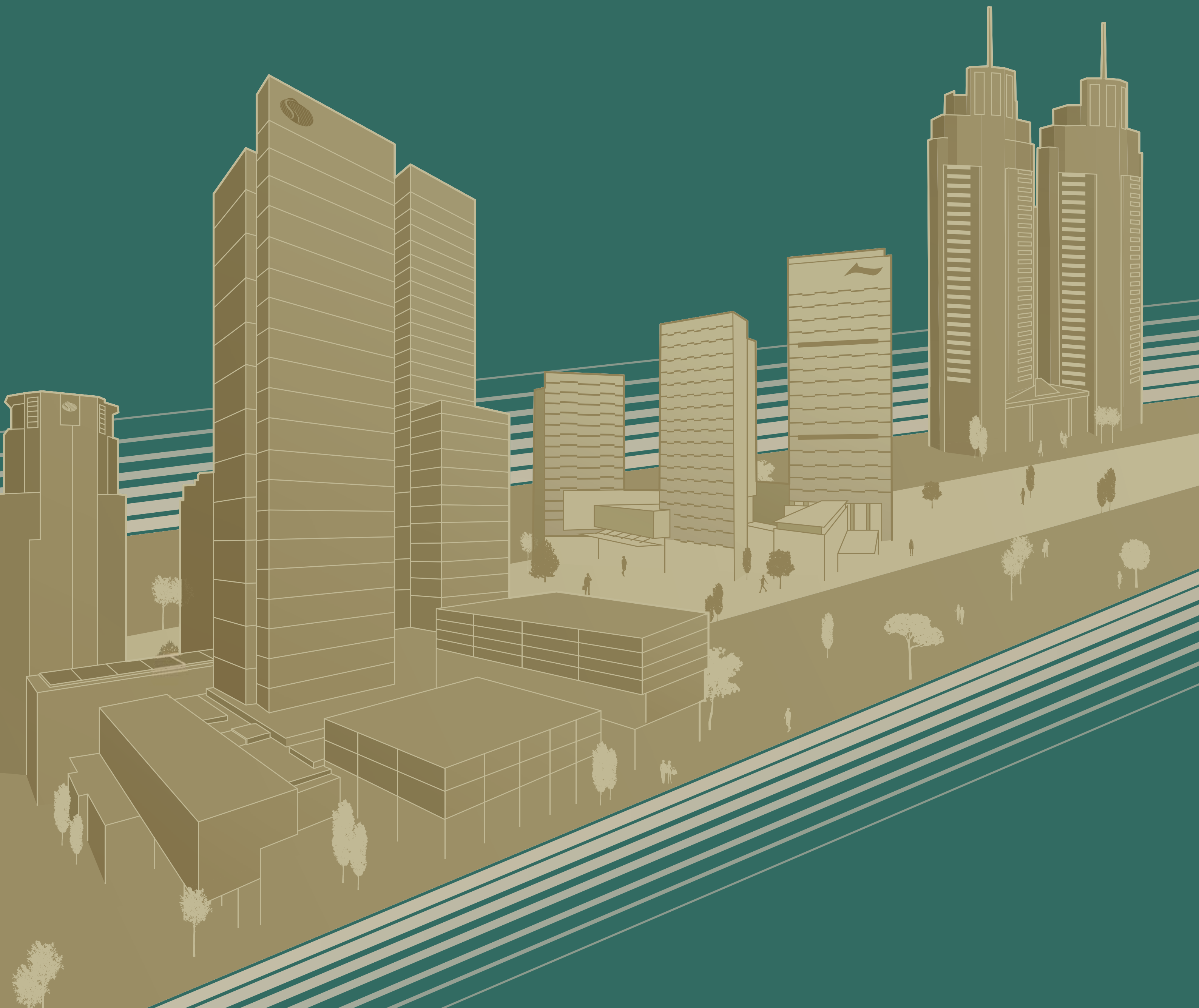
KERRY PROPERTIES LIMITED

嘉里建設有限公司



ANNUAL REPORT 2018

Stock Code : 683

(Incorporated in Bermuda with limited liability)



ANNUAL REPORT 2018

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 and Chief Executive Officer*
Mr Bryan Pallop Gaw
Mr Wong Chi Kong, Louis

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 Ku Moon Lun
Mr Chang Tso Tung, Stephen

NOMINATION COMMITTEE

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

FINANCE COMMITTEE

Mr Wong Siu Kong
Mr Wong Chi Kong, Louis

EXECUTIVE COMMITTEE

Mr Wong Siu Kong
Mr Bryan Pallop Gaw
Mr Wong Chi Kong, Louis

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

Kerry Properties Limited
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Quarry Bay, Hong Kong
Telephone: (852) 2967 2200
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

21 May 2019

Closure of Registers of Members

16 to 21 and 28 May 2019

Proposed Payment of Final Dividend

6 June 2019

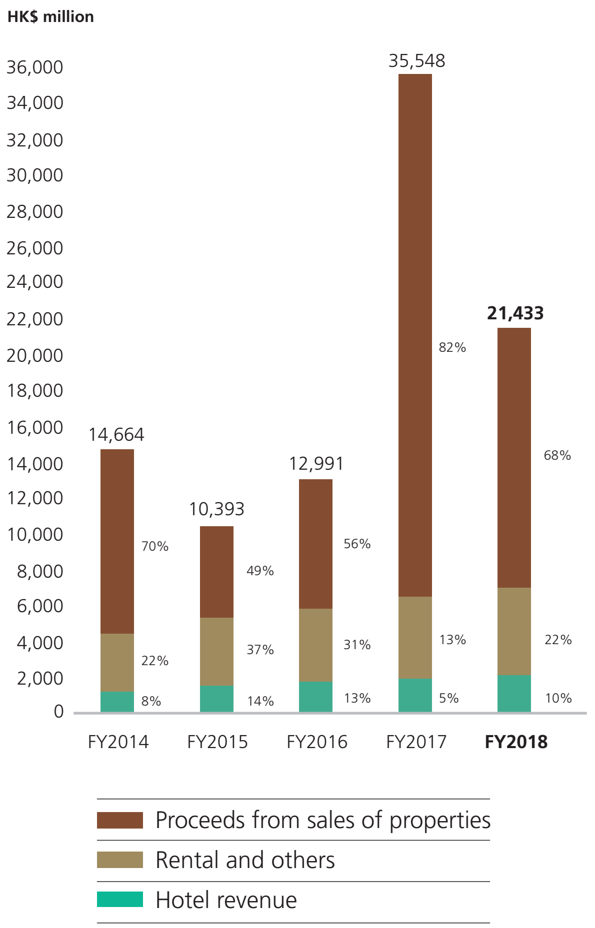
CONTENTS

FINANCIAL HIGHLIGHTS

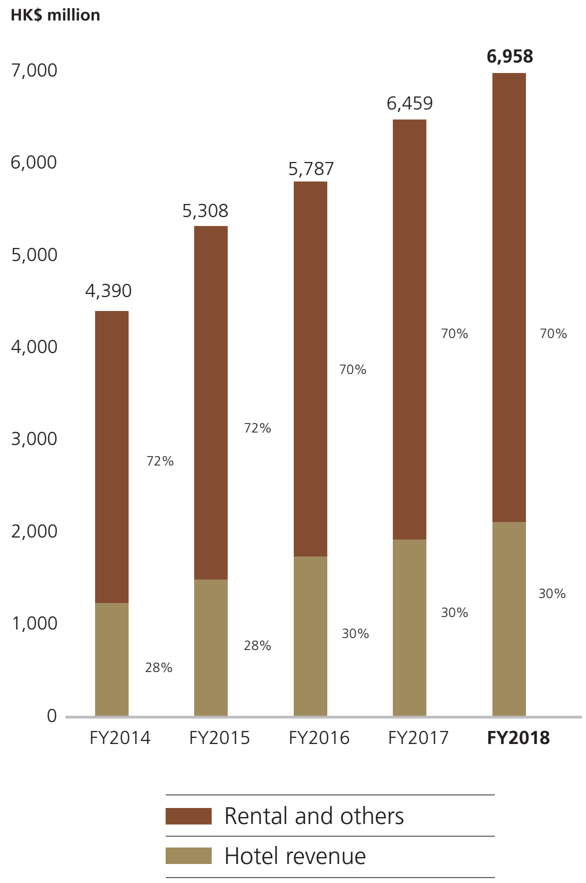
Two-year Overview		FY 2018	FY 2017	% Change
Turnover	(HK$M)	**21,433**	35,548	-40%
Gross profit	(HK$M)	**9,003**	9,745	-8%
Gross profit margin	(%)	**42.0**	27.4	
Operating profit	(HK$M)	**9,772**	10,938	-11%
Operating profit margin	(%)	**45.6**	30.8	
Profit attributable to shareholders	(HK$M)			
– before fair value change of investment properties		**3,345**	6,651	-50%
– after fair value change of investment properties		**7,499**	9,242	-19%
Net profit margin	(%)			
– before fair value change of investment properties		**15.6**	18.7	
– after fair value change of investment properties		**35.0**	26.0	
Earnings per share	(HK$)			
– before fair value change of investment properties		**2.30**	4.61	-50%
– after fair value change of investment properties		**5.16**	6.40	-19%
Shareholders' equity	(HK$M)	**97,541**	94,349	+3%
Net borrowings	(HK$M)	**18,727**	24,274	-23%
Net asset value per share	(HK$)	**67.03**	65.22	+3%
Share price as at 31 December	(HK$)	**26.75**	35.15	
Price earnings ratio#	(times)			
– before fair value change of investment properties		**11.6**	7.6	
– after fair value change of investment properties		**5.2**	5.5	
Market capitalisation as at 31 December#	(HK$M)	**38,927**	50,846	
Dividend per share	(HK$)	**1.35**	1.50	-10%
Dividend payout ratio	(%)			
– before fair value change of investment properties		**58.7**	32.5	
– after fair value change of investment properties		**26.2**	23.4	
Dividend cover	(times)			
– before fair value change of investment properties		**1.7**	3.1	
– after fair value change of investment properties		**3.8**	4.3	
Dividend yield#	(%)	**5.0**	4.3	
Return on shareholders' equity	(%)			
– before fair value change of investment properties		**3.4**	7.0	
– after fair value change of investment properties		**7.7**	9.8	
Gearing	(%)	**19.2**	25.7	
Interest cover	(times)			
– before fair value change of investment properties		**27.3**	14.2	
– after fair value change of investment properties		**47.3**	17.5	
Current ratio	(times)	**1.5**	1.7	
Liquidity ratio	(times)	**0.7**	0.8	
Discount to net asset value#	(%)	**(60.1)**	(46.1)	

Based on share prices as at 31 December 2018 and 31 December 2017, respectively.

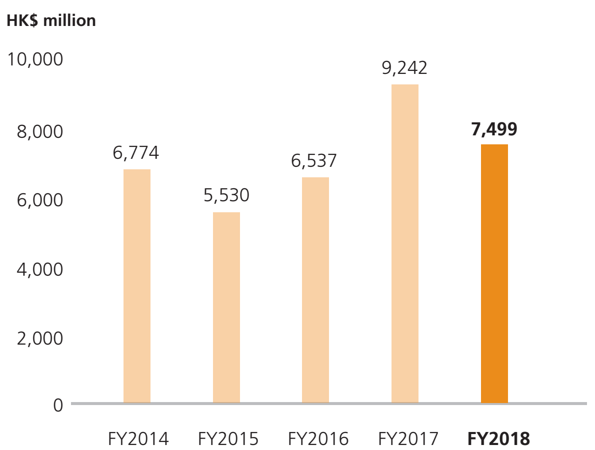
Breakdown of Turnover



Breakdown of Recurrent Income



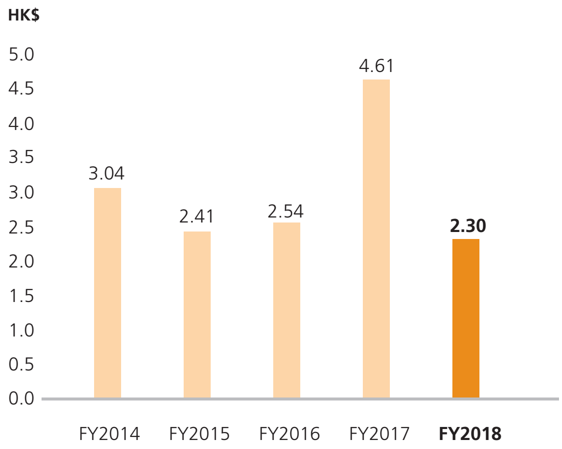
Profit Attributable to Shareholders



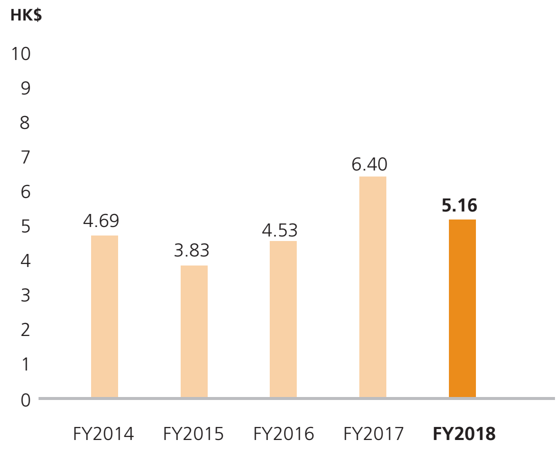
	Turnover HK$ million	Recurrent income HK$ million	% Weighting	Net profit before fair value change of investment properties HK$ million	Net profit after fair value change of investment properties HK$ million
FY2014	14,664	4,390	30%	4,384	6,774
FY2015	10,393	5,308	51%	3,481	5,530
FY2016	12,991	5,787	44%	3,671	6,537
FY2017	35,548	6,459	18%	6,651	9,242
FY2018	**21,433**	**6,958**	**32%**	**3,345**	**7,499**

FINANCIAL HIGHLIGHTS

Earnings per Share
(before fair value change of investment properties)

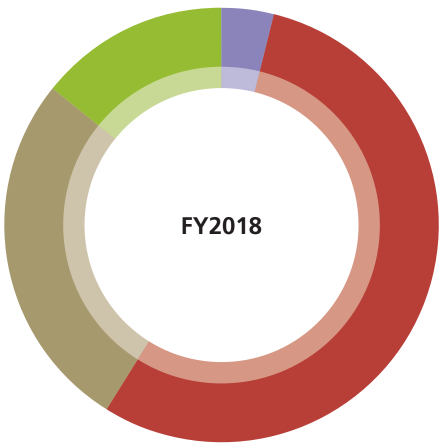


Earnings per Share
(after fair value change of investment properties)



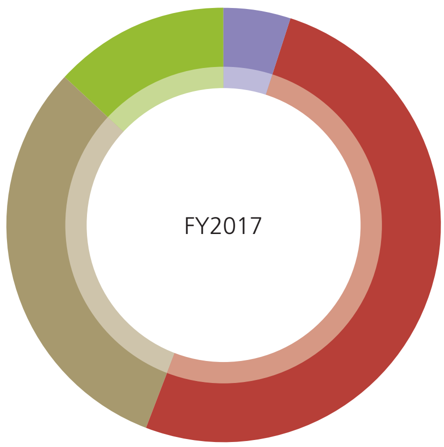
Gross Asset Value of Properties

HK$121,794 million



PRC	55%
Hong Kong Residential	27%
Hong Kong Commercial	14%
Others	4%

HK$119,848 million



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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S STATEMENT

Dear Shareholders,

On behalf of the Board, I am delighted to report the annual results of the Group for the year ended 31 December 2018. The Group recorded a consolidated net profit attributable to shareholders for the year, before taking into account the effects of the increase in fair value of investment properties, of HK$3,345 million, a decline of 50% compared with the HK$6,651 million reported for 2017. Profit attributable to shareholders for the year, after taking into account the effects of the increase in fair value of investment properties, was HK$7,499 million (2017: HK$9,242 million). Earnings per share for the year were HK$5.16, down 19% compared with HK$6.40 per share as recorded in 2017.

The Board has recommended the payment of a final dividend of HK$0.95 per share for the year. Together with the interim dividend of HK$0.40 per share, the total cash dividend for the year will amount to HK$1.35 per share (2017: HK$1.50 per share, comprising an interim dividend of HK$0.45 per share, a final dividend of HK$0.90 per share and a special dividend of HK$0.15 per share).

A Stable Course amid Challenges

The Group posted solid 2018 results against a backdrop of macroeconomic volatility, continued housing policy tightening in the Mainland, and a correction in the Hong Kong market. These results reflect our strong foundation and reputation, and our ability to make timely adjustments to our strategies in order to deal with a range of new risks and challenges. We will continue to strengthen our brand and management in order to sustain our growth momentum and resilience. And by taking one resolute step after another, we will progress from strength to strength.

During the year the Mainland housing sector remained under tight control, bringing buyers back to rationality as a wait-and-see sentiment permeated the market. Overall economic growth slowed owing to domestic and external factors, stalling the sales growth trend towards the latter part of the year. Inventory increased as overall sales entered a decline. As developers became more cautious on land acquisitions, both demand and bids registered a downturn.

The Sino-US trade disputes also affected the mass market in Hong Kong. Transactions slowed down in the second half of the year, while prices of small-to-medium size flats dropped from their peak in August. The luxury sector remained resilient, maintaining stable capital values and average selling price levels.

Prime project location, positioning, design and quality remain the key sales drivers for Kerry Properties. We also proactively adjust our sales strategy to respond to the prevailing market conditions. During the year, the Group focused on the sales launches of residential and apartment projects in Qianhai (Shenzhen), Nanjing, Hangzhou, Shenyang and Qinhuangdao. I am pleased to report that the PRC segment has largely fulfilled its sales targets while meeting price expectations. In Hong Kong, positive sales momentum was driven by robust demand for the remaining units of Mantin Heights, which enjoys the advantage of a premier location. Overall, Hong Kong sales have met their set targets.

Land Banking to Support Focused Development

Despite continued downward pressure on the Mainland economy, the Group has continued to seek land-banking opportunities to fuel ongoing growth. During the year, the Group made successful land bids for two mixed-use projects in Fuzhou and Wuhan, as well as for a parcel of commercial land for the Phase III development of the Qianhai project.

The Group is currently developing landmark projects in Shenzhen's Qianhai economic zone in two phases. With the addition of the Phase III development in 2018, we are confident that greater synergies will be created. The construction of Phase I was topped out and one apartment tower was introduced during the year to great success. With all apartment units sold out on the first day of their launch, we comfortably exceeded our targets, reflecting the strong market demand for high-quality properties.

Construction works for our latest Fuzhou project commenced in December 2018. Fuzhou City, the provincial capital of Fujian Province, enjoys the status of a state-level new area, free trade zone and core zone of the 21st Century Maritime Silk Road. Wuhan City is also of paramount importance, being located at the centre of China's hinterland and the largest national municipality in the central Mainland. It is a significant node along the Yangtze River Economic Belt and a hub city under the Belt and Road Initiative. We plan to develop integrated complexes with iconic architecture in these two cities.

The Group has total confidence in the long-term healthy development of the Mainland property market. As the land-buying pressure abates, we will take the opportunity to seek appropriate land bids in first- and second-tier cities.

Meanwhile the Hong Kong government has changed its land supply directives and pledged to reserve 70% of new residential land for public housing, leading to a tighter supply of private land. In addition, the on-stream supply of private flats currently under construction comprises mainly small-to-medium size flats. This is expected to put additional pressure on mass-market units. The Group is competitively positioned in the luxury sector, which is expected to remain resilient.

In Hong Kong, the Group will launch Mont Rouge in the coming year. Unmatched in the Beacon Hill area, Mont Rouge is presented as a residential jewel with panoramic views, low density and a luxurious lifestyle. The project offers villas, houses and residential towers in a remarkable locale. We are fully confident in the sales performance of this highly exclusive project.

In addition to residential land, the Group will continue to identify opportunities for acquiring commercial and industrial related assets. The Group will also actively participate in government land bids. We expect our overall development to remain stable, while we plan business moves and new investments as opportunities present themselves.

Actively Growing the Investment Portfolio

It is our established policy to grow and actively manage our investment property portfolio, in order to build a robust recurrent income base. In line with this policy, we have developed a number of large-scale mixed-use projects in the CBDs of major Mainland cities. The year 2018 saw the addition of Shenyang Kerry Centre and the Jinan hotel and office tower project to the portfolio, further strengthening our rental income base.

Qianhai Phase I office and retail mall spaces will enter the market this year, initiating further contributions from our investment asset portfolio. Upon completion of works, the renovation and smart transformation of Shenzhen Kerry Plaza Phase I are also expected to significantly enhance the property's competitiveness.

The Hong Kong leasing portfolio is expected to sustain a stable performance as the segment works to improve on its occupancy rates. To expand the asset base, the Group will continue to pursue opportunity-driven acquisition of properties for renovation. We will also increase the competitiveness of our rental assets by introducing smart property technology.

The Group will continue to enhance the tenant mix of its leasing portfolio, which enjoys strong location advantages. We are confident that this well-managed asset base will yield high occupancy rates and contribute stable recurrent income.

Meticulous Focus on Risk Management

By adopting a defensive strategy against the prevailing macroeconomic volatility, the Group will progressively improve its gearing ratio over the next few years. We believe this will help us guard against potential risks, while presenting the Group with new development opportunities.

We will continue with our bids to acquire quality sites for development. In order to maintain prudence and to increase successful land-banking opportunities, we will consider joint-venture bids for projects on a larger scale.

Moving On from the Source

We believe the success of an enterprise is not only defined by its business development or financial performance. The Group has concentrated on building its operation in a manner that conserves and best utilises resources, serves and gives back to the community and provides a better living environment, in the belief that generations to come should inherit a better future. We believe in keeping things simple, and the tide of greener changes should progressively flow through the Group's operations. We are prepared to embrace change as we move further along the path towards sustainability.

In 2018, the Group developed and brought into force a "Sustainability Policy Statement", and updated all other sustainability-related policy statements. In the coming year, we will make an early move to plan our 2030 sustainability targets, and to carry out a pilot project in Hong Kong to evaluate the risks of climate change.

Our work has been recognised through a range of awards and accreditations. Among them, the Group was included in the "Hang Seng Corporate Sustainability Index" and related sustainability indices. In addition to the ISO certification of our various management systems, the Group's Sustainability Report has been validated by international business standards company BSI. A number of our new and existing buildings in the Mainland and Hong Kong are accredited by LEED, "Six-Star Super Grade-A Building" or BEAM Plus.

Looking ahead, economic conditions will likely remain constrained, while the Sino-US trade tensions and Brexit will expose the world to greater instability. With the central government's emphasis on building an effective mechanism to secure a healthy property market in the long term, more stabilising policies are likely to be introduced. Premised on our strength in and reputation for project planning, quality assurance, sales strategy and after-sales services, we are optimistic that the Group will be able to overcome any difficulties and achieve long-term profitable development.

Joining hands with our staff teams and upholding high governance standards, we will dedicate our full efforts to advancing our management. With a strong will and perseverance, I believe our team will drive the continued success of our Group. 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 and Chief Executive Officer
Hong Kong, 15 March 2019

OVERALL RESULTS



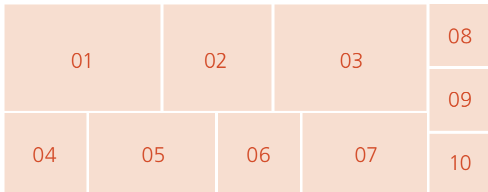



The Group's profit attributable to shareholders for the year ended 31 December 2018 was HK$7,499 million, representing a decrease of 19% compared with HK$9,242 million reported for 2017.

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$4,154 million for the year ended 31 December 2018 (2017: HK$2,591 million). Before taking into account the effects of the aforementioned increase in fair value, the Group recorded a decrease of 50% in profit attributable to shareholders to HK$3,345 million for the year ended 31 December 2018 (2017: HK$6,651 million). The decrease was mainly due to the adoption of new accounting standards starting from 1 January 2018 (note 3 to the financial statements), the provision for impairment loss for property under development in Macau amounting to HK$1,175 million (2017: Nil) (note 18(a) to the financial statements) and the recording of net decrease in fair value on financial assets at fair value through profit or loss amounting to HK$1,461 million (2017: increase of HK$2 million) (note 24 to the financial statements).

Earnings per share for the year ended 31 December 2018 were HK$5.16, representing a decrease of 19% compared with HK$6.40 per share in 2017.

01. Jing An Kerry Centre, Shanghai, PRC
02. Clubhouse of a residential project, Hong Kong
03. Mid-Levels Portfolio, Mid-Levels, Hong Kong
04. An event at Jing An Kerry Centre, Shanghai, PRC
05. Beijing Kerry Residence, Beijing, PRC
06. Shenzhen Kerry Plaza, Shenzhen, PRC
07. An event at Hangzhou Kerry Centre, Hangzhou, PRC
08. Kerry Parkside, Shenyang, PRC
09. An event at MegaBox, Kowloon Bay, Hong Kong
10. Kerry Parkside, 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		
	2018 HK$ million	2017 HK$ million	Change
Profit attributable to shareholders before taking into account the net increase in fair value of investment properties and related tax effects	**3,345**	6,651	-50%
Add: Net increase in fair value of investment properties and related tax effects	**4,154**	2,591	
Profit attributable to shareholders after taking into account the net increase in fair value of investment properties and related tax effects	**7,499**	9,242	-19%

The Board has recommended the payment of a final dividend of HK$0.95 per share (the "**Final Dividend**") for the year ended 31 December 2018. Together with the interim dividend of HK$0.40 per share, the total cash dividend for the year ended 31 December 2018 will be HK$1.35 per share (2017: HK$1.50 per share, comprising an interim dividend of HK$0.45 per share, a final dividend of HK$0.90 per share and a special dividend of HK$0.15 per share).

Kerry Centre, Quarry Bay, Hong Kong

REVIEW
OF
PROPERTY BUSINESS

REVIEW OF PROPERTY BUSINESS

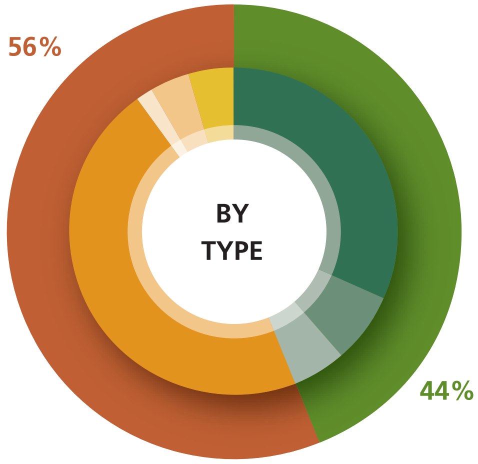
OVERVIEW

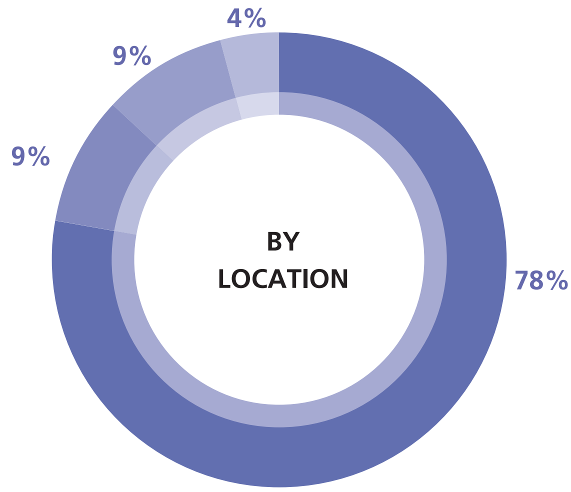
The year ended 31 December 2018 was marked by increasing unpredictability and complex challenges. However, despite these headwinds, the Group was able to stay on course and delivered positive results. Sales activity moderated in the latter part of the reporting period, while the performance of the leasing and hotel operations remained robust throughout the year.

As at 31 December 2018, the Group held a portfolio comprising properties under development with a gross floor area ("**GFA**") of 25.36 million square feet (2017: 18.96 million square feet), completed investment properties of 13.10 million square feet (2017: 12.04 million square feet), hotel properties of 4.67 million square feet (2017: 4.59 million square feet), and properties held for sale of 2.32 million square feet (2017: 3.51 million square feet). This prime asset base continues to affirm the Group's position for long-term growth.

Property Portfolio Composition

45.45 million square feet in attributable GFA





Under development
25.36 million square feet in attributable GFA 56%

PRC	82%
Hong Kong	3%
Overseas	7%
Macau	8%

Completed investment properties/ Hotel properties/ Properties held for sale
20.09 million square feet in attributable GFA 44%

PRC	72%
Hong Kong	16%
Overseas	12%

PRC	78%
Hong Kong	9%
Overseas	9%
Macau	4%

Property Portfolio Composition

As at 31 December 2018:	Group's attributable GFA ('000 square feet)				
	The PRC	Hong Kong	Macau(1)	Overseas	Total
Completed Investment Properties	8,445	2,863	–	1,792	13,100
Hotel Properties	4,126	38	–	504	4,668
Properties Under Development	20,887	818	1,988	1,670	25,363
Properties Held for Sale	1,915	400	–	7	2,322
Total GFA	**35,373**	**4,119**	**1,988**	**3,973**	**45,453**

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 reported a 4% decrease in turnover to HK$13,310 million (2017: HK$13,825 million), accounted for by a drop of 11% in sales revenue from completed properties albeit accompanied by a 7% growth in rental revenue. Gross profit declined 2% to HK$5,678 million (2017: HK$5,781 million).

The Division continued to plan and adjust its sales activity in step with shifts in market demand and the central government's housing policies. With the commissioning of new mixed-use projects in the PRC, revenue and earnings generated from the investment property portfolio maintained their steady growth.

INVESTMENT PROPERTIES

During the year, the PRC portfolio of completed investment properties delivered a turnover, comprising rental and other fees, of HK$3,686 million (2017: HK$3,444 million). Gross profit was HK$2,905 million (2017: HK$2,713 million), up 7% year on year.

As at 31 December 2018, the completed investment property portfolio in the PRC occupied an aggregate GFA of 8.45 million square feet (2017: 7.39 million square feet), comprising apartment, commercial and office properties. Their respective composition and occupancy rates were as follows:

As at 31 December 2018:	**Group's attributable GFA ('000 square feet)**								
	Beijing	**Shanghai**	**Shenzhen**	**Hangzhou**	**Shenyang**	**Tianjin**	**Jinan**	**Total**	**Occupancy Rate**
Office	**711**	**1,429**	**1,552**	**102**	**354**	**–**	**195**	**4,343**	**88%**
Commercial	**98**	**1,096**	**104**	**798**	**486**	**435**	**34**	**3,051**	**88%**
Apartment	**277**	**774**	**–**	**–**	**–**	**–**	**–**	**1,051**	**89%#**
	1,086	**3,299**	**1,656**	**900**	**840**	**435**	**229**	**8,445**	

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

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

PRC Properties

35.37 million square feet in attributable GFA

Under development

20.89 million square feet in attributable GFA 59%

By usage

Residential	54%
Hotel	4%
Commercial	11%
Office	31%

By location

Tianjin	3%	Zhengzhou	6%
Hangzhou	5%	Putian	1%
Shenyang	16%	Kunming	2%
Qinhuangdao	9%	Shenzhen	16%
Nanchang	3%	Fuzhou	18%
		Wuhan	21%

Completed investment properties/ Hotel properties/ Properties held for sale

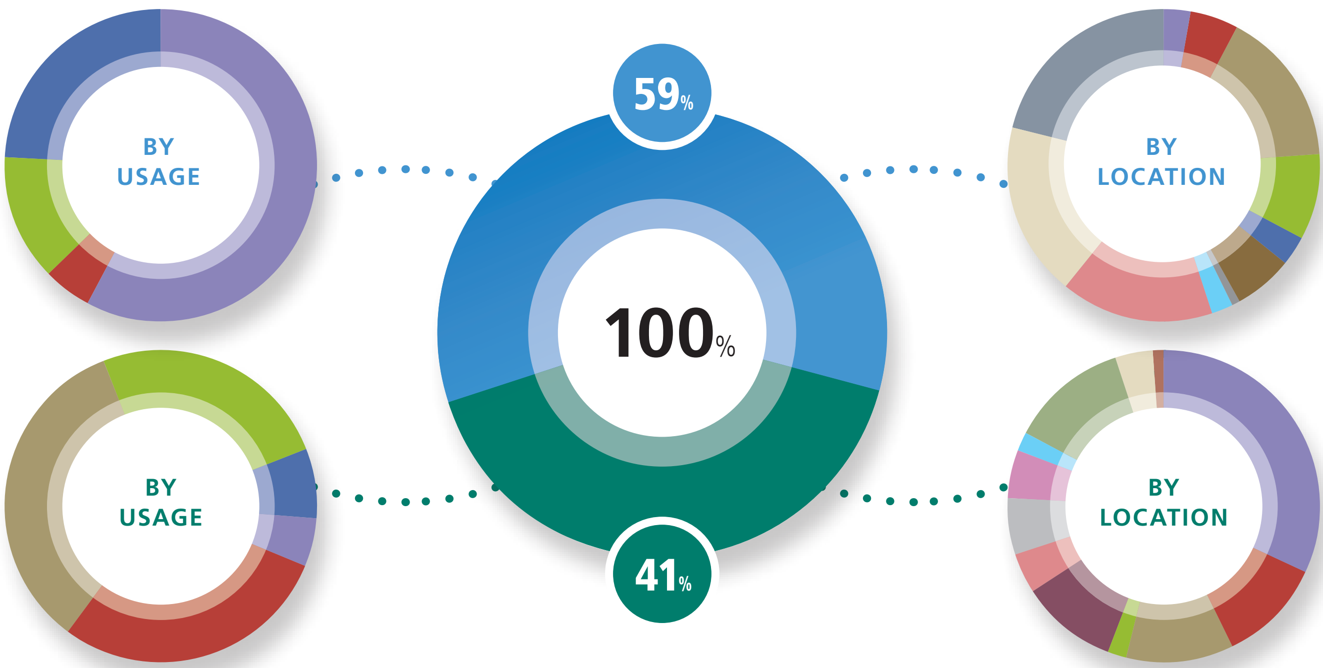
14.48 million square feet in attributable GFA 41%

By usage

Residential	5%
Hotel	29%
Office	34%
Commercial	25%
Apartment	7%

By location

Shanghai	32%	Tianjin	6%
Beijing	11%	Nanchang	5%
Shenzhen	11%	Qinhuangdao	2%
Tangshan	2%	Hangzhou	12%
Shenyang	10%	Jinan	4%
Nanjing	4%	Others	1%



Comparative occupancy rates of key investment properties are outlined below:

Property	Occupancy rate as at 31 December 2018	Occupancy rate as at 31 December 2017
Jing An Kerry Centre Phase I	**96%**	95%
Jing An Kerry Centre Phase II (1)	**98%**	98%
Kerry Parkside (1)	**97%**	97%
Beijing Kerry Centre (1)	**96%**	97%
Shenzhen Kerry Plaza Phase I	**97%**	94%
Shenzhen Kerry Plaza Phase II	**97%**	94%
Hangzhou Kerry Centre (1)	**92%**	95%
Shenyang Kerry Centre (1)	**39%**	N/A

Note:

(1) Excluding the hotel portion.

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 2018, 99% of the office space (2017: 98%) and 97% of the retail space (2017: 99%) were leased. Jing An Shangri-La Hotel achieved an average occupancy rate of 78% during the year (2017: 80%).

GFA 3.74 million square feet | 97%@ Occupancy Rate

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 2018, the retail space and offices were both 100% leased (2017: both 100%), while the serviced apartments were 85% occupied (2017: 85%). Kerry Hotel Pudong, Shanghai reported an average occupancy rate of 74% during the year (2017: 77%).

GFA 2.73 million square feet | 97%@ Occupancy Rate

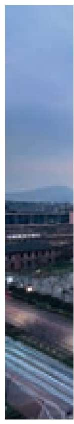
GFA 2.23 million square feet | 96%@ Occupancy Rate

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 2018, the occupancy rate of the retail portion was 85% (2017: 94%), while the offices were 99% leased (2017: 98%). The serviced apartments were 93% leased as at 31 December 2018 (2017: 96%). Kerry Hotel Beijing recorded an average occupancy rate of 85% during the year (2017: 85%).

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 2018, the offices were 82% leased (2017: 97%), while 94% of the retail space was leased (2017: 94%). Midtown Shangri-La, Hangzhou reported an average occupancy rate of 77% during the year (2017: 76%). The Group holds a 75% stake in the project.



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. As at 31 December 2018, Phases I and II of the development were both 97% leased (2017: both 94%).

GFA **1.65** million square feet | **97%** Occupancy Rate

GFA **1.82**# million square feet | **92%**@ Occupancy Rate

Tianjin Kerry Centre

Tianjin Kerry Centre is a riverfront property on the east bank of the Haihe River in the Hedong CBD, 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, delivering a GFA of approximately 3.6 million square feet. Phase II of the development is under planning. As at 31 December 2018, the Riverview Place mall was 74% leased (2017: 76%). Shangri-La Hotel, Tianjin reported an average occupancy rate of 73% during the year (2017: 71%).

GFA **1.67**# million square feet | **74%**@ Occupancy Rate

GFA **2.06**# million square feet | **39%**@ Occupancy Rate

Shenyang Kerry Centre

The recently opened Shenyang Kerry Centre, located at the east side of Qingnian Street in Shenyang, Liaoning Province, has added office and commercial space to the Group's rental property portfolio. As at 31 December 2018, the offices were 19% leased (2017: N/A), while 68% of the retail space was leased (2017: N/A). Shangri-La Hotel, Shenyang reported an average occupancy rate of 68% (2017: 71%). The Group holds a 60% stake in the project.

Note:
@ As at 31 December 2018, excluding hotel.
 # As at 31 December 2018, excluding residential and apartment held for sale.

INVESTMENT PROPERTIES (Continued)

Jinan Enterprise Square

Jinan Enterprise Square is located at Lixia District, Jinan, Shandong Province. As at 31 December 2018, the offices were 76% leased (2017: N/A), while 37% of the retail space was leased (2017: N/A). Shangri-La Hotel, Jinan reported an average occupancy rate of 58% (2017: 31%). The Group holds a 55% stake in the project.

◆ Jinan Enterprise Square, Jinan, PRC

SALES OF PROPERTIES

Sales of completed properties in the PRC generated a turnover of HK$7,516 million (2017: HK$8,463 million), mainly from recognised sales of Castalia Court in Hangzhou, Jinling Arcadia Court in Nanjing, Shenyang Arcadia Height, The Metropolis-Arcadia Court Phase II in Chengdu, Habitat in Qinhuangdao and Lake Grandeur in Hangzhou. A gross profit of HK$2,381 million (2017: HK$2,659 million) was derived therefrom.

The Division also derived a satisfactory profit from the sales of The Berylville in Ningbo.

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, Castalia Court, as well as approximately 250,000 square feet of commercial space. As at 31 December 2018, all 408 Phase I units and 550 Phase II units had been sold. Construction work for Phase III is currently underway. As at 31 December 2018, 98% of the total of 725 Phase III units had been pre-sold.

◆ Castalia Court Phase II, Hangzhou, PRC

Jinling Arcadia Court, Nanjing

The Group has developed a residential project 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 2017. As at 31 December 2018, 97% of the total of 429 units had been sold.

◆ Jinling Arcadia Court, Nanjing, PRC*

* Artist's Impression

Arcadia Height, Shenyang

A tower of Arcadia Height of the Shenyang Kerry Centre Phase II development has been completed and delivered for occupation. As at 31 December 2018, 77% of the total of 495 Phase II residential units had been sold/pre-sold. The Group holds a 60% interest in this project.

◆ Arcadia Height, Shenyang, PRC

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. As at 31 December 2018, all Phase II residential and commercial units had been sold and delivered. The Group holds a 55% interest in this project.

◆ The Metropolis - Arcadia Court Phase II, Chengdu, 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 2018, 82% 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

Lake Grandeur, Hangzhou

Lake Grandeur, with a GFA of approximately 330,000 square feet, is situated at Hangzhou Kerry Centre. The development stands adjacent to the renowned West Lake in Hangzhou and was completed in 2017. As at 31 December 2018, 23% of the total of 121 units had been sold. The Group holds a 75% interest in this development.

◆ Lake Grandeur, Hangzhou, PRC*

* Computer Processed Image

The Berylville Phase II, Ningbo

The Berylville Phase II, Ningbo, with a GFA of approximately 617,000 square feet, is located in the Eastern New Town Core Region of Ningbo and was completed in 2018. As at 31 December 2018, all 437 units had been sold. The Group holds a 50% interest in this development.

◆ The Berylville, Ningbo, PRC

PROPERTIES UNDER DEVELOPMENT

The Group has selectively replenished its land bank while continuing to develop mixed-use property landmarks and residential projects in prime locations.

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, Phase II was partially completed while Phase III is now under construction.

◆ Shenyang Kerry Centre, Shenyang, PRC

Wuhan

On 20 September 2018, the Group won a bid to acquire the land use rights of a site located in Jianghan District, Wuhan City, Hubei Province. Lying in a prime commercial district at the intersection of the Yangtze and Han rivers, and in the vicinity of the Inner Ring Road city-centre area, the site will enjoy direct access to the Wuhan Metro Line 13 currently under planning. This wholly owned project, with an aggregate site area of approximately 700,000 square feet, is planned to yield a total GFA of approximately 4.5 million square feet. The Group plans to develop a large-scale complex with office, commercial, residential and educational components.

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, offers an unobstructed seafront view, and is designated for a mixed-use development comprising office, apartment and commercial space. 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 2020. The pre-sale of units of an apartment tower was launched in June 2018 with a strong market response.

The Group also holds a 25% interest in another 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 designed to yield a GFA of approximately 1.3 million square feet for commercial use.

On 14 December 2018, the Company won a bid to acquire a parcel of land in the Qianwan area, adjacent to the two existing developments. This new site is designated for commercial use and has an area of approximately 184,000 square feet, which is planned to yield a GFA of approximately 886,000 square feet, accommodating office, commercial and underground retail space, as well as complementary community facilities. The new development will further the Group's core presence in Qianhai, and will facilitate its plan to build a modern, integrated hub for work, business activity and urban living.

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

◆ Qianhai Kerry Centre, Shenzhen, PRC*

Fuzhou

On 30 August 2018, the Group won a bid for a commercial (including retail and commercial services) and residential site in Cangshan District, Fuzhou City, Fujian Province. This wholly owned project, with an aggregate site area of approximately 1.4 million square feet, is planned to yield a total GFA of approximately 3.7 million square feet. This new project is located in the Sanjiangkou area where it enjoys a captivating waterfront view. It also lies conveniently at the intersection of the Fuzhou-Xiamen Expressway, and will be linked to the Fuzhou Metro Line 6. The Group plans to develop an integrated complex with office, commercial and residential space.

Zhengzhou

The Group and Shangri-La Asia Limited ("**Shangri-La**") are 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 2.1 million square feet for development into hotel, residential, commercial and office properties. The project is scheduled to be completed in phases from 2022 onwards. The Group holds a 55% interest in this project.

* Artist's Impression

REVIEW OF PROPERTY BUSINESS

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 696,000 square feet. The Group holds a 55% interest in this project, which is scheduled to be completed in 2021.

Nanchang

In Nanchang, the provincial capital of Jiangxi Province, the Group is developing a project through a joint venture with 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.

◆ Nanchang Development, Nanchang, 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 the hotel, which has 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 in 2016 acquired an equity interest of approximately 24.4% in a Shanghai project company which owns a site located in Pudong New Area, Shanghai. The site, 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 for the site to commercial development use ("**May approval**"). 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.

The Group's investment made in the second half of 2016 was on the basis of the May approval. Amongst the investors, a state-owned company through different investment vehicles collectively is the largest investor in the project.

In the second quarter of 2018, the Shanghai municipal authorities communicated to the project company their intention to incorporate the project site in the World Expo Cultural Park development. Since then discussions and negotiations have been ongoing with the Shanghai municipal authorities with a view to arriving at a mutually acceptable solution to enable the Group to withdraw from the project. However, a conclusion on the acquisition compensation has not yet been reached. A final agreement of terms is expected to be reached sometime within 2019.

Following the adoption of HKFRS 9 on 1 January 2018, the Group's investment was classified as financial assets in 2018. During the year ended 31 December 2018, a decrease in fair value amounting to HK$1,500 million was recorded. Therefore, as at 31 December 2018, the carrying value of the Group's investment amounts to approximately HK$1,754 million. Up to the date of this report, the project company remains as the legal and registered owner of the site with all the rights conferred as per the original land grant.

Properties under development in the PRC

As at 31 December 2018:	Group's Attributable GFA Upon Completion ('000 square feet)				
	Residential	Office	Commercial	Hotel	Total
Wuhan	2,793	1,190	484	–	4,467
Fuzhou	1,844	1,179	678	–	3,701
Shenyang	2,424	550	438	–	3,412
Shenzhen	646	2,230	399	108	3,383
Qinhuangdao	1,870	–	105	–	1,975
Zhengzhou	558	349	24	226	1,157
Hangzhou	963	–	78	–	1,041
Tianjin	156	422	53	–	631
Nanchang	–	488	29	–	517
Kunming	125	–	–	258	383
Putian	–	–	21	199	220
Total	**11,379**	**6,408**	**2,309**	**791**	**20,887**

HONG KONG PROPERTY DIVISION

During the year ended 31 December 2018, the Hong Kong Property Division recorded a turnover of HK$8,123 million (2017: HK$21,723 million) and gross profit of HK$3,325 million (2017: HK$3,964 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 portfolio of investment properties in Hong Kong continued to contribute a steady stream of recurrent income as it achieved high occupancy levels and stable rental rates during the year. The strong rental performance of the newly added apartment property, Resiglow, was also a driver of the income growth.

Hong Kong Properties

4.12 million square feet in attributable GFA

Under development
0.82 million square feet in attributable GFA 20%

By usage

Residential	100%

By location

Hong Kong Island	38%
Kowloon	62%

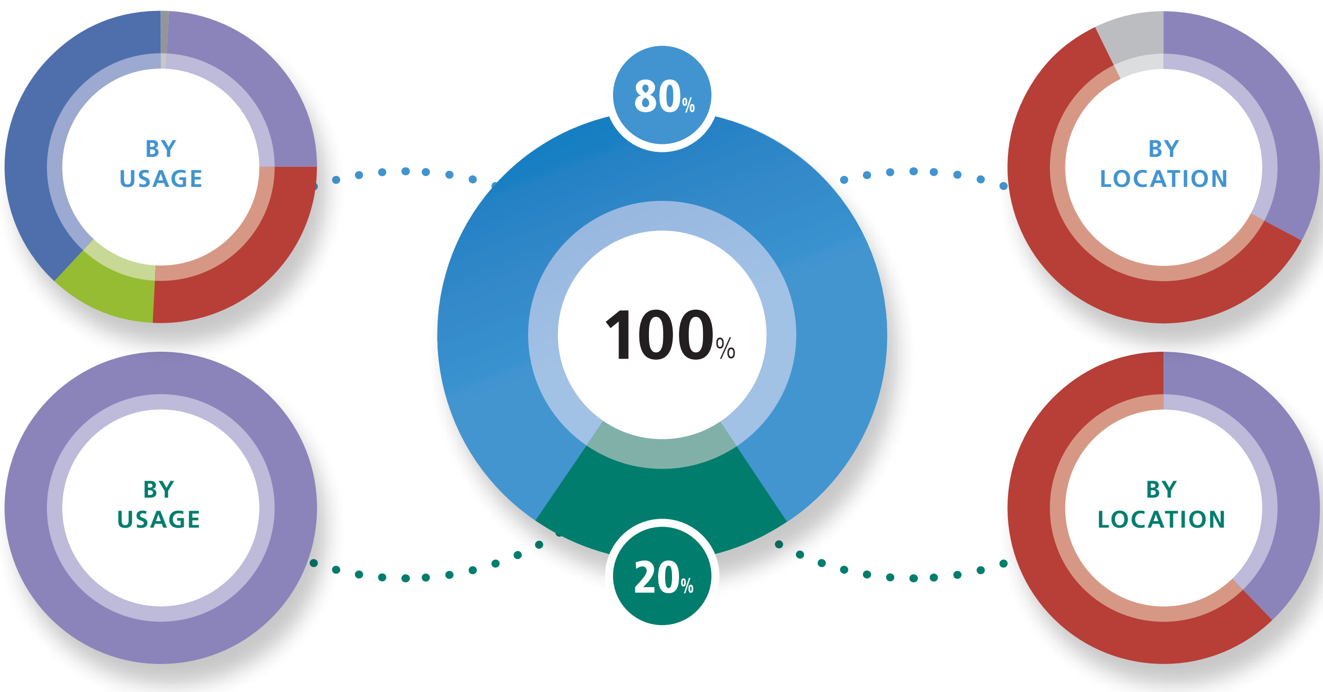
Completed investment properties/ Hotel properties/ Properties held for sale
3.30 million square feet in attributable GFA 80%

By usage

Office	26%
Residential	11%
Commercial	38%
Hotel	1%
Apartment	24%

By location

Hong Kong Island	35%
Kowloon	58%
New Territories	7%



INVESTMENT PROPERTIES

The Group's premier portfolio of residential, commercial and office properties in Hong Kong recorded a robust performance in 2018. Turnover, comprising rental and other fees, generated by the Group's completed investment properties in Hong Kong was HK$1,164 million (2017: HK$1,097 million), producing a gross profit of HK$926 million for the year (2017: HK$874 million).

As at 31 December 2018, the completed investment property portfolio in Hong Kong had an aggregate GFA of 2.86 million square feet (2017: 2.86 million square feet). Set out below is the breakdown of GFA and the respective occupancy rates, together with comparative figures:

◆ Mid-Levels Portfolio, Mid-Levels, Hong Kong

	As at 31 December 2018		As at 31 December 2017	
	Group's attributable GFA ('000 square feet)	**Occupancy rate**	Group's attributable GFA ('000 square feet)	Occupancy rate
Apartment	**803**	**99%**	803	86%#
Commercial	**1,219**	**99%**	1,219	99%
Office	**841**	**97%**	841	96%
	2,863		2,863	

Note:

 # Including Resiglow with leasing commenced in third quarter of 2017.

Enterprise Square Five / MegaBox, Kowloon Bay

MegaBox blends shopping, entertainment, 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. As at 31 December 2018, the mall had an occupancy rate of nearly 100% (2017: 99%).

MegaBox maintains a dynamic tenant mix offering a wealth of shopping and entertainment choices for different lifestyle needs. The mall therefore consistently achieves nearly full occupancy and robust rental rates.

The two Grade-A office towers of Enterprise Square Five, with a GFA of 519,000 square feet, recorded stable rental rates and were 97% leased as at 31 December 2018 (2017: 94%).

◆ 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 as at 31 December 2018 (2017: 100%).

◆ 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. The leasing of this property has met with strong response and as at 31 December 2018, all units (2017: 57%) 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$6,959 million (2017: HK$20,626 million) to the Group. A gross profit of HK$2,399 million (2017: HK$3,090 million) was generated, mainly from recognised sales of Mantin Heights and The Bloomsway.

Mantin Heights, Ho Man Tin

The Group's residential project, Mantin Heights, is situated at No. 28 Sheung Shing Street, Ho Man Tin, with a saleable area of approximately 992,000 square feet. The project obtained its Certificate of Compliance in November 2017. As at 31 December 2018, 91% 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 Certificate of Compliance in February 2018. As at 31 December 2018, 91% of the total of 1,100 units had been sold.

PROPERTIES UNDER DEVELOPMENT

Mont Rouge, Beacon Hill

The Group is developing Mont Rouge at No. 9 Lung Kui Road in Beacon Hill with a saleable area of approximately 115,000 square feet. This low-density premium residential project comprising two residential towers and 19 houses obtained its Certificate of Compliance in January 2019.

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 acquired a further site in Beacon Hill in 2016. This site, at No. 3 Lung Kui Road and 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 lies adjacent to Mont Rouge and is scheduled to be completed in 2020.

La Salle Road, Ho Man Tin

The Group is developing a residential project at No. 10 La Salle Road in Ho Man Tin, following amalgamation of the entire building at Nos. 168-168C Boundary Street with the 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

Together with Sino Land Company Limited, the Group is co-developing 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 2023.

Properties under development in Hong Kong

As at 31 December 2018:	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 May 2018, the Macau SAR Government gazetted the expiry of the land lease of the Nam Van Lake project for the reason of non-development. The Group filed an appeal ("**Appeal**") in June 2018 in the Court of Second Instance of Macau SAR ("**Court**") against the decision of the Chief Executive of Macau SAR in declaring the expiry of the land lease. The final decision of the Court concerning the Appeal is expected to be awarded within 2019. The Group is aware of the viability of filing legal proceedings against the Macau SAR Government to claim a due compensation for damages and loss of profits caused, and is assessing with its lawyers the right course of action to be taken.

Considering the above and as a matter of prudence, a full impairment provision was made on the carrying value of the Nam Van Lake project.

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 2018, the occupancy rates of Shangri-La Plaza Mall and The Enterprise Center were 93% and 95% respectively (2017: 90% and 97%, respectively).

◆ Shang Residences at Wack Wack, Mandaluyong City, The Philippines*

Overseas Properties
3.97 million square feet in attributable GFA

Under development
1.67 million square feet in attributable GFA **42%**

By usage

Residential	97%
Commercial	3%

By location

The Philippines	100%

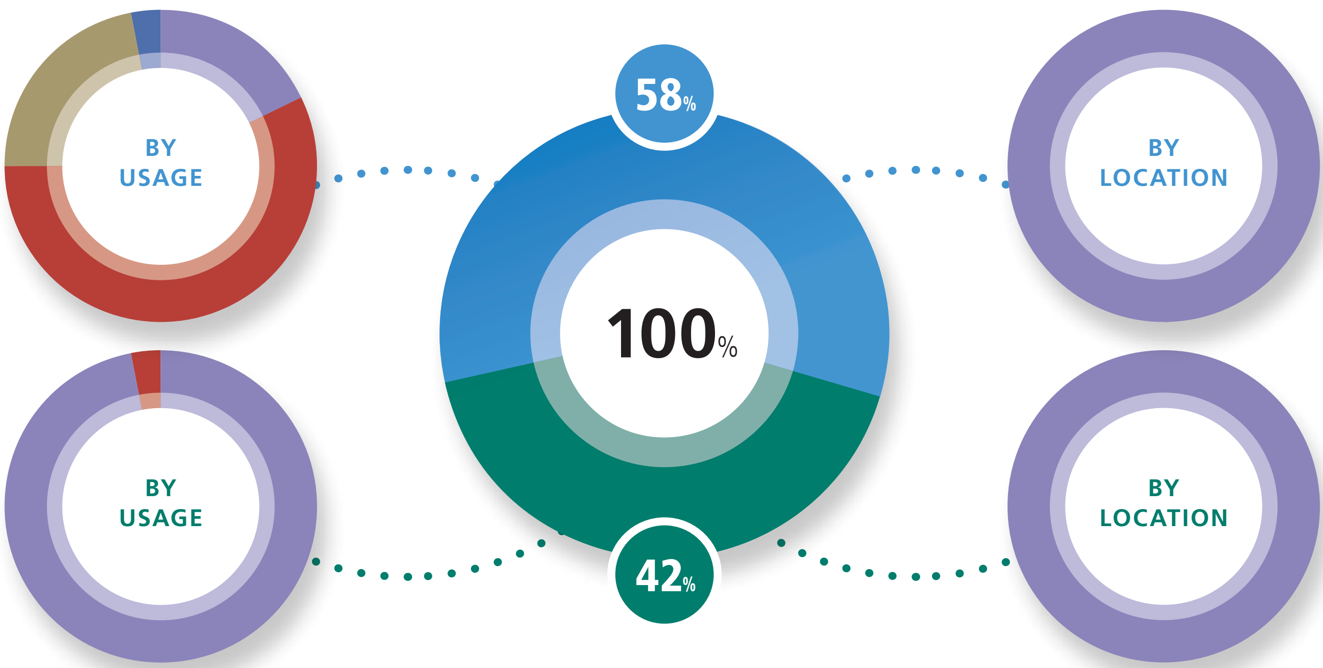
Completed investment properties/Hotel properties/Properties held for sale
2.30 million square feet in attributable GFA **58%**

By usage

Office	18%
Commercial	57%
Hotel	22%
Apartment	3%

By location

The Philippines	100%



* Artist's Impression

SPI holds a high-rise residential project, Shang Salcedo Place in Makati City, with a GFA of approximately 655,000 square feet. As at 31 December 2018, 99% of the total of 749 residential units had been sold.

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 2018, 96% of the total of 98 units available for sale had been sold. The hotel recorded an average occupancy rate of 63% (2017: 64%) during the year, while the serviced apartments were 84% leased as at 31 December 2018 (2017: 51%).

Apart from these completed projects, SPI currently has two major projects under development:

SPI is developing a project with 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, and 90% of the total of 3,044 units had been sold as at 31 December 2018.

SPI also launched another project in 2018, located at Wack Wack Road, Mandaluyong City, with a site area of more than 36,000 square feet. This project, Shang Residences at Wack Wack, will have a GFA of approximately 1.01 million square feet, comprising 425 residential units. Sales of Shang Residences at Wack Wack were launched in September 2018, and 25% of the total of 425 units had been reserved and sold as at 31 December 2018.

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. Construction of Phase I, a high-rise residential tower, is expected to be commenced in the second half of 2019. The Phase II development will 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.

◆ Shang Residences, Beira Lake, Colombo, Sri Lanka*

* Artist's Impression

Overseas Property Portfolio

As at 31 December 2018:	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	335
Hotel lease	169
Sub-total	**504**
Properties under development	
Residential	1,614
Commercial	56
Sub-total	**1,670**
Properties held for sale	
Residential	7
Sub-total	**7**
Total	**3,973**

OUTLOOK

PRC PROPERTY DIVISION

China is confronted with a host of challenges, including the US-Mainland trade issues, refinancing challenges and uncertainties brought by the fluctuations in the currency. In response to these complex issues ahead, the central government is taking every measure to keep a stable economic performance and to boost the country's resilience.

While difficulties are likely to persist in 2019, the Group maintains a stable long-term outlook for China's overall economy and the real estate industry. The Group foresees greater business momentum further ahead as China works to tackle the economic issues.

The PRC Property Division will continue to adjust its pace of sales and marketing strategy in step with the state's housing policies. Sales and pre-sales of various properties remain on track. Among these, the successful launch of the apartment units in Qianhai highlights the strong demand for premier quality homes in prime locations. The projects in Shenyang, Qinhuangdao and Hangzhou have also continued to meet with robust demand.

The Division has been growing its recurrent income base on the foundation of its portfolio of iconic mixed-use developments in the CBDs of major metropolises, with the addition of Shenyang Kerry Centre during the past year. The rental performance of this investment property portfolio will remain a bright spot in the Group's ongoing results, and will generate a stable stream of income, helping the Group to deliver steady long-term returns.

To sustain growth momentum, the Group will continue to selectively replenish its land bank. During the past year, the Group has acquired new sites in Shenzhen's Qianhai zone and in Wuhan and Fuzhou. In line with the strategy of building mixed-use projects and residential properties in prime locations, the Group will seek land bidding opportunities in the prime locations of key cities and provincial capitals.

The Group is confident that, with a strong brand built on decades of delivering excellence, the Division is well positioned to ride out the current adverse market phenomena. Management will take forward its well thought out business strategies, while addressing the market risks on a continual basis.

HONG KONG PROPERTY DIVISION

The past year saw Hong Kong's exposure to significantly higher geopolitical and global economic volatility, with overall sentiment and trends becoming more or less unpredictable. Local property sector activity remained solid until the third quarter, after which the trade war and macroeconomic uncertainty have weighed more heavily on the market. Against this backdrop, the Group has taken a more prudent approach in managing its business and investments.

The Hong Kong Property Division continues to craft premier residential projects that meet specific demands and are less prone to mass market fluctuations. The Division's prime portfolio of residential projects under development includes two residential projects in Beacon Hill, the first of which is near completion. This development, representing an exclusive collection of exquisite homes in Hong Kong, exemplifies the Group's edge in the higher end of the market. The sales of the remaining units at Mantin Heights and The Bloomsway are also proceeding smoothly.

The segment's performance is well supported by a prime investment asset base. Its 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. The newly added Resiglow in Happy Valley has also achieved full occupancy on strong market demand. This investment property portfolio will contribute continuously to the Group's growing recurrent income base.

The economic environment in the coming year will inevitably be impacted by the ongoing trade tensions and economic conditions in China. In view of heightened volatility, the Group will plan and deploy its financial and talent resources to prudently take forward its business plans.

In addition to residential land, the Group will seek opportunities to acquire commercial and industrial related assets. The Group will also participate actively in government land bids. While maintaining a steady pace of development and adopting a defensive strategy against potential volatility, the Group will cast a proactive eye on opportunities to grow revenue.

The Group believes it is at testing times that opportunities emerge to take well prepared and managed businesses to new levels. During difficult situations it will be the management's sound judgement calls and decisive action that make the Company stand out and thrive. The Group has a long track record of maintaining resilience across market cycles over past decades. We are confident of sustaining a solid performance over the long term in the face of any challenges.

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 2018, total foreign currency borrowings (excluding RMB bank loans) amounted to the equivalence of HK$3,338 million and RMB bank loans amounted to the equivalence of HK$5,568 million. Therefore, non-RMB total foreign currency borrowings and RMB bank loans represented approximately 10% and 17% respectively, of the Group's total borrowings of HK$33,111 million as at 31 December 2018.

The non-RMB total foreign currency borrowings of HK$3,338 million include US$300 million Fixed Rate Bonds (net of direct issue costs) and AUD180 million bank loans. The Group has arranged cross currency swap contracts amounting to US$297 million and AUD180 million to hedge the exchange rate exposure between United States dollars and Hong Kong dollars and between Australian dollars and Hong Kong dollars, respectively.

Out of the Group's total borrowings as at 31 December 2018, HK$8,142 million (representing approximately 25%) was repayable within one year, HK$8,731 million (representing approximately 26%) was repayable in the second year and HK$16,238 million (representing approximately 49%) 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 93% of total borrowings as at 31 December 2018. 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 2018, the gearing ratio for the Group was 19.2% (2017: 25.7%), calculated based on net debt of HK$18,727 million and shareholders' equity of HK$97,541 million.

As at 31 December 2018, the Group had outstanding interest rate swap contracts which amounted to HK$1,500 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 2018, the Group had total undrawn bank loan facilities of HK$12,325 million and cash on hand of HK$14,384 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.

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 2018 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	798,300 101,582 **899,882**	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.	Shenyang Kerry Centre Phase II	123, 125 and 125-1 Qingnian Avenue Shenhe District Shenyang	Commercial Office	60.00	486,057 353,615 **839,672**	550	Medium lease
6.	Shenzhen Kerry Plaza Phase I	1 Zhong Xin Si Road Futian CBD Shenzhen	Office	100.00	**804,709**	306	Medium lease
7.	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
8.	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
9.	Shanghai Central Residences Phase II Towers 1 and 3	166 and 168 Lane 1038 Huashan Road Changning District Shanghai	Apartment	100.00	**478,286**	211	Long lease
10.	Tianjin Kerry Centre Riverview Place	238 Liuwei Road Hedong District Tianjin	Commercial	49.00	**435,099**	387	Medium lease
11.	Kerry Everbright City Phase I	218 Tianmu Road West Jing An District Shanghai	Commercial Office	74.25	330,141 56,740 **386,881**	179	Medium lease
12.	Jinan Enterprise Square	102 Luoyuan Street Lixia District Jinan	Office Commercial	55.00	195,036 33,634 **228,670**	140	Medium lease
13.	Shenzhen Kerry Centre	2008 Renminnan Road Lowu District Shenzhen	Office	100.00	**1,641**	193	Medium lease
	Total PRC completed investment properties				**8,444,503**	**4,312**	

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
PRC Properties							
B.	**Hotel properties**						
1.	Shangri-La Hotel, Nanchang	669 Cui Lin Road Honggutan New District Nanchang	Hotel	80.00	**642,735**	182	Medium lease
2.	Kerry Hotel Beijing	1 Guang Hua Road Chaoyang District Beijing	Hotel	71.25	**499,642**	–	Medium lease
3.	Midtown Shangri-La Hotel, Hangzhou	6 Changshou Road Xiacheng District Hangzhou	Hotel	75.00	**461,443**	12	Medium lease
4.	Jing An Shangri-La Hotel, West Shanghai	1218 Yanan Zhong Road Jing An District Shanghai	Hotel	51.00	**433,566**	–	Medium lease
5.	Shangri-La Hotel, Nanjing	329 Zhong Yang Road Gulou District Nanjing	Hotel	45.00	**412,798**	187	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	**335,779**	101	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**	99	Medium lease
	Total PRC hotel properties				**4,125,947**	**936**	

	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.	Hangzhou Zhijiang Castalia Court Phase III	East of Planned Vertical Road 2 South of Planned Horizontal Road 2 West of Shanhusha River North of Shanhusha Road West Lake District Hangzhou	Residential Commercial	100.00	963,141 77,576 **1,040,717**	637,433	Curtain wall installation, mechanical and engineering and interior decoration work in progress	First half of 2019
2.	Shenyang Kerry Centre Phase II Arcadia Height Towers 1 and 2	2 and 4 Jian Yuan Street Shenhe District Shenyang	Residential Commercial	60.00	433,972 15,552 **449,524**	94,432	Interior decoration work in progress	In phases from first half of 2019 onwards
3.	Shenzhen Qianhai Kerry Centre	1 Qianwan Road Nanshan District Shenzhen	Office Residential Commercial	100.00	1,291,680 645,840 236,324 **2,173,844**	349,670	Residential Interior decoration completed, curtain wall installation work in progress; Office Superstructure work topped up, curtain wall installation and interior decoration work in progress	2020
4.	Putian Hotel Development	666 Jiuhua Road Chengxiang District Putian	Hotel Commercial	60.00	199,558 20,951 **220,509**	324,589	Superstructure work in progress	2020
5.	Nanchang Complex Development Phase II	667 Cui Lin Road Honggutan New District Nanchang	Office Commercial	80.00	487,962 28,787 **516,749**	56,556	Schematic design in progress	2021
6.	Kunming Complex Development	88-96 Dong Feng Road Panlong District Kunming	Hotel Residential	55.00	257,766 125,159 **382,925**	91,443	Piling work completed, earthwork and lateral support work in progress	2021
7.	Fuzhou Cangshan Complex Development [1]	Land Parcel 2018-34 Zhanglan Village block Cangshan District Fuzhou	Residential Office Commercial	100.00	1,844,175 1,178,938 678,132 **3,701,245**	1,381,409	Excavation work in progress	2022
8.	Shenzhen Qianhai Complex Development Phase II	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	2022
	Sub-total				**8,808,343**	**2,987,367**		

	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)**							
9.	Shenyang Kerry Centre Phase III	Lot No. 2007-053 8 Golden Corridor East of Qingnian Avenue Shenhe District Shenyang	Residential Office Commercial	60.00	1,989,898 550,256 423,025 **2,963,179**	428,900	Excavation work in progress	In phases from 2022 onwards
10.	Zhengzhou Complex Development	East of Huayuan Road South of Weier Road Zhengzhou	Residential Office Hotel Commercial	55.00	557,807 348,972 226,353 23,639 **1,156,771**	263,881	Residential Excavation work in progress	In phases from 2022 onwards
11.	Shenzhen Qianhai Complex Development Phase III [(1)]	Site no. T102-0261 Land Parcel 3, Unit 7 Qianwan Area Qianhai District Shenzhen	Office Commercial	100.00	771,779 114,098 **885,877**	183,838	Schematic design in progress	2023
12.	Tianjin Kerry Centre Phase II	Junction of Liuwei Road and Liujin Road Hedong District Tianjin	Residential Office Commercial	49.00	156,016 421,949 52,744 **630,709**	149,857	Schematic design in progress	2023
13.	Qinhuangdao Habitat Phase II	160 Hebin Road Haigang District Qinhuangdao	Residential Commercial	60.00	1,869,642 105,730 **1,975,372**	831,308	Schematic design in progress	In phases from 2024 onwards
14.	Wuhan Complex Development [(1)] [(2)]	Land Parcel P(2018)090 South of Minquan Road North of Taiyuan Street West of Hualou Street East of Minzu Road Jianghan District Wuhan	Residential Office Commercial	100.00	2,793,258 1,189,422 484,380 **4,467,060**	696,043	Schematic design in progress	2025
	Sub-total				**12,078,968**	**2,553,827**		
	Total PRC properties under development				**20,887,311**	**5,541,194**		

	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**						
1.	Enterprise Centre	209 and 219 Gong He Road Jing An District Shanghai	Office Commercial Residential	74.25	494,090 90,425 20,955 **605,470**	365	Medium lease
2.	Qinhuangdao Habitat Phase I	160 Hebin Road Haigang District Qinhuangdao	Residential Commercial	60.00	195,473 34,933 **230,406**	360	Long lease
3.	Jinling Arcadia Court	99 Daguang Road Qinhuai District Nanjing	Residential	100.00	**200,201**	83	Long lease
4.	Hangzhou Kerry Centre Lake Grandeur	385 Yanan Road Xiacheng District Hangzhou	Residential	75.00	**192,210**	113	Medium lease
5.	Hangzhou Zhijiang Castalia Court Phases I & II	Intersection of Shanhusha Road and Jianghan Road West Lake District Hangzhou	Commercial Residential	100.00	172,030 5,284 **177,314**	301	Long lease
6.	Shenyang Kerry Centre Enterprise Square	121 Qingnian Avenue Shenhe District Shenyang	Office	60.00	**144,597**	–	Medium lease
7.	Tianjin Arcadia Court Phase I	238 Liuwei Road Hedong District Tianjin	Residential	49.00	**105,122**	319	Long lease
8.	Tangshan Parkside Place	889 Changhong West Road Lubei District Tangshan	Commercial	40.00	**89,987**	–	Medium lease
9.	Putian Arcadia Court	666 Jiuhua Road Chengxiang District Putian	Commercial	60.00	**41,676**	397	Medium lease
	Sub-total				**1,786,983**	**1,938**	

PARTICULARS OF PROPERTIES HELD

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 (Continued)						
10. Enterprise Square	216 and 228 Meiyuan Road Jing An District Shanghai	Commercial	74.25	**26,992**	26	Medium lease
11. Nanchang Arcadia Court	667 Cui Lin Road Honggutan New District Nanchang	Residential	80.00	**26,270**	22	Long lease
12. Tangshan Arcadia Court	368 Dali Road Lubei District Tangshan	Commercial Residential	40.00	16,977 3,492 **20,469**	201	Long lease
13. The Metropolis – Arcadia Court Phase I	299 Ronghua North Road Hi-tech Industrial Development Zone Chengdu	Commercial	55.00	**16,863**	83	Long lease
14. Parkview Residence Phase I	756 Hangbo Street Xiacheng District Hangzhou	Commercial	100.00	**12,584**	–	Long lease
15. Shenyang Kerry Centre Phase II Arcadia Height Tower 3	6 Jian Yuan Street Shenhe District Shenyang	Residential	60.00	**8,383**	–	Medium lease
16. Shenyang Kerry Centre Arcadia Court Phase I	70 Wenhua Road Shenhe District Shenyang	Residential	60.00	**8,087**	190	Medium lease
17. Shenzhen Arcadia Court	1008 Haitian Road Futian District Shenzhen	Commercial	100.00	**4,608**	551	Long lease
18. The Berylville, Ningbo Phase I	Xingning Road Jiangcheng Road Jiangdong District Ningbo	Residential	50.00	**4,124**	31	Long lease
Sub-total				**128,380**	**1,104**	
Total PRC properties held for sale				**1,915,363**	**3,042**	
TOTAL PRC PROPERTY PORTFOLIO				**35,373,124**		

	Property name	Location	Type	Group's attributable interest %	Approximate gross floor area (square feet)	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 (3) 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 (4) 6,475 (5) **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[6] (square feet)	Approximate site area (square feet)	Stage of completion	Scheduled completion
Hong Kong Properties								
C.	**Under development (Hong Kong and Macau[8])**							
1.	Mont Rouge	9 Lung Kui Road Beacon Hill Kowloon	Residential	100.00	**116,380**	114,550	Interior finishing work in progress	First half of 2019
2.	Hing Hon Road Project	8 Hing Hon Road Sai Ying Pun Hong Kong	Residential	100.00	**67,560**	7,506	Superstructure work in progress	First half of 2019
3.	La Salle Road Project	10 La Salle Road Ho Man Tin Kowloon	Residential	100.00	**45,176**	9,036	Superstructure work in progress	2020
4.	Beacon Hill Project	3 Lung Kui Road Beacon Hill Kowloon	Residential	100.00	**342,769**	235,183	Superstructure work in progress	2020
5.	Wong Chuk Hang Station Package Two Property Development Project	Site B Wong Chuk Hang AIL 467 Hong Kong	Residential	50.00[7]	**246,496**	46,135	Foundation work in progress	2023
	Total Hong Kong properties under development				**818,381[8]**	**412,410**		

	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							
D.	**Held for sale**						
1.	The Bloomsway	18, 28 and 29 Tsing Ying Road So Kwun Wat New Territories	Residential	100.00	**198,932** (5)	261	Medium lease
2.	Mantin Heights	28 Sheung Shing Street Ho Man Tin Kowloon	Residential	100.00	**170,001** (5)	372	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				**399,795**	**673**	
	TOTAL HONG KONG PROPERTY PORTFOLIO				**4,118,958**		

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 [9]	**1,256,926**	786	Freehold
2.	The Enterprise Center	Ayala Avenue Cor. Paseo de Roxas Makati City Philippines	Office Commercial	45.78 [10]	405,908 15,836 **421,744**	462	Freehold
3.	Shangri-La Residences at the Fort	Fort Bonifacio Taguig Philippines	Apartment Commercial	39.22 [11]	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 [9]	16,937 3,343 **20,280**	–	Freehold
5.	Carpark Building	EDSA corner Shaw Blvd. Mandaluyong City Philippines	Carpark building	65.36 [9]	**–**	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 [11]	**334,715**	241	Freehold
2.	Land leased to EDSA Shangri-La Hotel	EDSA corner Shaw Blvd. Mandaluyong City Philippines	Hotel lease	65.36 [9]	**169,733** [12]	–	Freehold
	Total overseas hotel properties				**504,448**	**241**	

			Group's attributable interest				
Property name	Location	Type	%	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[13]	951,260 56,264 **1,007,524**	67,785	Superstructure work in progress	2020
2. Shang Residences at Wack Wack	Wack Wack Road Mandaluyong City, Philippines	Residential	65.36[9]	**662,328**	23,647	Substructure work in progress	2021
Total overseas properties under development				**1,669,852**	**91,432**		

			Group's attributable interest			
Property name	Location	Type	%	Approximate gross floor area (square feet)	Approximate number of carpark spaces	Lease term
Overseas Properties						
D. Held for sale						
1. Horizon Homes	Fort Bonifacio Taguig Philippines	Residential	39.22[11]	**5,629**	–	Freehold
2. Shang Salcedo Place	Sen. Gil Puyat Ave. Cor. Tordesillas St. and HV Dela Costa St. Makati City Philippines	Residential	65.36[9]	**1,836**	87	Freehold
Total overseas properties held for sale				**7,465**	**87**	
TOTAL OVERSEAS PROPERTY PORTFOLIO				**3,973,415**		

Notes:

(1) Application for land use certificate in progress.

(2) Payment for land use right in progress.

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

(4) Being lettable floor area.

(5) Being net floor area.

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

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

(8) 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.

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

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

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

(12) Being site area.

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

(14) Gross floor areas exclude carpark spaces.

SUSTAINABLE DEVELOPMENT AND CSR ACTIVITIES

This section provides an account of Kerry Properties Limited's ("**KPL**") policies, goals and progress in sustainability, and showcases our key corporate social responsibility ("**CSR**") efforts in action.

We first made our mark in 2016 when we launched our initial five-year sustainability roadmap, which provides a clear and comprehensive picture of the Group's sustainability strategy, prioritises actions for improvement, and optimises resource deployment. As part of this roadmap, we have set sustainability targets and developed respective action plans. Amongst the goals, it is notable that our Mainland operation was close to achieving its 2020 carbon intensity reduction target ahead in 2018. These targets are constantly being reviewed and renewed as we commit to decarbonise our operations and supply chains. As such, planning for new 2030 targets is currently underway.

We will issue our third stand-alone Sustainability Report in June 2019. Sustainability reporting is an evolving journey and, since our first publication, we have been working constantly to identify areas for improvement. One such effort is the expansion of the reporting scope, with the 2018 publication covering all our properties in Hong Kong and 14 projects in the Mainland. The report is also externally assured to validate the accuracy and reliability of its content.

Our sustainability journey has only just started but we are delighted to share with you some of our work and achievements along the way. These efforts have placed the Group among the constituents of the "Hang Seng Corporate Sustainability Benchmark Index", as well as a first-time inclusion in the "Hang Seng Corporate Sustainability Index" and "Hang Seng (Mainland and HK) Corporate Sustainability Index".

OUR **OPERATION**

All sustainability policy statements reviewed and renewed

Active engagement of supply chain partners and other stakeholders

Commitment to sustainable procurement

KPL is a world-class property company with its major focus on developing and managing high-quality residential and mixed-use developments in the Mainland, Hong Kong and certain parts of Asia.

From the very beginning we have set out to operate in a manner that conserves and best utilises resources. We aim to give back to the community we serve, and to create a better living environment through the properties we develop, in the hope that generations to come may inherit a better future.

We apply principles of fairness and integrity in our dealings with staff, suppliers, partners, government agencies, and other key stakeholders, and place great value on the relationships we have developed with them over our long history. These principles are in line with our pledge to achieve United Nations' ("**UN**") Sustainable Development Goals ("**SDGs**") – Goal 12: Responsible Consumption and Production.

Through the establishment of a number of core policy statements, we ensure we are observing and conforming with these principles. The policy statements were updated in 2018, guiding our renewed efforts in implementing policies on fair competition, sustainable procurement, health and safety, customer relationship management, responsible marketing, anti-corruption measures and whistleblowing. To ensure that our policies stay up to date with global sustainability trends and relevant local regulations, they are being constantly reviewed and renewed.

To facilitate policy management and execution, we have established standardised practices and procedures, and ensure that sufficient and continuous training is provided to the staff members concerned. To effectively apply sustainability principles throughout the supply chain, regular sessions and seminars have also been held to engage our suppliers. As a further step, we utilise our various communication platforms for staff, tenants and residents to share sustainability information with them.

The Group places particular emphasis on health and safety ("**H&S**"), and has set up targets and a monitoring system in this respect. Our H&S management systems of some of our properties in the Mainland are certified under OHSAS 18001:2007, which is an international standard for identifying, controlling and minimising H&S risks within the workplace. Safety training and drills are carried out regularly. We are also concerned about the H&S of our other stakeholders, including our tenants and residents. To this end, we encourage our different business units to organise safety exercises as appropriate.

To ensure product and service quality, the certification of our Quality Management System under ISO 9001:2015 has been extended to more properties. We are happy to see that our efforts have been recognised by major award schemes, including "Top 10 Developer Awards – Hong Kong" and "Six-Star Super Grade-A Building".

The Group hopes to contribute to positive social and green initiatives by participating in relevant organisations. In 2018, we took part in the Green Council's Sustainable Procurement Charter as a founding member. The charter was designed as a means to develop, document and implement sustainable procurement with reference to ISO 20400.

In early 2019, the Group also committed as one of the signatories of the Business Environment Council's Low Carbon Charter to setting decarbonisation targets consistent with the direction of transitioning towards the goals of the Paris Agreement.

OUR **TEAM**

- Healthy workplace: Complete physical, mental and social well-being
- Family-friendly culture that encourages balance between work and family
- We value staff opinions and suggestions

The Group links its human resources policies with the UN SDGs – Goal 8: Decent Work and Economic Growth. To achieve this, we are constantly monitoring and strengthening our policies and practices to promote diversity and equal opportunities, eliminate all forms of discrimination, protect labour rights, create safe and secure working environments, and provide staff with training and development opportunities.

Through the active engagement of our key stakeholders, we are working to extend this commitment from our own employees to, as far as we can influence them, those employed by our contractors and suppliers.

To maintain a healthy workplace, it is crucial to promote a state of complete physical, mental and social well-being. Our "Step Challenge", for example, encourages staff members to walk more extensively for their own health, while helping to reduce carbon emissions. We are delighted to add meaning to the exercise by donating to charitable organisations during the course of the challenge. Understanding that emotional health is equally important, a "Raindrop Listens" programme is in place offering a 24-hour counselling hotline service managed by professional counsellors.

We also aim to have a positive impact on staff wellness through other initiatives, such as "We Care" and a range of healthy diet, fun and sports activities. We are glad to see positive staff feedback on these initiatives, and in response, have turned some of them into regular programmes such as the annual "Green Salad Day".

It is a significant part of our culture that our employees feel respected for making their family a priority. We support initiatives that allow staff members to achieve a balanced life between work and family. These range from family days, to internship programmes for staff's children, and provision of supportive facilities for breastfeeding.

With the mission of developing a high-performance team to spur the continuous growth of the Group, we are constantly updating and strengthening our talent development efforts. In 2018, we revamped the new staff orientation exercise, and furthered our efforts in skills and leadership training. Our "Kerry WeChat Academy" continues to serve as an effective online learning platform for property management team in the Mainland.

We appreciate staff contributing their creative ideas to enhance our working environment and team performance. In this respect, we maintain an "i-Suggest" channel to collect their suggestions, with many practical ideas had already been adopted in our daily operation.

OUR **PROPERTIES**

- Environmental Management System extensively adopted and ISO 14001 certified
- Energy Management System further implemented and ISO 50001 certified
- Green building certification expanded to more projects in portfolio

The Group's core business is property development and management. Recognising the potential impact of our business on the environment, we have put in place governing policies and systems, and have taken action to achieve the highest possible environmental standards across our portfolio. Most importantly, we acknowledge that we need to act now, without delay, as outlined in UN SDGs – Goal 13: Climate Action.

SUSTAINABLE DEVELOPMENT AND CSR ACTIVITIES

Guided by our Environmental Policy, we act to minimise the potential environmental impact of our development projects and manage the environmental risks throughout the life cycle of our properties. Environmental Management System ("**EMS**") was set up in 2009 and has now been extensively adopted by the Group and different business branches in Hong Kong and the Mainland, and certified under ISO 14001:2015.

We established an Energy Management System ("**EnMS**") and subsequently certified under ISO 50001:2011. The EnMS is designed to systematically monitor and continually enhance the energy performances of KPL's Head Office and some of our managed properties in the Mainland. We aim to take forward its implementation and accreditation to include more managed properties in the Mainland.

We are also committed to managing our other social impacts and extending our responsible actions to partners along the supply chain. The Sustainable Procurement Policy Statement, for example, oversees the integration of fair and ethical principles within the procurement process. It is now applicable to all purchasing decisions of the Group.

At the asset level, we are expanding green building certification in our portfolio, including both new and existing properties. Green installations have also been added to properties under our management, such as solar panels on the rooftops, rain harvesting for irrigation, as well as plastic-bottle collection machines and food-waste decomposers.

To solicit greater participation by our stakeholders in our sustainability drive, new initiatives have been added to our property management arm's "Environmental Movement", along with other green activities designed to engage the occupants of our managed properties. The Group organises "Green Construction Site Award" annually to engage our project staff with contractors, and nurture their awareness of environmental issues at construction sites.

OUR **COMMUNITY**

Care for the underprivileged and the elderly

Opportunities for youth development

Connect with local communities through place-making initiative "KerryOn"

In addition to enjoying a healthy environment and a strong economy, sustainability is also about the well-being of people living in the community, as stated in UN SDGs – Goal 11: Sustainable Cities and Communities. To enable us to make a positive contribution to society on an ongoing basis, we now utilise a variety of channels to understand community needs and engage local stakeholders in the process of community building.

Staff volunteering is an important element of the Group's community service efforts. During the year, a number of volunteer activities were organised including elderly visits, beach cleaning, flag days and career advisory services for the youth. In early 2019, a corporate volunteer team was formed to drive further service initiatives and collaboration with social organisations.

Our community investments are focused on caring for the underprivileged, provision of opportunities for young people, and concern for the elderly. In addition to mobilising our volunteer team members to attend to their direct needs, we also utilise our venues, such as MegaBox, to host charity sales and community activities. To make community events even more enjoyable, our enthusiastic members have come up with many fun and creative ideas to match the meaningful causes of different charities.

The Group also continues to support various programmes for youth talent and career development. These include internship opportunities and learning sessions for students. Well-performing trainees of our "Customer Services Trainee Programme" were offered permanent positions at our property management arm upon completion of the programme.

Providing an environment in which communities can thrive is integral to the human element of our sustainability goals. We do this through the place-making initiative "KerryOn", transforming areas in our commercial properties into venues for social engagement and meaningful activities. The ultimate goal is to build communities of people with shared values, and facilitate them to lead a healthier lifestyle.

AWARDS AND CITATIONS

We are proud to observe that our commitment to excellence and sustainability has been rewarded with recognition by Government bureaux and departments, rating agencies, awards bodies, non-profit organisations and the media. These commendations are not only a testimony to our business success, but more importantly to the passion of our staff team who handle new challenges and take upon themselves new responsibilities in order to be a positive partner in society.

GREEN

During the past year, we have been recognised for our persistent and innovative efforts in supporting the changes necessary to tackle the most pressing environmental issues of our times.

Energy Management System – ISO 50001:2011

The Group continues to further the implementation of its Energy Management System ("**EnMS**") based on the principles of our Energy Policy established since the latter part of 2017. ISO 50001:2011 certification was achieved by Kerry Properties Limited ("**KPL**") in January 2018 for its EnMS, which covers the administrative activities in the head office of KPL. Kerry Properties Development Management (Shanghai) Co., Ltd. ("**KPDMSL**") also gained certification for the property management activities of Kerry Parkside, Enterprise Centre and Jing An Kerry Centre (all in Shanghai) in March 2018. The same certification was granted to Shenzhen Kerry Plaza in January 2019.

Environmental Management System – ISO 14001:2015

The Environmental Policy leads the implementation of the Group's Environmental Management System ("**EMS**") across different business operations. In Hong Kong, ISO 14001:2015 certification has been achieved for the EMS adopted by KPL, Kerry Property Management Services Limited ("**KPMSL**") and MegaBox Management Services Limited ("**MMSL**").

In the Mainland, since the first certifications received by four properties in Shanghai in 2010, more branch operations have been certified as the EMS becomes extensively adopted by our property management teams in different locations. Branch units with their EMS already certified include KPDMSL and its Shenzhen Branch, with the latest additions of Shenyang Branch, Tianjin Branch and Beijing Branch. A total of eight properties, including the Group's major mixed-use projects, are now certified, representing significant progress from the previous year.

Hong Kong Green Awards 2018 – Green Management Award (Corporate) – Gold Award and Sustained Performance (9 Years+)

This esteemed award scheme aims to encourage corporations in Hong Kong to include environmental considerations in both their operational and management processes. KPL is proud to have been presented with the Gold Award for the second consecutive year in the "Green Management Award (Corporate)" category, along with the "Sustained Performance (9 Years+)" certificate. We were commended for our exceptional performance in green purchasing and green management, as well as our commitments and efforts made to monitor our environmental management performances.

BEAM Plus Version 1.2 for New Buildings – Provisional Silver Rating

Hong Kong Green Building Council's "Building Environmental Assessment Method Plus" ("**BEAM Plus**") New Buildings certification covers the site preparation, planning, design, construction and commissioning of a new building project. The proposed residential redevelopment at No. 10 La Salle Road, Ho Man Tin, Hong Kong was granted the Provisional Silver Rating of "BEAM Plus Version 1.2 for New Buildings". A well-designed BEAM Plus New Buildings project helps improve the project's indoor environmental quality, minimise pollution to the external environment, promote the use of energy-efficient systems and equipment, and reduce the unsustainable consumption of increasingly scarce resources.

CarbonCare® Label 2018 and CarbonCare® Star Label 2018

The Group was honoured to receive the "CarbonCare® Label" once again from CarbonCare InnoLab, which is a non-profit organisation dedicated to the nurturing and development of innovative solutions, policies and practices in response to today's climate-change and sustainability challenges. The label was granted to KPL for our achievement of over 20% carbon reduction during the application year against the base year. As a special recognition of our attainment of the label continuously for a period of over three years, a "CarbonCare® Star Label 2018" was presented to the Group.

AWARDS AND CITATIONS

Award / Citation	Issuing Authority
Hong Kong Green Organisation • Kerry Properties Limited, alongside more than 30 managed properties in Hong Kong	Environmental Campaign Committee, Environmental Protection Department and nine leading trade associations and professional bodies
Sustainable Consumption Enterprise Award • Certificate of Excellence – Kerry Properties Limited	Business Environment Council
Carbon Reduction Certificate • Kerry Properties Limited	Environmental Campaign Committee, Environmental Protection Department and nine leading trade associations and professional bodies
Wastewi$e Certificate • Excellence Level – Kerry Properties Limited, alongside more than 30 managed properties in Hong Kong	Environmental Campaign Committee, Environmental Protection Department and nine leading trade associations and professional bodies
Hong Kong Green Shop Alliance • The Leading Partner Award for Developer and Strategic Partner – Kerry Properties Limited • The Power Partner Award for Developer and Strategic Partner – Kerry Properties Limited • The Power Partner Award for Shopping Mall – MegaBox, Hong Kong	Hong Kong Green Building Council
Indoor Air Quality Certificate • Excellence Class – Head Office of Kerry Properties Limited and common areas of Kerry Centre, Hong Kong • Good Class – Common areas of Enterprise Square and Enterprise Square Three, Hong Kong	Environmental Protection Department
IAQwi$e Certificate • Excellence Level – Head Office of Kerry Properties Limited and common areas of Kerry Centre, Hong Kong	Environmental Campaign Committee, Environmental Protection Department and nine leading trade associations and professional bodies
Hangzhou Municipal Organisation with Outstanding Achievement in Urban Greening • Kerry Properties Development Management (Shanghai) Co., Ltd. Hangzhou Branch	Hangzhou Municipal Administration of Urban Greening
2017 Energy Saving Championship Scheme • Residential Building/Housing Estate – Hanson Grand Award – The Altitude, Hong Kong • Residential Building/Housing Estate – Hanson Merit Award – Constellation Cove, Hong Kong	Environment Bureau and Electrical and Mechanical Services Department
Energywi$e Certificate • Excellence Level – The Altitude, Hong Kong • Good Level – Enterprise Square and SOHO 189, Hong Kong • Basic Level – 29 managed properties in 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, Elm Tree Towers, Island Crest, Kerry Centre, MegaBox, Tavistock and Tavistock II, Hong Kong • Gold Award – 1 & 3 Ede Road, Lions Rise and Ocean Pointe, Hong Kong	Environment Bureau
Used Clothes Recycling Programme • Advancement in Recycling Award – Constellation Cove, Hong Kong • Clean Recycling Award – Island Crest, Hong Kong	Friends of the Earth (HK)
Water-saving Model Community of Shanghai 2017 • Central Residences, Shanghai	Shanghai Municipal Water Authority and Shanghai Municipal Spiritual Civilisation Office

CORPORATE GOVERNANCE AND CITIZENSHIP

During the year, the Group won prestigious awards in both corporate governance and social responsibility. While these accolades underscore our outstanding performance in stakeholder accountability, we believe that the true measures of our commitment are the consistent efforts of our staff teams in upholding the principle of integrity in everything we do.

Hang Seng Corporate Sustainability Index – Constituent Member

The Group has been listed on the "Hang Seng Corporate Sustainability Benchmark Index" for four consecutive years. The year 2018 saw the Group's ranking rising to the top 30 among the 93 constituents, and therefore our first-time inclusion in the "Hang Seng Corporate Sustainability Index" and "Hang Seng (Mainland and HK) Corporate Sustainability Index". This index series is compiled and maintained by Hang Seng Index Company Limited to benchmark the sustainability performance of constituent stocks in the areas of organisational governance, human rights, labour practices, the environment, fair operating practices, consumer issues and community involvement and development. Constituent selection is assessed by Hong Kong Quality Assurance Agency ("**HKQAA**").

Caring Company

The Group and its member companies have been longstanding supporters of the "Caring Company" scheme organised by The Hong Kong Council of Social Service. The programme aims to build a cohesive society by promoting strategic partnerships among business and social service partners, and by inspiring corporate social responsibility ("**CSR**") through caring for the community, employees and the environment. In 2018, KPL was awarded the "15 Years Plus Caring Company" logo for the first time, and we have maintained our Coral membership of the Caring Company Patron's Club. MMSL and MegaBox Development Company Limited ("**MDCL**") received the "10 Years Plus Caring Company" and "5 Years Plus Caring Company" respectively. We hope to help advance the public good through our various social partnerships.

AWARDS AND CITATIONS

Sustainable Business Award 2018

The Group is delighted to have received our second "Sustainable Leadership Award" from World Green Organisation ("**WGO**"). This comes as recognition of our winning the "Sustainable Business Award" for four consecutive years, demonstrating our continued commitment to building a sustainable future. WGO's goal is to encourage enterprises to achieve sustainable objectives via the improvement of workplace quality, environmental conservation, good business practices and active community involvement.

Asian Excellence Award 2018 – Best Environmental Responsibility and Best Investor Relations Company (Hong Kong)

The "Asian Excellence Award" has been designed and organised by *Corporate Governance Asia* to recognise achievements in investor relations, CSR, business ethics, environmental responsibility, corporate communications and financial performance. The Group is honoured to have garnered two awards under this programme, including "Best Environmental Responsibility" and "Best Investor Relations Company (Hong Kong)". The environmental award was granted in recognition of our efforts to build a greener future, and to incorporate environmental protection in all stages of implementation of our projects. Our investor relations team is also pleased to be commended for its commitment to the highest standards of information disclosure, transparency and fairness.

ERB Manpower Developer Award Scheme – Manpower Developer 1st 2010-2020

The Employees Retraining Board ("**ERB**") has launched the "ERB Manpower Developer Award Scheme" to recognise organisations which demonstrate outstanding achievements in employee training and development. Nurturing talents has always been a priority for us and synchronises with the goal of the scheme, which is to cultivate a common social value in attaching great importance to manpower development. The Group has been acknowledged as a "Manpower Developer" since 2010.

Award / Citation	Issuing Authority
7th Outstanding Corporate Social Responsibility Award • Kerry Properties Limited	*Mirror Post*
CAPITAL Corporate Social Responsibility Awards 2018 • Kerry Properties Limited	*CAPITAL*
Social Capital Builder Awards 2018-2020 • Social Capital Builder Logo Award – Kerry Properties Limited	Community Investment and Inclusion Fund of the Labour and Welfare Bureau
Family-Friendly Employers Award Scheme 2017/2018 • Family-Friendly Employers and Special Mention – Kerry Properties Limited	Family Council
Philanthropic and Caring Corporation • Kerry Properties Development Management (Shanghai) Co., Ltd. Qinhuangdao Branch	Qinhuangdao Service Unit of China Council of Lions Clubs
Caring for Communities Award 2018 • Kerry Property Management Services Limited and MegaBox Management Services Limited	Hong Kong Children & Youth Services
The 9th Hong Kong Outstanding Corporate Citizenship Awards • Corporate Citizenship Logos (Enterprise and Volunteer Team Categories) – MegaBox Management Services Limited	Hong Kong Productivity Council and Committee on the Promotion of Civic Education
Volunteer Recognition Ceremony 2018 • Partnering Enterprise Award – MegaBox, Hong Kong	Christian Family Service Centre
Give Blood Alliance • Bronze Award – Enterprise Square, Hong Kong	Hong Kong Red Cross Blood Transfusion Service
Outstanding Property Manager Trainer Corporation • Habitat, Qinhuangdao	Qinhuangdao Property Management Institute

PROPERTY DEVELOPMENT AND MANAGEMENT

The Group focuses on investing in premium quality property developments in prime locations. Beyond the developments, we serve clients by offering professional property management and a wide range of value-added services. Our property development and management teams consistently fulfil their quality promise and always aim to reach new heights of excellence.

BCI Asia Awards 2018 – Top 10 Developers Award – Hong Kong

KPL was one of the recipients of the "Top 10 Developers Awards – Hong Kong" in the "BCI Asia Awards 2018". The awards are bestowed on developers with the highest aggregate value of projects under construction, weighted by the extent of their sustainability performance and confirmed green building ratings. This programme is one of the most highly coveted architectural awards in Asia, and is a prestigious label of excellence that recognises the ten leading development enterprises which have made the greatest contribution to the built environment in the prior year.

Occupational Health and Safety Management System – OHSAS 18001:2007

KPDMSL made further progress in occupational health and safety ("**OHS**") management in 2018. OHSAS 18001:2007 is a framework to create and maintain the best possible working conditions and OHS, aligned with internationally recognised best practice. Jing An Kerry Centre, Kerry Parkside, Enterprise Square and Central Residences II in Shanghai, along with Shenzhen Kerry Plaza, already obtained certification in 2017. The Shenyang, Tianjin and Beijing branches of KPDMSL achieved certification for Shenyang Kerry Centre, Tianjin Arcadia Court and Beijing Kerry Centre respectively in 2018.

AWARDS AND CITATIONS

Quality Management System – ISO 9001:2015

Certification of this quality management system was also extended from properties managed by KPDMSL in Shanghai and Shenzhen, to the Shenyang, Tianjin and Beijing branches, covering Shenyang Kerry Centre, Tianjin Arcadia Court and Beijing Kerry Centre. ISO 9001:2015 specifies requirements for an organisation to consistently provide products and services that meet customer and applicable statutory and regulatory requirements, and to enhance customer satisfaction through the effective application of the system, including processes for improvement of the system and the assurance of conformity.

China's 100 Best Real Estate Enterprises

The Group was once again included in the "Non-mainland Real Estate Enterprises Excellence List 2018" under the "China's 100 Best Real Estate Enterprises" programme. The list is jointly compiled by *Guandian* and other media groups, research institutes, property developers, investment firms, banks and professional bodies. While all non-mainland developers with projects in China are included in the assessment process, KPL earned the spot by virtue of its excellence as measured in terms of financial performance, investment scale, geographical coverage, projects under development and land bank.

The organiser also announced a list of "Top 100 Commercial Property Developers 2018" as assessed by operational performance, management, branding and innovation. The list mainly covers first-tier cities and other municipalities where commercial property developments are active. The Group is pleased to be ranked as one of the top developers in the commercial arena.

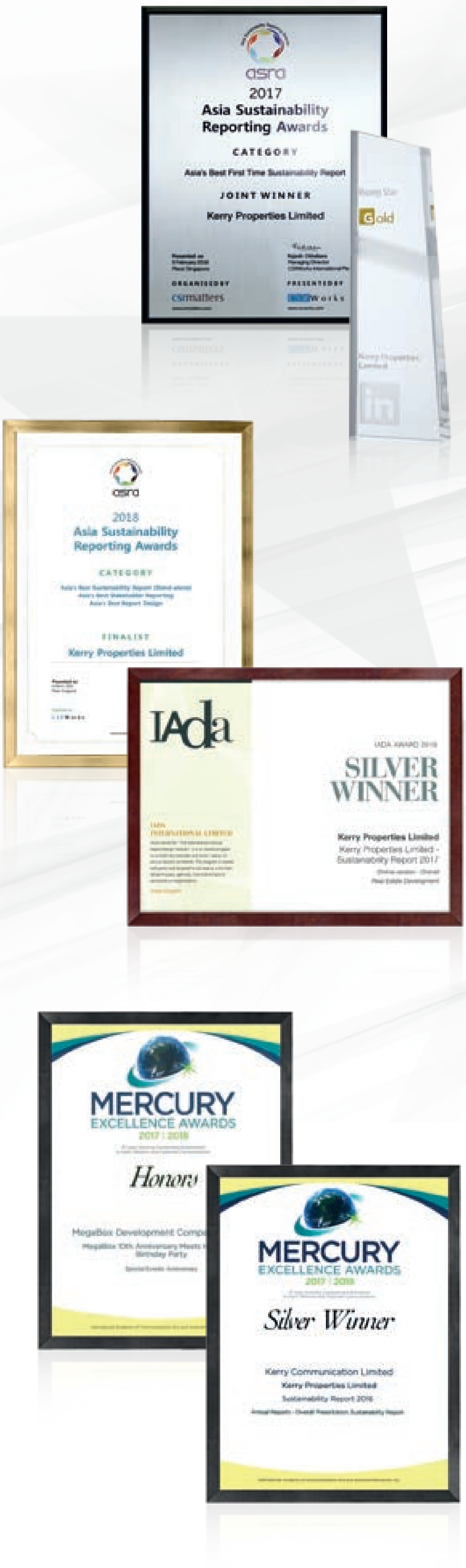
Six-Star Super Grade-A Building Quality Certification 2018

The office towers of Beijing Kerry Centre have been recognised in the first certification of "Six-Star Super Grade-A Building" by Beijing Central Business District Administrative Committee. Certification of the projects was guided by international standards and fits into the characteristics of the Beijing CBD. The certified projects set the benchmark for excellence in location and architectural design, energy-saving facilities management, interior and exterior environment control, health and safety, property and tenant management, and innovation. For over two decades, Beijing Kerry Centre has been an iconic presence at the heart of Beijing's Chaoyang District. Combining efficient design with a world-class location, this commercial property is created to provide an innovative and effective work-life balance for the CBD community.

Award / Citation	Issuing Authority
Shanghai Municipal Safety Model Business Unit 2017 • Kerry Properties Development Management (Shanghai) Co., Ltd.	Shanghai Municipal Committee of Comprehensive Management of Public Security
Four-Star Property Services Company in Shanghai (Overall Performance) 2018 • Kerry Properties Development Management (Shanghai) Co., Ltd.	Shanghai Property Management Association
Top 100 Property Services Companies in Shanghai 2018 • Kerry Properties Development Management (Shanghai) Co., Ltd.	Shanghai Property Management Association
Qianjiang Cup (High Quality Project) Award of Zhejiang Province 2018 • Kerry Real Estate (Hangzhou) Co. Ltd.	Zhejiang Provincial Housing and Urban-Rural Construction Department, Zhejiang Provincial Construction Industry Association and Zhejiang Provincial Construction Engineering Quality Management Association
The 8th Annual China Hotel Awards • Best Serviced Apartments – Beijing Kerry Residence	*Lifestyle Magazine*
That's Beijing 2018 Lifestyle Awards • Outstanding Serviced Apartment Group – Beijing Kerry Residence	*That's Beijing*
That's 2018 Hospitality Awards • Award for Excellent Residence Service – Beijing Kerry Residence • The Most Popular Residence for Business Travelers – Jing An Kerry Centre, Shanghai • Family-Friendly Serviced Apartment of the Year – Kerry Parkside Residences, Shanghai	*That's Beijing*
2018 Time Out Family Home & Lifestyle PLUS Awards • Trusted Family Brand – Beijing Kerry Residence	*TimeOut Family*
Chengdu Co-created Smart Model Community 2018 • Phases I and II of The Metropolis – Arcadia Court, Chengdu	*Huaxi City Daily, Huaxi Community News,* Chengdu Municipal Sub-district Community Workstation and Chengdu Real Estate Enterprises Association
Outstanding Property Management in Hangzhou 2018 • Hangzhou Kerry Centre	Hangzhou Property Management Association
Best Mall Awards 2017 • Ten Best Loved Malls Award – MegaBox, Hong Kong	Next Mobile Limited
Parents' Choice Awards 2018 • Best Loved Kids-Friendly Mall – MegaBox, Hong Kong	*Whiz-kids Express Weekly* and *Mommy's Express Weekly*
Quality Water Supply Scheme for Buildings – Fresh Water (Management System) and Fresh Water (Plus) • 1 & 3 Ede Road, 8 LaSalle, 15 Homantin Hill, Aigburth, The Altitude, Bayview, Belgravia, Branksome Crest, Constellation Cove, Dragons Range, Enterprise Square Three, Island Crest, Kerry Centre, Lions Rise, 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, 15 Homantin Hill, The Altitude, Belgravia, Island Crest, Kerry Centre, Lions Rise, Primrose Hill, SOHO 189, The Summa, Hong Kong	Water Supplies Department
2017-2018 Kowloon East Best Security Services Awards • Best Partner Property – MegaBox, Hong Kong	Kowloon East Regional Crime Prevention Office, Hong Kong Police Force
2017-2018 Hong Kong Island Best Security Services Awards • Outstanding Security Services – Residential Property Award – Aigburth, Branksome Crest, Branksome Grande, May Towers, SOHO 38, Tavistock and Tavistock II, Hong Kong	Hong Kong Island Regional Crime Prevention Office, Hong Kong Police Force

AWARDS AND CITATIONS

Award / Citation	Issuing Authority
Putian Municipal Public-spirited Advanced Group in Fire Fighting • Putian Arcadia Court	Provincial Fire Corps, Putian Municipal Unit
Discover China Good Living Community Assessment 2018 • Good Living Model Community – Habitat, Qinhuangdao	*Leju – Good Living Column*
Property Management Model Project in Hebei Province 2018 • Habitat, Qinhuangdao	Hebei Provincial Property Management Association
Provincial Landscape Model • Habitat, Qinhuangdao	Qinhuangdao Landscape Bureau
Outstanding Contributions to the Building Economy 2017 • Kerry Parkside, Shanghai	Pudong New Area People's Government
Shanghai Municipal Excellent Property Management Model Project 2018 • Jing An Kerry Centre and Enterprise Centre at Kerry Everbright City, Shanghai	Shanghai Property Management Association
Quality Assessment of Public Carparks • Enterprise Centre and Kerry Parkside, Shanghai	Shanghai Municipal Pudong New Area City Transportation Administration Office/ Shanghai Municipal Transportation Commission
Ten Best Micro Fire Stations 2018 • Jing An Kerry Centre, Shanghai	Fire Corps of Shanghai, Jing'an Unit
Pudong New Area Fire Fighting Advanced Unit 2018 • Kerry Parkside, Shanghai	Pudong New Area Fire Safety Committee
Jing An District Fire Fighting Advanced Unit 2018 • Jing An Kerry Centre, Shanghai	Jing'an Area Fire Safety Committee
Advanced Group in Shanghai Municipal Fire Drill and Duties Contest • Jing An Kerry Centre, Shanghai	Shanghai Municipal Fire Department
Outstanding Property Services Enterprise 2017 • Ranked Eighth in Assessment of Properties (Non-historic Districts) – Shenzhen Kerry Centre	Shenzhen Municipal Luohu Nanhu Sub-district Office
Safety Assessment 2018 • Ranked First in First Quarter 2018 – Shenzhen Kerry Centre	Shenzhen Municipal Luohu Nanhu Sub-district Office
Safe Community 2018 • Shenzhen Kerry Plaza	Futian Sub-district Office
Futian District Fire Fighting Advanced Unit 2017 • Shenzhen Kerry Plaza	Futian District Fire Safety Committee
Community Security Advanced Unit 2018 • Shenzhen Arcadia Court	Lianhua Police Station, Shenzhen Municipal Public Security Bureau
2018 Advanced Unit in Property Management, Hebei Province • Tangshan Arcadia Court	Hebei Provincial Property Management Association
Property Management Enterprise with AAA Ranking 2017 • Tianjin Arcadia Court	Tianjin Property Management Association and Tianjin Municipal Bureau of Land Resources and Housing Administration



COMMUNICATIONS AND PROMOTIONS

Corporate responsibility and accountability begin with transparency. We therefore strive to maintain open and effective dialogue with key stakeholders through timely, authentic, informative and creative communications. We are proud to be recognised for our efforts in this regard.

Asia Sustainability Reporting Awards 2017 – Asia's Best First Time Sustainability Report

Since its publication, the Group's first Sustainability Report 2016 has clinched several major international awards. Adding to the list of accolades in 2018 was its winning of "Asia's Best First Time Sustainability Report" in the "Asia Sustainability Reporting Awards 2017". This award, presented to us by CSRWorks International of Singapore, recognises that our inaugural sustainability report has demonstrated a promising start by producing a well-rounded report focused on material topics and stakeholder engagement. Our first report defined and announced the Group's sustainability roadmap, and included a clear disclosure of our performances in environmental protection, responsible operations, staff caring and community investments. We are proud to be a recipient of this award, which honours leaders in sustainability reporting in Asia.

The Group's Sustainability Report 2017, released subsequently, was also well commended, garnering 3 certificates as finalist in the "Asia Sustainability Reporting Awards 2018", under the categories of "Asia's Best Sustainability Report (Stand-alone)", "Asia's Best Stakeholder Reporting" and "Asia's Best Report Design".

MERCURY Excellence Awards 2017-2018 – Multiple Awards

Organised by MerComm, Inc., the "MERCURY Excellence Awards" are among the most prestigious prizes in the field of communications. The Group's Sustainability Report 2016 won a Gold Award (Publicity: Sustainability Awareness) in the 2017-2018 programme, along with two Silver Awards and an Honours Award for excellence in overall presentation, design and websites/mobile media. The winning work was selected by an international panel of distinguished judges. This year, 595 entries were received worldwide from 20 countries, amongst which only the top 30% of scoring entries received awards. MegaBox was presented with an Honours Award (Special Events – Anniversary) for its highly creative 10th anniversary crossover event.

AWARDS AND CITATIONS

GALAXY Awards 2018 – Multiple Awards

The GALAXY programme is organised by MerComm, Inc. and is the only competition judged by peers in the profession of communications and marketing. Judging is based on the values of creativity, effectiveness in achieving the stated objectives, and use of original communication solutions. Some 785 entries were received this year from 20 countries. The Group's promotional booklet "Apex at The Bloomsway" garnered a Gold Award (Brochures: Marketing Collateral), while MegaBox's crossover promotion featuring a sparkling castle won a Bronze Award (Promotion: Shopping Mall).

The International Annual Report Design Awards 2018 – Multiple Awards

The "International Annual Report Design Awards" ("**IADA**") praises the best in annual report design work, with the ultimate goal of pushing the boundaries of annual report creativity to the utmost. Our Annual Report 2017 was presented with a Silver Award (Printed Version – Traditional Format: Real Estate Development – Integrated Presentation) and an Honours Award for its cover design. Our Sustainability Report 2017 also gained a Silver Award (Online Version – Overall: Real Estate Development) on the merit of its design and overall creative presentation.

LACP 2017 Vision Awards Annual Report Competition – Silver Award

The Group's Annual Report 2017 received a Silver Award in the "2017 Vision Awards Annual Report Competition" organised by the League of American Communications Professionals ("**LACP**"). The programme drew nearly 1,000 entries from more than 20 countries. Our report scored 97 points out of the total of 100, earning us a Silver Award. This globally recognised programme honours annual reports that demonstrate exceptional characteristics and distinctive presentation.

Award / Citation	Issuing Authority
LinkedIn Awards 2018 • Rising Star – Gold Award – Kerry Properties Limited	LinkedIn
2018 HKMA Best Annual Reports Awards • Citation for Design – Annual Report 2017 of Kerry Properties Limited	The Hong Kong Management Association
2018 International ARC Awards • Honours (PDF Version of Annual Report: Sustainability Report: Asia, Mid-East & Pacific) – Sustainability Report 2016 of Kerry Properties Limited	MerComm, Inc.
ASTRID Awards 2018 • Silver Award (Promotion) – MegaBox X Peppa Pig Sparkling Castle • Bronze Award (Calendars: Real Estate/Development) – Calendar 2018 of Kerry Properties Limited • Honours (Apps: Other/Misc. – Property Management) – Dragons Range Mobile App • Honours (Special Projects: Anniversary Celebration) – MegaBox 10th Anniversary Meets Hello Kitty Birthday Extravaganza	MerComm, Inc.
Family Top Brand 2018 • Parenting Activities – Family-Friendly Lifestyle Mall – MegaBox, Hong Kong	*Family. ESDlife*

CORPORATE GOVERNANCE REPORT

During the financial year ended 31 December 2018, 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 from 1 January 2018 to 31 January 2018 and from 31 December 2018 onwards. 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 caliber individuals.

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 2018.

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 2018, 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
	Bryan Pallop Gaw	4/4
	Wong Chi Kong, Louis *(appointed on 31 December 2018)*	N/A
	Ho Shut Kan *(retired on 31 December 2018)*	4/4
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. Mr Wong Siu Kong, the Chairman and CEO 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. Mr Wong is also responsible for the overall operation and the executive responsibilities of the Group and the full implementation of the directions and policies established by the Board. Although Mr Wong serving as both the Chairman and CEO of the Company is a deviation from A.2.1 of the code provisions, given Mr Wong's extensive experience in the business of the Group, it is more efficient for Mr Wong to perform both roles. It is also more favorable to the development and management of the Group's business. Moreover, all other members of the Board have the experience and expertise to ensure balance of power and authority so that the power is not concentrated in any one individual.

2. 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. The Non-executive Directors of the Company ("**NED**") are able to give the Board and/or any committees they served the benefit of their skills, expertise and knowledge through their regular attendance and active participation of the Company's businesses.

3. The Chairman and CEO has encouraged all Directors to make a full and active contribution 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 NED and ensuring constructive relations between ED and NED. Accordingly, the Board operates in a functional manner with clearly defined objectives, strategies and responsibilities.

4. During the financial year ended 31 December 2018, 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. The names of the INED have been identified in all corporate communications that disclosed the names of the Directors.

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 2018, a NC meeting was held on 19 January 2018 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 2018. 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 2018, 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, webcast training and/or forums	Receiving briefings from Chief Financial Officer, Company Secretary and/or other executives
ED:	Wong Siu Kong	✓	✓	✓
	Bryan Pallop Gaw	✓	✓	✓
	Wong Chi Kong, Louis *(appointed on 31 December 2018)*	N/A	N/A	N/A
	Ho Shut Kan *(retired on 31 December 2018)*	✓	✓	✓
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 2018, a RC meeting was held on 19 January 2018 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 2018 are set out in notes 14(a) and 14(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 2018, the Board has reviewed the financial projections of the Group in respect of the five financial years ending 31 December 2023. 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 2018, 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 2018 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 2018, 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	9,597
Non-audit services: Tax services and others	2,551

The ACGC had developed and implemented policy on engaging PwC to supply non-audit services. Non-audit services from PwC include, but not limited to, provision of tax services, internal control review of system and financial due diligence. Services which may be considered to be in conflict with PwC's role as auditor have to be submitted to the ACGC for approval.

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 CEO 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 Wong Chi Kong, Louis. 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 ED 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 2018 and some of them are set out below:–

Event	Venue
Credit Suisse Asian Investment Conference	Hong Kong
CGS-CIMB HK/China Property Corporate Day	Hong Kong
Citi's Asia Pacific Property Conference	Hong Kong

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.

(vi) The Board has approved and adopted a dividend policy for the Company (the "**Dividend Policy**") with effect from 1 January 2019. The Board targets to distribute not less than 30% of the Group's core net profit for each financial year to the Shareholders. In proposing any distribution of dividend, the Board will take into consideration of the following factors:–

(a) the long-term interest of the Group;

(b) the general interest of all the Shareholders;

(c) the sustainable development of the Group;

(d) the earnings, cash flow, financial condition, capital requirement and distributable reserves of the Group; and

(e) any other factors that the Board deems relevant.

The Board will review the Dividend Policy regularly.

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 2018. 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 2018, the Company held an AGM on 18 May 2018 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
	Bryan Pallop Gaw	1/1
	Wong Chi Kong, Louis *(appointed on 31 December 2018)*	N/A
	Ho Shut Kan *(retired on 31 December 2018)*	1/1
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 has day-to-day knowledge of the Company's affairs. She is reporting to the Chairman and CEO.

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 2018, 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 and renamed as Audit and Corporate Governance Committee ("**ACGC**") in 2012 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 2018:–

(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 2018.

(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.

AUDIT AND CORPORATE GOVERNANCE COMMITTEE REPORT

Set out below is a summary of the corporate governance work performed by the ACGC during the financial year ended 31 December 2018:–

(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 2018, 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 6 March 2019, the ACGC also reviewed the financial statements of the Group for the year ended 31 December 2018 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, 15 March 2019

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 and Chief Executive Officer of the Company and two INEDs.

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 2018, the RC held a meeting on 19 January 2018 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 2018; and

(ii) the payment of bonuses to the ED, which amounted to HK$57,000,000 in respect of the financial year ended 31 December 2017.

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

Hong Kong, 15 March 2019

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 and Chief Executive Officer of the Company and the other members comprise the three INEDs.

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 has adopted a board diversity policy (the "**Board Diversity Policy**") which 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 according to the circumstances of the Company and take into account factors based on the Company's own business model and specific 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 2018, 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.

During the year, the NC has recommended the appointment of an Executive Director, namely, Mr Wong Chi Kong, Louis, to the Board for approval.

Pursuant to the requirement of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the NC has submitted a nomination policy of the Company (the "**Nomination Policy**") to the Board for approval which has been approved and adopted by the Company with effect from 1 January 2019. The Nomination Policy is summarized as below:–

Selection criteria:–

(a) the perspective, skill and experience that the candidate can bring to the Board;

(b) the merit and contribution which the candidate is expected to bring to the Board;

(c) the accomplishment and experience of the candidate in relation to similar nature of business of the Company;

(d) the expected commitment of time of the candidate;

(e) how the candidate contributes to diversity of the Board;

(f) a number of aspects of the Board diversity as stated in the Board Diversity Policy; and

(g) any other factors that the Board deems relevant.

Nomination procedures:–

(a) A meeting of the NC will be called or a written resolution of the NC will be circulated to NC members to consider the candidate(s) to be nominated before a meeting of the Board to be held or a written resolution of the Board to be circulated to Board members to approve the appointment of the candidate(s) as Board member(s).

(b) Each proposed new appointment, election or re-election of a Director of the Company will be evaluated, assessed and/or considered against the factors as stated in the selection criteria above. The NC will recommend its views to the Board and/or the shareholders of the Company for consideration and determination.

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

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

Hong Kong, 15 March 2019

RISK MANAGEMENT AND INTERNAL CONTROLS REPORT

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 2018. 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 16 November 2018.

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 Chief Executive Officer, 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 2018. 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 16 November 2018.

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 16 November 2018. 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 2018, 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 67, is the Chairman and Chief Executive Officer 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 and the President & Chief Executive Officer of the Company from 2008 to 2013. 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 BRYAN PALLOP GAW

Aged 42, 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.

DIRECTORS (Continued)

Executive Directors (Continued)

MR WONG CHI KONG, LOUIS

Aged 57, has been an Executive Director of the Company since December 2018 and a member of each of the Finance Committee and Executive Committee of the Company. He has been the Chief Financial Officer of the Company since 2007. He was trained and qualified as Chartered Accountant with KPMG Peat Marwick, London, England. He had about 10 years of experience in auditing in the United Kingdom and Hong Kong before joining Kerry Group in 1994. Prior to taking up the position of the Chief Financial Officer of the Company, he was involved in the Coca-Cola beverage business in which Kerry Group was a franchised bottler of Coca-Cola products in China. He is a director of Shang Properties, Inc. (a listed company in the Philippines). He is a graduate of University of Cambridge, England.

Non-executive Director

MR KUOK KHOON HUA

Aged 40, 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.

Independent Non-executive Directors

MR KU MOON LUN

Aged 68, 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 an executive director of Davis Langdon and Seah International, chairman of Davis Langdon and Seah Hong Kong Limited, Premas Hong Kong Limited and icFox International and an independent non-executive director of Ascott Residence Trust Management Limited in Singapore. 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 was formerly a member of the Hospital Governing Committee (the "Committee") of Tuen Mun Hospital, Hong Kong Hospital Authority ("HKHA") and is now a member of the Committee of Queen Elizabeth Hospital, HKHA. Mr Ku is a Fellow of the Hong Kong Institute of Surveyors.

MS WONG YU POK, MARINA, JP

Aged 70, 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 70, 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 2018.

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 6 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 and Chief Executive Officer'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 section headed "Sustainable Development and CSR Activities" of this annual report and the Company's Sustainability Report to be published in accordance with The Rules (the "**Listing Rules**") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

During the financial year ended 31 December 2018, the Company has complied with the requirements under the Listing Rules, 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.

During the financial year ended 31 December 2018, 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 during the financial year ended 31 December 2018.

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 11 to the financial statements.

Donations

Charitable and other donations made by the Group during the year amounted to HK$1,839,000.

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 2018, the reserves of the Company available for distribution amounted to approximately HK$18,443,707,000 (2017: HK$18,321,155,000).

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 2018 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 2018 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 and Chief Executive Officer)
Mr Bryan Pallop Gaw
Mr Wong Chi Kong, Louis

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 Bryan Pallop Gaw and Mr Chang Tso Tung, Stephen are due to retire from the Board by rotation in accordance with bye-law 99 of the Company's bye-laws ("**Bye-laws**") and Mr Wong Chi Kong, Louis, who was appointed as an Executive Director of the Company on 31 December 2018, is also due to retire from the Board in accordance with Bye-law 102 at the forthcoming Annual General Meeting to be held on 21 May 2019 (the "**2019 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 31 December 2018, Mr Ho Shut Kan has retired as an Executive Director and Chief Executive Officer of the Company and continue to serve as the consultant of the Company to provide advice to the Group;

(2) on 31 December 2018, Mr Wong Siu Kong has been re-designated as the Chairman and Chief Executive Officer of the Company; and

(3) on 31 December 2018, Mr Wong Chi Kong, Louis has been appointed as an Executive Director 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 2018, 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

Directors	Number of ordinary shares				Approximate % of shareholding[6]
	Personal interests[1]	Family interests[2]	Other interests[4]	Total	
Wong Siu Kong	–	–	50,000	50,000	0.00
Bryan Pallop Gaw	–	3,324,763	1,202,048	4,526,811	0.31
Wong Chi Kong, Louis	–	–	50,000	50,000	0.00
Kuok Khoon Hua	1,179,413	–	3,297,763	4,477,176	0.31

(ii) Associated Corporations

Associated Corporations	Directors	Number of ordinary shares/Amount of debentures				Number of underlying ordinary shares held under equity derivatives[5]	Total	Approximate % of shareholding
		Personal interests[1]	Family interests[2]	Corporate interests[3]	Other interests[4]			
Kerry Group Limited	Wong Siu Kong	4,617,263	–	8,504,300	–	3,000,000	16,121,563	1.06[7]
	Bryan Pallop Gaw	1,500,000	177,187,376	–	46,399,988	2,000,000	227,087,364	14.93[7]
	Wong Chi Kong, Louis	1,271,725	–	–	–	500,000	1,771,725	0.12[7]
	Kuok Khoon Hua	5,000	–	–	223,967,363	1,995,000	225,967,363	14.86[7]
Kerry Logistics Network Limited	Wong Siu Kong	–	–	–	1,300,000	–	1,300,000	0.08[8]
	Bryan Pallop Gaw	–	1,493,382	–	1,891,024	–	3,384,406	0.20[8]
	Wong Chi Kong, Louis	–	–	–	1,300,000	–	1,300,000	0.08[8]
	Kuok Khoon Hua	101,000	–	–	3,018,492	1,000,000	4,119,492	0.24[8]
	Wong Yu Pok, Marina	–	–	–	–	200,000	200,000	0.01[8]
Hopemore Ventures Limited	Kuok Khoon Hua	50	–	–	–	–	50	3.57[9]
Majestic Tulip Limited	Kuok Khoon Hua	10	–	–	–	–	10	3.33[10]
Medallion Corporate Limited	Bryan Pallop Gaw	26	26	–	–	–	52	5.20[11]
	Kuok Khoon Hua	48	–	–	–	–	48	4.80[11]
Rubyhill Global Limited	Kuok Khoon Hua	1	–	–	–	–	1	10.00[12]
Shang Properties, Inc.	Bryan Pallop Gaw	–	582,532	–	248,482	–	831,014	0.02[13]
Vencedor Investments Limited	Bryan Pallop Gaw	5	5	–	–	–	10	10.00[14]
	Kuok Khoon Hua	5	–	–	–	–	5	5.00[14]

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 2018 (i.e. 1,455,208,228 ordinary shares).*

7. *The percentage has been compiled based on the total number of ordinary shares of KGL in issue as at 31 December 2018 (i.e. 1,521,113,254 ordinary shares).*

8. *The percentage has been compiled based on the total number of ordinary shares of KLN in issue as at 31 December 2018 (i.e. 1,705,263,112 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 2018 (i.e. 1,400 ordinary shares).*

10. *The percentage has been compiled based on the total number of ordinary shares of Majestic Tulip Limited in issue as at 31 December 2018 (i.e. 300 ordinary shares).*

11. *The percentage has been compiled based on the total number of ordinary shares of Medallion Corporate Limited in issue as at 31 December 2018 (i.e. 1,000 ordinary shares).*

12. *The percentage has been compiled based on the total number of ordinary shares of Rubyhill Global Limited in issue as at 31 December 2018 (i.e. 10 ordinary shares).*

13. *The percentage has been compiled based on the total number of common shares of Shang Properties, Inc. in issue as at 31 December 2018 (i.e. 4,764,056,287 common shares).*

14. *The percentage has been compiled based on the total number of ordinary shares of Vencedor Investments Limited in issue as at 31 December 2018 (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 2018, 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 2018, 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 2018 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 2018, 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	859,531,055[i]	Long position	59.07
Kerry Holdings Limited	Interest of controlled corporations	746,090,656[i]	Long position	51.27
Caninco Investments Limited	Beneficial owner	312,248,193[i]	Long position	21.46
Darmex Holdings Limited	Beneficial owner	256,899,261[i]	Long position	17.65
Moslane Limited	Beneficial owner	73,821,498[i]	Long position	5.07

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 2018 (i.e. 1,455,208,228 ordinary shares).*

Apart from the aforesaid, as at 31 December 2018, 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 2018, the Company and its subsidiaries had approximately 8,700 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 13 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 15 March 2019 (the date of this annual report), a total of 104,000,348 Shares (representing approximately 7.15% of the number of issued shares of the Company as at 15 March 2019) 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 2018 are listed below in accordance with Rule 17.07 of the Listing Rules:

			Number of Share Options							
Category	**Date of grant**	**Tranche**	**As at 01/01/2018**	**Transfer to other category during the year**	**Transfer from other category during the year**	**Exercised**	**Lapsed**	**As at 31/12/2018**	**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
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
Ho Shut Kan	02/04/2008	I	300,000	–	–	–	(300,000)	–	47.70	02/04/2009 – 01/04/2018
(retired on 31 December 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
2. Continuous Contract Employees	02/04/2008	I	737,500	(62,500)	–	–	(675,000)	–	47.70	02/04/2009 – 01/04/2018
	02/04/2008	II	737,500	(62,500)	–	–	(675,000)	–	47.70	02/04/2010 – 01/04/2018
	02/04/2008	III	1,475,000	(125,000)	–	–	(1,350,000)	–	47.70	02/04/2011 – 01/04/2018
	06/02/2009	I	235,000	(50,000)	–	(115,000)	–	70,000	17.58	06/02/2010 – 05/02/2019
	06/02/2009	II	270,000	–	–	(190,000)	–	80,000	17.58	06/02/2011 – 05/02/2019
3. Others	02/04/2008	I	587,500	–	62,500	–	(650,000)	–	47.70	02/04/2009 – 01/04/2018
	02/04/2008	II	587,500	–	62,500	–	(650,000)	–	47.70	02/04/2010 – 01/04/2018
	02/04/2008	III	1,175,000	–	125,000	–	(1,300,000)	–	47.70	02/04/2011 – 01/04/2018
	06/02/2009	I	–	–	50,000	(25,000)	–	25,000	17.58	06/02/2010 – 05/02/2019
	06/02/2009	II	30,000	–	–	–	–	30,000	17.58	06/02/2011 – 05/02/2019
Total:			**10,635,000**	**(300,000)**	**300,000**	**(330,000)**	**(10,100,000)**	**205,000**		

Share Options (Continued)

Category	Date of grant	Tranche	As at 01/01/2018	Transfer to other category during the year	Transfer from other category during the year	Exercised	Lapsed	As at 31/12/2018	Exercise Price HK$	Exercise Period
			Number of Share Options							
(ii) 2011 Share Option Scheme *(Note a):*										
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	–	–	(1,366,000)	–	134,000	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
Bryan Pallop Gaw	30/04/2012	I	150,000	–	–	(50,000)	–	100,000	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	126,500	–	–	(126,500)	–	–	26.88	08/07/2014 – 07/01/2024
	08/01/2014	II	250,000	–	–	(150,000)	–	100,000	26.88	08/01/2015 – 07/01/2024
Wong Chi Kong, Louis	30/04/2012	I	–	–	250,000	–	–	250,000	35.45	31/10/2012 – 29/04/2022
(appointed on 31 December 2018)	30/04/2012	II	–	–	250,000	–	–	250,000	35.45	31/10/2013 – 29/04/2022
	08/01/2014	I	–	–	400,000	–	–	400,000	26.88	08/07/2014 – 07/01/2024
	08/01/2014	II	–	–	400,000	–	–	400,000	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
(retired on 31 December 2018)	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	3,300,000	(375,000)	–	(1,038,500)	–	1,886,500	35.45	31/10/2012 – 29/04/2022
	30/04/2012	II	3,360,000	(375,000)	–	(570,000)	–	2,415,000	35.45	31/10/2013 – 29/04/2022
	08/01/2014	I	2,195,500	(525,000)	–	(810,500)	–	860,000	26.88	08/07/2014 – 07/01/2024
	08/01/2014	II	2,900,000	(525,000)	–	(806,000)	–	1,569,000	26.88	08/01/2015 – 07/01/2024
3. Others	30/04/2012	I	4,035,000	–	625,000	(1,842,000)	(80,000)	2,738,000	35.45	31/10/2012 – 29/04/2022
	30/04/2012	II	4,035,000	–	625,000	(1,429,000)	(80,000)	3,151,000	35.45	31/10/2013 – 29/04/2022
	08/01/2014	I	–	–	875,000	(137,000)	–	738,000	26.88	08/07/2014 – 07/01/2024
	08/01/2014	II	–	–	875,000	(15,000)	–	860,000	26.88	08/01/2015 – 07/01/2024
Total:			**29,002,000**	**(4,300,000)**	**4,300,000**	**(8,340,500)**	**(160,000)**	**20,501,500**		

Notes:

a. *During the year, no Share Option was granted, granted for adjustment or cancelled under both the 2002 Share Option Scheme and the 2011 Share Option Scheme.*

b. *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$38.68. 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 2019 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 2018, 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.

During the year ended 31 December 2018, Messrs Wong Siu Kong, Wong Chi Kong, Louis and Kuok Khoon Hua were directors of subsidiaries of Shangri-La Asia Limited ("**SA**") and Mr Wong Siu Kong, Mr Bryan Pallop 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.

During the year ended 31 December 2018, 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 and hotel business 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.

Connected Transactions

On 15 November 2018, a wholly-owned subsidiary of the Company as vendor, had entered into preliminary agreements for sale and purchase with five indirect wholly-owned subsidiaries of KHL as purchasers (the "**Purchasers**") for sale of five units of Qianhai Kerry Centre Commercial Apartment Phase II situated at Block 1, Unit 7, Qianhai Shenzhen-Hongkong Modern Service Industry Cooperation Zone, Shenzhen, the PRC (the "**Qianhai Units**") at a total consideration of RMB73,204,345.

The Purchasers are indirect wholly-owned subsidiaries of KHL, which is the controlling shareholder of the Company. The Purchasers are associates of KHL and therefore connected persons of the Company. Accordingly, the sale of the Qianhai Units to the Purchasers constitute connected transactions for the Company under the Listing Rules.

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 2018 amount to approximately HK$28,397,000 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 2018 amount to approximately HK$43,901,000 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 2018 amount to approximately HK$19,694,000 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 2018 amount to approximately HK$53,870,000 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 Kerry Logistics Network Limited ("**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 2018 are not expected to exceed HK$12,000,000 ("**Cap E**") and HK$10,500,000 ("**Cap F**") respectively. The rental income under the Framework Agreement for the year ended 31 December 2018 amount to approximately HK$8,595,000 which is within Cap E. The service fees under the Framework Agreement for the year ended 31 December 2018 amount to approximately HK$8,668,000 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
Wong Siu Kong
Chairman and Chief Executive Officer

Hong Kong, 15 March 2019

pwc

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 109 to 219, which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- 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 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

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

Independence

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

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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 fair value of financial assets at fair value through profit or loss in Shanghai.

Key Audit Matter	How our audit addressed the Key Audit Matter

Valuation of investment properties
 	
Refer to notes 16 and 21 to the consolidated financial statements.
 	
The Group had investment properties held by subsidiaries and associates as at 31 December 2018 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 investment properties and investment properties under construction held by the Group's subsidiaries and associates as at 31 December 2018. 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 5(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;
	
	• Involving our in-house valuation experts and assessing the valuation methodologies and the reasonableness of the key assumptions used in the valuation of investment properties;
	
	• 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	How our audit addressed the Key Audit Matter

Recoverability of properties under development and completed properties held for sale
 	
Refer to notes 18 and 27 to the consolidated financial statements.
 	
The Group had HK$21,030 million and HK$10,152 million of properties under development and completed properties held for sale respectively as at 31 December 2018.
 	
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, construction costs contracts, pre-sale contracts and expected future sales price 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, 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 5(a)(ii) to the consolidated financial statements, led us to consider this a 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; 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 15, 17 and 21 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 2018. 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 2018. 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 5(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 the published industry benchmarks, comparable market transactions and our experience in this industry; and • Evaluating the sensitivity analysis completed by the management 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 18 to the consolidated financial statements. The concession of leasehold land held for development at Nam Van Lake, Macau ("Nam Van Lake Project"), was for a lease term of 25 years which ended on 30 July 2016. Although the Group was 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, the Macau Government did not approve the development plan as the urban plan of the Nam Van District has to be redrafted. In May 2018, the Macau Government issued a declaration and gazetted the expiry of the land lease related to the Nam Van Lake Project for the reason of non-development and the Group was formally notified of the aforesaid expiry by the Macau Government. The Group lodged a judicial appeal against the land expiry declaration which is pending a final decision. Based on current status of the leasehold land, together with the assessment of the available facts and circumstances, the Group considered a full impairment provision of HK$1,175 million should be made against the Nam Van Lake Project as at 31 December 2018. The estimation uncertainty and management judgement, as mentioned in note 5(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: • Inspecting correspondence with the Macau Government and relevant departments of Nam Van Lake Project; • Discussing the nature and status of the Group's exposure with the Group's legal counsels to understand the declaration of expiry process, their legal interpretation of this matter, status of judicial appeal and any action that might be taken by the Group to claim compensation for damages and loss of profits from the Macau Government; and • Assessing the appropriateness of the accounting treatment and the adequacy of disclosures in the consolidated financial statements in light of the impairment provision. We found that management's impairment assessment in respect of the land is supported by the available evidence.

Key Audit Matter	How our audit addressed the Key Audit Matter

Assessment of fair value of financial assets at fair value through profit or loss in Shanghai
 	
Refer to note 24 to the consolidated financial statements.
 	
The Group, as a limited partner invested in certain funds as at 31 December 2018 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 investments were reclassified from available-for-sale investments to financial assets at fair value through profit or loss as at 1 January 2018 upon adoption of HKFRS 9, 'Financial instruments'. The fair value of the investment in SKS amounted to HK$1,754 million as at 31 December 2018 (2017: HK$3,425 million) and the corresponding decrease in fair value of HK$1,500 million was recognised in the profit or loss for the year ended 31 December 2018.
 	
The Group's investment was made in 2016 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 use. However, in August 2017, the Municipal Government issued and approved another development plan for the World Expo Cultural Park within which the underlying Project held by SKS falls.
 	
In the second quarter of 2018, the Municipal Government approached SKS and expressed their intention to include the Project under the World Expo Cultural Park development while discussion and negotiation regarding the repossession and corresponding compensation were continuing. 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, after taking into consideration the legal advice from an independent legal counsel, together with the current status of the project site, management engaged an independent valuer to estimate the fair value of the Group's investments in SKS as at 31 December 2018.
 	
The independent valuer 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 significant judgement including the prevailing market price, land cost per square meter and the fair value adjustment from the land use term.
 	
Given the determination of fair value of the financial assets involved significant estimation and judgement as mentioned in note 5(a)(v) to the consolidated financial statements, we 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 the Group's 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 valuer's competence, capabilities and objectivity;
	• Obtaining the valuation report and meeting with the independent valuer to discuss the valuation methodologies;
	• Checking the accuracy of the input data used by the independent valuer on a sample basis; including the land use term by agreeing to the land use right certificate;
	• Comparing the key assumptions including but not limited to the prevailing land price used by the independent valuer against our own expectations using evidence from comparable market transactions;
	• Understanding and assessing the basis adopted by the independent valuer for the valuation of individual assets and liabilities held by SKS;
	• 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 financial assets at fair value through profit or loss 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, 15 March 2019

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Turnover	6	**21,433,216**	35,548,123
Cost of sales and direct expenses		**(12,430,013)**	(25,802,623)
Gross profit	6	**9,003,203**	9,745,500
Other income and net gains	7	**673,010**	882,195
Provision for impairment loss for property under development	18(a)	**(1,175,281)**	–
Net (decrease)/increase in fair value on financial assets at fair value through profit or loss	24	**(1,461,152)**	1,997
Administrative and other operating expenses		**(1,140,217)**	(997,524)
Increase in fair value of investment properties		**4,457,289**	1,933,747
Operating profit before finance costs	8	**10,356,852**	11,565,915
Finance costs	9	**(584,501)**	(628,209)
Operating profit		**9,772,351**	10,937,706
Share of results of associates and joint ventures	21(d)	**2,141,846**	2,060,052
Profit before taxation		**11,914,197**	12,997,758
Taxation	10	**(3,178,019)**	(2,787,026)
Profit for the year		**8,736,178**	10,210,732
Profit attributable to:			
Company's shareholders		**7,499,295**	9,242,116
Non-controlling interests		**1,236,883**	968,616
		8,736,178	10,210,732
Earnings per share			
– Basic	12	**HK$5.16**	HK$6.40
– Diluted	12	**HK$5.16**	HK$6.40

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	**2018** **HK$'000**	2017 HK$'000
Profit for the year		**8,736,178**	10,210,732
Other comprehensive income			
Items that may be reclassified to profit or loss			
Cash flow hedges	39	**(57,059)**	(131,745)
Fair value gains on available-for-sale investments	39	**–**	225,273
Share of other comprehensive income of associates and joint ventures	39	**122,121**	311,482
Net translation differences on foreign operations		**(3,348,023)**	4,592,089
Items that will not be reclassified to profit or loss			
Fair value gains on financial assets at fair value through other comprehensive income	39	**61,511**	–
Other comprehensive income for the year, net of tax		**(3,221,450)**	4,997,099
Total comprehensive income for the year		**5,514,728**	15,207,831
Total comprehensive income attributable to:			
Company's shareholders		**5,025,143**	13,215,789
Non-controlling interests		**489,585**	1,992,042
		5,514,728	15,207,831

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	**5,693,610**	6,109,169
Investment properties	16	**74,228,117**	64,340,586
Leasehold land and land use rights	17	**1,940,187**	2,114,323
Properties under development	18	**12,621,212**	20,545,581
Land deposits	19	**10,105,186**	1,803,074
Associates and joint ventures	21	**23,032,323**	23,832,979
Derivative financial instruments	22	**24,877**	37,342
Available-for-sale investments	23	**–**	5,344,294
Financial assets at fair value through other comprehensive income	23	**1,326,271**	–
Financial assets at fair value through profit or loss	24	**2,448,729**	–
Mortgage loans receivable	25	**3,969,991**	3,641,905
Intangible assets	26	**122,504**	122,504
		135,513,007	127,891,757
Current assets			
Properties under development	18	**8,408,933**	6,849,586
Completed properties held for sale	27	**10,151,508**	16,871,931
Accounts receivable, prepayments and deposits	28	**1,277,878**	7,566,211
Current portion of mortgage loans receivable	25	**35,905**	30,025
Tax recoverable		**217,190**	145,952
Tax reserve certificates		**189,598**	189,347
Financial assets at fair value through profit or loss	24	**7,145**	7,732
Derivative financial instruments	22	**–**	3,645
Restricted bank deposits	29	**522,698**	595,906
Cash and bank balances	29	**13,860,952**	13,151,714
		34,671,807	45,412,049
Current liabilities			
Accounts payable, deposits received and accrued charges	30	**6,908,110**	7,630,548
Contract liabilities	30	**6,499,300**	–
Deposits received on sale of properties	30	**–**	8,133,574
Taxation		**2,254,966**	2,093,149
Short-term bank loans and current portion of long-term bank loans	31	**8,141,552**	8,903,148
		23,803,928	26,760,419
Net current assets		**10,867,879**	18,651,630

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**2018** **HK$'000**	2017 HK$'000
Total assets less current liabilities		**146,380,886**	146,543,387
Non-current liabilities			
Long-term bank loans	31	**22,625,008**	26,781,716
Fixed rate bonds	32	**2,344,683**	2,336,901
Amounts due to non-controlling interests	33	**2,131,319**	2,106,291
Derivative financial instruments	22	**62,581**	–
Deferred taxation	34	**8,275,622**	7,606,669
		35,439,213	38,831,577
ASSETS LESS LIABILITIES		**110,941,673**	107,711,810
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	36	**1,455,208**	1,446,538
Share premium	38	**13,019,604**	12,515,673
Other reserves	39	**9,192,306**	12,294,722
Retained profits		**73,873,846**	68,092,523
		97,540,964	94,349,456
Non-controlling interests		**13,400,709**	13,362,354
TOTAL EQUITY		**110,941,673**	107,711,810

The financial statements on pages 109 to 219 were approved by the Board of Directors on 15 March 2019 and were signed on its behalf.

Wong Siu Kong
Director

Wong Chi Kong, Louis
Director

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Operating activities			
Net cash generated from operations	40(a)	**18,939,254**	14,549,808
Interest paid		**(931,563)**	(1,409,283)
Income tax paid		**(1,985,629)**	(2,056,799)
Net cash generated from operating activities		**16,022,062**	11,083,726
Investing activities			
Additions of property, plant and equipment		**(293,014)**	(40,699)
Additions of investment properties		**(1,229,089)**	(57,020)
Increase in land deposits		**(9,564,952)**	(673,128)
Proceeds from disposal of a subsidiary	40(c)	**–**	126,914
Proceeds from disposal of assets and liabilities of disposal groups classified as held for sale	40(d)	**–**	729,615
Increase in investments in associates and joint ventures		**(22,333)**	(905,500)
Dividends received from associates		**867,515**	1,303,940
Return of capital from an associate		**280,904**	284,934
Additional loans to associates and joint ventures		**(192,397)**	(3,997,467)
Repayment of loans by associates and joint ventures		**1,558,855**	743,591
Additional loans from associates and joint ventures		**242,361**	109,299
Repayment of loans to associates and joint ventures		**(140)**	(1,155)
Additions of available-for-sale investments		**–**	(13,264)
Increase in mortgage loans receivable		**(333,966)**	(2,656,881)
Interest received		**569,702**	513,875
Decrease/(increase) in restricted bank deposits		**43,587**	(372,918)
Decrease/(increase) in short-term bank deposits maturing after more than three months		**40,368**	(127,507)
Dividends received from listed and unlisted investments		**70,101**	77,904
Proceeds from sale of property, plant and equipment		**791**	9,785
Proceeds from sale of investment properties		**90,902**	94,013
Proceeds from sale of non-current assets reclassified as held for sale		**–**	392,161
Net cash used in investing activities		**(7,870,805)**	(4,459,508)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	2018 HK$'000	2017 HK$'000
Financing activities			
Proceeds from issue of shares		**272,240**	89,821
Repayment of bank loans	40(e)	**(26,217,006)**	(37,893,741)
Drawdown of bank loans	40(e)	**21,661,124**	34,671,122
Dividends paid		**(2,105,875)**	(1,804,286)
Redemption of fixed rate bonds	40(e)	**–**	(4,654,380)
Acquisition of additional interests in a subsidiary	40(b)	**–**	(10,400)
Capital injection from non-controlling interests		**13,681**	23,167
Return of capital to non-controlling interests		**(35,948)**	(297,884)
Dividends of subsidiaries paid to non-controlling interests		**(428,963)**	(706,262)
Additional loans from non-controlling interests	40(e)	**20,121**	158,416
Repayment of loans to non-controlling interests	40(e)	**(7,278)**	(623,183)
Net cash used in financing activities		**(6,827,904)**	(11,047,610)
Increase/(decrease) in cash and cash equivalents		**1,323,353**	(4,423,392)
Effect of exchange rate changes		**(573,723)**	1,060,560
Cash and cash equivalents at 1 January		**12,651,234**	16,014,066
Cash and cash equivalents at 31 December	29(b)	**13,400,864**	12,651,234

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Note	Attributable to the shareholders of the Company						
		Share capital	Share premium	Other reserves	Retained profits	Total	Non-controlling interests	Total equity
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 1 January 2018		1,446,538	12,515,673	12,294,722	68,092,523	94,349,456	13,362,354	107,711,810
Adjustment on adoption of HKFRS 9	3(b)(i)	–	–	(580,277)	580,277	–	–	–
Restated balance as at 1 January 2018		1,446,538	12,515,673	11,714,445	68,672,800	94,349,456	13,362,354	107,711,810
Profit for the year		–	–	–	7,499,295	7,499,295	1,236,883	8,736,178
Cash flow hedges	39	–	–	(57,059)	–	(57,059)	–	(57,059)
Share of reserves of associates and joint ventures	39	–	–	122,121	–	122,121	–	122,121
Net translation differences on foreign operations	39	–	–	(2,600,725)	–	(2,600,725)	(747,298)	(3,348,023)
Fair value gains on financial assets at fair value through other comprehensive income	39	–	–	61,511	–	61,511	–	61,511
Total comprehensive income for the year ended 31 December 2018		–	–	(2,474,152)	7,499,295	5,025,143	489,585	5,514,728
Issue of share capital – exercise of share options		8,670	333,162	(69,592)	–	272,240	–	272,240
Lapse of share options		–	170,769	(170,769)	–	–	–	–
Dividends paid		–	–	–	(2,105,875)	(2,105,875)	(428,963)	(2,534,838)
Transfer	39	–	–	192,374	(192,374)	–	–	–
Capital injection from non-controlling interests		–	–	–	–	–	13,681	13,681
Capital reduction of a subsidiary		–	–	–	–	–	(35,948)	(35,948)
Total transactions with owners		8,670	503,931	(47,987)	(2,298,249)	(1,833,635)	(451,230)	(2,284,865)
Balance at 31 December 2018		1,455,208	13,019,604	9,192,306	73,873,846	97,540,964	13,400,709	110,941,673

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Attributable to the shareholders of the Company						
		Share capital	Share premium	Other reserves	Retained profits	Total	Non-controlling interests	Total equity
	Note	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	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

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 15 March 2019.

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 under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments and first mortgage loans) at fair value through other comprehensive income or 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 consolidated financial statements, are disclosed in note 5.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

(i) Adoption of standards, amendments and interpretation to existing standards

The following standards, amendments and interpretation to existing standards have been published that are effective for the accounting period of the Group beginning on 1 January 2018:

- HKFRS 9, 'Financial instruments'
- HKFRS 15, 'Revenue from contracts with customers'
- Amendments to HKFRS 1, 'Deletion of short-term exemptions for first-time adopters'
- Amendments to HKFRS 2, 'Classification and measurement of share-based payment transactions'
- Amendments to HKFRS 4, 'Applying HKFRS 9 'Financial instruments' with HKFRS 4 'Insurance contracts''
- Amendments to HKFRS 15, 'Clarifications to HKFRS 15'
- Amendments to HKAS 28, 'Measuring an associate or joint venture at fair value'
- Amendments to HKAS 40, 'Transfers of investment property'
- HK(IFRIC)-Int 22, 'Foreign currency transactions and advance consideration'

The impact of the adoption of HKFRS 9 and HKFRS 15 are disclosed in note 3 below. The adoption of the other amendments and interpretation to existing standards had no material impact on the consolidated financial statements of the Group.

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

The following standards, amendments and interpretation 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 2019, but the Group has not early adopted them:

	Applicable for accounting periods beginning on/after
HKFRS 16, 'Leases'	1 January 2019
Amendments to HKFRS 9, 'Prepayment features with negative compensation'	1 January 2019
Amendments to HKAS 19, 'Plan amendment, curtailment or settlement'	1 January 2019
Amendments to HKAS 28, 'Long-term interests in an associate or joint venture'	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
Amendments to HKFRS 3, 'Definition of a business'	1 January 2020
Amendments to HKAS 1 and HKAS 8, 'Definition of material'	1 January 2020
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

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.

The Group will adopt the above standards, amendments and interpretation 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)

(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 joint venture.

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 fair value through other comprehensive income 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 fair value through other comprehensive income 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 consolidated 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 consolidated 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'.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Properties under development (Continued)

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 or joint venture at the date of acquisition. Goodwill on acquisitions of subsidiaries is recognised separately as a non-current asset. Goodwill on acquisitions of associates and joint ventures is included in investments in associates and joint ventures 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 or associates or joint ventures is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary or 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 and financial assets

(a) Accounting policies applied until 31 December 2017

The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative figures. As a result, the comparative figures provided continues to be accounted for in accordance with the Group's previous accounting policies. Until 31 December 2017, 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 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-derivative financial assets 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 financial assets 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 financial assets 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Investments and financial assets (Continued)

(a) Accounting policies applied until 31 December 2017 (Continued)

(iv) Recognition and measurement (Continued)

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.

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.

(b) Accounting policies applied from 1 January 2018

(i) Classification

From 1 January 2018, the Group classifies its financial assets in the measurement categories of those to be measured subsequently at fair value (either through other comprehensive income ("OCI") or through profit or loss) and those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in OCI or profit or loss. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and derecognition

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Investments and financial assets (Continued)

(b) Accounting policies applied from 1 January 2018 (Continued)

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in consolidated income statement.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

<u>Debt instruments</u>

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in other income and net gains using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in consolidated income statement and presented in other income and net gains together with foreign exchange gains and losses. Impairment losses, if material, are presented as separate line item in the consolidated income statement.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in consolidated income statement. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other income and net gains. Interest income from these financial assets is included in other income and net gains using the effective interest rate method. Foreign exchange gains and losses are presented in other income and net gains and impairment losses, if material, are presented as separate line item in the consolidated income statement.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in consolidated income statement.

<u>Equity instruments</u>

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in consolidated income statement as other income and net gains when the Group's right to receive payments is established.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Impairment of financial assets

Until 31 December 2017, 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. 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 a group of financial assets that can be reliably estimated.

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses ("ECL") associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

The Group's other financial assets carried at amortised cost include second mortgage loans receivable, other receivables, amounts due from subsidiaries, associates and joint ventures. The impairment loss of other financial assets carried at amortised cost is measured based on twelve months expected credit loss. The twelve months expected credit loss is the portion of lifetime expected credit loss that results from default events on a financial instrument that are possible within twelve months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime expected credit loss.

The carrying amount of the receivables is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within administrative and other operating expenses. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the consolidated income statement.

(n) 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 financial instruments are disclosed in note 22. 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 hedged item is more than 12 months after the end of the reporting period. Trading derivatives are classified as a current asset or liability.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(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.

(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.

(o) 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) 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.

(q) 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.

(r) 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 and 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) 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.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) 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.

(u) Financial guarantees

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of:

- the amount determined in accordance with the expected credit loss model under HKFRS 9 and
- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of HKFRS 15.

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

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

(v) 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.

Revenue is recognised when it is probable that future economic benefits will flow to the Group and specific criteria for each of the Group's activities as described below have been met. Estimates are based on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Revenue recognition (Continued)

(i) Revenue from sales of properties 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. If properties have no alternative use to the Group contractually and the Group has an enforceable right to payment from the customers for performance completed to date, the Group satisfies the performance obligation over time and therefore, recognises revenue over time in accordance with the input method for measuring progress. Otherwise, revenue is recognised at a point in time when the customer obtains control of the completed property.

For property development and sales contract for which the control of the property is transferred at a point in time, revenue is recognised when the customer obtains the physical possession or the legal title of the completed property and the Group has present right to payment and the collection of the consideration is probable.

In determining the transaction price, the Group adjusts the promised amount of consideration for the effect of a financing component if it is significant.

Contract acquisition costs incurred to obtain contracts are capitalised and amortised when the related revenue is recognised.

(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 over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation.

(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.

(w) 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)

(x) 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. 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.

(y) 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.

(z) 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.

(aa) 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 CHANGES IN ACCOUNTING POLICIES

As explained in note 2, the Group has adopted HKFRS 9 and HKFRS 15 from 1 January 2018, which results in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. The Group applied the modified retrospective approach to adopt HKFRS 9 and HKFRS 15 without restating comparative figures.

HKFRS 9 replaces the provisions of HKAS 39 'Financial instruments' that relate to the recognition, classification and measurement of financial assets and financial liabilities; derecognition of financial instruments; impairment of financial assets and hedge accounting. HKFRS 9 also significantly amends other standards dealing with financial instruments such as HKFRS 7 'Financial instruments – disclosures'.

HKFRS 15 replaces both the provisions of HKAS 18 "Revenue" and HKAS 11 "Construction contracts" and the related interpretations that relate to the recognition, classification and measurement of revenue and costs.

(a) Impact on the financial statements

(i) The impact on the Group's financial position as at 1 January 2018 by the application of HKFRS 9 and HKFRS 15 is as follows:

	As at 1 January 2018			
	As previously stated	Effect of adoption of HKFRS 9 (note 3(b))	Effect of adoption of HKFRS 15 (note 3(c))	As restated
	HK$'000	HK$'000	HK$'000	HK$'000
Consolidated statement of financial position (extract)				
Available-for-sale investments	5,344,294	(5,344,294)	–	–
Financial assets at fair value through other comprehensive income	–	1,264,760	–	1,264,760
Financial assets at fair value through profit or loss – non-current portion	–	4,079,534	–	4,079,534
Deposits received on sale of properties	8,133,574	–	(8,133,574)	–
Contract liabilities	–	–	8,133,574	8,133,574
Other reserves	12,294,722	(580,277)	–	11,714,445
Retained profits	68,092,523	580,277	–	68,672,800

3 CHANGES IN ACCOUNTING POLICIES (Continued)

(a) Impact on the financial statements (Continued)

(ii) The amount by each financial statement line items affected in the current year and year to date by the application of HKFRS 9 and HKFRS 15 is as follows:

	As at 31 December 2018			
	Without the adoption of HKFRS 9 and HKFRS 15 HK$'000	Effect of adoption of HKFRS 9 HK$'000	Effect of adoption of HKFRS 15 HK$'000	As reported HK$'000
Consolidated statement of financial position (extract)				
Associates and joint ventures	22,954,299	–	78,024	23,032,323
Available-for-sale investments	3,705,677	(3,775,000)	69,323	–
Financial assets at fair value through other comprehensive income	–	1,326,271	–	1,326,271
Financial assets at fair value through profit or loss – non-current portion	–	2,448,729	–	2,448,729
Completed properties held for sale	9,323,170	–	828,338	10,151,508
Accounts receivable, prepayments and deposits	2,975,521	–	(1,697,643)	1,277,878
Accounts payable, deposits received and accrued charges	7,033,847	–	(125,737)	6,908,110
Contract liabilities	–	–	6,499,300	6,499,300
Deposits received on sale of properties	6,318,847	–	(6,318,847)	–
Taxation	2,407,429	–	(152,463)	2,254,966
Other reserves	9,744,783	(619,707)	67,230	9,192,306
Retained profits	73,945,580	619,707	(691,441)	73,873,846

3 CHANGES IN ACCOUNTING POLICIES (Continued)

(a) Impact on the financial statements (Continued)

(ii) The amount by each financial statement line items affected in the current year and year to date by the application of HKFRS 9 and HKFRS 15 is as follows: (Continued)

	For the year ended 31 December 2018			
	Without the adoption of HKFRS 9 and HKFRS 15	Effect of adoption of HKFRS 9	Effect of adoption of HKFRS 15	As reported
	HK$'000	HK$'000	HK$'000	HK$'000
Consolidated income statement (extract)				
Turnover	23,287,784	–	(1,854,568)	21,433,216
Cost of sales and direct expenses	(13,360,560)	–	930,547	(12,430,013)
Net (decrease)/increase in fair value on financial assets at fair value through profit or loss	(1,500,582)	39,430	–	(1,461,152)
Share of results of associates and joint ventures	2,061,729	–	80,117	2,141,846
Taxation	(3,330,482)	–	152,463	(3,178,019)
Profit attributable to:				
Company's shareholders	8,151,306	39,430	(691,441)	7,499,295
Earnings per share	HK$	HK$	HK$	HK$
– Basic	5.61	0.03	(0.48)	5.16
– Diluted	5.61	0.03	(0.48)	5.16

The adoption of HKFRS 9 and HKFRS 15 has no impact to the consolidated statement of cash flows.

3 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) HKFRS 9 – impact of adoption

(i) Classification and measurement of financial instruments

Management has assessed the business models and the contractual terms of the cash flows apply to the financial assets held by the Group at the date of initial application of HKFRS 9 (1 January 2018) and has classified its financial instruments into the appropriate HKFRS 9 categories, which are those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and those to be measured at amortised cost.

The main effects resulting from the reclassification are as follows:

	Available-for-sale investments HK$'000	Financial assets at FVOCI HK$'000	Financial assets at FVPL – non-current portion HK$'000
Opening balance – HKAS 39	5,344,294	–	–
Reclassifications	(5,344,294)	1,264,760	4,079,534
Opening balance – HKFRS 9	–	1,264,760	4,079,534

The main effects resulting from this reclassification on the Group's equity are as follows:

	Available-for-sale investments revaluation reserve HK$'000	Financial assets at FVOCI reserve HK$'000	Retained profits HK$'000
Opening balance – HKAS 39	1,521,613	–	68,092,523
Reclassify investments from available-for-sale investments to financial assets at FVPL	(580,277)	–	580,277
Reclassify investments from available-for-sale investments to financial assets at FVOCI	(941,336)	941,336	–
Opening balance – HKFRS 9	–	941,336	68,672,800

Certain investments were reclassified from available-for-sale investments to financial assets at FVOCI or finanical assets at FVPL. They do not meet the HKFRS 9 criteria for classification at amortised cost, because their cash flows do not represent solely payments of principal and interest. Related fair value gains of HK$580,277,000 were reclassified from available-for-sale investments revaluation reserve to retained profits on 1 January 2018.

The Group elected to present in other comprehensive income the changes in fair value of certain investments previously classified as available-for-sale investments because these investments are held as long-term strategic investments. As a result, accumulated fair value gains of these investments amounting to HK$941,336,000 were reclassified from available-for-sale investments revaluation reserve to financial assets at FVOCI reserve on 1 January 2018.

3 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) HKFRS 9 – impact of adoption (Continued)

(ii) Impairment of financial assets

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. The Group has two types of financial assets at amortised cost subject to HKFRS 9's new expected credit loss model:

- second mortgage loans receivable
- trade and other receivables (excluding prepayments and second mortgage loans receivable)

The Group revised its impairment methodology under HKFRS 9 for each of these classes of assets.

Second mortgage loans receivable

For second mortgage loans receivable already in place at 1 January 2018, the Group has determined that reliably assessing the probability of default at the initial recognition of each second mortgage loans receivable would result in undue cost and effort. As permitted by HKFRS 9, the credit provision will be determined based on whether credit risk is low only at each reporting date, until the loan is derecognised. The impairment provision based on the ECL for the second mortgage loans receivable whose credit risk has been assessed as other than low and for which the impairment methodology has been applied is immaterial to the financial position of the Group as at 1 January 2018 and 31 December 2018.

Trade and other receivables (excluding prepayments and second mortgage loans receivable)

For trade and other receivables (excluding prepayments and second mortgage loans receivable), the Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which requires the use of the lifetime expected loss provision for all trade and other receivables (excluding prepayments and second mortgage loans receivable). The impairment provision based on the ECL for the trade and other receivables (excluding prepayments and second mortgage loans receivable) whose credit risk has been assessed as other than low and for which the impairment methodology has been applied is immaterial to the financial position of the Group as at 1 January 2018 and 31 December 2018.

3 CHANGES IN ACCOUNTING POLICIES (Continued)

(c) HKFRS 15 – impact of adoption

Accounting for property development activities

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

Under HKFRS 15, revenue from pre-sales of properties 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. If properties have no alternative use to the Group contractually and the Group has an enforceable right to payment from the customers for performance completed to date, the Group satisfies the performance obligation over time and therefore, recognises revenue over time in accordance with the input method for measuring progress. Otherwise, revenue is recognised at a point in time when the customer obtains control of the completed property.

The timing of revenue recognition for sale of certain completed properties, which was previously based on whether significant risks and rewards of ownership of properties transfer, will be recognised at a later point in time when the underlying property is legally or physically transferred 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 financing component exists in that contract.

The Group provides different incentives to customers when they sign a property sale contract. Certain incentives represent 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 were previously 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.

The excess of cumulative revenue recognised in profit or loss over the cumulative payments made by customers is recognised as contract assets. The excess of cumulative payments made by customers over the cumulative revenue recognised in profit or loss is recognised as contract liabilities. Contract liabilities recognised in relation to property development activities were previously presented as deposits received on sale of properties (HK$8,133,574,000 as at 1 January 2018).

Other than the presentation of contract liabilities, the adoption of HKFRS 15 has no material impact on the consolidated financial statements of the Group as at 1 January 2018.

4 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's major financial instruments include financial assets at fair value through other comprehensive income or through profit or loss, derivative financial instruments, mortgage loans receivable, accounts receivable, 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 loss of approximately HK$2,777,958,000 (2017: gain of HK$3,883,719,000) 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.

4 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 (2017: 25) basis points and all other variables were held constant, the profit of the Group would have decreased or increased by approximately HK$2,633,000 (2017: HK$14,323,000) 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. 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 the listed portion of financial assets at fair value through profit or loss would be an estimated HK$8,938,000 (2017: HK$13,847,000) lower or higher if the year end share prices of the above-mentioned investments were to differ by 20% (2017: 20%).

The carrying amount of the unlisted portion of financial assets at fair value through profit or loss would be an estimated HK$131,362,000 (2017: available-for-sale investments HK$118,685,000) lower or higher if the year end underlying fair value of the above-mentioned investments were to differ by 20% (2017: 20%).

(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.

4 FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factors (Continued)

(ii) Credit risk (Continued)

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.

The Group applies the HKFRS 9 simplified approach in measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables are grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the historical payment profiles and the corresponding historical credit losses. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors and industry trends affecting the ability of the debtors to settle the outstanding balance.

There is no concentration of credit risk with respect to trade receivables from third party customers as the Group has a large number of customers which are internationally dispersed.

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.

Management considered the credit risk of other receivables and amounts due from associates and joint ventures is low, as counterparties have a strong capacity to meet their contractual cash flow obligations in the near term. The Group has assessed that the expected credit losses for these other receivables and amounts due from associates and joint ventures were nil under 12 months expected losses method and no provision was recognised.

The credit risk on liquid funds is limited because approximately 98% (2017: 99%) of the funds are placed in banks with high credit rankings, ranging from BBB to AA, and the remaining 2% (2017: 1%) in local banks in different countries with close monitoring by the management and there is no concentration in any particular bank.

4 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.

4 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 2018					
Amounts due to associates and joint ventures	**–**	**411,785**	**–**	**–**	**411,785**
Bank loans	**9,100,626**	**9,308,750**	**14,346,726**	**–**	**32,756,102**
Fixed rate bonds	**138,030**	**138,030**	**2,418,465**	**–**	**2,694,525**
Amounts due to non-controlling interests	**–**	**2,157,238**	**–**	**–**	**2,157,238**
Accounts payable, deposits received and accrued charges	**6,729,377**	**–**	**–**	**–**	**6,729,377**
Derivative financial instruments	**9,221**	**9,058**	**49,193**	**3,097**	**70,569**
Total	**15,977,254**	**12,024,861**	**16,814,384**	**3,097**	**44,819,596**

	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

4 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 2018 and 2017 were as follows:

	2018	2017
Net debt (HK$ million)	**18,727**	24,274
Equity attributable to the Company's shareholders (HK$ million)	**97,541**	94,349
Gearing ratio	**19.2%**	25.7%

(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).

4 FINANCIAL RISK MANAGEMENT (Continued)

(c) Fair value estimation (Continued)

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2018:

	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Assets				
Derivative financial instruments	**–**	**24,877**	**–**	**24,877**
Financial assets at fair value through other comprehensive income	**–**	**–**	**1,326,271**	**1,326,271**
Financial assets at fair value through profit or loss	**44,692**	**–**	**2,411,182**	**2,455,874**
First mortgage loans receivable	**–**	**–**	**2,466,390**	**2,466,390**
Total assets	**44,692**	**24,877**	**6,203,843**	**6,273,412**
Liabilities				
Derivative financial instruments	**–**	**62,581**	**–**	**62,581**
Total liabilities	**–**	**62,581**	**–**	**62,581**

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
Financial assets at fair value through profit or loss – current portion	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

There were no transfers between Levels during the year.

4 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 financial assets at fair value through profit or loss (including available-for-sale investments in 2017).

(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 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)		Financial assets at fair value through other comprehensive income	Financial assets as fair value through profit or loss	Available-for-sale investments
	2018	2017	**2018**	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	**HK$'000**	HK$'000
At 1 January	**2,442,536**	611,329	**–**	**–**	4,804,782
Reclassification from available-for-sale investments (note 3(a)(i))	**–**	–	**1,264,760**	**4,018,033**	–
Gains/(losses) recognised in other comprehensive income or profit or loss	**–**	–	**61,511**	**(1,436,616)**	215,180
Additions	**57,852**	1,831,207	**–**	**–**	13,264
Repayments	**(33,998)**	–	**–**	**–**	–
Exchange adjustment	**–**	–	**–**	**(170,235)**	249,567
At 31 December	**2,466,390**	2,442,536	**1,326,271**	**2,411,182**	5,282,793

Note: The fair value of the first mortgage loans receivable approximates their carrying amount.

4 FINANCIAL RISK MANAGEMENT (Continued)

(c) Fair value estimation (Continued)

(iii) Financial instruments in Level 3 (Continued)

The Group established fair value of unlisted financial assets 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) Valuation techniques used to determine fair value

Special valuation techniques used to value financial instruments include:

- the use of quoted market prices or dealer quotes for similar instruments,
- for interest rate swaps – the present value of the estimated future cash flows based on observable yield curves,
- for cross currency swaps – present value of future cash flows based on forward exchange rates that are quoted in an active market and forward interest rates extracted from observable yield curves, and
- for other financial instruments – discounted cash flow analysis.

(v) 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.

4 FINANCIAL RISK MANAGEMENT (Continued)

(c) Fair value estimation (Continued)

(vi) Fair value of financial assets and liabilities measured at amortised cost

The fair value of the listed fixed rate bonds as at 31 December 2018 was HK$2,442,347,000 (2017: HK$2,507,681,000).

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

5 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 16(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 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 assessment requires the use of judgement and estimates.

5 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 certain financial assets and derivative financial instruments

The fair value of financial assets 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.

Other than the above, the Group in 2016 acquired an equity interest of approximately 24.4% in Shanghai Krupp Stainless Co., Ltd. ("SKS") which owns a site located in Pudong New Area, Shanghai. As set out in note 24, the change in fair value on financial assets through profit or loss for the year ended 31 December 2018 includes the decrease in fair value of HK$1,500 million relating to the investment in SKS. Significant management judgement and assumption was needed in the assessment of the fair value of the investments.

5 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 6 according to the accounting policy as stated in note 2(v)(i). To assess the enforceability of right to payment, the Group has reviewed the terms of its contracts and the relevant local laws, considered the local regulators' views and obtained legal advice, where necessary. Revenue is recognised at a point in time when the underlying completed property unit is legally and/or physically transferred to the customer.

(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.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(b) Critical judgements in applying the Group's accounting policies (Continued)

(iv) Impairment of associates and joint ventures

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 15.

(vi) Impairment of trade receivables

The Group assesses whether there is objective evidence as stated in note 2(m) that trade receivables are impaired. The Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables based on the expected credit loss model.

6 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS

(a) Revenues recognised during the year are as follows:

	2018 HK$'000	2017 HK$'000
Turnover		
Sale of properties	**14,474,951**	29,089,475
Rental and others	**4,850,191**	4,540,933
Hotel revenue	**2,108,074**	1,917,715
	21,433,216	35,548,123

(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	
	2018 **HK$'000**	2017 HK$'000	**2018** **HK$'000**	2017 HK$'000
Principal activities:				
Property rental and others				
– PRC property	**3,685,853**	3,443,835	**2,905,140**	2,713,551
– Hong Kong property	**1,164,338**	1,097,098	**926,071**	873,773
	4,850,191	4,540,933	**3,831,211**	3,587,324
Property sales				
– PRC property (note (i))	**7,515,833**	8,463,435	**2,381,200**	2,659,034
– Hong Kong property	**6,959,118**	20,626,040	**2,398,477**	3,090,394
	14,474,951	29,089,475	**4,779,677**	5,749,428
Hotel operations				
– PRC property	**2,108,074**	1,917,715	**392,315**	408,748
	21,433,216	35,548,123	**9,003,203**	9,745,500
Principal markets:				
– PRC	**13,309,760**	13,824,985	**5,678,655**	5,781,333
– Hong Kong	**8,123,456**	21,723,138	**3,324,548**	3,964,167
	21,433,216	35,548,123	**9,003,203**	9,745,500

(i): Sales of investment properties for the year ended 31 December 2018 amounting to HK$90,902,000 (2017: HK$94,013,000) are excluded from turnover.

6 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.

6 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS (Continued)

(d) An analysis of the Group's financial results by operating segment is as follows:

	2018				
	PRC Property HK$'000	Hong Kong Property HK$'000	Total Operating Segments HK$'000	Others HK$'000	Total HK$'000
Revenue					
Turnover	13,309,760	8,123,456	21,433,216	–	21,433,216
Results					
Segment results – gross profit	5,678,655	3,324,548	9,003,203	–	9,003,203
Other income and net gains					673,010
Provision for impairment loss for property under development					(1,175,281)
Net decrease in fair value on financial assets at fair value through profit or loss					(1,461,152)
Administrative and other operating expenses					(1,140,217)
Increase in fair value of investment properties					4,457,289
Operating profit before finance costs					10,356,852
Finance costs					(584,501)
Operating profit					9,772,351
Share of results of associates and joint ventures					2,141,846
Profit before taxation					11,914,197
Taxation					(3,178,019)
Profit for the year					8,736,178
Profit attributable to:					
Company's shareholders					7,499,295
Non-controlling interests					1,236,883
					8,736,178
Depreciation and amortisation	490,022	16,114	506,136	3,148	509,284

6 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS (Continued)

(d) An analysis of the Group's financial results by operating segment is as follows: (Continued)

	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					882,195
Net increase in fair value on financial assets at fair value through profit or loss					1,997
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

6 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS (Continued)

(e) An analysis of the Group's financial position by operating segment is as follows:

	2018						
	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	89,510,360	54,464,791	1,105,904	145,081,055	49,849,432	(55,997,702)	138,932,785
Associates and joint ventures	5,960,799	3,223,451	1,374,314	10,558,564	12,473,759	–	23,032,323
Derivative financial instruments	–	–	–	–	24,877	–	24,877
Financial assets at fair value through other comprehensive income	–	–	1,326,271	1,326,271	–	–	1,326,271
Financial assets at fair value through profit or loss	1,754,841	700,680	200	2,455,721	153	–	2,455,874
Mortgage loans receivable	–	4,005,896	–	4,005,896	–	–	4,005,896
Tax recoverable	186,147	752	–	186,899	30,291	–	217,190
Tax reserve certificates	–	343	–	343	189,255	–	189,598
Total assets	97,412,147	62,395,913	3,806,689	163,614,749	62,567,767	(55,997,702)	170,184,814
Segment liabilities	40,928,429	22,440,427	762,942	64,131,798	5,273,314	(55,997,702)	13,407,410
Bank loans	4,199,743	–	–	4,199,743	26,566,817	–	30,766,560
Derivative financial instruments	–	–	–	–	62,581	–	62,581
Fixed rate bonds	–	–	–	–	2,344,683	–	2,344,683
Taxation and deferred taxation	8,727,766	1,441,663	144,004	10,313,433	217,155	–	10,530,588
Amounts due to non-controlling interests	1,328,026	630,456	173,462	2,131,944	(625)	–	2,131,319
Total liabilities	55,183,964	24,512,546	1,080,408	80,776,918	34,463,925	(55,997,702)	59,243,141
Segment non-current assets*	73,057,683	40,073,657	2,130,914	115,262,254	12,480,885	–	127,743,139

* *Other than derivative financial instruments, financial assets at fair value through other comprehensive income and through profit or loss and mortgage loans receivable.*

6 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS (Continued)

(e) An analysis of the Group's financial position by operating segment is as follows: (Continued)

	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
Financial assets at fair value through profit or loss – current portion	–	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 receivables.*

6 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*	
	2018	2017
	HK$'000	HK$'000
PRC	**73,057,683**	61,772,549
Hong Kong	**39,549,967**	40,154,328
Others	**2,654,604**	3,710,130
	115,262,254	105,637,007

* *Other than derivative financial instruments, financial assets at fair value through other comprehensive income and through profit or loss (2017: available-for-sale investments) and mortgage loans receivable.*

7 OTHER INCOME AND NET GAINS

	2018	2017
	HK$'000	HK$'000
Dividend income	**70,101**	77,904
Interest income	**676,569**	540,392
(Loss)/gain on disposal of property, plant and equipment	**(283)**	6,952
Gain on sale of investment properties net of selling expenses	**37,924**	18,707
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
Exchange (loss)/gain, net	**(312,504)**	125,477
Others	**201,203**	127,770
	673,010	882,195

8 OPERATING PROFIT BEFORE FINANCE COSTS

Operating profit before finance costs is stated after charging the following:

	2018 HK$'000	2017 HK$'000
Cost of sales of properties and sales related expenses	**9,610,912**	23,310,405
Direct operating expenses in respect of investment properties	**690,299**	651,815
Depreciation of property, plant and equipment and amortisation of leasehold land and land use rights	**509,284**	467,757
Hotel direct operating expenses	**1,715,759**	1,508,967
Operating lease charges – land and buildings	**54,455**	53,195
Auditors' remuneration		
– audit services	**11,121**	10,503
– non-audit services	**3,683**	2,898

9 FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Interest expense		
– bank loans	**901,936**	862,215
– fixed rate bonds	**140,450**	168,061
– derivative financial instruments	**(27,128)**	135,878
– others (note)	**(65,656)**	181,043
Total finance costs incurred	**949,602**	1,347,197
Less: amount capitalised in properties under development and investment properties under development	**(386,733)**	(493,494)
	562,869	853,703
Fair value loss/(gain) on derivative financial instruments		
– cash flow hedge, transfer from equity (note 39)	**21,632**	(17,804)
– not applying hedge accounting	**–**	(207,690)
Total finance costs expensed during the year	**584,501**	628,209

The capitalised interest rate applied to funds borrowed and used for the development of properties is between 2.3% and 5.3% per annum (2017: between 2.4% and 4.9% per annum).

Note: The amount included net exchange gains from financing activities of HK$92,987,000 (2017: loss of HK$157,502,000) for the year ended 31 December 2018.

10 TAXATION

Hong Kong and overseas profits tax

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 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% (2017: 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:

	2018 **HK$'000**	2017 HK$'000
PRC taxation		
– Current	**(1,474,115)**	(1,740,557)
– Over/(under)-provision in prior years	**903**	(7,712)
– Deferred	**(1,199,041)**	(385,973)
	(2,672,253)	(2,134,242)
Hong Kong profits tax		
– Current	**(469,618)**	(553,379)
– Over/(under)-provision in prior years	**2,630**	(51,268)
– Deferred	**(22,255)**	(24,361)
	(489,243)	(629,008)
Overseas taxation		
– Current	**(9,037)**	(10,158)
– Under-provision in prior years	**(1,905)**	–
– Deferred	**(5,581)**	(13,618)
	(16,523)	(23,776)
	(3,178,019)	(2,787,026)

The Group's share of taxation of associates and joint ventures for the year of HK$483,954,000 (2017: HK$559,266,000) is included in the share of results of associates and joint ventures in the consolidated income statement.

10 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:

	2018 **HK$'000**	2017 HK$'000
Profit before taxation	**11,914,197**	12,997,758
Less: Share of results of associates and joint ventures	**(2,141,846)**	(2,060,052)
	9,772,351	10,937,706
Calculated at Hong Kong profits tax rate of 16.5% (2017: 16.5%)	**1,612,438**	1,804,721
Tax effect of different taxation rates in other countries	**753,030**	538,526
Utilisation of previously unrecognised tax losses	**(32,725)**	(154,890)
Tax effect of net income/expenses that are not taxable/deductible in determining taxable profit	**277,030**	(247,089)
Tax loss not recognised	**71,346**	39,394
(Over)/under-provision of taxation in prior years	**(1,628)**	58,980
	2,679,491	2,039,642
Withholding tax on distributed/undistributed profits	**177,172**	226,072
Withholding tax on capital gains	**–**	36,736
Land appreciation tax	**428,474**	646,101
Tax effect of deduction of land appreciation tax	**(107,118)**	(161,525)
Taxation charge	**3,178,019**	2,787,026

11 DIVIDENDS

(a) Ordinary shares

	2018 **HK$'000**	2017 HK$'000
Final dividend for the year ended 31 December 2017 of HK$0.9 (2016: HK$0.8) per fully paid share	**1,306,123**	1,154,618
Special dividend for the year ended 31 December 2017 of HK$0.15 (2016: nil) per fully paid share	**217,687**	–
Interim dividend for the year ended 31 December 2018 of HK$0.4 (2017: HK$0.45) per fully paid share	**582,065**	649,668
Total dividends paid	**2,105,875**	1,804,286

(b) Dividends not recognised at the end of the reporting period

At a meeting held on 15 March 2019, the Board of Directors proposed a final dividend of HK$0.95 (2017: a final dividend of HK$0.9 and a special dividend of HK$0.15) per ordinary share for the year ended 31 December 2018 totalling to HK$1,382,448,000 based on 1,455,208,228 ordinary share in issue as at 31 December 2018 (2017: HK$1,518,865,000 based on 1,446,537,728 ordinary shares in issue as at 31 December 2017). The actual amount of final dividend payable in respect of the year ended 31 December 2018 will be subject to the actual number of ordinary shares in issue on the record date, which is expected to be on or about 28 May 2019.

12 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.

	2018	2017
Weighted average number of ordinary shares in issue	**1,452,417,742**	1,443,939,549

	2018 **HK$'000**	2017 HK$'000
Profit attributable to shareholders	**7,499,295**	9,242,116
Basic earnings per share	**HK$5.16**	HK$6.40

12 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.

	2018	2017
Weighted average number of ordinary shares in issue	**1,452,417,742**	1,443,939,549
Adjustment for share options	**1,621,526**	1,075,525
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,454,039,268**	1,445,015,074

	2018 HK$'000	2017 HK$'000
Profit attributable to shareholders	**7,499,295**	9,242,116
Diluted earnings per share	**HK$5.16**	HK$6.40

13 EMPLOYEE BENEFIT EXPENSE

	2018 HK$'000	2017 HK$'000
Staff costs, including directors' emoluments	**1,491,243**	1,333,835
Pension costs – defined contribution plans (note 35)	**92,987**	80,409
	1,584,230	1,414,244

14 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and senior management's emoluments

The remuneration of the Directors for the year ended 31 December 2018, excluding share option benefits, is set out below:

Name of Director	Fees	Salary	Discretionary bonuses	Employer's contribution to retirement benefit scheme	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Mr Wong Siu Kong*	**–**	**6,960**	**20,000**	**120**	**27,080**
Mr Ho Shut Kan[2]	**–**	**6,240**	**20,000**	**120**	**26,360**
Mr Bryan Pallop Gaw	**–**	**4,116**	**8,000**	**120**	**12,236**
Mr Wong Chi Kong, Louis[1]	**–**	**–**	**–**	**–**	**–**
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**

1 *Appointed on 31 December 2018*

2 *Retired on 31 December 2018*

* *Chairman*

The remuneration of the Directors for the year ended 31 December 2017, excluding share option benefits, is set out below:

Name of Director	Fees	Salary	Discretionary bonuses	Employer's contribution to retirement benefit scheme	Total
	HK$'000	HK$'000	HK$'000	HK$'000	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*

14 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 2018 and 31 December 2017, there were no share options granted to the Directors.

As at 31 December 2018, 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**
1,850,000	**35.45**	**31/10/2012 – 29/04/2022**
1,900,000	**35.45**	**31/10/2013 – 29/04/2022**
534,000	**26.88**	**08/07/2014 – 07/01/2024**
2,000,000	**26.88**	**08/01/2015 – 07/01/2024**

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

The closing market price of the Company's share as at 31 December 2018 was HK$26.75 (2017: HK$35.15) per share.

14 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 (2017: three) Directors. The emoluments payable to the five highest paid individuals during the year are as follows:

	2018 HK$'000	2017 HK$'000
Salaries	**26,316**	25,788
Discretionary bonuses	**65,000**	74,500
Pension contributions	**600**	600
	91,916	100,888

The emoluments fell within the following bands:

	Number of individuals	
	2018	2017
HK$12,000,001 – HK$12,500,000	**2**	–
HK$12,500,001 – HK$13,000,000	**–**	1
HK$13,000,001 – HK$13,500,000	**–**	2
HK$13,500,001 – HK$14,000,000	**1**	–
HK$26,000,001 – HK$26,500,000	**1**	–
HK$27,000,001 – HK$27,500,000	**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.

14 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

(d) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

The information about loans, quasi-loans and other dealings entered into by the Company or its subsidiaries undertaking of the Group, where applicable, in favour of directors is as follows:

Loan to Directors:

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 2018:						
Mr Kuok Khoon Hua	13,187	13,187	13,187	Repayable in January 2022	According to the mortgage plan offered by the Group to buyers	Property units purchased from the Group
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 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.

15 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 2018	**6,947,747**	**480,341**	**50,450**	**60,539**	**268,106**	**7,807,183**
Additions	**274,079**	**2,286**	**–**	**1,900**	**14,749**	**293,014**
Disposals	**(8,094)**	**–**	**–**	**–**	**(6,053)**	**(14,147)**
Transfer and reclassification	**86,620**	**–**	**–**	**1,791**	**(1,791)**	**86,620**
Exchange adjustment	**(351,485)**	**(3,926)**	**(2,519)**	**(193)**	**(9,316)**	**(367,439)**
At 31 December 2018	**6,948,867**	**478,701**	**47,931**	**64,037**	**265,695**	**7,805,231**
Aggregate depreciation and accumulated impairment losses						
At 1 January 2018	**1,366,820**	**57,779**	**9,279**	**58,733**	**205,403**	**1,698,014**
Charge for the year	**403,280**	**15,809**	**1,715**	**1,410**	**25,166**	**447,380**
Disposals	**(7,364)**	**–**	**–**	**–**	**(5,709)**	**(13,073)**
Transfer and reclassification	**75,225**	**–**	**–**	**(130)**	**130**	**75,225**
Exchange adjustment	**(86,958)**	**(567)**	**(541)**	**(138)**	**(7,721)**	**(95,925)**
At 31 December 2018	**1,751,003**	**73,021**	**10,453**	**59,875**	**217,269**	**2,111,621**
Net book value as at 31 December 2018	**5,197,864**	**405,680**	**37,478**	**4,162**	**48,426**	**5,693,610**
Net book value as at 1 January 2018	**5,580,927**	**422,562**	**41,171**	**1,806**	**62,703**	**6,109,169**

15 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 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

As at 31 December 2018, property, plant and equipment with an aggregate net book value of HK$2,127,973,000 (2017: HK$2,133,396,000) 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 2018. 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 2018 and 31 December 2017, the Group considered that no provision for impairment loss or written back of hotel properties was necessary. 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 is 8.5% (2017: 8.5%).

16 INVESTMENT PROPERTIES

	2018 HK$'000	2017 HK$'000
At 1 January	**64,340,586**	56,949,967
Additions	**1,229,089**	57,020
Increase in fair value	**4,457,289**	1,933,747
Disposals	**(51,075)**	(70,674)
Transfer	**6,634,566**	2,697,905
Exchange adjustment	**(2,382,338)**	2,772,621
At 31 December	**74,228,117**	64,340,586

(a) As at 31 December 2018, investment properties amounting to HK$13,503,135,000 (2017: HK$13,020,996,000) were pledged as securities for bank loan facilities granted to the Group (note 44).

(b) Valuation of investment properties

	Residential properties under development	Commercial properties under development	Completed residential properties	Completed commercial properties		Total
	Hong Kong	PRC	Hong Kong	Hong Kong	PRC	
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2018	865,000	–	14,383,100	10,649,720	38,442,766	64,340,586
Additions	171,077	324,794	2,216	16,710	714,292	1,229,089
Increase in fair value	30,152	1,349,730	370,484	643,320	2,063,603	4,457,289
Disposals	–	–	–	–	(51,075)	(51,075)
Transfer	713,771	3,858,932	–	–	2,061,863	6,634,566
Exchange adjustment	–	(261,537)	–	–	(2,120,801)	(2,382,338)
At 31 December 2018	**1,780,000**	**5,271,919**	**14,755,800**	**11,309,750**	**41,110,648**	**74,228,117**

16 INVESTMENT PROPERTIES (Continued)

(b) Valuation of investment properties (Continued)

	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
Increase in fair value	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

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 recognised relevant professional qualifications and have recent experience in the locations and segments of the investment properties valued, at 31 December 2018. 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.

16 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 and the PRC 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 2018, capitalisation rates of 2.8% to 5.2% (2017: 2.8% to 5.3%) and 4.8% to 8.8% (2017: 4.8% to 8.8%) 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 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.

17 LEASEHOLD LAND AND LAND USE RIGHTS

	2018 **HK$'000**	2017 HK$'000
At 1 January	**2,114,323**	1,893,221
Amortisation	**(62,455)**	(56,171)
Transfer	**–**	128,250
Exchange adjustment	**(111,681)**	149,023
At 31 December	**1,940,187**	2,114,323

As at 31 December 2018, leasehold land and land use rights with an aggregate net book value of HK$777,623,000 (2017: HK$839,838,000) were pledged as security for bank loan facilities granted to the Group (note 44).

18 PROPERTIES UNDER DEVELOPMENT

	2018 HK$'000	2017 HK$'000
At 1 January	**27,395,167**	57,291,537
Additions	**3,040,386**	6,509,988
Disposal of a subsidiary (note 40(c))	**–**	(178,756)
Provision for impairment loss (note (a))	**(1,175,281)**	–
Transfer	**(7,715,400)**	(37,651,273)
Exchange adjustment	**(514,727)**	1,423,671
At 31 December	**21,030,145**	27,395,167

	2018 HK$'000	2017 HK$'000
The above are represented by:		
Amount included in non-current assets		
Hong Kong	**8,131,542**	11,100,011
Outside Hong Kong	**4,489,670**	9,445,570
	12,621,212	20,545,581
Amount included in current assets		
Hong Kong	**3,508,977**	–
Outside Hong Kong	**4,899,956**	6,849,586
	8,408,933	6,849,586
	21,030,145	27,395,167

18 PROPERTIES UNDER DEVELOPMENT (Continued)

(a) The Group had acquired 100% interest of a project located at Lot C12 at Nam Van Lake, Macau ("Nam Van Lake Project") in 2007 through acquisition of the land owning company which is now a wholly-owned subsidiary of the Group. The land lease of the Nam Van Lake Project was valid until 30 July 2016. Despite continuous submission of various applications and development proposals to proceed with the project, the development works were forced to come to a halt after the completion of foundation and site formation works due to the government of Macau Special Administrative Region of the People's Republic of China (the "Macau SAR Government")'s suspension of review of building plan submissions. It was not until 2012 that the Group was officially informed by the Macau SAR Government that it was reconsidering the master planning of Areas C&D of Nam Van Lake district in light of the inclusion of the Historic Centre of Macau SAR into the World Heritage List. Over the years, the Group has continuously chased Macau SAR Government to finalise the master planning of Areas C&D of Nam Van Lake district and to process the building plan submissions but to no avail.

In June 2016, the Group submitted to Macau SAR Government a request for the renewal of the land lease and was subsequently informed by the Macau SAR Government in July of the same year that the Land Law does not allow for the renewal of leases which had not been developed. The land lease period ended on 30 July 2016. Prior to the expiry of the land the Macau SAR Government had published a list of land stating that non-development of the land was not attributable to the fault of the lessees and Lot C12 at Nam Van Lake, Macau was included in this list. In May 2018, Macau SAR Government nonetheless gazetted the expiry of the land lease of the Nam Van Lake Project for the reason of non-development and the Group was formally notified of the aforesaid expiry by letter from Macau SAR Government.

In June 2018, the Group filed an appeal ("Appeal") to the Court of Second Instance of Macau SAR ("Court") against the decision of the Chief Executive of Macau SAR in declaring the expiry of the land lease. The final decision of the Court concerning the Appeal is expected to be awarded within 2019.

As Macau SAR Government has officially declared expiry of the land lease, full impairment provision for the Nam Van Lake Project amounting to HK$1,175,281,000 was made.

19 LAND DEPOSITS

Balance as at 31 December 2018 mainly comprised land deposits paid for the acquisition of lands located in the PRC. These deposits will be transferred to properties under development once the respective land use rights certificate is obtained.

20 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 2018

	2018 **HK$'000**	2017 HK$'000
Current		
Assets	**340,737**	542,681
Liabilities	**(812,243)**	(793,534)
Total current net liabilities	**(471,506)**	(250,853)
Non-current		
Assets	**14,497,528**	15,108,378
Liabilities	**(4,539,051)**	(5,290,121)
Total non-current net assets	**9,958,477**	9,818,257
Net assets	**9,486,971**	9,567,404

20 SUMMARISED FINANCIAL INFORMATION OF A SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS (Continued)

Summarised statement of comprehensive income for the year ended 31 December 2018

	2018 **HK$'000**	2017 HK$'000
Revenue	**1,889,966**	1,820,604
Profit before income tax	**1,251,775**	951,608
Income tax expenses	**(306,384)**	(260,964)
Profit for the year	**945,391**	690,644
Other comprehensive income	**(312,052)**	460,310
Total comprehensive income	**633,339**	1,150,954
Total comprehensive income allocated to non-controlling interests	**310,336**	563,967
Dividend paid to non-controlling interests	**220,646**	67,626

Summarised cash flows for the year ended 31 December 2018

	2018 **HK$'000**	2017 HK$'000
Cash flows from operating activities		
Cash generated from operations	**1,164,478**	1,088,731
Interest paid	**(101,051)**	(115,140)
Income tax paid	**(156,798)**	(196,562)
Net cash generated from operating activities	**906,629**	777,029
Net cash generated from/(used in) investing activities	**894**	(2,449)
Net cash used in financing activities	**(1,103,758)**	(546,480)
Net (decrease)/increase in cash and cash equivalents	**(196,235)**	228,100
Cash and cash equivalents at 1 January	**469,504**	228,269
Effect of exchange rate changes	**(32,824)**	13,135
Cash and cash equivalents at 31 December	**240,445**	469,504

The information above is the amount before inter-company eliminations.

21 ASSOCIATES AND JOINT VENTURES

	2018			2017		
	Associates	**Joint ventures**	**Total**	Associates	Joint ventures	Total
	HK$'000	**HK$'000**	**HK$'000**	HK$'000	HK$'000	HK$'000
Unlisted investments	**7,222,876**	**930,428**	**8,153,304**	7,417,831	957,579	8,375,410
Listed equity securities, in Hong Kong	**9,932,043**	**–**	**9,932,043**	9,052,727	–	9,052,727
Listed equity securities, outside Hong Kong	**1,374,219**	**–**	**1,374,219**	1,328,330	–	1,328,330
Share of net assets, including goodwill (note (a))	**18,529,138**	**930,428**	**19,459,566**	17,798,888	957,579	18,756,467
Amounts due from associates and joint ventures (note (b))	**1,662,977**	**2,321,565**	**3,984,542**	1,633,980	3,613,096	5,247,076
Amounts due to associates and joint ventures (note (c))	**(411,785)**	**–**	**(411,785)**	(170,564)	–	(170,564)
	19,780,330	**3,251,993**	**23,032,323**	19,262,304	4,570,675	23,832,979

(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$3,647,075,000 (2017: HK$4,906,124,000) 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:

	2018	2017
	HK$'000	HK$'000
Share of results of associates	**2,140,628**	2,062,281
Share of results of joint ventures	**1,218**	(2,229)
	2,141,846	2,060,052

21 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 2018

	2018 **HK$'000**	2017 HK$'000
Current		
Assets	**14,883,928**	11,651,500
Liabilities	**(12,318,918)**	(9,853,733)
Total current net assets	**2,565,010**	1,797,767
Non-current		
Assets	**29,375,365**	27,225,434
Liabilities	**(7,176,633)**	(6,660,129)
Total non-current net assets	**22,198,732**	20,565,305
Net assets	**24,763,742**	22,363,072

Summarised consolidated statement of comprehensive income for the year ended 31 December 2018

	2018 **HK$'000**	2017 HK$'000
Revenue	**38,138,528**	30,787,654
Operating expenses and others	**(33,821,396)**	(27,065,590)
Depreciation and amortisation	**(779,236)**	(639,889)
Interest income	**64,532**	46,462
Interest expense	**(224,245)**	(159,825)
Profit before taxation	**3,378,183**	2,968,812
Taxation	**(506,561)**	(469,350)
Profit for the year	**2,871,622**	2,499,462
Other comprehensive income	**(527,318)**	963,487
Total comprehensive income	**2,344,304**	3,462,949
Dividends received from the associate	**251,419**	143,668

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.

21 ASSOCIATES AND JOINT VENTURES (Continued)

(e) (Continued)

Reconciliation of summarised financial information

	2018 HK$'000	2017 HK$'000
Opening net assets as at 1 January	**18,337,847**	15,812,079
Profit for the year attributable to shareholders	**2,439,775**	2,115,897
Other comprehensive income attributable to shareholders	**(414,602)**	741,449
Dividends paid	**(594,744)**	(339,165)
Changes in other reserves	**684,313**	(2,593)
Others	**73,038**	10,180
Closing net assets as at 31 December	**20,525,627**	18,337,847
Interest in the associate (approximately 42.12%) (2017: 42.35%)	**8,645,394**	7,766,078
Goodwill	**1,286,649**	1,286,649
Carrying value as at 31 December	**9,932,043**	9,052,727

As at 31 December 2018, the fair value of the Group's interest in Kerry Logistics, which is listed on the Hong Kong Stock Exchange, was HK$8,347,122,000 (2017: HK$7,959,218,000).

(f) The aggregate amount of the Group's share of results of its associates and joint ventures which are individually immaterial are as follows:

	2018 HK$'000	2017 HK$'000
Profit for the year	**1,114,213**	1,163,970
Other comprehensive income	**296,751**	(2,522)
Total comprehensive income	**1,410,964**	1,161,448

22 DERIVATIVE FINANCIAL INSTRUMENTS

	2018		2017	
	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))	**24,877**	**62,581**	37,342	–
Current				
Cash flow hedges				
Interest rate swap contracts, at fair value (note (a))	**–**	**–**	3,645	–
Total	**24,877**	**62,581**	40,987	–

22 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$78,691,000 (2017: HK$113,941,000) are recognised in hedging reserve in equity. Under cash flow hedges, the loss of HK$21,632,000 (2017: gain of HK$17,804,000) 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.

(ii) Hedge for Hong Kong dollar bank borrowings

During the year ended 31 December 2018, the Group entered into a total of notional principal amounts of HK$1,500,000,000 10-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 approximately 2.45% to 2.50% per annum.

The HK$4,000,000,000 5-year interest rate swap contracts entered in 2013 have been expired in 2018. The contracted fixed rates of these contracts ranged from 0.74% to 0.89% per annum.

(iii) Hedge for Australian dollar bank borrowings

During the year ended 31 December 2018, the Group entered into cross currency swap contract mounting to AUD180,000,000, under which the principal amount was exchanged at inception in December 2018 and will be re-exchanged on expiring date in December 2023 at an exchange rate of AUD1 to HK$5.6709. Under the contract, the floating Hong Kong dollar interest rate on the exchanged Hong Kong dollar principal amount would be paid and the floating Australian dollar interest rate on the Australian dollar principal amount would be received.

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.

23 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME AND AVAILABLE-FOR-SALE INVESTMENTS

The Group adopted HKFRS 9 (note 3(b)(i)) on 1 January 2018, available-for-sale investments have been reclassified to financial assets at fair value through other comprehensive income (2017: HK$1,264,760,000) and to financial assets at fair value through profit or loss, non-current portion (2017: HK$4,079,534,000) (as set out in note 24).

	2018 **HK$'000**	2017 HK$'000
Listed equity securities, at fair value	–	61,501
Unlisted equity securities, at fair value	–	5,282,793
	–	5,344,294

Financial assets at fair value through other comprehensive income comprise equity securities which are not held for trading, and which the Group has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the Group considers this classification to be more relevant.

	2018 **HK$'000**	2017 HK$'000
Unlisted equity securities, at fair value	**1,326,271**	–

24 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 **HK$'000**	2017 HK$'000
Non-current portion		
Listed equity securities	**37,547**	–
Unlisted equity securities (note)	**2,411,182**	–
	2,448,729	–
Current portion		
Listed equity securities	**7,145**	7,732
	2,455,874	7,732

The Group classifies the following financial assets at fair value through profit or loss:

- investments that are held for trading, and
- investments for which the Group has not elected to recognise fair value gains and losses through other comprehensive income.

24 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

Note: The Group in 2016 acquired an equity interest of approximately 24.4% in Shanghai Krupp Stainless Co. Ltd. ("SKS"), which owns a site located in Pudong New Area, Shanghai. As the Group does not have any significant influence over financial and operating polices to SKS, the Group recorded its investments as available-for-sale investments prior to 1 January 2018. Following the adoption of HKFRS 9 on 1 January 2018, the investment was reclassified as financial assets at fair value through profit or loss in 2018.

In May 2016, the Shanghai Municipal Government issued an approval covering the planning change for the site to commercial development use ("May approval"). 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.

The Group's investment made in the second half of 2016 was on the basis of the May approval. Amongst the investors, a state-owned company through different investment vehicles collectively is the largest investor in the project.

In the second quarter of 2018, the Shanghai municipal authorities communicated to the project company their intention to incorporate the project site in the World Expo Cultural Park development. Since then discussions and negotiations have been ongoing with the Shanghai municipal authorities with a view to arriving at a mutually acceptable solution to enable the Group to withdraw from the project. However, a conclusion on the acquisition compensation has not yet been reached. A final agreement of terms is expected to be reached sometime within 2019. Up to the date of this report, the project company remains as the legal and registered owner of the site with all the rights conferred as per the original land grant.

Management has engaged an independent valuer, Savills Valuation and Professional Services Limited, who holds recognised relevant professional qualifications, to estimate the fair value of SKS as at 31 December 2018. Savills Valuation and Professional Services Limited adopted an asset-based valuation approach, 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.

The change in fair value on financial assets through profit or loss for the year ended 31 December 2018 includes the decrease in fair value of HK$1,500 million relating to the investment in SKS.

As at 31 December 2018, the carrying value of the Group's investment in SKS amounts to approximately HK$1,754 million.

25 MORTGAGE LOANS RECEIVABLE

	2018 **HK$'000**	2017 HK$'000
Non-current mortgage loans receivable	**3,969,991**	3,641,905
Current portion of mortgage loans receivable	**35,905**	30,025
Total mortgage loans receivable	**4,005,896**	3,671,930

The balance included first mortgage loans of HK$2,466,390,000 (2017: HK$2,442,536,000) 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 4(c)(v) 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.

26 INTANGIBLE ASSETS

	2018 **HK$'000**	2017 HK$'000
At 1 January and 31 December	**122,504**	122,504

27 COMPLETED PROPERTIES HELD FOR SALE

	2018 **HK$'000**	2017 HK$'000
Leasehold land and land use rights	**4,475,048**	8,067,577
Other development costs	**5,676,460**	8,804,354
	10,151,508	16,871,931

These completed properties held for sale are located in Hong Kong and the PRC.

As at 31 December 2018, completed properties held for sale with an aggregate net book value of HK$nil (2017: HK$591,656,000) were pledged as security for bank loan facilities granted to the Group (note 44).

28 ACCOUNTS RECEIVABLE, PREPAYMENTS AND DEPOSITS

	2018 **HK$'000**	2017 HK$'000
Trade receivables (note (a))	**163,464**	4,332,017
Prepayments	**230,012**	223,230
Others	**884,402**	3,010,964
	1,277,878	7,566,211

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:

	2018 **HK$'000**	2017 HK$'000
Hong Kong dollar	**582,132**	6,957,831
Renminbi	**610,277**	507,694
Other currencies	**85,469**	100,686
	1,277,878	7,566,211

(a) The Group maintains defined credit policies and applies those appropriate to the particular business circumstances of the Group. At 31 December 2018, 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 impairment losses of the Group is as follows:

	2018 **HK$'000**	2017 HK$'000
Below 1 month	**120,826**	1,905,122
Between 1 month and 3 months	**16,544**	427,595
Over 3 months	**26,094**	1,999,300
	163,464	4,332,017

28 ACCOUNTS RECEIVABLE, PREPAYMENTS AND DEPOSITS (Continued)

(a) (Continued)

The Group applies the HKFRS 9 simplified approach to measure expected credit losses which use a lifetime expected credit loss allowance for all trade receivables. Trade receivables are grouped based on shared credit risk characteristics and the days past due as follows:

	2018 **HK$'000**	2017 HK$'000
Up to 3 months	**88,339**	84,195
Over 3 months	**26,094**	32,145

The Group determines the provision for expected credit losses by grouping together trade receivables with similar credit risk characteristics and collectively assessing them for likelihood of recovery, taking into account prevailing economic conditions. For trade receivables relating to accounts which are long overdue with significant amounts or known insolvencies or non-response to collection activities, they are assessed individually for impairment allowance.

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 management considers the credit risk for the net balance is not high.

The trade receivables, other receivables and deposits do not contain impaired asset.

29 RESTRICTED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

(a) Restricted bank deposits

	2018 **HK$'000**	2017 HK$'000
Restricted bank deposits (note)	**522,698**	595,906

Note: As at 31 December 2018, the Group's bank balances amounting to approximately HK$522,698,000 (2017: HK$595,906,000) 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.

29 RESTRICTED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS (Continued)

(b) Cash and cash equivalents

	2018 HK$'000	2017 HK$'000
Cash at bank and on hand	**11,539,826**	11,070,207
Short-term bank deposits (note (i))	**2,321,126**	2,081,507
Cash and bank balances (note (ii))	**13,860,952**	13,151,714
Less: short-term bank deposits maturing after more than three months	**(460,088)**	(500,480)
Cash and cash equivalents	**13,400,864**	12,651,234

Cash and bank balances are denominated in the following currencies:

	2018 HK$'000	2017 HK$'000
Renminbi	**11,647,042**	11,498,079
Hong Kong dollar	**2,058,351**	1,586,126
United States dollar	**84,028**	52,535
Other currencies	**71,531**	14,974
	13,860,952	13,151,714

(i) The effective interest rate on short-term bank deposits was 2.80% (2017: 1.94%) 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$12,245,385,000 (2017: HK$11,962,373,000) are held in the PRC and are subject to local exchange control regulations.

30 ACCOUNTS PAYABLE, DEPOSITS RECEIVED AND ACCRUED CHARGES AND CONTRACT LIABILITIES

(a) Accounts payable, deposits received and accrued charges

	2018 **HK$'000**	2017 HK$'000
Trade payables	**366,770**	714,067
Construction costs payable	**3,378,982**	3,709,340
Rental deposits	**1,378,167**	1,334,551
Others	**1,784,191**	1,872,590
	6,908,110	7,630,548

The ageing analysis of trade payables of the Group as at 31 December 2018 is as follows:

	2018 **HK$'000**	2017 HK$'000
Below 1 month	**334,407**	669,119
Between 1 month and 3 months	**22,732**	29,869
Over 3 months	**9,631**	15,079
	366,770	714,067

The carrying amounts of the Group's accounts payable, deposits received and accrued charges are denominated in the following currencies:

	2018 **HK$'000**	2017 HK$'000
Renminbi	**4,412,025**	4,457,362
Hong Kong dollar	**2,450,193**	3,163,499
Other currencies	**45,892**	9,687
	6,908,110	7,630,548

(b) Contract liabilities

	2018 **HK$'000**	2017 HK$'000
Contract liabilities	**6,499,300**	–

The balances represents the contract liabilities recognised in relation to property development activities which were previously presented as deposits received on sale of properties (2017: HK$8,133,574,000) in the consolidated statement of financial position.

30 ACCOUNTS PAYABLE, DEPOSITS RECEIVED AND ACCRUED CHARGES AND CONTRACT LIABILITIES (Continued)

(b) Contract liabilities (Continued)

(i) The following table shows the amount of revenue recognised in the current reporting period that relates to contract liability balance at the beginning of the year:

	2018 **HK$'000**
Property sales	**5,337,237**

(ii) The following table shows the aggregate amount of the transaction price allocated to the unsatisfied/partially satisfied performance obligations resulting from property sales for contracts with an original expected duration of one year or more:

	2018 **HK$'000**
Revenue expected to be recognised within one year	**5,942,983**
Revenue expected to be recognised after one year	**2,974,085**
	8,917,068

31 BANK LOANS

	2018 **HK$'000**	2017 HK$'000
Non-current		
Bank loans		
– unsecured	**20,305,632**	23,604,712
– secured (note 44)	**2,319,376**	3,177,004
	22,625,008	26,781,716
Current		
Bank loans		
– unsecured	**8,073,145**	8,834,667
– secured (note 44)	**68,407**	68,481
	8,141,552	8,903,148
Total bank loans	**30,766,560**	35,684,864

31 BANK LOANS (Continued)

The maturity of bank loans is as follows:

	2018 HK$'000	2017 HK$'000
Within 1 year	**8,141,552**	8,903,148
Between 1 and 2 years	**8,731,082**	8,263,691
Between 2 and 5 years	**13,893,926**	18,518,025
Repayable within 5 years	**30,766,560**	35,684,864

The effective annual interest rates of the major bank loans at the end of the reporting period were as follows:

	2018		2017	
	HK$	**RMB**	HK$	RMB
Bank loans	**3.05%**	**4.25%**	1.98%	4.13%

The carrying amounts of all bank loans approximate their fair value.

The carrying amounts of the bank loans are denominated in the following currencies:

	2018 HK$'000	2017 HK$'000
Hong Kong dollar	**24,205,000**	28,636,140
Renminbi	**5,567,888**	7,048,724
Australian dollar	**993,672**	–
	30,766,560	35,684,864

32 FIXED RATE BONDS

	2018 HK$'000	2017 HK$'000
Fixed rate bonds	**2,344,683**	2,336,901

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.

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 2018 was HK$2,442,347,000 (2017: HK$2,507,681,000). 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$1,119,551,000 (2017: HK$1,111,624,000) 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$693,452,000 (2017: HK$682,659,000) 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:

	2018 **HK$'000**	2017 HK$'000
Hong Kong dollar	**1,407,424**	1,393,156
United States dollar	**581,332**	564,662
Other currencies	**142,563**	148,473
	2,131,319	2,106,291

34 DEFERRED TAXATION

	2018 **HK$'000**	2017 HK$'000
At 1 January	**7,606,669**	6,927,118
Deferred taxation charged to consolidated income statement	**1,226,877**	423,952
Exchange adjustment	**(557,924)**	255,599
At 31 December	**8,275,622**	7,606,669

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$1,803,765,000 (2017: HK$1,501,169,000) to be carried forward in offsetting the future taxable profits. These tax losses have no expiry dates except for the tax losses of HK$686,706,000 (2017: HK$473,913,000) which will expire at various dates up to and including year 2023 (2017: year 2022).

As at 31 December 2018, the aggregate amount of unrecognised deferred tax liabilities associated with investments in subsidiaries totalled approximately HK$1,060,821,000 (2017: HK$1,105,832,000), 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 HK$'000	Accelerated depreciation allowances HK$'000	Tax losses HK$'000	Others HK$'000	Total HK$'000
At 1 January 2018	**6,592,464**	**527,805**	**(1,653)**	**488,053**	**7,606,669**
Deferred taxation charged to consolidated income statement	**1,038,984**	**24,932**	**–**	**162,961**	**1,226,877**
Exchange adjustment	**(375,521)**	**(8,180)**	**–**	**(174,223)**	**(557,924)**
At 31 December 2018	**7,255,927**	**544,557**	**(1,653)**	**476,791**	**8,275,622**

	Revaluation HK$'000	Accelerated depreciation allowances HK$'000	Tax losses HK$'000	Others HK$'000	Total 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

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 (2017: 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$1,224,000 (2017: HK$1,436,000) were utilised leaving HK$933,000 (2017: HK$1,442,000) 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 14% to 20% of the staff's salary.

36 SHARE CAPITAL

	Authorised Ordinary shares of HK$1 each	
	Number of shares	HK$'000
At 31 December 2017 and 2018	10,000,000,000	10,000,000

	Issued and fully paid Ordinary shares of HK$1 each			
	2018		2017	
	Number of shares	**HK$'000**	Number of shares	HK$'000
At 1 January	**1,446,537,728**	**1,446,538**	1,443,147,728	1,443,148
Issue of shares as a result of exercise of share options (note (a))	**8,670,500**	**8,670**	3,390,000	3,390
At 31 December	**1,455,208,228**	**1,455,208**	1,446,537,728	1,446,538

(a) During the year ended 31 December 2018, a total of 8,670,500 share options were exercised at exercise prices of HK$17.58, HK$26.88 and HK$35.45 per share. Details of movements in share options during the year are set out in note 37. Total amount of proceeds of HK$272,239,855 received in respect of shares issued following the exercise of the share options were used as additional working capital for the Group.

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:

	2018		2017	
	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	**46.18**	**10,635,000**	45.81	10,775,000
Exercised during the year	**17.58**	**(330,000)**	17.58	(140,000)
Lapsed during the year	**–**	**(10,100,000)**	–	–
At 31 December (note (i))	**17.58**	**205,000**	46.18	10,635,000

As at 31 December 2018, 205,000 (2017: 10,635,000) 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$34.28 (2017: HK$32.79) and the total amount of proceeds received was HK$5,801,400 (2017: HK$2,461,200). No share option was granted, granted for adjustment or cancelled during the year (2017: 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 2018	2017
02/04/2009 – 01/04/2018	47.70	–	2,525,000
02/04/2010 – 01/04/2018	47.70	–	2,525,000
02/04/2011 – 01/04/2018	47.70	–	5,050,000
06/02/2010 – 05/02/2019	17.58	**95,000**	235,000
06/02/2011 – 05/02/2019	17.58	**110,000**	300,000
		205,000	10,635,000

(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:

	2018		2017	
	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	**32.50**	**29,002,000**	31.92	32,512,000
Exercised during the year	**31.95**	**(8,340,500)**	26.88	(3,250,000)
Lapsed during the year	**35.45**	**(160,000)**	29.52	(260,000)
At 31 December (note (i))	**32.71**	**20,501,500**	32.50	29,002,000

As at 31 December 2018, 20,501,500 (2017: 29,002,000) 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 or HK$35.45, the related weighted average share price at the time of exercise was HK$39.07 (2017: HK$33.49) and the total amount of proceeds received was HK$266,438,455 (2017: HK$87,360,000). No share option was granted, granted for adjustment or cancelled during the year (2017: 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 2018	2017
31/10/2012 – 29/04/2022	35.45	**6,474,500**	9,485,000
31/10/2013 – 29/04/2022	35.45	**7,466,000**	9,545,000
08/07/2014 – 07/01/2024	26.88	**2,132,000**	4,572,000
08/01/2015 – 07/01/2024	26.88	**4,429,000**	5,400,000
		20,501,500	29,002,000

38 SHARE PREMIUM

	2018 HK$'000	2017 HK$'000
At 1 January	**12,515,673**	12,408,816
Arising from exercise of share options (note 37)	**263,570**	86,431
Transfer from share options reserve (note 39(a))	**240,361**	20,426
At 31 December	**13,019,604**	12,515,673

39 OTHER RESERVES

	Other property revaluation reserve HK$'000	Financial assets at FVOCI reserve HK$'000	Available-for-sale investments revaluation reserve HK$'000	Hedging reserve HK$'000	Others (note (a)) HK$'000	Total HK$'000
At 1 January 2018	48,994	–	1,521,613	26,594	10,697,521	12,294,722
Adjustment an adoption of HKFRS 9 (note 3(b)(i))	–	941,336	(1,521,613)	–	–	(580,277)
Restated balance at 1 January 2018	48,994	941,336	–	26,594	10,697,521	11,714,445
Cash flow hedges:						
– Fair value losses	–	–	–	(78,691)	–	(78,691)
– Transfer to finance costs (note 9)	–	–	–	21,632	–	21,632
Fair value gains on financial assets at fair value through other comprehensive income	–	61,511	–	–	–	61,511
Share of exchange fluctuation reserve of associates and joint ventures	–	–	–	–	(177,233)	(177,233)
Share of other reserves of associates and joint ventures	(266)	4,733	–	–	294,887	299,354
Net translation differences on foreign operations	–	–	–	–	(2,600,725)	(2,600,725)
Transfer to share premium (note 38)	–	–	–	–	(240,361)	(240,361)
Transfer from retained profits	–	–	–	–	192,374	192,374
At 31 December 2018	48,728	1,007,580	–	(30,465)	8,166,463	9,192,306

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 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 9)	–	–	(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)

(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 2018	7,935,251	416,592	2,327,281	365,018	10,576	158,766	(515,963)	10,697,521
Share of exchange fluctuation reserve of associates and joint ventures	–	–	(177,233)	–	–	–	–	(177,233)
Share of other reserves of associates and joint ventures	–	–	–	(2,435)	–	274,500	22,822	294,887
Net translation differences on foreign operations	–	–	(2,600,725)	–	–	–	–	(2,600,725)
Transfer to share premium (note 38)	–	(240,361)	–	–	–	–	–	(240,361)
Transfer from retained profits	–	–	–	192,374	–	–	–	192,374
At 31 December 2018	**7,935,251**	**176,231**	**(450,677)**	**554,957**	**10,576**	**433,266**	**(493,141)**	**8,166,463**

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 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)

(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) 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) 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

	2018 HK$'000	2017 HK$'000
Profit before taxation	**11,914,197**	12,997,758
Depreciation of property, plant and equipment and amortisation of leasehold land and land use rights	**509,284**	467,757
Dividend income on listed and unlisted investments	**(70,101)**	(77,904)
Interest income	**(676,569)**	(540,392)
Loss/(gain) on disposal of property, plant and equipment	**283**	(6,952)
Gain on sale of investment properties	**(39,827)**	(23,339)
Decrease/(increase) in fair value of financial assets at fair value through profit or loss	**1,461,152**	(1,997)
Gain on disposal of a subsidiary	**–**	(62)
Loss on sale of assets and liabilities of disposal groups classified as held for sale	**–**	15,069
Provision for impairment loss for property under development	**1,175,281**	–
Increase in fair value of investment properties	**(4,457,289)**	(1,933,747)
Finance costs	**584,501**	628,209
Share of results of associates and joint ventures	**(2,141,846)**	(2,060,052)
Operating profit before working capital changes	**8,259,066**	9,464,348
Increase in properties under development	**(2,398,524)**	(6,709,715)
Decrease in completed properties held for sale	**9,052,258**	21,479,389
Decrease/(increase) in accounts receivable, prepayments and deposits	**6,288,368**	(5,176,023)
(Decrease)/increase in accounts payable, deposits received and accrued charges	**(1,031,519)**	1,973,107
Increase in contract liabilities and deposits received on sale of properties	**(1,230,395)**	(6,481,298)
Net cash generated from operations	**18,939,254**	14,549,808

(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 is summarised as follows:

	2018 HK$'000	2017 HK$'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

40 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(c) Analysis of the net cash inflow in respect of the disposal of a subsidiary

	2018 **HK$'000**	2017 HK$'000
Net assets disposed of:		
Properties under development (note 18)	–	178,756
Accounts receivable, prepayments and deposits	–	4
Cash and bank balances	–	24
Accounts payable, deposits received and accrued charges	–	(43)
Amounts due to non-controlling interests	–	(52,349)
Non-controlling interests	–	484
	–	126,876
Gain on disposal of a subsidiary	–	62
Total consideration	–	126,938
Cash and bank balances disposed of	–	(24)
Net cash inflow in respect of the disposal of a subsidiary	–	126,914

(d) Analysis of the net cash inflow in respect of the disposal of assets and liabilities of disposal groups classified as held for sale

	2018 **HK$'000**	2017 HK$'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

40 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(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	Derivative financial instruments held to hedge fixed rate bonds and bank loans HK$'000	Total HK$'000
Balances as at 1 January 2018	**26,781,716**	**8,903,148**	**2,336,901**	**2,106,291**	**(37,342)**	**40,090,714**
Cash flows	**3,253,173**	**(7,809,055)**	**–**	**12,843**	**–**	**(4,543,039)**
Non-cash changes						
Reclassifications	**(7,213,119)**	**7,213,119**	**–**	**–**	**–**	**–**
Foreign exchange movement	**(196,762)**	**(165,660)**	**7,782**	**(3,698)**	**–**	**(358,338)**
Other non-cash movement	**–**	**–**	**–**	**15,883**	**75,046**	**90,929**
Balances as at 31 December 2018	**22,625,008**	**8,141,552**	**2,344,683**	**2,131,319**	**37,704**	**35,280,266**

	Bank loans non-current HK$'000	Bank loans current HK$'000	Fixed rate bonds HK$'000	Amounts due to non-controlling interests HK$'000	Derivative financial instruments held to hedge fixed rate bonds HK$'000	Total HK$'000
Balances as at 1 January 2017	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

	2018 **HK$'000**	2017 HK$'000
Marketing, consultancy and administrative management fees expense (note (i))	**124,668**	118,847
Rental expense (note (ii))	**56,633**	56,529
Logistics, insurance brokerage and service fee paid (note (iii))	**8,668**	7,674
Rental income (note (iv))	**8,595**	8,722

(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

	2018 HK$'000	2017 HK$'000
Salaries and other short-term benefits	**65,316**	74,632
Post-employment benefits	**360**	370
	65,676	75,002

(c) Year-end balances

	2018 HK$'000	2017 HK$'000
Receivables from related parties:		
Associates and joint ventures (note 21)	**3,984,542**	5,247,076
Payables to related parties:		
Included under amounts due to non-controlling interests (note 33)		
– Subsidiaries of SA	**1,119,551**	1,111,624
Associates and joint ventures (note 21)	**411,785**	170,564

(d) Guarantees for banking facilities of certain associates

The Group has executed guarantees for banking 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 2018 amounted to approximately HK$2,680,659,000 (2017: HK$1,313,629,000). The total amount of such facilities covered by the Group's guarantees as at 31 December 2018 amounted to approximately HK$2,680,659,000 (2017: HK$1,313,629,000). The above-mentioned amounts are also reflected in the guarantees given by the Group for banking facilities disclosed in note 43(a).

(e) Other related party transactions

(i) During the year ended 31 December 2018, certain subsidiaries of the Group entered into sale and purchase agreements with certain related parties for sale of properties for a total consideration of HK$84,875,000 (2017: nil). The sale of properties to related parties were in the ordinary course of business of the Group.

(ii) During the year ended 31 December 2017, a Director of the Group entered into loan arrangements with a wholly-owned subsidiary of the Group, as disclosed in note 14(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 2018, 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:

	2018 **HK$'000**	2017 HK$'000
Property, plant and equipment	**–**	5,189
Investment properties	**920,725**	48,191
Leasehold land and land use rights	**4,005,274**	342,636
Properties under development	**4,237,180**	3,789,833
Interest in joint ventures	**126,251**	1,092,326
Others	**297,635**	313,205
	9,587,065	5,591,380

(b) At 31 December 2018, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2018 **HK$'000**	2017 HK$'000
Land and buildings:		
Within one year	**50,287**	65,718
In the second to fifth year, inclusive	**–**	71,104
Over five years	**–**	14,575
	50,287	151,397

(c) At 31 December 2018, the Group had future aggregate minimum lease rental receivable under non-cancellable operating leases as follows:

	2018 **HK$'000**	2017 HK$'000
Land and buildings:		
Within one year	**3,295,711**	3,577,254
In the second to fifth year, inclusive	**4,653,305**	4,877,672
Over five years	**447,749**	681,653
	8,396,765	9,136,579

43 CONTINGENT LIABILITIES

Guarantees for banking facilities

	2018 HK$'000	2017 HK$'000
Guarantees for banking facilities of certain associates (note (a))	**2,680,659**	1,313,629
Guarantees to certain banks for mortgage facilities granted to first buyers of certain properties in the PRC (note (b))	**2,296,125**	4,242,516
	4,976,784	5,556,145

(a) The Group has executed guarantees for banking 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 2018 amounted to approximately HK$2,680,659,000 (2017: HK$1,313,629,000). The total amount of such facilities covered by the Group's guarantees as at 31 December 2018 amounted to approximately HK$2,680,659,000 (2017: HK$1,313,629,000).

(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 2018 amounted to approximately HK$2,296,125,000 (2017: HK$4,242,516,000).

44 PLEDGE OF ASSETS

At 31 December 2018, the Group's total bank loans of HK$30,766,560,000 (2017: HK$35,684,864,000) included an aggregate amount of HK$28,378,777,000 (2017: HK$32,439,379,000) which is unsecured and an aggregate amount of HK$2,387,783,000 (2017: HK$3,245,485,000) 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 15 to 17 and 27); 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 2018

	Note	**2018** **HK$'000**	2017 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**5,245**	7,394
Subsidiaries		**27,936,636**	27,665,654
Associates		**1,992,970**	1,992,957
		29,934,851	29,666,005
Current assets			
Dividends receivable		**2,000,000**	2,300,000
Accounts receivable, prepayments and deposits		**8,606**	3,373
Cash and bank balances		**1,258,860**	839,190
		3,267,466	3,142,563
Current liabilities			
Accounts payable and accrued charges		**107,567**	108,610
Net current assets		**3,159,899**	3,033,953
ASSETS LESS LIABILITIES		**33,094,750**	32,699,958
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	36	**1,455,208**	1,446,538
Share premium	38	**13,019,604**	12,515,673
Other reserves (note (a))		**10,614,322**	10,854,683
Retained profits (note (b))		**8,005,616**	7,883,064
TOTAL EQUITY		**33,094,750**	32,699,958

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 2018	**10,427,515**	**416,592**	**10,576**	**10,854,683**
Transfer to share premium (note 38)	**–**	**(240,361)**	**–**	**(240,361)**
At 31 December 2018	**10,427,515**	**176,231**	**10,576**	**10,614,322**
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

(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

	2018 HK$'000	2017 HK$'000
At 1 January	**7,883,064**	7,465,626
Profit for the year	**2,228,427**	2,221,724
Dividends paid	**(2,105,875)**	(1,804,286)
At 31 December	**8,005,616**	7,883,064

47 GROUP STRUCTURE – PRINCIPAL SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

(a) Principal Subsidiaries

As at 31 December 2018, 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	RMB68,500,000	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)
Grand Glory Real Estate (Wuhan) Co., Ltd.	PRC	Property development	RMB6,700,000,000	100%	(3)(5)
Grand Luck Real Estate (Fuzhou) Co., Ltd.	PRC	Property development	RMB2,600,000,000	100%	(3)(5)
Great Universe Development (Shenzhen) Co., Ltd.	PRC	Property development	RMB2,800,000,000	100%	(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	RMB1,240,000,000	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$5,000,000	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	RMB53,626,513.09	100%	(3)(5)
Kerry Properties (China) Limited	HK	Investment holding and provision of administrative support services	HK$10,000,000,000	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%	(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 investment, 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 trading and development	RMB3,980,000,000	100%	(3)(5)(9)
Risenland Development (Fuzhou) Co., Ltd.	PRC	Property investment	HK$1,500,000	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)

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)					
Wealthy Plaza Development (Chengdu) Ltd.	PRC	Property trading	RMB210,000,000	55%	(3)(5)(9)
Well Fortune Real Estate (Putian) Co., Ltd.	PRC	Property development	RMB200,000,000	60%	(3)(5)
Xiang Heng Real Estate (Jinan) Co., Ltd.	PRC	Property investment, 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 trading	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%	
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%	
MegaBox Development Company Limited	HK	Property investment	HK$2	100%	
MegaBox Management Services Limited	HK	Property management	HK$2	100%	
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%	
Mid-Levels Portfolio (Tavistock) Limited	HK	Property investment	HK$1,000	100%	
Mid-Levels Portfolio (Valverde) Limited	HK	Property trading	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)					
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%	
Trebanos Investment Company Limited	HK	Investment holding	HK$2	100%	
Wealth Partner Global Limited	HK	Provision of financial services	HK$1	71%	
Wealthy State Investments Limited	HK	Property investment	HK$1	100%	
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%	
Thinkwise Technovation Limited	HK	IT system and consulting services	HK$1	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 2018, 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 trading	RMB8,000,000	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					
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	42.12%*	(7)
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)
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:

	2018 **HK$'000**	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000
Results					
Turnover	**21,433,216**	35,548,123	12,990,536	10,392,897	14,663,725
Profit attributable to shareholders	**7,499,295**	9,242,116	6,537,258	5,529,963	6,773,636
Assets and liabilities					
Non-current assets	**135,513,007**	127,891,757	112,725,292	103,519,869	118,252,547
Net current assets	**10,867,879**	18,651,630	28,985,949	23,617,115	14,716,582
Total assets less current liabilities	**146,380,886**	146,543,387	141,711,241	127,136,984	132,969,129
Long-term liabilities and non-controlling interests	**(48,839,922)**	(52,193,931)	(58,966,834)	(45,783,625)	(52,890,611)
Shareholders' funds	**97,540,964**	94,349,456	82,744,407	81,353,359	80,078,518

Note: The above figures are based on the latest published financial statements.

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