–	Medium lease
3.	Jing An Shangri-La Hotel, West Shanghai	1218 Yanan Zhong Road Jing An District Shanghai	Hotel	51.00	**433,566**	–	Medium lease
4.	Shangri-La Hotel, Nanjing	329 Zhong Yang Road Gulou District Nanjing	Hotel	45.00	**412,798**	187	Medium lease
5.	Midtown Shangri-La Hotel, Hangzhou	6 Changshou Road Xiacheng District Hangzhou	Hotel	75.00	**411,802**	12	Medium lease
6.	Shangri-La Hotel, Shenyang	115 Qingnian Avenue Shenhe District Shenyang	Hotel	60.00	**394,524**	259	Medium lease
7.	Shangri-La Hotel, Tianjin	328 Haihe East Road Hedong District Tianjin	Hotel	49.00	**381,726**	96	Medium lease
8.	Shangri-La Hotel, Jinan	106 Luoyuan Street Lixia District Jinan	Hotel	55.00	**351,228**	120	Medium lease
9.	Kerry Hotel Pudong, Shanghai	1388 Hua Mu Road Pudong Shanghai	Hotel	40.80	**325,853**	–	Medium lease
10.	Shangri-La Hotel, Tangshan	889 Changhong West Road Lubei District Tangshan	Hotel	40.00	**237,881**	77	Medium lease
	Total PRC hotel properties				**4,052,007**	**933**	

	Property name	Location	Type	Group's attributable interest %	Approximate gross floor area (square feet)	Approximate site area (square feet)	Stage of completion	Scheduled completion
PRC Properties								
C.	**Under development**							
1.	The Metropolis – Arcadia Court Phase II	600 Sheng Zhi Street Hi-Tech Industrial Development Zone Chengdu	Residential	55.00	**143,599**	28,275	Completion verification in progress	First half of 2018
2.	Shenyang Kerry Centre Phases II & III [(1)]	Lot No. 2007-053 8 Golden Corridor East of Qingnian Avenue Shenhe District Shenyang	Residential Commercial Office	60.00	2,840,485 1,400,541 1,068,762 **5,309,788**	730,555	Phase II Residential Mechanical and engineering, curtain wall installation and interior decoration work in progress Commercial and office Mechanical and engineering work in progress	Phase II In phases from second half of 2018 onwards
	Sub-total				**5,453,387**	**758,830**		

	Property name	Location	Type	Group's attributable interest %	Approximate gross floor area (square feet)	Approximate site area (square feet)	Stage of completion	Scheduled completion
PRC Properties								
C.	**Under development (Continued)**							
3.	Hangzhou Zhijiang Castalia Court Phases II & III	East of Planned Vertical Road 2 South of Planned Horizontal Road 2 West of Shanhusha River North of Planned Horizontal Road 1 West Lake District Hangzhou	Residential Commercial	100.00	1,720,916 208,677 **1,929,593**	1,204,987	Curtain wall installation, mechanical and engineering and interior decoration work in progress	In phases from second half of 2018 onwards
4.	The Berylville, Ningbo Phase II	Xingning Road Jiangcheng Road Jiangdong District Ningbo	Residential	50.00	**308,351**	179,441	Curtain wall installation work completed, interior decoration work in progress	Second half of 2018
5.	Shenzhen Qianhai Kerry Centre	Land Parcel 01, Unit 7, Qianwan Area Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone Shenzhen	Office Residential Commercial	100.00	1,291,680 645,840 236,324 **2,173,844**	349,670	Basement structural work completed; Residential tower superstructure work topped up; Office tower superstructure work in progress	2019
6.	Kunming Complex Development	88-96 Dong Feng Road Panlong District Kunming	Hotel Residential Commercial	55.00	241,278 125,325 4,914 **371,517**	91,443	Piling work in progress	2020
7.	Putian Hotel Development	666 Jiuhua Road Chengxiang District Putian	Hotel Commercial	60.00	199,558 20,951 **220,509**	324,589	Piling work in progress	2020
8.	Nanchang Complex Development Phase II	667 Cui Lin Road Honggutan New District Nanchang	Office Commercial	80.00	410,479 4,383 **414,862**	56,556	Schematic design in progress	2021
9.	Shenzhen Qianhai Complex Development	Site no. T102-0260 Land Parcel 2 & 4, Unit 7 Qianwan Area Qianhai District Shenzhen	Office Hotel Commercial	25.00	166,842 107,640 48,348 **322,830**	51,835	Piling work in progress	2021
10.	Tianjin Kerry Centre Phase II	Junction of Liuwei Road and Liujin Road Hedong District Tianjin	Residential Office	49.00	272,051 263,718 **535,769**	149,857	Schematic design in progress	In phases from 2021 onwards
11.	Zhengzhou Complex Development	East of Huayuan Road South of Weier Road Zhengzhou	Residential Office Hotel Commercial	55.00	555,102 349,014 215,957 22,834 **1,142,907**	263,881	Schematic design in progress	In phases from 2022 onwards
	Sub-total				**7,420,182**	**2,672,259**		
	Total PRC properties under development				**12,873,569**	**3,431,089**		

Property name	Location	Type	Group's attributable interest %	Group's attributable interest Approximate gross floor area (square feet)	Group's attributable interest Approximate number of carpark spaces	Lease term
PRC Properties						
D. Held for sale						
1. Jinling Arcadia Court	99 Da Guang Road Qinhuai District Nanjing	Residential	100.00	**678,345**	423	Long lease
2. Enterprise Centre	128 Tian Mu Road West 277 Mei Yuan Road 209 and 219 Gong He Road Jing An District Shanghai	Office Commercial Residential	74.25	494,092 90,424 20,955 **605,471**	365	Medium lease
3. Qinhuangdao Habitat Phase I	160 Hebin Road Haigang District Qinhuangdao	Residential Commercial	60.00	295,871 34,934 **330,805**	418	Long lease
4. Jinan Enterprise Square	102 Luoyuan Street Lixia District Jinan	Office Commercial	55.00	199,878 34,331 **234,209**	120	Medium lease
5. Hangzhou Kerry Centre Lake Grandeur	385 Yanan Road Xiacheng District Hangzhou	Residential	75.00	**214,689**	105	Medium lease
6. Shenyang Kerry Centre Enterprise Square	121 Qingnian Avenue Shenhe District Shenyang	Office	60.00	**150,147**	–	Medium lease
7. The Metropolis – Arcadia Court Phase I	299 Ronghua North Road Hi-tech Industrial Development Zone Chengdu	Commercial	55.00	**116,691**	121	Long lease
8. Tianjin Arcadia Court Phase I	238 Liuwei Road Hedong District Tianjin	Residential	49.00	**113,319**	330	Long lease
9. Tangshan Parkside Place	889 Changhong West Road Lubei District Tangshan	Commercial	40.00	**89,988**	–	Medium lease
10. Shenyang Kerry Centre Arcadia Court Phase I	70 Wenhua Road Shenhe District Shenyang	Residential	60.00	**76,745**	206	Medium lease
Sub-total				**2,610,409**	**2,088**	

Property name	Location	Type	Group's attributable interest %	Approximate gross floor area (square feet)	Approximate number of carpark spaces	Lease term
PRC Properties						
D. Held for sale (Continued)						
11. Putian Arcadia Court	666 Jiuhua Road Chengxiang District Putian	Commercial	60.00	**41,676**	458	Long lease
12. Tangshan Arcadia Court	368 Dali Road Lubei District Tangshan	Residential Commercial	40.00	18,710 16,977 **35,687**	218	Long lease
13. The Metropolis – Arcadia Court Phase II	600 Sheng Zhi Street Hi-Tech Industrial Development Zone Chengdu	Commercial	55.00	**31,132**	919	Long lease
14. Enterprise Square	216 and 228 Meiyuan Road Jing An District Shanghai	Commercial	74.25	**26,992**	30	Medium lease
15. Nanchang Arcadia Court	667 Cui Lin Road Honggutan New District Nanchang	Residential	80.00	**26,270**	214	Long lease
16. Manzhouli Watch Lake Phase II	99 Liu Dao Street Manzhouli City Inner Mongolia	Commercial	100.00	**17,195**	24	Long lease
17. Hangzhou Castalia Court Phase I	Intersection of Shanhusha Road and Jianghan Road West Lake District Hangzhou	Residential	100.00	**15,734**	227	Long lease
18. Parkview Residence Phase I	756 Hangbo Street Xiacheng District Hangzhou	Commercial	100.00	**13,470**	–	Long lease
19. Parkview Residence Phase II	751 Hangbo Street Xiacheng District Hangzhou	Commercial	100.00	**5,886**	6	Long lease
20. Shenzhen Arcadia Court	1008 Haitian Road Futian District Shenzhen	Commercial	100.00	**4,608**	551	Long lease
21. The Berylville, Ningbo Phase I	Xingning Road Jiangcheng Road Jiangdong District Ningbo	Residential	50.00	**4,225**	67	Long lease
Sub-total				**222,875**	**2,714**	
Total PRC properties held for sale				**2,833,284**	**4,802**	
TOTAL PRC PROPERTY PORTFOLIO				**27,146,546**		

	Property name	Location	Type	%	Group's attributable interest: Approximate gross floor area (square feet)	Group's attributable interest: Approximate number of carpark spaces	Lease term
Hong Kong Properties							
A.	**Completed and held for investment**						
I.	**Residential**						
1.	Branksome Grande	3 Tregunter Path Mid-Levels Hong Kong	Apartment	100.00	**257,372**	73	Medium lease
2.	Aigburth	12 Tregunter Path Mid-Levels Hong Kong	Apartment	100.00	**204,940**	63	Long lease
3.	Branksome Crest	3A Tregunter Path Mid-Levels Hong Kong	Apartment	100.00	**153,375**	126	Medium lease
4.	Tavistock	10 Tregunter Path Mid-Levels Hong Kong	Apartment	100.00	**104,460**	24	Long lease
5.	Resiglow	7A Shan Kwong Road Happy Valley Hong Kong	Apartment	100.00	**81,218**	13	Long lease
6.	Gladdon	3 May Road Mid-Levels Hong Kong	Apartment	100.00	**2,300**	14	Long lease
Sub-total					**803,665**	**313**	
II.	**Commercial/office**						
1.	Enterprise Square Five/ MegaBox	38 Wang Chiu Road Kowloon Bay Kowloon	Commercial Office	100.00	1,145,537 [2] 519,316 **1,664,853**	748	Medium lease
2.	Kerry Centre	683 King's Road Quarry Bay Hong Kong	Office Commercial	40.00	193,252 10,952 **204,204**	74	Medium lease
3.	Enterprise Square	9 Sheung Yuet Road Kowloon Bay Kowloon	Office	100.00	**56,730**	26	Medium lease
4.	Hollywood Centre	233 Hollywood Road Sheung Wan Hong Kong	Office Commercial	47.37	36,461 11,182 **47,643**	–	Long lease
5.	Harbour Centre	25 Harbour Road Wanchai Hong Kong	Office Commercial	15.83	34,767 [3] 6,475 [4] **41,242**	45	Long lease
6.	Enterprise Square Three	39 Wang Chiu Road Kowloon Bay Kowloon	Commercial	100.00	**19,800**	–	Medium lease
7.	Island Crest	8 First Street Hong Kong	Commercial	100.00	**15,891**	6	Medium lease
8.	South Seas Centre – various portions	75 Mody Road Tsimshatsui Kowloon	Commercial	100.00	**6,341**	–	Long lease
9.	Wing On Plaza	62 Mody Road Tsimshatsui Kowloon	Commercial	10.00	**2,896**	–	Long lease
10.	Sherwood Court Public Carpark	12-20 Kwai Sing Lane Happy Valley Hong Kong	Carpark	100.00	**–**	200	Long lease
Sub-total					**2,059,600**	**1,099**	
Total Hong Kong completed investment properties					**2,863,265**	**1,412**	

PARTICULARS OF PROPERTIES HELD

	Property name	Location	Type	Group's attributable interest %	Approximate gross floor area (square feet)	Approximate number of carpark spaces	Lease term
Hong Kong Properties							
B.	**Hotel property**						
1.	Hotel Jen Hong Kong	508 Queen's Road West Hong Kong	Hotel	30.00	**37,517**	–	Long lease
	Total Hong Kong hotel property				**37,517**	**–**	

	Property name	Location	Type	Group's attributable interest %	Approximate gross floor area[5] (square feet)	Approximate site area (square feet)	Stage of completion	Scheduled completion
Hong Kong Properties								
C.	**Under development**							
1.	Beacon Hill Project (NKIL 6532)	9 Lung Kui Road Beacon Hill Kowloon	Residential	100.00	**116,380**	114,550	Superstructure work in progress	Second half of 2018
2.	Hing Hon Road Project	8 Hing Hon Road Sai Ying Pun Hong Kong	Residential	100.00	**67,560**	7,506	Foundation work in progress	First half of 2019
3.	La Salle Road/Boundary Street Project	10-12A La Salle Road/ 168-168C Boundary Street Ho Man Tin Kowloon	Residential	100.00	**45,180**	9,036	Foundation work in progress	First half of 2020
4.	Beacon Hill Project (NKIL 6533)	3 Lung Kui Road Beacon Hill Kowloon	Residential	100.00	**342,769**	235,183	Foundation work in progress	Second half of 2020
5.	Wong Chuk Hang Station Package Two Property Development Project	Site B Wong Chuk Hang AIL 467 Hong Kong	Residential	50.00[6]	**246,496**	46,135	Procurement of major consultants in progress	Second half of 2022
	Total Hong Kong properties under development				**818,385**	**412,410**		

Property name	Location	Type	Group's attributable interest %	Group's attributable interest Approximate gross floor area (square feet)	Group's attributable interest Approximate number of carpark spaces	Lease term
Hong Kong Properties						
D. Held for sale						
1. Mantin Heights	28 Sheung Shing Street Ho Man Tin Kowloon	Residential	100.00	**363,447** (4)	402	Medium lease
2. The Bloomsway	18, 28 and 29 Tsing Ying Road So Kwun Wat New Territories	Residential	100.00	**250,408** (4)	362	Medium lease
3. Primrose Hill	168 Kwok Shui Road Tsuen Wan New Territories	Commercial	100.00	**10,318**	5	Medium lease
4. Richwood Park	33 Lo Fai Road Tai Po New Territories	Commercial	50.00	**7,893**	–	Medium lease
5. Bayview	9 Yuk Yat Street Ma Tau Kok Kowloon	Commercial	100.00	**6,836**	9	Medium lease
6. Larvotto	8 Ap Lei Chau Praya Road Aberdeen and Ap Lei Chau Hong Kong	Residential/ Commercial	35.00	**5,815**	26	Medium lease
Total Hong Kong properties held for sale				**644,717**	**804**	
TOTAL HONG KONG PROPERTY PORTFOLIO				**4,363,884**		

Property name	Location	Type	Group's attributable interest %	Group's attributable interest Approximate gross floor area (square feet)	Group's attributable interest Approximate site area (square feet)	Stage of completion	Scheduled completion
Macau Properties							
A. Under development							
1. Nam Van Project	Lot C12 Nam Van Lake Macau	Residential	100.00	**397,190**	39,719	(note)	(note)
TOTAL MACAU PROPERTY PORTFOLIO				**397,190** (7)	**39,719**		

Note: The concession of the Land was of a lease term of 25 years which ended on 30 July 2016.

PARTICULARS OF PROPERTIES HELD

Property name	Location	Type	Group's attributable interest %	Approximate gross floor area (square feet)	Approximate number of carpark spaces	Lease term
Overseas Properties						
A. Completed and held for investment						
1. Shangri-La Plaza Mall	EDSA corner Shaw Blvd. Mandaluyong City Philippines	Commercial	65.36 (8)	**1,256,926**	786	Freehold
2. The Enterprise Center	Ayala Avenue Cor. Paseo de Roxas Makati City Philippines	Office Commercial	45.78 (9)	405,908 15,836 **421,744**	462	Freehold
3. Shangri-La Residences at the Fort	Fort Bonifacio Taguig Philippines	Apartment Commercial	39.22 (10)	74,104 18,596 **92,700**	303	Freehold
4. The St. Francis Shangri-La Place	St. Francis St. corner Internal Road Shangri-La Place Mandaluyong City Philippines	Commercial Apartment	65.36 (8)	16,937 3,343 **20,280**	–	Freehold
5. Carpark Building	EDSA corner Shaw Blvd. Mandaluyong City Philippines	Carpark building	65.36 (8)	**–**	324	Freehold
Total overseas completed investment properties				**1,791,650**	**1,875**	

	Property name	Location	Type	Group's attributable interest %	Approximate gross floor area (square feet)	Approximate number of carpark spaces	Lease term
Overseas Properties							
B.	**Hotel properties**						
1.	Shangri-La at the Fort	Fort Bonifacio Taguig Philippines	Hotel	39.22 [10]	**334,715**	241	Freehold
2.	Land leased to EDSA Shangri-La Hotel	EDSA corner Shaw Blvd. Mandaluyong City Philippines	Hotel lease	65.36 [8]	**169,733** [11]	–	Freehold
	Total overseas hotel properties				**504,448**	**241**	

	Property name	Location	Type	Group's attributable interest %	Approximate gross floor area (square feet)	Approximate site area (square feet)	Stage of completion	Scheduled completion
Overseas Properties								
C.	**Under development**							
1.	The Rise	Malugay Street Makati City, Philippines	Residential Commercial	58.18 [12]	951,235 56,013 **1,007,248**	–	Superstructure work in progress	Second half of 2019
	Total overseas properties under development				**1,007,248**	**–**		

	Property name	Location	Type	Group's attributable interest %	Approximate gross floor area (square feet)	Approximate number of carpark spaces	Lease term
Overseas Properties							
D.	**Held for sale**						
1.	One Shangri-La Place	EDSA corner Shaw Blvd. Mandaluyong City Philippines	Residential	65.36 (8)	**11,877**	–	Freehold
2.	Shang Salcedo Place	Sen. Gil Puyat Ave. Cor. Tordesillas St. and HV Dela Costa St. Makati City Philippines	Residential	65.36 (8)	**7,952**	87	Freehold
3.	Horizon Homes	Fort Bonifacio Taguig Philippines	Residential	39.22 (10)	**7,331**	–	Freehold
4.	The St. Francis Shangri-La Place	St. Francis St. corner Internal Road Shangri-La Place Mandaluyong City Philippines	Residential	65.36 (8)	**4,506**	–	Freehold
	Total overseas properties held for sale				**31,666**	**87**	
	TOTAL OVERSEAS PROPERTY PORTFOLIO				**3,335,012**		

Notes:

(1) *Application for land use certificate in progress.*

(2) *Included other facility with gross floor area of approximately 65,000 square feet.*

(3) *Being lettable floor area.*

(4) *Being net floor area.*

(5) *Subject to final Hong Kong SAR Government approval plans and documentations.*

(6) *Property in which the Group is entitled to share of development profits in accordance with the terms and conditions of the development agreement.*

(7) *As regards the reclamation project in Macau, according to the Macau SAR Government Notice which was gazetted on 14 October 2009, a piece of land will be granted in exchange with location and size to be identified and agreed.*

(8) *Including attributable interest of 30.75% held through Philippine Deposit Receipts.*

(9) *Including attributable interest of 21.54% held through Philippine Deposit Receipts.*

(10) *Including attributable interest of 18.45% held through Philippine Deposit Receipts.*

(11) *Being site area.*

(12) *Including attributable interest of 27.37% held through Philippine Deposit Receipts.*

(13) *Gross floor areas exclude carpark spaces.*

CARING FOR THE ENVIRONMENT

- "Environmental Movement" takes another major step forward
- Green Procurement expanded in scope and to the Mainland
- Sustainable work practices promoted to staff of commercial tenants through an innovative campaign, "Green at Work Contest"

As a socially responsible company, care for the environment is integrated into how Kerry Properties Limited ("**KPL**") do business. Our sustainability policy guides us not only to take environmental consequences into account, but also to commit to ecologically positive initiatives wherever possible.

POLICY AND MANAGEMENT

Constant Progress in Sustainability Reporting

Our Sustainability Steering Committee was formed in 2016 to guide our company-wide corporate social responsibility ("**CSR**") commitment.

The Sustainability Report 2016 charted the Group's progress towards the environmental goals we have set as a business imperative. As the Group's first public sustainability report, it was designed to inform stakeholders in an engaging way, highlighting not only measurable outcomes, but also real-life instances where our green actions have made a positive difference in communities. The report covered KPL's operations in Hong Kong, as well as five mixed-use developments in Beijing, Shanghai, Hangzhou and Shenzhen. As the Group continually strives to improve its environmental, social and governance ("**ESG**") performances, we aim to expand our reporting depth progressively.

The report was prepared in compliance with the Stock Exchange of Hong Kong's ESG Reporting Guide ("**ESG Guide**"), and exceeded its requirements in certain areas. The report covered topics with reference to the Global Reporting Initiative G4 Sustainability Reporting Guidelines, and made special reference to its Construction and Real Estate Sector Disclosure.

Our sustainability reporting will continue to evolve, with the scope further expanded this year to include five more Mainland properties. We are also adopting GRI Sustainability Reporting Standards in the 2017 report.

In 2016, the Group formulated a five-year sustainability roadmap to monitor 11 aspects under the ESG Guide. This monitoring system was subsequently improved by establishing quarterly progress records and regular reviews of the various targets.

Stakeholder Engagement

To make sustainability a team effort, the steering committee is chaired by the Chief Executive Officer and formed by staff representatives from our Hong Kong head office and major properties in the Mainland. The committee oversees four sub-committees covering areas comprising Environment Initiatives, Sustainable Employee Engagement, CSR and Community, and Corporate Governance. Regular meetings are conducted to review performance and share updates.

On publication of the 2016 Sustainability Report, a sharing session was held in July 2017 in Hong Kong to enable colleagues to exchange their views on the Group's sustainability policy and strategies, compliance, governance and the overall roadmap. A highlight video of the session was produced and shared with colleagues in the Mainland.

To engage external and internal stakeholders in the Mainland and Hong Kong, we carried out an extensive online questionnaire survey and collected over 600 responses. A series of workshops and focus groups were held between December 2017 and January 2018 to identify and determine those aspects of our business that have significant impact on our stakeholders. We were also able thereby to collect stakeholders' feedback and ideas on the Group's sustainability practices.

Environmental Policy and Management

The Group's Environmental Policy for property development and management lays down clear environmental performance targets which have been formally adopted by top management as our organisational goals.

This policy is implemented and constantly enhanced through our Environmental Management System ("**EMS**"), which was established in 2009 and accredited under ISO 14001 in 2011. The EMS has been adopted by KPL as well as by various Group companies including Kerry Property Management Services Limited ("**KPMSL**"), MegaBox Management Services Limited ("**MMSL**") and Kerry Properties Development Management (Shanghai) Co., Ltd. ("**KPDMSL**"). The EMS of KPL and all properties under its management in Hong Kong, together with five properties in the Mainland, namely Jing An Kerry Centre, Kerry Parkside, Enterprise Square and Central Residence II in Shanghai and Shenzhen Kerry Plaza have been certified to the latest version of ISO 14001:2015.

The EMS is led and managed by an EMS Committee formed by representatives from different teams. Meeting on a half-yearly basis the Committee ensures the successful implementation of the EMS at an operational level; establishes and reviews environmental objectives, targets and programmes; enhances internal communication and awareness; and reviews and discusses complaints, nonconformities, and corrective and preventive actions.

As at 31 December 2017, all annual objectives and targets set by the EMS Committee for our headquarters, all development projects, and properties managed by KPMSL and MMSL have been met and mostly exceeded. Specifically, we have set a long-term carbon reduction target for headquarters and all managed properties in Hong Kong. In view of some changes in our key managed residential portfolio, the drop in carbon intensity has been slowing down and a series of new initiatives were devised.

The Group has now gone one step further to establish an Energy Policy and an Energy Management System ("**EnMS**") to systematically monitor and continually enhance the energy performances of our properties. The EnMS was certified under ISO 50001:2011 in January 2018 and was overseen by the EnMS Committee.

Our Green Procurement Manual was first compiled in 2015 by a task force of representatives from different departments and included a list of product requirements specifying the environmental credentials of 50 items of products and services commonly used in property management and throughout our offices. In 2017, we added 16 commonly purchased items for property development into our green procurement practice. This manual applies to all properties under the Group's management in Hong Kong, and mandates strict compliance by all departments. The product specifications enable selection and purchase of green products based on such qualities as durability, recyclability, toxicity, energy consumption, use of clean technology, and emission levels. To facilitate understanding towards our Green Procurement Policy, KPMSL launched a hotline service managed by designated staff in 2017 to handle enquiries from contractors.

In the Mainland, the Group has adopted and announced a Green Procurement Policy which was fully implemented by KPDMSL in 2018. Green Procurement Guidelines under the policy also list environmental credentials of 50 property management related procurement items. Contractors and suppliers are required to sign an environmental protection guideline. All future procurements in the Mainland will be governed by this policy.

STAKEHOLDER ENGAGEMENT IN GREEN ACTIVITIES

"Environmental Movement" to Engage Occupants

The "Environmental Movement" was introduced in 2016 to engage the occupants of all our managed residential properties in Hong Kong in our sustainability drive. All occupants were offered incentives to participate in environmentally friendly activities at their respective properties.

New initiatives have been added to the "Environmental Movement", including the "Green Home Tips" programme. Residents could register for an arranged visit to get advice on energy efficiency tips and resource utilisation at home. A *Green Home Tips* booklet was also published to enhance the effectiveness of the site visits by offering residents practical green tips. In parallel, occupants were invited to suggest inspirational or practical ideas to advocate green living through the "Green Idea" programme.

Other relevant initiatives, including the recycling of used clothes and hangers, books, CDs, glass bottles, fluorescent lamps,

tubes or bulbs, old toys, old electrical appliances, toners and ink cartridges, continued to be hosted at our properties. Some of these activities were held in conjunction with Government, environmental or other social agencies. Displays of clean recycling information at clubhouses and visits to recycling plants have also been arranged.

Traditional celebrations can sometimes be a source of waste. Our properties have therefore introduced workshops to upcycle used red packets, arranged for the sharing of Lunar New Year gifts and the recycling of festive plants.

Waste reduction at source is a key theme of the "Environmental Movement". All estates managed by KPMSL have participated in the "No Plastic Bottle Day 2017".

"Green at Work Contest" to Extend Reach to Commercial Tenants

With an aim to raise environmental awareness and encourage sustainable practices by motivating tenants and their staff at their own workplace, the Group devised a "Green at Work Contest" during the year. The contest collected some 700 smart tips coming under the 4Rs (reduce, reuse, recycle and replace) submitted by staff of over 100 companies across the Group's retail and commercial properties in Kowloon East. Selected smart green ideas were featured in the Group's 2018 corporate calendar for sharing with a wider audience.

Green Construction Site Award to Involve Site Contractors

The Group continues to encourage and commend green and healthy construction practices at all our development sites by means of the in-house "Green Construction Site Award". Contractors and respective project management teams of our construction sites form groups to participate in this commendation programme.

Mobile Communication Platform to Share Green Information

Mobile communication platforms were set up in the Mainland and Hong Kong during the year to enable the sharing of green and CSR messages between residents. These platforms include a WeChat community for the Mainland, and mobile apps for Dragons Range and Bayview in Hong Kong.

GREEN IN EVERYDAY OPERATIONS

"Green Every Day" Programme

Our property management teams in the Mainland and Hong Kong all support a collective programme to encourage recycling and better waste management. Activities during the year included the recycling of batteries, red packets and expired publications. Waste separation at source for plastic is also facilitated at all managed properties in Hong Kong. Enterprise Square Five goes one step further by separately collecting food waste for recycling into organic fertilisers for the gardens at MegaBox and Mid-Levels properties. MMSL also supported a barter market activity held at MegaBox.

Meanwhile, the "Green Every Day" programme continues to be rolled out in all our Mainland and Hong Kong operations. Through the provision of easily accessible waste separation facilities, encouraging reuse and recycling, smart use of resources and procurement of energy-saving appliances, green practices are being made easy for daily operations.

An electronic *Green Office Tips* was compiled to help our property management teams communicate more effectively with tenants. During the year, several visits to tenants' offices were conducted resulting in fruitful sharing of energy-saving and recycling measures for the workplace. The guide was prepared with reference to the Green Tenancy Driver Training Toolkit of The Hong Kong Green Building Council ("**HKGBC**"), and included some of the winning ideas from the "Green at Work Contest".

Green in the Corporate Workplace

The Head Office in Hong Kong has been using recycled paper for printing since March 2017. EMS workshops and tours with a focus on eating green and healthy, as well as organic farming, have been arranged in Hong Kong to better engage staff members in environmental awareness.

In Shanghai, staff teams at Kerry Parkside took part in decorating their office with green plants, while colleagues at Kerry Everbright City solicited the support of landlords and tenants from the neighbourhood to 'adopt' plants, and organised regular harvesting of vegetables from the podium field. Our staff and their families in Shenzhen joined hands with the tenants of Shenzhen Kerry Plaza and planted 50 trees in a wetland park. All members of the Beijing Kerry Centre team also took part in an annual tree planting activity.

Green Fun and Eating

Sustainability was promoted during the year to our tenants and residents in the Mainland and Hong Kong through a variety of fun activities, such as stamp collection by children for donating recycled materials, trail walks and outings. To make upcycling fun, workshops have shown occupants how to make daily-use or artistic objects from surplus or leftover materials, such as DIY workshops on soap and candles making from coffee grounds and lip balm making from organic materials.

In support of the "Green Monday" campaign, our clubhouse restaurant at Dragons Range, Foo Ka Chinese Restaurant and Congee & Noodle Shop at Kerry Centre in Hong Kong have participated as partners by offering vegetarian menus on Mondays and Wednesdays. The campaign aims to tackle climate change and global food insecurity by making low-carbon and sustainable living simple, viral and actionable.

WORKING WITH GREEN GROUPS

Support of Green Organisations

During the year, we continued to support the green initiatives of the Government and green organisations.

Our managed properties in Hong Kong achieved remarkable results in the "Energy Saving Championship Scheme 2016", organised by the Environment Bureau and Electrical and Mechanical Services Department. They also took part in the "Power Smart Energy Saving Contest 2016". Households were encouraged to participate in the contest with incentives for achieving an overall 50% saving in electricity consumption.

The Group showed its support for the "CLP Eco Power" and "Eco Awards Program" by offering incentives to occupants who registered with the scheme and produced individual household power consumption reports. The programme uses an online platform to monitor and forecast electricity consumption, with the aim of promoting energy saving by households.

Kerry Parkside, Jing An Kerry Centre, Shenzhen Kerry Plaza, Shenzhen Kerry Centre, Beijing Kerry Centre and Shenyang Arcadia Court in the Mainland, as well as MegaBox in Hong Kong, continued to support "Earth Hour", organised in March 2017 by the World Wide Fund for Nature. Our property management teams have also encouraged residents to participate by turning off non-essential lights for one hour.

Kerry Centre supported the "Hong Kong No Air Con Night 2017" organised by Green Sense. Our management teams of residential properties also echoed the call by encouraging occupants to turn off air-conditioning during two evenings. Meanwhile, the Group sponsored Foo Ka Chinese Restaurant and Congee & Noodle Shop at Kerry Centre in Hong Kong to purchase biodegradable food containers and eating utensils for takeaways in support of the "BottLESS" programme to reduce disposable plastic consumption.

Pledges

Most properties managed by KPMSL and Head Office in Hong Kong have pledged their support for the Hong Kong Government's "Energy Saving Charter" and "4Ts Charter" schemes. The "Energy Saving Charter" aims to encourage business and community organisations to reduce electricity consumption and thus carbon emissions, while the "4Ts Charter" engages stakeholders in the built environment to set targets and timelines, maintain transparency by sharing information, and to work together to achieve the targets.

The Group and MMSL have both pledged support for HKGBC's "Hong Kong Green Shop Alliance". As a long-term alliance member, our MegaBox has pledged to be environmentally responsible and incorporate sustainable practices into daily operations.

The Group has also joined the "Fostering Sustainable Consumption for Hong Kong Business and the Community Programme" as a Sustainable Consumption Enterprise. The scheme is hosted by the Business Environment Council ("**BEC**"), and aims to encourage enterprises to consider the environmental and social impacts of the products and services they purchase.

Participation through Membership

HKGBC is the leading body driving the standards and development of sustainable buildings in Hong Kong. The Group has been a Gold Patron Member of HKGBC since 2013. Patron membership is a prestigious class of institutional membership, and the Group is delighted to support HKGBC's work in green building as a Patron.

The Group has also been a Council Member of BEC since 2013. An independent charitable organisation established by the business sector in Hong Kong, BEC has been at the forefront of promoting environmental excellence and contributing to the city's transition to a low-carbon economy.

CARING FOR THE COMMUNITY

Passion: Staff teams in the Mainland and Hong Kong volunteering to serve meaningful causes

Opportunity: Promote upward mobility of youth by providing internship opportunities and through mentoring

Connectivity: Build a network of likeminded people through "Kerry On" to promote healthy lifestyle

Through staff volunteering, partnerships with social service agencies and a range of other charitable initiatives, we aim to be a supportive and forward-looking participant in the communities where we operate.

VOLUNTEERING

We are proud of the efforts and compassion shown by our teams in the Mainland and Hong Kong in serving meaningful social causes. During the year, our teams in Hong Kong took part in charity walks and flag days in support of conservation, life-support services, special child care, refugee children and aspiring air cadets.

For example, the volunteer team from the Mid-Levels properties helped prepare meal boxes at Food Angel's kitchen. MegaBox volunteers also expressed their care for the elderly through home visits organised by Hong Kong Children & Youth Services. In the Mainland, staff volunteers from Shenzhen spent a memorable day with senior citizens in a nursing home and our Ningbo team learned to make glutinous rice dumplings for those in an elderly facility.

OPPORTUNITIES FOR YOUNG PEOPLE AND THE UNDERPRIVILEGED

The Group continued to support the joint effort of the Labour Department and Hong Kong Federation of Youth Groups ("**HKFYG**") to provide training and work opportunities via a "Customer Services Trainee Programme" for associate degree students. During the 6-month programme, these young customer service trainees were able to gain experience during the handover of units at Mantin Heights and by rotating between different posts at other properties. Trainees who performed well were offered permanent posts upon completion of the programme.

During the summer of 2017, the Group partnered with the Hong Kong Coalition of Professional Services to provide internship opportunities for four Form 5 students from Yuen Long District. These interns were assigned for two-week placements with KPMSL. Their internship was the first working experience in property services for these young students who had demonstrated a diligent work attitude.

The Group and Hong Chi Association are longstanding partners in the care of persons with intellectual disabilities. In addition to engaging the lettershopping services of the association, our staff also organised classes to teach Hong Chi students magic skills that help in cultivating their confidence. Other programmes for the underprivileged included in-mall tours organised by MegaBox the whole year round for various community groups.

In April 2017 our staff at Hangzhou Kerry Centre, Castalia Court and Parkview Residence invited local students with disabilities to the piazza garden to gain first-hand experience in gardening as part of their landscaping studies. The Hangzhou team also sent social ambassadors to visit the secondary school students we have been supporting in poverty-stricken Xiushui Village.

COMMUNITY HEALTH AND KNOWLEDGE SHARING

"Kerry On" is a community initiative launched initially at Jing An Kerry Centre and Kerry Parkside in Shanghai. It aims to build a network of likeminded people, bringing them together to develop healthy living habits and enjoy a range of fitness, hiking, parent-child, art and healthy dining activities. "Kerry On" welcomes participation from all residents, shoppers, office workers and other users of these two mixed-use properties. In the spirit of togetherness, tenants are also invited to collaborate in organising activities for the community.

Other health-related activities included a sleep quality measurement exercise organised by Beijing Kerry Centre, echoing the call of "World Sleep Day 2017", and climbing Shenzhen Kerry Centre, Shenyang Kerry Centre and Enterprise Square for exercise and relaxation, as well as Yoga classes and health talks hosted by Kerry Residence. Hiking contests with tenants were also arranged by Kerry Everbright City.

Our Mainland properties also promoted healthy living through a number of tournaments, such as table tennis, bowling and badminton matches for the tenants and residents.

On other occasions, we helped to inform people from different communities through a series of seminars on legal and financial planning held in Shenzhen and Shanghai during the year.

DONATIONS AND SPONSORSHIPS

Helping Social Groups Fundraise

With the help of creative ideas fundraising can be a lot of fun. We are delighted to have collaborated with different social agencies in coming up with interesting fundraising events to solicit donations from the public and our tenants, while creating happy and memorable moments for them.

During the year, MegaBox staged a number of exciting events while raising funds for various worthy charitable causes for needy children and families. These fundraising events have incorporated games with giant inflatable figures, capsule machines, cartoon-themed photo booths, a concert with a flash mob activity, and charity sales.

Our teams in over 10 Mainland cities helped raise funds for One Foundation among residents and commercial tenants of our managed portfolio. Each donor would receive our 2018 corporate calendar, with smart green ideas featured, as a thank-you souvenir. Shenyang Arcadia Court partnered with Shangri-La Hotel, Shenyang and Mobike in a fundraising-on-the-bike ride. Our colleagues at Habitat in Qinhuangdao, also joining hands with Shangri-La Hotel, initiated a charity run to raise funds for the benefit of autistic children.

Beijing Kerry Centre took the opportunity of its Halloween activity to help sell postcards in support of an art programme for people with disabilities. Kerry Parkside, on the other hand, blended dragon and lion dances with the donation of red packets by tenants to children suffering from genetic disorders.

Corporate Donations and Staff Participation

The Group continues to encourage and support staff member participation in fundraising activities. In January 2017, the Group sponsored colleagues to enter the "24th Green Power Hike" and the "2017 Community Chest Corporate Challenge" marathon. More than 100 colleagues participated respectively

in the Community Chest's "Skip Lunch Day" and "Dress Casual Day", while others formed a team to take part in the "Green WALK Hong Kong" challenge.

More than 100 colleagues donated to the Community Chest's "Employee Contribution Programme" and "Green Day 2017". The Group also gave donations to support the "Heart-to-Heart Charity Walk", "Love Teeth Day" and "HKFYG *a cappella* Music Dinner". Meanwhile, Mega Ice spread warmth by sponsoring the "English Schools Foundation 50th Anniversary Marathon", which was organised to promote public awareness of caring and supporting children with special needs.

An appreciation party for the elderly and their carers reflected the combined contributions of our Group as a sponsor with our staff as volunteers for distributing souvenirs during the event. The party was a caring initiative driven by the Social Welfare Department.

In-kind Donations and Venue Sponsorship

The Group makes use of its own resources, including venues, the properties it manages and its network of landlords and tenants, as well as staff teams, to contribute to society. One such event was the six blood donation days staged during the year at several properties in Hong Kong. Both colleagues and tenants responded to the call to give blood.

During the year, our colleagues and property occupants in the Mainland and Hong Kong also donated eyeglasses, books and stationery, schoolbags, infant formula milk powder, baby products, projectors and mooncakes to those in need. The Group donated prizes for the raffle ticket sales by the Hong Chi Association, while MegaBox donated club memberships in support of a carnival to promote a more inclusive society.

Our venues were put into good use by welfare groups such as Hong Chi Association for their charity sales of mooncakes, RunOurCity Foundation for the kick-off ceremony of their marathon event, a charity auction to support the "Hong Kong International Literary Festival", and the exhibition and charity sale of porcelain works to benefit the Child and Family Bereavement Center, as well as the placing of a donation collection box to fundraise for Haven of Hope Christian Service.

ALL IN A GOOD CAUSE

Kerry Group Kuok Foundation and Jigsaw are charitable entities established by our parent company. The foundation's goal is to change lives by cultivating advancement through opportunity for all, and both entities focus on addressing issues related to poverty. Our various business units and staff teams are delighted to be a part of their philanthropic initiatives.

The "Big Buddy Programme" continued to motivate staff members to help children of migrant workers in the Mainland. Our Beijing Kerry Centre team helped stage a city experience activity for migrant children, while The Metropolis-Arcadia Court in Chengdu organised its team to take part in a series of interactions with migrant children as their growth buddies.

Jigsaw is dedicated to cultivating social mobility and inclusion through engaging less privileged families by empowering youth through mentorship and basketball buddy programmes, as well as paying home visits and offering home cleaning for the elderly. Our colleagues in Hong Kong have actively participated in these activities.

CARING FOR **OUR PEOPLE**

Happy and fulfilling workplace: Work-life balance and professional development

"KEEP-IN" programme, leadership training in line with the Group's focus on developing mixed-use landmarks

"Raindrop Summer Internship Programme" to inspire and engage children of staff members

We value our team members, develop and synergise their talents to form an integrated team, and respect them as unique individuals who have personal aspirations and family responsibilities.

A HEALTHY WORKPLACE AND WORK-LIFE BALANCE

Health and Safety

The good health of our employees, the general public and those who may come into contact with our business units' activities, is a key management responsibility. To achieve this goal, a Corporate Safety & Health Policy Statement has been adopted by KPMSL for its property management operations. To comply with this policy statement, health and safety objectives and targets are set every year.

We work to ensure that all statutory and contractual obligations in respect of health and safety are vigilantly heeded and complied with. To put policy into practice, we strive to integrate all reasonably practical measures into the planning, operation and maintenance of a safe system for work, and provide adequate safety training and equipment. A senior manager is assigned to co-ordinate the implementation, regular review and audit of the policy.

Our Safety Committee, formed by members from working level up to top management, reviews the policy and measures taking into account valuable first-hand feedback from frontline workers.

During the year, the health and safety systems applied at Jing An Kerry Centre, Kerry Parkside, Enterprise Square and Central Residence II in Shanghai, as well as Shenzhen Kerry Plaza under the management of KPDMSL were accredited under the Occupational Health and Safety Management System Certificate OHSAS 18001:2007.

As regards physical health, during influenza pandemics the Group has sponsored vaccine injections for staff and their families, and alerted everyone on precautions for staying healthy. And during the heat of summer, our management teams at Hangzhou Kerry Centre, Jing An Kerry Centre and the residential properties in Hangzhou offered staff cooling drinks and ice-cream sandwiches.

Emotional health is equally important, and to help promote both the physical and mental well-being of employees, the Kerry Group of Companies has taken a proactive move to introduce the "Raindrop" programme. Its first initiative, "Raindrop Listens", a 24-hour counselling hotline service, was launched in December 2016. Professional counsellors are on hand to listen to callers' concerns and worries on personal matters, or family or work-related issues. The hotline is available to employees and their immediate families, and conversations are kept in strict confidence. Should the counsellors identify cases that need follow-up, face-to-face meetings are scheduled.

A Happy and Healthy Workplace

The Group has signed the "Joyful@Healthy Workplace Charter" and pledged to fulfil the obligations of a "Joyful Enterprise". The charter emphasises healthy eating and physical activity in order to maintain mental well-being.

In this regard, the Group has devised a staff engagement plan in Hong Kong covering head office and property management staff. A series of activities has been rolled out to promote the general well-being of employees and to enhance staff morale and bonding. In Shanghai, staff engagement activities planned by Jing An Kerry Centre and Kerry Parkside were focused on employee health and fitness, festive celebrations, financial management and rewarding staff for good performance.

Additionally, KPMSL, our property management arm in Hong Kong, initiated and continues to manage a "We Care" programme for its teams at different properties. Through offering staff festive food and seasonal fruits, herbal tea and snacks from time to time, and through the hosting of health talks, massage sessions and sports games, the programme hopes to promote a healthy lifestyle among its team members. Staff are also invited to provide creative ideas on improving customer service and optimising work processes via an "i-Suggest" programme. Their creative and useful ideas are rewarded and shared with all staff through our internal publication, the *Art of Service*.

Green dining habits have now been incorporated into the Group's charity drive with its CSR & Community Sub-committee preparing healthy salads for colleagues who in turn have been encouraged to donate for the good cause of Feeding Hong Kong.

Our various business units in the Mainland and Hong Kong regularly organise sports and health-related activities or exercises for staff. During the year these included dances, trail walks, talks on pain relief through massage of acupuncture points, on moxibustion and wellness tonics, stretching and fitness exercises, and badminton matches. Our football teams from KPMSL and MMSL have participated in tournaments organised by the property management industry and a well-known private league in Hong Kong.

Sending flowers to female colleagues on Women's Day, celebrating birthdays with staff members, and giving them massage coupons also reflect the care of management for their teams.

Festivals are commonly celebrated the traditional way in the Mainland. At our many Mainland offices, activities such as strawberry picking, fabric flower and dumpling making, photography, solving lantern riddles, Christmas partying, floral display workshops and even a matchmaking event during the Valentine's Day were hosted throughout the year.

Family Friendly

The "Raindrop" programme has extended its focus on staff to their children who wish to gain work and learning experience. An internship programme was designed and inaugurated during the summer of 2017. The interns were mentored by some of our management executives and attended a series of training workshops before getting a taste of what work-life balance means through bowling night and happy hour.

To help our working mothers continue breastfeeding after their maternity leave, we have set up a clean, private and secure nursing room at our head office in Hong Kong. On National Children's Day, Kerry Parkside gave maternal and baby gifts to their working mothers, while the team in Shenzhen offered all working mothers and mothers of their staff flower bouquets and desserts.

TALENT DEVELOPMENT

New Staff Orientation

To facilitate the assimilation of new staff, induction programmes are in place in the Mainland and Hong Kong to provide them with an introduction to our core business and service pledge, and corporate policies as well as fundamental fire-safety knowledge.

Professional and Governance Training

Training in awareness of our EMS continues to be mandatory for all employees, who are required to attend interactive workshops. Other ongoing seminar topics include recent trends and continuous enhancement of property management, anti-corruption and anti-discrimination. In the Mainland, training on the standard operating procedure, anti-terrorist attacks, first-aid and fire safety are provided for staff.

Leadership Development

The four-module "Effective Leadership Skills" programme continues to be organised in Hong Kong for newly promoted leaders in the property services team. The programme was designed to equip them with knowledge in leading their teams more effectively and efficiently, and boosting their confidence. These new leaders are being coached to motivate and empower, and to work effectively in a multi-generation environment.

During the year supervisory staff from Hangzhou and Shanghai took part in a workshop on how to encourage a good performance from their members, while identifying room for improvement. Managers from Hangzhou, Shanghai and Beijing also attended training sessions on leadership that gets results. In line with the Group's focus on developing mixed-use landmarks, a "KEEP-IN" programme was designed to train future leaders in this arena. These training courses will help the Group nurture its next-generation leadership.

Training for Customer Service Enhancement

The "7Ups Development" programme continues to be in place. Comprising seven modules, our frontline customer service staff receive training in time management, team building, communication, problem solving, Jugaad innovation, and language proficiency.

An additional "Customer Experience Enhancement" training series has been developed to promote to property management teams the importance of the customer experience. Taking the opportunity of the handover of Mantin Heights and The Bloomsway in Hong Kong, and Lake Grandeur in Hangzhou, we also invited related staff to attend a series of handover-related training sessions running from July to November 2017. Our teams received training on aspects ranging from complaints handling to legal knowledge.

During the year employee skills training also included servicing skills and the handling of special incidents.

Through our "Make Work Fun" workshops, property management team members learned useful handicrafts and party tricks. The aim is to help staff in organising clubhouse activities for residents. Trainers are from the team and the programme therefore also provides a platform for staff to showcase their individual talents.

Employee Enhancement and Development

We encourage our staff to constantly seek personal enhancement, and therefore to enrol in a range of language, IT, presentation skills, staff relationship management, train-the-trainer, labour law, salesmanship for all, and courtesy and grooming programmes.

TEAM BUILDING AND COMMUNICATION

In the Mainland and Hong Kong, buddies from different teams are recruited to help new hires adapt to the work environment. Training is now provided to them during the year to help them acquire the necessary techniques. We currently have 115 buddies in 84% of our properties in the Mainland and Hong Kong.

"i-Suggest" is an effective channel for collecting staff suggestions on how to enhance the service standards of our property management. To gain further insights into what our staff value most in the workplace and their perceptions of the work environment, an employee opinion survey was carried out in September 2017 by an independent research house. Meanwhile, our *Art of Service* publication shares updates on different property management teams and promotes the service culture.

As a learning organisation, we make knowledge readily accessible to all staff. Our property management operation in the Mainland, for example, uses "Kerry WeChat Academy" as a platform for sharing work knowledge, everyday experiences and other useful messages.

Team building is also achieved through a range of activities, ranging from outdoor training, staff day excursions, visits to other teams, travel for leisure and bonding, photography and other contests, to marathons and sports days.

AWARDS AND CITATIONS

The Group continues to receive significant recognition from the Government, rating agencies, professional institutions and the media. Of all our accomplishments, we take most pride in our achievements as a responsible corporate citizen, an ethical business operator and an employer of choice. These awards will inspire us to aim even higher in our journey of sustainable development.

OUR FIRST SUSTAINABILITY REPORT CLINCHES FIVE INTERNATIONAL AWARDS

The inaugural Sustainability Report 2016 issued by the Group was awarded the "Asia's Best First Time Sustainability Report" in "Asia Sustainability Reporting Awards ("**ASRA**") 2017", and in multiple categories of "MERCURY Excellence Awards 2017-2018", including a Gold Award (Publicity: Sustainability Awareness). ASRA was held by CSRWorks International, a leading provider of CSR services in Singapore, while the "MERCURY Excellence Awards" was organised by the renowned agency MerComm, Inc.

These international awards show that our Sustainability Report can elaborate the Group's sustainability performance in a comprehensive and fair manner and also prove our steadfast commitment to upholding the highest standards of corporate governance.

These awards shall drive us to seek further enhancement in sustainability development.

GREEN

These premier awards acknowledge the Group's sustainability initiatives across its businesses. Our inclusion in major indices and accreditation schemes is testament to our leadership in advancing best green practices in our industry.

Environmental Management System – ISO 14001:2015

The Group's Environmental Management System ("**EMS**") continues to drive and govern the implementation of its Environmental Policy throughout its operations, from property development through to management. The EMS is currently accredited under the requirements of ISO 14001:2015, and this has been extended to encompass Kerry Properties Limited ("**KPL**"), Kerry Property Management Services Limited ("**KPMSL**") and MegaBox Management Services Limited ("**MMSL**").

Our five properties in the Mainland, managed by Kerry Properties Development Management (Shanghai) Co., Ltd. ("**KPDMSL**"), namely Jing An Kerry Centre, Kerry Parkside, Enterprise Square and Central Residences II in Shanghai, as well as the latest addition of Shenzhen Kerry Plaza, have also been accredited under ISO 14001:2015.

Energy Management System – ISO 50001:2011

The Group understands the importance of energy efficiency and conservation at our properties. During the year, an Energy Management System ("**EnMS**") was implemented based on the Group's new Energy Policy, to monitor and constantly enhance our energy performance. The EnMS, covering office administration activities at the KPL Head Office, obtained ISO 50001:2011 accreditation in January 2018.

CarbonCare® Label 2017

The Group was once again awarded the "CarbonCare® Label" in 2017. The label was awarded by CarbonCare InnoLab under the supervision of an independent expert panel. This year, the Group received a 20% reduction label which indicates our achievement of more than 20% carbon reduction in 2016 compared with the base year 2011. This scheme has awarded over 200 labels to companies and organisations in Hong Kong since its launch in 2011. The label requires a substantial effort on the part of the awardee, and is recognition of excellence in our journey to sustainability.

Hong Kong Green Awards 2017 – Green Management Award (Corporate) – Gold Award and Sustained Performance (8 Years+)

"Hong Kong Green Awards" is a widely recognised annual award programme devised and promoted by the Green Council. The award scheme aims to identify and recognise companies that have achieved outstanding performance in green purchasing, management and governance. Participating companies are evaluated on their commitment to increasing environmental sensitivity and responsibility, as well as to improving their environmental performance, in their management and operational processes. KPL is proud to have been presented with the Gold Award for the first time under the "Green Management Award (Corporate)" category, along with the "Sustained Performance (8 Years+)" certificate, in recognition of the Group's excellent operational environmental management.

BEAM Plus Version 1.2 for New Buildings – Provisional Silver Rating

The "Building Environmental Assessment Method Plus" ("**BEAM Plus**") New Buildings certification by Hong Kong Green Building Council covers the site preparation, planning, design, construction and commissioning of a new building project. The proposed residential development at Nos. 5-8 Hing Hon Road and the residential development at NKIL No. 6533, No. 3 Lung Kui Road, Beacon Hill, Hong Kong, were both granted the Provisional Silver Rating of "BEAM Plus Version 1.2 for New Buildings". A well-designed BEAM Plus New Buildings project can help improve the quality of the indoor environment, minimise pollution of the external environment, promote the use of energy-efficient systems and equipment, and reduce the unsustainable consumption of increasingly scarce resources.

AWARDS AND CITATIONS

Award / Citation	Issuing Authority
Hong Kong Green Organisation • Kerry Properties Limited, alongside 15 Homantin Hill, Aigburth, Century Towers, Elm Tree Towers, Enterprise Square Three, Kerry Centre, May Towers, Primrose Hill, Tavistock, Tavistock II and Valverde, Hong Kong	Environmental Campaign Committee, Environmental Protection Department and nine leading trade associations and professional bodies
Wastewi$e Certificate • Excellence Level – Kerry Properties Limited, alongside 1 & 3 Ede Road, 15 Homantin Hill, Aigburth, The Altitude, Bayview, Belgravia, Branksome Crest, Branksome Grande, Camellia Court, Century Towers, Constellation Cove, Elm Tree Towers, Enterprise Square, Enterprise Square Two, Enterprise Square Three, Heng Fa Villa, Island Crest, Jupiter Terrace, Kerry Centre, Lions Rise, May Towers, MegaBox, Ocean Pointe, Primrose Hill, Regency Park, SOHO 38, SOHO 189, The Summa, Tavistock, Tavistock II and Valverde, Hong Kong	Environmental Campaign Committee, Environmental Protection Department and nine leading trade associations and professional bodies
Indoor Air Quality Certificate • Excellent Class – Common areas of Kerry Centre and Head Office of Kerry Properties Limited, Hong Kong • Good Class – Common areas of Enterprise Square and Enterprise Square Three, Hong Kong	Environmental Protection Department
IAQwi$e Certificate • Excellence Level – Head Office of Kerry Properties Limited, Hong Kong	Environmental Campaign Committee, Environmental Protection Department and nine leading trade associations and professional bodies
Charter on External Lighting • Platinum Award – 15 Homantin Hill, Aigburth, The Altitude, Bayview, Enterprise Square, Enterprise Square Two, Kerry Centre, MegaBox, Tavistock and Tavistock II, Hong Kong • Gold Award – Lions Rise and Ocean Pointe, Hong Kong	Environment Bureau
Energywi$e Certificate • Basic Level – 8 LaSalle, 15 Homantin Hill, Aigburth, Bayview, Branksome Crest, Branksome Grande, Century Towers, Elm Tree Towers, Kerry Centre, May Towers, Ocean Pointe, Primrose Hill, SOHO 38, Tavistock, Tavistock II and Valverde, Hong Kong	Environmental Campaign Committee, Environmental Protection Department and nine leading trade associations and professional bodies
Energy Saving Championship Scheme 2016 • Residential Building/Housing Estate – Hanson Merit Award – The Altitude, Hong Kong	Environment Bureau and Electrical and Mechanical Services Department
Commendation Scheme on Source Separation of Commercial and Industrial Waste 2016/2017 • Shopping Mall/Arcade – Certificate of Merit – MegaBox Management Services Limited and MegaBox, Hong Kong	Environmental Protection Department
Commendation Scheme on Source Separation of Domestic Waste 2016/2017 • Certificate of Merit – Kerry Property Management Services Limited, alongside Constellation Cove, Lions Rise, Ocean Pointe, Regency Park, Hong Kong	Environmental Protection Department
Eastern Community Green Station • Estate with Highest Recyclable Volume (Below 500 Households) – Heng Fa Villa, Hong Kong	Environmental Protection Department and Po Leung Kuk

CORPORATE GOVERNANCE AND CITIZENSHIP

The Group has been rated highly and awarded in recognition of its commitment to integrity, accountability to shareholders and corporate social responsibility ("**CSR**"). We are proud that the following prestigious organisations have recognised our progress and achievements.

Caring Company

The "Caring Company" scheme is hosted by The Hong Kong Council of Social Service with the mission of building a cohesive society through strategic partnerships among business and social service partners, and by inspiring CSR through caring for the community, employees and the environment. KPL has been a recipient of the "10 Years Plus Caring Company" logo since 2014. The Group has also maintained its Coral membership of the Caring Company Patron's Club in support of the scheme's activities. MMSL and MegaBox Development Company Limited have both been granted "5 Years Plus Caring Company" logos. The Group's many caring programmes for the environment, for the broader community, and for our employees reflect the depth of our commitment to the principle of good corporate citizenship.

Hang Seng Corporate Sustainability Benchmark Index – Constituent

The Group remains a constituent of the "Hang Seng Corporate Sustainability Benchmark Index", which tracks Hong Kong-listed companies for sustainability investments. Constituent selection is based on a robust process that includes an independent sustainability assessment undertaken by Hong Kong Quality Assurance Agency ("**HKQAA**"). This is our third consecutive year of listing as a component of the index, which measures the sustainability performance of eligible companies in seven core areas.

Sustainable Business Award 2017

The Group is honoured to be one of the nine corporations to be recognised in "Sustainable Business Award 2017" by the reputable and professional judging panel. Organised by World Green Organisation, this award programme encourages enterprises to pursue sustainable development goals via improvements to the working environment, and by promoting environmental conservation, good business practices and active community involvement. This is our third time of winning of the "Sustainable Business Award", and in 2017 we received a further "Sustainable Leadership Award".

AWARDS AND CITATIONS

Touching CSR Award 2016

Staged by The Association of Distinguished Corporation, the "Touching CSR Award 2016" selected awardees on the basis of ISO 26000 (Clause 6), which is an internationally adopted framework for benchmarking social responsibility standards. The Group was recognised for scoring strongly on seven core principles, namely corporate governance, community participation and development, human rights, environmental protection, fair operating practices, labour practices and consumer rights.

ERB Manpower Developer Scheme – Manpower Developer 1st 2010-2018

This scheme, organised by the Employees Retraining Board ("**ERB**"), is designed to assess companies in Hong Kong in five major categories, including leadership in learning culture, resources planning, training and development system, performance management and CSR in manpower development. As a "Manpower Developer", we review and evaluate the effectiveness of our manpower strategies in accordance with a set of objectives and stringent criteria. The Group has been assessed and recognised as a leader in this regard since 2010.

Award / Citation	Issuing Authority
6th Outstanding Corporate Social Responsibility Award • Kerry Properties Limited	*Mirror Post*
Metro Awards for Corporate Social Responsibility 2017 • Kerry Properties Limited	*Metro Daily* and *Metro Prosperity*
HKQAA CSR Index Plus • A Top 100 Listed Company assessed by HKQAA Sustainability Rating and Research – Kerry Properties Limited	Hong Kong Quality Assurance Agency
Caring for Communities Award 2017 • MegaBox Management Services Limited	Hong Kong Children & Youth Services
Happy Company • Kerry Centre, Hong Kong	Promoting Happiness Index Foundation

PROPERTY DEVELOPMENT AND MANAGEMENT

Through our premier property developments and management, we continue to pursue our goals of redefining the lifestyle domain and enriching the business environment for owners and tenants.

China's 100 Best Real Estate Enterprises

The Group was included in the "Non-mainland Real Estate Enterprises Excellence List 2017" under the "China's 100 Best Real Estate Enterprises", jointly compiled by Guandian with other media groups, research institutes, property developers, investment firms, banks and professional bodies. KPL earned the spot by virtue of its prominent market influence as measured by financial performance, investments, geographical coverage, projects under development and land bank.

Occupational Health and Safety Management System – OHSAS 18001:2007

KPDMSL made significant progress in occupational health and safety ("**OHS**") management in 2017. OHSAS 18001:2007 is a framework that puts in place the policies, procedures and controls necessary to achieving the best possible working conditions and OHS. It is aligned with internationally recognised best practice. Properties under this member company's management, including Jing An Kerry Centre, Kerry Parkside, Enterprise Square and Central Residences II in Shanghai, obtained OHSAS 18001:2007 accreditation in March, followed by Shenzhen Kerry Plaza which received the certificate in October.

Quality Management System – ISO 9001:2015

Jing An Kerry Centre, Kerry Parkside, Enterprise Square and Central Residences II in Shanghai, together with Shenzhen Kerry Plaza, all managed by KPDMSL, were accredited under ISO 9001:2015 in October 2017. Through application of this system, companies can enhance customer satisfaction through built-in improvement processes and assurance of conformity to customer and statutory requirements.

The 7th Annual China Hotel Awards

Beijing Kerry Residence, located in the heart of the capital city's CBD, provides signature personalised services combined with the exclusivity of luxury living. It was named one of the "Best Serviced Apartments" by *LifeStyle Magazine*. The "China Hotel Awards" is an influential annual industry event honouring top hotels and resorts in Greater China. The winners are selected according to online voting and by a professional judging panel. *LifeStyle Magazine* is a leading brand in the high-end periodical market in the Mainland.

AWARDS AND CITATIONS

Award / Citation	Issuing Authority
Top Brand Value Real Estate Development Enterprises in Shenzhen • Kerry Development (Shenzhen) Co., Ltd.	Shenzhen Real Estate Association
Outstanding Member of the Shanghai Property Management Association 2016 • Kerry Properties Development Management (Shanghai) Co., Ltd.	Shanghai Property Management Association
HKQAA Barrier Free Accessibility Management System Certification • MegaBox Management Services Limited	Hong Kong Quality Assurance Agency
2016 Advanced Unit in Production Safety Management, Chaoyang District • Beijing Kerry Centre	Production Safety Management Association of Chaoyang District, Beijing Municipality
That's Beijing 2017 Lifestyle Awards • Outstanding Serviced Apartment – Hospitality – Beijing Kerry Residence	*That's Beijing*
Quality Water Supply Scheme for Buildings – Fresh Water (Plus) • 1 & 3 Ede Road, 15 Homantin Hill, Aigburth, The Altitude, Bayview, Belgravia, Branksome Crest, Constellation Cove, Enterprise Square Three, Tower 1 of Enterprise Square Five, Island Crest, Kerry Centre, Lions Rise, MegaBox, Ocean Pointe, Primrose Hill, SOHO 189, The Summa, Tavistock, Tavistock II and Valverde, Hong Kong	Water Supplies Department
Quality Water Supply Scheme for Buildings – Flushing Water • 1 & 3 Ede Road, The Altitude, Bayview, Belgravia, Island Crest, Kerry Centre, Lions Rise, Primrose Hill, SOHO 189, and The Summa, Hong Kong	Water Supplies Department

Award / Citation	Issuing Authority
7th Hong Kong Property Management and First-Aid Competition • Multiple Awards – Kerry Centre, Hong Kong	Hong Kong Institute of Registered Security Trainers
Parents' Choice Awards 2017 • Best Loved Kids-Friendly Mall – MegaBox, Hong Kong	*Whiz-kids Express Weekly* and *Mommy's Express Weekly*
2016-2017 Kowloon East Best Security Services Awards • Outstanding Partner – MegaBox, Hong Kong	Hong Kong Police Force Kowloon East Regional Crime Prevention Office
2016 Top 200 Economic Contributors in Jing'an District, Shanghai Municipality • Jing An Kerry Centre, Shanghai	Shanghai Jing'an District People's Government
Golden Key Property Alliance • Member – Qianhai Kerry Centre, Shenzhen	Golden Key International Alliance
2017 Consumer Grand Awards • Best Consumer Experience Mall – Riverview Place, Tianjin	Tencent Dayan site
Grade 3 Enterprise of China Occupational Safety and Health Management System (Commercial) • Shenzhen Kerry Plaza	Shenzhen Hazardous Chemicals Safety Management Association
Outstanding Property Management Project in Guangdong Province 2017 • Shenzhen Kerry Plaza	Guangdong Property Management Industry Institute

COMMUNICATIONS AND PROMOTIONS

In line with the Group's responsible and transparent stakeholder policy, we have developed and abided by a plan of action to achieve our communication goals. While we were honoured for our outstanding work and innovations, we are also delighted that this has helped gain us a position of advantage amid challenges and emerging opportunities.

LACP 2016 Vision Awards Annual Report Competition – Gold Award

The "2016 Vision Awards Annual Report Competition" drew nearly 1,000 submissions, representing a broad range of industries and organisational sizes, so competition was exceptionally keen. Organised by the League of American Communications Professionals ("**LACP**"), the competition honours annual reports that demonstrate exceptional characteristics and distinctive presentation. Our Annual Report scored 98 points out of the total of 100, securing it a Gold Award, as well as spots in the "Top 40 Chinese Annual Reports" and "Top 80 Annual Reports in the Asia-Pacific Region" rankings.

The International Annual Report Design Awards 2017 – Silver and Bronze Awards

The "International Annual Report Design Awards" praises the best in annual report design work with the ultimate goal of pushing the boundaries of annual report creativity to the limit. We are honoured to have received a Silver Award (Printed Version – Real Estate Development: Integrated Presentation) for our Annual Report, which was recognised for its aesthetic and artistic design. The report also merited a Bronze Award (Printed Version – Real Estate Development: Design Execution – Cover Design). The annual report is an important tool for sharing with stakeholders the Group's performance, future development strategies and commitment to social responsibility. We go to great lengths over the preparation of this report and are delighted to be recognised for our work.

ASTRID Awards 2017 – Silver and Bronze Awards

In 2017, the Group was presented with a series of awards in this international commendation programme. Two Silver Awards went to MegaBox's campaigns, namely MegaBox x The Angry Birds Movie Fantastic Party (Special Projects: Integrated Campaign) and MegaBox Anniversary x LEGO Adventure (Special Projects: Anniversary/History). A third Silver Award (Brochure: Promotion) was conferred for our creative and artistic work in producing the Mantin Heights Promotion Booklet. Our Annual Report also secured a Bronze Award (Annual Reports: Corporate – Traditional: Asia/Pacific). The "ASTRID Awards" programme, organised by MerComm, Inc., is one of the largest worldwide competitions honouring achievements in design.

QUESTAR Awards 2017 – Silver and Bronze Awards

Staged by MerComm, Inc., the "QUESTAR Awards" have achieved worldwide recognition for the integrity and fairness of their judging process. Video content is judged on the values of creativity, clarity and effectiveness. Our Mantin Heights Sales Video was praised by the judges for its originality and artistic presentation, earning it a Silver Award (Corporations: Real Estate). The fun-filled MegaBox x Fisher-Price Summer Inflatable Carnival clinched a Bronze Award (Advertisements/Commercials: Event). These two projects were commended for transforming their creative energy and craftsmanship into outstanding vehicles for corporate visual communications.

Award / Citation	Issuing Authority
MERCURY Excellence Awards 2016-2017 • Bronze Award (Brochures: Image Brochure) – Mantin Heights Image Brochure • Honours (Campaigns – Corporate/Commercial: Business to Business) – Hangzhou Kerry Centre • Honours (Promotion/Marketing: Customer Event) – MegaBox Mega Crazy Sale	MerComm, Inc.
iNOVA Awards 2017 • Bronze Award (Mobile Apps: Mobile App for Residents) – Dragons Range Mobile App	MerComm, Inc.
2017 International ARC Awards • Honours (Traditional Annual Report: Property Development: Various & Multi-Use) – Annual Report	MerComm, Inc.
Smart Parents' Choice – Brand Awards 2017 • Shopping Mall – Cartoon Characters Event Award – MegaBox, Hong Kong	*Smart Parents Magazine*
2016 Commercial Projects Assessment • Innovative Promotion Award – Tianjin Kerry Real Estate Development Co., Ltd.	ifore, Tianjin Enorth New Media Group

CORPORATE GOVERNANCE REPORT

During the financial year ended 31 December 2017, the Company has complied with the code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 of the Rules (the "**Listing Rules**") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") except that Mr Wong Siu Kong is both the Chairman and the Chief Executive Officer ("**CEO**") of the Company. This is a deviation from A.2.1 of the code provisions which requires that the roles of chairman and chief executive should be separated and should not be performed by the same individual. However, the Board believes that the balance of power and authority will not be impaired by such arrangement as the Board comprises experienced and high calibre individuals.

On 1 February 2018, Mr Wong has relinquished his position as the CEO of the Company and remains as the Chairman and an Executive Director of the Company and Mr Ho Shut Kan, the President of the Company, has been re-designated as the CEO of the Company. The Company has therefore complied with A.2.1 of the code provisions since 1 February 2018.

The following sections set out how the principles of good governance and code provisions under the Listing Rules have been complied with by the Company during the financial year ended 31 December 2017.

A. DIRECTORS

A.1 The Board of Directors of the Company (the "Board")

1. The Board is responsible for:
   (i) the leadership and control of the Company;
   (ii) overseeing the Group's businesses, strategic directions and financial performance;
   (iii) setting the Company's values and standards;
   (iv) ensuring that its obligations to the Company's shareholders (the "**Shareholders**") are understood and met; and
   (v) strategy formulation, corporate governance and performance monitoring.

2. Proposed Board meeting dates for a financial year are agreed in the final Board meeting of the preceding year. The Board has four scheduled meetings a year at approximately quarterly interval and meets more frequently as and when required. Notice of more than 14 days was given to all Directors to attend a regular Board meeting. For all other Board meetings, reasonable notice will be given to the Directors. During the financial year ended 31 December 2017, the Board held four meetings and the attendance record, on a named basis, is set out in the table below.

Directors		Attendance/Number of Board Meetings during the Directors' tenure of office
Executive Directors:	Wong Siu Kong	4/4
	Ho Shut Kan	4/4
	Bryan Pallop Gaw	4/4
	Chin Siu Wa, Alfred *(resigned on 1 February 2017)*	N/A
Non-executive Director:	Kuok Khoon Hua	4/4
Independent Non-executive Directors:	Ku Moon Lun	4/4
	Wong Yu Pok, Marina, JP	4/4
	Chang Tso Tung, Stephen	4/4

3. Board and Board Committees minutes kept by the Company Secretary are sent to the Directors of the Company (the "**Directors**") for records and are open for inspection by the Directors.

4. The Company has arranged appropriate insurance cover for the Directors.

A.2 Division of Responsibilities

1. The Chairman of the Company is responsible for providing leadership to the Board in terms of establishing policies and business directions. He ensures that the Board discharges its responsibilities effectively and all key issues are discussed by the Board timely. The other Executive Directors of the Company ("**ED**") are delegated with responsibility to oversee and monitor the operations of specific business areas and to implement the strategies and policies set by the Board. The Independent Non-executive Directors of the Company ("**INED**") bring strong independent judgement, knowledge and experience to the Board. Apart from their appointments as INED, none of them has any form of service contract with the Company or any of its subsidiaries. The Non-executive Director of the Company brings business knowledge and experience to the Board.

2. The Chairman has encouraged all Directors to make a full and active contributions to the Board's affairs and takes the lead to ensure that the Board acts in the best interest of the Company. He has promoted a culture of openness and debate by facilitating the effective contribution of the Non-executive Directors of the Company ("**NED**") and ensuring constructive relations between ED and NED. Accordingly, the Board operates in a functional manner with clearly defined objectives, strategies and responsibilities.

3. During the financial year ended 31 December 2017, the Chairman has held two meetings with the INED without the other ED present.

A.3 Board Composition

1. The composition of the Board is stated in the section headed "Corporate Information & Key Dates" of this annual report. The Board has a balanced composition and strong independent element. The biographies of the Directors are set out in the section headed "Directors and Senior Management" of this annual report, which demonstrate a diversity of skills, expertise, experience and qualifications.

2. The Company has complied with Rules 3.10 and 3.10A of the Listing Rules in the following manner:
   (i) the Board includes three INED;
   (ii) two of the INED have appropriate professional qualifications, accounting and related financial management expertise; and
   (iii) INED represent more than one-third of the Board.

3. The Company has received annual confirmation of independence from all the INED in accordance with Rule 3.13 of the Listing Rules. The Nomination Committee has assessed their independence and concluded that all the INED are independent within the definition of the Listing Rules.

4. A list of all the Directors identifying their roles, functions and titles is available on the websites of the Stock Exchange and the Company.

A.4 Directors' Appointment, Re-election and Removal

1. Pursuant to the Company's bye-laws (the "**Bye-laws**") and the code provisions of the Listing Rules, each Director shall retire from office no later than the third annual general meeting of the Company after he/she was last elected or re-elected (i.e. the term of appointment of all Directors, including the NED, is effectively three years) and each Director appointed to fill a casual vacancy or as an additional Director is subject to re-election at the next general meeting following his/her appointment.

2. For INED who has served the Company for more than nine years, his/her further appointment will be subject to a separate resolution to be approved by the Shareholders at the general meeting and the papers to the Shareholders accompanying that resolution will include the reasons why the Board believes he/she is still independent and should be re-elected.

A.5 Nomination Committee

The Company established a Nomination Committee ("**NC**") in 2012. Details of the NC and the work performed by it during the year are set out in the section headed "Nomination Committee Report" of this annual report. During the financial year ended 31 December 2017, a NC meeting was held on 12 January 2017 and the attendance record, on a named basis, is set out in the table below.

Directors		Attendance/Number of NC Meeting during the NC members' tenure of office
ED:	Wong Siu Kong	1/1
INED:	Ku Moon Lun	1/1
	Wong Yu Pok, Marina, JP	1/1
	Chang Tso Tung, Stephen	1/1

A summary of the board diversity policy adopted by the Board is set out in the section headed "Nomination Committee Report" of this annual report.

A.6 Responsibilities of Directors

1. Every newly appointed Director will be given a comprehensive, formal and tailored induction on appointment and continually updated with legal and regulatory requirements, business and market changes and development of the Company to facilitate him/her in discharging his/her responsibilities.

2. The NED take an active role in Board meetings, contribute to the development of strategies and policies and make sound judgement in various aspects. They will take lead when potential conflicts of interest arise. Independent Board Committee comprising all INED will be formed to advise the independent Shareholders on those connected transactions to be approved by the independent Shareholders at the special general meeting of the Company. The INED are also members of various Board committees and devote sufficient amount of time and attention to the affairs of the Company.

3. The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules as the code for securities transactions by Directors of the Company (the "**Model Code**"). The Directors have confirmed compliance with the required standards set out in the Model Code throughout the financial year ended 31 December 2017. Employees of the Company, who are likely to be in possession of unpublished inside information, have been requested to comply with provisions similar to those terms in the Model Code.

4. In order to ensure the Directors' contribution to the Board remains informed and relevant and to develop and refresh knowledge and skills of the Directors, the Company has encouraged and funded suitable trainings for Directors to participate in continuous professional developments. During the financial year ended 31 December 2017, the record of the trainings of the Directors, on a named basis, is set out in the table below.

Directors		Reading journals, written training materials and/or updates	Attending courses, seminars, conferences and/or forums	Receiving briefings from Chief Financial Officer, Company Secretary and/or other executives
ED:	Wong Siu Kong	✓	✓	✓
	Ho Shut Kan	✓	✓	✓
	Bryan Pallop Gaw	✓	✓	✓
	Chin Siu Wa, Alfred *(resigned on 1 February 2017)*	✓	–	–
NED:	Kuok Khoon Hua	✓	✓	✓
INED:	Ku Moon Lun	✓	✓	✓
	Wong Yu Pok, Marina, JP	✓	✓	✓
	Chang Tso Tung, Stephen	✓	✓	✓

Note: All of the abovementioned trainings are relevant to the Group's business, the economy, corporate governance, rules and regulations, accounting, financial or professional skills and/or directors' duties and responsibilities.

A.7 Supply of and Access to Information

1. The Board members are supplied with comprehensive board papers and relevant materials within a reasonable period of time in advance of the intended meeting date (in any event no less than 3 days before the date of the meeting). All Directors are given opportunity to include matters in the agenda for regular Board meetings. To facilitate the decision-making process, the Directors are free to have access to the management for enquiries and to obtain further information, when required.

2. All Directors have unrestricted access to the advice and services of the Company Secretary, who ensures that the Board receives appropriate and timely information for its decision-making and that Board procedures, and all applicable rules and regulations, are being followed. The Directors can obtain independent professional advice at the Company's expense.

B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT AND BOARD EVALUATION

B.1 Remuneration Committee

Details of the Remuneration Committee ("**RC**") and the work performed by it during the year are set out in the section headed "Remuneration Committee Report" of this annual report. During the financial year ended 31 December 2017, a RC meeting was held on 12 January 2017 and the attendance record, on a named basis, is set out in the table below.

Directors		Attendance/Number of RC Meeting during the RC members' tenure of office
ED:	Wong Siu Kong	1/1
INED:	Ku Moon Lun	1/1
	Wong Yu Pok, Marina, JP	1/1
	Chang Tso Tung, Stephen	1/1

B.2 Remuneration of Directors and Senior Management

Details of the amount of the Directors' emoluments (including the ED who are members of senior management of the Group) during the financial year ended 31 December 2017 are set out in notes 13(a) and 13(b) to the financial statements of this annual report. Details of the Company's share option scheme are set out in the Directors' Report and note 37 to the financial statements of this annual report.

B.3 Board Evaluation

During the year, the Board has regularly reviewed the contributions from the Directors and confirmed that they have spent sufficient time performing their responsibilities.

C. ACCOUNTABILITY AND AUDIT

C.1 Financial Reporting

1. The Board is responsible for the preparation of the financial statements. In preparing the financial statements, the generally accepted accounting standards in Hong Kong have been adopted, appropriate accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made. The external auditor has a primary responsibility for auditing and reporting on the financial statements and the Auditor's Report to the Shareholders is included in this annual report.

2. Towards the end of 2017, the Board has reviewed the financial projections of the Group in respect of the five financial years ending 31 December 2022. On the basis of this review, the Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board has continued to adopt the going concern basis in preparing the financial statements.

3. During the financial year ended 31 December 2017, all members of the Board have been provided with monthly updates to enable them to discharge their duties.

C.2 Risk Management and Internal Controls

Details on the Group's risk management and internal controls framework and the Board's process to evaluate the Group's system of risk management and internal controls are set out in the section headed "Risk Management and Internal Controls Report" of this annual report.

C.3 Audit and Corporate Governance Committee

Details of the ACGC and the works performed by it during the year are set out in the section headed "Audit and Corporate Governance Committee Report" of this annual report. The ACGC met four times during the financial year ended 31 December 2017 and the attendance record, on a named basis, is set out in the table below.

Directors		Attendance/Number of ACGC Meeting during the ACGC members' tenure of office
INED:	Ku Moon Lun	4/4
	Wong Yu Pok, Marina, JP	4/4
	Chang Tso Tung, Stephen	4/4

The Board has delegated duties regarding the corporate governance to the ACGC as set out in the code provisions of the Listing Rules.

C.4 Auditors' Remuneration

The Company's external auditor is PricewaterhouseCoopers, Hong Kong ("**PwC**"). During the financial year ended 31 December 2017, the fees paid/payable to PwC and other firms of the worldwide network of PricewaterhouseCoopers in respect of the audit of Group's consolidated financial statements and non-audit services provided to the Group were as follows:–

Nature of services	HK$'000
Audit services	8,852
Non-audit services: Tax services	2,421

The ACGC had developed and implemented policy on engaging PwC to supply non-audit services. During the year, the ACGC had reviewed PwC's independence and objectivity in relation to both audit and non-audit services provided to the Group by PwC.

D. DELEGATION BY THE BOARD

D.1 Management Functions

The responsibilities, accountabilities and contributions of the Chairman and ED of the Company are set out in A.2 of this Corporate Governance Report. The day-to-day running of the Company is delegated to the management, with divisional heads responsible for different aspects of the Group's businesses.

D.2 Finance Committee

In addition to delegating specific responsibilities to the ACGC, the NC and the RC, the Board has established a Finance Committee with delegated authority for reviewing and approving certain financial matters of the Group. Currently, the Finance Committee comprises Mr Wong Siu Kong and Mr Ho Shut Kan. The Board has approved and adopted a written terms of reference of the Finance Committee for it to deal with matters such as the investment of surplus funds, undertakings, determination and approval of investment acquisitions and disposals with amounts not exceeding HK$2.5 billion, arrangement of banking facilities and approval of guarantees and indemnities within designated limits. The decisions or recommendations of the Finance Committee were reported back to the Board at the Board meetings.

D.3 Executive Committee

The Executive Committee of the Board meets from time to time as determined by the Executive Committee members and operates as a general management committee. The Board has approved and adopted a written terms of reference of the Executive Committee for it to (i) discuss the corporate and development strategies of the Company; (ii) evaluate and determine the nature and extent of the risks the Company is willing to take in achieving its strategic objectives; and (iii) consider and assess the potential adverse impact on the Company's business caused by prevailing internal and external risks and formulate corrective or mitigating actions required. The decisions or recommendations of the Executive Committee will be reported back to the Board. The members of the Executive Committee comprise all the Executive Directors of the Company.

E. INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

E.1 Communication Channels

In order to develop and maintain a continuing investors' relationship programme, the Company has established various channels of communication with the Shareholders and the investor community:–

(i) Shareholders can raise any comments on the performance and future directions of the Company with the Directors at the annual general meeting of the Company ("**AGM**").

(ii) Press and analysts' conferences are held twice a year in relation to the interim and final results announcements, at which the Executive Directors are available to answer questions regarding the Group's operational and financial performances.

(iii) The Company also avails itself of opportunities to communicate and explain its strategies to Shareholders and the investor community, through active participation in investors' conferences and regular meetings with financial analysts, fund managers and potential investors. The Group had participated in a number of roadshows and investors' conferences during the year ended 31 December 2017 and some of them are set out below:–

Event	Venue
Morgan Stanley Seventh Annual Hong Kong Investor Summit	Hong Kong
Credit Suisse 20th Annual Asian Investment Conference	Hong Kong
UBS HK/China Property Conference 2017	Hong Kong
HSBC 7th Annual Greater China Property & Financials Conference	Hong Kong
CIMB HK/China Property Corporate Day	Hong Kong
Citi's Asia Pacific Property Conference 2017	Hong Kong
Nomura HK Property Corporate Day	Hong Kong
J.P. Morgan Global China Summit 2017	Beijing
UBS Greater China Conference 2017	Shanghai
UBS Global Real Estate Conference 2017	London
Morgan Stanley Sixteenth Annual Asia Pacific Summit	Singapore

The Group plans to enhance its investors' relationship by participating in future roadshows and conferences.

(iv) The Company's website at www.kerryprops.com contains important corporate information, annual and interim reports, as well as announcements and circulars issued by the Company to enable the Shareholders and the investor community to have timely access to updated information about the Group.

(v) The Board has established a shareholders' communication policy since 2012 and will review it on a regular basis to ensure its effectiveness.

E.2 Shareholders' Rights

1. Shareholders should direct their questions about their shareholdings to the Company's Hong Kong branch registrar and transfer office, namely, Tricor Abacus Limited, whose contact details are stated in the section headed "Corporate Information & Key Dates" of this annual report.

2. Shareholders and members of the investor community are welcome to send their enquiries to the Company's Corporate Communication and Investor Relations Departments, whose contact details are stated in the section headed "Corporate Information & Key Dates" of this annual report.

3. Shareholders who wish to put enquiries to the Board can send their enquiries to the Company Secretary at the Company's Head Office and Principal Place of Business as stated in the section headed "Corporate Information & Key Dates" of this annual report. The Company Secretary will ensure these enquiries to be properly directed to the Board.

4. Shareholders may at any time make a request for the Company's information to the extent such information is publicly available.

5. Corporate communication of the Company will be provided to Shareholders in plain language and in both English and Chinese versions to facilitate Shareholders' understanding. Shareholders have the right to choose the language (either English or Chinese) or means of receipt of the corporate communications (in hard copy or through electronic means).

6. Shareholders holding not less than one-tenth of the paid-up capital of the Company may deposit a requisition to convene a special general meeting and state the purpose therefor at the Company's registered office in Bermuda at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

7. Shareholders who wish to put forward proposals for the Company's consideration at the general meetings can send their proposals to the Company Secretary.

E.3 General Meetings

1. The general meeting provides a forum for the Board to communicate with the Shareholders. To facilitate enforcement of Shareholders' rights, significant issues, including the election of Directors, are dealt with under separate resolutions at general meetings.

2. The members of the Board, including the chairman of the Board Committees and any other committees of the Company or their duly appointed delegates, are available at AGM to answer questions raised by the Shareholders. The chairman of the independent board committee is also present to answer questions at any general meeting which is convened to approve a connected transaction or any other transaction that requires independent Shareholders' approval.

3. The Board will ensure the external auditor attends the AGM to answer questions relating to the conduct of the audit, the preparation and content of the auditor's report, the accounting policy and auditor independence.

4. Relevant resolutions were passed by way of poll at the AGM held in 2017. Shareholders who are unable to attend the AGM can appoint proxies to attend and vote at the AGM. The chairman of the AGM had provided explanation of the detailed procedures for conducting a poll and then answered questions (if any) from the Shareholders regarding voting by way of poll. The Company had sent the AGM notice to Shareholders more than 20 clear business days before the AGM.

5. During the financial year ended 31 December 2017, the Company held an AGM on 12 May 2017 and the attendance record of the Directors, on a named basis, is set out in the table below.

Directors		Attendance/Number of General Meeting during the Directors' tenure of office
ED:	Wong Siu Kong	1/1
	Ho Shut Kan	1/1
	Bryan Pallop Gaw	1/1
	Chin Siu Wa, Alfred *(resigned on 1 February 2017)*	N/A
NED:	Kuok Khoon Hua	0/1
INED:	Ku Moon Lun	1/1
	Wong Yu Pok, Marina, JP	1/1
	Chang Tso Tung, Stephen	1/1

F. COMPANY SECRETARY

1. The Company Secretary is a full-time employee of the Company and have day-to-day knowledge of the Company's affairs. She is reporting to the Chairman.

2. All Directors have access to the advice and services of the Company Secretary to ensure the Board procedures, and all applicable law, rules and regulations, are followed.

3. For the financial year ended 31 December 2017, the Company Secretary has complied with paragraph 3.29 of the Listing Rules by taking no less than 15 hours of relevant professional training.

AUDIT AND CORPORATE GOVERNANCE COMMITTEE REPORT

The Audit Committee of the Board was established in 1998. In 2012, the Audit Committee was renamed as Audit and Corporate Governance Committee ("**ACGC**") to also monitor and carry out the corporate governance duties as set out in the Rules (the "**Listing Rules**") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Currently, the ACGC comprises three Independent Non-executive Directors of the Company, who among themselves possess a wealth of experience in the accounting profession, finance and commercial sectors.

The ACGC operates pursuant to written terms of reference which are available on the websites of the Stock Exchange and the Company. Set out below is a summary of the audit work and related tasks performed by the ACGC during the financial year ended 31 December 2017:–

(i) The ACGC reviewed the draft annual and interim financial statements and the draft results announcements of the Company, focusing on main areas of judgement, consistency of and changes in accounting policies and adequacy of information disclosure prior to recommending them to the Board for approval.

(ii) The ACGC reviewed, in conjunction with the external auditor, the developments of accounting standards and assessed their potential impacts on the Group's financial statements.

(iii) The ACGC reviewed and monitored the external auditor's independence and objectivity and the effectiveness of audit process in accordance with applicable standards.

(iv) The ACGC assessed the independence of the Company's external auditor, prior to formally engaging the external auditor to carry out the audit for the Company's financial statements for the year ended 31 December 2017.

(v) Prior to the actual commencement of the audit, the ACGC discussed the proposed scope of work and approach of the audit with the external auditor. Upon completion of the audit, the ACGC reviewed the results of the external audit, and discussed with the external auditor on any significant findings and audit issues.

(vi) The ACGC recommended to the Board regarding the appointment and remuneration of the external auditor.

(vii) The ACGC reviewed and approved the internal audit programme, reviewed the internal audit reports and discussed any significant issues with the Company's Internal Audit Department and the Group's senior management.

(viii) The ACGC reviewed the independence of the internal audit function and the level of support and co-operation given by the Group's management to the Internal Audit Department, as well as the resources of the Internal Audit Department when undertaking its duties and responsibilities.

(ix) The ACGC reviewed the adequacy and effectiveness of the Group's systems of risk management and internal controls through a review of the work undertaken by the Group's internal and external auditor, written representations by the senior management of each of the Group's business divisions and discussions with the Board.

(x) The ACGC reviewed the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions through a review of the work undertaken by the Group's senior financial management and internal audit, as well as the questionnaire report by the financial head of each of the Group's business divisions and discussions with the Board.

Set out below is a summary of the corporate governance work performed by the ACGC during the financial year ended 31 December 2017:–

(a) The ACGC reviewed the Company's policies and practices on corporate governance and made recommendations to the Board.

(b) The ACGC reviewed and monitored the Company's policies and practices on compliance with legal and regulatory requirements.

(c) The ACGC reviewed the Company's compliance with the code provisions of the Corporate Governance Code and Corporate Governance Report issued by the Stock Exchange.

(d) The ACGC reviewed reports on the Company's continuing connected transactions and connected transactions with the connected persons.

(e) The ACGC ensured that good corporate governance practices and procedures are established.

During the financial year ended 31 December 2017, the ACGC met four times and the ACGC also conducted meetings with the Group's senior management, the external auditor and the Internal Audit Department from time to time. Minutes of the ACGC Meetings were documented and circulated to the Board for information. The ACGC also reported and presented its findings and made recommendations for consideration and discussion at Board Meetings.

On 7 March 2018, the ACGC also reviewed the financial statements of the Group for the year ended 31 December 2017 prior to recommending them to the Board for approval.

MEMBERS OF THE AUDIT AND CORPORATE GOVERNANCE COMMITTEE
Wong Yu Pok, Marina, JP (Chairman)
Ku Moon Lun
Chang Tso Tung, Stephen

Hong Kong, 16 March 2018

REMUNERATION COMMITTEE REPORT

The Company established the Remuneration Committee ("**RC**") in 1997 with the Independent Non-executive Directors of the Company ("**INEDs**") constituting the majority of the RC. The chairman of the RC is an INED and the other members comprise the Chairman, the Chief Executive Officer and two INEDs of the Company.

The RC operates pursuant to the written terms of reference which are available on the websites of the Stock Exchange and the Company. The primary responsibilities of the RC are, *inter alia*, the recommendations on the Company's policy and structure for the remuneration of all Directors and the determination, with delegated responsibility, the remuneration packages of Executive Directors of the Company ("**ED**"). The RC also administers and makes determinations with respect to the Company's share option scheme. When the remuneration package of an individual Director is under review, such Director will abstain from voting.

The RC adopted a Directors' Remuneration Policy (the "**Policy**") for the Company in 2012. The Policy aims to provide remuneration levels which shall be sufficient to attract and retain Directors to run the Company successfully. Pursuant to the Policy, the following key principles have been established for the ED remuneration and non-executive directors' ("**NED**") fees:–

(a) ED's salaries shall be reviewed annually by the RC;

(b) revision to the ED's salaries shall be made to reflect the performance, contribution and responsibilities of each ED and/or by reference to market/sector trends;

(c) ED shall be eligible to receive a discretionary bonus taking into consideration factors such as market conditions as well as corporate and individual performances;

(d) the RC shall annually review and recommend (if appropriate) to the Board for approval the grant of share options to the ED under the Company's share option scheme;

(e) the NED's fees shall be reviewed annually by the Board; and

(f) recommendations shall be made by the Board to the Company's shareholders (the "**Shareholders**") to approve at the Shareholders' meeting any revision (if appropriate) to the NED's fees according to their responsibilities and/or by reference to market/sector trends.

During the financial year ended 31 December 2017, the RC held a meeting on 12 January 2017 and the following matters were reviewed and approved at the meeting:–

(i) the salaries and pension contributions of the ED for the financial year ended 31 December 2017; and

(ii) the payment of bonuses to the ED, which amounted to HK$59,500,000 in respect of the financial year ended 31 December 2016.

MEMBERS OF THE REMUNERATION COMMITTEE
Wong Yu Pok, Marina, JP (Chairman)
Wong Siu Kong
Ho Shut Kan
Ku Moon Lun
Chang Tso Tung, Stephen

Hong Kong, 16 March 2018

NOMINATION COMMITTEE REPORT

The Company established the Nomination Committee ("**NC**") in 2012 with the Independent Non-executive Directors ("**INEDs**") constituting the majority of the NC. The chairman of the NC is the Chairman of the Company and the other members comprise the Chief Executive Officer and three INEDs of the Company.

The NC operates pursuant to written terms of reference which are available on the websites of the Stock Exchange and the Company. The primary responsibilities of the NC are, *inter alia*, the review of the structure, size and composition of the Board, the recommendation to the Board on any proposed changes to the Board, the identification of individuals suitably qualified to become Board members and the assessment of the independence of the INEDs.

The Company adopted a board diversity policy ("**Policy**") in 2013 which sets out the approach to achieve diversity of the Board. The Policy is summarized as below:–

(a) In reviewing the Board's composition, the NC will consider a number of aspects of the Board diversity, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of services (the "**Board Diversity Criteria**") and consider the appropriate balance of skills, experience and knowledge of the Board members that are required to complement the Company's corporate strategy.

(b) In identifying qualified individuals to become Board members, the NC will consider the Board Diversity Criteria and take into account factors based on the Company's own business needs.

(c) Selection of Board members to ensure diversity will be, in part, dependent on the pool of such candidates with the necessary skills, knowledge and experience. All Board appointments will be based on merit and contribution that the chosen candidate will bring to the Board.

(d) The ultimate decision on the appointment of the Board members will be made by the Board after consideration of the recommendation made by the NC.

(e) The NC will consider measurable objectives (if any) for implementing Board diversity and recommend them to the Board for adoption.

During the financial year ended 31 December 2017, the NC held a meeting and the following matters were reviewed and approved: -

(i) after review of the structure, size and composition of the Board, it was agreed that the Board has a strong independent element and balanced composition of skills, expertise, experience and qualifications to contribute to the corporate strategy and the development of the businesses of the Company; and

(ii) after taking into consideration of the fact that the INEDs have not been engaged in any executive management positions of the Group since their appointment and each of them has confirmed his/her independence by issuing an annual confirmation to the Company pursuant to the requirements of the Listing Rules, it was agreed that each of the INEDs is considered to be independent under the Listing Rules.

MEMBERS OF THE NOMINATION COMMITTEE
Wong Siu Kong (Chairman)
Ho Shut Kan
Ku Moon Lun
Wong Yu Pok, Marina, JP
Chang Tso Tung, Stephen

Hong Kong, 16 March 2018

The Board is responsible for maintaining and reviewing the effectiveness of the Group's systems of risk management and internal controls (the "**Systems**"). The Systems are designed to meet the Group's particular needs and to minimize the risks to which the Group is exposed, and are designed to manage rather than eliminate the risks of failure to achieve business objective, and can only provide reasonable and not absolute assurance against material misstatements or losses.

Each business unit of the Group ("**BU**") is responsible for managing and maintenance of its own appropriate and effective Systems.

The Board has authorized the Audit and Corporate Governance Committee ("**ACGC**") to review the Systems annually with the assistance of the Company's Internal Audit ("**IA**") Department and/or delegated party.

Main Features of the Systems

The framework of the Systems covers (i) the setting of objectives, budgets and targets; (ii) the establishment of regular reporting of financial information, in particular, the tracking of deviations between actual performances and budgets/targets; (iii) the delegation of authority and the establishment of clear lines of accountability; and (iv) the review, evaluation and disclosure of the Systems annually.

(i) Setting of Objectives, Budgets and Targets

Strategies and objectives of the Group as a whole are determined by the Board. Budgets are prepared annually and financial projections of the Group for the next five years are also prepared and reviewed by the Board. In implementing these strategies and achieving these objectives, each Executive Director has specific responsibilities for monitoring the conduct and operations of individual BU. This includes the review and approval of business strategies and plans, the setting of business-related performance targets as well as the design and implementation of internal controls and risk management.

(ii) Establishment of Regular Reporting of Financial Information

Monthly financial information is provided to the Directors. Variance analysis between actual performances and targets are prepared and documented in the Board paper, for discussions at Board Meetings with explanations noted for any material variances and deviations between actual performances and budgets/targets. This helps the Board and the Group's management (the "**Management**") to monitor the Group's business operations and to plan on a prudent and timely basis. Other regular and ad hoc reports will also be prepared for the Board and its various committees, to ensure that the Directors are supplied with all the requested information in a timely and appropriate manner.

(iii) Delegation of Authority and Establishment of Clear Lines of Accountability

To allow for delegation of authority as well as to enhance segregation of duties and accountability, a clear organizational structure exists which details different levels of authority and control responsibilities within each BU. Certain specific matters are reserved for the Board's decision and are not delegated. These include, amongst others, the approval of annual and interim results, annual budgets, capital structure, declaration of dividends, material acquisitions, disposals and capital expenditure, Board structure and its composition and succession.

(iv) Review and Evaluation of the Systems

In order to better review and evaluate the adequacy and effectiveness of the Group's existing Systems, an internal self-assessment process was formulated during the financial year ended 31 December 2017. Under this process, individual BU was requested to assess the effectiveness of its operations including financial controls, operating controls, risk management and other contingency measures. Each BU then submitted to the Board the confirmation of the internal self-assessment questionnaires on the adequacy and effectiveness of its risk management and controls system, which were discussed at the ACGC Meeting of 6 November 2017.

Process Used to Identify, Evaluate and Manage Risks

The Board monitors the Group's business risks, operating risk management and internal controls. The Group has established an IA function. The IA Department assists to review the major operational, financial and risk management controls of the Group's businesses on a continuing basis. The scope of review and the audit programme of the IA Department, which are formulated based on a risk assessment approach and focuses on areas with relatively higher perceived risks, are approved by the ACGC at the end of the preceding financial year in conjunction with the Management.

The IA function reports directly to the ACGC. Accordingly, IA reports are quarterly circulated to the Chairman, the ACGC members and the Chief Financial Officer (the "**CFO**") for their review in accordance with the approved IA programme. Such reports are also circulated to the external auditor on a quarterly basis.

Procedures and Internal Controls for Handling and Dissemination of Inside Information

The Board has approved and adopted an Inside Information Disclosure Policy (the "**Policy**") for the Company since 2013 for monitoring inside information to ensure compliance with the Rules (the "**Listing Rules**") Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Exchange**") and the Securities and Futures Ordinance ("**SFO**"). The procedures and internal controls for handling and dissemination of inside information as set out in the Policy are summarized below:–

(i) Handling of Inside Information

(a) Inside information shall be announced as soon as reasonably practicable after it becomes known to the Board and/or is the subject of a decision by the Board. In cases where a decision by the Board is pending or in cases of incomplete negotiations, the Group shall implement the procedures set out in the Policy to maintain the confidentiality of information. Until an announcement is made, the Directors and the Management should ensure that such information is kept strictly confidential. If the confidentiality cannot be maintained, an announcement shall be made as soon as practicable.

(b) BU shall keep inside information on transactions confidential. If there is a leakage of inside information, they shall inform the Directors, the CFO and/or the Company Secretary immediately so that remedial actions, including making an inside information announcement, can be taken at the earliest opportunity.

(c) The Group's Finance Department shall keep track of the Group's threshold levels for disclosure pursuant to the size tests under the Listing Rules, so that an announcement can be made as soon as practicable should a notifiable transaction arise.

(ii) Dissemination of Inside Information

(a) Inside information is announced promptly through the websites of the Exchange and the Company. The electronic publication system of the Exchange is the first channel of dissemination of the Group's information before any other channel.

(b) Briefing sessions on the Group's performance and results are organised for the analysts and the media in the afternoon on the same day after the interim/final results have been announced. Presentation materials shall be reviewed in advance before they are released at the briefing sessions.

Annual Review

A review of the adequacy of resources, qualifications and experience of staff of the Group's accounting, IA and financial reporting functions and their training programmes and budget was conducted during the financial year ended 31 December 2017. Under this review process, each of the Group's IA and Divisional Finance Head was requested to assess such adequacy at its own level by submission of an internal questionnaire report to the Group, which was discussed at the ACGC Meeting of 6 November 2017.

During the year, the Board has received a written confirmation of the internal self-assessment questionnaires on the adequacy and effectiveness of the Systems from each BU. An annual review of the effectiveness of the Systems (including business, operational and functional risks) and material controls of the Group (including financial, operational and compliance controls) has been conducted by the IA which was also discussed at the ACGC meeting on 6 November 2017. Based on the results of the annual review by the ACGC and IA, the Board considered that the Systems are effective and adequate. There is no significant change in the nature and extent of risks and the Company's ability to respond to changes in its business and the external environment since the last annual review.

Based on the quarterly financial reporting by the CFO, the quarterly Listing Rules compliance reporting by the Company Secretary and the quarterly IA reports submitted by the IA Director to the ACGC, the Group's processes for financial reporting and Listing Rules compliance and the Group's IA function are considered by the ACGC and the Board as effective.

During the financial year ended 31 December 2017, there were no significant control failings or weaknesses identified which might have a material impact on the Company's financial performance or condition.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr Wong Siu Kong

Aged 66, is the Chairman of the Company, the chairman of the Nomination Committee of the Company and a member of the Remuneration Committee, the Finance Committee and the Executive Committee of the Company. Mr Wong joined the Kuok Group in 1991 with responsibilities for the Group's developments in the PRC. He has been an Executive Director of the Company since 1996 and the Chairman of the Board of the Company since 2013. Mr Wong was a Joint Managing Director of the Company from 1999 to 2003, the Deputy Chairman of the Board and the Managing Director of the Company from 2003 to 2008, the President & Chief Executive Officer of the Company from 2008 to 2013, the Chairman and Chief Executive Officer of the Company from September 2015 to January 2018. Mr Wong is also a director of Kerry Holdings Limited (the controlling shareholder of the Company) and a director of China World Trade Center Co., Ltd. (a listed company in Shanghai). Mr Wong graduated from the South China Normal University in the PRC.

Mr Ho Shut Kan

Aged 69, is the Chief Executive Officer of the Company and a member of the Remuneration Committee, the Nomination Committee, the Finance Committee and the Executive Committee of the Company. Mr Ho has been an Executive Director of the Company since 1998. He was a Co-Managing Director of the Company from 2013 to 2015, the President of the Company from September 2015 to January 2018 and the Chief Executive Officer of the Company since February 2018. Mr Ho is also an executive director of Kerry Properties (H.K.) Limited (the principal Hong Kong property company of the Group), an independent non-executive director of Eagle Asset Management (CP) Limited (the manager of the Hong Kong listed Champion Real Estate Investment Trust) and a director of Shang Properties, Inc. (a listed company in the Philippines).

DIRECTORS (Continued)

Executive Directors (Continued)

Mr Bryan Pallop Gaw

Aged 41, has been an Executive Director of the Company since 2012 and is a member of the Executive Committee of the Company. Mr Gaw has previous experience in private equity, management consulting, strategic planning and business development. He holds a Bachelor of Arts in Political Science from Princeton University and a Master of Business Administration from Stanford's Graduate School of Business. Mr Gaw is the brother-in-law of Mr Kuok Khoon Hua, the Non-executive Director of the Company.

Non-executive Director

Mr Kuok Khoon Hua

Aged 39, has been a Non-executive Director of the Company since 2015. Mr Kuok is the chairman of Kerry Holdings Limited ("KHL"), and a director of Kerry Group Limited ("KGL") and Kuok (Singapore) Limited. Both KHL and KGL are the controlling shareholders of the Company. Mr Kuok is also an executive director of Kerry Logistics Network Limited (a listed company in Hong Kong), a non-independent non-executive director of Wilmar International Limited (a listed company in Singapore) and an independent director of Sea Limited (a listed company in New York). Mr Kuok holds a Bachelor's degree in Economics from Harvard University. He is the brother-in-law of Mr Bryan Pallop Gaw, an Executive Director of the Company.

DIRECTORS (Continued)

Independent Non-executive Directors

Mr Ku Moon Lun

Aged 67, has been an Independent Non-executive Director of the Company since 2007. He is now a member of the Audit and Corporate Governance Committee, the Remuneration Committee and the Nomination Committee of the Company. Mr Ku has over 35 years of experience in the real estate industry. He was the executive director of Davis Langdon and Seah International and chairman of Davis Langdon and Seah Hong Kong Limited, Premas Hong Kong Limited and icFox International. Mr Ku is now an independent non-executive director of Lai Fung Holdings Limited (a listed company in Hong Kong) and a non-executive director of Surbana Jurong Private Limited in Singapore. He is a member of the Hospital Governing Committee of Queen Elizabeth Hospital, Hong Kong Hospital Authority. Mr Ku is a Fellow of the Hong Kong Institute of Surveyors.

Ms Wong Yu Pok, Marina, JP

Aged 69, has been an Independent Non-executive Director of the Company since 2008. She is now the chairman of the Audit and Corporate Governance Committee and the Remuneration Committee of the Company and also a member of the Nomination Committee of the Company. She had been with PricewaterhouseCoopers for over 30 years specializing in the PRC tax and business advisory services, and has extensive experience in advising both Hong Kong and foreign investors in the structuring of their businesses and investments in the PRC. Ms Wong joined Tricor Services Limited as a director from 2004 to 2006 after her retirement as a partner from PricewaterhouseCoopers in 2004. Ms Wong is now an independent non-executive director of Kerry Logistics Network Limited, Hong Kong Ferry (Holdings) Company Limited and Luk Fook Holdings (International) Limited (all of which are listed companies in Hong Kong). She was formerly an independent director of China World Trade Center Co., Ltd. (a listed company in Shanghai). She is a Fellow Member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

DIRECTORS (Continued)

Independent Non-executive Directors (Continued)

Mr Chang Tso Tung, Stephen

Aged 69, has been an independent Non-executive Director of the Company since 2012. He is now a member of the Audit and Corporate Governance Committee, the Remuneration Committee and the Nomination Committee of the Company. He has been practising as a certified public accountant in Hong Kong for around 30 years and has extensive experience in accounting, auditing and financial management. He was the deputy chairman of Ernst & Young Hong Kong and China until his retirement in 2004. He is a member of the Investment Committee of Shanghai Fudan University Education Development Foundation and Shanghai Fudan University Overseas Education Development Foundation. Mr Chang is an independent non-executive director of China Cinda Asset Management Co., Ltd., Hua Hong Semiconductor Limited (both are listed companies in Hong Kong) and China Life Insurance Company Limited (a listed company in Hong Kong and Shanghai). Mr Chang holds a Bachelor of Science degree from the University of London.

SENIOR MANAGEMENT

The abovementioned Executive Directors of the Company are members of senior management of the Group.

REPORT OF DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 31 December 2017.

Principal Activities and Segmental Analysis of Operations

The principal activity of the Company is investment holding.

The principal activities of the Company's subsidiaries, associates and joint ventures comprise the following:

(i) property development, investment and management in Hong Kong, the People's Republic of China (the "**PRC**") and the Asia Pacific region;

(ii) hotel ownership in Hong Kong, and hotel ownership and operations in the PRC; and

(iii) integrated logistics and international freight forwarding.

An analysis of the Group's turnover and contribution to gross profit for the year by principal activity and market is set out in note 5 to the financial statements.

Business Review

A business review of the Group and an analysis of the Group's performance using financial key performance indicators during the year are provided in the Chairman's Statement, Management Discussion & Analysis and Financial Highlights of this Annual Report. In addition, discussions on the Group's environmental policies and performance and an account of the Group's key relationships with its employees, customers, suppliers and others that have a significant impact on the Group and on which the Group's success depends are provided in the Corporate Social Responsibility Report of this Annual Report.

During the financial year ended 31 December 2017, the Company has complied with the requirements under The Rules (the "**Listing Rules**") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), the Securities and Futures Ordinance (the "**SFO**") and the Bermuda Companies Act. Details of the Company's compliance with the code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in the Listing Rules are provided in the Corporate Governance Report of this Annual Report.

The Group has also complied with the Residential Properties (First-hand Sales) Ordinance through established internal procedures and engagement of external professional advisors including architects, surveyors and solicitors for the checking of the accuracy of the information contained in the relevant documents made available to the public in connection with the sales of first-hand residential properties in Hong Kong.

To protect the privacy of its employees, tenants and purchasers of its properties and to safeguard the interests of its employees, the Group has complied with the requirements of the Personal Data (Privacy) Ordinance, the Employment Ordinance, the Minimum Wage Ordinance and ordinances relating to disability, sex, family status, race discrimination and occupational safety through established internal policies and/or procedures.

Results and Appropriations

The results of the Group for the year are set out in the section headed "Consolidated Income Statement" of this annual report.

Particulars of dividends proposed and paid during the year are set out in note 10 to the financial statements.

Donations

Charitable and other donations made by the Group during the year amounted to HK$2,643,000.

Investment, Hotel and Development Properties

Particulars of investment, hotel and development properties of the Group are set out in the section headed "Particulars of Properties Held" of this annual report.

Distributable Reserves

As at 31 December 2017, the reserves of the Company available for distribution amounted to approximately HK$18,321,155,000 (2016: HK$17,903,717,000).

Share Capital

The movements in the share capital of the Company during the year are set out in note 36 to the financial statements.

Bonds

Details of the bonds of the Group are set out in note 32 to the financial statements.

Subsidiaries, Associates and Joint Ventures

Particulars of the Group's principal subsidiaries, associates and joint ventures as at 31 December 2017 are set out in note 47 to the financial statements.

Particulars of Bank Loans

Particulars of bank loans of the Group as at 31 December 2017 are set out in notes 31 and 44 to the financial statements.

Five-Year Financial Summary

The results, assets and liabilities of the Group for the last five financial years are summarised in the section headed "Five-Year Financial Summary" of this annual report.

Directors

The Directors who held office as at the date of this report of Directors are:

Executive Directors

Mr Wong Siu Kong (Chairman)
Mr Ho Shut Kan (Chief Executive Officer)
Mr Bryan Pallop Gaw

Non-executive Director

Mr Kuok Khoon Hua

Independent Non-executive Directors

Mr Ku Moon Lun
Ms Wong Yu Pok, Marina, JP
Mr Chang Tso Tung, Stephen

Mr Wong Siu Kong, Mr Kuok Khoon Hua and Ms Wong Yu Pok, Marina, JP are due to retire from the Board by rotation in accordance with bye-law 99 of the Company's bye-laws ("**Bye-laws**") at the forthcoming Annual General Meeting to be held on 18 May 2018 (the "**2018 AGM**"). All the retiring Directors, being eligible, offer themselves for re-election.

During the year and up to the date of this report of Directors, the following changes to the Board were effected:

(1) on 1 February 2017, Mr Chin Siu Wa, Alfred has resigned as an Executive Director of the Company to commit his time and his experience for the business of the Shangri-La hotel group; and

(2) on 1 February 2018, Mr Wong Siu Kong has relinquished his position as the Chief Executive Officer of the Company and remains as the Chairman and an Executive Director of the Company and Mr Ho Shut Kan has been re-designated as the Chief Executive Officer of the Company.

Biography of Directors and Senior Management

Biography of Directors and senior management are set out in the section headed "Directors and Senior Management" of this annual report.

Directors' Interests in Shares, Underlying Shares and Debentures

As at 31 December 2017, the interests of the Directors in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (the "**Associated Corporations**") as recorded in the register required to be kept by the Company under 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 (the "**Model Code**") as set out in Appendix 10 of the Listing Rules were as follows:

(i) Company

	Number of ordinary shares				Approximate
Directors	Personal interests[1]	Family interests[2]	Other interests[4]	Total	% of shareholding[6]
Wong Siu Kong	217,000	–	50,000	267,000	0.02
Ho Shut Kan	360,000	–	50,000	410,000	0.03
Bryan Pallop Gaw	–	7,176,897	1,232,048	8,408,945	0.58
Kuok Khoon Hua	59,000	–	7,670,310	7,729,310	0.53

(ii) Associated Corporations

		Number of ordinary shares/Amount of debentures						
Associated Corporations	Directors	Personal interests[1]	Family interests[2]	Corporate interests[3]	Other interests[4]	Number of underlying ordinary shares held under equity derivatives[5]	Total	Approximate % of shareholding
Kerry Group Limited	Wong Siu Kong	4,617,263	–	8,504,300	–	3,000,000	16,121,563	1.06[7]
	Ho Shut Kan	2,888,452	–	–	–	–	2,888,452	0.19[7]
	Bryan Pallop Gaw	1,500,000	158,239,707	–	46,399,988	2,000,000	208,139,695	13.68[7]
	Kuok Khoon Hua	5,000	–	–	205,019,694	1,995,000	207,019,694	13.60[7]
Kerry Logistics Network Limited	Wong Siu Kong	306,000	–	–	1,300,000	–	1,606,000	0.09[8]
	Ho Shut Kan	200,000	–	–	1,300,000	–	1,500,000	0.09[8]
	Bryan Pallop Gaw	50,000	3,588,449	–	1,891,024	–	5,529,473	0.33[8]
	Kuok Khoon Hua	101,000	–	–	5,110,155	1,000,000	6,211,155	0.37[8]
	Wong Yu Pok, Marina	–	–	–	–	200,000	200,000	0.01[8]
Hopemore Ventures Limited	Kuok Khoon Hua	20	–	–	–	–	20	2.86[9]
Medallion Corporate Limited	Bryan Pallop Gaw	26	26	–	–	–	52	5.20[10]
	Kuok Khoon Hua	48	–	–	–	–	48	4.80[10]
Rubyhill Global Limited	Kuok Khoon Hua	1	–	–	–	–	1	10.00[11]
Shang Properties, Inc.	Ho Shut Kan	1,570	–	–	–	–	1,570	0.00[12]
	Bryan Pallop Gaw	–	582,532	–	248,482	–	831,014	0.02[12]
	Kuok Khoon Hua	–	–	–	193,482	–	193,482	0.00[12]
Vencedor Investments Limited	Bryan Pallop Gaw	5	5	–	–	–	10	10.00[13]
	Kuok Khoon Hua	5	–	–	–	–	5	5.00[13]

Directors' Interests in Shares, Underlying Shares and Debentures (Continued)

Notes:

1. *This represents interests held by the relevant Director as beneficial owner.*
2. *This represents interests held and/or deemed to be held by the spouse of the relevant Director.*
3. *This represents interests deemed to be held by the relevant Director through his controlled corporation(s).*
4. *This represents interests deemed to be held by the relevant Director through discretionary trust(s) of which the relevant Director is a discretionary beneficiary.*
5. *This represents interests in options held by the relevant Director and/or his spouse as a beneficial owner to subscribe for the relevant underlying ordinary shares in respect of the option shares granted by Kerry Group Limited ("**KGL**") and Kerry Logistics Network Limited ("**KLN**").*
6. *The percentage has been compiled based on the total number of ordinary shares of the Company in issue as at 31 December 2017 (i.e. 1,446,537,728 ordinary shares).*
7. *The percentage has been compiled based on the total number of ordinary shares of KGL in issue as at 31 December 2017 (i.e. 1,521,792,075 ordinary shares).*
8. *The percentage has been compiled based on the total number of ordinary shares of KLN in issue as at 31 December 2017 (i.e. 1,696,087,112 ordinary shares).*
9. *The percentage has been compiled based on the total number of ordinary shares of Hopemore Ventures Limited in issue as at 31 December 2017 (i.e. 700 ordinary shares).*
10. *The percentage has been compiled based on the total number of ordinary shares of Medallion Corporate Limited in issue as at 31 December 2017 (i.e. 1,000 ordinary shares).*
11. *The percentage has been compiled based on the total number of ordinary shares of Rubyhill Global Limited in issue as at 31 December 2017 (i.e. 10 ordinary shares).*
12. *The percentage has been compiled based on the total number of common shares of Shang Properties, Inc. in issue as at 31 December 2017 (i.e. 4,764,056,287 common shares).*
13. *The percentage has been compiled based on the total number of ordinary shares of Vencedor Investments Limited in issue as at 31 December 2017 (i.e. 100 ordinary shares).*

Details of the Share Options, duly granted to the Directors pursuant to the share options schemes, which constitute interests in underlying ordinary shares of equity derivatives of the Company under the SFO are set out in the section headed "Share Options" of this report.

All the interests disclosed in sections (i) and (ii) above represent long positions in the shares of the Company or the Associated Corporations.

Save as aforesaid, as at 31 December 2017, none of the Directors had any other interests or short positions in the shares, underlying shares or debentures of the Company or any of its Associated Corporations which had been entered in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Permitted Indemnity Provision

Pursuant to the Bye-Laws, the Directors shall be indemnified against all losses and liabilities which they may incur in connection with their duties. The Company has arranged appropriate directors' and officers' liability insurance coverage for the directors and officers of the Group.

Directors' Material Interests in Transactions, Arrangements or Contracts

No transactions, arrangements or contracts of significance in relation to the Group's business to which the Company, its subsidiaries, its fellow subsidiaries or its holding companies was a party or were parties and in which a Director of the Company or any entities connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Rights to Acquire Shares or Debentures

As at 31 December 2017, the number of outstanding Share Options granted by the Company to the Directors to subscribe for shares of the Company (the "**Shares**"), 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 pursuant to the Model Code is set out in the section headed "Share Options" of this report of Directors.

Apart from the aforesaid, at no time during the year ended 31 December 2017 was the Company, its subsidiaries, its fellow subsidiaries or its holding companies a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Substantial Interests in the Share Capital of the Company

As at 31 December 2017, the interests of those persons (other than the Directors) in the Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name	Capacity in which ordinary shares were held	Number of ordinary shares	Long position/ Short position/ Lending pool	Approximate % of shareholding[ii]
Kerry Group Limited	Interest of controlled corporations	851,406,840[i]	Long position	58.86
Kerry Holdings Limited	Interest of controlled corporations	745,302,656[i]	Long position	51.52
Caninco Investments Limited	Beneficial owner	312,248,193[i]	Long position	21.59
Darmex Holdings Limited	Beneficial owner	256,899,261[i]	Long position	17.76
Moslane Limited	Beneficial owner	73,821,498[i]	Long position	5.10

Notes:

i. *Caninco Investments Limited ("**Caninco**"), Darmex Holdings Limited ("**Darmex**") and Moslane Limited ("**Moslane**") are wholly-owned subsidiaries of Kerry Holdings Limited ("**KHL**"). KHL itself is a wholly-owned subsidiary of KGL and, accordingly, the shares in which Caninco, Darmex and Moslane are shown to be interested are also included in the shares in which KHL and KGL are shown to be interested.*

ii. *The percentage has been compiled based on the total number of Shares in issue as at 31 December 2017 (i.e. 1,446,537,728 ordinary shares).*

Apart from the aforesaid, as at 31 December 2017, the Company had not been notified of any interests and short positions in the Shares and underlying shares of the Company which had been recorded in the register required to be kept under Section 336 of the SFO.

Public Float

Based on the information that is publicly available to the Company as at the date of this report of Directors and within the knowledge of the Directors, there was a sufficiency of public float of the Company's securities as required under the Listing Rules.

Pre-Emptive Rights

There is no provision for pre-emptive rights under the Bye-laws or the laws in Bermuda.

Staff

As at 31 December 2017, the Company and its subsidiaries had approximately 8,600 employees. Salaries of employees are maintained at competitive levels while bonuses are granted on a discretionary basis. Other employee benefits include provident fund, insurance, medical cover, subsidised educational and training programmes as well as share option schemes. Details of employee benefit expense are set out in note 12 to the financial statements.

Share Options

On 5 May 2011, the shareholders of the Company (the "**Shareholders**") approved the adoption of a new share option scheme (the "**2011 Share Option Scheme**") and the termination of a share option scheme adopted in 2002 (the "**2002 Share Option Scheme**") to the effect that no further share options of the Company (the "**Share Options**") shall be offered under the 2002 Share Option Scheme but the Share Options which had been granted during the life of the 2002 Share Option Scheme should continue to be valid and exercisable.

A summary of those terms applicable to the outstanding Share Options of the 2002 Share Option Scheme has been disclosed in the Company's 2010 Annual Report.

The 2011 Share Option Scheme is designed to motivate executives and key employees and other persons who may make a contribution to the Group, and enables the Group to attract and retain individuals with experience and ability and to reward them for their contributions.

The maximum number of Shares which may be issued upon exercise of all Share Options to be granted under the 2011 Share Option Scheme (and under any other scheme of the Company) shall not in aggregate exceed 10% of the Shares in issue as at the date of the adoption of the 2011 Share Option Scheme provided that the Company may seek approval from Shareholders to refresh such limit. Moreover, the maximum number of Shares which may be issued upon exercise of all outstanding Share Options granted and yet to be exercised under the 2011 Share Option Scheme (and under any other scheme of the Company) shall not exceed 30% of the Shares in issue from time to time. As at 16 March 2018 (the date of this Annual Report), a total of 104,000,348 Shares (representing approximately 7.18% of the number of issued shares of the Company as at 16 March 2018) are available for issue under the 2011 Share Option Scheme. The maximum entitlement of each participant under the 2011 Share Option Scheme in any 12-month period is 1% of the Shares in issue from time to time.

The period within which a Share Option may be exercised will be determined by the Board at its absolute discretion but no Share Option may be exercised later than 10 years from the date on which the Share Option is granted. The minimum period for which a Share Option must be held before it can be exercised is determined by the Board upon the grant of a Share Option. The amount payable on acceptance of a Share Option is HK$1.

Share Options (Continued)

The subscription price of the Share Option under the 2011 Share Option Scheme shall be determined by the Board at its absolute discretion at the time of grant of the Share Option but it shall not be less than whichever is the highest of (a) the nominal value of a Share; (b) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of the Board resolution approving the grant of Share Options; and (c) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of the Board resolution approving the grant of Share Options.

The 2011 Share Option Scheme will expire on 4 May 2021.

Movement of the Share Options during the year ended 31 December 2017 are listed below in accordance with Rule 17.07 of the Listing Rules:

Category	Date of grant	Tranche	Number of Share Options: As at 01/01/2017	Transfer to other category during the year	Transfer from other category during the year	Exercised	As at 31/12/2017	Exercise Price HK$	Exercise Period
***(i) 2002 Share Option Scheme** (Note a):*									
1. Directors									
Wong Siu Kong	02/04/2008	I	750,000	–	–	–	750,000	47.70	02/04/2009 – 01/04/2018
	02/04/2008	II	750,000	–	–	–	750,000	47.70	02/04/2010 – 01/04/2018
	02/04/2008	III	1,500,000	–	–	–	1,500,000	47.70	02/04/2011 – 01/04/2018
Ho Shut Kan	02/04/2008	I	300,000	–	–	–	300,000	47.70	02/04/2009 – 01/04/2018
	02/04/2008	II	300,000	–	–	–	300,000	47.70	02/04/2010 – 01/04/2018
	02/04/2008	III	600,000	–	–	–	600,000	47.70	02/04/2011 – 01/04/2018
Bryan Pallop Gaw	02/04/2008	I	75,000	–	–	–	75,000	47.70	02/04/2009 – 01/04/2018
	02/04/2008	II	75,000	–	–	–	75,000	47.70	02/04/2010 – 01/04/2018
	02/04/2008	III	150,000	–	–	–	150,000	47.70	02/04/2011 – 01/04/2018
Kuok Khoon Hua	02/04/2008	I	75,000	–	–	–	75,000	47.70	02/04/2009 – 01/04/2018
	02/04/2008	II	75,000	–	–	–	75,000	47.70	02/04/2010 – 01/04/2018
	02/04/2008	III	150,000	–	–	–	150,000	47.70	02/04/2011 – 01/04/2018
Chin Siu Wa, Alfred	02/04/2008	I	200,000	(200,000)	–	–	–	47.70	02/04/2009 – 01/04/2018
(resigned on 1 February 2017)	02/04/2008	II	200,000	(200,000)	–	–	–	47.70	02/04/2010 – 01/04/2018
	02/04/2008	III	400,000	(400,000)	–	–	–	47.70	02/04/2011 – 01/04/2018
2. Continuous Contract Employees	02/04/2008	I	737,500	–	–	–	737,500	47.70	02/04/2009 – 01/04/2018
	02/04/2008	II	737,500	–	–	–	737,500	47.70	02/04/2010 – 01/04/2018
	02/04/2008	III	1,475,000	–	–	–	1,475,000	47.70	02/04/2011 – 01/04/2018
	06/02/2009	I	260,000	–	–	(25,000)	235,000	17.58	06/02/2010 – 05/02/2019
	06/02/2009	II	345,000	–	–	(75,000)	270,000	17.58	06/02/2011 – 05/02/2019
3. Others	02/04/2008	I	387,500	–	200,000	–	587,500	47.70	02/04/2009 – 01/04/2018
	02/04/2008	II	387,500	–	200,000	–	587,500	47.70	02/04/2010 – 01/04/2018
	02/04/2008	III	775,000	–	400,000	–	1,175,000	47.70	02/04/2011 – 01/04/2018
	06/02/2009	I	20,000	–	–	(20,000)	–	17.58	06/02/2010 – 05/02/2019
	06/02/2009	II	50,000	–	–	(20,000)	30,000	17.58	06/02/2011 – 05/02/2019
Total:			**10,775,000**	**(800,000)**	**800,000**	**(140,000)**	**10,635,000**		

Share Options (Continued)

Category	Date of grant	Tranche	Number of Share Options						Exercise Price HK$	Exercise Period
			As at 01/01/2017	Transfer to other category during the year	Transfer from other category during the year	Exercised	Lapsed	As at 31/12/2017		
***(ii) 2011 Share Option Scheme** (Note b):*										
1. Directors										
Wong Siu Kong	30/04/2012	I	1,500,000	–	–	–	–	1,500,000	35.45	31/10/2012 – 29/04/2022
	30/04/2012	II	1,500,000	–	–	–	–	1,500,000	35.45	31/10/2013 – 29/04/2022
	08/01/2014	I	1,500,000	–	–	–	–	1,500,000	26.88	08/07/2014 – 07/01/2024
	08/01/2014	II	1,500,000	–	–	–	–	1,500,000	26.88	08/01/2015 – 07/01/2024
Ho Shut Kan	30/04/2012	I	500,000	–	–	–	–	500,000	35.45	31/10/2012 – 29/04/2022
	30/04/2012	II	500,000	–	–	–	–	500,000	35.45	31/10/2013 – 29/04/2022
	08/01/2014	I	750,000	–	–	–	–	750,000	26.88	08/07/2014 – 07/01/2024
	08/01/2014	II	750,000	–	–	–	–	750,000	26.88	08/01/2015 – 07/01/2024
Bryan Pallop Gaw	30/04/2012	I	150,000	–	–	–	–	150,000	35.45	31/10/2012 – 29/04/2022
	30/04/2012	II	150,000	–	–	–	–	150,000	35.45	31/10/2013 – 29/04/2022
	08/01/2014	I	250,000	–	–	(123,500)	–	126,500	26.88	08/07/2014 – 07/01/2024
	08/01/2014	II	250,000	–	–	–	–	250,000	26.88	08/01/2015 – 07/01/2024
Chin Siu Wa, Alfred	30/04/2012	I	500,000	(500,000)	–	–	–	–	35.45	31/10/2012 – 29/04/2022
(resigned on 1 February 2017)	30/04/2012	II	500,000	(500,000)	–	–	–	–	35.45	31/10/2013 – 29/04/2022
	08/01/2014	I	750,000	(750,000)	–	–	–	–	26.88	08/07/2014 – 07/01/2024
	08/01/2014	II	750,000	(750,000)	–	–	–	–	26.88	08/01/2015 – 07/01/2024
2. Continuous Contract Employees	30/04/2012	I	3,340,000	–	–	–	(40,000)	3,300,000	35.45	31/10/2012 – 29/04/2022
	30/04/2012	II	3,400,000	–	–	–	(40,000)	3,360,000	35.45	31/10/2013 – 29/04/2022
	08/01/2014	I	3,382,000	–	–	(1,096,500)	(90,000)	2,195,500	26.88	08/07/2014 – 07/01/2024
	08/01/2014	II	3,520,000	–	–	(530,000)	(90,000)	2,900,000	26.88	08/01/2015 – 07/01/2024
3. Others	30/04/2012	I	3,535,000	–	500,000	–	–	4,035,000	35.45	31/10/2012 – 29/04/2022
	30/04/2012	II	3,535,000	–	500,000	–	–	4,035,000	35.45	31/10/2013 – 29/04/2022
	08/01/2014	I	–	–	750,000	(750,000)	–	–	26.88	08/07/2014 – 07/01/2024
	08/01/2014	II	–	–	750,000	(750,000)	–	–	26.88	08/01/2015 – 07/01/2024
Total:			**32,512,000**	**(2,500,000)**	**2,500,000**	**(3,250,000)**	**(260,000)**	**29,002,000**		

Notes:

a. *During the year, no Share Option was granted, granted for adjustment, cancelled or lapsed under the 2002 Share Option Scheme.*

b. *During the year, no Share Option was granted, granted for adjustment or cancelled under the 2011 Share Option Scheme.*

c. *During the year, the weighted average closing price of the shares of the Company immediately before the dates on which the Share Options were exercised was HK$32.94. The vesting period of the Share Options is from the date of grant until the commencement of the exercise period.*

Service Contract

There is no service contract, which is not determinable by the Company within one year without payment of compensation (other than statutory compensation), in respect of any Director proposed for re-election at the 2018 AGM.

Management Contract

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

Major Customers and Suppliers

The percentages of the five largest customers combined and the five largest suppliers combined are less than 30% of the Group's total turnover and purchases, respectively.

Director's Interests in Competing Business

Pursuant to Rule 8.10 of the Listing Rules, the following Directors have disclosed that during the year ended 31 December 2017, they are considered to have interests in the following businesses ("**Excluded Businesses**"), being businesses which competed or are likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses in which (a) the Group was interested and (b) the Directors' only interests are as directors appointed to represent the interests of the Group.

Messrs Wong Siu Kong, Bryan Pallop Gaw, Kuok Khoon Hua and Chin Siu Wa, Alfred (who resigned on 1 February 2017) were directors of subsidiaries of Shangri-La Asia Limited ("**SA**") and Mr Wong, Mr Gaw and Mr Kuok had interests in shares of SA, the businesses of which consisted of hotel ownership and operation. The Directors believed that as the size of that part of these Excluded Businesses in the PRC, where the Group has hotel businesses, is not insignificant when compared with the hotel business of the Group in the PRC, it is likely that these Excluded Businesses may compete with the hotel business of the Group in the PRC.

Mr Wong Siu Kong was a director of (but he did not have any interests in shares in) the China World Trade Center Co., Ltd. ("**CWTC**") group of companies, the businesses of which consisted of property investment and development and hotel ownership and operation in the PRC. The Directors believed that as the size of these Excluded Businesses is not insignificant when compared with the property and hotel businesses of the Group in the PRC, it is likely that these Excluded Businesses may compete with the property and hotel businesses of the Group in the PRC.

The Excluded Businesses are operated and managed by companies (and in the case of SA and CWTC, by publicly listed companies) with independent management and administration. On this basis, the Directors believed that the Group is capable of carrying on its businesses independently of the Excluded Businesses and at arm's length from the Excluded Businesses.

The Directors, including those interested in the Excluded Businesses, will, as and when required under the Bye-laws, abstain from voting on any resolution of the Board in respect of any contract, arrangement or proposal in which he or any of his associates has a material interest.

Continuing Connected Transactions

(i) Hotel Management Agreements and Marketing Services Agreement

(a) Shangri-La International Hotel Management Limited ("**SLIM-HK**"), an indirect wholly-owned subsidiary of SA, and its fellow subsidiaries are currently providing hotel management, marketing, communication and reservation services (the "**HM Services**") to Kerry Hotel, Beijing pursuant to the hotel management, marketing and related agreements (the "**Beijing HM Agreements**") entered into between Beijing Kerry Hotel Co., Ltd. ("**BKH**") and SLIM-HK on 30 June 1998 (as modified by an addendum dated 26 January 2004). The Beijing HM Agreements were entered into for 20 years ending on 27 August 2019, with an option to renew for 10 years which is exercisable by mutual agreement of both parties.

BKH is the owner of Kerry Hotel, Beijing. BKH is owned as to 71.25% by the Group, 23.75% by the SA group and 5% by an independent third party. SA and SLIM-HK are connected persons of the Company. Accordingly, the provision of the HM Services by SLIM-HK to BKH is treated as a continuing connected transaction of the Company under the Listing Rules.

The annual aggregate fee payable by the Group pursuant to the Beijing HM Agreements for each of the financial years ending 31 December 2019 is not expected to exceed HK$75,000,000 ("**Cap A**"). The fee paid by the Group under the Beijing HM Agreements for the year ended 31 December 2017 amount to approximately HK$26,995,000 which is within Cap A.

(b) SLIM-HK is also providing the HM Services to Jing An Shangri-La Hotel pursuant to the hotel management agreement (the "**Jing An HM Agreement**") entered into between Shanghai Ji Xiang Properties Co., Ltd. ("**SJXP**") and SLIM-HK on 17 October 2012. The Jing An HM Agreement was entered into for a term of 20 years commencing from the opening date of Jing An Shangri-La Hotel, i.e. 29 June 2013.

SJXP, being the owner of Jing An Shangri-La Hotel, is owned as to 51% by the Group and 49% by the SA group. SA and SLIM-HK are connected persons of the Company. Accordingly, the provision of the HM Services by SLIM-HK to SJXP is treated as a continuing connected transaction of the Company under the Listing Rules.

The annual aggregate fee payable by the Group pursuant to the Jing An HM Agreement for each of the financial years ending 31 December 2033 is not expected to exceed US$14,000,000 ("**Cap B**"). The fee paid by the Group under the Jing An HM Agreement for the year ended 31 December 2017 amount to approximately HK$45,286,000 which is within Cap B.

Continuing Connected Transactions (Continued)

(i) Hotel Management Agreements and Marketing Services Agreement (Continued)

(c) SLIM-HK is also providing the hotel management and reservation services to Midtown Shangri-La Hotel, Hangzhou (the "**Hangzhou Hotel**") pursuant to the hotel management agreement (the "**Hangzhou HM Agreement**") entered into between Kerry Real Estate (Hangzhou) Co., Ltd. ("**KREH**") and SLIM-HK on 4 March 2016. Shangri-La Hotel Management (Shanghai) Co., Ltd. ("**SLIM-PRC**"), another wholly-owned subsidiary of SA, is providing marketing services to the Hangzhou Hotel pursuant to the marketing services agreement (the "**MS Agreement**") entered into between KREH and SLIM-PRC on 4 March 2016. The Hangzhou HM Agreement was entered into for a term of 20 years commencing from the opening date of the Hangzhou Hotel i.e. 12 March 2016 and the MS Agreement was entered into from 4 March 2016 to the termination date of the Hangzhou HM Agreement.

KREH, being the owner of the Hangzhou Hotel, is owned as to 75% by the Group and 25% by the SA group. SA, SLIM-HK and SLIM-PRC are connected persons of the Company. Accordingly, the provision of the HM services, reservation services and marketing services by SLIM-HK and SLIM-PRC to KREH is treated as a continuing connected transaction of the Company under the Listing Rules.

The annual aggregate fee payable by the Group pursuant to the Hangzhou HM Agreement and the MS Agreement for each of the financial years ending 31 December 2036 is not expected to exceed RMB93,000,000 ("**Cap C**"). The fee paid by the Group under the Hangzhou HM Agreement and the MS Agreement for the year ended 31 December 2017 amount to approximately HK$18,581,000 which is within Cap C.

(ii) Tenancy and Licence Agreements

On 20 October 2016, Kerry Properties (H.K.) Limited ("**KPLHK**"), a wholly-owned subsidiary of the Company, had accepted the offer made by Ubagan Limited ("**Ubagan**") (which is owned as to 60% by KHL and 40% by the Company) to renew the tenancy agreement (the "**Tenancy Agreement**") for the leasing of Unit 1 on Level 3, Units 1 and 2 on Level 5, Level 22, Level 25 and Level 26 of Kerry Centre, 683 King's Road, Quarry Bay, Hong Kong (the "**Premises**") and KPLHK had also entered into the licence agreements (the "**Licence Agreements**") on various dates between 1 March 2011 and 5 January 2016 with Ubagan (together with the Tenancy Agreement, the "**Agreements**") in respect of 12 fixed carparking spaces and 6 floating carparking spaces on basement of Kerry Centre for the use by the Group in conjunction with the Premises.

The Tenancy Agreement was entered into for a fixed term of 3 years from 19 November 2016 to 18 November 2019 with a rental of HK$3,846,144.00 per month and management fee and air-conditioning charges of HK$552,883.20 per month (subject to revision from time to time by the building manager). The Licence Agreements were entered into on monthly basis with a licence fee of not exceeding HK$3,500 per month for each fixed carparking space and a licence fee of not exceeding HK$2,700 per month for each floating carparking space (subject to adjustment by Ubagan from time to time upon giving one month's prior written notice to KPLHK).

KHL is the controlling shareholder of the Company. Ubagan is an associate of KHL and therefore is a connected person of the Company. Accordingly, the entering into of the Agreements is treated as a continuing connected transaction of the Company under the Listing Rules.

The maximum aggregate annual amount payable by the Group under the Agreements for each of the financial years ending 31 December 2019 is not expected to exceed HK$58,000,000 ("**Cap D**"). The aggregate amount paid by the Group under the Agreements for the year ended 31 December 2017 amount to approximately HK$53,898,000 which is within Cap D.

Continuing Connected Transactions (Continued)

(iii) Framework Agreement

On 9 December 2016, the Company had entered into a framework agreement (the "**Framework Agreement**") with KLN in relation to the renewal of (a) the lease of premises owned by the Group and leased to KLN and its subsidiaries (the "**KLN Group**") pursuant to the Framework Agreement, including (i) Units at Phase I Kerry Everbright City, 218 Tianmu Road West, Shanghai, China; (ii) Units at Kerry D.G. Warehouse (Kowloon Bay), 7 Kai Hing Road, Kowloon Bay, Hong Kong; and (iii) Unit at Tavistock, 10 Tregunter Path, Hong Kong (together, the "**Leased Premises**"); and (b) the provision of such services to be provided by the KLN Group to the Group pursuant to the Framework Agreement, comprising delivery services, local courier services, freight services, freight agency services, insurance brokerage and related services, and services relating to management and operation of warehouse facilities, including building management, leasing and licensing management, warrant operations, IT support, human resources, administration and related services (the "**KLN Services**").

The Framework Agreement was entered into for a term from 1 January 2017 to 31 December 2019 which may be extended for a further term of three years by the parties, subject to compliance by each party with the applicable requirements under the Listing Rules.

KLN is a subsidiary of the controlling shareholder of the Company and is therefore a connected person of the Company. Accordingly, the transactions between the Group and the KLN Group from time to time in relation to the lease of the Leased Premises by the Group to the KLN Group and the provision of the KLN Services by the KLN Group to the Group constitute continuing connected transactions of the Company under the Listing Rules.

The maximum aggregate annual rental income receivable by the Group for the lease of the Leased Premises and the maximum aggregate annual service fees payable by the Group for the KLN Services for the financial year ended 31 December 2017 are not expected to exceed HK$11,600,000 ("**Cap E**") and HK$9,900,000 ("**Cap F**") respectively. The rental income under the Framework Agreement for the year ended 31 December 2017 amount to approximately HK$8,722,000 which is within Cap E. The service fees under the Framework Agreement for the year ended 31 December 2017 amount to approximately HK$7,674,000 which is within Cap F.

(iv) Review by Independent Non-executive Directors and the auditor of the Company

The continuing connected transactions mentioned above have been reviewed by the Independent Non-executive Directors of the Company who have confirmed that the transactions have been entered into:

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

2. either on normal commercial terms or better; and

3. in accordance with the relevant agreements governing the transactions on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The auditor of the Company 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 and has issued his unqualified letter containing his findings and conclusions in respect of the abovementioned continuing connected transactions in accordance with rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year.

Auditor

The financial statements have been audited by PricewaterhouseCoopers who retires and, being eligible, offers itself for re-appointment.

On behalf of the Board
Ho Shut Kan
Chief Executive Officer

Hong Kong, 16 March 2018

羅兵咸永道

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF KERRY PROPERTIES LIMITED
(incorporated in Bermuda with limited liability)

OPINION

What we have audited

The consolidated financial statements of Kerry Properties Limited (the "Company") and its subsidiaries (the "Group") set out on pages 113 to 219, which comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated income statement for the year then ended;
- 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 31 December 2017, 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.

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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 properties;
- Recoverability of properties under development and completed properties held for sale;
- Assessment of carrying amounts of hotels properties in Mainland China;
- Assessment of carrying amount of land in Macau; and
- Assessment of carrying amount of available-for-sale investments in Shanghai

Key Audit Matter	How our audit addressed the Key Audit Matter

Valuation of investment properties
 	
Refer to notes 15 and 19 to the consolidated financial statements.
 	
The Group had investment properties held by subsidiaries and associates as at 31 December 2017 for which a revaluation gain or loss was recognised and presented as an "increase in fair value of investment properties" and "share of results of associates and joint ventures" respectively in the consolidated income statement. The Group's investment property portfolio comprises of commercial and residential properties in Hong Kong and Mainland China.
 	
Management has engaged independent valuers to estimate the fair value of the Group's investment properties and investment properties under construction as at 31 December 2017. Investment properties were valued using the income capitalisation method and, wherever appropriate, the direct comparison method. For investment properties under construction, fair value was derived using the residual method.
 	
The valuation of investment properties and investment properties under construction depends on certain key assumptions that require significant management judgement. For investment properties, key assumptions included capitalisation rates and prevailing market rents. For investment properties under construction, key assumptions included development costs and developer's profit and risk margins.
 	
The estimation uncertainty and management judgement, as mentioned in note 4(a)(i) to the consolidated financial statements, led us to consider this a key audit matter.
	Our procedures in relation to the key assumptions used in management's valuation of investment properties held by the Group's subsidiaries and associates included:
	
	• Evaluating the independent valuers' competence, capabilities and objectivity;
	
	• Obtaining the valuation reports and meeting with the independent valuers to discuss the valuation methodologies;
	
	• Checking the accuracy of the input data, on a sample basis, used by the independent valuers including rental income, occupancy rates, estimated development cost and developer's profit and risk margins by agreeing them back to management's records, invoices received or other supporting documentation including:
	  • key terms of lease agreements;
	  • rental income schedules; and
	  • construction cost schedules and approved budgets;
	
	• Comparing the key assumptions used by the independent valuers against our own expectations using evidence from comparable market transactions, historical records and approved budgets by comparing:
	  • capitalisation rates to published market yields;
	  • prevailing market rents to leasing transactions of comparable properties; and
	  • estimated development cost and developer's profit and risk margins for the investment properties under construction to invoices and approved budgets.
	
	We found the key assumptions used in management's valuation of investment properties were supported by the available evidence.

Key Audit Matter

Recoverability of properties under development and completed properties held for sale

Refer to notes 17 and 25 to the consolidated financial statements.

The Group had HK$27,395 million and HK$16,872 million of properties under development and completed properties held for sale respectively as at 31 December 2017.

Management assessed the recoverability of properties under development and completed properties held for sale based on an estimation of the net realisable value of the underlying properties. This involves considerable analyses of estimated costs to completion, committed contracts and expected future sales price or rental value based on prevailing market conditions such as current market prices of comparable standards and locations.

If the carrying amounts of the underlying stock of properties differ from those values estimated as a result of changes in market condition, material reversal of or provision for impairment losses on properties under development and completed properties held for sale may result.

The estimation uncertainty and management judgement, as mentioned in note 4(a)(ii) to the consolidated financial statements, led us to consider this a key audit matter.

How our audit addressed the Key Audit Matter

Our procedures in relation to management's assessments of recoverability of properties under development and completed properties held for sale included:

- Testing the key controls around the property construction cycle with particular focus on, but not limited to, controls over cost budgeting for estimated costs to completion; and
- Assessing the reasonableness of key assumptions and estimates in management's assessments, on a sample of properties selected, including:
    - expected future sales prices which we compared to contracted sales prices of the underlying properties or current market prices of properties of comparable standards and locations, where applicable;
    - expected future rental value which we compared to rental value of properties of comparable standards and locations; and
    - anticipated costs to completion and committed contracts that we compared to latest approved budgets on total construction costs and checked to supporting documentation such as quantity surveyor reports and signed contracts.

We found that management's assessments of recoverability of properties under development and completed properties held for sale are supported by the available evidence.

Key Audit Matter	How our audit addressed the Key Audit Matter
Assessment of carrying amounts of hotels properties in Mainland China Refer to notes 14, 16 and 19 to the consolidated financial statements. The Group had property, plant and equipment and leasehold land and land use rights held by subsidiaries and associates which included hotel operations in Mainland China as at 31 December 2017. Given the different economic environments in which the Group's hotels operate and the existence of impairment indicators at some of the hotels, there is a risk that the carrying amounts of these hotels held by subsidiaries and associates are higher than their recoverable amounts. The Group identified certain impairment indicators for the hotel operations in Mainland China. Management has carried out impairment assessments which involved estimating the recoverable amounts, using the value in use method and considered that no further provision for impairment loss or no write back of provision for hotel operations was necessary as at 31 December 2017. The key assumptions and judgements adopted by management in the relevant discounted cash flow method included discount rates, estimated occupancy rates and room rates. As mentioned in note 4(b)(v) to the consolidated financial statements, the initial analysis to identify the hotel properties with indicators of impairment is subject to management judgement. For those subject to a more detailed impairment assessment, the estimation of recoverable amount is dependent on certain key assumptions that require significant management judgement. Due to the estimation uncertainty and management judgement involved, we considered this a key audit matter.	Our procedures in relation to management's assessments of impairment of property, plant and equipment and leasehold land and land use rights held by the Group's subsidiaries and associates for the hotel operations in Mainland China included: • Testing management's assessments based on respective hotel performance as to which property, plant and equipment and leasehold land and land use rights demonstrated indicators of impairment; • Evaluating management's discounted cash flow method to estimate the recoverable amount based on value in use, including testing the underlying calculations and comparing them to the latest approved budgets and the actual results of the prior period; • Checking, on a sample basis, the accuracy of the input data used by management in their discounted cash flow method including occupancy rates and room rates, by agreeing to management's records, historical actual information or other supporting documentation; • Testing the discount rates, estimated occupancy rates and room rates with reference to published industry benchmarks, comparable market transactions and our experience in this industry; and • Performing sensitivity analysis on the key input data and assumptions to understand the impact of reasonable changes in assumptions on the estimated recoverable amounts. We found that management's assessments of impairment of property, plant and equipment and leasehold land and land use rights held by the Group's subsidiaries and associates for the hotel operations in Mainland China are supported by the available evidence.

Key Audit Matter	How our audit addressed the Key Audit Matter
Assessment of carrying amount of land in Macau Refer to note 17 to the consolidated financial statements. The Group owns the leasehold on a piece of land (the "Land") amounting to HK$1,200 million included in properties under development as at 31 December 2017 in relation to a development project at Nam Van Lake, Macau. The concession of the Land was for a lease term of 25 years which ended on 30 July 2016. The Group has been in continuous discussion with the government of Macau Special Administrative Region of the People's Republic of China (the "Macau Government") on the development of the Land since its acquisition from an independent third party in 2007. However, the Macau Government has not approved the development plan as the new urban plan of the Nam Van District has to be redrafted. As of the date of this report, the Land is included in the scope of an announcement made by the Macau Government stating that non-development of this land is not attributable to the concessionaires. In addition, there is no written notice or declaration of the lease expiry in the official gazette of the Macau Government to the Group or other notices to the concessionaires in the Nam Van District. Based on the above-mentioned situation, after taking into consideration the legal advice from an independent legal counsel, together with the current status of the ownership of the Land, management considered that the Group has strong grounds to challenge the Macau Government should it make any attempt to repossess the Land. The directors have made an assessment of the value of the Land on the basis that the lease can be renewed for an extended period of time with no significant change to the terms of the original lease and no significant costs to be incurred, and considered that no provision for impairment loss of the Land was necessary as at 31 December 2017. The estimation uncertainty and management judgement, as mentioned in note 4(a)(ii) to the consolidated financial statements, led us to consider this a key audit matter.	Our procedures in relation to management's impairment assessment of the Land included: • Discussing the nature and status of the Group's exposure with in-house and external legal counsels and obtaining letters from the Group's external legal counsel which corroborated management's position; • Collecting publicly available information containing recent updates in respect of land repossession issues in the Nam Van District for other land concession holders in the market; • Assessing the reasonableness of key assumptions and estimates used in the management's assessment of the value of the Land and assessing the significance, or otherwise, of evidence contradicting the basis of the lease renewal; and • Assessing the appropriateness of the accounting treatment and the rationale for not recording an impairment loss, and the adequacy of disclosures in the consolidated financial statements in light of the procedures above. We found that management's impairment assessment performed in respect of the Land is supported by the available evidence.

Key Audit Matter	How our audit addressed the Key Audit Matter

Assessment of carrying amount of available-for-sale investments in Shanghai

Refer to note 21 to the consolidated financial statements.

The Group, as a limited partner invested in certain funds amounting to HK$3,425 million as at 31 December 2017 which represents an approximately 24.4% effective interest in Shanghai Krupp Stainless Co. Ltd. ("SKS"), a company that owns a project site in Pudong New Area, Shanghai (the "Project"). Certain PRC government related entities collectively are the largest investors of the funds as general and limited partners. The general partner of the Project has certain roles and responsibilities in protecting the interest of all investors. The investments are classified as available-for-sale investments as at 31 December 2017.

The Group's investment was made based on a public notice issued and approved in May 2016 by the Shanghai Municipal Government in the PRC (the "Municipal Government") on city planning regarding the conversion of the land usage from industrial to commercial and residential use. However, in August 2017, the Municipal Government issued and approved another development plan for the Pudong Expo Cultural Park within which the underlying Project held by SKS falls.

As of the date of this report, there is no verbal or written notice issued by the government to SKS regarding the development of the site area and the rationale for the change in the development plan of the area and its implication to the original development plan of the Project. As of the date of this report, SKS remains as the registered owner of the land with all the rights conferred as per the original land grant.

Based on the above-mentioned situation and after taking into consideration the legal advice from an independent legal counsel, together with the current status of the project site, management considered SKS maintains reasonable grounds to negotiate with the Municipal Government in respect of the latest development plan of the Project including but not limited to explore a mutually acceptable solution and/or to pursue a negotiation for its damages and loss of profits, if any. Management has engaged independent valuers to estimate the fair value of the Group's available-for-sale investments as at 31 December 2017 based on the original development plan for the Project as set out in the public notice issued in May 2016.

The independent valuers adopted an asset-based valuation approach for the investment, which is a means of estimating the value of a business using methods based on the market value of individual business assets less liabilities. The valuation of this investment depends on certain key assumptions that requires management's judgement including assumed plot ratio, land use term, land cost per square meter and estimated supplemental land grant fee for conversion of land usage.

The estimation uncertainty and management judgement, as mentioned in notes 4(a)(v) and 4(b)(iv) to the consolidated financial statements, led us to consider this a key audit matter.

Our procedures in relation to management's valuation assessment of the Project included:

- Assessing the reasonableness of key assumptions and estimates in management assessment:
  - discussing the nature and status of the Group's exposure with in-house and external legal counsels and obtaining letters from the Group's external legal counsel corroborating management's position; and
  - collecting publicly available information regarding the development of the underlying project site;
- Evaluating the independent valuers' competence, capabilities and objectivity;
- Obtaining the valuation reports and meeting with the independent valuers to discuss the valuation methodologies;
- Checking the accuracy of the input data used by the independent valuers on a sample basis, including land use term by agreeing to the land use right certificate;
- Comparing the key assumptions used by the independent valuers against our own expectations using evidence from comparable market transactions by comparing:
  - assumed plot ratio and land cost per square meter to current market transactions of comparable lands; and
  - estimated supplemental land grant fee for conversion of the land usage to other relevant notices issued by the PRC government;
- Assessing the appropriateness of the accounting treatment and the adequacy of disclosures in the consolidated financial statements in light of the procedures above.

We found the key assumptions used in management's valuation of available-for-sale investments were supported by the available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of 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 AUDIT AND CORPORATE GOVERNANCE 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 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 and Corporate Governance 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 and Corporate Governance 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 and Corporate Governance 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 and Corporate Governance 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 Ip Koon Wing, Ernest.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 16 March 2018

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2017

	Note	**2017 HK$'000**	2016 HK$'000
Turnover	5	**35,548,123**	12,990,536
Cost of sales and direct expenses		**(25,802,623)**	(7,134,645)
Gross profit	5	**9,745,500**	5,855,891
Other income and net gains	6	**884,192**	1,115,592
Administrative and other operating expenses		**(997,524)**	(1,275,629)
Increase in fair value of investment properties		**1,933,747**	3,244,197
Operating profit before finance costs	7	**11,565,915**	8,940,051
Finance costs	8	**(628,209)**	(411,033)
Operating profit		**10,937,706**	8,529,018
Share of results of associates and joint ventures	19(d)	**2,060,052**	1,800,981
Profit before taxation		**12,997,758**	10,329,999
Taxation	9	**(2,787,026)**	(2,595,232)
Profit for the year		**10,210,732**	7,734,767
Profit attributable to:			
Company's shareholders		**9,242,116**	6,537,258
Non-controlling interests		**968,616**	1,197,509
		10,210,732	7,734,767
Earnings per share			
– Basic	11	**HK$6.40**	HK$4.53
– Diluted	11	**HK$6.40**	HK$4.53

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Profit for the year		**10,210,732**	7,734,767
Other comprehensive income			
Items that may be reclassified to profit or loss			
Cash flow hedges	39	**(131,745)**	107,278
Available-for-sale investments			
– Fair value gains	39	**225,273**	62,517
– Release of reserve upon disposal of available-for-sale investments	39	**–**	(264,031)
Release of exchange fluctuation reserve upon disposal of a subsidiary	39	**–**	(22,505)
Share of other comprehensive income of associates and joint ventures	39	**311,482**	(736,060)
Net translation differences on foreign operations		**4,592,089**	(3,781,952)
Other comprehensive income for the year, net of tax		**4,997,099**	(4,634,753)
Total comprehensive income for the year		**15,207,831**	3,100,014
Total comprehensive income attributable to:			
Company's shareholders		**13,215,789**	2,742,258
Non-controlling interests		**1,992,042**	357,756
		15,207,831	3,100,014

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	14	**6,109,169**	5,758,321
Investment properties	15	**64,340,586**	56,949,967
Leasehold land and land use rights	16	**2,114,323**	1,893,221
Properties under development	17	**20,545,581**	22,307,035
Land deposits		**1,803,074**	1,085,695
Associates and joint ventures	19	**23,832,979**	18,650,834
Derivative financial instruments	20	**37,342**	100,139
Available-for-sale investments	21	**5,344,294**	4,856,190
Mortgage loans receivable	22	**3,641,905**	1,001,386
Intangible assets	24	**122,504**	122,504
		127,891,757	112,725,292
Current assets			
Properties under development	17	**6,849,586**	34,984,502
Completed properties held for sale	25	**16,871,931**	3,787,415
Accounts receivable, prepayments and deposits	23	**7,566,211**	2,478,616
Current portion of mortgage loans receivable	22	**30,025**	13,663
Tax recoverable		**145,952**	137,434
Tax reserve certificates		**189,347**	189,255
Listed securities at fair value through profit or loss	26	**7,732**	5,709
Derivative financial instruments	20	**3,645**	59,388
Restricted bank deposits	27	**595,906**	206,719
Cash and bank balances	27	**13,151,714**	16,274,538
		45,412,049	58,137,239
Non-current assets reclassified as held for sale	28	**–**	385,574
Assets of disposal groups classified as held for sale	29	**–**	1,397,583
		45,412,049	59,920,396
Current liabilities			
Accounts payable, deposits received and accrued charges	30	**7,630,548**	6,659,401
Deposits received on sale of properties		**8,133,574**	13,874,666
Taxation		**2,093,149**	1,490,836
Short-term bank loans and current portion of long-term bank loans	31	**8,903,148**	3,856,100
Fixed rate bonds	32	**–**	4,652,074
Derivative financial instruments	20	**–**	62,125
		26,760,419	30,595,202
Liabilities of disposal groups classified as held for sale	29	**–**	339,245
		26,760,419	30,934,447
Net current assets		**18,651,630**	28,985,949

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	2017 HK$'000	2016 HK$'000
Total assets less current liabilities		**146,543,387**	141,711,241
Non-current liabilities			
Long-term bank loans	31	**26,781,716**	34,507,291
Fixed rate bonds	32	**2,336,901**	2,317,612
Amounts due to non-controlling interests	33	**2,106,291**	2,590,684
Derivative financial instruments	20	**–**	150,164
Deferred taxation	34	**7,606,669**	6,927,118
		38,831,577	46,492,869
ASSETS LESS LIABILITIES		**107,711,810**	95,218,372
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	36	**1,446,538**	1,443,148
Share premium	38	**12,515,673**	12,408,816
Other reserves	39	**12,294,722**	8,179,121
Retained profits		**68,092,523**	60,713,322
		94,349,456	82,744,407
Non-controlling interests		**13,362,354**	12,473,965
TOTAL EQUITY		**107,711,810**	95,218,372

The financial statements on pages 113 to 219 were approved by the Board of Directors on 16 March 2018 and were signed on its behalf.

Wong Siu Kong
Director

Ho Shut Kan
Director

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Operating activities			
Net cash generated from operations	40(a)	**14,549,808**	3,958,413
Interest paid		**(1,409,283)**	(1,225,625)
Income tax paid		**(2,056,799)**	(1,328,929)
Net cash generated from operating activities		**11,083,726**	1,403,859
Investing activities			
Additions of property, plant and equipment		**(40,699)**	(308,790)
Additions of investment properties		**(57,020)**	(603,220)
Increase in leasehold land and land use rights		**–**	(11,070)
Increase in land deposits		**(673,128)**	(2,485,071)
Proceeds from disposal of a subsidiary	40(c)	**126,914**	1,320,184
Proceeds from disposal of assets and liabilities of disposal groups classified as held for sale	40(d)	**729,615**	–
Increase in investment in associates and joint ventures		**(905,500)**	–
Dividends received from associates		**1,303,940**	655,416
Return of capital from an associate		**284,934**	519,628
Additional loans to associates and joint ventures		**(3,997,467)**	(539,000)
Repayment of loans by associates and joint ventures		**743,591**	1,458,190
Additional loans from associates and joint ventures		**109,299**	1,095
Repayment of loans to associates and joint ventures		**(1,155)**	(451)
Additions of available-for-sale investments		**(13,264)**	(3,161,775)
Increase in mortgage loans receivable		**(2,656,881)**	(756,270)
Interest received		**513,875**	313,399
(Increase)/decrease in restricted bank deposits		**(372,918)**	108,777
Increase in short-term bank deposits maturing after more than three months		**(127,507)**	(349,092)
Dividends received from listed and unlisted investments		**77,904**	105,387
Proceeds from sale of property, plant and equipment		**9,785**	907
Proceeds from sale of investment properties		**94,013**	323,915
Proceeds from sale of non-current assets reclassified as held for sale		**392,161**	–
Proceeds from sale of available-for-sale investments		**–**	544,722
Proceeds from sale of listed securities at fair value through profit or loss		**–**	228,878
Net cash used in investing activities		**(4,459,508)**	(2,634,241)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	**2017 HK$'000**	2016 HK$'000
Financing activities			
Proceeds from issue of shares		**89,821**	–
Consideration and expenses for shares repurchased for cancellation		**–**	(52,377)
Repayment of bank loans	40(e)	**(37,893,741)**	(34,635,795)
Drawdown of bank loans	40(e)	**34,671,122**	46,697,442
Dividends paid		**(1,804,286)**	(1,298,833)
Redemption of fixed rate bonds	40(e)	**(4,654,380)**	(3,257,814)
Acquisition of additional interests in a subsidiary	40(b)	**(10,400)**	–
Capital injection from non-controlling interests		**23,167**	–
Return of capital to non-controlling interests		**(297,884)**	–
Dividends of subsidiaries paid to non-controlling interests		**(706,262)**	(384,044)
Additional loans from non-controlling interests	40(e)	**158,416**	170,712
Repayment of loans to non-controlling interests	40(e)	**(623,183)**	(10,414)
Net cash (used in)/generated from financing activities		**(11,047,610)**	7,228,877
(Decrease)/increase in cash and cash equivalents		**(4,423,392)**	5,998,495
Effect of exchange rate changes		**1,060,560**	(482,660)
Cash and cash equivalents at 1 January		**16,014,066**	10,498,231
Cash and cash equivalents at 31 December		**12,651,234**	16,014,066

	Note	**2017 HK$'000**	2016 HK$'000
Analysis of cash and cash equivalents			
Unrestricted cash and cash equivalents	27(b)	**12,651,234**	15,908,318
Unrestricted cash and cash equivalents attributable to disposal groups		**–**	105,748
		12,651,234	16,014,066

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Note	Attributable to the shareholders of the Company						
		Share capital HK$'000	Share premium HK$'000	Other reserves HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2017		1,443,148	12,408,816	8,179,121	60,713,322	82,744,407	12,473,965	95,218,372
Profit for the year		–	–	–	9,242,116	9,242,116	968,616	10,210,732
Cash flow hedges	39	–	–	(131,745)	–	(131,745)	–	(131,745)
Available-for-sale investments	39							
– Fair value gains		–	–	225,273	–	225,273	–	225,273
Share of reserves of associates and joint ventures	39	–	–	311,482	–	311,482	–	311,482
Net translation differences on foreign operations	39	–	–	3,568,663	–	3,568,663	1,023,426	4,592,089
Total comprehensive income for the year ended 31 December 2017		–	–	3,973,673	9,242,116	13,215,789	1,992,042	15,207,831
Issue of share capital – exercise of share options		3,390	105,079	(18,648)	–	89,821	–	89,821
Lapse of share options		–	1,778	(1,778)	–	–	–	–
Dividends paid		–	–	–	(1,804,286)	(1,804,286)	(706,262)	(2,510,548)
Transfer	39	–	–	58,629	(58,629)	–	–	–
Capital injection from non-controlling interests		–	–	–	–	–	23,167	23,167
Capital reduction of subsidiaries		–	–	–	–	–	(297,884)	(297,884)
Acquisition of additional interests in a subsidiary	39	–	–	8,293	–	8,293	(18,693)	(10,400)
Disposal of assets and liabilities of disposal groups classified as held for sale	39	–	–	95,432	–	95,432	(104,465)	(9,033)
Disposal of a subsidiary	40(c)	–	–	–	–	–	484	484
Total transactions with owners		3,390	106,857	141,928	(1,862,915)	(1,610,740)	(1,103,653)	(2,714,393)
Balance at 31 December 2017		1,446,538	12,515,673	12,294,722	68,092,523	94,349,456	13,362,354	107,711,810

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Attributable to the shareholders of the Company						
		Share capital HK$'000	Share premium HK$'000	Other reserves HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2016		1,445,856	12,426,503	11,947,898	55,533,102	81,353,359	12,808,895	94,162,254
Profit for the year		–	–	–	6,537,258	6,537,258	1,197,509	7,734,767
Cash flow hedges	39	–	–	107,278	–	107,278	–	107,278
Available-for-sale investments	39							
– Fair value gains		–	–	62,517	–	62,517	–	62,517
– Release of reserve upon disposal of available-for-sale investments		–	–	(264,031)	–	(264,031)	–	(264,031)
Release of exchange fluctuation reserve upon disposal of a subsidiary	39	–	–	(22,505)	–	(22,505)	–	(22,505)
Share of reserves of associates	39	–	–	(736,060)	–	(736,060)	–	(736,060)
Net translation differences on foreign operations	39	–	–	(2,942,199)	–	(2,942,199)	(839,753)	(3,781,952)
Total comprehensive income for the year ended 31 December 2016		–	–	(3,795,000)	6,537,258	2,742,258	357,756	3,100,014
Lapse of share options		–	31,982	(31,982)	–	–	–	–
Repurchase of shares		(2,708)	(49,669)	2,708	(2,708)	(52,377)	–	(52,377)
Dividends paid		–	–	–	(1,298,833)	(1,298,833)	(384,044)	(1,682,877)
Transfer	39	–	–	55,497	(55,497)	–	–	–
Disposal of a subsidiary	40(c)	–	–	–	–	–	(308,642)	(308,642)
Total transactions with owners		(2,708)	(17,687)	26,223	(1,357,038)	(1,351,210)	(692,686)	(2,043,896)
Balance at 31 December 2016		1,443,148	12,408,816	8,179,121	60,713,322	82,744,407	12,473,965	95,218,372

1 GENERAL INFORMATION

Kerry Properties Limited (the "Company") is a limited liability company incorporated in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange").

The principal activities of the Company's subsidiaries, associates and joint ventures comprise the following:

(i) property development, investment and management in Hong Kong, the People's Republic of China (the "PRC") and the Asia Pacific region;

(ii) hotel ownership in Hong Kong, and hotel ownership and operations in the PRC; and

(iii) integrated logistics and international freight forwarding.

These financial statements have been approved for issue by the Board of Directors on 16 March 2018.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

The consolidated financial statements of the Company and its subsidiaries (together, the "Group") have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") under the historical cost convention, as modified by the revaluation of available-for-sale investments, financial assets and financial liabilities (including derivative financial instruments and first mortgage loans) at fair value through profit or loss and investment properties, which are carried at fair value.

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 accounting policies of the Group. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

(i) Adoption of amendments to existing standards

The following amendments to existing standards have been published that are effective for the accounting period of the Group beginning on 1 January 2017:

- Amendments to HKAS 7, 'Disclosure initiative'
- Amendments to HKAS 12, 'Recognition of deferred tax assets for unrealised losses'
- Amendments to HKFRS 12, 'Clarification of the scope of the standard'

The adoption of the above amendments to existing standards had no material financial impact on the consolidated financial statements of the Group. The amendments to HKAS 7 require disclosure of changes in liabilities arising from financing activities (note 40(e)).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

(ii) Standards, amendments and interpretations to existing standards which are not yet effective

The following standards, amendments and interpretations to existing standards, which are relevant to the operations of the Group, have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2018, but the Group has not early adopted them:

	Applicable for accounting periods beginning on/after
HKFRS 9, 'Financial instruments'	1 January 2018
HKFRS 15, 'Revenue from contracts with customers'	1 January 2018
Amendments to HKFRS 1, 'Deletion of short-term exemptions for first time adopters'	1 January 2018
Amendments to HKFRS 2, 'Classification and measurement of share-based payment transactions'	1 January 2018
Amendments to HKFRS 4, 'Applying HKFRS 9 'Financial instruments' with HKFRS 4 'Insurance contracts''	1 January 2018
Amendments to HKFRS 15, 'Clarifications to HKFRS 15'	1 January 2018
Amendments to HKAS 28, 'Measuring an associate or joint venture at fair value'	1 January 2018
Amendments to HKAS 40, 'Transfers of investment property'	1 January 2018
HK(IFRIC)-Int 22, 'Foreign currency transactions and advance consideration'	1 January 2018
HKFRS 16, 'Leases'	1 January 2019
Amendments to HKAS 28, 'Long-term interests in an associate or joint venture'	1 January 2019
Amendments to HKFRS 9, 'Prepayment features with negative compensation'	1 January 2019
Annual improvements to HKFRSs 2015-2017 cycle	1 January 2019
HK(IFRIC)-Int 23, 'Uncertainty over income tax treatments'	1 January 2019
HKFRS 17, 'Insurance contracts'	1 January 2021
Amendments to HKFRS 10 and HKAS 28, 'Sale or contribution of assets between an investor and its associate or joint venture'	To be determined

The Group will adopt the above standards and amendments to existing standards as and when they become effective. The Group has already commenced the assessment of the impact to the Group and is not yet in a position to state whether these would have a significant impact on its results of operations and financial position.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

(ii) Standards, amendments and interpretations to existing standards which are not yet effective (Continued)

HKFRS 15, 'Revenue from contracts with customers'

Nature of change

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts and the related literature.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Impact

Management has assessed the effects of applying the new standard on the Group's financial statements and has identified the following areas that will be affected:

- Revenue from pre-sales of properties under development is recognised when or as the control of the asset is transferred to the customer. Depending on the terms of the contract and laws that apply to the contract, control of the properties under development may transfer over time or at a point in time.

  When control of the property transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the completed property.

  The progress towards complete satisfaction of the performance obligation is measured based on the property development costs incurred as a percentage of total estimated costs for complete satisfaction as allocated to the contract.

  Revenue for certain pre-sale properties contracts may be changed and recognised earlier over the period of time, instead of at a single point in time under the current accounting policy.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

(ii) Standards, amendments and interpretations to existing standards which are not yet effective (Continued)

- The timing of revenue recognition for sale of completed properties, which is currently based on whether significant risk and reward of ownership of properties transfer, will be recognised at a later point in time when the underlying property is legally or physically transfer to the customer under the control transfer model.

- The Group currently offers different payment schemes to customers, the transaction price and the amount of revenue for the sale of property will be adjusted when significant financial component exists in that contract.

- The Group provides different incentives to customers when they sign a property sale contract. Certain incentives represents separate performance obligation in a contract. Part of the consideration of the contract will be allocated to those performance obligations and recognised as revenue only when performance obligation is satisfied. The amount of revenue for the sale of property will also be reduced for any cash payment to customer which does not represent fair value of good or service provided by the customer.

- Certain costs incurred for obtaining a pre-sale property contract, which is currently expensed off in profit and loss directly, will be eligible for capitalisation under HKFRS 15 and match with revenue recognition pattern of related contract in the future.

Date of adoption by the Group

The Group intends to adopt the standard on all uncompleted contracts as at 1 January 2018 using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

The Group is estimating the overall impact of the above to the Group's retained earnings on 1 January 2018.

HKFRS 9, 'Financial instruments'
Nature of change

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018. The financial assets held by the Group include:

- equity instruments currently classified as available-for-sale investments ("AFS") for which a fair value through other comprehensive income ("FVOCI") election is available,

- equity investments currently measured at fair value through profit or loss ("FVPL") which will continue to be measured on the same basis under HKFRS 9, and

- debt instruments currently classified as held-to-maturity and measured at amortised cost which meet the conditions for classification at amortised cost under HKFRS 9.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

(ii) Standards, amendments and interpretations to existing standards which are not yet effective (Continued)

Accordingly, the Group does not expect the new guidance to affect the classification and measurement of these financial assets. However, gains or losses realised on the sale of financial assets at FVOCI will no longer be transferred to profit or loss on sale, but instead reclassified below the line from the FVOCI reserve to retained earnings.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. The Group has confirmed that its current hedge relationships will qualify as continuing hedges upon the adoption of HKFRS 9.

The new impairment model requires the recognition of impairment provisions based on expected credit losses ("ECL") rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under HKFRS 15 'Revenue from contracts with customers', lease receivables, loan commitments and certain financial guarantee contracts.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

<u>Date of adoption by the Group</u>

Must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

HKFRS 16, 'Leases'
<u>Nature of change</u>

HKFRS 16 will affect primarily the accounting for the Group's operating leases. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised in the consolidated statement of financial position.

<u>Impact</u>

The standard will affect primarily the accounting for the Group's operating leases. The Group has not yet assessed what adjustments are necessary for the adoption of the standard. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

<u>Date of adoption by the Group</u>

Mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Consolidation

The financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

(i) Subsidiaries

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, 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. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies 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 to the former owners of the acquiree 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. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. 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, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Consolidation (Continued)

(ii) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

The Group's share of its associates post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in the consolidated income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Consolidation (Continued)

(iv) Joint arrangements

Under HKFRS 11 'Joint arrangements', investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement.

Joint ventures

Interests in joint ventures are accounted for using the equity method, after initially being recognised at cost in the consolidated statement of financial position.

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in note 2(k).

(v) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture 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 directly disposed of the related assets or liabilities. It means the amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Hong Kong dollar (HK$), which is the Company's functional and the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in the profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in other comprehensive income.

(iii) Group companies

The results and financial position of all the Group's entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position of the Group's entities are translated at the closing rate at the end of the reporting period;

- income and expenses for each income statement of the Group's entities are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Property, plant and equipment

Properties comprise hotel properties, warehouse (including leasehold land classified as finance lease), leasehold buildings and staff quarters. All property, plant and equipment are stated at historical cost less aggregate depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, 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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are expensed in the consolidated income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost or re-valued amounts less their residual values over their estimated useful lives as follows:

Leasehold land	Over their remaining lease term ranging from 20 to 50 years
Properties	Shorter of remaining lease term of 20 to 50 years or useful lives
Leasehold improvements	Shorter of remaining lease term of 20 to 50 years or useful lives
Motor vehicles, furniture, fixtures and office equipment	10% to 33%

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The gain or loss on disposal of all property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant assets and is recognised in the consolidated income statement.

(f) Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies of the Group, is classified as investment property. Investment property also includes property that is being constructed or developed for future use as investment property.

Investment property comprises land held under finance leases and operating leases.

Land held under operating leases are classified and accounted for as 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 property is measured initially at its cost, including related transaction costs and borrowing costs. Borrowing costs incurred for the purpose of acquiring or constructing a qualifying asset are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway and ceased once the asset is substantially complete, or suspended if the development of the asset is suspended.

After initial recognition, investment property is carried at fair value. Fair value is based on valuations carried out by professional valuers. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active continues to be measured at fair value.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Investment properties (Continued)

The fair value of investment property 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 property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of leasehold land, if any, classified as investment property; others, including contingent rent payments, are not recognised in the financial statements.

Subsequent expenditure is capitalised to the carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the consolidated income statement during the financial period in which they are incurred.

Changes in fair values of investment property are recognised in the consolidated income statement. Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

When an investment property undergoes a change in use, evidenced by commencement of development with a view to sale, the property is transferred to completed properties held for sale at its fair value at the date of change in use.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, except that the land portion is reclassified as leasehold land and land use right if it is operating lease in nature, and its fair value at the date of reclassification becomes its cost for accounting purposes.

If an item of owner-occupied property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment under HKAS 16. Any resulting increase in the carrying amount of the property is recognised in the income statement to the extent that it reverses a previous impairment loss, with any remaining increase recognised directly to revaluation surplus within equity. Any resulting decrease in the carrying amount of the property is charged to the consolidated income statement. Upon the subsequent disposal of the investment property, any revaluation reserve balance of the property is transferred to retained profits and is shown as a movement in equity.

(g) Properties under development

Properties under development comprise leasehold land, land use rights, construction costs, borrowing costs capitalised for qualifying assets and professional fees incurred during the development period. Leasehold land and land use rights classified as operating leases are amortised over the lease term in accordance with the pattern of benefit provided or on a straight-line basis over the lease term. The amortisation during the period of construction of the properties is capitalised as the cost of properties under development. Properties under development are stated at cost less accumulated impairment losses where applicable.

Upon completion of the properties which are pre-determined for self-use purpose, the leasehold land portion under operating lease are classified as 'Leasehold land and land use rights', while the building and the leasehold land portion under finance leases are classified as 'Property, plant and equipment'.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Properties under development (Continued)

Upon the completion of the properties which are pre-determined for sale purpose, the properties are classified as 'Completed properties held for sale' in current assets.

Properties under development are classified as non-current assets unless the construction period of the relevant property development project is expected to be completed within the normal operating cycle and are intended for sale.

(h) Completed properties held for sale

Completed properties held for sale are initially measured at the carrying amount of the property at the date of reclassification from properties under development. Subsequently, the prepaid leasehold land component not classified as finance lease is measured at amortised cost in accordance with the pattern of benefit provided less accumulated impairment losses; the building component and the prepaid leasehold land component classified as finance lease are carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less selling expenses.

(i) Intangible assets – goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary or associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is recognised separately as a non-current asset. Goodwill on acquisitions of associates is included in investments in associates and is tested for impairment as part of the overall balance. Separately recognised goodwill on acquisitions of subsidiaries is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The Group allocates goodwill to each operating segment in which it operates.

(j) Non-current assets or disposal groups reclassified as held for sale

Non-current assets or disposal groups are reclassified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. Investment properties classified as non-current assets held for sale are stated at fair value at the end of the reporting period.

(k) Impairment of investments in subsidiaries, associates, joint ventures and non-financial assets

Assets that have an indefinite useful life or have not yet been available for use are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount 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 purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment testing of the investments in subsidiaries, associates or joint ventures is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary, associate or joint venture in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Investments

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss included listed securities and first mortgage loans.

Listed securities at fair value through profit or loss are financial assets held for trading. These assets are classified in this category if acquired principally for the purpose of selling in the short term and classified as current assets.

First mortgage loans are mortgage loans offered to buyers of certain properties developed by the Group and are classified in this category as designated.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. Loans and receivables include second mortgage loans receivable, accounts receivable, restricted bank deposits, cash and bank balances and amounts due from subsidiaries, associates and joint ventures.

(iii) Available-for-sale investments

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the end of the reporting period.

(iv) Recognition and measurement

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. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale investments and listed securities at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the listed securities at fair value through profit or loss are presented in the consolidated income statement within other income and net gains, in the period in which they arise. Dividend income from listed securities at fair value through profit or loss is recognised in the consolidated income statement as part of other income and net gains when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities related to changes in amortised cost are recognised in the consolidated income statement and other changes in the carrying amount are recognised in other comprehensive income. Translation differences and other changes in fair value on non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Investments (Continued)

(iv) Recognition and measurement (Continued)

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated income statement as gains and losses from investment securities.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated income statement as part of other income and net gains. Dividends on available-for-sale equity instruments are recognised in the consolidated income statement as part of other income and net gains when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group established fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

(m) Impairment of financial assets

(i) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

  (i) adverse changes in the payment status of borrowers in the portfolio;

  (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Impairment of financial assets (Continued)

(i) Assets carried at amortised cost (Continued)

The Group first assesses whether objective evidence of impairment exists.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement.

If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

(ii) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria refer to (i) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the consolidated income statement is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

(n) Second mortgage loans receivable, accounts receivable and amounts due from subsidiaries, associates and joint ventures

The receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within administrative expenses. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the consolidated income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges); (2) hedges of a particular risk associated with a recognised asset or liability or highly probable forecast transactions (cash flow hedges); or (3) hedges of net investments in foreign operations (net investment hedges).

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments are disclosed in note 20. Movements on the hedging reserve in shareholders' equity are shown in note 39. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedge item is more than 12 months after the end of the reporting period. Trading derivatives are classified as a current asset or liability.

(i) Fair value hedge

Changes in fair value of derivatives that are designated and qualify as fair value hedges are recorded in the consolidated income statement, with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the consolidated income statement over the period to maturity.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the consolidated income statement within finance costs.

When a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Derivative financial instruments and hedging activities (Continued)

(iii) Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement.

Gains and losses accumulated in equity are included in the consolidated income statement when the foreign operation is disposed of or sold.

(iv) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting and are accounted for at fair value through profit or loss. Changes in the fair value of these derivatives instruments that do not qualify for hedge accounting are recognised immediately in the consolidated income statement.

(p) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

Restricted bank deposits are not included in cash and cash equivalents.

(q) Accounts payable

Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Accounts payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(r) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company, its subsidiaries, associates and joint ventures operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary difference arising on investments in subsidiaries, associates and joint ventures, 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.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(t) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Defined contribution plan

A defined contribution plan is a pension plan which the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Employee benefits (Continued)

(iii) Share-based payments

The Group has outstanding options granted under two share option schemes. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any service and non-market performance vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the consolidated income statement with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares, the proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

(iv) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to a termination when the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

(v) Bonus plans

The Group recognises a liability and an expense for bonuses when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of such obligation can be made.

(u) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(v) Financial guarantees

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the original or modified terms of a debt instrument. The Group does not recognise liabilities for financial guarantees at inception, but perform a liability adequacy test at each reporting date by comparing its carrying amount of the net liability regarding the financial guarantee with its present legal or constructive obligation amount. If the carrying amount of the net liability is less than its present legal or constructive obligation amount, the entire difference is recognised in the consolidated income statement immediately.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue, costs incurred or to be incurred in respect of a transaction can be reliably measured, neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold are retained, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Revenue from sales of properties is recognised when the significant risks and rewards of ownership of properties are transferred to the purchasers.

(ii) Rental revenue and other revenues incidental to the letting of properties are recognised on a straight-line basis over the periods of the respective leases.

(iii) Income on development consultancy and project management is recognised on a pro-rata basis according to the progress of the projects.

(iv) Income from property management is recognised when services are rendered.

(v) Hotel revenue from rooms rental, food and beverage sales and other ancillary services is recognised when the services are rendered.

(vi) Dividend income is recognised when the right to receive payment is established.

(vii) Interest income is recognised on a time proportion basis, using the effective interest method.

(x) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

(i) The Group is the lessee

Payments made under operating leases (net of any incentives received from the lessor), including up-front prepayment made for leasehold land and land use rights for development, are charged to the consolidated income statement or capitalised in the properties under development in accordance with the pattern of benefit provided or on a straight-line basis over the lease term.

(ii) The Group is the lessor

When assets are leased out under an operating lease, the assets are included in the consolidated statement of financial position based on the nature of the assets. Lease income from operating lease is recognised over the term of the lease on a straight-line basis.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(y) Leasehold land and land use rights

The Group made upfront payments to obtain operating leases of leasehold land and land use rights on which properties will be developed. Other than those classified as finance lease, the upfront payments of the leasehold land and land use rights are recorded as separate assets and amortised over the lease term in accordance with the pattern of benefit provided or on a straight-line basis over the lease term. The amortisation during the period of construction of the properties is capitalised as the cost of properties under development. The amortisation during the period before the commencement and after the completion of the construction of the properties (except for investment properties) is expensed in the consolidated income statement.

(z) Borrowing costs

Borrowing costs are accounted for on the accrual basis and charged to the consolidated income statement in the period in which they are incurred, except for costs related to funding of construction or acquisition of qualifying assets which are capitalised as part of the cost of that asset during the construction period and up to the date of completion of construction.

(aa) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are declared by the Directors in the case of interim dividends or approved by the Company's shareholders in the case of final dividends.

(ab) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resource will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

3 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's major financial instruments include available-for-sale investments, derivative financial instruments, mortgage loans receivable, accounts receivable, listed securities at fair value through profit or loss, cash and bank balances, restricted bank deposits, accounts payable, bank loans, bonds and amounts with associates, joint ventures and non-controlling interests. Details of these financial instruments are disclosed in respective notes.

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity 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 financial performance. The Group uses derivative financial instruments to manage certain risk exposures.

Risk management is carried out by the Group's management under the supervision of the Finance Committee. The Group's management identifies, evaluates and manages significant financial risks in the Group's individual operating units. The Finance Committee provides guidance for overall risk management.

(i) Market risk

(I) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the Group entities' functional currency.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

During the year, the currencies of certain countries where the Group has foreign operations, including the United States dollar and Renminbi, fluctuated against the Hong Kong dollar. This gave rise to an unrealised gain of approximately HK$3,883,719,000 (2016: loss of HK$3,120,746,000) on translation of these operations' net assets to the Group's Hong Kong dollar reporting currency, including the Group's share of the translation gains and losses of associates and joint ventures. This unrealised gain/loss is reflected as a movement in other reserves under the heading of exchange fluctuation reserve.

The Group's major financial instruments in foreign currencies (other than the functional currencies of the Group's entities), that are exposed to foreign exchange risk, are denominated in United States dollar and Renminbi.

Under the Linked Exchange Rate System in Hong Kong, Hong Kong dollar is pegged to the United States dollar. Furthermore, the Group has entered into cross currency swap contracts to manage its exposure to United States dollar from recognised liabilities.

The management considers that there are no significant foreign exchange risks with respect to the United States dollar.

3 FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factors (Continued)

(i) Market risk (Continued)

(II) Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing liabilities and assets. Cash flow interest rate risk is the risk that changes in market interest rates will impact cash flows arising from variable rate financial instruments. The Group's interest bearing assets mainly include deposits at bank and amounts due from associates and joint ventures. The Group's floating rate borrowings will be affected by fluctuation of prevailing market interest rates and will expose the Group to cash flow interest rate risk. The Group's borrowings if issued at fixed rates will expose the Group to fair value interest rate risk.

To mitigate the risk, the Group has maintained fixed and floating rate debts. To match with underlying risk faced by the Group, the level of fixed rate debt for the Group is decided after taking into consideration the potential impact of higher interest rates, interest cover and the cash flow cycles of the Group's businesses and investments.

Furthermore, the Group manages its cash flow interest rate risk on certain bank borrowings by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates.

At the end of the reporting periods, if interest rates had been increased or decreased by 25 (2016: 25) basis points and all other variables were held constant, the profit of the Group would have decreased or increased by approximately HK$14,323,000 (2016: HK$4,364,000) resulting from the change in interest income on bank deposits and the borrowing costs of bank borrowings after capitalisation of interest expenses.

(III) Price risk

The Group is exposed to equity securities price risk arising from the listed equity investments held by the Group. Gains and losses arising from changes in the fair value of available-for-sale financial assets and financial assets at fair value through profit or loss are dealt with in equity and income statement respectively. The performance of the Group's listed and unlisted equity investments are monitored regularly, together with an assessment of their relevance to the Group's strategic plans. The Group is not exposed to commodity price risk.

The carrying amount of listed portion of available-for-sale investments would be an estimated HK$12,300,000 (2016: HK$10,282,000) lower or higher if the year end share prices of the above-mentioned investments were to differ by 20% (2016: 20%).

The carrying amount of unlisted portion of available-for-sale investments would be an estimated HK$118,685,000 (2016: HK$106,288,000) lower or higher if the year end underlying fair value of the above-mentioned investments were to differ by 20% (2016: 20%).

The carrying amount of listed securities at fair value through profit or loss would be an estimated HK$1,546,000 (2016: HK$1,142,000) lower or higher if the year end share prices of the above-mentioned investments were to differ by 20% (2016: 20%).

3 FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factors (Continued)

(ii) Credit risk

The carrying amounts of cash and bank balances, restricted bank deposits, mortgage loans receivable, accounts receivable and amounts due from associates and joint ventures represent the Group's maximum exposure to credit risk in relation to financial assets. The Group reviews the recoverable amount on a regular basis and an allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

In order to minimise the credit risk, management of the Company has delegated a team in each business unit responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each debtor at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors of the Company consider that the Group's credit risk is adequately covered.

There is no concentration of credit risk with respect to accounts receivable from third party customers as the Group has a large number of customers which are internationally dispersed.

The credit risk on liquid funds is limited because approximately 99% (2016: 97%) of the funds are placed in banks with high credit rankings, ranging from BBB to AA, and the remaining 1% (2016: 3%) in local banks in different countries with close monitoring by the management and there is no concentration in any particular bank.

In respect of credit exposures to customers for sale of properties and mortgage loans, the Group normally receives deposits or progress payments from individual customers prior to the completion of sale transactions. If a customer defaults on the payment of the sale of properties, the Group is able to forfeit the customer's deposit and re-sell the property to another customer. Therefore, the Group's credit risk is significantly reduced. For mortgage loans receivable, similar to other financial institutions, credit assessments are part of the normal process before approving loans to applicants. Regular review is carried out and stringent monitoring procedures are in place to deal with overdue debts. At the end of each reporting period, the Group reviews the recoverable amount of each individual receivable to ensure that adequate provisions for impairment are made for irrecoverable amounts, if any.

3 FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factors (Continued)

(iii) Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its current obligations when they fall due.

The Group measures and monitors its liquidity through the maintenance of prudent ratio regarding to the liquidity structure of the overall assets, liabilities, loans and commitments of the Group.

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group Treasury. Group Treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal statement of financial position ratio targets and, if applicable external regulatory or legal requirements – for example, currency restrictions.

3 FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factors (Continued)

(iii) Liquidity risk (Continued)

The following tables detail the contractual maturity of the Group for financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

	Less than 1 year HK$'000	**Between 1 and 2 years HK$'000**	**Between 2 and 5 years HK$'000**	**Over 5 years HK$'000**	**Total HK$'000**
At 31 December 2017					
Amounts due to associates and joint ventures	**–**	**170,564**	**–**	**–**	**170,564**
Bank loans	**9,686,998**	**8,824,175**	**18,972,139**	**–**	**37,483,312**
Fixed rate bonds	**137,697**	**137,697**	**2,550,326**	**–**	**2,825,720**
Amounts due to non-controlling interests	**–**	**2,125,830**	**–**	**–**	**2,125,830**
Accounts payable, deposits received and accrued charges	**7,339,011**	**–**	**–**	**–**	**7,339,011**
Total	**17,163,706**	**11,258,266**	**21,522,465**	**–**	**49,944,437**

	Less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
At 31 December 2016					
Amounts due to associates	–	63,241	–	–	63,241
Bank loans	4,739,297	9,578,115	25,688,781	920,093	40,926,286
Fixed rate bonds	4,905,438	136,666	2,667,895	–	7,709,999
Amounts due to non-controlling interests	–	2,616,831	–	–	2,616,831
Accounts payable, deposits received and accrued charges	6,470,717	–	–	–	6,470,717
Derivative financial instruments					
– Inflows	(23,883)	(12,657)	–	–	(36,540)
– Outflows	62,125	188,198	–	–	250,323
Total	16,153,694	12,570,394	28,356,676	920,093	58,000,857

3 FINANCIAL RISK MANAGEMENT (Continued)

(b) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the loan and equity balance.

The Directors of the Company review the capital structure periodically. As a part of this review, the Directors of the Company assess the annual budget prepared by the finance department which reviews the planned construction projects proposed by project department and prepared the annual budget taking into account of the provision of funding. Based on the proposed annual budget, the Directors of the Company consider the cost of capital and the risks associated with capital. The Directors of the Company also balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

The Group monitors capital by maintaining prudent gearing ratio based on prevailing market environment and economic condition. This ratio is calculated as net debt to equity attributable to the Company's shareholders. Net debt is calculated as borrowings (including current and non-current borrowings, as shown in the consolidated statement of financial position) less cash and cash equivalents, short-term bank deposits maturing after more than three months and restricted bank deposits.

The gearing ratios at 31 December 2017 and 2016 were as follows:

	2017	2016
Net debt (HK$ million)	**24,274**	28,852
Equity attributable to the Company's shareholders (HK$ million)	**94,349**	82,744
Gearing ratio	**25.7%**	34.9%

(c) Fair value estimation

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 included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).

– Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

3 FINANCIAL RISK MANAGEMENT (Continued)

(c) Fair value estimation (Continued)

The following table presents the Group's financial assets that are measured at fair value at 31 December 2017:

	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Assets				
Derivative financial instruments	**–**	**40,987**	**–**	**40,987**
Available-for-sale investments	**61,501**	**–**	**5,282,793**	**5,344,294**
Listed securities at fair value through profit or loss	**7,732**	**–**	**–**	**7,732**
First mortgage loans receivable	**–**	**–**	**2,442,536**	**2,442,536**
Total assets	**69,233**	**40,987**	**7,725,329**	**7,835,549**

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2016:

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Assets				
Derivative financial instruments	–	159,527	–	159,527
Available-for-sale investments	51,408	–	4,804,782	4,856,190
Listed securities at fair value through profit or loss	5,709	–	–	5,709
First mortgage loans receivable	–	–	611,329	611,329
Total assets	57,117	159,527	5,416,111	5,632,755
Liabilities				
Derivative financial instruments	–	212,289	–	212,289
Total liabilities	–	212,289	–	212,289

There were no transfers between Levels during the year.

3 FINANCIAL RISK MANAGEMENT (Continued)

(c) Fair value estimation (Continued)

(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 equity investments listed on the Hong Kong Stock Exchange classified as listed securities at fair value through profit or loss or available-for-sale.

(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) is 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.

Level 2 financial instruments of the Group comprise forward exchange, cross currency swap and interest rate swap contracts. The fair value is calculated as the present value of the estimated future cash flows based on forward exchange rates that are quoted in an active market and/or forward interest rates extracted from observable yield curves.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

(iii) Financial instruments in Level 3

The following table presents the changes in Level 3 instruments:

	First mortgage loans receivable (note)		Available-for-sale investments	
	2017 HK$'000	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
At 1 January	**611,329**	–	**4,804,782**	1,638,717
Gains recognised in comprehensive income	**–**	–	**215,180**	4,311
Additions	**1,831,207**	611,329	**13,264**	3,161,775
Disposal	**–**	–	**–**	(21)
Exchange adjustment	**–**	–	**249,567**	–
At 31 December	**2,442,536**	611,329	**5,282,793**	4,804,782

Note: The fair value of the first mortgage loans receivable approximates their carrying amount.

3 FINANCIAL RISK MANAGEMENT (Continued)

(c) Fair value estimation (Continued)

(iii) Financial instruments in Level 3 (Continued)

The Group established fair value of unlisted available-for-sale investments by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

There were no changes in valuation techniques during the year.

(iv) Group's valuation processes for financial instruments

The Group's finance department includes a team that performs the valuation of financial assets required for financial reporting purposes, including Level 3 fair values. Discussions of valuation processes and results are held between the management and the valuation team at each reporting date. Reasons for the fair value movements will be explained during the discussions.

(v) Fair value of financial assets and liabilities measured at amortised cost

The fair value of the listed fixed rate bonds as at 31 December 2017 was HK$2,507,681,000 (2016: HK$7,175,419,000).

The fair value of the following financial assets and liabilities approximates their carrying amount:

– Trade and other receivables

– Other current financial assets

– Cash and cash equivalents

– Trade and other payables

– Bank loans

– Second mortgage loans receivable

4 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.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Estimate of fair value of investment properties

The valuation of investment properties is performed in accordance with the 'The HKIS Valuation Standards on Properties (2012 Edition)' published by the Hong Kong Institute of Surveyors and the 'International Valuation Standards' published by the International Valuation Standards Committee.

Details of the judgement and assumptions have been disclosed in note 15(b).

(ii) Provision for properties under development and completed properties held for sale

The Group assesses the carrying amounts of properties under development and completed properties held for sale according to their recoverable amounts based on an estimation of the net realisable value of the underlying properties, taking into account estimated costs to completion based on past experience and committed contracts and expected future sales price/rental value based on prevailing market conditions. If the carrying amounts of the underlying stock of properties fluctuate from those values estimated as a result of changes in market condition, material reversal of or provision for impairment losses on properties under development and completed properties held for sale may result. The assessment requires the use of judgement and estimates.

Other than the above, the Group has 100% equity interest in a subsidiary of the Group which owns a piece of land (the "Land") situated in Lot C12, Nam Van Lake, Macau with a carrying amount of HK$1,200 million (2016: HK$1,200 million). As set out in note 17, no provision for impairment loss for such Land was considered necessary as at 31 December 2017. Significant management judgement and assumption was also needed in the assessment of the value of the Land.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(a) Critical accounting estimates and assumptions (Continued)

(iii) Income taxes

Significant judgement is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the period in which such determination is made.

The Group is subject to land appreciation taxes and withholding tax on capital gains in the PRC. Significant judgement is required in determining the amount of the land appreciation and capital gains, and its related taxes. The Group recognised these land appreciation taxes and withholding tax on capital gains based on management's best estimates according to the understanding of the tax rules. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the income tax and deferred income tax provision in the periods in which such taxes have been finalised with local tax authorities.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

(iv) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of the property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovation. Management will change the depreciation charge where useful lives are different from the previously estimated lives. It will also write-off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

(v) Fair value of available-for-sale investments and derivative financial instruments

The fair value of available-for-sale investments and derivative financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(b) Critical judgements in applying the Group's accounting policies

(i) Distinction between investment properties and owner-occupied properties

The Group determines whether a property qualifies as investment property. In making its judgement, the Group considers whether the property generates cash flows largely independently of the other assets. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions can be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgement.

(ii) Revenue recognition

The Group has recognised revenue from the sale of properties held for sale as disclosed in note 5 according to the accounting policy as stated in note 2(w)(i). The assessment of when an entity has transferred the significant risks and rewards of ownership to buyers and whether it is probable that future economic benefit will flow to the entity requires the examination of the circumstances of the transaction and the terms of payment under sales contract.

(iii) Financial implication of regulations of idle land

Under the PRC laws and regulations, if a property developer fails to commence the development of land within the timeframe designated in the land grant contract, the PRC government may regard the land as idle land and issue a warning or impose a penalty on the developer or reclaim the land.

In making this judgement, the Group evaluates the extent of development of the whole tracts of land, status of negotiation with the government authorities as to the extension of time of commencement or revision of development plans.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(b) Critical judgements in applying the Group's accounting policies (Continued)

(iv) Impairment of available-for-sale investments, associates and joint ventures

The Group follows the guidance of HKAS 39 to determine when an available-for-sale investment is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

Other than the above, the Group as a limited partner invested in certain funds amounting to HK$3,425 million as at 31 December 2017 which represents approximately 24.4% effective interest in Shanghai Krupp Stainless Co., Ltd. ("SKS"), a company that owns a project site in Pudong New Area, Shanghai (the"Project"). As set out in note 21, no provision for impairment loss for such Project was considered necessary as at 31 December 2017. Significant management judgement and assumption was needed in the assessment of the available-for-sale investments. The estimated fair value of the investments are based on the original development plan of the Project as set out in the public notice issued in May 2016.

The investments in associates or joint ventures are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount of investments is evaluated based on the financial position of associates or joint ventures, historical and expected future performance by management judgement. A considerable amount of judgement is required in assessing the ultimate recoverability of the investments.

(v) Impairment of property, plant and equipment

The Group regularly reviews whether there are any indications of impairment and will recognise an impairment loss if the carrying amount of an asset is higher than its recoverable amount which is the greater of its net selling price or its value in use. In determining the value in use, the Group assesses the present value of the estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life. Estimates and judgements are applied in determining these future cash flows and the discount rates, estimated occupancy rates and room rates. Additional information for the impairment assessment of property, plant and equipment is disclosed in note 14.

(vi) Impairment of trade receivables

The Group assesses whether there is objective evidence as stated in note 2(n) that trade receivables are impaired. It recognises impairment based on estimates of the extent and timing of future cash flows using applicable discount rates and also whether there is objective evidence that the trade receivables are impaired. This evidence may include observable data indicating that there has been adverse change in payment status of the debtors and the local economic conditions that correlate with the potential risk of fallen through on the transactions. The final outcome of the recoverability and cash flows of these receivables will impact the amount of impairment required.

5 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS

(a) Revenues recognised during the year are as follows:

	2017 **HK$'000**	2016 HK$'000
Turnover		
Sale of properties	**29,089,475**	7,204,438
Rental and others	**4,540,933**	4,052,584
Hotel revenue	**1,917,715**	1,733,514
	35,548,123	12,990,536

(b) An analysis of the Group's turnover and gross profit for the year by principal activity and market is as follows:

	Turnover		**Gross profit**	
	2017 **HK$'000**	2016 HK$'000	**2017** **HK$'000**	2016 HK$'000
Principal activities:				
Property rental and others				
– PRC property	**3,443,835**	2,994,753	**2,713,551**	2,380,745
– Hong Kong property	**1,097,098**	1,057,831	**873,773**	833,807
	4,540,933	4,052,584	**3,587,324**	3,214,552
Property sales				
– PRC property (note (i))	**8,463,435**	6,655,037	**2,659,034**	2,308,357
– Hong Kong property	**20,626,040**	549,401	**3,090,394**	155,220
	29,089,475	7,204,438	**5,749,428**	2,463,577
Hotel operations				
– PRC property	**1,917,715**	1,733,514	**408,748**	177,762
	35,548,123	12,990,536	**9,745,500**	5,855,891
Principal markets:				
– PRC	**13,824,985**	11,383,304	**5,781,333**	4,866,864
– Hong Kong	**21,723,138**	1,607,232	**3,964,167**	989,027
	35,548,123	12,990,536	**9,745,500**	5,855,891

(i): Sales of investment properties for the year ended 31 December 2017 amounting to HK$94,013,000 (2016: HK$323,915,000) are excluded from turnover.

5 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS (Continued)

(c) Information about operating segment:

Management has determined the operating segments based on the reports reviewed by the Board of Directors.

The Board of Directors considers the business by principal activities and markets, management assesses the performance of the principal activities of the Group namely property business. The property business is further segregated into the PRC property, Hong Kong property and Overseas property.

Property segment derives revenue primarily from sales of properties, rental revenue and hotel revenue.

Others mainly include corporate activities including central treasury management and administrative function and results of other business not categorised as operating segments.

The Board of Directors assesses the performance of the operating segments based on a measure of gross profit.

5 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS (Continued)

(d) An analysis of the Group's financial results by operating segment is as follows:

	2017				
	PRC Property HK$'000	Hong Kong Property HK$'000	Total Operating Segments HK$'000	Others HK$'000	Total HK$'000
Revenue					
Turnover	13,824,985	21,723,138	35,548,123	–	35,548,123
Results					
Segment results – gross profit	5,781,333	3,964,167	9,745,500	–	9,745,500
Other income and net gains					884,192
Administrative and other operating expenses					(997,524)
Increase in fair value of investment properties					1,933,747
Operating profit before finance costs					11,565,915
Finance costs					(628,209)
Operating profit					10,937,706
Share of results of associates and joint ventures					2,060,052
Profit before taxation					12,997,758
Taxation					(2,787,026)
Profit for the year					10,210,732
Profit attributable to:					
Company's shareholders					9,242,116
Non-controlling interests					968,616
					10,210,732
Depreciation and amortisation	445,797	18,920	464,717	3,040	467,757

5 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS (Continued)

(d) An analysis of the Group's financial results by operating segment is as follows: (Continued)

	2016				
	PRC Property HK$'000	Hong Kong Property HK$'000	Total Operating Segments HK$'000	Others HK$'000	Total HK$'000
Revenue					
Turnover	11,383,304	1,607,232	12,990,536	–	12,990,536
Results					
Segment results – gross profit	4,866,864	989,027	5,855,891	–	5,855,891
Other income and net gains					1,115,592
Administrative and other operating expenses					(1,275,629)
Increase in fair value of investment properties					3,244,197
Operating profit before finance costs					8,940,051
Finance costs					(411,033)
Operating profit					8,529,018
Share of results of associates					1,800,981
Profit before taxation					10,329,999
Taxation					(2,595,232)
Profit for the year					7,734,767
Profit attributable to:					
Company's shareholders					6,537,258
Non-controlling interests					1,197,509
					7,734,767
Depreciation and amortisation	532,407	20,069	552,476	2,624	555,100

5 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS (Continued)

(e) An analysis of the Group's financial position by operating segment is as follows:

	2017						
	PRC Property HK$'000	Hong Kong Property HK$'000	Overseas Property HK$'000	Total Operating Segments HK$'000	Others HK$'000	Eliminations HK$'000	Consolidated HK$'000
Segment assets	82,034,048	63,905,566	977,837	146,917,451	44,001,510	(50,848,376)	140,070,585
Associates and joint ventures	6,481,335	2,792,285	1,337,576	10,611,196	13,221,783	–	23,832,979
Derivative financial instruments	–	–	–	–	40,987	–	40,987
Available-for-sale investments	3,425,076	654,458	1,264,760	5,344,294	–	–	5,344,294
Mortgage loans receivable	–	3,671,930	–	3,671,930	–	–	3,671,930
Tax recoverable	142,015	3,781	–	145,796	156	–	145,952
Tax reserve certificates	–	–	–	–	189,347	–	189,347
Listed securities at fair value through profit or loss	–	7,261	269	7,530	202	–	7,732
Total assets	92,082,474	71,035,281	3,580,442	166,698,197	57,453,985	(50,848,376)	173,303,806
Segment liabilities	34,776,730	32,813,635	652,230	68,242,595	(1,630,097)	(50,848,376)	15,764,122
Bank loans	5,609,012	90,000	–	5,699,012	29,985,852	–	35,684,864
Fixed rate bonds	–	–	–	–	2,336,901	–	2,336,901
Taxation and deferred taxation	8,130,589	1,184,209	143,648	9,458,446	241,372	–	9,699,818
Amounts due to non-controlling interests	1,322,101	627,802	157,014	2,106,917	(626)	–	2,106,291
Total liabilities	49,838,432	34,715,646	952,892	85,506,970	30,933,402	(50,848,376)	65,591,996
Segment non-current assets*	61,772,549	41,853,145	2,011,313	105,637,007	13,231,209	–	118,868,216

* *Other than derivative financial instruments, available-for-sale investments and mortgage loans receivable.*

5 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS (Continued)

(e) An analysis of the Group's financial position by operating segment is as follows: (Continued)

	2016						
	PRC Property HK$'000	Hong Kong Property HK$'000	Overseas Property HK$'000	Total Operating Segments HK$'000	Others HK$'000	Eliminations HK$'000	Consolidated HK$'000
Segment assets	83,415,880	69,837,070	189,397	153,442,347	61,945,086	(67,755,743)	147,631,690
Associates	5,701,006	3,062,410	1,252,835	10,016,251	8,634,583	–	18,650,834
Derivative financial instruments	–	–	–	–	159,527	–	159,527
Available-for-sale investments	3,162,244	582,379	1,111,567	4,856,190	–	–	4,856,190
Mortgage loans receivable	–	1,015,049	–	1,015,049	–	–	1,015,049
Tax recoverable	127,574	9,860	–	137,434	–	–	137,434
Tax reserve certificates	–	–	–	–	189,255	–	189,255
Listed securities at fair value through profit or loss	–	5,322	219	5,541	168	–	5,709
Total assets	92,406,704	74,512,090	2,554,018	169,472,812	70,928,619	(67,755,743)	172,645,688
Segment liabilities	43,354,687	40,642,114	8,921	84,005,722	4,623,333	(67,755,743)	20,873,312
Derivative financial instruments	–	–	–	–	212,289	–	212,289
Bank loans	5,167,671	249,000	–	5,416,671	32,946,720	–	38,363,391
Fixed rate bonds	–	–	–	–	6,969,686	–	6,969,686
Taxation and deferred taxation	7,421,602	774,614	126,882	8,323,098	94,856	–	8,417,954
Amounts due to non-controlling interests	1,667,479	923,830	–	2,591,309	(625)	–	2,590,684
Total liabilities	57,611,439	42,589,558	135,803	100,336,800	44,846,259	(67,755,743)	77,427,316
Segment non-current assets*	58,206,083	38,666,027	1,252,835	98,124,945	8,642,632	–	106,767,577

* *Other than derivative financial instruments, available-for-sale investments and mortgage loans receivable.*

5 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS (Continued)

(f) An analysis of the Group's operating segment non-current assets by geographical area is as follows:

	Operating segment non-current assets*	
	2017 HK$'000	2016 HK$'000
PRC	**61,772,549**	58,206,083
Hong Kong	**40,154,328**	36,968,127
Others	**3,710,130**	2,950,735
	105,637,007	98,124,945

* *Other than derivative financial instruments, available-for-sale investments and mortgage loans receivable.*

6 OTHER INCOME AND NET GAINS

	2017 HK$'000	2016 HK$'000
Dividend income		
– Available-for-sale investments	**77,595**	100,184
– Listed securities at fair value through profit or loss	**309**	5,203
	77,904	105,387
Interest income	**540,392**	301,388
Gain/(loss) on disposal of property, plant and equipment	**6,952**	(254)
Gain on sale of investment properties net of selling expenses	**18,707**	102,415
Provision for impairment loss for hotel property (note 14)	**–**	(80,682)
Fair value gain on listed securities at fair value through profit or loss	**1,997**	24,352
Gain on disposal of available-for-sale investments	**–**	305,925
Gain on disposal of listed securities at fair value through profit or loss	**–**	19,195
Loss on sale of assets and liabilities of disposal groups classified as held for sale (note 40(d))	**(15,069)**	–
Gain on disposal of a subsidiary (note 40(c))	**62**	423,148
Exchange gain/(loss), net	**125,477**	(211,281)
Others	**127,770**	125,999
	884,192	1,115,592

7 OPERATING PROFIT BEFORE FINANCE COSTS

Operating profit before finance costs is stated after charging the following:

	2017 HK$'000	2016 HK$'000
Cost of sales of properties and sales related expenses	**23,310,405**	4,952,745
Direct operating expenses in respect of investment properties	**651,815**	572,182
Depreciation of property, plant and equipment and amortisation of leasehold land and land use rights	**467,757**	555,100
Hotel direct operating expenses	**1,508,967**	1,555,752
Operating lease charges – land and buildings	**53,195**	51,685
Auditors' remuneration		
– audit services	**10,503**	10,535
– non-audit services	**2,898**	4,111

8 FINANCE COSTS

	2017 HK$'000	2016 HK$'000
Interest expense		
– bank loans	**862,215**	833,174
– fixed rate bonds (note 32)	**168,061**	521,801
– derivative financial instruments	**135,878**	(62,176)
– others (note)	**181,043**	(123,543)
Total finance costs incurred	**1,347,197**	1,169,256
Less: amount capitalised in properties under development and investment properties under construction	**(493,494)**	(901,329)
	853,703	267,927
Fair value (gain)/loss on derivative financial instruments		
– cash flow hedge, transfer from equity (note 39)	**(17,804)**	(1,289)
– not applying hedge accounting	**(207,690)**	144,395
Total finance costs expensed during the year	**628,209**	411,033

The capitalised interest rate applied to funds borrowed and used for the development of properties is between 2.4% and 4.9% per annum (2016: between 2.4% and 6.0% per annum).

Note: The amount included net exchange losses from financing activities of HK$157,502,000 (2016: gains of HK$158,995,000) for the year ended 31 December 2017.

9 TAXATION

Hong Kong and overseas profits tax

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profit for the year. Income tax on the overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the overseas countries in which the Group operates.

PRC corporate income tax

PRC corporate income tax has been provided at the rate of 25% (2016: 25%) on the estimated assessable profit for the year.

Withholding tax on distributed/undistributed profits

Withholding tax is levied on profit distribution upon declaration/remittance at the rates of taxation prevailing in the PRC and overseas countries.

PRC land appreciation tax

Land appreciation tax in the PRC is levied on properties developed by the Group for sale, at progressive rates ranging from 30% to 60% on the appreciation of land value, which under the applicable regulations is calculated based on the proceeds of sales of properties less deductible expenditures including land costs, borrowing costs and all property development expenditures.

The amount of taxation (charged)/credited to the consolidated income statement represents:

	2017 HK$'000	2016 HK$'000
PRC taxation		
– Current	**(1,740,557)**	(1,444,374)
– Under-provision in prior years	**(7,712)**	(912)
– Deferred	**(385,973)**	(969,247)
	(2,134,242)	(2,414,533)
Hong Kong profits tax		
– Current	**(553,379)**	(114,359)
– (Under)/over-provision in prior years	**(51,268)**	770
– Deferred	**(24,361)**	(47,003)
	(629,008)	(160,592)
Overseas taxation		
– Current	**(10,158)**	(8,415)
– Over-provision in prior years	**–**	25
– Deferred	**(13,618)**	(11,717)
	(23,776)	(20,107)
	(2,787,026)	(2,595,232)

The Group's share of taxation of associates and joint ventures for the year of HK$559,266,000 (2016: HK$440,467,000) is included in the share of results of associates and joint ventures in the consolidated income statement.

9 TAXATION (Continued)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

	2017 HK$'000	2016 HK$'000
Profit before taxation	**12,997,758**	10,329,999
Less: Share of results of associates and joint ventures	**(2,060,052)**	(1,800,981)
	10,937,706	8,529,018
Calculated at Hong Kong profits tax rate of 16.5% (2016: 16.5%)	**1,804,721**	1,407,288
Tax effect of different taxation rates in other countries	**538,526**	527,673
Utilisation of previously unrecognised tax losses	**(154,890)**	(107,526)
Tax effect of net income/expenses that are not taxable/deductible in determining taxable profit	**(247,089)**	9,186
Tax loss not recognised	**39,394**	123,635
Under-provision of taxation in prior years	**58,980**	117
	2,039,642	1,960,373
Withholding tax on distributed/undistributed profits	**226,072**	122,289
Withholding tax on capital gains	**36,736**	39,802
Land appreciation tax	**646,101**	630,357
Tax effect of deduction of land appreciation tax	**(161,525)**	(157,589)
Taxation charge	**2,787,026**	2,595,232

10 DIVIDENDS

(a) Ordinary shares

	2017 **HK$'000**	2016 HK$'000
Final dividend for the year ended 31 December 2016 of HK$0.8 (2015: HK$0.6) per fully paid share	**1,154,618**	865,889
Interim dividend for the year ended 31 December 2017 of HK$0.45 (2016: HK$0.3) per fully paid share	**649,668**	432,944
Total dividends paid	**1,804,286**	1,298,833

(b) Dividends not recognised at the end of the reporting period

At a meeting held on 16 March 2018, the Board of Directors proposed a final dividend of HK$0.9 (2016: HK$0.8) per ordinary share and a special dividend of HK$0.15 (2016: Nil) per ordinary share for the year ended 31 December 2017 totalling to HK$1,518,865,000 based on 1,446,537,728 ordinary share in issue as at 31 December 2017 (2016: HK$1,154,518,000 based on 1,443,147,728 ordinary shares in issue as at 31 December 2016). The actual amount of final dividend and special dividend payable in respect of the year ended 31 December 2017 will be subject to the actual number of ordinary shares in issue on the record date, which is expected to be on or about 25 May 2018.

11 EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

	2017	2016
Weighted average number of ordinary shares in issue	**1,443,939,549**	1,443,354,936

	2017 **HK$'000**	2016 HK$'000
Profit attributable to shareholders	**9,242,116**	6,537,258
Basic earnings per share	**HK$6.40**	HK$4.53

11 EARNINGS PER SHARE (Continued)

Diluted

Diluted earnings per share is calculated by adjusting the profit attributable to shareholders of the Company and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

	2017	2016
Weighted average number of ordinary shares in issue	**1,443,939,549**	1,443,354,936
Adjustment for share options	**1,075,525**	111,056
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,445,015,074**	1,443,465,992

	2017 HK$'000	2016 HK$'000
Profit attributable to shareholders	**9,242,116**	6,537,258
Diluted earnings per share	**HK$6.40**	HK$4.53

12 EMPLOYEE BENEFIT EXPENSE

	2017 HK$'000	2016 HK$'000
Staff costs, including directors' emoluments	**1,333,835**	1,230,349
Pension costs – defined contribution plans (note 35)	**80,409**	79,383
	1,414,244	1,309,732

13 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and senior management's emoluments

The remuneration of the Directors for the year ended 31 December 2017, excluding share option benefits, is set out below:

Name of Director	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Employer's contribution to retirement benefit scheme HK$'000	Total HK$'000
Mr Wong Siu Kong*	–	6,960	25,000	120	32,080
Mr Ho Shut Kan	–	6,240	23,500	120	29,860
Mr Bryan Pallop Gaw	–	3,972	8,500	120	12,592
Mr Kuok Khoon Hua	320	–	–	–	320
Mr Ku Moon Lun	560	–	–	–	560
Ms Wong Yu Pok, Marina, JP	600	–	–	–	600
Mr Chang Tso Tung, Stephen	560	–	–	–	560
Mr Chin Siu Wa, Alfred[1]	–	460	–	10	470

1 *Resigned on 1 February 2017*

* *Chairman*

13 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

(a) Directors' and senior management's emoluments (Continued)

The remuneration of the Directors for the year ended 31 December 2016, excluding share option benefits, is set out below:

Name of Director	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Employer's contribution to retirement benefit scheme HK$'000	Total HK$'000
Mr Wong Siu Kong*	–	6,720	21,000	120	27,840
Mr Ho Shut Kan	–	6,000	19,000	120	25,120
Mr Chin Siu Wa, Alfred[1]	–	5,520	12,000	120	17,640
Mr Bryan Pallop Gaw	–	3,780	7,500	120	11,400
Mr Kuok Khoon Hua	315	–	–	–	315
Mr Ku Moon Lun	560	–	–	–	560
Ms Wong Yu Pok, Marina, JP	600	–	–	–	600
Mr Chang Tso Tung, Stephen	555	–	–	–	555

1 *Resigned on 1 February 2017*

* *Chairman*

13 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

(b) Share options granted to the Directors of the Company

Pursuant to the 2002 Share Option Scheme and the 2011 Share Option Scheme of the Company (note 37), the Company granted to the Directors share options to subscribe for shares in the Company subject to terms and conditions stipulated therein. The fair values of share options granted to the Directors were included in the total employee benefit expense during the vesting period.

During the years ended 31 December 2017 and 31 December 2016, there were no share options granted to the Directors.

As at 31 December 2017, certain Directors held the following share options to acquire shares of the Company:

Number of share options held	**Exercise price per share HK$**	**Exercise period**
1,200,000	**47.70**	**02/04/2009 – 01/04/2018**
1,200,000	**47.70**	**02/04/2010 – 01/04/2018**
2,400,000	**47.70**	**02/04/2011 – 01/04/2018**
2,150,000	**35.45**	**31/10/2012 – 29/04/2022**
2,150,000	**35.45**	**31/10/2013 – 29/04/2022**
2,376,500	**26.88**	**08/07/2014 – 07/01/2024**
2,500,000	**26.88**	**08/01/2015 – 07/01/2024**

As at 31 December 2016, certain Directors held the following share options to acquire shares of the Company:

Number of share options held	Exercise price per share HK$	Exercise period
1,400,000	47.70	02/04/2009 – 01/04/2018
1,400,000	47.70	02/04/2010 – 01/04/2018
2,800,000	47.70	02/04/2011 – 01/04/2018
2,650,000	35.45	31/10/2012 – 29/04/2022
2,650,000	35.45	31/10/2013 – 29/04/2022
3,250,000	26.88	08/07/2014 – 07/01/2024
3,250,000	26.88	08/01/2015 – 07/01/2024

The closing market price of the Company's share as at 31 December 2017 was HK$35.15 (2016: HK$21.05) per share.

13 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2016: four) Directors. The emoluments payable to the five highest paid individuals during the year are as follows:

	2017 **HK$'000**	2016 HK$'000
Salaries	**25,788**	26,220
Discretionary bonuses	**74,500**	66,000
Pension contributions	**600**	600
	100,888	92,820

The emoluments fell within the following bands:

	Number of individuals	
	2017	2016
HK$10,500,001 – HK$11,000,000	**–**	1
HK$11,000,001 – HK$11,500,000	**–**	1
HK$12,500,001 – HK$13,000,000	**1**	–
HK$13,000,001 – HK$13,500,000	**2**	–
HK$17,500,001 – HK$18,000,000	**–**	1
HK$25,000,001 – HK$25,500,000	**–**	1
HK$27,500,001 – HK$28,000,000	**–**	1
HK$29,500,001 – HK$30,000,000	**1**	–
HK$32,000,001 – HK$32,500,000	**1**	–
	5	5

Pursuant to the 2002 Share Option Scheme and the 2011 Share Option Scheme of the Company (note 37), the Company granted to the individual share options to subscribe for shares in the Company subject to terms and conditions stipulated therein. The fair values of share options granted to the individual were included in the total employee benefit expense during the vesting period.

13 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

(d) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate and connected entities with such directors

The information about loans, quasi-loans and other dealings entered into by the Company or its subsidiaries, where applicable, in favour of Directors is as follows:

Loans to Director:

Name of the Director	Outstanding amount at the beginning of the year HK$'000	Outstanding amount at the end of the year HK$'000	Maximum outstanding during the year HK$'000	Term	Interest rate	Security
At 31 December 2017:						
Mr Kuok Khoon Hua	–	13,187	13,187	Repayable in January 2022	According to the mortgage plan offered by the Group to all buyers	Property units purchased from the Group

(e) Directors' material interests in transactions, arrangements or contracts

No transactions, arrangements or contracts of significance in relation to the Group's business to which the Company, its subsidiaries, its fellow subsidiaries or its holding companies was a party or were parties and in which a Director of the Company or any entities connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

14 PROPERTY, PLANT AND EQUIPMENT

	Hotel properties HK$'000	Warehouse and leasehold buildings HK$'000	Staff quarters HK$'000	Leasehold improvements HK$'000	Motor vehicles, furniture, fixtures and office equipment HK$'000	Total HK$'000
Cost						
At 1 January 2017	6,281,265	475,038	49,823	59,524	313,588	7,179,238
Additions	19,562	–	3	67	21,067	40,699
Disposals	(4,330)	–	(3,361)	–	(5,479)	(13,170)
Transfer and reclassification	154,920	(573)	66	916	(76,131)	79,198
Exchange adjustment	496,330	5,876	3,919	32	15,061	521,218
At 31 December 2017	6,947,747	480,341	50,450	60,539	268,106	7,807,183
Aggregate depreciation and accumulated impairment losses						
At 1 January 2017	1,129,388	41,533	8,689	55,986	185,321	1,420,917
Charge for the year	358,742	15,706	1,794	2,141	33,990	412,373
Disposals	(3,500)	–	(2,015)	–	(4,822)	(10,337)
Transfer and reclassification	(213,026)	–	53	574	(17,550)	(229,949)
Exchange adjustment	95,216	540	758	32	8,464	105,010
At 31 December 2017	1,366,820	57,779	9,279	58,733	205,403	1,698,014
Net book value as at 31 December 2017	5,580,927	422,562	41,171	1,806	62,703	6,109,169
Net book value as at 1 January 2017	5,151,877	433,505	41,134	3,538	128,267	5,758,321

14 PROPERTY, PLANT AND EQUIPMENT (Continued)

	Hotel properties HK$'000	Warehouse and leasehold buildings HK$'000	Staff quarters HK$'000	Leasehold improvements HK$'000	Motor vehicles, furniture, fixtures and office equipment HK$'000	Total HK$'000
Cost						
At 1 January 2016	5,473,613	479,654	47,221	59,206	267,159	6,326,853
Additions	225,879	–	5,232	359	77,320	308,790
Disposals	(8,462)	–	–	–	(6,642)	(15,104)
Transfer and reclassification	974,684	–	119	–	(13,100)	961,703
Exchange adjustment	(384,449)	(4,616)	(2,749)	(41)	(11,149)	(403,004)
At 31 December 2016	6,281,265	475,038	49,823	59,524	313,588	7,179,238
Aggregate depreciation and accumulated impairment losses						
At 1 January 2016	663,126	26,071	7,517	53,369	172,156	922,239
Charge for the year	447,220	15,724	1,585	2,658	36,085	503,272
Impairment charge (note 6)	80,682	–	–	–	–	80,682
Disposals	(7,800)	–	–	–	(6,143)	(13,943)
Transfer and reclassification	–	–	106	–	(8,745)	(8,639)
Exchange adjustment	(53,840)	(262)	(519)	(41)	(8,032)	(62,694)
At 31 December 2016	1,129,388	41,533	8,689	55,986	185,321	1,420,917
Net book value as at 31 December 2016	5,151,877	433,505	41,134	3,538	128,267	5,758,321
Net book value as at 1 January 2016	4,810,487	453,583	39,704	5,837	95,003	5,404,614

As at 31 December 2017, property, plant and equipment with an aggregate net book value of HK$2,133,396,000 (2016: HK$1,669,408,000) were pledged as security for bank loan facilities granted to the Group (note 44).

The Group had property, plant and equipment held by subsidiaries and associates which included hotel operations in the PRC as at 31 December 2017. Given the different economic environments in which the Group's hotels operate, there is a risk that the carrying amounts of these hotels held by subsidiaries and associates are higher than their recoverable amounts. The Group assesses the carrying amounts of hotel properties when there is any indicator that the assets may be impaired. These indicators include continuing adverse changes in the local market conditions in which the hotel operates or will operate, or when the hotel continues to operate at a loss position and its financial performance is worse than expected.

During the year ended 31 December 2017, the Group considered that no further provision for impairment loss or written back of hotel properties was necessary. During the year ended 31 December 2016, the Group recorded impairment charge of HK$80,682,000 against its property, plant and equipment held for Shangri-La Hotel, Shenyang in the PRC as a result of the impairment assessments carried out by management which involved estimating the recoverable amounts using the value in use method. The Group has made key assumptions and estimates on the appropriate discount rate, estimated occupancy rate and room rate. The discount rate adopted in the model by the Group was 8.5%.

15 INVESTMENT PROPERTIES

	2017 HK$'000	2016 HK$'000
At 1 January	**56,949,967**	57,064,707
Additions	**57,020**	603,220
Increase in fair value	**1,933,747**	3,244,197
Disposals	**(70,674)**	(216,200)
Transfer	**2,697,905**	(1,674,283)
Exchange adjustment	**2,772,621**	(2,071,674)
At 31 December	**64,340,586**	56,949,967

(a) As at 31 December 2017, investment properties amounting to HK$13,020,996,000 (2016: HK$16,634,088,000) were pledged as securities for bank loan facilities granted to the Group (note 44).

(b) Valuation of investment properties

	Residential properties under development	Completed residential properties	Completed commercial properties		Total
	Hong Kong	Hong Kong	Hong Kong	PRC	
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2017	–	12,141,800	9,884,650	34,923,517	56,949,967
Additions	–	4,174	12,065	40,781	57,020
Net gains from fair value adjustment	2,935	883,741	753,005	294,066	1,933,747
Disposals	–	–	–	(70,674)	(70,674)
Transfer	862,065	1,353,385	–	482,455	2,697,905
Exchange adjustment	–	–	–	2,772,621	2,772,621
At 31 December 2017	865,000	14,383,100	10,649,720	38,442,766	64,340,586

15 INVESTMENT PROPERTIES (Continued)

(b) Valuation of investment properties (Continued)

	Completed residential properties	Completed commercial properties		Commercial properties under development	Total
	Hong Kong	Hong Kong	PRC	PRC	
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2016	11,606,600	9,324,990	30,479,044	5,654,073	57,064,707
Additions	3,230	5,085	54,657	540,248	603,220
Net gains from fair value adjustment	531,970	554,575	1,515,603	642,049	3,244,197
Reclassification	–	–	5,290,141	(5,290,141)	–
Disposals	–	–	(216,200)	–	(216,200)
Transfer	–	–	(385,574)	(1,288,709)	(1,674,283)
Exchange adjustment	–	–	(1,814,154)	(257,520)	(2,071,674)
At 31 December 2016	12,141,800	9,884,650	34,923,517	–	56,949,967

Valuation processes of the Group
The Group measures its investment properties at fair value. The investment properties were revalued by Cushman & Wakefield Limited and Savills Valuation and Professional Services Limited, independent qualified valuers not related to the Group, who hold a recognised relevant professional qualification and have recent experience in the locations and segments of the investment properties valued, at 31 December 2017. For all investment properties, their current use equates to the highest and best use.

The Group's finance department includes a team that reviews the valuation performed by the independent valuers for financial reporting purposes. This team reports directly to the senior management and the Audit and Corporate Governance Committee. Discussions of valuation processes and results are held between the management and valuers.

At each financial year end, the finance department:

– verifies all major inputs to the independent valuation report;

– assesses property valuation movements when compared to the prior year valuation report; and

– holds discussions with the independent valuers.

Valuation techniques
Fair value of completed residential and commercial properties in Hong Kong and the PRC is mainly derived using the income capitalisation method and wherever appropriate, by direct comparison method.

Income capitalisation method is based on the capitalisation of the net income and reversionary income potential by adopting appropriate capitalisation rates, which are derived from analysis of sale transactions and valuers' interpretation of prevailing investor requirements or expectations. The prevailing market rents adopted in the valuation have reference to recent lettings, within the subject properties and other comparable properties.

15 INVESTMENT PROPERTIES (Continued)

(b) Valuation of investment properties (Continued)

Valuation techniques (Continued)

Direct comparison method is based on comparing the property to be valued directly with other comparable properties, which have recently transacted. However, given the heterogeneous nature of real estate properties, appropriate adjustments are usually required to allow for any qualitative differences that may affect the price likely to be achieved by the property under consideration.

Fair value of properties under development in Hong Kong is generally derived using the residual method. This valuation method is essentially a means of valuing the completed properties by reference to its development potential by deducting development costs together with developer's profit and risk margins from the estimated capital value of the proposed development assuming completed as at the date of valuation.

Significant unobservable inputs used to determine fair value

Capitalisation rates are estimated by valuers based on the risk profile of the investment properties being valued. The higher the rates, the lower the fair value. At 31 December 2017, capitalisation rates of 2.8% to 5.3% (2016: 3.1% to 5.5%) and 4.8% to 8.8% (2016: 5% to 9%) are used in the income capitalisation method for Hong Kong and the PRC properties respectively.

Prevailing market rents are estimated based on recent lettings for Hong Kong and the PRC investment properties, within the subject properties and other comparable properties. The lower the rents, the lower the fair value.

Estimated costs to completion, developer's profit and risk margins required are estimated by valuers based on market conditions at the reporting date for Hong Kong investment properties under development. The estimates are largely consistent with the budgets developed internally by the Group based on management's experience and knowledge of market conditions. The higher the costs and the margins, the lower the fair value.

16 LEASEHOLD LAND AND LAND USE RIGHTS

	2017 **HK$'000**	2016 HK$'000
At 1 January	**1,893,221**	1,269,770
Addition	**–**	11,070
Amortisation	**(56,171)**	(52,800)
Transfer	**128,250**	793,401
Exchange adjustment	**149,023**	(128,220)
At 31 December	**2,114,323**	1,893,221

As at 31 December 2017, leasehold land and land use rights with an aggregate net book value of HK$839,838,000 (2016: HK$1,391,090,000) were pledged as security for bank loan facilities granted to the Group (note 44).

17 PROPERTIES UNDER DEVELOPMENT

	2017 HK$'000	2016 HK$'000
At 1 January	**57,291,537**	44,245,723
Additions	**6,509,988**	15,829,571
Disposal of a subsidiary (note 40(c))	**(178,756)**	(1,293,748)
Transfer	**(37,651,273)**	(467,700)
Exchange adjustment	**1,423,671**	(1,022,309)
At 31 December	**27,395,167**	57,291,537

	2017 HK$'000	2016 HK$'000
The above are represented by:		
Amount included in non-current assets		
Hong Kong	**12,275,138**	12,673,123
Outside Hong Kong (note (a))	**8,270,443**	9,633,912
	20,545,581	22,307,035
Amount included in current assets		
Hong Kong	**–**	24,542,892
Outside Hong Kong	**6,849,586**	10,441,610
	6,849,586	34,984,502
	27,395,167	57,291,537

(a) As at 31 December 2017, the Group has 100% equity interest in a subsidiary of the Group (the "Subsidiary") which owns a piece of land (the "Land") situated in Lot C12, Nam Van Lake, Macau with a carrying amount of HK$1,200 million (2016: HK$1,200 million) and the Land is included under non-current assets as properties under development. The Subsidiary was acquired by the Group from an independent party in 2007.

The land concession in respect of the Land was granted for a lease term of 25 years for residential and parking purposes and the concession period ended on 30 July 2016. The Group has been in continuous discussion with the Macau Government on the development of the Land since acquisition. Since 2007, the Group has requested the government of Macau Special Administrative Region of the People's Republic of China (the "Macau Government") to approve the relevant building plans and the issuance of the relevant construction permit for the construction of the building structures but no reply was received from the Macau Government. In 2012, the Group was informed by Macau Government that the reason for not attending the request as the new urban plan of the Nam Van District has to be redrafted and that therefore construction works in the Nam Van District were suspended. As such, the Land was included in an announcement made by Macau Government of the land plots which non-development was not attributable to the concessionaires.

17 PROPERTIES UNDER DEVELOPMENT (Continued)

(a) (Continued)

Up to the date of approval of the financial statements, the Macau Government has not instituted any proceedings for the forfeiture of the Land or levied any penalty on the Group due to its non-timely development while the lease terms had expired on 30 July 2016. In addition, there is no written notice or declaration of the lease expiry in the official gazette of the Macau Government to the Group or other notices to the concessionaires in the Nam Van District. The Subsidiary remains as the registered lessee of the Land.

Based on above-mentioned situation, after taking into consideration of the legal advice from an independent legal counsel, together with the current status of the ownership of the Land, management considered that the Group has strong grounds to challenge the Macau Government of any attempt if the Macau Government were to repossess the Land. The Directors have made an assessment of the value of the Land on the basis that the lease can be renewed for an extended period of time with insignificant cost and considered that no provision for impairment loss on the Land was necessary as at 31 December 2017.

As at 31 December 2017, properties under development amounting to HK$Nil (2016: HK$975,738,000) were pledged as securities for bank loan facilities granted to the Group (note 44).

18 SUMMARISED FINANCIAL INFORMATION OF A SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS

Set out below are the summarised financial information of a subsidiary, Shanghai Ji Xiang Properties Co., Ltd., that has non-controlling interests of 49% that are material to the Group. The principal place of business of Shanghai Ji Xiang Properties Co., Ltd. is Shanghai, the PRC.

Summarised statement of financial position as at 31 December 2017

	2017 **HK$'000**	2016 HK$'000
Current		
Assets	**542,681**	339,807
Liabilities	**(793,534)**	(817,020)
Total current net liabilities	**(250,853)**	(477,213)
Non-current		
Assets	**15,108,378**	14,008,366
Liabilities	**(5,290,121)**	(5,298,667)
Total non-current net assets	**9,818,257**	8,709,699
Net assets	**9,567,404**	8,232,486

18 SUMMARISED FINANCIAL INFORMATION OF A SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS (Continued)

Summarised statement of comprehensive income for the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
Revenue	**1,820,604**	1,772,397
Profit before income tax	**951,608**	977,375
Income tax expenses	**(260,964)**	(301,555)
Profit for the year	**690,644**	675,820
Other comprehensive income	**460,310**	(278,483)
Total comprehensive income	**1,150,954**	397,337
Total comprehensive income allocated to non-controlling interests	**563,967**	198,354
Dividend paid to non-controlling interests	**67,626**	–

Summarised cash flows for the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
Cash flows from operating activities		
Cash generated from operations	**1,088,731**	809,623
Interest paid	**(115,140)**	(174,481)
Income tax paid	**(196,562)**	–
Net cash generated from operating activities	**777,029**	635,142
Net cash used in investing activities	**(2,449)**	(70,934)
Net cash used in financing activities	**(546,480)**	(798,406)
Net increase/(decrease) in cash and cash equivalents	**228,100**	(234,198)
Cash and cash equivalents at 1 January	**228,269**	480,057
Effect of exchange rate changes	**13,135**	(17,590)
Cash and cash equivalents at 31 December	**469,504**	228,269

The information above is the amount before inter-company eliminations.

19 ASSOCIATES AND JOINT VENTURES

	2017			2016
	Associates	**Joint ventures**	**Total**	Associates
	HK$'000	**HK$'000**	**HK$'000**	HK$'000
Unlisted investments	**7,417,831**	**957,579**	**8,375,410**	7,544,874
Listed equity securities, in Hong Kong	**9,052,727**	**–**	**9,052,727**	7,986,227
Listed equity securities, outside Hong Kong	**1,328,330**	**–**	**1,328,330**	1,251,195
Share of net assets, including goodwill (note (a))	**17,798,888**	**957,579**	**18,756,467**	16,782,296
Amounts due from associates and joint ventures (note (b))	**1,633,980**	**3,613,096**	**5,247,076**	1,931,959
Amounts due to associates and joint ventures (note (c))	**(170,564)**	**–**	**(170,564)**	(63,421)
	19,262,304	**4,570,675**	**23,832,979**	18,650,834

(a) Details of principal associates and joint ventures are set out in note 47(b).

(b) The amounts due from associates and joint ventures are unsecured, interest-free except for amounts totalling HK$4,906,124,000 (2016: HK$1,491,600,000) which bear interest at prevailing market rates and are not repayable in the foreseeable future.

(c) The amounts due to associates and joint ventures are unsecured, interest-free and not repayable within twelve months from the end of each reporting period.

(d) The following sets out the aggregate amount of the Group's share of results of associates and joint ventures for the year:

	2017	2016
	HK$'000	HK$'000
Share of results of associates	**2,062,281**	1,800,981
Share of results of joint ventures	**(2,229)**	–
	2,060,052	1,800,981

19 ASSOCIATES AND JOINT VENTURES (Continued)

(e) Set out below are the summarised financial information for the associate of the Group, Kerry Logistics Network Limited ("Kerry Logistics"), which, in the opinion of the Directors, is material to the Group. The associate is accounted for using the equity method.

Summarised consolidated statement of financial position as at 31 December 2017

	2017	2016
	HK$'000	HK$'000
Current		
Assets	**11,651,500**	9,597,556
Liabilities	**(9,853,733)**	(6,015,460)
Total current net assets	**1,797,767**	3,582,096
Non-current		
Assets	**27,225,434**	23,594,339
Liabilities	**(6,660,129)**	(7,990,064)
Total non-current net assets	**20,565,305**	15,604,275
Net assets	**22,363,072**	19,186,371

Summarised consolidated statement of comprehensive income for the year ended 31 December 2017

	2017	2016
	HK$'000	HK$'000
Revenue	**30,787,654**	24,035,567
Operating expenses and others	**(27,065,590)**	(20,751,027)
Depreciation and amortisation	**(639,889)**	(555,884)
Interest income	**46,462**	49,707
Interest expense	**(159,825)**	(145,209)
Profit before taxation	**2,968,812**	2,633,154
Taxation	**(469,350)**	(397,596)
Profit for the year	**2,499,462**	2,235,558
Other comprehensive income	**963,487**	(478,754)
Total comprehensive income	**3,462,949**	1,756,804
Dividends received from the associate	**143,668**	122,118

The information above reflects the amounts presented in the consolidated financial statements of Kerry Logistics (and not the Group's share of those amounts) for the year adjusted for differences in accounting policies between the Group and the associate.

19 ASSOCIATES AND JOINT VENTURES (Continued)

(e) (Continued)

Reconciliation of summarised financial information

	2017 HK$'000	2016 HK$'000
Opening net assets as at 1 January	**15,812,079**	15,947,032
Profit for the year attributable to shareholders	**2,115,897**	1,877,202
Other comprehensive income attributable to shareholders	**741,449**	(420,041)
Dividends paid	**(339,165)**	(288,149)
Changes in other reserves	**(2,593)**	(1,309,802)
Others	**10,180**	5,837
Closing net assets as at 31 December	**18,337,847**	15,812,079
Interest in the associate (approximately 42.35%) (2016: 42.37%)	**7,766,078**	6,699,578
Goodwill	**1,286,649**	1,286,649
Carrying value as at 31 December	**9,052,727**	7,986,227

As at 31 December 2017, the fair value of the Group's interest in Kerry Logistics, which is listed on the Hong Kong Stock Exchange, was HK$7,959,218,000 (2016: HK$7,025,375,000).

(f) Set out below are the summarised financial information for the associate of the Group, Pembrooke Development Investments Limited ("Pembrooke Development"), which, in the opinion of the Directors, is material to the Group. The associate is accounted for using the equity method.

Summarised statement of financial position as at 31 December 2017

	2017 HK$'000	2016 HK$'000
Current		
Assets	**1,071,196**	2,016,367
Liabilities	**(274,427)**	(594,164)
Total current net assets	**796,769**	1,422,203
Net assets	**796,769**	1,422,203

19 ASSOCIATES AND JOINT VENTURES (Continued)

(f) (Continued)

Summarised statement of comprehensive income for the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
Revenue	**1,208,628**	1,379,171
Operating expenses and others	**(705,090)**	(956,538)
Interest income	**4,105**	4,549
Interest expense	**–**	(19,095)
Profit before taxation	**507,643**	408,087
Taxation	**(83,077)**	(66,598)
Profit for the year and total comprehensive income	**424,566**	341,489
Dividends received from the associate	**420,000**	200,000

The information above reflects the amounts presented in the financial statements of Pembrooke Development (and not the Group's share of those amounts) for the year adjusted for differences in accounting policies between the Group and the associate.

Reconciliation of summarised financial information

	2017 HK$'000	2016 HK$'000
Opening net assets as at 1 January	**1,422,203**	1,580,714
Profit for the year	**424,566**	341,489
Dividends paid	**(1,050,000)**	(500,000)
Closing net assets as at 31 December	**796,769**	1,422,203
Interest in the associate (40%) (2016: 40%)	**318,708**	568,881
Carrying value as at 31 December	**318,708**	568,881

(g) The aggregate amount of the Group's share of results of its associates and joint ventures which are individually immaterial are as follows:

	2017 HK$'000	2016 HK$'000
Profit for the year	**994,144**	869,015
Other comprehensive income	**(2,522)**	(558,089)
Total comprehensive income	**991,622**	310,926

20 DERIVATIVE FINANCIAL INSTRUMENTS

	2017		2016	
	Assets	**Liabilities**	Assets	Liabilities
	HK$'000	**HK$'000**	HK$'000	HK$'000
Non-current				
Cash flow hedges				
Cross currency and interest rate swap contracts, at fair value (note (a))	**37,342**	**–**	100,139	–
Derivative financial instruments not applying hedge accounting				
Cross currency swap contracts, at fair value (note (b))	**–**	**–**	–	150,164
Sub-total	**37,342**	**–**	100,139	150,164
Current				
Cash flow hedges				
Forward exchange and interest rate swap contracts, at fair value (note (a))	**3,645**	**–**	54,789	–
Derivative financial instruments not applying hedge accounting				
Forward exchange contracts, at fair value (note (b))	**–**	**–**	4,599	62,125
Sub-total	**3,645**	**–**	59,388	62,125
Total	**40,987**	**–**	159,527	212,289

20 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Derivatives holding for trading purpose are classified as a current asset or liability. The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months after the end of the reporting period and, as a current asset or liability, if the maturity of the hedged item is less than 12 months after the end of the reporting period.

(a) Forward exchange, cross currency swap and interest rate swap contracts that qualify for hedge accounting – cash flow hedges

The changes in fair value of forward exchange, cross currency swap and interest rate swap contracts that are designated and qualified as cash flow hedges amounting to a loss of HK$113,941,000 (2016: gain of HK$108,567,000) are recognised in hedging reserve in equity. Under cash flow hedges, the gain of HK$17,804,000 (2016: HK$1,289,000) was reclassified from hedging reserve to finance costs in the consolidated income statement.

(i) Hedge for fixed rate bonds

During the year ended 31 December 2011, an indirect wholly-owned subsidiary of the Company entered into cross-currency swap contracts amounting to US$297,000,000, under which the principal amounts were exchanged at inception and will be re-exchanged on expiring date in April 2021 at an average exchange rate of US$1 to HK$7.776. Under these contracts, the fixed interest rates ranging from 5.26% to 5.275% per annum on the exchanged Hong Kong dollar principal amounts would be paid and the fixed interest rate of 5.875% per annum on the United States dollar principal amounts would be received.

The outstanding forward exchange contracts as at 31 December 2016, to buy approximately US$164,915,000 (equivalent to RMB1,150,000,000) at the average exchange rate of US$1 to approximately RMB6.973, were settled in 2017.

(ii) Hedge for Hong Kong dollar bank borrowings

During the year ended 31 December 2013, the Group entered into a total of notional principal amounts of HK$4,000,000,000 5-year interest rate swap contracts. Such interest rate swap contracts have the economic effect of converting borrowings from floating rates to fixed rates. The contracted fixed rates range from 0.74% to 0.89% per annum.

(b) Cross currency swap and forward exchange contracts not applying hedge accounting

The outstanding cross currency swap contracts as at 31 December 2016, amounting to RMB900,000,000 (equivalent to HK$1,122,690,000), were settled in 2017.

The outstanding forward exchange contracts as at 31 December 2016, to buy US$315,000,000 (equivalent to HK$2,437,680,000), at the average exchange rate of US$1 to approximately HK$7.739, to buy RMB512,600,000 (equivalent to approximately HK$615,401,000) at the average exchange rate of RMB1 to approximately HK$1.201 and to sell RMB1,500,000,000 (equivalent to approximately HK$1,651,119,000) at the average exchange rate of RMB1 to approximately HK$1.101, were settled in 2017.

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the consolidated statement of financial position.

21 AVAILABLE-FOR-SALE INVESTMENTS

	2017	2016
	HK$'000	HK$'000
Listed equity securities, at fair value	**61,501**	51,408
Unlisted equity securities, at fair value (note)	**5,282,793**	4,804,782
	5,344,294	4,856,190

Note: In 2016, the Group acquired an indirect equity interest of approximately 24.4% in Shanghai Krupp Stainless Co. Ltd. ("SKS"), which owns a project site in Pudong New Area, Shanghai (the "Project"). As the Group does not have any significant influence over financial and operating policies to Shanghai Krupp, the Group recorded its investments as available-for-sale investments. The investment cost in SKS amounting to HK$3,425 million as at 31 December 2017 was included in the balance of unlisted equity securities.

The Group's investment was made based on a public notice issued and approved in May 2016 by the Municipal Government on city planning regarding the conversion of the land usage from industrial to commercial and residential use. However, in August 2017, the Municipal Government issued and approved another development plan of Pudong Expo Cultural Park of which the underlying Project held by SKS fell within the area of park development.

As of the date of this report, there is no verbal or written notice issued by the government to SKS regarding the development of the site area and the rationale of the change in the development plan of the area and its implication to the original development plan of the Project. As of the date of this report, SKS remains as the registered owner of the land with all the rights conferred as per the original land grant.

Based on the above-mentioned situation and after taking into consideration the legal advice from an independent legal counsel, together with the current status of the project site, management considered SKS maintains reasonable grounds to negotiate with the Municipal Government in respect of the latest development plan of the Project including but not limited to explore a mutually acceptable solution and/or to pursue a negotiation for its damages and loss of profits, if any. Management has then engaged independent valuers, Cushman & Wakefield Limited, who hold a recognised relevant professional qualification, to estimate the fair value of the Group's available-for-sale investments as at 31 December 2017 based on the original development plan of the Project as set out in the public notice issued in May 2016.

Cushman & Wakefield Limited adopted an asset-based valuation approach on the investment, which is a means of estimating the value of a business using methods based on the market value of individual business assets less liabilities and judgement was required to determine the fair value.

22 MORTGAGE LOANS RECEIVABLE

	2017 HK$'000	2016 HK$'000
Non-current mortgage loans receivable	**3,641,905**	1,001,386
Current portion of mortgage loans receivable	**30,025**	13,663
Total mortgage loans receivable	**3,671,930**	1,015,049

The balance included first mortgage loans of HK$2,442,536,000 (2016: HK$611,329,000) offered to buyers of certain properties developed by the Group in Hong Kong. For these first mortgage loans receivable, the fair value was calculated based on cash flows discounted using lending rates from financial institutions and assuming the loans will be repaid according to the contract terms. The valuation process of the Group is set out in note 3(c)(iv) to the consolidated financial statements.

The remaining amounts mostly represented the second mortgage loans receivable which are carried at amortised cost.

Mortgage loans receivable are denominated in Hong Kong dollars.

23 ACCOUNTS RECEIVABLE, PREPAYMENTS AND DEPOSITS

	2017 HK$'000	2016 HK$'000
Trade receivables (note (a))	**4,332,017**	347,788
Prepayments	**223,230**	928,753
Land bidding deposit (note (b))	**–**	168,652
Others	**3,010,964**	1,033,423
	7,566,211	2,478,616

The carrying amounts of accounts receivable approximate their fair value.

The carrying amounts of the Group's accounts receivable, prepayments and deposits are denominated in the following currencies:

	2017 HK$'000	2016 HK$'000
Hong Kong dollar	**6,957,831**	1,831,154
Renminbi	**507,694**	646,858
Other currencies	**100,686**	604
	7,566,211	2,478,616

23 ACCOUNTS RECEIVABLE, PREPAYMENTS AND DEPOSITS (Continued)

(a) The Group maintains defined credit policies and applies those appropriate to the particular business circumstances of the Group. At 31 December 2017, the ageing analysis of the trade receivables based on date of the invoice or the terms of the related sales and purchase agreements and net of provision for impairment of the Group is as follows:

	2017 **HK$'000**	2016 HK$'000
Below 1 month	**1,905,122**	104,343
Between 1 month and 3 months	**427,595**	48,912
Over 3 months	**1,999,300**	194,533
	4,332,017	347,788

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers. As of 31 December 2017, trade receivables of HK$116,340,000 (2016: HK$109,833,000) were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The ageing analysis of these trade receivables is as follows:

	2017 **HK$'000**	2016 HK$'000
Up to 3 months	**84,195**	101,233
Over 3 months	**32,145**	8,600

(b) On 7 December 2016, the Company, together with Kerry Holdings Limited ("KHL") (an indirect holding company of the Company) and The Bank of East Asia, Limited ("BEA"), jointly won the public bidding to acquire a project site located at Qianhai at the consideration of RMB3,020,000,000 (the "Consideration"). Deposit of RMB604,000,000 had been paid in 2016 in the proportion of 25%, 50% and 25% by the Company, KHL and BEA, respectively and refunded to each individual party following the payment of the Consideration in 2017 in accordance with the land contract. As at 31 December 2016, the Company had contributed RMB151,000,000 to the payment of the deposit.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. The Group does not hold any collateral as security.

The trade receivables, other receivables and deposits do not contain impaired asset.

24 INTANGIBLE ASSETS

	2017 HK$'000	2016 HK$'000
At 1 January and 31 December	**122,504**	122,504

25 COMPLETED PROPERTIES HELD FOR SALE

	2017 HK$'000	2016 HK$'000
Leasehold land and land use rights	**8,067,577**	831,837
Other development costs	**8,804,354**	2,955,578
	16,871,931	3,787,415

These completed properties held for sale are located in Hong Kong and the PRC.

As at 31 December 2017, completed properties held for sale with an aggregate net book value of HK$591,656,000 (2016: HK$Nil) were pledged as security for bank loan facilities granted to the Group (note 44).

26 LISTED SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017 HK$'000	2016 HK$'000
Listed securities		
– Hong Kong	**7,463**	5,490
– Malaysia	**269**	219
	7,732	5,709

27 RESTRICTED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

(a) Restricted bank deposits

	2017 HK$'000	2016 HK$'000
Restricted bank deposits (note)	**595,906**	206,719

Note: As at 31 December 2017, the Group's bank balances amounting to approximately HK$595,906,000 (2016: HK$206,719,000) were deposited in certain banks respectively as guarantee deposits for bank facilities of the Group, including mortgage loan facilities (note 43(b)) granted by the banks to the purchasers of the Group's certain properties and as amounts required to be reserved by the relevant PRC authorities for the Group's pre-sale of certain properties.

(b) Cash and cash equivalents

	2017 HK$'000	2016 HK$'000
Cash at bank and on hand	**11,070,207**	6,790,536
Short-term bank deposits (note (i))	**2,081,507**	9,484,002
Cash and bank balances (note (ii))	**13,151,714**	16,274,538
Less: short-term bank deposits maturing after more than three months	**(500,480)**	(366,220)
Cash and cash equivalents	**12,651,234**	15,908,318

Cash and bank balances are denominated in the following currencies:

	2017 HK$'000	2016 HK$'000
Renminbi	**11,498,079**	13,459,658
Hong Kong dollar	**1,586,126**	1,759,280
United States dollar	**52,535**	1,053,971
Other currencies	**14,974**	1,629
	13,151,714	16,274,538

(i) The effective interest rate on short-term bank deposits was 1.94% (2016: 2.55%) per annum; these deposits have an average maturity of less than 6 months.

(ii) Cash at bank and on hand and short-term bank deposits of HK$11,962,373,000 (2016: HK$13,484,688,000) are held in the PRC and are subject to local exchange control regulations.

28 NON-CURRENT ASSETS RECLASSIFIED AS HELD FOR SALE

The Group entered into agreements in October 2016 and November 2016 to sell a commercial portion of the investment properties in Shenzhen Kerry Centre to independent third parties and accordingly, the respective portion of the investment properties had been classified as non-current assets reclassified as held for sale. The transactions were completed in 2017.

29 ASSETS AND LIABILITIES OF DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

In May 2016, the Group signed shares transfer agreements with an independent third party to sell all its 65% interest in Zhanfeng Real Estate (Yingkou) Co., Ltd. and Zhanye Real Estate (Yingkou) Co., Ltd. (collectively "Zhanfeng and Zhanye", property development companies under PRC Property segment which hold the property projects in Yingkou). The transaction was completed in 2017.

In December 2016, the Group signed shares transfer agreement with two independent third parties to sell all its 100% interest in Changsha Guang Yue Real Estate Co., Ltd ("Changsha Guang Yue", a property development company under PRC Property segment which holds the property project in Changsha). Shares transfer was completed in January 2017.

As at 31 December 2016, the assets and liabilities related to Zhanfeng and Zhanye and Changsha Guang Yue had been classified as assets and liabilities of disposal groups classified as held for sale.

30 ACCOUNTS PAYABLE, DEPOSITS RECEIVED AND ACCRUED CHARGES

	2017	2016
	HK$'000	HK$'000
Trade payables	**714,067**	602,739
Construction costs payable	**3,709,340**	2,887,691
Rental deposits	**1,334,551**	1,194,035
Others	**1,872,590**	1,974,936
	7,630,548	6,659,401

The ageing analysis of trade payables of the Group as at 31 December 2017 is as follows:

	2017	2016
	HK$'000	HK$'000
Below 1 month	**669,119**	535,487
Between 1 month and 3 months	**29,869**	34,763
Over 3 months	**15,079**	32,489
	714,067	602,739

The carrying amounts of the Group's accounts payable, deposits received and accrued charges are denominated in the following currencies:

	2017	2016
	HK$'000	HK$'000
Renminbi	**4,457,362**	4,791,459
Hong Kong dollar	**3,163,499**	1,867,128
Other currencies	**9,687**	814
	7,630,548	6,659,401

31 BANK LOANS

	2017 HK$'000	2016 HK$'000
Non-current		
Bank loans		
– unsecured	**23,604,712**	29,339,620
– secured (note 44)	**3,177,004**	5,167,671
	26,781,716	34,507,291
Current		
Bank loans		
– unsecured	**8,834,667**	3,856,100
– secured (note 44)	**68,481**	–
	8,903,148	3,856,100
Total bank loans	**35,684,864**	38,363,391

The maturity of bank loans is as follows:

	2017 HK$'000	2016 HK$'000
Within 1 year	**8,903,148**	3,856,100
Between 1 and 2 years	**8,263,691**	8,888,834
Between 2 and 5 years	**18,518,025**	24,730,903
Repayable within 5 years	**35,684,864**	37,475,837
Over 5 years	**–**	887,554
	35,684,864	38,363,391

The effective annual interest rates of the bank loans at the end of the reporting period were as follows:

	2017		2016	
	HK$	RMB	HK$	RMB
Bank loans	**1.98%**	**4.13%**	1.63%	4.25%

The carrying amounts of all bank loans approximate their fair value.

31 BANK LOANS (Continued)

The carrying amounts of the bank loans are denominated in the following currencies:

	2017 **HK$'000**	2016 HK$'000
Hong Kong dollar	**28,636,140**	30,304,000
Renminbi	**7,048,724**	8,059,391
	35,684,864	38,363,391

32 FIXED RATE BONDS

	2017 **HK$'000**	2016 HK$'000
Non-current	**2,336,901**	2,317,612
Current	**–**	4,652,074
Total fixed rate bonds	**2,336,901**	6,969,686

On 6 April 2011, Wiseyear Holdings Limited ("Wiseyear"), a wholly-owned subsidiary of the Company, issued fixed rate bonds in the aggregate principal amount of US$300,000,000. The fixed rate bonds are guaranteed by the Company as to repayment, and carry a coupon rate of 5.875% per annum and have a maturity term of 10 years.

On February 2012, Wiseyear issued fixed rate bonds in the aggregate principal amount of US$600,000,000. The fixed rate bonds are guaranteed by the Company as to repayment, and carry a coupon rate of 5% per annum and have a maturity term of 5 years. On 15 February 2017, the Group fully redeemed these bonds.

The fixed rate bonds are listed on the Singapore Exchange Securities Trading Limited. The market value of the fixed rate bonds as at 31 December 2017 was HK$2,507,681,000 (2016: HK$7,175,419,000). The fair value of the fixed rate bonds is within Level 1 of the fair value hierarchy.

33 AMOUNTS DUE TO NON-CONTROLLING INTERESTS

The amounts due to non-controlling interests represent proportionate funding from the non-controlling interests of subsidiaries including an amount of approximately HK$1,111,624,000 (2016: HK$1,095,011,000) due to certain subsidiaries of Shangri-La Asia Limited ("SA"), a related company whose shares are listed on Hong Kong Stock Exchange. These loans are unsecured, subordinated to the bank loans of the relevant subsidiaries, not repayable within twelve months from the end of reporting period, and interest-free except for a total amount of HK$682,659,000 (2016: HK$641,385,000) which bears interest at prevailing market rates.

The carrying values of the Group's amounts due to non-controlling interests are denominated in the following currencies:

	2017 **HK$'000**	2016 HK$'000
Hong Kong dollar	**1,393,156**	1,934,019
United States dollar	**564,662**	520,267
Other currencies	**148,473**	136,398
	2,106,291	2,590,684

34 DEFERRED TAXATION

	2017 **HK$'000**	2016 HK$'000
At 1 January	**6,927,118**	6,303,995
Deferred taxation charged to consolidated income statement	**423,952**	1,027,967
Exchange adjustment	**255,599**	(404,844)
At 31 December	**7,606,669**	6,927,118

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK$1,501,169,000 (2016: HK$2,385,956,000) to be carried forward in offsetting the future taxable profits. These tax losses have no expiry dates except for the tax losses of HK$473,913,000 (2016: HK$1,019,128,000) which will expire at various dates up to and including year 2022 (2016: year 2021).

As at 31 December 2017, the aggregate amount of unrecognised deferred tax liabilities associated with investments in subsidiaries totalled approximately HK$1,105,832,000 (2016: HK$1,068,467,000), as the Directors consider that the timing of reversal of the related temporary differences can be controlled and the temporary differences will not reverse in the foreseeable future.

34 DEFERRED TAXATION (Continued)

The movements in deferred tax (assets) and liabilities during the year were as follows:

	Revaluation	Accelerated depreciation allowances	Tax losses	Others	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2017	**6,072,802**	**487,075**	**(624)**	**367,865**	**6,927,118**
Deferred taxation charged to consolidated income statement	**176,199**	**30,632**	**(1,029)**	**218,150**	**423,952**
Exchange adjustment	**343,463**	**10,098**	**–**	**(97,962)**	**255,599**
At 31 December 2017	**6,592,464**	**527,805**	**(1,653)**	**488,053**	**7,606,669**

	Revaluation	Accelerated depreciation allowances	Tax losses	Others	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2016	5,638,641	443,239	(112,999)	335,114	6,303,995
Deferred taxation charged to consolidated income statement	754,302	51,576	108,216	113,873	1,027,967
Exchange adjustment	(320,141)	(7,740)	4,159	(81,122)	(404,844)
At 31 December 2016	6,072,802	487,075	(624)	367,865	6,927,118

35 RETIREMENT BENEFITS

Group companies operate various pension schemes. The schemes are funded through payments to independent trustee-administered funds. The Group has defined contribution plans during the year.

Defined contribution plans

Pursuant to the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) (the "MPF Ordinance"), companies within the Group in Hong Kong have enrolled all employees in Hong Kong aged between 18 and 65 into a mandatory provident fund scheme (the "MPF Scheme") from 1 December 2000.

The MPF Scheme is a master trust scheme established under a trust arrangement and governed by laws in Hong Kong. The assets of the MPF Scheme are held separately from the assets of the employer, the trustees and other service providers. Employees and employer who are covered by the MPF system are each required to make regular mandatory contributions calculated at 5% of the employee's relevant income as defined in the MPF Ordinance to the MPF Scheme, subject to the minimum and maximum relevant income levels. The MPF Contributions made by the employer (the "MPF Contribution") are fully and immediately vested in the employees as accrued benefits once they are paid to the approved trustees of the MPF Scheme. Investment income or profit derived from the investment of accrued benefits (after taking into account any loss arising from such investment) is also immediately vested in the employees.

Certain companies within the Group are also participants of the Kerry Trading Co. Limited – Provident Fund Scheme (the "Fund") which is a defined contribution scheme as defined in the Occupational Retirement Schemes Ordinance (Chapter 426 of the Laws of Hong Kong). The Fund is for certain salaried persons (the "Fund Members") under the employment of the companies participating in the Fund. The assets of the Fund are managed by the trustees of the Fund. Contributions are made to the Fund by companies participating in the Fund at 10% of the Fund Members' monthly basic salaries up to a maximum of HK$10,000 (2016: HK$10,000) per Fund Member per month (the "Basic Contribution") less the MPF Contribution if the Basic Contribution is higher than the MPF Contribution. Fund Members are entitled to 100% of the employers' contributions to the Fund plus investment earnings upon leaving employment after completing ten years of service or more, or upon retirement after attaining the retirement age after any number of years of service, or upon retirement due to ill health. Fund Members are also entitled to the employers' contributions to the Fund plus investment earnings calculated at a reduced scale of between 20% and 90% after completing a period of service of at least two but less than ten years. The unvested benefits of employees terminating employment forfeited in accordance with the terms of the Fund can be utilised by the companies participating in the Fund to reduce future contributions. During the year, forfeited contributions totalling HK$1,436,000 (2016: HK$945,000) were utilised leaving HK$1,442,000 (2016: HK$307,000) available at the year end to reduce future contributions.

The Group also made defined contributions to pension plans as required by the relevant municipality or provincial governments in the PRC. The rates of contributions for the relevant periods ranged from 13% to 21% of the staff's salary.

36 SHARE CAPITAL

	Authorised Ordinary shares of HK$1 each	
	Number of shares	HK$'000
At 31 December 2016 and 2017	10,000,000,000	10,000,000

	Issued and fully paid Ordinary shares of HK$1 each			
	2017		2016	
	Number of shares	**HK$'000**	Number of shares	HK$'000
At 1 January	**1,443,147,728**	**1,443,148**	1,445,856,228	1,445,856
Issue of shares as a result of exercise of share options (note (a))	**3,390,000**	**3,390**	–	–
Repurchase of shares (note (b))	**–**	**–**	(2,708,500)	(2,708)
At 31 December	**1,446,537,728**	**1,446,538**	1,443,147,728	1,443,148

(a) During the year ended 31 December 2017, a total of 3,390,000 share options were exercised at exercise prices of HK$17.58 and HK$26.88 per share. Details of movements in share options during the year are set out in note 37. Total amount of proceeds of HK$89,821,200 received in respect of shares issued following the exercise of the share options were used as additional working capital for the Group.

(b) During the year ended 31 December 2016, the Company repurchased 2,708,500 shares on the Hong Kong Stock Exchange at an aggregate consideration of HK$52,227,910 for cancellation.

37 SHARE OPTIONS

(a) 2002 Share Option Scheme

Under the 2002 Share Option Scheme, the Directors of the Company may, at their discretion, grant share options to executives and key employees in the service of the Group and other persons who may make a contribution to the Group subject to terms and conditions stipulated therein. The exercise price for any particular share option shall be such price as the Board of Directors of the Company may in its absolute discretion determine at the time of grant of the relevant share option subject to the compliance with the Listing Rules.

The 2002 Share Option Scheme was terminated on 5 May 2011 such that no further share options shall be offered but the share options which had been granted during its life shall continue to be valid and exercisable in accordance with their terms of issue and in all other respects its provisions shall remain in full force and effect.

Details of the movement of the share options under the 2002 Share Option Scheme are as follows:

	2017		2016	
	Weighted average exercise price in HK$ per share	**Number of share options**	Weighted average exercise price in HK$ per share	Number of share options
At 1 January	**45.81**	**10,775,000**	45.89	11,225,000
Exercised during the year	**17.58**	**(140,000)**	–	–
Lapsed during the year	**–**	**–**	47.70	(450,000)
At 31 December (note (i))	**46.18**	**10,635,000**	45.81	10,775,000

As at 31 December 2017, 10,635,000 (2016: 10,775,000) outstanding share options granted under the 2002 Share Option Scheme were exercisable. For the share options exercised during the year, the exercise price per share was HK$17.58, the related weighted average share price at the time of exercise was HK$32.79 (2016: Nil) and the total amount of proceeds received was HK$2,461,200 (2016: Nil). No share option was granted, granted for adjustment or cancelled during the year (2016: Nil).

37 SHARE OPTIONS (Continued)

(a) 2002 Share Option Scheme (Continued)

Note:

(i) Terms of share options at the end of the reporting period were as follows:

Exercise period	Exercise price per share (HK$)	Number of share options 2017	2016
02/04/2009 – 01/04/2018	47.70	**2,525,000**	2,525,000
02/04/2010 – 01/04/2018	47.70	**2,525,000**	2,525,000
02/04/2011 – 01/04/2018	47.70	**5,050,000**	5,050,000
06/02/2010 – 05/02/2019	17.58	**235,000**	280,000
06/02/2011 – 05/02/2019	17.58	**300,000**	395,000
		10,635,000	10,775,000

(b) 2011 Share Option Scheme

Under the 2011 Share Option Scheme, the Directors of the Company may, at their discretion, grant share options to executives and key employees in the service of the Group and other persons who may make a contribution to the Group subject to terms and conditions stipulated therein. The exercise price for any particular share option shall be such price as the Board of Directors of the Company may in its absolute discretion determine at the time of grant of the relevant share option subject to the compliance with the Listing Rules.

Details of the movement of the share options under the 2011 Share Option Scheme are as follows:

	2017		2016	
	Weighted average exercise price in HK$ per share	**Number of share options**	Weighted average exercise price in HK$ per share	Number of share options
At 1 January	**31.92**	**32,512,000**	32.06	35,197,000
Exercised during the year	**26.88**	**(3,250,000)**	–	–
Lapsed during the year	**29.52**	**(260,000)**	33.74	(2,685,000)
At 31 December (note (i))	**32.50**	**29,002,000**	31.92	32,512,000

As at 31 December 2017, 29,002,000 (2016: 32,512,000) outstanding share options granted under the 2011 Share Option Scheme were exercisable. For the share options exercised during the year, the exercise price per share was HK$26.88, the related weighted average share price at the time of exercise was HK$33.49 (2016: Nil) and the total amount of proceeds received was HK$87,360,000 (2016: Nil). No share option was granted, granted for adjustment or cancelled during the year (2016: Nil).

37 SHARE OPTIONS (Continued)

(b) 2011 Share Option Scheme (Continued)

Note:

(i) Terms of share options at the end of the reporting period were as follows:

Exercise period	Exercise price per share (HK$)	Number of share options 2017	2016
31/10/2012 – 29/04/2022	35.45	**9,485,000**	9,525,000
31/10/2013 – 29/04/2022	35.45	**9,545,000**	9,585,000
08/07/2014 – 07/01/2024	26.88	**4,572,000**	6,632,000
08/01/2015 – 07/01/2024	26.88	**5,400,000**	6,770,000
		29,002,000	32,512,000

38 SHARE PREMIUM

	2017 HK$'000	2016 HK$'000
At 1 January	**12,408,816**	12,426,503
Arising from exercise of share options (note 37)	**86,431**	–
Transfer from share options reserve (note 39(a))	**20,426**	31,982
Repurchase of shares	**–**	(49,669)
At 31 December	**12,515,673**	12,408,816

39 OTHER RESERVES

	Other property revaluation reserve HK$'000	Available-for-sale investments revaluation reserve HK$'000	Hedging reserve HK$'000	Others (note (a)) HK$'000	Total HK$'000
At 1 January 2017	49,018	1,296,954	158,339	6,674,810	8,179,121
Cash flow hedges:					
– Fair value losses	–	–	(113,941)	–	(113,941)
– Transfer to finance costs (note 8)	–	–	(17,804)	–	(17,804)
Available-for-sale investments					
– Fair value gains	–	225,273	–	–	225,273
Share of exchange fluctuation reserve of associates and joint ventures	–	–	–	315,056	315,056
Share of other reserves of associates and joint ventures	(24)	(614)	–	(2,936)	(3,574)
Net translation differences on foreign operations	–	–	–	3,568,663	3,568,663
Transfer to share premium (note 38)	–	–	–	(20,426)	(20,426)
Transfer from retained profits	–	–	–	58,629	58,629
Acquisition of additional interests in a subsidiary (note 40(b))	–	–	–	8,293	8,293
Disposal of assets and liabilities of disposal groups classified as held for sale (note 40(d))	–	–	–	95,432	95,432
At 31 December 2017	**48,994**	**1,521,613**	**26,594**	**10,697,521**	**12,294,722**

39 OTHER RESERVES (Continued)

	Other property revaluation reserve HK$'000	Available-for-sale investments revaluation reserve HK$'000	Hedging reserve HK$'000	Others (note (a)) HK$'000	Total HK$'000
At 1 January 2016	49,041	1,500,998	51,061	10,346,798	11,947,898
Cash flow hedges:					
– Fair value gains	–	–	108,567	–	108,567
– Transfer to finance costs (note 8)	–	–	(1,289)	–	(1,289)
Available-for-sale investments					
– Fair value gains	–	62,517	–	–	62,517
– Release of reserve upon disposal of available-for-sale investments	–	(264,031)	–	–	(264,031)
Release of exchange fluctuation reserve upon disposal of a subsidiary	–	–	–	(22,505)	(22,505)
Share of exchange fluctuation reserve of associates	–	–	–	(178,547)	(178,547)
Share of other reserves of associates	(23)	(2,530)	–	(554,960)	(557,513)
Net translation differences on foreign operations	–	–	–	(2,942,199)	(2,942,199)
Transfer to share premium (note 38)	–	–	–	(31,982)	(31,982)
Repurchase of shares	–	–	–	2,708	2,708
Transfer from retained profits	–	–	–	55,497	55,497
At 31 December 2016	49,018	1,296,954	158,339	6,674,810	8,179,121

39 OTHER RESERVES (Continued)

(a) Others

	Capital reserve (note (b)) HK$'000	Share options reserve HK$'000	Exchange fluctuation reserve HK$'000	Enterprise expansion and general reserve funds (note (c)) HK$'000	Capital redemption reserve (note (d)) HK$'000	Acquisition reserve (note (e)) HK$'000	Put option reserve (note (f)) HK$'000	Total HK$'000
At 1 January 2017	**7,935,251**	**437,018**	**(1,556,438)**	**309,021**	**10,576**	**65,078**	**(525,696)**	**6,674,810**
Share of exchange fluctuation reserve of associates and joint ventures	–	–	315,056	–	–	–	–	315,056
Share of other reserves of associates and joint ventures	–	–	–	(2,632)	–	(10,037)	9,733	(2,936)
Net translation differences on foreign operations	–	–	3,568,663	–	–	–	–	3,568,663
Transfer to share premium (note 38)	–	(20,426)	–	–	–	–	–	(20,426)
Transfer from retained profits	–	–	–	58,629	–	–	–	58,629
Acquisition of additional interests in a subsidiary (note 40(b))	–	–	–	–	–	8,293	–	8,293
Disposal of assets and liabilities of disposal groups classified as held for sale (note 40(d))	–	–	–	–	–	95,432	–	95,432
At 31 December 2017	**7,935,251**	**416,592**	**2,327,281**	**365,018**	**10,576**	**158,766**	**(515,963)**	**10,697,521**

39 OTHER RESERVES (Continued)

(a) Others (Continued)

	Capital reserve (note (b)) HK$'000	Share options reserve HK$'000	Exchange fluctuation reserve HK$'000	Enterprise expansion and general reserve funds (note (c)) HK$'000	Capital redemption reserve (note (d)) HK$'000	Acquisition reserve (note (e)) HK$'000	Put option reserve (note (f)) HK$'000	Total HK$'000
At 1 January 2016	7,935,251	469,000	1,586,813	254,146	7,868	93,720	–	10,346,798
Release of exchange fluctuation reserve upon disposal of a subsidiary	–	–	(22,505)	–	–	–	–	(22,505)
Share of exchange fluctuation reserve of associates	–	–	(178,547)	–	–	–	–	(178,547)
Share of other reserves of associates	–	–	–	(622)	–	(28,642)	(525,696)	(554,960)
Net translation differences on foreign operations	–	–	(2,942,199)	–	–	–	–	(2,942,199)
Transfer to share premium (note 38)	–	(31,982)	–	–	–	–	–	(31,982)
Repurchase of shares	–	–	–	–	2,708	–	–	2,708
Transfer from retained profits	–	–	–	55,497	–	–	–	55,497
At 31 December 2016	7,935,251	437,018	(1,556,438)	309,021	10,576	65,078	(525,696)	6,674,810

(b) Capital reserve of the Group arose from the Group's reorganisation in preparation for its listing on Hong Kong Stock Exchange in August 1996, adjusted by the excess or deficit of the fair values of the net assets of subsidiaries and associates subsequently acquired over the cost of investment at the date of acquisition before 1 January 2001.

(c) Enterprise expansion and general reserve funds are set up by subsidiaries and associates established and operating in the PRC. According to the PRC Foreign Enterprise Accounting Standards, upon approval, the enterprise expansion reserve fund may be used for increasing capital while the general reserve fund may be used for making up losses and increasing capital.

(d) The capital redemption reserve arose from the purchase of the Company's shares for cancellation during 1998, 2002 and 2016 and represents a transfer from the Company's retained profits equivalent to the nominal value of the shares purchased for cancellation.

(e) The acquisition reserve arose from the acquisition of additional interest or disposal of interest in subsidiaries that do not result in a loss of control, and represents any differences between the amount by which the non-controlling interests are adjusted (to reflect the changes in the interests in the subsidiaries) and the fair value of the consideration paid or received.

(f) Put option reserve is set up by an associate of the Group, Kerry Logistics, which has granted written put options to its certain subsidiaries' non-controlling interests to sell their interests to Kerry Logistics with an exercise period up to 2021.

40 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of profit before taxation to net cash generated from operations

	2017 HK$'000	2016 HK$'000
Profit before taxation	**12,997,758**	10,329,999
Depreciation of property, plant and equipment and amortisation of leasehold land and land use rights	**467,757**	555,100
Dividend income on available-for-sale investments	**(77,595)**	(100,184)
Dividend income on listed securities at fair value through profit or loss	**(309)**	(5,203)
Interest income	**(540,392)**	(301,388)
(Gain) /loss on disposal of property, plant and equipment	**(6,952)**	254
Gain on sale of investment properties	**(23,339)**	(107,715)
Fair value gain on listed securities at fair value through profit or loss	**(1,997)**	(24,352)
Gain on disposal of listed securities at fair value through profit or loss	**–**	(19,195)
Gain on disposal of available-for-sale investments	**–**	(305,925)
Gain on disposal of a subsidiary	**(62)**	(423,148)
Loss on disposal of assets and liabilities of disposal groups classified as held for sale	**15,069**	–
Provision for impairment loss for hotel property	**–**	80,682
Increase in fair value of investment properties	**(1,933,747)**	(3,244,197)
Finance costs	**628,209**	411,033
Share of results of associates and joint ventures	**(2,060,052)**	(1,800,981)
Operating profit before working capital changes	**9,464,348**	5,044,780
Increase in properties under development	**(6,709,715)**	(14,101,109)
Decrease in completed properties held for sale	**21,479,389**	4,305,660
Increase in accounts receivable, prepayments and deposits	**(5,176,023)**	(1,350,784)
Increase in accounts payable, deposits received and accrued charges	**1,973,107**	90,482
(Decrease)/increase in deposits received on sale of properties	**(6,481,298)**	9,969,384
Net cash generated from operations	**14,549,808**	3,958,413

40 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(b) Analysis of the net cash outflow in respect of the acquisition of additional interests in a subsidiary

In November 2017, the Group acquired an additional 29% interests in a subsidiary for HK$10,400,000. The effect on the equity attributable to the Group during the year is summarised as follows:

	2017 **HK$'000**	2016 HK$'000
Carrying amount of non-controlling interests acquired	**18,693**	–
Consideration paid to non-controlling interests	**(10,400)**	–
Excess of carrying amount over consideration paid recognised in acquisition reserve	**8,293**	–

(c) Analysis of the net cash inflow in respect of the disposal of a subsidiary

	2017 **HK$'000**	2016 HK$'000
Net assets disposed of:		
Properties under development (note 17)	**178,756**	1,293,748
Accounts receivable, prepayments and deposits	**4**	–
Cash and bank balances	**24**	6,568
Accounts payable, deposits received and accrued charges	**(43)**	(65,565)
Amounts due to non-controlling interests	**(52,349)**	–
Non-controlling interests	**484**	(308,642)
	126,876	926,109
Gain on disposal of a subsidiary	**62**	423,148
Release of exchange fluctuation reserve upon disposal	**–**	(22,505)
Total consideration	**126,938**	1,326,752
Cash and bank balances disposed of	**(24)**	(6,568)
Net cash inflow in respect of the disposal of a subsidiary	**126,914**	1,320,184

40 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(d) Analysis of the net cash inflow in respect of the disposal of assets and liabilities of disposal groups classified as held for sale

	2017 HK$'000	2016 HK$'000
Net assets disposed of:		
Properties under development	**1,020,716**	–
Completed properties held for sale	**292,834**	–
Cash and bank balances	**93,909**	–
Other net liabilities	**(559,833)**	–
Non-controlling interests	**(104,465)**	–
	743,161	–
Loss on disposal of assets and liabilities of disposal groups classified as held for sale	**(15,069)**	–
Release of acquisition reserve upon disposal	**95,432**	–
Total consideration	**823,524**	–
Cash and bank balances disposed of	**(93,909)**	–
Net cash inflow in respect of the disposal of assets and liabilities of disposal groups classified as held for sale	**729,615**	–

(e) Reconciliation of liabilities arising from financing activities

	Bank loans non-current HK$'000	Bank loans current HK$'000	Fixed rate bonds HK$'000	Amounts due to non-controlling interests HK$'000	Assets held to hedge fixed rate bonds HK$'000	Total HK$'000
Balances as at 31 December 2016	34,507,291	3,856,100	6,969,686	2,590,684	(75,310)	47,848,451
Cash flows	(2,585,660)	(636,959)	(4,654,380)	(464,767)	–	(8,341,766)
Non-cash changes						
Disposal of a subsidiary	–	–	–	(52,349)	–	(52,349)
Reclassifications	(5,589,621)	5,589,621	–	–	–	–
Foreign exchange movement	449,706	94,386	21,595	9,297	–	574,984
Other non-cash movement	–	–	–	23,426	37,968	61,394
Balances as at 31 December 2017	**26,781,716**	**8,903,148**	**2,336,901**	**2,106,291**	**(37,342)**	**40,090,714**

41 RELATED PARTY TRANSACTIONS

The following significant transactions were carried out with related parties during the year:

(a) Purchases of services/lease of premises

	2017 HK$'000	2016 HK$'000
Marketing, consultancy and administrative management fees expense (note (i))	**118,847**	114,080
Rental expense (note (ii))	**56,529**	54,286
Logistics, insurance brokerage and service fee paid (note (iii))	**7,674**	6,806
Rental income (note (iv))	**8,722**	9,050

(i) This represents payment of services fees to Shangri-La International Hotel Management Limited, a subsidiary of SA, which provided marketing, consultancy and administrative management services to members of the Group. The service fees payable during the year were determined at either a fixed amount or a certain percentage of the gross operating revenue of the relevant company in accordance with the agreement for the provision of the above services.

(ii) This represents payment of rental expenses to Ubagan Limited, an associate of the Group, in respect of leasing of several units and floors of Kerry Centre as corporate offices and several car parking spaces for the use by the Group in conjunction with such offices.

(iii) This represents payment for delivery services, local courier services, freight services, freight agency services, insurance brokerage and related services, and services relating to management and operation of warehouse facilities provided by Kerry Logistics.

(iv) This represents rental income received from Kerry Logistics in relation to the lease of certain premises held by the Group.

41 RELATED PARTY TRANSACTIONS (Continued)

(b) Key management compensation, excluding share option benefits

	2017 **HK$'000**	2016 HK$'000
Salaries and other short-term benefits	**74,632**	81,520
Post-employment benefits	**370**	480
	75,002	82,000

(c) Year-end balances

	2017 **HK$'000**	2016 HK$'000
Receivables from related parties:		
Associates and joint ventures (note 19)	**5,247,076**	1,931,959
Payables to related parties:		
Included under amounts due to non-controlling interests (note 33)		
– Subsidiaries of SA	**1,111,624**	1,095,011
– Subsidiaries of Kerry Holdings Limited	**–**	241,684
Associates and joint ventures (note 19)	**170,564**	63,421

(d) Guarantees for banking and other facilities of certain associates

The Group has executed guarantees for banking and other facilities granted to certain associates. The utilised amount of such facilities covered by the Group's guarantees which also represented the financial exposure of the Group as at 31 December 2017 amounted to approximately HK$1,313,629,000 (2016: HK$862,338,000). The total amount of such facilities covered by the Group's guarantees as at 31 December 2017 amounted to approximately HK$1,313,629,000 (2016: HK$890,338,000). The above-mentioned amounts are also reflected in the guarantees given by the Group for banking and other facilities disclosed in note 43(a).

(e) Other related party transactions

During the year, a Director of the Group entered into loan arrangements with a wholly-owned subsidiary of the Group, as disclosed in note 13(d). The loan arrangements were in the ordinary course of business of the wholly-owned subsidiary of the Group.

42 COMMITMENTS

(a) At 31 December 2017, the Group had capital and other commitments in respect of property, plant and equipment, investment properties, leasehold land and land use rights, properties under development, interest in joint ventures and others contracted for at the end of the year but not provided for in these financial statements as follows:

	2017 **HK$'000**	2016 HK$'000
Property, plant and equipment	**5,189**	3,237
Investment properties	**48,191**	4,314
Leasehold land and land use rights	**342,636**	1,014,419
Properties under development	**3,789,833**	7,253,699
Interest in joint ventures	**1,092,326**	–
Others	**313,205**	303,319
	5,591,380	8,578,988

(b) At 31 December 2017, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2017 **HK$'000**	2016 HK$'000
Land and buildings:		
Within one year	**65,718**	64,604
In the second to fifth year, inclusive	**71,104**	112,735
Over five years	**14,575**	11,034
	151,397	188,373

(c) At 31 December 2017, the Group had future aggregate minimum lease rental receivable under non-cancellable operating leases as follows:

	2017 **HK$'000**	2016 HK$'000
Land and buildings:		
Within one year	**3,577,254**	3,000,468
In the second to fifth year, inclusive	**4,877,672**	4,188,198
Over five years	**681,653**	524,480
	9,136,579	7,713,146

43 CONTINGENT LIABILITIES

Guarantees for banking and other facilities

	2017 **HK$'000**	2016 HK$'000
Guarantees for banking and other facilities of certain associates (note (a))	**1,313,629**	862,338
Guarantees to certain banks for mortgage facilities granted to first buyers of certain properties in the PRC (note (b))	**4,242,516**	4,195,988
	5,556,145	5,058,326

(a) The Group has executed guarantees for banking and other facilities granted to certain associates. The utilised amount of such facilities covered by the Group's guarantees which also represented the financial exposure of the Group as at 31 December 2017 amounted to approximately HK$1,313,629,000 (2016: HK$862,338,000). The total amount of such facilities covered by the Group's guarantees as at 31 December 2017 amounted to approximately HK$1,313,629,000 (2016: HK$890,338,000).

(b) The Group has executed guarantees to certain banks for mortgage facilities granted to first buyers of certain properties developed by the Group in the PRC. The utilised amount of such facilities covered by the Group's guarantees which also represented the financial exposure of the Group as at 31 December 2017 amounted to approximately HK$4,242,516,000 (2016: HK$4,195,988,000).

44 PLEDGE OF ASSETS

At 31 December 2017, the Group's total bank loans of HK$35,684,864,000 (2016: HK$38,363,391,000) included an aggregate amount of HK$32,439,379,000 (2016: HK$33,195,720,000) which is unsecured and an aggregate amount of HK$3,245,485,000 (2016: HK$5,167,671,000) which is secured. The securities provided for the secured banking facilities available to the Group are as follows:

(a) legal charges over certain properties (notes 14 to 17 and 25); and

(b) assignments of insurance proceeds of certain properties.

45 ULTIMATE HOLDING COMPANY

The Directors regard Kerry Group Limited, a company incorporated in the Cook Islands, as being the ultimate holding company.

46 STATEMENT OF FINANCIAL POSITION AND RESERVES MOVEMENT OF THE COMPANY

Statement of financial position of the Company as at 31 December 2017

	Note	**2017** **HK$'000**	2016 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**7,394**	6,632
Subsidiaries		**27,665,654**	27,346,235
Associate		**1,992,957**	1,992,848
		29,666,005	29,345,715
Current assets			
Dividends receivable		**2,300,000**	1,600,000
Accounts receivable, prepayments and deposits		**3,373**	172,826
Derivative financial instruments		**–**	59,388
Cash and bank balances		**839,190**	1,318,521
		3,142,563	3,150,735
Current liabilities			
Accounts payable and accrued charges		**108,610**	91,462
Derivative financial instruments		**–**	62,125
		108,610	153,587
Net current assets		**3,033,953**	2,997,148
Total assets less current liabilities		**32,699,958**	32,342,863
Non-current liabilities			
Derivative financial instruments		**–**	150,164
ASSETS LESS LIABILITIES		**32,699,958**	32,192,699
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	36	**1,446,538**	1,443,148
Share premium	38	**12,515,673**	12,408,816
Other reserves (note (a))		**10,854,683**	10,875,109
Retained profits (note (b))		**7,883,064**	7,465,626
TOTAL EQUITY		**32,699,958**	32,192,699

46 STATEMENT OF FINANCIAL POSITION AND RESERVES MOVEMENT OF THE COMPANY (Continued)

(a) Other reserves movement of the Company

	Contributed Surplus (note (i)) HK$'000	Share options reserve HK$'000	Capital redemption reserve (note (ii)) HK$'000	Total HK$'000
At 1 January 2017	**10,427,515**	**437,018**	**10,576**	**10,875,109**
Transfer to share premium (note 38)	**–**	**(20,426)**	**–**	**(20,426)**
At 31 December 2017	**10,427,515**	**416,592**	**10,576**	**10,854,683**
At 1 January 2016	10,427,515	469,000	7,868	10,904,383
Transfer to share premium (note 38)	–	(31,982)	–	(31,982)
Repurchase of shares	–	–	2,708	2,708
At 31 December 2016	10,427,515	437,018	10,576	10,875,109

(i) The contributed surplus of the Company arose when the Company issued shares in exchange for the shares of companies being acquired, and represents the difference between the nominal value of the Company's shares issued and the value of net assets of the companies acquired. At Group level, the contributed surplus is reclassified into its components of reserves of the underlying subsidiaries.

(ii) The capital redemption reserve arose from the purchase of the Company's shares for cancellation during 1998, 2002 and 2016 and represents a transfer from the Company's retained profits equivalent to the nominal value of the shares purchased for cancellation.

(b) Retained profits movement of the Company

	2017 HK$'000	2016 HK$'000
At 1 January	**7,465,626**	7,065,551
Profit for the year	**2,221,724**	1,701,616
Transfer to capital redemption reserve	**–**	(2,708)
Dividends paid	**(1,804,286)**	(1,298,833)
At 31 December	**7,883,064**	7,465,626

47 GROUP STRUCTURE – PRINCIPAL SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

(a) Principal Subsidiaries

As at 31 December 2017, the Company held interests in the following subsidiaries which are categorised according to the business divisions of the Group, namely, Property Division and Other Divisions as listed below:

Name	Place of incorporation/ operation	Principal activities	Issued share capital[(1)]/ Registered capital	Indirect interest held	Notes
Property Division – PRC					
Beijing Jia Ao Real Estate Development Co., Ltd.	PRC	Property investment	US$77,967,600	71.25%	(6)(9)
Beijing Kerry Hotel Co., Ltd.	PRC	Hotel ownership and operation	US$33,000,000	71.25%	(6)(9)
Beijing Kerry Huayuan Real Estate Development Co., Ltd.	PRC	Property trading	RMB178,500,000	71%	(3)(6)(9)
Excellent (Beijing) Management Consultancy Ltd.	PRC	Investment holding and management	RMB100,000	100%	(3)(5)(9)
Full Fortune Real Estate (Putian) Co., Ltd.	PRC	Property trading	RMB500,000,000	60%	(3)(5)
Hong Kong Shanghai Development Co Limited	HK	Investment holding	HK$8,000,000	75%	
Huilong Real Estate (Hangzhou) Co., Ltd.	PRC	Property development	RMB200,000,000	100%	(3)(5)(9)
Huiyao Real Estate (Hangzhou) Co., Ltd.	PRC	Property trading and development	RMB2,470,000,000	100%	(3)(5)(9)
Jian'an Real Estate (Kunming) Co., Ltd.	PRC	Property development	RMB400,000,000	55%	(3)(5)(9)
Kerry Cao Jia Yan Properties (Shanghai) Co., Ltd.	PRC	Property investment and trading	US$13,400,000	100%	(3)(5)
Kerry Centre Real Estate (Shenzhen) Co. Ltd.	PRC	Property investment	HK$1,500,000	100%	(3)(5)(9)
Kerry Development (Chengdu) Ltd.	PRC	Property trading	RMB130,000,000	55%	(3)(5)(9)
Kerry Development (Manzhouli) Co., Ltd.	PRC	Property trading	US$6,800,000	100%	(3)(5)
Kerry Development (Shanghai) Co., Ltd.	PRC	Property investment	US$2,500,000	100%	(3)(5)
Kerry Development (Shenzhen) Co., Ltd.	PRC	Property investment	HK$708,350,000	100%	(3)(5)(9)
Kerry Huafeng Property Development (Hangzhou) Co., Ltd.	PRC	Property trading	HK$35,000,000	100%	(3)(5)
Kerry Properties (China) Investment Co., Ltd.	PRC	Provision of consultancy services	RMB208,000,000	100%	(3)(5)
Kerry Properties (China) Limited	HK	Investment holding and provision of administrative support services	HK$100,000	100%	
Kerry Properties (Shenzhen) Co., Ltd.	PRC	Property trading	HK$1,500,000	100%	(3)(5)(9)
Kerry Properties Development Management (Shanghai) Co., Ltd.	PRC	Real estate and project management	RMB8,962,190	100%	(5)(9)
Kerry Real Estate (Hangzhou) Co. Ltd.	PRC	Property investment, trading and hotel ownership and operation	US$425,750,000	75%	(3)(5)
Kerry Real Estate (Nanchang) Co., Ltd.	PRC	Property trading and development	RMB800,000,000	80%	(3)(5)
Kerry (Shenyang) Real Estate Development Co., Ltd.	PRC	Property trading and development	RMB2,687,500,000	60%	(5)
Lucky Billion Development (Qinhuangdao) Co., Ltd.	PRC	Property trading and development	RMB1,617,000,000	60%	(3)(5)(9)
Million Palace Development (Shenzhen) Co., Ltd.	PRC	Property development	RMB3,980,000,000	100%	(3)(5)(9)
Risenland Development (Fuzhou) Co., Ltd.	PRC	Property investment	HK$44,000,000	100%	(3)(5)
Shanghai Gang Hu Properties Co., Ltd.	PRC	Property investment and trading	US$90,000,000	74.25%	(3)(6)
Shanghai Ji Xiang Properties Co., Ltd.	PRC	Property investment, hotel ownership and operation	US$311,250,000	51%	(5)
Shanghai Kerry Real Estate Development Co., Ltd.	PRC	Property investment	US$250,000	55.20%	(3)(6)
Shanghai Xin Ci Hou Properties Co., Ltd.	PRC	Property investment	US$60,000,000	74.25%	(6)
Shangri-La Hotel (Shenyang) Co., Ltd.	PRC	Hotel ownership and operation	RMB700,000,000	60%	(3)(5)
Sheng Xiang Real Estate (Shenyang) Co., Ltd.	PRC	Property development	RMB1,200,000,000	60%	(5)
Wealthy Plaza Development (Chengdu) Ltd.	PRC	Property trading and development	RMB750,000,000	55%	(3)(5)(9)
Well Fortune Real Estate (Putian) Co., Ltd.	PRC	Property development	RMB200,000,000	60%	(3)(5)

47 GROUP STRUCTURE – PRINCIPAL SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES (Continued)

(a) Principal Subsidiaries (Continued)

Name	Place of incorporation/ operation	Principal activities	Issued share capital (1)/ Registered capital	Indirect interest held	Notes
Property Division – PRC (Continued)					
Xiang Heng Real Estate (Jinan) Co., Ltd.	PRC	Property trading and hotel ownership and operation	RMB600,000,000	55%	(3)(5)
Ying He Company Limited	HK	Investment holding	HK$10 HK$21,000,000 (2)	100%	
Yong Yu Real Estate (Nanjing) Co., Ltd.	PRC	Property development	RMB1,350,000,000	100%	(3)(5)(9)
Zhengzhou Yuheng Real Estate Co., Ltd.	PRC	Property development	RMB600,000,000	55%	(3)(5)
Property Division – Hong Kong					
All First Investments Limited	BVI / HK	Property investment	US$2	100%	
Asia Insight Investments Limited	HK	Restaurant operation	HK$1	100%	
Best Insight Limited	HK	Property investment	HK$1	100%	
Bethan Company Limited	HK	Property trading	HK$2	100%	
Classic Gold Holdings Limited	HK	Property trading	HK$1	100%	
Crystal Link Holdings Limited	HK	Property trading	HK$1	100%	
Crystal Talent Limited	HK	Property development	HK$1	100%	
Fine Century Holdings Limited	HK	Restaurant operation	HK$1	100%	
Fortune Mega Investments Limited	BVI / HK	Investment holding	US$1	100%	
Golden Concord Properties Limited	HK	Property trading	HK$1	100%	
Haily Investments Limited	HK	Property trading	HK$1	71%	
Interseed Company Limited	HK	Property trading	HK$2	100%	
Kerry D. G. Warehouse (Kowloon Bay) Limited	HK	Warehouse ownership	HK$20,000,000	100%	
Kerry Properties (H.K.) Limited	HK	Investment holding and provision of administrative support services	HK$1,000 HK$200,000,000 (2)	100%	
Kerry Properties (Macau) Limited	Macau	Property development	MOP1,000,000	71%	
Kildare Limited	HK	Property trading	HK$2	100%	
Mable Road Company Limited	HK	Property investment	HK$10 HK$10,000 (2)	100%	
Magnifair Company Limited	HK	Property trading	HK$10,000	100%	
Mani Holdings Limited	HK	Property development	HK$1	100%	
Many Treasure Limited	HK	Property development	HK$1	100%	
Maple Crest Development Limited	BVI / HK	Recreation park operation	US$120	75%	
Maxtime International Limited	HK	Property trading	HK$1	71%	
MegaBox Development Company Limited	HK	Property investment	HK$2	100%	
MegaBox Management Services Limited	HK	Property management	HK$2	100%	
Metro Cosmos Limited	HK	Property trading	HK$1	71%	
Mid-Levels Portfolio (Aigburth) Limited	Cook Islands / HK	Property investment	US$9	100%	
Mid-Levels Portfolio (Branksome) Limited	HK	Property investment	HK$1,000	100%	
Mid-Levels Portfolio (Gladdon) Limited	HK	Property investment	HK$1,000	100%	

47 GROUP STRUCTURE – PRINCIPAL SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES (Continued)

(a) Principal Subsidiaries (Continued)

Name	Place of incorporation/ operation	Principal activities	Issued share capital [(1)]/ Registered capital	Indirect interest held	Notes
Property Division – Hong Kong (Continued)					
Mid-Levels Portfolio (Tavistock) Limited	HK	Property investment	HK$1,000	100%	
Mid-Levels Portfolio (Valverde) Limited	HK	Property trading	HK$1,000	100%	
NMC 6 Limited	BVI / HK	Property development	US$1	100%	
NMC 8 Limited	BVI / HK	Property development	US$1	100%	
Peak Universe Limited	HK	Provision of financial services	HK$1	71%	
Pettico Limited	HK	Provision of financial services	HK$20	100%	
Precise Skill Investments Limited	HK	Provision of financial services	HK$1	71%	
Prismatic Limited	HK	Property trading and investment	HK$20	100%	
Rayhay Company Limited	HK	Provision of financial services	HK$2	100%	
Right Century Investments Limited	HK	Property trading	HK$1	100%	
Rink Management Group Limited	HK	Ice rink operation	HK$1,000,000	100%	
Senworld Investment Limited	HK	Property trading	HK$2	100%	
Smart Value Investments Limited	HK	Property development	HK$1	100%	
Sociedade de Investimento Imobiliário Tim Keng Van, S.A.	Macau	Property development	MOP1,000,000	100%	(3)
Taskan Limited	HK	Property trading	HK$2	100%	
Thinkwise Technovation Limited	HK	IT system and consulting services	HK$1	100%	
Trebanos Investment Company Limited	HK	Investment holding	HK$2	100%	
Vickon Limited	HK	Property trading	HK$1	71%	
Wealth Partner Global Limited	HK	Provision of financial services	HK$1	71%	
Wealthline Properties Limited	BVI / HK	Investment holding and property trading	US$1	71%	
Wealthy State Investments Limited	HK	Property investment	HK$1	100%	
Widemax Limited	HK	Property trading	HK$1	71%	
Property Division – Overseas					
Shang Properties (Pvt) Ltd	Sri Lanka	Property development	LKR1,000	80%	
Other Divisions					
Apex Ally Limited	HK	Group financing	HK$1	100%	
Dragon Fame Limited	HK	Group financing	HK$1	100%	
Kerry Project Management (H.K.) Limited	HK	Project management	HK$300,000	100%	
Kerry Properties (Beijing) Development Co. Ltd.	PRC	Project management and investment holding	RMB5,000,000	100%	(3)(5)(9)
Kerry Property Management Services Limited	HK	Property management	HK$20	100%	
Kerry Real Estate Agency Limited	HK	Estate agency	HK$2	100%	
Twickenham Limited	HK	Group financing	HK$1	100%	
Upsmart Investments Limited	HK	Provision of administrative support services	HK$2	100%	
Win House Industries Limited	HK	Provision of construction work	HK$1,000,000	100%	
Wiseyear Holdings Limited	BVI / HK	Group financing	US$1	100%	

47 GROUP STRUCTURE – PRINCIPAL SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES (Continued)

(b) Principal Associates and Joint Ventures

As at 31 December 2017, the Company held interests in the following associates and joint ventures which are categorised according to the business divisions of the Group, namely, Property Division and Other Divisions as listed below:

Name	Place of incorporation/ operation	Principal activities	Class of shares/ Registered capital	Indirect interest held unless denoted with*	Notes
Associates					
Property Division – PRC					
Hengyun Real Estate (Tangshan) Co., Ltd.	PRC	Property trading	RMB561,000,000	40%	(3)(5)
Ningbo Ruifeng Real Estate Co., Ltd.	PRC	Property development	RMB481,211,028	50%	(3)(5)
Ruihe Real Estate (Tangshan) Co., Ltd.	PRC	Hotel ownership and operation	RMB600,000,000	40%	(3)(5)
Shanghai Pudong Kerry City Properties Co., Ltd.	PRC	Property investment, hotel ownership and operation	US$171,361,400	40.80%	(6)(9)
Shangri-La Hotel (Nanjing) Co., Ltd.	PRC	Hotel ownership and operation	RMB750,000,000	45%	(3)(5)
Tianjin Kerry Real Estate Development Co., Ltd.	PRC	Property investment, trading and development, hotel ownership and operation	RMB2,261,250,000	49%	(3)(5)
Property Division – Hong Kong					
Brisbane Trading Company Limited	HK	Property trading	Ordinary Non-voting deferred	50%	
Capital Faith (Hong Kong) Limited	HK	Property investment	Ordinary	47.37%	(3)
Cardiff Investments Limited	HK	Investment holding	Ordinary	30%	(3)
Century Link (Hong Kong) Limited	HK	Property investment	Ordinary	47.37%	(3)
Cheerjoy Development Limited	HK	Property trading	Ordinary	35%	
Dragons Range Finance Company Limited	HK	Provision of financial services	Ordinary	40%	
Enterprico Investment Limited	HK	Loan financing	Ordinary	47.50%	(3)
Excel Wisdom Development Limited	HK	Property investment	Ordinary	47.37%	(3)
Fine Winner Holdings Limited	HK	Hotel ownership and operation	Ordinary	30%	
Grand Rise Investments Limited	HK	Property investment	Ordinary	47.37%	(3)
Harley Investments Limited	HK	Property investment	Ordinary	47.37%	(3)
Jet Fame (Hong Kong) Limited	HK	Property investment	Ordinary	47.37%	(3)
Joint Prospect Limited	HK	Property investment	Ordinary	47.37%	(3)
Kerry Hung Kai Warehouse (Cheung Sha Wan) Limited	HK	Warehouse operation	Ordinary	50%	(3)
Orient Field Holdings Limited	HK	Property investment	Ordinary	47.37%	(3)
Pembrooke Development Investments Limited	BVI / HK	Property trading	Ordinary Non-voting deferred	40%	
Sky Vision Development Limited	HK	Property investment	Ordinary	47.37%	(3)
Time Rank Limited	HK	Property trading	Ordinary	50%	(4)
Ubagan Limited	HK	Property investment	Ordinary	40%	
Union Top Properties Limited	HK	Property investment	Ordinary	47.37%	(3)
Victory Top Properties Limited	HK	Property investment	Ordinary	47.37%	(3)
Win Chanford Enterprises Limited	HK	Investment holding and property investment	Ordinary	47.37%	(3)
Wise Grand Limited	HK	Property investment	Ordinary	47.37%	(3)
Wolver Hollow Company Limited	HK	Warehouse ownership	Ordinary	50%	(3)
Wu Wing International Company, Limited	HK	Property trading and investment	Ordinary	45%	(3)(4)

47 GROUP STRUCTURE – PRINCIPAL SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES (Continued)

(b) Principal Associates and Joint Ventures (Continued)

Name	Place of incorporation/ operation	Principal activities	Class of shares/ Registered capital	Indirect interest held unless denoted with*	Notes
Property Division – Overseas					
Shang Properties, Inc.	Philippines	Property development, real estate management and investment holding	Common	34.61%	(7)
Other Divisions					
Kerry Logistics Network Limited	BVI (continued into Bermuda) / HK	Integrated logistics and international freight forwarding business	Ordinary	42.35%*	(7)
Hohhot Chunhua VWK Water Operation Company Limited	PRC	Water treatment facilities operation and maintenance	RMB14,000,000	19.50%	(3)(6)(8)(9)
Kerry CQ Water (Hohhot) Limited	HK	Investment holding	Ordinary	50%	(3)
Western Harbour Tunnel Company Limited	HK	Tunnel operation and management	Ordinary	15%	(3)(4)(8)
Joint Ventures					
Property Division – PRC					
Million Fortune Development (Shenzhen) Co., Ltd.	PRC	Property development	RMB3,500,000,000	25%	(5)(9)
Property Division – Hong Kong					
High Crown Holdings Limited	HK	Property development	Ordinary	50%	

Notes:

(1) all being ordinary shares and fully paid up except otherwise stated
(2) non-voting deferred shares
(3) companies not audited by PricewaterhouseCoopers
(4) companies having a financial accounting period which is not coterminous with the Group
(5) wholly foreign-owned enterprise
(6) sino-foreign equity joint venture enterprise
(7) listed company
(8) significant influence is obtained by the Group through participation in the board of directors of these associates
(9) English translation of name only

BVI British Virgin Islands
HK Hong Kong
PRC The People's Republic of China

FIVE-YEAR FINANCIAL SUMMARY

The results, assets and liabilities of the Group for the last five financial years are as follows:

	2017 **HK$'000**	2016 HK$'000	2015 HK$'000	2014 HK$'000	2013 HK$'000
Results					
Turnover[1]	**35,548,123**	12,990,536	10,392,897	14,663,725	33,157,961
Profit attributable to shareholders	**9,242,116**	6,537,258	5,529,963	6,773,636	13,154,389
Assets and liabilities					
Non-current assets	**127,891,757**	112,725,292	103,519,869	118,252,547	117,070,145
Net current assets	**18,651,630**	28,985,949	23,617,115	14,716,582	10,718,512
Total assets less current liabilities	**146,543,387**	141,711,241	127,136,984	132,969,129	127,788,657
Long-term liabilities and non-controlling interests	**(52,193,931)**	(58,966,834)	(45,783,625)	(52,890,611)	(52,033,431)
Shareholders' funds	**94,349,456**	82,744,407	81,353,359	80,078,518	75,755,226

Note: The above figures are based on the latest published financial statements.

[1] *2013 figures include discontinued operations*

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