ANNUAL REPORT
年報 2018

九龍建業有限公司
KOWLOON DEVELOPMENT COMPANY LIMITED

Stock Code 股份代號: 34

Kowloon Development Company Limited
九龍建業有限公司

Kowloon Development Company Limited (Stock Code: 34) has been pursuing a property development strategy in Hong Kong, Mainland China and Macau since 2006, with its exposure to property development in Macau currently through its 70.8%-owned listed subsidiary, Polytec Asset Holdings Limited (Stock Code: 208). This development strategy has worked well for the Group as the timing for good opportunities to replenish its landbank coming to sight varies with different markets. The Group is now well positioned in three markets with a competitive landbank amounting to approximately 3.7 million sq m of attributable gross floor area and it is determinedly committed to enhancing its competitive position.

九龍建業有限公司（股份代號：34）自二零零六年起於香港、中國大陸及澳門奉行三地發展策略，現時並通過其擁有70.8%權益之上市附屬公司保利達資產控股有限公司（股份代號：208）投資於澳門地產發展業務。集團將充份發揮三地發展策略的互動優勢，以抓緊增加土地儲備的良機。集團目前在區內三大市場處於有利位置，其土地儲備之應佔樓面面積約3,700,000平方米，並致力提升本身之競爭優勢。

Contents

Upper East (Hong Kong)

Corporate Information

Board of Directors and Committees

Board of Directors

Executive Directors

Mr Or Wai Sheun *(Chairman)*
Mr Lai Ka Fai
Mr Or Pui Kwan
Mr Lam Yung Hei

Non-executive Directors

Ms Ng Chi Man
Mr Yeung Kwok Kwong

Independent Non-executive Directors

Mr Li Kwok Sing, Aubrey
Mr Lok Kung Chin, Hardy
Mr Seto Gin Chung, John
Mr David John Shaw

Committees

Executive Committee

Mr Or Wai Sheun *(Chairman)*
Mr Lai Ka Fai
Mr Or Pui Kwan
Mr Lam Yung Hei
Mr Yeung Kwok Kwong

Audit Committee

Mr Li Kwok Sing, Aubrey *(Chairman)*
Mr Lok Kung Chin, Hardy
Mr Seto Gin Chung, John
Mr Yeung Kwok Kwong

Nomination Committee

Mr Or Wai Sheun *(Chairman)*
Mr Lok Kung Chin, Hardy
Mr David John Shaw

Remuneration Committee

Mr Seto Gin Chung, John *(Chairman)*
Mr Lai Ka Fai
Mr Li Kwok Sing, Aubrey
Mr Lok Kung Chin, Hardy

Corporate and Shareholders' Information

Company Secretary

Mr Lee Kuen Chiu

Independent Auditor

KPMG
Certified Public Accountants

Artist's Impression of One East Coast (Hong Kong)

Corporate Information

Authorised Representatives
Mr Lai Ka Fai
Mr Lee Kuen Chiu

Legal Adviser
Sidley Austin

Share Registrar
Computershare Hong Kong Investor Services Limited
Rooms 1712-1716, 17th Floor, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong

Registered Office
23rd Floor, Pioneer Centre, 750 Nathan Road,
Kowloon, Hong Kong
Telephone : (852) 2396 2112
Facsimile : (852) 2789 1370
Website : www.kdc.com.hk
E-mail : enquiry@kdc.com.hk

Stock Code
The Stock Exchange of Hong Kong Limited: 34

Principal Bankers
ANZ Bank
Bank of China
Bank of Communications
Bank of East Asia
China Construction Bank (Asia)
Chong Hing Bank
Hang Seng Bank
Industrial and Commercial Bank of China
Standard Chartered Bank
United Overseas Bank

Financial Calendar

Interim results announcement	22 August 2018
Interim and special dividends paid	12 December 2018
Annual results announcement	27 March 2019
2019 Annual General Meeting	5 June 2019
Ex-dividend date for final dividend	10 June 2019
Closure of register of members	
– 2019 Annual General Meeting	31 May 2019 – 5 June 2019 (both dates inclusive)
– Final dividend	12 June 2019 – 13 June 2019 (both dates inclusive)
Final dividend payable	25 June 2019

Group's Business Structure

KOWLOON DEVELOPMENT COMPANY LIMITED

(A member of the Polytec Group)
Stock Code: 34

HONG KONG PROPERTY

Property Development
Major development projects:
- 63 Pokfulam
- One East Coast
- Tseung Kwan O
- Clear Water Bay Road

Development Landbank:
273,000 sq m

Property Investment
Flagship investment property:
- Pioneer Centre

Investment Landbank:
53,000 sq m

Property Management
Properties under management:
1,517,000 sq m

MAINLAND CHINA PROPERTY

Property Development
Major development projects:
- Le Cove City (Shenyang) 江灣城（瀋陽）
- The Gardenia (Shenyang) 翠堤灣（瀋陽）
- Le Cove Garden (Huizhou) 江灣南岸花園（惠州）#
- The Lake (Foshan) 山語湖（佛山）
- Le Cove City (Wuxi) 江灣城（無錫）
- City Plaza (Tianjin) 城市廣場（天津）
- Shanghai (Shanghai)

Development Landbank:
3,257,000 sq m

POLYTEC ASSET HOLDINGS LIMITED

Stock Code: 208
70.8%

MAINLAND CHINA PROPERTY

Property Development
Major development projects:
- Zhongshan (Zhongshan)
- Zhuhai (Zhuhai)⊕

Development Landbank:
208,000 sq m

MACAU PROPERTY

Property Investment
Major investment property:
- The Macau Square

Investment Landbank:
13,000 sq m

ICE & COLD STORAGE AND ENERGY BUSINESS

Ice & Cold Storage
The Hong Kong Ice & Cold Storage Company Limited is one of the largest ice making distributors in Hong Kong

Oil
Oil production and exploration in Kazakhstan

The development of this project is under the co-investment agreement with Polytec Holdings International Limited.
⊕ The acquisition to be completed within 2019.

Highlights

- For the year ended 31 December 2018, the Group's net profit attributable to shareholders of the Company amounted to HK$2,193 million compared to HK$1,635 million in 2017, an increase of 34.1%.

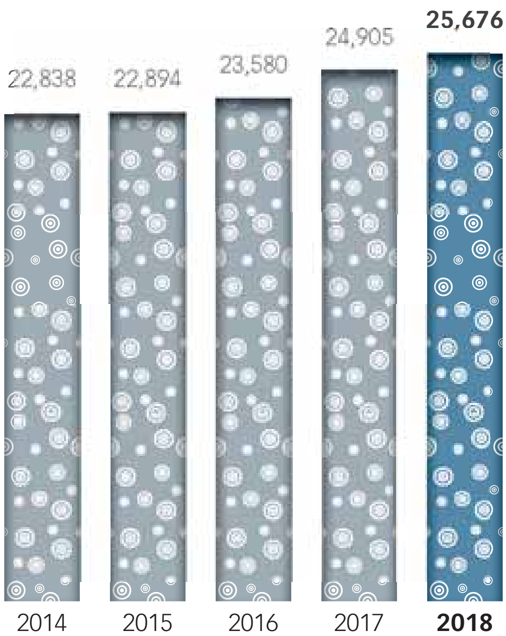
- Excluding revaluation gains from the Group's investment properties net of tax and fair value gains on its interests in the property development projects, underlying net profit attributable to shareholders of the Company for 2018 rose to HK$1,711 million, an increase of 12.2% over 2017. The underlying net earnings per share for 2018 were HK$1.45 compared to HK$1.31 in 2017.

- Final dividend in cash per share of HK$0.50 is proposed. Full year dividend in cash per share for 2018 amounts to HK$0.72. In addition, a Special Interim Dividend in the form of shares of Polytec Asset (Stock Code: 208) was already distributed (on the basis of 1 ordinary share of Polytec Asset for every 10 ordinary shares of the Company).

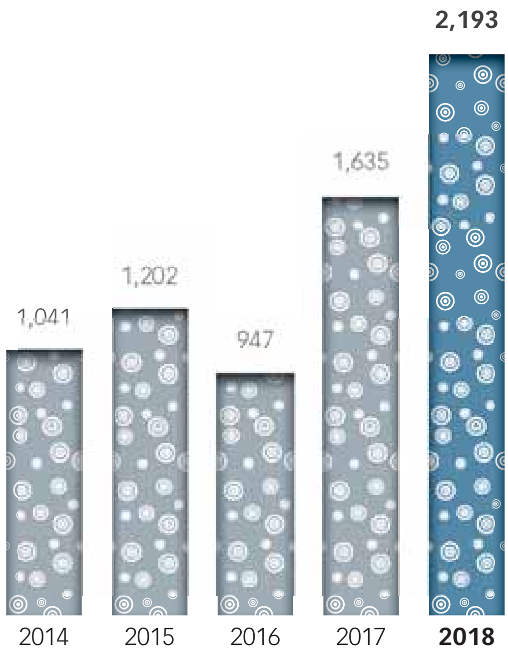
Le Cove Garden (Huizhou)

Five-Year Financial Summary

Shareholders' Equity
HK$ million

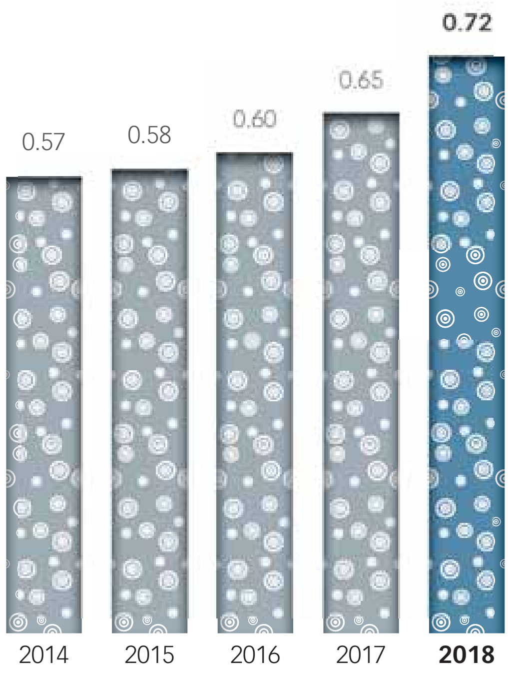


Profit Attributable to Shareholders
HK$ million



Net Asset Value per Share
HK$

Dividends per Share
HK$



Five-Year Financial Summary

Key Consolidated Income Statement Data

HK$ million	2014	2015	2016	2017	**2018**
Revenue	3,150	3,993	6,778	3,120	**2,842**
Profit from Operations	1,187	1,275	796	446	**2,533**
Profit Attributable to Shareholders	1,041	1,202	947	1,635	**2,193**
Earnings per Share *(HK$)*	0.90	1.04	0.82	1.41	**1.86**
Underlying Profit Attributable to Shareholders *(Note 3)*	618	643	818	1,525	**1,711**
Underlying Earnings per Share *(HK$) (Note 3)*	0.54	0.56	0.71	1.31	**1.45**
Dividends	656	668	690	765	**847**
Dividends per Share *(HK$) (Note 2)*	0.57	0.58	0.60	0.65	**0.72**

Key Consolidated Statement of Financial Position Data

HK$ million	2014	2015	2016	2017	**2018**
Non-Current Assets	29,386	30,430	31,783	29,546	**31,527**
Current Assets	19,075	19,047	14,876	19,540	**25,935**
Total Assets	48,461	49,477	46,659	49,086	**57,462**
Current Liabilities	(8,039)	(9,073)	(8,810)	(13,070)	**(14,159)**
Non-Current Liabilities	(14,343)	(14,300)	(10,758)	(7,720)	**(13,478)**
Net Assets	26,079	26,104	27,091	28,296	**29,825**
Share Capital	8,417	8,417	8,417	8,636	**8,636**
Reserves	14,421	14,477	15,163	16,269	**17,040**
Shareholders' Equity	22,838	22,894	23,580	24,905	**25,676**
Non-controlling Interests	3,241	3,210	3,511	3,391	**4,149**
Total Equity	26,079	26,104	27,091	28,296	**29,825**
Net Asset Value per Share *(HK$)*	19.85	19.90	20.49	21.17	**21.82**
Gearing Ratio *(%) (Note 4)*	59.28	61.02	49.29	46.76	**66.24**

Notes:
1. The financial information in this summary is extracted from the published financial statements for the last five years.
2. In 2018, a special interim dividend to be satisfied by way of distribution in specie of share in Polytec Asset Holdings Limited ("PAH") held by the Group on the basis of 1 ordinary share of PAH for every 10 ordinary shares of the Company.
3. Underlying profit excludes revaluation gain of investment properties and interests in property development.
4. Gearing ratio represents bank borrowings, loans from a related company/ultimate holding company and a fellow subsidiary less amounts due from related companies/fellow subsidiaries and net of cash and bank balances over equity attributable to shareholders of the Company.

Chairman's Statement

Artist's Impression of Tseung Kwan O Project (Hong Kong)

Group Results and Dividends

For the year ended 31 December 2018, the Group's net profit attributable to shareholders of the Company amounted to HK$2,193 million compared to HK$1,635 million in 2017, an increase of 34.1%. Excluding revaluation gains from the Group's investment properties net of tax and fair value gains on its interests in the property development projects, underlying net profit attributable to shareholders of the Company for 2018 rose to HK$1,711 million, an increase of 12.2% over 2017. The underlying net earnings per share for 2018 were HK$1.45 compared to HK$1.31 in 2017.

The Board of Directors has recommended the payment of a final dividend in cash of HK$0.50 (2017: HK$0.43) per share for the year ended 31 December 2018. Together with the 2018 interim dividend in cash of HK$0.22 (2017: HK$0.22) per share and a special interim dividend (the "Special Interim Dividend") in the form of a distribution in specie distributed on the basis of 1 ordinary share of Polytec Asset Holdings Limited ("Polytec Asset") (Stock Code: 208), a 70.8%-owned listed subsidiary of the Company, for every 10 ordinary shares of the Company, the full year dividend in cash per share for 2018 amounts to HK$0.72 (2017: HK$0.65) plus the Special Interim Dividend (2017: Nil).

The final dividend in cash will be payable on Tuesday, 25 June 2019 to shareholders whose names appear on the Register of Members of the Company on Thursday, 13 June 2019, subject to the approval of shareholders at the 2019 Annual General Meeting.

Market Overview and Business Review

In Hong Kong, with adverse impacts from increasing uncertainties from the US-China trade negotiations and the interest rate hikes, as well as anticipation of slowing global economy, market sentiment started to deteriorate in the third quarter of 2018 with property investors and home buyers holding back. Total property transaction volumes in the residential market dropped considerably in the second half of 2018 and overall transacted residential prices in December 2018 fell almost 10% from the record highs in July 2018.

In Mainland China, following the various restrictive measures imposed by the government on its property market over past few years, overall residential prices returned to more healthy and stable levels but residential transaction volumes recorded a slight decline in the main cities in 2018.

In Macau, while property transaction volumes fell in the second half of 2018 compared to that of in the first half of 2018, total property transaction volumes recorded a slight increase in the full year of 2018 and overall property prices remained stable in 2018.

Development Property Sales

In Hong Kong, the Group obtained the occupation permit for Upper East at the end of December 2018 with over 97% residential units being presold and the presold units have gradually been delivered to purchasers since the start of 2019 and its presale proceeds will be recognised in the first half of 2019. In the second half of 2018, the Group launched the presale of One East Coast and sales are satisfactory, with sales activity slowing at the start of launch of the project due to the weakening market sentiment but then sales having picked up considerably after the Chinese New Year.

In Mainland China, the Group's presale/sale of various development projects was satisfactory for the year under review.

In Macau, following the completion of construction works for La Marina and delivery of presold units to purchasers, the sale of the project has been well received by the market largely due to its excellent transportation network as well as its outstanding product quality, workmanship and design. La Marina was ranked the bestselling residential project in Macau in 2018 based on the data from the Financial Services Bureau of Macau.

In respect of the Pearl Horizon property development project in Macau, as the Court of Final Appeal rejected the application by Polytex Corporation Limited ("PCL") for invalidating the decision made by the Chief Executive of Macau to terminate the land concession of the project on 23 May 2018, PCL seeks compensations from the Macau Government for related losses and damages by submitting a claim to the Court of Macau on 29 November 2018. In case the above mentioned claim and all other possible approaches failed to protect the Group's interests, Polytec Holdings International Limited ("Polytec Holdings", the then ultimate controlling shareholder and currently a related company of the Group) is committed to indemnifying related losses incurred by the Group for the Pearl Horizon development project. Therefore, there should not have any adverse effects on the financial position of the Group due to the repossession of the development land by the Macau Government.


La Marina (Macau)

Property Development

For the year under review, the Group acquired a 100% equity interest in the company holding two property development projects with a total gross floor area ("GFA") of approximately 94,763 sq m (including underground GFA of approximately 39,035 sq m) and approximately 18,883 sq m respectively in Shanghai (collectively, the "Shanghai Project") from Polytec Holdings. The two sites are adjacent to each other and therefore they would be developed as one combined site.

In addition, the Company's 70.8%-owned listed subsidiary, Polytec Asset, also entered into two sale and purchase agreements for the following two development projects with Polytec Holdings in June 2018:

(1) a 50% equity interest in the company holding a property development project with a total GFA of approximately 587,004 sq m in Zhongshan (the "Zhongshan Project"); and

(2) a 60% equity interest in the company holding a property development project with a total GFA of approximately 179,024 sq m in Zhuhai (the "Zhuhai Project").

The acquisitions of the Shanghai Project and the Zhongshan Project were completed on 31 December 2018. Together with the acquisition of the Zhuhai Project to be completed within this year, the three acquisitions will add total attributable GFA of approximately 397,500 sq m to the Group's development landbank.

Property Investment in Hong Kong

Gross rental income generated from the Group's property investment portfolio in Hong Kong for 2018 fell slightly to HK$350 million, a decrease of 1.7% over 2017. Gross rental income generated from the Pioneer Centre, the Group's wholly-owned flagship and core investment property in Hong Kong, declined 0.7% to HK$303 million in 2018. Overall occupancy rate for the Group's property investment portfolio remained high at over 99% as of 31 December 2018.

Other Businesses through Polytec Asset

The Group's exposures to the property investment in Macau, the oil business and the ice manufacturing and cold storage business are through Polytec Asset. Their respective operational results are as follows:

Property Investment in Macau

For the year ended 31 December 2018, the Group's share of gross rental income generated from its investment properties fell to approximately HK$60 million, a decline of 5.5% over 2017. The decline in rental income was mainly due to a decrease in income from The Macau Square, in which Polytec Asset holds a 50% interest, with total rental income of the property attributable to the Group falling by HK$3.5 million to approximately HK$56 million for 2018 when compared to 2017.

Oil

The oil segment recorded a loss of HK$14.8 million for the year ended 31 December 2018 compared to a loss of HK$246 million in 2017. The decline in the loss was mainly due to the rise in average oil prices during 2018 and no further impairment provisions were made for the oil assets for the year under review (impairment provisions of HK$226.5 million recorded in 2017).

Ice Manufacturing and Cold Storage

Total operating profit for the combined ice manufacturing and cold storage segment amounted to HK$25.5 million in 2018, a decrease of 13% over 2017. The decline in operating profit was attributable to the decrease in revenue from ice manufacturing business.

Business Strategy

As the Group has been pursuing a property development strategy in Hong Kong, Mainland China and Macau for years, it has established a solid foundation for its property business in these markets, being currently well positioned with a competitive landbank. This development strategy has worked well for the Group so far as the timing for good opportunities to replenish its landbank coming to sight varies with different markets and it would assess the differences in land prices of the three markets and choose the best market to invest, enhancing its competitive position.

Prospects

In Hong Kong, due to uncertainties rising from the China-US trade negotiations and interest hikes, both residential transaction volumes and prices fell substantially in the second half of 2018. However, as there has been growing optimism since February 2019 that the US and China would eventually reach a trade agreement, together with anticipation of less or no interest rate hikes for the year ahead, market sentiment started to improve. The Group has quickly taken advantage of improving market sentiment, actively promoting the presale/sale of its various development projects which are being well received by the market. The construction works of One East Coast are expected to be completed in the first half of 2019, with the Group expecting to obtain the certificate of compliance and deliver the presold units to purchasers in the second half of 2019. The construction works of 63 Pokfulam are expected to be completed in late 2019, with topping-out works being scheduled in the first half of 2019.

In Mainland China, it appears that the property measures imposed by the government over the past few years have effectively contained the property prices, allowing the housing market to grow healthily going forward. With the property measures in some cities gradually easing during the first quarter of 2019, property transaction volumes are expected to pick up in 2019 and therefore the presale/sale of the Group's various development projects should benefit.

In Macau, while overall property transaction volumes started to fall in the beginning of the second half of 2018, the sales activity in the property market appeared to have picked up in March 2019. If the market sentiment continues to improve during the year, the Group would expect the sales of La Marina to be satisfactory and hence the income to be received from its interest in the project would make a contribution to the Group's results in 2019.

Looking forward in 2019, in regards to the oil business in Kazakhstan, while the Group expects there would probably be no improvement in the segment results for the coming year, it will still closely monitor the trend of international oil prices and adjust its oil business strategy accordingly. The Group's ice manufacturing and cold storage business in Hong Kong is expected to improve in 2019 as there are some signs of pick up in overall business performance in the first quarter of this year when compared to the same period in 2018. The rental income from its investment properties in Macau is expected to continue to generate stable income for the Group in 2019.

The main source of the Group's income for the first half of 2019 is expected to come from recognition of presales/sales from Upper East in Hung Hom, with the majority of its sale to be recognised in the first half of 2019. As the construction works of both One East Coast in Lei Yue Mun and 63 Pokfulam in Pok Fu Lam Road are expected to be completed in the second half of 2019, a portion of presales will likely be recognised. Together with the income from Mainland China and Macau, barring unforeseeable circumstances, it is expected that the Group will show satisfactory growth in 2019.

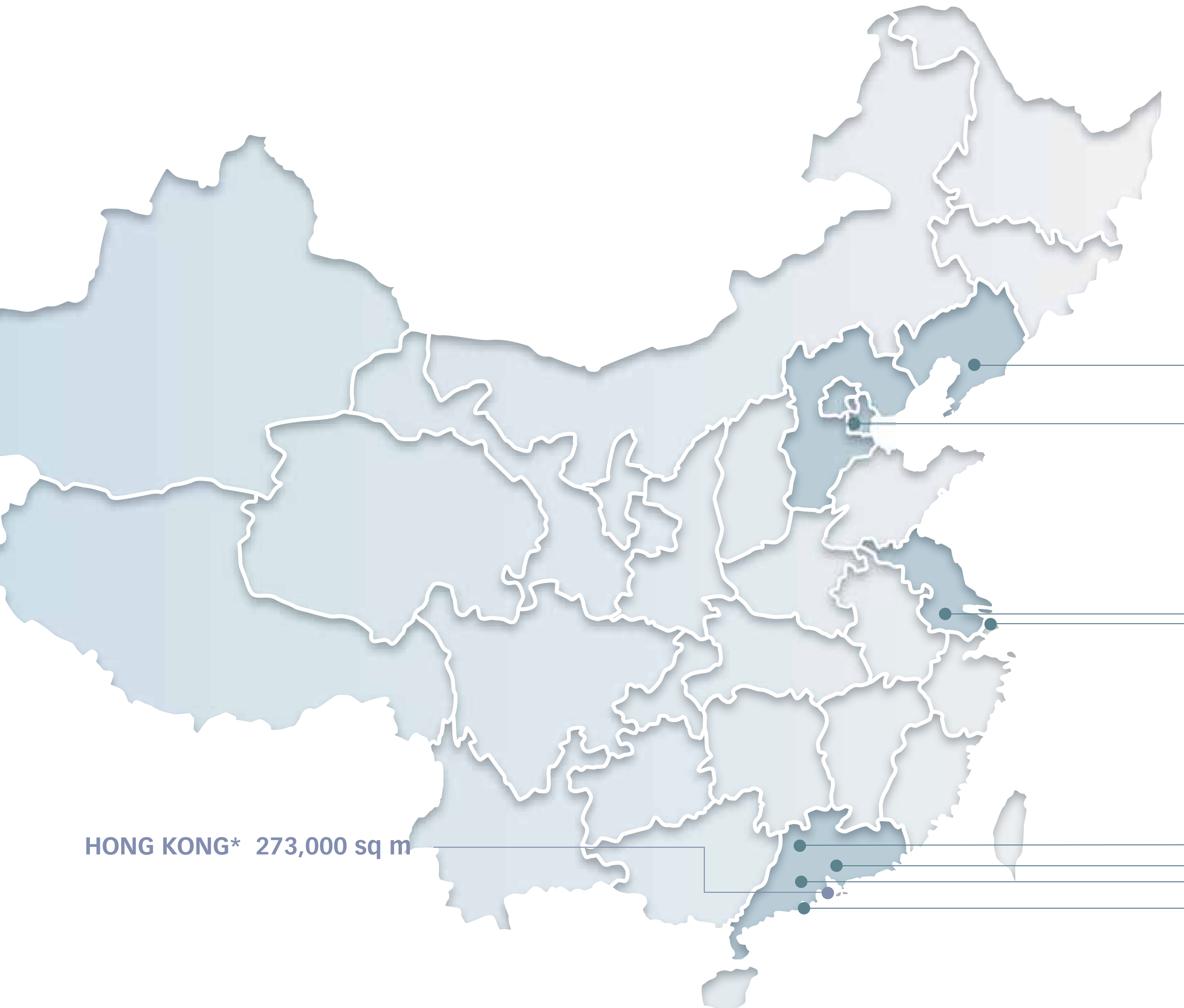
I would like to take this opportunity to thank on behalf of the Board all our staff for their hard work, dedication and support and express my gratitude to my fellow Directors for their guidance and valuable advice.

Or Wai Sheun
Chairman

Hong Kong, 27 March 2019

Review of Operations

Group's major projects under development in the Greater China Region

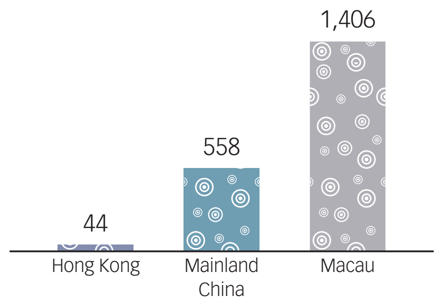


* representing 100% project coverage in total gross floor area
⊕ the acquisition to be completed within 2019

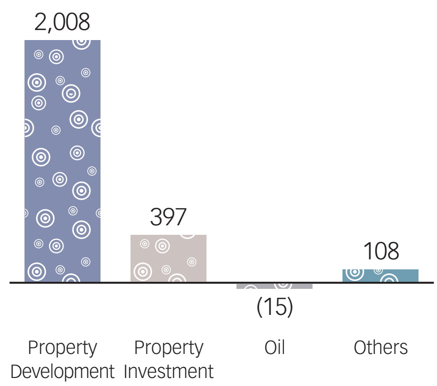
Key Operating Results for 2018

Total operating profit in the property development segment amounted to HK$2,008 million, which was mainly generated from development projects in Mainland China and Macau.

Operating Profit – Property Development Geographic Distribution for 2018
HK$ million



Operating Profit/(Loss) by Segment for 2018
HK$ million



MAINLAND CHINA* 6,747,500 sq m

Shenyang 2,712,000 sq m

Tianjin 850,000 sq m

Wuxi 365,000 sq m

Shanghai 113,600 sq m

Huizhou 519,900 sq m

Zhongshan 587,000 sq m

Foshan 1,600,000 sq m

Zhuhai⊕

Property Development

As of 31 December 2018, the Group's landbank for development amounted to approximately 3.7 million sq m of attributable gross floor area. The Group's major property projects under planning and development are set out as follows:

Hong Kong

63 Pokfulam

The site is located at 63 Pok Fu Lam Road. It is being redeveloped into two high-end residential towers with retail shops on the ground floor and car parking spaces on the basement floor, covering a total gross floor area of approximately 12,200 sq m. This residential and retail development project is wholly-owned by the Group.

Location
63 Pok Fu Lam Road, Hong Kong

Usage
Residential and Retail

Group's Interest
100%

Approx. Total Site Area
1,388 sq m

Approx. Total Gross Floor Area
12,200 sq m

Status
Construction works in progress

Expected Date of Completion
2019

Artist's Impression

One East Coast

The site is located at 1 Lei Yue Mun Path in Lei Yue Mun. This wholly-owned site is being developed into a residential and retail complex with a public car park, covering a total gross floor area of approximately 29,200 sq m.

Location
1 Lei Yue Mun Path, Lei Yue Mun, Kowloon, Hong Kong

Usage
Residential and Retail

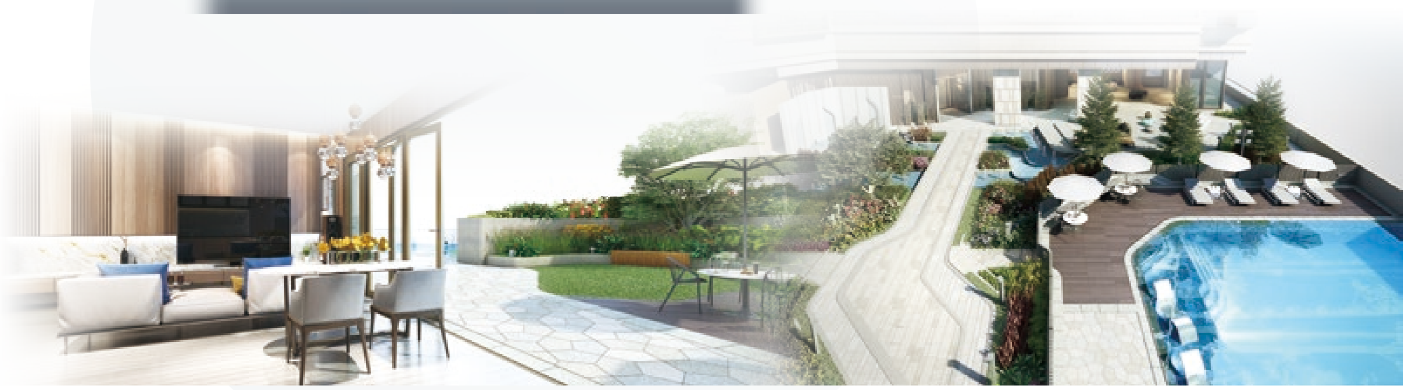
Group's Interest
100%

Approx. Total Site Area
3,240 sq m

Approx. Total Gross Floor Area
29,200 sq m

Status
Public car park portion completed and in operations; construction works for main residential blocks in progress

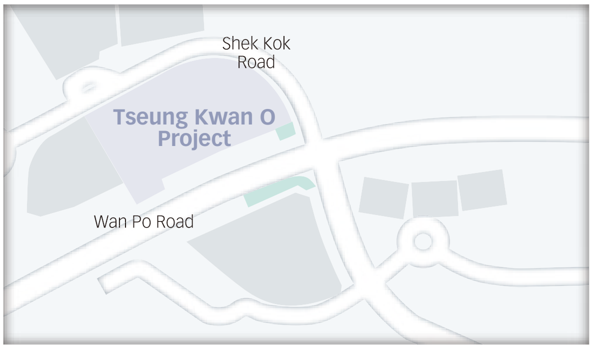
Expected Date of Completion
2019



Artist's Impression

Tseung Kwan O Project

The site is located at 1-3 Shek Kok Road in Tseung Kwan O. The Group intends to develop this wholly-owned site into two high-rise residential towers with car parking spaces, covering a total gross floor area of approximately 48,200 sq m.



Location
1-3 Shek Kok Road, Area 85,
Tseung Kwan O, Sai Kung,
New Territories, Hong Kong

Usage
Residential

Group's Interest
100%

Approx. Total Site Area
9,635 sq m

Approx. Total Gross Floor Area
48,200 sq m

Status
Foundation works in progress

Expected Date of Completion
End-2021/early-2022

Clear Water Bay Road Project

The site is located at 35 Clear Water Bay Road in Ngau Chi Wan. The General Building Plan for this residential and commercial development project including a shopping arcade, clubhouse and car parking facilities with a total gross floor area of approximately 196,400 sq m has been approved. The project is wholly-owned by the Group.

Location
35 Clear Water Bay Road,
Ngau Chi Wan, Kowloon,
Hong Kong

Usage
Residential and Commercial

Group's Interest
100%

Approx. Total Site Area
19,335 sq m

Approx. Total Gross Floor Area
196,400 sq m

Status
Land premium negotiation in progress

Expected Date of Completion
To be determined

Mainland China

Le Cove City (Shenyang)
江灣城（瀋陽）

The site is located along the Hun River at 6 Hun Nan Er Road of the Hun Nan Xin District in Shenyang. This residential and commercial development project is wholly-owned by the Group, with a planned total gross floor area of approximately 712,000 sq m.

Location
6 Hun Nan Er Road,
Hun Nan Xin District, Shenyang, China

Usage
Residential and Commercial

Group's Interest
100%

Approx. Total Site Area
165,303 sq m

Approx. Total Gross Floor Area
712,000 sq m

Approx. Total Gross Floor Area Booked
313,644 sq m

Status
Advance building works for Phase 5 to commence soon

Expected Date of Completion
Phase 5 2021

Artist's Impression of Phase 5 development

The Gardenia (Shenyang)
翠堤灣(瀋陽)

The site is located on the west side of Daba Road of the Shenhe District, which is one of the five main central districts in Shenyang. This residential and commercial development project is wholly-owned by the Group, with a planned total gross floor area of approximately 2,000,000 sq m.

Location
West of Daba Road, Shenhe District, Shenyang, China

Usage
Residential and Commercial

Group's Interest
100%

Approx. Total Site Area
1,100,000 sq m

Approx. Total Gross Floor Area
2,000,000 sq m

Approx. Total Gross Floor Area Booked
389,775 sq m

Status
Construction works for Phase 3A (North Block) in progress

Expected Date of Completion
Phase 3A (North Block) 2019

Artist's Impression of Phase 3A development

Le Cove Garden (Huizhou)
江灣南岸花園(惠州)

The site is located at Dongjiang North Shore Wangjiang Lot of the Huicheng District in Huizhou and has a permanent natural river view at its south east side, with provincial park facilities and convenient traffic to the central business district of Dongjiang North Shore in Huizhou. The Group has a 60% interest in this residential and commercial development project, with a total gross floor area of approximately 519,900 sq m.

Location
Dongjiang North Shore, Wangjiang Lot, Huicheng District, Huizhou, China

Usage
Residential and Commercial

Group's Interest
60%

Approx. Total Site Area
146,056 sq m

Approx. Total Gross Floor Area
519,900 sq m

Approx. Total Gross Floor Area Booked
186,979 sq m

Status
Construction works for Phase 1B completed and decoration works in progress; foundation works for Phase 2 in progress

Expected Date of Completion
Phase 1B 2019; Phase 2 2021

The Lake (Foshan)
山語湖(佛山)

The site is located in the Nanhai District of Foshan, with a sizeable site area of approximately 4,020,743 sq m. This is a joint venture residential and commercial development project of the Group. The site is endowed with unique geographical advantages, surrounded by lakes, a wetland nature reserve zone and woods. It is being developed as one of the most emblematic residential communities in Foshan, with a total gross floor area of approximately 1,600,000 sq m.

Location
Heshun Meijing Shuiku Sector, Lishui Town, Nanhai District, Foshan, China

Usage
Residential and Commercial

Group's Interest
50%

Approx. Total Site Area
4,020,743 sq m

Approx. Total Gross Floor Area
1,600,000 sq m

Approx. Total Gross Floor Area Booked
844,414 sq m

Status
Construction works and occupation delivery for high-rise residential towers in Phase 4 of development completed

Expected Date of Completion
Remaining development to be determined

Le Cove City (Wuxi)
江灣城（無錫）

The site is located in the Chong An District, a central business district of Wuxi, with a total site area amounting to approximately 68,833 sq m. This residential and commercial development project is wholly-owned by the Group, with a total gross floor area of approximately 365,000 sq m.

Location
Tongyun Road and Gongyun Road, Chong An District, Wuxi, China

Usage
Residential and Commercial

Group's Interest
100%

Approx. Total Site Area
68,833 sq m

Approx. Total Gross Floor Area
365,000 sq m

Approx. Total Gross Floor Booked
107,320 sq m

Status
Phase 3 under planning; advance building works for Phase 4 in progress

Expected Date of Completion
Phase 4 mid-2023

City Plaza (Tianjin)
城市廣場(天津)

The site is located in a new commercial and business area of the Hedong District, Tianjin. This residential and commercial development project is 49%-owned by the Group and has a total gross floor area of approximately 850,000 sq m. There is an additional underground gross floor area of approximately 35,000 sq m for the commercial portion. It is being developed into a modern residential and commercial complex with luxury residential towers, office buildings, a five-star hotel and a first-class shopping arcade.

Location
Lot No. Jin Dong Liu 2004-066, intersection of Shiyijing Road and Liuwei Road, Hedong District, Tianjin, China

Usage
Residential and Commercial

Group's Interest
49%

Approx. Total Site Area
135,540 sq m

Approx. Total Gross Floor Area
850,000 sq m

Approx. Total Gross Floor Area Booked
238,057 sq m

Status
Construction works for residential flats in Phase 2 of development completed

Expected Date of Completion
Phase 3 to be determined

Shanghai Project (Shanghai)

The site is located in the Yangpu District, Shanghai. This residential and commercial development project is wholly-owned by the Group with combined total gross floor area of approximately 113,600 sq m including an underground gross floor area of approximately 39,035 sq m. It is expected to develop into a block of residential building and two blocks of office building.

Location
176 Jiefang, Siping Road, Yangpu District, Shanghai, China

Usage
Residential and Commercial

Group's Interest
100%

Approx. Total Site Area
21,427 sq m

Approx. Total Gross Floor Area
113,600 sq m

Status
Under planning

Expected Date of Completion
2024

Zhongshan Project (Zhongshan)

The site is located in the South District, Zhongshan. This residential and commercial development project is expected to develop into 38 blocks of high-rise residential building, 4 blocks of high-rise apartment and 150 blocks of villa with a total gross floor area of approximately 587,000 sq m. Polytec Asset Holdings Limited ("Polytec Asset") has a 50% interest in this project.

Location
Nantongwei and Shawei, Beitai Village, South District, Zhongshan, China

Usage
Residential and Commercial

Group's Interest
35.4%

Approx. Total Site Area
234,802 sq m

Approx. Total Gross Floor Area
587,000 sq m

Status
Under planning

Expected Date of Completion
2021 – 2023

Zhuhai Project (Zhuhai)

The site is located in the Xiangzhou District, Zhuhai. This commercial office development project will be erected on two parcels of nearby land (northern part and southern part) and is expected to develop into 4 blocks of hotel-style office building with bottom 3 levels of commercial portion comprising a total gross floor area of approximately 179,000 sq m. Polytec Asset will have a 60% interest in this project following the acquisition to be completed within 2019.

Location
Interchange place of Jiuzhou Road and Yingbin Road, Zhuhai, China

Usage
Commercial Office

Group's Interest
42.5%

Approx. Total Site Area
43,656 sq m

Approx. Total Gross Floor Area
179,000 sq m

Status
Under planning

Expected Date of Completion
2021

Property Investment

In Hong Kong, gross rental income generated from the Group's property investment portfolio for 2018 fell slightly to HK$350 million, a decrease of 1.7% over 2017. Gross rental income generated from the Pioneer Centre, the Group's wholly-owned flagship and core investment property in Hong Kong, declined 0.7% to HK$303 million in 2018. Overall occupancy rate for the Group's property investment portfolio remained high at over 99% as of 31 December 2018.

In Macau, the Group's share of gross rental income generated from its investment properties for the year ended 31 December 2018 fell to approximately HK$60 million, a decline of 5.5% over 2017. The decline in rental income was mainly due to a decrease in income from The Macau Square, in which Polytec Asset holds a 50% interest, with total rental income of the property attributable to the Group falling by HK$3.5 million to approximately HK$56 million for 2018 when compared to 2017.

Pioneer Centre (Hong Kong)

Property Management

The Group offers a full range of high quality property management services to our clients. Our client base includes not only self-developed luxury residential buildings, serviced apartments and medium scale commercial buildings, but also public housing estates. As at 31 December 2018, the total area of properties under management was maintained at approximately 1,517,000 sq m (2017: 1,495,000 sq m).

The Macau Square (Macau)

Key Risk and Uncertainties

The Group faces various risks including those specific to the property development business as well as those that are common to other businesses. The Group's risk management and internal control systems are in place to ensure principal risks as well as significant emerging risks are identified, monitored and managed on a continuous basis. The principal risks and uncertainties set out below may have material impacts on the Group's businesses, operating results, financial position or prospects, but they are by no means exhaustive or comprehensive.

Property Development Risk

Similar to other property developers, the Group is confronted with the risk of deterioration of property market conditions which is subject to the changes in the overall economic environment, political stability, governmental policies, as well as the taxes and stamp duties imposed on the sales of residential properties in the geographical areas of the Group's operations.

The profitability of the Group may also be hindered by rising construction costs and sub-contracting charges and keen competition from other property developers. A significant adverse financial impact may arise if any of our construction projects is not able to be completed on schedule or within budget. The Group's prospects are also subject to the supply of land affected by land policies in different geographical areas.

Regulatory Risk

The Group operates in highly-regulated markets and industries where changes to the regulatory environment may have significant impacts on our businesses. We have to ensure we can comply with all the regulatory requirements including the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as well as legal, tax, environmental and any other statutory requirements for our various kinds of businesses in different jurisdictions.

People Risk

The Group's future development is materially affected by whether it can recruit, retain, develop and motivate competent and qualified staff at various levels. The shortage or loss of key personnel may harm the Group's existing operations and prospects.

Financial Risk

The Group is exposed to interest rate, credit, liquidity, currency and other price risks which arise in the normal course of the Group's businesses. The analysis of these risks is illustrated in the notes to the financial statements in detail.

Business Partner Risk

Some of the Group's businesses are conducted through non wholly-owned companies or joint ventures in which the Group shares control with other business partners. The relevant risks include that these business partners may not continue their relationships with the Group, take actions against the Group's interests, undergo a change of control or not fulfil their obligations under the joint ventures.

Information Security Risk

The Group's computer system and data are exposed to unauthorised access or damage caused by cyber threats, especially nowadays the worldwide cybercrime and malware attack happen more frequently. Failure in protecting the computer system and data of the Group may lead to loss or leakage of critical data or even disruptions of normal operations of the business.

Environmental and Social Compliance

Environmental Policies and Performances

The Group is dedicated to high standards of environmental protection. By minimising the impact to our community and conserving resources amongst employees and tenants, we are striving to improve our environmental performance continually. Since 2007, the Group has become a corporate member of WWF-Hong Kong, supporting the Non-Governmental Organisation's works on conservation and education. The Group adopts a holistic and proactive approach towards environmental management, undertaking stringent measures to ensure both new and existing developments comply with the regulatory requirements. We also work and communicate closely with our contractors to minimise generation of effluent and waste.

The Group is committed to conserving the environment and seeking continual improvement in environmental matters. To enhance environmental protection awareness at the workplace, we promote the use of electronic communication in our Hong Kong offices via the intranet system for documental approval and policy or news sharing, encourage our employees to switch off the lights, air conditioning and other unused office equipment when leaving the office, use recycled paper or double-sided for printing and copying. In addition, the establishment of the waste recycling systems for the major properties under our management has demonstrated the Group's dedication to enhance waste reduction and promote a sustainability mind-set.

Compliance with Laws and Regulations

As far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations that has a significant impact on the businesses and operations of the Group during the financial year.

Relationships with Stakeholders

The Group has an integrated human capital strategy to recruit, develop and motivate employees, making sure that employees are provided with competitive remuneration package, appropriate training and development opportunities and their performance goals are aligned with the Group's business objectives. The Group is committed to providing a work environment that is free from all forms of discrimination. In 2018, there were no known reports of any incidence of discrimination by its employees in Hong Kong and overseas. Management and staff at all levels are responsible to ensure all employees are working in compliance with the statutory requirements, arrange adequate resources to fulfil the safety requirements and carry out training and supervision. Furthermore, we have recently improved our internal communication through the intranet system to strengthen and enhance communication amongst staff.

Additionally, communication with our contractors and vendors is particularly critical as the Group sets forth its sustainability framework. Therefore, we have conducted an external stakeholder survey to further gauge their perspectives on the Group's environmental and social material issues. Based on the survey result, we have constructed a systematic materiality assessment as a bridge to better address stakeholders' concerns.

The Group is also dedicated to providing high quality properties, products and services to meet our customers' needs and is striving to maintain good relationship and close communication with our business partners, banks, contractors and vendors so as to achieve this goal for our customers.

Apart from the Group's continuous efforts towards improvement in relationship with its stakeholders, the Group is also committed to delivering support to the needs of the community. The Company has been awarded as a "Caring Company" since 2009 in recognition of our achievement in corporate social responsibility. In 2018, we have donated to domestic charities and our employees have participated in a number of community activities.

Environmental, Social and Governance Reporting

In accordance with the requirement set out in Appendix 27 to the Listing Rules, a separate Environmental, Social and Governance Report will be published on the Company's website and the website of Hong Kong Exchanges and Clearing Limited to enhance report readability. The report highlights the continual efforts of the Group in improving operations consisting of comprehensive environmental and social performance indicators, further demonstrating our dedication in building a sustainable future.

Human Resources

As of 31 December 2018, the Group had a total of 858 employees (2017: 864 employees), of which 599 were Hong Kong staff, 137 were Mainland China staff and 122 were staff in other regions. During the year, total staff costs increased to HK$273 million (2017: HK$272 million) due to salary revisions in July 2018. Salary levels of employees are competitive. Discretionary bonuses are granted based on the performance of the Group as well as the performance of individuals to attract, motivate and retain talented people.

The Group believes that the quality of its human resources is critical for it to maintain a strong competitive edge. The Group has conducted a range of training programmes through various institutions to strengthen employees' all-round skills and knowledge, aiming to well equip them to cope with its development in the ever-changing economy.

In addition, the Group established a recreation club and held an annual dinner and a Christmas party with lucky draws conducted as well as the puff pastry egg custard mooncake workshop (parent-child) for employees during the year to promote team spirit and loyalty and encourage communication between departments.

Financial Review

Financial Resources and Bank Borrowings

Total bank borrowings of the Group amounting to HK$15,281 million as at 31 December 2018 (31 December 2017: HK$13,660 million), comprising of HK$6,826 million repayable within one year and HK$8,455 million repayable after one year. Taking into account of cash and cash equivalents with an amount of HK$1,068 million, the Group's net bank borrowings position was HK$14,213 million as at 31 December 2018. Loan from a related company amounted to HK$4,275 million as at 31 December 2018.

The Group's gearing ratio (calculated on the basis of net bank borrowings and loan from a related company/ultimate holding company less amounts due from related companies/fellow subsidiaries over equity attributable to shareholders of the Company) was 66.2% as at 31 December 2018 (31 December 2017: 46.8%).

During the year, sales/presales for the property projects in Hong Kong contributed cash inflows of approximately HK$1,536 million to the Group. Furthermore, the Group has recorded of approximately HK$715 million cash inflows mainly from sales/ presales of various development projects in Mainland China.

During the year, the Group has entered into agreements with Polytec Holdings for the acquisitions of property development projects located in Shanghai, Zhongshan and Zhuhai in Mainland China. The acquisitions for Shanghai and Zhongshan projects have been completed as at 31 December 2018 and a total of approximately HK$3,471 million (including the deposit paid for the Zhuhai project) had been settled.

During the year, total distributions of HK$260 million and HK$1,400 million were made by a related company/the ultimate holding company and its wholly owned subsidiary to the Group in relation to the development project at Huizhou and Lotes T+T1 respectively.

The Group continued to actively engage in the development projects in Hong Kong and Mainland China and expended a total of approximately HK$1,852 million for construction costs during the year.

All the Group's borrowings are arranged on a floating rate basis. The Group will closely monitor and manage its exposure to interest rate fluctuations and will consider engaging in relevant hedging arrangements when considered appropriate.

With the investments in Mainland China, the Group is exposed to exchange fluctuations in Renminbi ("RMB"). Using revenue and cash generated from the development projects in Mainland China and/or external borrowings in RMB, serves as a natural hedge against the exchange rate risk of RMB.

In respect of the Group's oil business in Kazakhstan, the Group is exposed to the exchange fluctuations in the Tenge ("KZT"), the local currency of Kazakhstan, because the majority of operating expenses and capital expenditure are denominated in KZT, while a significant portion of its revenue is denominated in United States dollars. As at 31 December 2018, the Group did not have any outstanding financial instruments entered into for hedging purposes. Nevertheless, the Group is closely monitoring its overall foreign exchange exposure and interest rate exposure and will adopt a proactive but prudent approach to minimise the relevant exposures when necessary.

With the financing facilities in place, recurrent rental income from investment properties, cash inflows from presale/sale of the Group's development projects and the financial support from Polytec Holdings, the Group has sufficient financial resources to satisfy its commitments and future funding requirements.

Capital Commitments

As at 31 December 2018, the Group had commitments in connection with the Group's investment properties amounting to HK$43 million.

Pledge of Assets

As at 31 December 2018, properties having a value of HK$16,864 million and bank deposits of HK$1,042 million were pledged to financial institutions mainly to secure banking facilities extended to the Group.

Contingent Liabilities

The Group has given several guarantees in respect of banking facilities granted to a joint venture in Mainland China. Guarantees have been provided to a joint venture amounting to HK$907 million, representing a 50% proportional guarantee in respect of HK$1,815 million term loan facilities. The facilities were utilised to the extent of HK$571 million as at 31 December 2018.

Profile of Directors

Board of Directors

Executive Directors

Mr OR Wai Sheun, aged 67, is the *Chairman* of the Company. He has been an *Executive Director* since January 2002 and is responsible for the development of corporate strategies, corporate planning and general management of the Company. Mr Or is also the chairman of Polytec Asset Holdings Limited, a separately listed subsidiary of the Company. He is the chairman of both New Explorer Developments Limited, the sole shareholder of Intellinsight Holdings Limited ("Intellinsight"), and Intellinsight, the substantial shareholder of the Company, and a director of certain subsidiaries of the Group. Mr Or has over 35 years of experience in property development, industrial and financial investment business in Hong Kong, Mainland China and Macau. He is the spouse of Ms Ng Chi Man, the father of Mr Or Pui Kwan and the father-in-law of Mr Lam Yung Hei.

Mr LAI Ka Fai, aged 54, has been an *Executive Director* of the Company since January 2002. He is responsible for the development of corporate strategies, corporate planning and day-to-day management of the Company. Mr Lai is also a non-executive director of Polytec Asset Holdings Limited, a separately listed subsidiary of the Company, and a director of Intellinsight Holdings Limited, the substantial shareholder of the Company, and certain subsidiaries of the Group. He has over 30 years of experience in finance, accounting, financial and operational management and corporate planning. Mr Lai graduated from the University of East Anglia in the United Kingdom with a Bachelor's degree in Science. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

Mr OR Pui Kwan, aged 40, has been an *Executive Director* of the Company since September 2005. He is responsible for the development of corporate strategies, corporate planning and day-to-day management of the Company. Mr Or joined the Company in May 2003 and is also a director of certain subsidiaries of the Group. He has attained solid working experience in various companies engaged in property development, securities investment, information technology, product research and development. Mr Or holds a Bachelor of Combined Science degree from the University College London. He has also obtained an Executive MBA degree from the Kellogg School of Management at Northwestern University and the School of Business and Management at the Hong Kong University of Science and Technology. He is the son of Mr Or Wai Sheun and Ms Ng Chi Man and the brother-in-law of Mr Lam Yung Hei.

Mr LAM Yung Hei, aged 39, has been an *Executive Director* of the Company since July 2016. He is responsible for the development of corporate strategies, corporate planning and day-to-day management of the Company, and overseeing construction management of the Group. Mr Lam is also a director of certain subsidiaries of the Group. He has over 10 years of experience in Hong Kong property development, merger and acquisition and information technology. Mr Lam holds a Master of Commerce (Information Systems and Management) degree and a Bachelor of Science (Computer Science) degree both from University of New South Wales, Sydney. He is the son-in-law of Mr Or Wai Sheun and Ms Ng Chi Man and the brother-in-law of Mr Or Pui Kwan.

Non-executive Directors

Ms NG Chi Man, aged 66, has been an Executive Director of the Company since January 2002 and re-designated as a *Non-executive Director* of the Company with effect from 1 April 2013. She is also a director of New Explorer Developments Limited, the sole shareholder of Intellinsight Holdings Limited ("Intellinsight"), Intellinsight, the substantial shareholder of the Company, and certain subsidiaries of the Group. Ms Ng has over 35 years of experience in property development, industrial and financial investment business in Hong Kong, Mainland China and Macau. She is the spouse of Mr Or Wai Sheun, the mother of Mr Or Pui Kwan and the mother-in-law of Mr Lam Yung Hei.

Mr YEUNG Kwok Kwong, aged 60, has been a *Non-executive Director* of the Company since January 2002. He is also the managing director of Polytec Asset Holdings Limited, a separately listed subsidiary of the Company, and a director of certain subsidiaries of the Group. Mr Yeung has over 35 years of experience in finance, accounting, financial and operational management and corporate planning. He is a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

Independent Non-executive Directors

Mr LI Kwok Sing, Aubrey, aged 69, has been an *Independent Non-executive Director* of the Company since January 2002. Mr Li is the chairman of IAM Holdings (Hong Kong) Limited, a Hong Kong based investment firm, and has over 40 years of experience in merchant banking and commercial banking. He is also a non-executive director of The Bank of East Asia, Limited (listed on the Stock Exchange of Hong Kong) and an independent non-executive director of Café de Coral Holdings Limited, Kunlun Energy Company Limited, Pokfulam Development Company Limited and Tai Ping Carpets International Limited (each of them is listed on the Stock Exchange of Hong Kong). Mr Li was an independent non-executive director of China Everbright International Limited, a company listed on the Stock Exchange of Hong Kong, from 6 November 1998 to 24 May 2017 as well. Mr Li holds a Master's degree in Business Administration from Columbia University and a Bachelor of Science degree in Civil Engineering from Brown University.

Mr LOK Kung Chin, Hardy, aged 69, has been an *Independent Non-executive Director* of the Company since January 2002. He is the managing director of The Sun Company, Limited and has over 40 years of experience in building and engineering construction work. Mr Lok graduated in Civil Engineering from the University of Manchester Institute of Science & Technology. He is a member of both the Institution of Civil Engineers and the Hong Kong Institution of Engineers, and a fellow member of the Hong Kong Institute of Construction Managers.

Mr SETO Gin Chung, John, aged 70, has been an *Independent Non-executive Director* of the Company since January 2002. Mr Seto is a director of Pacific Eagle Asset Management Limited. He is also an independent non-executive director of Hop Hing Group Holdings Limited ("Hop Hing Group") and MS Group Holdings Limited (both companies are listed on the Stock Exchange of Hong Kong). Mr Seto ceased to act as the vice chairman and has been the chairman of the board of Hop Hing Group on 25 March 2016. He was an independent non-executive director of China Everbright Limited, a company listed on the Stock Exchange of Hong Kong, from 23 April 2003 to 17 May 2018. Mr Seto was a non-executive director of Hong Kong Exchanges and Clearing Limited from 2000 to 2003 and was the chief executive officer of HSBC Broking Services (Asia) Limited from 1982 to 2001. He was a council member of The Stock Exchange of Hong Kong Limited from 1994 to 2000 and was the first vice chairman from 1997 to 2000. Mr Seto holds a Master of Business Administration degree from New York University and has over 40 years of experience in the securities and futures industry.

Mr David John SHAW, aged 72, has been an *Independent Non-executive Director* of the Company since June 2007. Mr Shaw acted as adviser to the board of HSBC Holdings plc from June 1998 until 30 September 2013; he retired from the HSBC Group in September 2015. He is also an independent non-executive director of Shui On Land Limited (listed on the Stock Exchange of Hong Kong). Mr Shaw is a solicitor, admitted in England and Wales and in Hong Kong. He was a partner of Norton Rose from 1973 to 1998 and during that period spent approximately 20 years working in Hong Kong. Mr Shaw obtained a law degree from Cambridge University.

Senior management of the Group is the Executive Directors of the Company.

Corporate Governance Report

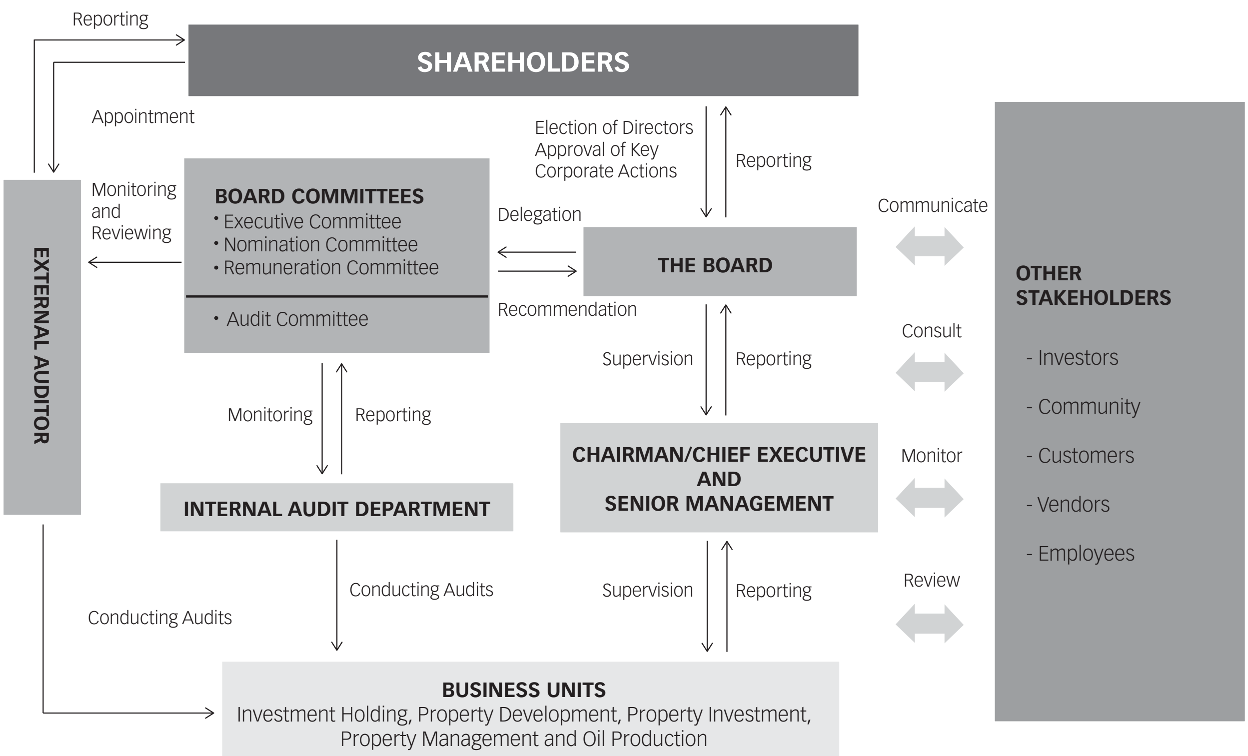
Corporate Governance Practices

The Board of Directors of the Company (the "Board") is accountable to the shareholders of the Company (the "Shareholder(s)") for good corporate governance. Accordingly, the Board has considered carefully the requirements of the Corporate Governance Code (the "CG Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and, as described below, has taken actions to further enhance corporate transparency and accountability.

We believe good corporate governance is one of the critical factors for achieving sustainable long-term success. The corporate governance principles of the Company emphasise the importance of a quality Board and accountability to Shareholders. We will regularly review our corporate governance practices to ensure and maintain the long-term health of the Company.

Throughout the year ended 31 December 2018, the Company has complied with the code provisions of the CG Code ("Code Provision"), with the exception of Code Provision A.2.1 (which recommends the roles of the chairman and chief executive should be separate) as disclosed hereinafter under the section headed "Chairman of the Board and Chief Executive".

Corporate Governance Structure



Board of Directors

As at 31 December 2018, the Board comprises ten members: four Executive Directors, being Mr Or Wai Sheun (Chairman), Mr Lai Ka Fai, Mr Or Pui Kwan and Mr Lam Yung Hei; two Non-executive Directors, being Ms Ng Chi Man and Mr Yeung Kwok Kwong; and four Independent Non-executive Directors, being Mr Li Kwok Sing, Aubrey, Mr Lok Kung Chin, Hardy, Mr Seto Gin Chung, John and Mr David John Shaw. More than one-third of the Board comprises Independent Non-executive Directors. Their biographical details which include relationships among members of the Board are set out on pages 30 and 31 of the Annual Report. In accordance with the Listing Rules, every Independent Non-executive Director has provided an annual confirmation of his independence to the Company. The Company considers that they satisfy the independence requirements.

The Board is governed by the Companies Ordinance (the "Companies Ordinance") (Chapter 622 of the Laws of Hong Kong), the Listing Rules and the Articles of Association of the Company. The role of the Board is to provide strong guidance and oversight to management in formulation of the overall strategic direction, monitor the performance of management, and assure the best interests of the Company are being served. The day-to-day operational duties of the Board are delegated to management to carry out but the Board takes ultimate responsibility.

Permitted Indemnity Provision

A permitted indemnity provision for the benefit of the Directors of the Company is provided by the Articles of Association of the Company and is currently in force and was in force throughout the year. The Company has arranged insurance cover in respect of legal action against its Directors. The insurance coverage is reviewed annually to ensure that the Directors and officers are adequately protected against potential liabilities.

Chairman of the Board and Chief Executive

Mr Or Wai Sheun, the Chairman, has performed the combined role as the chairman and the chief executive taking charge of the overall operations of the Company and its subsidiaries (collectively, the "Group"). He is also responsible for leading the Board. Directors with different views are encouraged to voice their concerns. This combining of the roles enables the Company to make prompt and effective decisions. The Board will reassess the applicability of Code Provision A.2.1 if the existing approach cannot provide an optimal result given the particular structure of the Company.

Apart from the regular Board meetings, the Chairman held two meetings with the Independent Non-executive Directors without the presence of Executive Directors to discuss general matters of the Group during the year.

Selection, Appointment and Re-Election of Directors

The Board shall have power to appoint any person as a Director either to fill a vacancy or for expansion of the Board. The Company has set up a Nomination Committee for formulating Director Nomination Policy for consideration of the Board and making recommendations to the Board on the selection, appointment and re-appointment of Directors.

Every existing Non-executive Director was provided with a letter of appointment setting out his/her terms of appointment. In accordance with the Articles of Association of the Company, any Director newly appointed shall hold office only until the next following annual general meeting of the Company and shall be eligible for re-election. Other existing Directors shall be elected for a term of not more than three years since last election or re-election. Retiring Directors shall be eligible for re-election at the annual general meeting of the Company.

The Company has also complied with the requirement of the CG Code on considering the independence of an Independent Non-executive Director who has served more than nine years for his further appointment. Mr Lok Kung Chin, Hardy, who has served on the Board for more than nine years, was re-elected as Independent Non-executive Director at the 2018 Annual General Meeting (the "2018 AGM") by passing separate resolution at the 2018 AGM. The Board's view on Mr Lok's independent status was set out in the 2018 AGM circular. The re-election of Mr Seto Gin Chung, John and Mr David John Shaw, Independent Non-executive Directors, who have served on the Board for more than nine years each will be considered by vote on a separate resolution in the forthcoming 2019 Annual General Meeting. Further information to be set out in the circular to the Shareholders on the reasons why the Board believes they are still independent and should be re-election.

Board Diversity Policy

With a view to enhance the capability of decision making and effectiveness in dealing with organisational changes, the Company adopted a Board Diversity Policy which sets out the approach to achieve diversity.

The Company has considered the diversity of the Board members from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service of Directors and will consider these factors as measurable objectives when deciding on new appointments to the Board. The current Board is considered well-balanced and of a diverse mix appropriate for the development of the Company.

The Nomination Committee monitors the implementation of the Board Diversity Policy and the progress on achieving those measurable objectives and will review the Board Diversity Policy on a regular basis to ensure its continuing effectiveness.

Director Nomination Policy

The Board has adopted the Director Nomination Policy implemented by the Company's Nomination Committee. The Nomination Committee is responsible for selecting candidates for the Board and the Director Nomination Policy is to describe the process by which the Nomination Committee will select candidates for possible inclusion in the Company's recommended slate of director nominees. The Director Nomination Policy is applicable for all Directors of the Company.

When evaluating a person for nomination for election to the Board, the assessment parameters considered by the Nomination Committee, may include, but are not limited to:

(a) the composition of the Board and its committees with due regard to the factors set out in the Board Diversity Policy;

(b) the commitment of devoting sufficient time and attention to the Company's affairs;

(c) the perceived needs and the extent to which the interplay within the Board for particular skill, background and business experience;

(d) the reputation, character and integrity of the nominee;

(e) nominees' background with regard to executive compensation; and

(f) applicable regulatory and listing requirements, including independence requirements for Independent Non-executive Directors and legal considerations.

The Nomination Committee may use multiple sources for identifying director candidates, including its own contacts and referrals from other Directors, members of management, the Company's advisors, and executive search firms. The Nomination Committee will also consider director candidates recommended by Shareholders and will evaluate such director candidates in the same manner in which it evaluates candidates recommended by other sources.

The nomination procedures for selecting suitable candidate by the Nomination Committee are set out as follows:

Nomination of New and Replacement Directors by the Nomination Committee

(i) If the Nomination Committee determines that an additional or a replacement Director is required, the committee may take measures that it considers appropriate in connection with its identification and evaluation of a candidate.

(ii) The Nomination Committee may propose such candidate to the Board for consideration based on the assessment parameters set out in the Director Nomination Policy and such other factors it considers appropriate. The Board has the final authority to determine if the candidate is suitable for appointment.

Nomination of Re-elected Directors by the Nomination Committee

Where a retiring Director, being eligible, offer himself/herself for re-election and nominated by the Nomination Committee, the Board shall consider, if appropriate, recommend such retiring Director for re-election at a general meeting. A circular containing the requisite information of such retiring Director will be sent to Shareholders prior to a general meeting in accordance with the Listing Rules.

Nomination of New Directors by Shareholders

The Company's website set out the procedures for Shareholders to propose a person for election as a Director. For any person that is nominated by a Shareholder, the Nomination Committee shall evaluate such candidate based on the assessment parameters set out in the Director Nomination Policy and make recommendation to the Board if appropriate. Recommendation shall then be made to Shareholders in a supplementary circular for the proposed election of such candidate at a general meeting.

The Director Nomination Policy is in place and has been updated to take into consideration the revised Listing Rules effective from 1 January 2019. No candidate was nominated for directorship in 2018.

Operation of the Board

The Board is committed to ensuring appropriate corporate governance practices are in place. In ensuring proper ethical and responsible decision making, the Board has established a series of mechanisms for formal review of particular aspects of the Company's affairs. Important decisions, including those which may be expected to affect the long-term Shareholder interests, are made by the Board and applicable Board committees. Matters relating to remuneration of Directors and senior management, financial reporting, risk management and internal control are regularly reviewed by applicable Board committees (comprised of a substantial majority of independent Directors) which make recommendations to the Board.

The Board has formalised the matters reserved to the Board and has reviewed those arrangements periodically to ensure that they remain appropriate to the Company's needs.

The Board meets regularly. Four physical meetings were held during the year. Each Director was provided with the notice of meeting of not less than fourteen days and related Board papers and explanatory material for preview at least three days before the meeting. Draft minutes were sent out to Directors who were eligible to be counted in the quorum of a meeting for review prior to signing off by the Chairman. Copies of the signed minutes had been sent to all Directors for their records.

Directors have access to the Company Secretary and through him to such legal advice they may require. The Company Secretary keeps all the minutes of the Board and its committees meetings.

Board Committees

There are four Board committees. Each of them adopts formal terms of reference, which has included those specific duties in line with Code Provision D.3.1 (Executive Committee), Code Provision C.3.3 (Audit Committee), Code Provision A.5.2 (Nomination Committee) and Code Provision B.1.2 (Remuneration Committee) under the CG Code. The terms of reference of each Board committee is available from the websites of the Company (www.kdc.com.hk) and Hong Kong Exchanges and Clearing Limited (except the one for the Executive Committee) or the Company Secretary upon request.

Executive Committee	
Members:	Mr Or Wai Sheun (Chairman), Mr Lai Ka Fai, Mr Or Pui Kwan, Mr Lam Yung Hei and Mr Yeung Kwok Kwong
Key Responsibility:	Exercise all the general powers of the Board, save and except for matters reserved to the Board

Audit Committee	
Members:	Mr Li Kwok Sing, Aubrey# (Chairman), Mr Lok Kung Chin, Hardy#, Mr Seto Gin Chung, John# and Mr Yeung Kwok Kwong
Key Responsibility:	Assist the Board in considering how it will apply the financial reporting, risk management and internal control principles and maintaining an appropriate relationship with the Company's external auditor

Nomination Committee	
Members:	Mr Or Wai Sheun (Chairman), Mr Lok Kung Chin, Hardy# and Mr David John Shaw#
Key Responsibility:	Assist the Board in reviewing the composition of the Board and make recommendations on the appointment and re-appointment of Directors

Remuneration Committee	
Members:	Mr Seto Gin Chung, John# (Chairman), Mr Lai Ka Fai, Mr Li Kwok Sing, Aubrey# and Mr Lok Kung Chin, Hardy#
Key Responsibility:	Assist the Board in providing appropriate input into the formulation of Remuneration Policy and reviewing the implementation of the Remuneration Policy

Independent Non-executive Director

Executive Committee

The Executive Committee comprises all Executive Directors and a Non-executive Director. The committee has been delegated powers from the Board to exercise all the general powers of the Board save and except for the matters reserved to the Board. The committee meets frequently to manage the Company's business and review corporate policies and strategies.

With the requirement on the CG Code in respect of the responsibilities for performing the corporate governance duties, the Board has delegated its following responsibilities to the Executive Committee:

(i) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

(ii) to review and monitor the training and continuous professional development of Directors and senior management;

(iii) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(iv) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(v) to review the Company's compliance with the CG Code contained in Appendix 14 to the Listing Rules and disclosure in the Corporate Governance Report of the Company.

Board Committees *(Continued)*

Executive Committee *(Continued)*

During the year, the following corporate governance matters were considered by the Executive Committee:

– performed reviews of the Inside Information Policy and procedures;

– performed reviews of the risk management and internal control systems;

– reviewed and monitored the Company's policies on compliance with legal and regulatory requirements;

– reviewed the Company's compliance with the CG Code and the disclosure in this Corporate Governance Report; and

– performed reviews of the Environmental, Social and Governance Report.

Audit Committee

The Audit Committee meets at least twice a year. Its responsibilities include reviewing, assessing and making recommendations to the Board on financial reporting, auditing, risk management and internal control matters and discussing with the external auditor and management on issues arising from the annual audit and/or interim review of financial statements.

Three out of four Audit Committee members are Independent Non-executive Directors. The chairman of the committee possesses the relevant financial management expertise or experience. The committee members held three meetings and met the external auditor two times during 2018. At the meetings held during the year, the work performed by the Audit Committee included:

– performed reviews of the half yearly and annual results;

– performed reviews of financial and accounting policies and practices of the Group;

– performed reviews of the relationships with the external auditor, including remuneration, independence, objectivity, effectiveness of the audit process and non-audit services;

– performed reviews of the effectiveness of the risk management and internal control systems including risk management of investment activities, the internal audit plan and the adequacy of resources of the Internal Audit Department ("IAD"); and

– monitored the Whistleblowing Policy and system for employees and independent third parties who deal with the Company to raise concerns about any suspected impropriety, misconduct or malpractice within the Group.

Nomination Committee

The Nomination Committee comprises three members, two of whom are Independent Non-executive Directors and the chairman of the committee is the Chairman of the Board. The committee meets at least once a year. Its responsibilities include reviewing the composition of the Board, identifying suitable Board members, assessing the independence of Independent Non-executive Directors and making recommendations to the Board on appointments and re-appointments of Directors. The committee also developed selection procedures for candidates and will consider the suitability of a candidate by using various criteria including the perceived needs and the extent of interplay within the Board for particular skills, backgrounds and business experience; the nominee's reputation, character and integrity; the nominee's background with regard to executive compensation; and independence requirements and legal considerations.

The committee met once during 2018 and the work performed by the Nomination Committee included:

- performed reviews of the structure, size and composition of the Board;
- performed an assessment of the independence of Independent Non-executive Directors;
- performed review of the implementation of the Director Nomination Policy;
- performed review of the implementation of the Board Diversity Policy including the measureable objectives that has set for implementing the policy, and progress on achieving those objectives; and
- made recommendations to the Board on the re-appointment of Directors and succession planning for Directors.

Remuneration Committee

The Remuneration Committee comprises four members, three of whom are Independent Non-executive Directors. The committee meets at least once a year. In discharging their duties, they are required to review, assess and make recommendations to the Board on the Remuneration Policy and structure for all Directors and senior management and to make recommendations to the Board on the remuneration packages of individual Executive Directors and senior management. The committee met three times during 2018. At the meetings held during the year, the work performed by the Remuneration Committee included:

- performed reviews of the Remuneration Policy, organisational structure and human resources deployment;
- performed an annual review of the remuneration of Executive Directors and senior management; and
- performed a review of the directors' fees proposal submitted by management.

Board Committees *(Continued)*

Time Commitment

The Board has regularly reviewed the contribution required from the Directors and is satisfied that all of them have committed sufficient time during 2018 for the fulfilment of their duties as Directors of the Company. The number of Board, Board committees and general meetings eligible for attendance and attended by each of the Directors during the year is set out below:

	Number of meetings attended/held in 2018					
Board Members	**Board Meetings**	**Audit Committee Meetings**	**Nomination Committee Meeting**	**Remuneration Committee Meetings**	**2018 AGM##**	**Extraordinary General Meeting ("2018 EGM")**
Executive Directors						
Mr Or Wai Sheun *(Chairman)*	4/4	–	1/1	–	1/1	0/1△
Mr Lai Ka Fai	4/4	–	–	3/3	1/1	1/1
Mr Or Pui Kwan*	4/4	–	–	–	1/1	0/1△
Mr Lam Yung Hei*	4/4	–	–	–	1/1	0/1△
Non-executive Directors						
Ms Ng Chi Man*	4/4	–	–	–	1/1	0/1△
Mr Yeung Kwok Kwong	4/4	3/3	–	–	1/1	1/1
Independent Non-executive Directors						
Mr Li Kwok Sing, Aubrey	4/4	3/3	–	3/3	1/1	1/1
Mr Lok Kung Chin, Hardy	4/4	3/3	1/1	3/3	1/1	1/1
Mr Seto Gin Chung, John	4/4	3/3	–	3/3	1/1	1/1
Mr David John Shaw	4/4	–	1/1	–	0/1#	1/1
Total Meetings Held	4	3	1	3	1	1
Average Attendance Rate	100%	100%	100%	100%	90%	60%

* Family members of Mr Or Wai Sheun.

\# Mr David John Shaw was unable to attend the 2018 AGM as he was overseas at the time.

\## Representatives of the external auditor had attended the 2018 AGM.

△ Mr Or Wai Sheun, Ms Ng Chi Man, Mr Or Pui Kwan and Mr Lam Yung Hei were absent from the 2018 EGM as they abstained from voting in that meeting.

During 2018, Independent Non-executive Directors had also played vital monitoring roles in corporate transactions including forming an independent Board committee to give advice to the independent Shareholders in the major and connected transaction as follows:

(1) The acquisition of the entire issued share capital of Rideon Limited ("Rideon") which has an indirect interest in two property development projects located at (i) East of Siping Road, North of Dalian Road, Yangpu District, Shanghai, the People's Republic of China ("PRC") and (ii) Part 14/7, 176 Jiefang, Siping Road, Yangpu District, Shanghai, the PRC respectively together with assignment of the related sale loan from Polytec Holdings International Limited ("Polytec Holdings", the then ultimate controlling Shareholder and currently a related company of the Group);

(2) The acquisition of the 50% issued share capital of Smart Rising Limited ("Smart Rising") which has an indirect interest in the property development project located at Nantongwei and Shawei, Beitai Village, South District, Zhongshan City, Guangdong Province, the PRC together with assignment of the related sale loan from Polytec Holdings; and

(3) The acquisition of the 60% issued share capital of Allround Holdings Limited ("Allround") which has an indirect interest in the property development project located at the interchange place of Jiuzhou Road and Yingbin Road, Zhuhai City, Guangdong Province, the PRC together with assignment of the related sale loan from Polytec Holdings.

Further details of the above transactions are set out in the section headed "Directors' Interests in Transactions, Arrangements or Contracts and Connected Transactions" of the Report of the Directors.

The Board considers that Independent Non-executive Directors contributed significantly to the deliberations of the Board by virtue of independent judgement, expertise and experience.

Training and Support for Directors

The Company provides briefings and organises in-house training to develop and refresh the Directors' knowledge and skills on a regular basis. To ensure Directors' compliance with the Listing Rules and strengthen the Directors' awareness of good corporate governance, the Company continuously updates Directors on the latest developments of the Listing Rules and other applicable regulatory requirements by issuing circulars, guidance notes and reading materials to them.

In addition, each newly appointed Director is provided with a necessary induction and information to ensure that he/she has a proper understanding of the Company's businesses and operations as well as his/her responsibilities under relevant laws, rules and regulations.

Board Committees *(Continued)*

Training and Support for Directors *(Continued)*

During the year 2018, the Directors participated in the following training as per their records provided to the Company:

Directors	Type of training (Notes)
Executive Directors	
Mr Or Wai Sheun *(Chairman)*	B
Mr Lai Ka Fai	A, B
Mr Or Pui Kwan	B
Mr Lam Yung Hei	A, B
Non-executive Directors	
Ms Ng Chi Man	B
Mr Yeung Kwok Kwong	A, B
Independent Non-executive Directors	
Mr Li Kwok Sing, Aubrey	A, B
Mr Lok Kung Chin, Hardy	B
Mr Seto Gin Chung, John	A, B
Mr David John Shaw	A, B

Notes:

A: attending in-house training and/or seminars and/or conferences and/or forums

B: reading newspapers, journals, newsletters and updates relating to the economy, general business, real estate, corporate governance or director duties and responsibilities, etc.

Company Secretary's Training

For the year under review, the Company Secretary has complied with Rule 3.29 of the Listing Rules by taking no less than fifteen hours of relevant professional training to update his skills and knowledge.

Promote Ethical Decision Making

Each Director and employee is expected to adhere to high standard of ethical conduct and to be guided by two main principles: no insider dealing and avoid conflict of interests.

Securities Trading Policy

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") (Appendix 10 to the Listing Rules) as a code of conduct regarding directors' securities transactions. All Directors confirmed in writing that they have complied with the Model Code throughout the year. The Company has also established written guidelines on employees' securities transactions. Relevant employees are required to obtain written preclearance before initiating a securities transaction during the black-out period.

Act in the best interests of the Company

In connection with the actual or potential conflict of interests, each Director is required to disclose to the Board the existence of his/her financial interest and all material facts before a vote on the transaction. A Director having a material interest in the transaction shall not vote on that matter (or be counted in the quorum of that meeting) in accordance with the Company's Articles of Association. Each Director is also required to disclose to the Board if he/she has any business or interest in a business which competes with the business of the Company.

Polytec Holdings, a company ultimately wholly-owned by a discretionary trust of which Mr Or Wai Sheun is the founder and the discretionary objects of the trust include his family members, is engaged in the property investment and development business in Hong Kong, Mainland China and Macau. A right of first refusal in respect of properties or property projects that will be made available to it to acquire or participate in development in these regions has been granted in favour of the Group.

Remuneration Review

The Board is ultimately responsible for the Company's Remuneration Policy. The Remuneration Committee has been delegated powers to recommend the remuneration policy and structure of all Directors and senior management whilst ensuring no Director is involved in deciding his/her own remuneration.

In determining remuneration packages of Executive Directors and senior management, the committee is required to follow the Remuneration Policy of the Company that, among others, the remuneration should reflect performance and achievements with a view to attracting, motivating and retaining high performing individuals.

The Non-executive Directors shall be entitled to receive directors' fees as shall from time to time be determined by the Company in general meeting or, if authorised by Shareholders, by the Board. The directors' fees for the year were determined after reviewing the pay levels of their peers in corporations of similar size and industry and having taken into account the prevailing market practice, workload, scale and complexity of the Company's business and the responsibility involved.

The emoluments of Directors and management for the year are set out in note 5 to the financial statements.

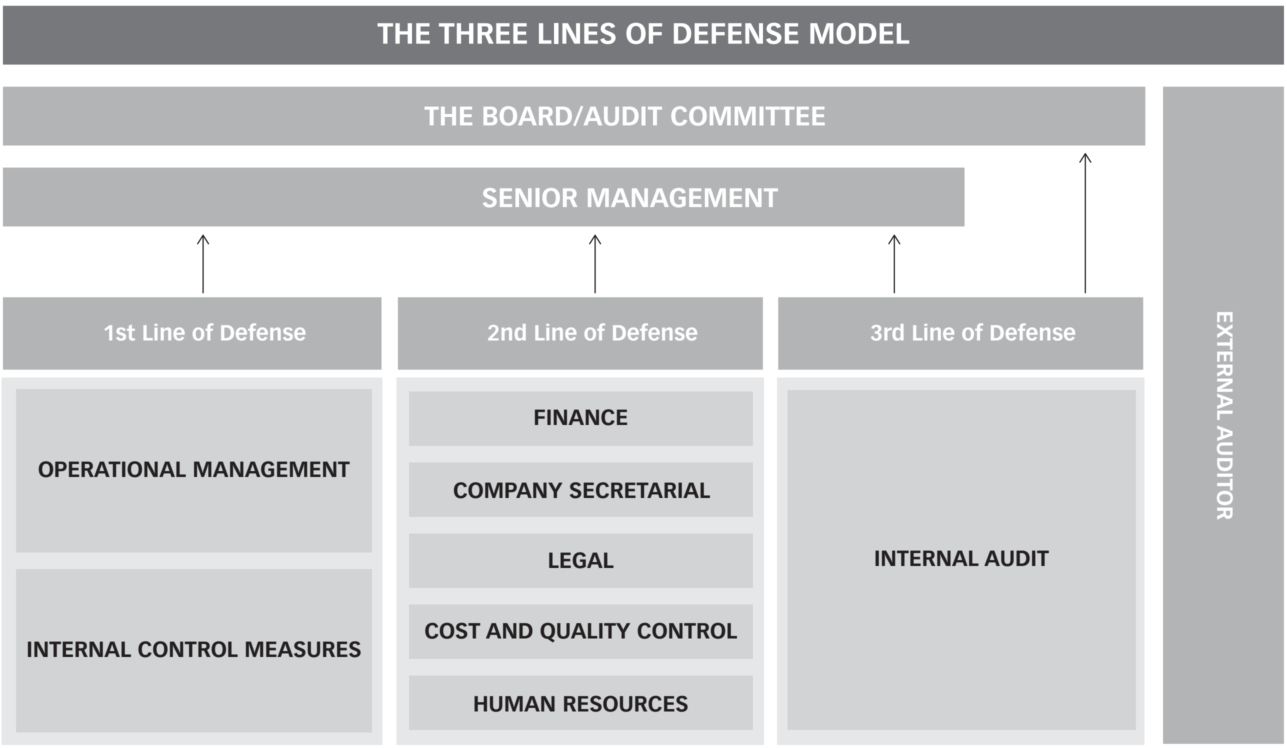
Accountability and Audit

The Board leads and maintains effective controls over the Group's activities, with executive responsibility for the running of the Group's business being delegated to management. Management provides all members of the Board with monthly updates in order to give a balanced and understandable assessment of the Group's performance, position and prospects to enable them to discharge their duties.

Risk Management and Internal Control

The Board acknowledges its responsibility to maintain the Group's risk management and internal control systems and review their effectiveness on an ongoing basis. The Board has delegated part of this responsibility to the Audit Committee.

The Group's risk management structure meets the best practice model known as "Three Lines of Defense Model" with the first line of defense being operational management and internal control measures, the second line of defense being finance, company secretarial, legal, cost and quality control and human resources functions, and the third line of defense being internal audit.



The Group's risk management and internal control systems are designed to provide reasonable, but not absolute, assurance against material misstatement or loss; to manage rather than completely eliminate the risks of failure in operational systems. The systems play a key role in the management of risks that are significant to the achievement of corporate objectives, ensuring good corporate practice, safeguarding the Shareholders' investments and the Group's assets. Emerging risks that may lead to significant negative impacts are identified and monitored on an ongoing basis. The systems comprise the Group's policies and procedures, and standards to ensure effective management, including well-defined organisational structure with specified authority limits and areas of responsibility, basis for review of financial performance, application of financial reporting standards, maintenance of proper accounting records, assurance of reliable financial information, and compliance with relevant laws and regulations.

Each of the Board and management has a responsibility to identify and analyse the risks underlying the achievement of business objectives, and to determine how such risks should be managed and mitigated. Supported by the Audit Committee, review of the effectiveness of the risk management and internal control systems is conducted annually. The review assesses all material controls, including financial, operational and compliance controls. The assessment considers the changes in nature and extent of significant risks since the previous review and the Group's ability to respond to changes in its business and the external environment. It covers the regular reports provided by management on significant issues identified during their daily operation, together with the action plans to resolve material internal control defects, if any. Internal and external auditors also report directly to the Audit Committee regularly on any risks and control issues identified in the course of their audits.

The Board believes that the quality of corporate governance is influenced by the corporate culture. Therefore, the Group is determined to foster and maintain high standards of professional conduct and business ethics. The code of conduct, which is posted on the Group's intranet, had been provided to all employees to inform them of the Group's expectations and put them under special obligations in maintaining the highest standard of honesty and trustworthiness in their jobs. The Whistleblowing Policy, which is posted on the Company's website and the Group's intranet, has established an effective channel allowing employees and other stakeholders to communicate their concerns and findings to management. The Group aims to build risk awareness and control responsibility into the corporate culture and regards them as part of the risk management and internal control systems. In addition, the Group has applied relevant controls on handling of inside information by relevant employees, including controls over the dissemination of such information and their dealings in the Group's shares.

Internal Audit

The IAD reports to the Chairman and the Audit Committee and the IAD is responsible for assessing the effectiveness of the systems of risk management and internal controls of all major projects and activities of the Group with the aim to control and mitigate risks, and ensure operational effectiveness and efficiency.

The IAD adopts a risk-based approach in conducting internal reviews, including financial, operational, compliance and risk management control functions, and monitors the operational compliance with the Group's policies and procedures. The internal audit plan and reporting documents of the Group for the year ended 31 December 2018 were prepared by the IAD, and issued to the Audit Committee for review. The IAD monitors the issues raised to ensure they are addressed and managed properly by management.

During the year, the Audit Committee had three meetings with the senior members of the IAD to discuss the role, objectives, scope and job progress of internal audit functions as well as risk management and internal control issues.

The Board, through the Audit Committee and the IAD, reviewed the adequacy of resources, qualifications and experience of staff of the Group's accounting, internal audit and financial reporting function, and their training programmes and budget at the Board meeting held in March 2019. Based on the results of the review for the year ended 31 December 2018, the Board considered that the risk management and internal control systems were effective and adequate.

Accountability and Audit *(Continued)*

Financial Reporting

The Directors acknowledge their responsibilities for keeping proper accounting records and preparing financial statements for each financial year/period which give a true and fair view of the state of affairs of the Group as at the end of the financial year/period and of the profit and loss for the year/period. In preparing the financial statements, the Directors have adopted all applicable Hong Kong Financial Reporting Standards in all material respects, selected appropriate accounting policies and then applied them consistently, made judgements and estimates that are fair and reasonable. The Directors use the going concern basis in preparing the financial statements unless this is inappropriate.

The Company recognises that a clear, balanced and timely presentation of financial report is crucial in maintaining the confidence of stakeholders. Reasonable disclosure of the Company's financial position and prospects are provided in the report. Annual and interim results are published within three and two months after the end of the relevant financial year/period respectively.

A statement of the Company's external auditor about their reporting responsibilities is included in the Independent Auditor's Report on pages 61 to 67 of the Annual Report.

Inside Information

In view of the requirements under Part XIVA of the Securities and Futures Ordinance ("SFO") (Chapter 571 of the Laws of Hong Kong) and the Listing Rules, the Company developed the Inside Information Policy and guidelines on reporting and disseminating inside information, maintaining confidentiality and complying with dealing instruction are in place for employees to follow. The Inside Information Policy (for all staff) has been communicated to the staff through the Group's intranet. Senior officers of the Group have been identified and authorised to handle and respond the external enquiries in relation to the published announcement(s). The systems and procedures on publication and handling of inside information are monitored and reviewed on a regular basis.

External Auditor

External auditor performed some non-audit services during the year. A breakdown of their remuneration is set out below:

		2018 HK$'000
Audit services		5,852
Other services		2,312
Reporting accountants work on major transaction	1,020	
Tax and business advisory services	238	
Others	1,054	

During the year, the Audit Committee met the external auditor two times, in the absence of management, to discuss matters about their independence to ensure they performed their work objectively, and any issues arising from the audit. The external auditor have confirmed in writing their independence.

Shareholder Relations

The Board has established a Shareholders Communication Policy and is dedicated to maintaining an on-going dialogue with Shareholders and the investment community. The policy is subject to review regularly to ensure its effectiveness. It aims to ensure the Shareholders and the investment community are provided with ready and timely access to all publicly available information about the Company so as to enable the Shareholders to exercise their rights in an informed manner and to allow the Shareholders and investment community to engage actively with the Company. Information is communicated to them mainly through the Company's financial reports (interim and annual reports), annual general meetings and other general meetings, as well as disclosure on the websites of Hong Kong Exchanges and Clearing Limited and the Company. The Company has also taken its own initiative to disclose the inside information in a timely manner and to comply with the latest statutory requirements under Part XIVA of the SFO.

The general meeting of the Company provides a forum for effective communication with Shareholders. The Chairmen of the Board and its committees or, if he/they cannot present, fellow Directors are available to answer questions at the general meetings.

During the year, the Board met and communicated with Shareholders at the 2018 AGM and the 2018 EGM and the notices of which were distributed to all Shareholders not less than twenty clear business days and ten clear business days before the meetings respectively. At both meetings, the Chairman demanded for a poll and the Company's share registrar was appointed as scrutineer for the vote taking. The external auditor had also attended the 2018 AGM to answer questions about the conduct of the audit, the preparation and content of the auditor's report and auditor independence.

One of the Shareholders' meeting held in 2018 was the 2018 AGM at U Banquet, 6th Floor, Pioneer Centre, 750 Nathan Road, Kowloon, Hong Kong on 27 June 2018. The matters resolved at the meeting and the percentage of votes cast in favour of the resolutions are set out below:

– To receive and consider the audited financial statements together with the reports of the Directors and auditor thereon for the year ended 31 December 2017 (100%);

– To declare a final dividend for the year ended 31 December 2017 (100%);

– To re-elect Mr Or Pui Kwan, Mr Yeung Kwok Kwong and Mr Lok Kung Chin, Hardy as Directors and to authorise the Board to fix the directors' remuneration (99.934%, 96.566%, 99.996% and 99.990% respectively);

– To re-appoint KPMG as auditor and authorise the Board to fix the auditor's remuneration (99.990%);

– To grant a general mandate to the Directors to allot, issue and deal with additional shares not exceeding 20% of the total number of the issued shares of the Company (96.616%);

– To grant a general mandate to the Directors to repurchase shares not exceeding 10% of the total number of the issued shares of the Company (100%); and

– To extend the general mandate to the Directors to issue new shares by adding the number of the shares repurchased (96.696%).

Shareholder Relations *(Continued)*

Another Shareholders' meeting held in 2018 was the 2018 EGM at U Banquet, 4th Floor, Pioneer Centre, 750 Nathan Road, Kowloon, Hong Kong on 21 November 2018. Major items discussed were the approval of three sale and purchase agreements in relation to the acquisition of entire issued share capital of Rideon, 50% issued share capital of Smart Rising and 60% issued share capital of Allround which held the property development projects in Shanghai, Zhongshan and Zhuhai, the PRC respectively. The three companies are indirectly held by Mr Or Wai Sheun and his family as at the date of the 2018 EGM.

The percentage of votes cast in favour of the resolutions are set out below:

– To ratify, confirm and approve the sale and purchase agreement in relation to the acquisition of the entire issued share capital of Rideon and the sale loan representing 100% of the obligations, liabilities and debts owing or incurred by Rideon to Polytec Holdings and the transactions contemplated thereunder (99.988%);

– To ratify, confirm and approve the sale and purchase agreement in relation to the acquisition of the 50% issued share capital of Smart Rising and the sale loan representing 50% of the obligations, liabilities and debts owing or incurred by Smart Rising to Polytec Holdings and the transactions contemplated thereunder (99.988%); and

– To ratify, confirm and approve the sale and purchase agreement in relation to the acquisition of the 60% issued share capital of Allround and the sale loan representing 60% of the obligations, liabilities and debts owing or incurred by Allround to Polytec Holdings and the transactions contemplated thereunder (99.988%).

The Company's website (www.kdc.com.hk) serves as a communication tool, in which the Company's announcements, circulars to Shareholders, notices of general meetings and financial reports are posted on the "Investor Relations" section. Corporate profile and development of corporate governance of the Company are also provided on the Company's website. Information on the website of the Company is updated on a regular basis.

Shareholders can direct their questions about their shareholdings to the Company's share registrar. They can request for publicly available information of the Company from the Company Secretary.

The Company recognises the importance of Shareholders' privacy and will not disclose the Shareholders' information without their consent unless required by law to do so.

As far as our Directors are aware, the Company has maintained a sufficient public float of its share capital in the Hong Kong stock market throughout the financial year 2018.

Dividend Policy

The Company is committed to striving for balance between increasing the value of dividends per share and retaining the competitiveness for its future business expansion. The Company's Dividend Policy aims to set out the principles and guidelines that the Company intends to apply in relation to the declaration, payment or distribution of its profits as dividends to the Shareholders provided that there are distributable profits and the normal operations of the Group are not affected.

Principles and guidelines of the Company's Dividend Policy are set out below:

1. The Board has the discretion to declare and distribute dividends to the Shareholders by way of cash or scrip or by other means that the Board considers appropriate.

2. When considering the declaration and payment of dividends, the Board shall take into account a number of factors, including but not limited to:

   (a) actual and expected financial performance of the Group;

   (b) retained earnings and distributable reserves of the Group;

   (c) expected working capital requirements, capital expenditure requirements, liquidity position and future business strategies of the Group;

   (d) general economic conditions and other factors that may have an impact on the business or financial performance and position of the Group;

   (e) the Shareholders' interests; and

   (f) any other factors that the Board may consider relevant.

3. The Company does not have any pre-determined dividend payout ratio.

4. The declaration and payment of dividends by the Company will be subject to all applicable laws, rules and regulations and the Articles of Association of the Company.

5. Any final dividend will also be subject to the Shareholders' approval.

Shareholders' Rights

Procedures for Shareholders to propose a person for election as a Director

If a Shareholder, who is duly qualified to attend and vote at the general meeting convened to deal with the appointment or election of Director(s), intends to propose a person for election as a Director of the Company, the Shareholder concerned shall lodge a written notice at the Company's registered office for the attention of the Company Secretary stating (i) his/her intention to propose such person for election as a Director; and (ii) the biographical details of the nominated candidate. Such written notice should be signed by the Shareholder concerned and the person who has been proposed indicating his/her willingness to be elected. The period for lodgement shall commence no earlier than the day after the dispatch of the notice of general meeting appointed for such election of Director(s) and end no later than seven days prior to the date of such meeting. Detailed procedures can be found on the Company's website.

Shareholders' Rights *(Continued)*

Procedures for Shareholders to convene an extraordinary general meeting ("EGM")

- Shareholders holding not less than one-twentieth (1/20) of the paid-up capital of the Company can deposit a written requisition to convene an EGM at the registered office of the Company for the attention of the Company Secretary.

- The written requisition must state the objects of the meeting, signed by the relevant Shareholders making the request and may consist of several documents in like form, each signed by one or more of the relevant Shareholders.

- The requisition will be verified by the Company's share registrar and upon their confirmation that the requisition is in order, the Company Secretary will arrange the Board to convene an EGM by serving sufficient notice in accordance with the statutory requirements to all the registered Shareholders.

- If the requisition is verified to be not in order, the relevant Shareholders will be advised of the result and accordingly, an EGM will not be convened as requested.

- If the Board does not within twenty-one days from the date of the deposit of the requisition proceed to convene an EGM for a day not more than twenty-eight days after the date on which the notice convening the EGM is given, the relevant Shareholders, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene an EGM, but any meeting so convened shall not be held after the expiration of three months from the date of the deposit of the requisition.

Procedures for Shareholders to put forward proposals at general meetings

- Shareholders may propose resolution at general meetings by submitting a written requisition. The number of Shareholders shall be (i) not less than one-fortieth (1/40) of the total voting rights of all members or (ii) not less than fifty Shareholders holding shares in the Company on which there has been paid up an average sum, per member, of not less than HK$2,000.

- The written requisition must state the proposed resolution, along with a statement of not more than one thousand words with respect to the matter referred to in the resolution or the business to be dealt with at the general meeting. It must also be signed by the relevant Shareholders and deposited at the Company's registered office for the attention of the Company Secretary not less than six weeks before the meeting in the case of a requisition requiring notice of a resolution and not less than one week in the case of any other requisition.

- The requisition will be verified by the Company's share registrar and upon their confirmation that the requisition is in order, the Company will give notice of the resolution or circulate the statement provided that the relevant Shareholders have deposited a sum reasonably sufficient to meet the Company's expenses in regard thereto.

- If the requisition is verified to be not in order or the relevant Shareholders have failed to deposit sufficient money to meet the Company's expenses for the said purpose, the relevant Shareholders will be advised of the result and accordingly, no action will be taken by the Company in that regard.

Procedures for Shareholders to send enquiries to the Board

Shareholders may make enquiries or direct concerns to the Board in writing by addressing to the Company Secretary by mail at 23rd Floor, Pioneer Centre, 750 Nathan Road, Kowloon, Hong Kong or by email to enquiry@kdc.com.hk.

Constitutional Documents

There was no change to the Company's Articles of Association during the financial year.

Report of the Directors

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

Principal Place of Business

The Company is incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 23rd Floor, Pioneer Centre, 750 Nathan Road, Kowloon, Hong Kong.

Principal Activities and Business Review

The principal activities of the Company are property investment and investment holding. Its subsidiaries are principally engaged in investment holding, property development, property investment, property management and oil production. The principal activities and particulars of its principal subsidiaries are set out in note 28 to the financial statements.

Further discussion and analysis of the above activities as required by Schedule 5 to the Companies Ordinance (the "Companies Ordinance") (Chapter 622 of the Laws of Hong Kong), including a fair review of the Group's business, a discussion of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year 2018, and an indication of likely future development in the Group's business, can be found in the "Five-Year Financial Summary", "Chairman's Statement", "Review of Operations", "Financial Review" and "Corporate Governance Report" sections of the Annual Report. The aforesaid sections form part of this report.

Dividends

An interim dividend of HK$0.22 (2017: HK$0.22) per share and a special dividend in the form of a distribution in specie on the basis of 1 ordinary share of Polytec Asset Holdings Limited ("Polytec Asset") (Stock Code: 208) for every 10 ordinary shares of the Company (2017: Nil) were paid on 12 December 2018. The Directors now recommend that a final dividend of HK$0.50 (2017: HK$0.43) per share be paid in respect of the year ended 31 December 2018.

Share Capital

Movements in share capital during the year are set out in note 23(b) to the financial statements.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the year ended 31 December 2018.

Reserves

Movements in reserves during the year are set out in the Consolidated Statement of Changes in Equity.

Oil Reserves

Except for the production during the year under review, there is no material change in the oil reserves of the Group.

Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Group as at 31 December 2018 are set out in notes 21 and 22 to the financial statements.

Finance Costs Capitalised

The amount of finance costs capitalised by the Group during the year is set out in note 4(b) to the financial statements.

Donations

Charitable donations made by the Group during the year amounted to HK$1,267,000 (2017: HK$989,000).

Properties

Particulars of major properties and property interests of the Group are shown on pages 152 to 156 of the Annual Report.

Five-Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 6 and 7 of the Annual Report.

Management Contracts

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

Major Customers and Suppliers

Particulars of major customers and suppliers of the Group during the year ended 31 December 2018 are set out in note 3(d) to the financial statements.

Directors

The Directors during the year and up to the date of this report are:

Mr Or Wai Sheun, *Chairman and Executive Director*
Mr Lai Ka Fai, *Executive Director*
Mr Or Pui Kwan, *Executive Director*
Mr Lam Yung Hei, *Executive Director*
Ms Ng Chi Man, *Non-executive Director*
Mr Yeung Kwok Kwong, *Non-executive Director*
Mr Li Kwok Sing, Aubrey, *Independent Non-executive Director*
Mr Lok Kung Chin, Hardy, *Independent Non-executive Director*
Mr Seto Gin Chung, John, *Independent Non-executive Director*
Mr David John Shaw, *Independent Non-executive Director*

In accordance with Article 105 of the Articles of Association of the Company, Mr Or Wai Sheun, Mr Seto Gin Chung, John and Mr David John Shaw will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Particulars of the Directors' emoluments, disclosed pursuant to Section 383 of the Companies Ordinance and Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), are set out in note 5(a) to the financial statements.

Brief biographical particulars of all Directors are given on pages 30 and 31 of the Annual Report.

Directors of Subsidiaries

The list of directors who have served on the boards of the subsidiaries of the Company during the year and up to the date of this report is available on the Company's website at www.kdc.com.hk.

Director's Service Contracts

None of the Directors seeking re-election at the forthcoming Annual General Meeting has a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Directors' Interests and Short Positions

As at 31 December 2018, the interests of the Directors in the shares of the Company and Polytec Asset as recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance ("SFO") (Chapter 571 of the Laws of Hong Kong), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), are set out below:

1. Long positions in the shares of the Company

Name	Nature of interests	Number of ordinary shares	Percentage of shareholding (Note 1)	Note(s)
Mr Or Wai Sheun	Corporate	830,770,124		2 & 3
	Corporate	277,500		2 & 4
		831,047,624	70.63%	
Mr Lok Kung Chin, Hardy	Founder and beneficiary of trusts	1,425,000	0.12%	5
Mr Lai Ka Fai	Personal	751,000	0.06%	
Mr David John Shaw	Personal	133,500		
	Family	67,000		6
		200,500	0.02%	
Mr Yeung Kwok Kwong	Personal	180,000	0.02%	
Mr Or Pui Kwan	Personal	43,500	0.00%	

2. Long positions in the shares of Polytec Asset

Name	Nature of interests	Number of ordinary shares	Percentage of shareholding (Note 7)	Note(s)
Mr Or Wai Sheun	Corporate	3,142,341,682		8
	Corporate	83,077,012		2 & 3
	Corporate	27,750		2 & 4
		3,225,446,444	72.66%	
Mr Or Pui Kwan	Personal	7,004,350	0.16%	
Mr Lam Yung Hei	Family	7,000,000	0.16%	9
Mr Yeung Kwok Kwong	Personal	2,018,000	0.05%	
Mr Lai Ka Fai	Personal	505,100	0.01%	
Mr Lok Kung Chin, Hardy	Founder and beneficiary of trusts	142,500	0.00%	5
Mr David John Shaw	Personal	13,350		
	Family	6,700		6
		20,050	0.00%	

Notes:

(1) The percentage of shareholding is calculated based on 1,176,631,296 shares, being the total number of issued ordinary shares of the Company as at 31 December 2018.

(2) Such interest in shares is held by Intellinsight Holdings Limited ("Intellinsight"), a wholly-owned subsidiary of New Explorer Developments Limited ("New Explorer") which is wholly-owned by Mr Or Wai Sheun.

(3) As announced on 20 December 2018, the indirect interest in shares held by New Explorer had been transferred from the trustee of the family trust of Mr Or Wai Sheun on 18 December 2018.

(4) Such interest in shares had been transferred from China Dragon Limited on 28 December 2018.

(5) Such interest in shares is owned by discretionary trusts of which Mr Lok Kung Chin, Hardy is the founder and a beneficiary respectively.

(6) Such interest in shares is held by the deceased spouse of Mr David John Shaw and the shares form part of her estate.

(7) The percentage of shareholding is calculated based on 4,438,967,838 shares, being the total number of issued ordinary shares of Polytec Asset as at 31 December 2018. Polytec Asset is an associated corporation of the Company.

(8) Such interest in shares of Polytec Asset is held by Marble King International Limited, a wholly-owned subsidiary of the Company. By virtue of the interest in the shares of the Company as described in note (2) above, Mr Or Wai Sheun is taken to be interested in the shares of Polytec Asset.

(9) Such interest in shares of Polytec Asset is held by the spouse of Mr Lam Yung Hei.

Directors' Interests and Short Positions *(Continued)*

Save as disclosed above, as at 31 December 2018, none of the Directors or the chief executives of the Company had any interests or short positions 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) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Substantial Shareholder's Interest

As at 31 December 2018, the shareholder (other than Directors and the chief executives of the Company) who had interest or short position in the shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO is set out below:

Name	**Nature of interest**	**Number of ordinary shares**	**Percentage of shareholding** (Note 1)	Note
New Explorer Developments Limited	Corporate	831,047,624	70.63%	2

Notes:

(1) The percentage of shareholding is calculated based on 1,176,631,296 shares, being the total number of issued ordinary shares of the Company as at 31 December 2018.

(2) Such interest in shares is held by Intellinsight as described in note (2) under the section headed "Directors' Interests and Short Positions".

The interest disclosed above represent long position in the shares of the Company.

Save as disclosed above, as at 31 December 2018, the Company had not been notified by any persons (other than the Directors or the chief executives of the Company) who had any interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Directors' Interests in Transactions, Arrangements or Contracts and Connected Transactions

During the year ended 31 December 2018, the Group conducted the following transactions which constituted connected transactions for the Company under the Listing Rules:

(1) On 22 June 2018, Future Star International Limited ("Future Star"), a direct wholly-owned subsidiary of the Company, entered into a sale and purchase agreement (the "Rideon Agreement") with Polytec Holdings International Limited ("Polytec Holdings", the then ultimate controlling shareholder and currently a related company of the Group) pursuant to which Future Star agreed to acquire the entire issued share capital of Rideon Limited ("Rideon") and the sale loan representing 100% of the obligations, liabilities and debts owing or incurred by Rideon to Polytec Holdings as at 31 May 2018 at a consideration of HK$2,110,242,000. Rideon held indirect interests in two property development projects located at (i) East of Siping Road, North of Dalian Road, Yangpu District, Shanghai, the People's Republic of China ("PRC") and (ii) Part 14/7, 176 Jiefang, Siping Road, Yangpu District, Shanghai, the PRC respectively through its wholly-owned subsidiaries.

(2) On 22 June 2018, Noble Prime International Limited ("Noble Prime"), an indirect non wholly-owned subsidiary of the Company, entered into a sale and purchase agreement (the "Smart Rising Agreement") with Polytec Holdings pursuant to which Noble Prime agreed to acquire 50% issued share capital of Smart Rising Limited ("Smart Rising") and the sale loan representing 50% of the obligations, liabilities and debts owing or incurred by Smart Rising to Polytec Holdings as at 31 May 2018 at an initial consideration of HK$1,200,111,000 subject to a consideration adjustment to a cap of HK$311,912,000. Smart Rising held an indirect interest in the property development project located at Nantongwei and Shawei, Beitai Village, South District, Zhongshan City, Guangdong Province, the PRC through its wholly-owned subsidiary.

(3) On 22 June 2018, Noble Prime entered into a sale and purchase agreement (the "Allround Agreement") with Polytec Holdings pursuant to which Noble Prime agreed to acquire 60% issued share capital of Allround Holdings Limited ("Allround") and the sale loan representing 60% of the obligations, liabilities and debts owing or incurred by Allround to Polytec Holdings as at 31 May 2018 at a consideration of HK$644,378,000. Allround held an indirect interest in the property development project located at the interchange place of Jiuzhou Road and Yingbin Road, Zhuhai City, Guangdong Province, the PRC through its wholly-owned subsidiary.

As at 22 June 2018, Polytec Holdings is ultimately wholly-owned by a discretionary trust of which Mr Or Wai Sheun (the Chairman of the Company) is the founder and the discretionary objects of the trust include Mr Or Wai Sheun, Ms Ng Chi Man (a Non-executive Director), Mr Or Pui Kwan (an Executive Director) and Ms Or Pui Ying Peranza (the spouse of Mr Lam Yung Hei being an Executive Director). Polytec Holdings through its wholly-owned subsidiary, Intellinsight, held 70.61% interest of the Company.

Directors' Interests in Transactions, Arrangements or Contracts and Connected Transactions *(Continued)*

Given that Polytec Holdings is indirectly owned by Mr Or Wai Sheun and his family members (of which Ms Ng Chi Man and Mr Or Pui Kwan are also Directors of the Company and Ms Or Pui Ying, Peranza is the spouse of Mr Lam Yung Hei being a Director of the Company) as at 22 June 2018, Polytec Holdings is a connected person of the Company. Accordingly, the above transactions constituted a major and connected transaction for the Company under the Listing Rules. Details of the transactions were disclosed in the joint announcement of the Company and Polytec Asset dated 22 June 2018, and the announcement and circular of the Company dated 22 June 2018 and 26 October 2018 respectively.

An independent Board committee comprising all the Independent Non-executive Directors was formed and an independent financial adviser was engaged to review the above transactions (including the terms of the Rideon Agreement, the Smart Rising Agreement and the Allround Agreement) and confirmed that the above transactions were in the ordinary and usual course of business of the Company, on normal commercial terms, fair and reasonable and in the interest of the Company and its shareholders as a whole. The above transactions were approved by the independent shareholders at an extraordinary general meeting of the Company on 21 November 2018.

The Company has complied with the disclosure requirements for the above connected transactions in accordance with Chapter 14A of the Listing Rules. Save as disclosed above and the sections headed "Interests in property development" and "Material related party transactions" as set out in notes 14 and 30 to the financial statements, none of the Directors of the Company was materially interested in any transaction, arrangement or contract entered into by the Company, its subsidiaries or holding companies or its fellow subsidiaries which transaction, arrangement or contract subsisted at the end of the year or at any time during the year and which was significant in relation to the business of the Company and its subsidiaries.

Permitted Indemnity Provision

A permitted indemnity provision (as defined in Section 469 of the Companies Ordinance) for the benefit of the Directors of the Company is currently in force and was in force throughout the year. Details of the Company's permitted indemnity provision are set out in the Corporate Governance Report of the Annual Report.

Changes in Information of Directors

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of Directors of the Company required to be disclosed are set out below:

- Mr Or Wai Sheun, the Chairman and an Executive Director of the Company, and Ms Ng Chi Man, a Non-executive Director of the Company, is the chairman and a director of New Explorer Developments Limited respectively which became the sole shareholder of Intellinsight Holdings Limited, the substantial shareholder of the Company, on 18 December 2018.

Save for the information disclosed above and the Directors' emoluments which set out in note 5(a) to the financial statements, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Disclosure Pursuant to Rule 13.21 of the Listing Rules

During the year ended 31 December 2018, the Company had no disclosure obligation pursuant to Rule 13.21 of the Listing Rules.

Retirement Schemes

Particulars of the retirement schemes operated by the Group are set out in note 29 to the financial statements.

Arrangement to Purchase Shares and Debentures

At no time during the year was the Company or any of its subsidiaries a party to any arrangements which enabled any Directors of the Company to acquire benefits by means of acquisition of shares in, or debenture of, the Company or any other body corporate.

Corporate Governance

Principal corporate governance practices of the Company are set out in the Corporate Governance Report on pages 32 to 50 of the Annual Report.

Review of Financial Statements

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2018, including the accounting principles and practices adopted by the Group, in conjunction with the Company's independent auditor.

Public Float

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

Closure of Register of Members

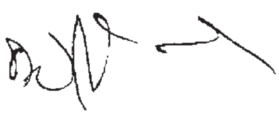
For the purpose of determining shareholders' eligibility to attend and vote at the 2019 Annual General Meeting, the Register of Members of the Company will be closed from Friday, 31 May 2019 to Wednesday, 5 June 2019, both dates inclusive. During the aforementioned period, no transfer of shares will be registered. In order to be eligible to attend and vote at the 2019 Annual General Meeting, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, for registration not later than 4:30 pm (Hong Kong time) on Thursday, 30 May 2019.

For the purpose of determining shareholders' entitlement to the proposed final dividend, the Register of Members of the Company will be closed from Wednesday, 12 June 2019 to Thursday, 13 June 2019, both dates inclusive. During the aforementioned period, no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, for registration not later than 4:30 pm (Hong Kong time) on Tuesday, 11 June 2019.

Auditor

The Group's consolidated financial statements for the year ended 31 December 2018 have been audited by KPMG, Certified Public Accountants, who retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board



Or Wai Sheun
Chairman

Hong Kong, 27 March 2019

Independent Auditor's Report

Independent auditor's report to the shareholders of
Kowloon Development Company Limited
(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of Kowloon Development Company Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 68 to 151, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

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 *(Continued)*

Assessing the net realisable value of properties under development for sale and properties held for sale in Mainland China owned by the Group, joint ventures and associated companies

Refer to accounting policies 1(l)(ii) and (l)(iii) and notes 2(d), 15, 16 and 17 to the consolidated financial statements

The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2018, the Group held a number of residential and commercial property development projects located in cities across Mainland China. In addition, the Group has interests in residential and commercial property development projects in Mainland China through joint ventures and associated companies, which are equity accounted for in the consolidated financial statements. A significant component of the carrying values of the interests in joint ventures and associated companies is the carrying value of the underlying property development projects owned by these investees. Properties under development for sale and properties held for sale are stated at the lower of cost and net realisable value. The determination of the net realisable value of these properties requires significant management estimation and judgement, particularly in determining expected future selling prices, costs to completion and the costs necessary to complete the sale of these properties. We identified the assessment of net realisable value of properties under development for sale and properties held for sale in Mainland China held by the Group and its joint ventures and associated companies as a key audit matter because of the significance of these properties to the Group's total assets and because the assessment of net realisable value is inherently subjective and requires significant management judgement and estimation in relation to estimating future construction costs and the future selling prices for each property development project, particularly in light of the current economic circumstances in Mainland China whereby local governments are imposing conditions or restrictions on the purchase of residential properties.	Our audit procedures to assess the net realisable value of properties under development for sale and properties held for sale in Mainland China included the following: • obtaining and inspecting management's valuations on which management's assessment of the net realisable value of the properties was based; • discussing with management their valuation methodology and challenging key estimates and assumptions adopted in the valuations, including expected future selling prices and costs to completion, by comparing these with, where applicable, recently transacted prices for similar properties or the prices of comparable properties located in the nearby vicinity of each development and publicly available construction cost information for properties of a similar nature and location; • conducting site visits to all properties under development for sale to observe the development progress and challenging management's development budgets reflected in the latest forecasts with reference to market statistics about estimated construction costs, signed construction contracts and/or unit construction costs of recently completed projects developed by the Group; • re-performing calculations made by management in arriving at the year end assessments of net realisable value on a sample basis and comparing the estimated future construction costs to complete each development to the Group's updated budgets; • performing a retrospective review for all properties under development for sale completed during the year by comparing the actual construction costs incurred during the year to those included in the prior year's forecasts in order to assess the accuracy of the Group's budgeting process; and • performing sensitivity analyses to determine the extent of change in those estimates that, either individually or collectively, would be required for these properties to be materially misstated and considering the likelihood of such a movement in those key estimates arising.

Key audit matters *(Continued)*

Assessing potential impairment of oil production and exploitation assets

Refer to accounting policies 1(i) and (k) and notes 2(g), 11 and 13 to the consolidated financial statements

The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2018, the Group held oil production and exploitation assets in Kazakhstan with carrying amounts totalling HK$323 million, which were stated at cost less accumulated amortisation and impairment losses. The related gas flaring permits, which are required to continue normal crude oil production, have expired on 31 December 2018. The normal crude oil production of the oilfield was temporarily suspended from 1 January 2019 but the Group has maintained a minimum production level since then. The recoverable amounts of oil production and exploitation assets were assessed by management based on the present value of estimated future cash flows arising from the continued use of the assets. The assessment of the recoverable amounts is inherently subjective as it involves significant management judgement and estimation, particularly in relation to the estimation of future crude oil prices, future oil production quantities, inflation and the discount rate applied. We identified assessing potential impairment of oil production and exploitation assets as a key audit matter because the assessment of the recoverable amounts involved significant management judgement, particularly in light of the volatility of crude oil prices, the uncertainty of the renewal of the related gas flaring permits and the current Kazakhstan business environment. Variations in these management judgements could have a material impact on the consolidated financial statements.	Our audit procedures to assess the potential impairment of oil production and exploitation assets included the following: • obtaining and inspecting the impairment assessment prepared by management and comparing the key estimates and assumptions made in prior years with the current year; • with the assistance of our internal valuation specialists, discussing with management their valuation methodology and challenging the key estimates and assumptions adopted in the discounted cash flow forecast, in particular with relation to future crude oil prices, production forecasts, future operating and capital expenditure, the discount rate and the inflation rate, by comparing these with publicly available market benchmarks, historical results, economic and industry forecasts or approved business plans and by utilising the industry knowledge and experience of our internal valuation specialists; • inspecting the documentation on which management based its assessment of the likelihood of renewal of the related gas flaring permits during the period covered by the discounted cash flow forecast; • performing a retrospective review for oil production and exploitation assets by comparing the forecast operating results made in the prior year's impairment assessment with the current year's operating results; • re-performing calculations made by management in arriving at the year end assessments of recoverable amounts and comparing the calculated recoverable amounts to the actual carrying amounts and assessing whether any impairment charges or reversals of previously recognised impairment charges were necessary; and • performing sensitivity analyses by making adjustments to future crude oil prices and the discount rate to assess the risk of possible management bias in the impairment assessment exercise.

Key audit matters *(Continued)*

Valuation of interests in property development

Refer to accounting policy 1(j) and notes 2(e) and 14 to the consolidated financial statements

The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2018, interests in property development represented the Group's interests in the development of residential and commercial properties located in Macau and Mainland China which were stated at an aggregate fair value of HK$13,838 million. The Group recognised a net surplus on revaluation of these assets of HK$175 million in the consolidated income statement for the year ended 31 December 2018. The interest in property development in Macau at 31 December 2018 mainly represented the Lote P property development project. The construction work at the Lote P property development project has been suspended since December 2015 due to the expiry of the land lease. Pursuant to the co-investment agreement for the Lote P property development project, Polytec Holdings International Limited ("Polytec Holdings"), a related company of the Company, will indemnify the Group in respect of any loss suffered in respect of the Lote P property development project. The fair values of interests in property development were measured using a discounted cash flow model prepared by management. We identified the valuation of interests in property development as a key audit matter because of the significance of interests in property development to the Group's total assets and the significance of the changes in fair value of the interests in property development to the Group's consolidated income statement and because the valuation of interests in property development can be inherently subjective and requires the exercise of significant management judgement and estimation which increases the risk of error or management bias, particularly given the volatility of property prices in Macau and Mainland China.	Our audit procedures to address the valuation of interests in property development included the following: • obtaining and assessing the discounted cash flow forecast prepared by management and comparing the key estimates and assumptions made in prior years with the current year and current market developments; • with the assistance of our internal valuation specialists, discussing with management their valuation methodology and challenging the key estimates and assumptions adopted, by comparing those relating to expected future selling prices, costs to completion, market rents and yield and the discount rates applied with publicly available market information and by utilising the industry knowledge and experience of our internal valuation specialists; • conducting site visits to the relevant property development projects to observe the development progress and evaluating whether development progress for each project was consistent with the development plan as reflected in the latest forecast; • inspecting the financial information of Polytec Holdings received by the Group and other documentation referred to by management in its assessment of the financial ability of Polytec Holdings to provide the indemnity for any loss suffered by the Group in respect of the Lote P property development project; and • re-performing calculations of the discounted cash flow model prepared by management in arriving at the year end fair value and comparing the expected profit distribution plans with the latest sales budget plans maintained by management.

Information other than the consolidated financial statements and auditor's report thereon

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

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

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

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

Responsibilities of directors for the consolidated financial statements

The directors 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 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 directors are assisted by the Audit Committee in discharging their responsibilities 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. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, 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.

Auditor's responsibilities for the audit of the consolidated financial statements *(Continued)*

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.

Auditor's responsibilities for the audit of the consolidated financial statements *(Continued)*

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Ho Wai Ming.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

27 March 2019

Consolidated Income Statement

For the year ended 31 December 2018
(Expressed in Hong Kong dollars)

	Note	2018 $'000	2017 $'000
Revenue	3	**2,842,434**	3,120,369
Cost of sales		**(422,160)**	(1,729,663)
Other revenue		**33,605**	28,265
Other net income/(expenses)	4(a)	**987**	(363,807)
Depreciation and amortisation		**(15,417)**	(16,196)
Staff costs		**(217,482)**	(224,338)
Selling, marketing and distribution expenses		**(148,729)**	(183,853)
Impairment of oil production and exploitation assets	2(g)	**–**	(226,500)
Other operating expenses		**(74,857)**	(64,919)
Fair value changes on investment properties	10	**360,389**	106,797
Fair value changes on interests in property development	14	**174,500**	–
Profit from operations		**2,533,270**	446,155
Finance costs	4(b)	**(210,544)**	(119,698)
Share of profits of associated companies		**57,552**	1,294,005
Share of profits of joint ventures		**343,627**	178,330
Profit before taxation	4	**2,723,905**	1,798,792
Income tax	6(a)	**(72,033)**	(79,891)
Profit for the year		**2,651,872**	1,718,901
Attributable to:			
Shareholders of the Company		**2,193,309**	1,635,026
Non-controlling interests		**458,563**	83,875
Profit for the year		**2,651,872**	1,718,901
Earnings per share – Basic and diluted	7	**$1.86**	$1.41

The notes on pages 75 to 151 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018
(Expressed in Hong Kong dollars)

	2018 $'000	2017 $'000
Profit for the year	**2,651,872**	1,718,901
Other comprehensive income for the year		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	**(161,100)**	222,378
Changes in fair value of interests in property development	**–**	130,365
Transfer to income statement upon recognition of distribution from interests in property development	**–**	(555,793)
Share of other comprehensive income of joint ventures and associated companies	**(165,518)**	208,471
	(326,618)	5,421
Total comprehensive income for the year	**2,325,254**	1,724,322
Attributable to:		
Shareholders of the Company	**1,867,966**	1,740,148
Non-controlling interests	**457,288**	(15,826)
Total comprehensive income for the year	**2,325,254**	1,724,322

The notes on pages 75 to 151 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2018
(Expressed in Hong Kong dollars)

	Note	2018 $'000	2018 $'000	2017 $'000	2017 $'000
Non-current assets					
Investment properties	10		**10,607,850**		10,313,500
Property, plant and equipment	11		**767,118**		541,625
Oil exploitation assets	13		**27,516**		28,175
Interests in property development	14		**12,966,296**		12,399,437
Interest in joint ventures	15		**4,533,371**		3,338,920
Interest in associated companies	16		**1,680,459**		1,824,171
Loans and advances	18		**818,470**		978,265
Deferred tax assets	9(a)		**125,794**		122,010
			31,526,874		29,546,103
Current assets					
Inventories	17	**20,015,325**		14,440,005	
Interests in property development	14	**871,658**		1,264,017	
Trade and other receivables	18	**1,130,952**		1,072,018	
Loans and advances	18	**25,014**		26,171	
Amounts due from related companies	20	**1,480,000**		–	
Amounts due from fellow subsidiaries	20	**–**		665,161	
Amounts due from joint ventures	15	**301,926**		88,651	
Pledged bank deposits	27	**1,042,161**		15,000	
Cash and bank balances		**1,068,348**		1,969,391	
		25,935,384		19,540,414	
Current liabilities					
Trade and other payables	19	**6,401,167**		4,796,620	
Amount due to a joint venture	15	**709,312**		743,500	
Loan from an associated company	16	**45,218**		39,582	
Bank loans	22	**6,825,941**		7,316,136	
Current taxation		**176,819**		174,087	
		14,158,457		13,069,925	
Net current assets			**11,776,927**		6,470,489
Total assets less current liabilities			**43,303,801**		36,016,592

Consolidated Statement of Financial Position

At 31 December 2018
(Expressed in Hong Kong dollars)

	Note	2018 $'000	2018 $'000	2017 $'000	2017 $'000
Non-current liabilities					
Loan from a related company	21	**4,274,519**		–	
Loan from ultimate holding company	21	**–**		619,526	
Bank loans	22	**8,455,488**		6,344,000	
Other payables		**17,450**		18,615	
Deferred tax liabilities	9(a)	**730,970**		737,483	
			13,478,427		7,719,624
NET ASSETS			**29,825,374**		28,296,968
Capital and reserves					
Share capital	23(b)		**8,636,490**		8,636,490
Reserves			**17,039,701**		16,269,193
Total equity attributable to the shareholders of the Company			**25,676,191**		24,905,683
Non-controlling interests			**4,149,183**		3,391,285
TOTAL EQUITY			**29,825,374**		28,296,968

Approved and authorised for issue by the board of directors on 27 March 2019.

Or Wai Sheun
Director

Lai Ka Fai
Director

The notes on pages 75 to 151 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018
(Expressed in Hong Kong dollars)

	Attributable to shareholders of the Company							
	Share capital $'000	Capital reserve $'000	Fair value reserves $'000	Exchange reserves $'000	Retained profits $'000	Total $'000	Non-Controlling interests $'000	Total equity $'000
At 1 January 2017	8,417,472	416	3,118,007	(11,603)	12,055,401	23,579,693	3,511,191	27,090,884
Changes in equity for 2017								
Profit for the year	–	–	–	–	1,635,026	1,635,026	83,875	1,718,901
Other comprehensive income	–	–	(316,571)	421,693	–	105,122	(99,701)	5,421
Total comprehensive income	–	–	(316,571)	421,693	1,635,026	1,740,148	(15,826)	1,724,322
Dividends approved in respect of the previous year	–	–	–	–	(448,766)	(448,766)	–	(448,766)
Dividends approved in respect of the current year	–	–	–	–	(258,859)	(258,859)	–	(258,859)
Dividends paid to non-controlling interests	–	–	–	–	–	–	(10,613)	(10,613)
Acquisition of additional interest in a subsidiary from non-controlling shareholders satisfied by issuance of new shares	219,018	74,449	–	–	–	293,467	(93,467)	200,000
At 31 December 2017	8,636,490	74,865	2,801,436	410,090	12,982,802	24,905,683	3,391,285	28,296,968

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018
(Expressed in Hong Kong dollars)

		Attributable to shareholders of the Company							
	Note	Share capital $'000	Capital reserve $'000	Fair value reserves $'000	Exchange reserves $'000	Retained profits $'000	Total $'000	Non-Controlling interests $'000	Total equity $'000
At 1 January 2018		8,636,490	74,865	2,801,436	410,090	12,982,802	24,905,683	3,391,285	28,296,968
Impact on initial application of HKFRS 9	1(d)	–	–	(2,801,436)	–	2,801,436	–	–	–
At 1 January 2018 (adjusted)		8,636,490	74,865	–	410,090	15,784,238	24,905,683	3,391,285	28,296,968
Changes in equity for 2018									
Profit for the year		–	–	–	–	2,193,309	2,193,309	458,563	2,651,872
Other comprehensive income		–	–	–	(325,343)	–	(325,343)	(1,275)	(326,618)
Total comprehensive income		–	–	–	(325,343)	2,193,309	1,867,966	457,288	2,325,254
Dividends approved in respect of the previous year		–	–	–	–	(505,951)	(505,951)	–	(505,951)
Dividends approved in respect of the current year		–	–	–	–	(258,859)	(258,859)	–	(258,859)
Dividends paid to non-controlling interests		–	–	–	–	–	–	(39,939)	(39,939)
Intercompany loan assigned in excess of the consideration paid for acquisition of a subsidiary *(Remark (i))*		–	7,901	–	–	–	7,901	–	7,901
Special dividend by way of distribution in specie of shares in a subsidiary *(Remark (ii))*		–	(259,361)	–	–	(81,188)	(340,549)	340,549	–
At 31 December 2018		8,636,490	(176,595)	–	84,747	17,131,549	25,676,191	4,149,183	29,825,374

Remarks:

(i) During the year ended 31 December 2018, the Group had entered into an agreement with Polytec Holdings International Limited ("Polytec Holdings") for the proposed acquisition of 100% equity interest of a wholly owned subsidiary of Polytec Holdings together with the assignment of loan from Polytec Holdings for an aggregate consideration of $2,110,242,000 of which $742,550,000 for the purchase of shares and $1,367,692,000 for the assignment of the intercompany loan. The difference of $7,901,000 between the consideration paid of $1,367,692,000 and the intercompany loan assigned of $1,375,593,000 is accounted for as capital contribution.

(ii) During the year ended 31 December 2018, the Group distributed its 2.65% equity interest in Polytec Asset Holdings Limited ("PAH") (Stock Code: 208) through distribution of special dividend as disclosed in note 8. Such distribution is accounted for as a partial disposal of subsidiary without loss of control. The difference of $259,361,000 between the fair value of the special dividend and the increase in carrying amount of the non-controlling interests has been recognised directly in equity under the capital reserve.

The notes on pages 75 to 151 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2018
(Expressed in Hong Kong dollars)

	Note	2018 $'000	2017 $'000
Net cash generated from/(used in) operating activities	24(a)	**1,525,866**	(674,505)
Investing activities			
Proceeds from sale of property, plant and equipment		**1,486**	59
Proceeds from sale of investment properties		**5,987**	7,893
Additions to investment properties		**(166,085)**	(140,367)
Additions to property, plant and equipment		**(10,914)**	(2,698)
Funding to interests in property development		**–**	(700,000)
Dividend received from a joint venture		**68,684**	66,213
Increase in pledged bank deposits		**(1,067,490)**	–
Decrease in bank deposits with maturity more than 3 months		**–**	6,436
Cash received from acquisition of a subsidiary	24(c)	**5,557**	–
Net cash used in investing activities		**(1,162,775)**	(762,464)
Financing activities			
Drawdown of bank loans	24(b)	**3,964,675**	3,899,000
Repayment of bank loans	24(b)	**(3,540,957)**	(308,917)
Increase in loan from ultimate holding company	24(b)	**–**	543,563
Decrease in loan from a related company	24(b)	**(843,223)**	–
Decrease in loan from a fellow subsidiary	24(b)	**–**	(814,056)
Increase in loan from an associated company	24(b)	**3,346**	1,510
Dividends paid to shareholders of the Company		**(764,713)**	(707,022)
Dividends paid to non-controlling interests		**(39,939)**	(10,613)
Net cash (used in)/generated from financing activities		**(1,220,811)**	2,603,465
Net (decrease)/increase in cash and cash equivalents		**(857,720)**	1,166,496
Cash and cash equivalents at 1 January		**1,969,391**	788,964
Effect of foreign exchange rate changes		**(43,323)**	13,931
Cash and cash equivalents at 31 December		**1,068,348**	1,969,391
Analysis of balances of cash and cash equivalents at 31 December			
Cash and bank balances		**1,068,348**	1,969,391

The notes on pages 75 to 151 form part of these financial statements.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

1 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 1(d) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Measurement basis

The measurement basis used in the preparation of the financial statements is the historical cost basis except for investment properties and interests in property development, which are measured at their fair values, as explained in the accounting policies set out below.

The preparation of the financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

(c) Basis of consolidation

The consolidated financial statements include the financial statements of Kowloon Development Company Limited ("the Company") and all of its subsidiaries (together referred to as "the Group") made up to 31 December, together with the Group's share of the results for the year and net assets of its associated companies and joint ventures. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from or to the date of their acquisition or disposal, as appropriate.

1 Significant accounting policies *(Continued)*

(d) Changes in accounting policies

(i) Overview

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

(i) HKFRS 9, "Financial instruments"

(ii) HKFRS 15, "Revenue from contracts with customers"

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The Group has been impacted by HKFRS 9 in relation to classification of financial assets and measurement of credit losses, and impacted by HKFRS 15 in relation to timing of revenue recognition. Details of the changes in accounting policies are discussed in note 1(d)(ii) for HKFRS 9 and note 1(d)(iii) for HKFRS 15.

Under the transition methods chosen, the Group recognises cumulative effect of the initial application of HKFRS 9 and HKFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. Comparative information is not restated.

(ii) HKFRS 9, "Financial instruments"

The adoption of HKFRS 9 has resulted in the following changes in accounting policies for interests in property development:

In prior reporting periods, interests in property development are classified as available-for-sale financial assets and changes in fair value were recognised in other comprehensive income. Upon the adoption of HKFRS 9, interests in property development are classified as investments measured at fair value through profit or loss ("FVPL") and changes in fair value of the investments (including interest) are recognised in profit or loss.

The above changes in accounting policies have been applied retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39, "Financial instruments: recognition and measurement".

1 Significant accounting policies *(Continued)*

(d) Changes in accounting policies *(Continued)*

(ii) HKFRS 9, "Financial instruments" *(Continued)*

The following table summarises the impact of transition to HKFRS 9 on retained profits and fair value reserves at 1 January 2018.

	$'000
Retained profits	
Transferred from fair value reserves relating to financial assets now measured at FVPL	2,801,436
Increase in retained profits at 1 January 2018	2,801,436
Fair value reserves	
Transferred to retained profits relating to financial assets now measured at FVPL	(2,801,436)
Decrease in fair value reserves at 1 January 2018	(2,801,436)

The following table shows the original measurement category for available-for-sale financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

	HKAS 39 carrying amount at 31 December 2017 $'000	Reclassification $'000	HKFRS 9 carrying amount at 1 January 2018 $'000
Financial assets carried at FVPL under HKFRS 9			
Interests in property development *(Remark)*	–	13,663,454	13,663,454
Financial assets classified as available-for-sale under HKAS 39			
Interests in property development *(Remark)*	13,663,454	(13,663,454)	–

Remark: Under HKAS 39, interests in property development were classified as available-for-sale financial assets. They are classified as financial assets carried at FVPL under HKFRS 9.

The measurement categories for all financial assets and financial liabilities measured at amortised cost remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

1 Significant accounting policies *(Continued)*

(d) Changes in accounting policies *(Continued)*

(ii) HKFRS 9, "Financial instruments" *(Continued)*

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure a lifetime expected credit loss, depending on the asset and the facts and circumstances. The application of the expected credit loss model will result in earlier recognition of credit losses, but with no material financial impact to the Group.

(iii) HKFRS 15, "Revenue from contracts with customers"

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 replaces HKAS 18, "Revenue", which covered revenue arising from sale of goods and rendering of services.

The Group has elected to use the cumulative effect transition method and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018, if any. Therefore, comparative information has not been restated and continues to be reported under HKAS 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

No adjustments to the opening balance of equity at 1 January 2018 have been made on the initial application of HKFRS 15 as the Group did not have contracts that were not completed before 1 January 2018.

Under the requirements of HKFRS 15, revenue from sale of goods and provision of services by the Group will be recognised when the customer obtains control of the promised goods or services in the contract. The Group has assessed that the adoption of HKFRS 15 would have impact on the recognition of revenue relating to the Group's sale of properties, under which the revenue from the sale of properties during the accounting period is recognised in the Group's consolidated income statement on the basis that control over the ownership of the property has been passed to the customer during the current accounting period. Taking into account the contract terms, the Group's business practice and the legal and regulatory environment of Hong Kong, Mainland China and Macau, the property sales contracts do not meet the criteria for recognising revenue over time and therefore revenue from property sales continues to be recognised at a point in time. Previously, the revenue from the sale of properties was recognised upon the later of the execution of a binding sale agreement and when the relevant occupation permit/completion certificate issued by the respective building authority, which was taken to be the point in time when the risks and rewards of ownership of the property have passed to the customer.

The Group currently offers different payment scheme to customers, in relation to which the transaction price and the amount of revenue from the sale of property will be adjusted when significant financing component exists in that contract.

The excess of cumulative revenue recognised in profit or loss over and above the cumulative payments by customers at the end of the reporting period is recognised as contract asset under "Trade and other receivables" in the consolidated statement of financial position. The excess of cumulative payments made by customers over and above the cumulative revenue recognised in profit or loss at the end of the reporting period is recognised as contract liability under "Trade and other payables" in the consolidated statement of financial position.

1 Significant accounting policies *(Continued)*

(d) Changes in accounting policies *(Continued)*

(iii) HKFRS 15, "Revenue from contracts with customers" *(Continued)*

The following tables summarise the estimated impact of the adoption of HKFRS 15 on the Group's consolidated financial statements for the year ended 31 December 2018, by comparing the amounts reported under HKFRS 15 in these consolidated financial statements with estimates of the hypothetical amounts that would have been recognised under HKAS 18 if it had continued to be applied in 2018 instead of HKFRS 15. These tables show only those line items impacted by the adoption of HKFRS 15:

	Amounts reported in accordance with HKFRS 15 (A) $'000	Hypothetical amounts under HKAS 18 (B) $'000	Difference: Estimated impact of adoption of HKFRS 15 on 2018 (A) – (B) $'000
Line items in the consolidated income statement of profit or loss for the year ended 31 December 2018 impacted by the adoption of HKFRS 15:			
Revenue	2,842,434	7,555,177	(4,712,743)
Cost of sales	(422,160)	(3,194,004)	2,771,844
Selling, marketing and distribution expenses	(148,729)	(310,701)	161,972
Profit from operations	**2,533,270**	**4,312,197**	**(1,778,927)**
Profit before taxation	**2,723,905**	**4,502,832**	**(1,778,927)**
Income Tax	(72,033)	(365,556)	293,523
Profit for the year	**2,651,872**	**4,137,276**	**(1,485,404)**
Profit attributable to shareholders of the Company	**2,193,309**	**3,678,713**	**(1,485,404)**
Earnings per share – Basic and diluted *($)*	**1.86**	**3.12**	**(1.26)**
Line items in the consolidated statement of comprehensive income for the year ended 31 December 2018 impacted by the adoption of HKFRS 15:			
Total comprehensive income for the year	**2,325,254**	**3,810,658**	**(1,485,404)**
Total comprehensive income for the year to shareholders of the Company	**1,867,966**	**3,353,370**	**(1,485,404)**

1 Significant accounting policies *(Continued)*

(d) Changes in accounting policies *(Continued)*

(iii) HKFRS 15, "Revenue from contracts with customers" *(Continued)*

	Amounts reported in accordance with HKFRS 15 (A) $'000	Hypothetical amounts under HKAS 18 (B) $'000	Difference: Estimated impact of adoption of HKFRS 15 on 2018 (A) – (B) $'000
Line items in the consolidated statement of financial position as at 31 December 2018 impacted by the adoption of HKFRS 15:			
Deferred tax assets	125,794	107,075	18,719
Total non-current assets	**31,526,874**	**31,508,155**	**18,719**
Inventories	20,015,325	17,243,481	2,771,844
Trade and other receivables	1,130,952	3,576,598	(2,445,646)
Total current assets	**25,935,384**	**25,609,186**	**326,198**
Trade and other payables	6,401,167	4,296,042	2,105,125
Current taxation	176,819	451,623	(274,804)
Total current liabilities	**14,158,457**	**12,328,136**	**1,830,321**
Net assets	**29,825,374**	**31,310,778**	**(1,485,404)**
Reserves	17,039,701	18,525,105	(1,485,404)
Total equity attributable to the shareholders of the Company	**25,676,191**	**27,161,595**	**(1,485,404)**
Total equity	**29,825,374**	**31,310,778**	**(1,485,404)**
Line items in the reconciliation of profit before taxation to cash generated from operations for the year ended 31 December 2018 *(Note 24(a))* impacted by the adoption of HKFRS 15:			
Profit before taxation	2,723,905	4,502,832	(1,778,927)
(Increase)/Decrease in inventories	(1,097,555)	1,674,289	(2,771,844)
Decrease/(Increase) in trade and other receivables	99,621	(2,346,025)	2,445,646
Increase/(Decrease) in trade and other payables	1,604,242	(500,883)	2,105,125

1 Significant accounting policies *(Continued)*

(e) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(t)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Interest in subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has the power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

1 Significant accounting policies *(Continued)*

(f) Interest in subsidiaries and non-controlling interests *(Continued)*

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in income statement. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(o)) or, when appropriate, the cost on initial recognition of an investment in an associated company or joint venture (see note 1(g)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(t)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(g) Associated companies and joint ventures

An associated company is an entity in which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or the Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associated company or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, an investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post-acquisition changes in the Group's share of the investee's net assets and any impairment losses relating to the investment. Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investee and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investee's other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associated company or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associated company or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associated companies and joint ventures are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associated company becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associated company or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(o)).

In the Company's statement of financial position, investments in associated companies and joint ventures are stated at cost less impairment losses (see note 1(t)), unless classified as held for sale (or included in a disposal group that is classified as held for sale).

1 Significant accounting policies *(Continued)*

(h) Investment properties

Investment properties are land and/or buildings held under leasehold interest to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property. They are valued semi-annually by independent firm of professional valuers on a market value basis. Investment properties are stated at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair values cannot be reliably measured at that time in which case they are stated at cost less any impairment losses. All changes in fair value of investment properties are recognised directly in the consolidated income statement.

(i) Property, plant and equipment

(i) Leasehold land and buildings held for own use

Leasehold land held for own use is stated at cost less accumulated depreciation and impairment losses.

Leasehold buildings held for own use which are situated on leasehold land classified as held under operating lease are stated in the statement of financial position at cost less accumulated depreciation and impairment losses.

(ii) Other property, plant and equipment

Other property, plant and equipment (other than buildings held for own use) is stated at cost less accumulated depreciation and impairment losses (see note 1(t)).

(iii) Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(j) Interests in property development

(A) Policy applicable from 1 January 2018

Interests in property development are classified as investments measured at FVPL. Changes in fair value of the investments (including interest) are recognised in profit or loss. The fair value of interests in property development is determined based on the estimated entitlements to the interests in property development.

(B) Policy applicable prior to 1 January 2018

Interests in property development are stated at fair value. Changes in fair value are recognised in other comprehensive income and accumulated in the fair value reserve, unless there is objective evidence that the interests in property development have been impaired, whereupon any amount held in the fair value reserve in respect of the interests in property development is transferred to the consolidated income statement for the period in which the impairment is identified. The fair value of interests in property development is determined based on the estimated entitlements to the interests in property development. When the interests in property development are derecognised, the cumulative gain or loss previously recognised in equity is transferred to the consolidated income statement.

1 Significant accounting policies *(Continued)*

(k) Oil exploitation assets

Costs incurred for the acquisition and maintenance of the exploitation rights of the Group's oil exploration and production activities are capitalised as oil exploitation assets. Oil exploitation assets are stated at cost less accumulated amortisation and impairment losses. The amortisation is calculated on unit of production method based upon the estimated proved and probable oil reserves.

(l) Inventories

(i) Land/Properties held for future development

Land/Properties held for future development is stated at the lower of cost and the estimated net realisable value. Net realisable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the properties.

(ii) Properties under development

Properties under development are stated at the lower of cost and estimated net realisable value. Cost comprises the acquisition cost of land, borrowing costs capitalised, aggregate costs of development, materials and supplies, wages and other direct expenses. Net realisable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the properties.

(iii) Properties held for sale

Properties held for sale are stated at the lower of cost and estimated net realisable value. Net realisable value represents the estimated selling price less costs to be incurred in selling the properties.

(iv) Trading goods and consumables

Inventories other than consumables are stated at the lower of cost and net realisable value. Consumables are stated at cost less any provision for obsolescence. Cost of inventories, other than properties, is determined using the weighted average method. Net realisable value is the estimated selling price less the estimated costs of completion and the estimated costs necessary to make the sale.

(m) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 1(v)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses ("ECL") in accordance with the policy set out in note 1(t)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see note 1(n)).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 1(v)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 1(n)).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see note 1(v)).

1 Significant accounting policies *(Continued)*

(n) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see note 1(m)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 1(t)).

(o) Other investments in equity securities

The Group's policies for investments in equity securities, other than investments in subsidiaries, associated companies and joint ventures, are set out below:

Investments in equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at FVPL for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 31(f). These investments are subsequently accounted for as follows, depending on their classification:

(A) Policy applicable from 1 January 2018

Investments other than equity investments

Non-equity investments held by the Group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note 1(v)(vi)).

– fair value through other comprehensive income ("FVOCI") – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

– FVPL if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

1 Significant accounting policies *(Continued)*

(o) Other investments in equity securities *(Continued)*

(A) Policy applicable from 1 January 2018 *(Continued)*

Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in note 1(v)(v).

(B) Policy applicable prior to 1 January 2018

Financial assets are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. These assets are subsequently accounted for as follows, depending on their classification:

Financial investments held for trading are classified as current assets. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in the income statement. The net gain or loss recognised in the income statement do not include any dividends or interest earned on these investments as they are recognised in accordance with the policies set out in note 1(v)(v) and 1(v)(vi).

Financial assets which do not fall into any of the above categories are classified as available-for-sale investments. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 1(t) policy applicable prior to 1 January 2018). Dividend income from equity securities and interest income from debt securities calculated using the effective interest method are recognised in profit or loss in accordance with the policies set out in notes 1(v)(v) and 1(v)(vi) respectively. Foreign exchange gains and losses resulting from changes in the amortised cost of debts securities are also recognised in profit or loss.

(p) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(x)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

1 Significant accounting policies *(Continued)*

(q) Cash and cash equivalents

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

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(r) Borrowings

Borrowings are recognised initially at fair value and subsequently stated at amortised cost. Any difference between the amount initially recognised and the redemption value is amortised to the income statement or the cost of the qualifying assets over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to prepare for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred. The capitalisation rate is arrived at by reference to the actual rate payable on borrowings for development purposes or, with regard to that part of the development costs financed out of general working capital, to the average rate thereof.

(s) Depreciation and amortisation

(i) Leasehold land and buildings

Leasehold land and buildings are stated at cost less accumulated depreciation and impairment losses. Leasehold land is depreciated over the remaining term of the leases. Buildings and improvements thereto are depreciated over the shorter of their useful lives and the unexpired terms of the leases.

(ii) Oil production assets

Oil production assets include all property, plant and equipment arising from oil exploration and production activities. Depreciation of certain oil production assets is calculated based on a unit of production method based upon the estimated proved and probable oil reserves to write off the cost of each asset, less any estimated residual value.

(iii) Other property, plant and equipment

Other property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Future estimated dismantling and restoration costs of other property, plant and equipment are discounted at appropriate rates and are capitalised as part of the costs of other property, plant and equipment, which are subsequently depreciated. Any subsequent change in the present value of the estimated costs, other than the change due to passage of time, is reflected as an adjustment to the costs.

Except for certain oil production assets as set out in note 1(s)(ii) above, depreciation is calculated on a straight line method to write off the assets over their estimated useful lives as follows:

– Air conditioning plant, plant and machinery, lifts and escalators	5 to 10 years
– Furniture and fixtures, motor vehicles, electronic data processing equipment and others	2 to 5 years

1 Significant accounting policies *(Continued)*

(t) Credit losses and impairment of assets

(i) Credit losses from financial instruments and contract assets

(A) Policy applicable from 1 January 2018

The Group recognises a loss allowance for ECLs on the following items:

– financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables, loans and advances, amounts due from joint ventures, loans to associated companies and loans to joint ventures); and

– contract assets as defined in HKFRS 15 (see note 1(m)).

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof; and

– variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

1 Significant accounting policies *(Continued)*

(t) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments and contract assets *(Continued)*

(A) Policy applicable from 1 January 2018 (Continued)

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

1 Significant accounting policies *(Continued)*

(t) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments and contract assets *(Continued)*

(A) Policy applicable from 1 January 2018 (Continued)

Basis of calculation of interest income

Interest income recognised in accordance with note 1(v)(vi) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation; or

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

Write-off policy

The gross carrying amount of a financial asset or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

1 Significant accounting policies *(Continued)*

(t) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments and contract assets *(Continued)*

(B) Policy applicable prior to 1 January 2018

Investments in debt and equity securities, interests in property development and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For investments in associated companies and joint ventures accounted for under the equity method in the consolidated financial statements, the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount. The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

1 Significant accounting policies *(Continued)*

(t) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments and contract assets *(Continued)*

(B) Policy applicable prior to 1 January 2018 (Continued)

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale securities and interests in property development, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses in respect of available-for-sale debt securities and interests in property development are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed.

Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

1 Significant accounting policies *(Continued)*

(t) Credit losses and impairment of assets *(Continued)*

(ii) Impairment of other assets

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

- property, plant and equipment (other than properties carried at fair values);
- oil exploitation assets;
- intangible assets;
- goodwill; and
- investments in subsidiaries, associated companies and joint ventures in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- *Calculation of recoverable amount*

  The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- *Recognition of impairment losses*

  An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

- *Reversals of impairment losses*

  In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

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

1 Significant accounting policies *(Continued)*

(t) Credit losses and impairment of assets *(Continued)*

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, "Interim financial reporting", in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition and reversal criteria as it would at the end of the financial year (see notes 1(t)(i) and 1(t)(ii)).

Impairment losses recognised in an interim period in respect of goodwill not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(u) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

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

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits. Apart from differences which arise on initial recognition of assets and liabilities, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 1(h), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the end of the reporting period unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

1 Significant accounting policies *(Continued)*

(v) Recognition of revenue

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Rental income from operating leases

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

(ii) Sale of properties

(A) Policy applicable from 1 January 2018

Revenue arising from the sale of properties is recognised in the Group's consolidated income statement on the basis that control over the ownership of the property has been passed to the customer during the current accounting period, which is the point in time when the customer has the ability to direct the use of the property and obtain substantially all the benefits of the property. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the statement of financial position under contract liabilities.

(B) Policy applicable prior to 1 January 2018

Revenue arising from sale of properties is recognised upon the later of the execution of a binding sale agreement and when the relevant occupation permit/completion certificate is issued by the respective building authority, which is taken to be the point in time when the risks and rewards of ownership of the property have passed to the purchaser and is net of business tax. Payments received from the purchasers prior to this stage are recorded as deposits received on sale of properties in the statement of financial position.

(iii) Income from interests in property development

Income from interests in property development is recognised when the Group is entitled to a distribution in respect of the investment.

1 Significant accounting policies *(Continued)*

(v) Recognition of revenue *(Continued)*

(iv) Sale of crude oil

(A) *Policy applicable from 1 January 2018*

Revenue arising from the sale of crude oil is recognised at a point in time when the customer takes possession of and accepts the crude oil, which is taken to be the point in time when the customer has obtained control of the crude oil sold.

(B) *Policy applicable prior to 1 January 2018*

Revenue arising from the sale of crude oil is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither continuous managerial involvement to the degree usually associated with ownership, nor effective control over the crude oil sold.

(v) Dividend income

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(vi) Interest income

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the asset concerned.

(w) Translation of foreign currencies

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

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to the income statement when the profit or loss on disposal is recognised.

1 Significant accounting policies *(Continued)*

(x) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss.

The amount of the guarantee initially recognised as deferred income is amortised in the income statement over the term of the guarantee as income from financial guarantees issued.

(A) Policy applicable from 1 January 2018

The Group monitors the risk that the specified debtor will default on the contract and recognises a provision when ECLs on the financial guarantees are determined to be higher than the amount carried in "trade and other payables" in respect of the guarantees (i.e. the amount initially recognised, less accumulated amortisation).

To determine ECLs, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured.

As the Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, a provision would be recognised if and when it becomes probable that (i) the holder of the guarantee would call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount carried in trade and other payables in respect of the guarantee.

1 Significant accounting policies *(Continued)*

(x) Financial guarantees issued, provisions and contingent liabilities *(Continued)*

(ii) Other provisions and contingent liabilities

Provisions are recognised when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

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

(y) Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

(1) has control or joint control over the Group;

(2) has significant influence over the Group; or

(3) is a member of the key management personnel of the Group or the Group's parent.

(ii) An entity is related to the Group if any of the following conditions applies:

(1) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(3) Both entities are joint ventures of the same third party.

(4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(5) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(6) The entity is controlled or jointly controlled by a person identified in (i).

(7) A person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(8) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

1 Significant accounting policies *(Continued)*

(z) Operating lease charges

Where the Group has the use of assets held under operating lease, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 1(h)) or is held for development for sale (see note 1(l)(i)).

(aa) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in profit or loss as incurred.

Contributions to retirement plans (defined contribution retirement plans) managed by respective local governments of the municipalities in which the Group operates in the Mainland China are charged to profit or loss as and when incurred, except to the extent that they are included in properties under development for sale not yet recognised as an expense.

(ab) Segment reporting

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

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

2 Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the entity's accounting policies (which are described in note 1), management has made the following judgements that have significant effect on the amounts recognised in the financial statements.

(a) Depreciation and amortisation

The Group depreciates property, plant and equipment other than properties and oil production assets on a straight line basis over the estimated useful lives of 2 to 10 years, after taking into account of the estimated residual value, using the straight line method, commencing from the date the asset is placed into productive use. The estimated useful lives reflect the Directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's assets.

Certain oil production assets and oil exploitation assets are depreciated and amortised based on a unit of production method based upon the estimated proved and probable oil reserves. The estimates of the Group's oil reserves are the best estimates based on the information currently available to the management and represent only approximate amounts because of the subjective judgements involved in developing such information. Oil reserve estimates are subject to revision, either upward or downward, based on new relevant information. Changes in oil reserves will affect unit of production depreciation, amortisation and depletion recorded in the Group's consolidated financial statements for oil production assets and oil exploitation assets related to oil production activities. A reduction in oil reserves will increase depreciation, amortisation and depletion charges.

(b) Allowances for expected credit losses

The Group uses a provision matrix to calculate ECLs. The provision rates are based on days past due for groupings of various debtors segments that have similar loss patterns. The provision matrix is based on management's estimate of the lifetime expected credit losses to be incurred, which is estimated by taking into account the credit loss experience, ageing of overdue trade receivables, debtors' repayment history and debtors' financial position and an assessment of both the current and forecast general economic conditions, all of which involve a significant degree of management judgement.

The provision of ECLs is sensitive to changes in circumstances and of forecast general economic conditions. The information about the ECLs is disclosed in note 18. If the financial condition of the debtors or the forecast economic conditions were to deteriorate, actual loss allowance would be higher than estimated.

(c) Estimation of fair value of investment properties

Investment properties are stated at market value based on a valuation performed by an independent firm of professional valuers at the end of the reporting period based on certain assumptions (see note 10(b)).

The fair value of investment properties is revalued semi-annually by independent qualified valuers, by using the income capitalisation approach with reference to sales transactions as convertible in the market. The income capitalisation approach is the sum of the term value and the reversionary value calculated by discounting the contracted annual rent at the capitalisation rate over the existing lease period; and the sum of average unit market rent at the capitalisation rate after the existing lease period.

The fair value of investment properties under development is revalued semi-annually by independent qualified valuers, by estimating the fair value of such properties as if they were completed in accordance with relevant development plan, which makes reference to the average selling prices based on certain comparable sales transactions in the market and adjusted for differences such as location, size, timing and other factors collectively, and then deducting the estimated cost to complete the construction.

2 Critical accounting judgements and key sources of estimation uncertainty *(Continued)*

(d) Estimation of provision for land/properties held for future development and properties under development and held for sale

Management determines the net realisable value of land/properties held for future development and properties under development and held for sale by using the prevailing market data such as most recent sale transactions and market survey reports available from independent property valuers.

Management's assessment of net realisable value of land/properties held for future development and properties under development and held for sale requires judgement as to the anticipated sale prices with reference to the recent sale transaction in nearby locations, rate of new property sales, marketing costs and the expected costs to complete the properties and the legal and regulatory framework and general market conditions.

(e) Estimation of fair value of interests in property development

Interests in property development are stated at their fair value measured using a discounted cash flow model. In preparing the discounted cash flow model, management estimates the future cash flows expected to arise from the interests in property development and a suitable discount rate based on the past performance, current market conditions, development and building plans, sale and marketing plans and management's expectations for market development and terms provided under the co-investment agreements. Any adverse change in the key assumptions could decrease the fair value.

Interests in property development represent the Group's interests in the development of two properties located at Lote P and Lotes T+T1 of Novos Aterros da Areia Preta, in Macau and one property located at Huizhou, in Mainland China under the co-investment agreements with a related company, Polytec Holdings and two of its wholly owned subsidiaries.

In respect of the development project at Lote P, its land concession was agreed in December 1990 whereby the proposed use of land was successfully converted from industrial to residential and commercial in 2006, with a lease term of 25 years ended on 25 December 2015 (the "Expiry Date"). If the project had been completed on or before the Expiry Date, it would have become a definite land concession which would be renewable every 10 years until 2049. However, in September 2013, the Macau Special Administrative Region Government (the "Macau SAR Government") promulgated the Macau New Land Law (the "MNLL") which came into effect in March 2014. The MNLL provides that the Macau SAR Government will have the right to resume the land of any property development that is not completed and/or where the conditions as stated in the land concession for which have not been fulfilled by the stipulated expiry date without any compensation to the property owner. Owing to the delays caused by the Macau SAR Government in granting the requisite approvals and permits for the development of the project, the project could not commence until August 2014. As a result, the construction work could not be completed by the Expiry Date and all construction work is currently suspended. An application had been made to the Macau SAR Government for an extension of the Expiry Date but it was declined by the relevant department of the Macau SAR Government.

2 Critical accounting judgements and key sources of estimation uncertainty *(Continued)*

(e) Estimation of fair value of interests in property development *(Continued)*

On 23 May 2018, the Tribunal de Ultima Instancia (the Court of Final Appeal) of the Macau SAR rejected the application of final appeal by Polytex Corporation Limited ("PCL"), the registered owner of the property of the project and a wholly owned subsidiary of Polytec Holdings, for invalidating the decision made by the Chief Executive of the Macau SAR to terminate the land concession of the project. According to the legal opinion obtained by the Group, it is expected that the principal application by PCL to the Tribunal Administrativo (the Administrative Court) of the Macau SAR requesting compensation of time (by way of extension of the concession) for the project will cease to proceed, due to the aforesaid unfavourable judgement of the Tribunal de Ultima Instancia (the Court of Final Appeal) of the Macau SAR.

Based on the legal opinion obtained by the Group, management is of the view that PCL has strong legal grounds and arguments to seek compensation from the Macau SAR Government for losses and damages, including but not limited to all actual losses suffered and all loss of profit as expected to be derived upon completion of the project, as a result of the procedural delay in granting the requisite approvals and permits for the development of the project which caused the incompletion of the project before the Expiry Date. On 29 November 2018, PCL had filed a civil claim against the Macau SAR Government to seek compensation for losses and damages on the development project at Lote P.

In addition, pursuant to the co-investment agreement for the development of the project, in the event that PCL fails to complete the project under the co-investment agreement, Polytec Holdings will be required to indemnify the Group in respect of any loss suffered. Therefore, any loss to the Group due to the repossession of the land of the project by the Macau SAR Government will be indemnified by Polytec Holdings. Accordingly, no impairment for the interests in the project was considered necessary at 31 December 2018.

In respect of the development project at Lotes T+T1, the occupation permit had been obtained in July 2017. The pre-sold residential units have been gradually delivered to the purchasers since late December of 2017, and the unsold residential units have been putting on the market for sale in phases.

(f) Impairment of interest in subsidiaries, associated companies and joint ventures

In considering the impairment that may be required for the Company's interest in subsidiaries, associated companies and joint ventures, the recoverable amount of the assets needs to be determined. The recoverable amount is the greater of the net selling prices and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the assets are discounted to their present value, which requires significant judgement relating to items such as level of revenue and amount of operating costs of the subsidiaries, associated companies and joint ventures. The Company uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as revenue and operating costs of subsidiaries, associated companies and joint ventures.

2 Critical accounting judgements and key sources of estimation uncertainty *(Continued)*

(g) Estimated impairment of oil production assets and oil exploitation assets

Oil production and exploitation assets are reviewed for possible impairment when events or changes in circumstances indicate that the carrying amounts may exceed the recoverable amounts, which are considered to be the higher of the fair value less costs of disposal and value in use. The fair value for oil production and exploitation assets is determined based on the present value of estimated future cash flows arising from the continued use of the assets. Cash flows are discounted to their present value using a discount rate that reflects the time value of money and the risks specific to the assets. Determination as to whether and how much an asset is impaired involves management judgements in estimating future crude oil prices, the discount rate used in discounting the projected cash flows and the production profile. The impairment reviews and calculations are based on assumptions that are consistent with the Group's business plan and on the assumption that all relevant licences and permits are obtained. However, the business environment, including the crude oil prices, is affected by a wide range of global and domestic factors, which are all beyond the control of the Group. Any adverse change in the key assumptions could increase the impairment provision.

The gas flaring permit to flare associated gas for conducting normal crude oil production in the South Alibek Oilfield of Caspi Neft TME, a wholly owned subsidiary of PAH (70.8% owned by the Group), in Kazakhstan has expired on 31 December 2018. Caspi Neft TME has been taking all necessary steps to obtain a gas flaring permit valid for a longer period so as to enable it to continue to conduct normal crude oil production after 31 December 2018 and is also currently considering several alternatives to resolve the issue regarding the treatment and utilisation of associated gas permanently, including obtaining approvals from the relevant authorities of the Kazakhstan Government and engaging in active communication with other external parties in order to substantiate the other alternatives. Based on the above, the Group considers that there is no indication that gas flaring permits will not be renewed in the future.

As at 31 December 2018, management reassessed the operation and the risk exposures of the Group's oil exploration and production business as a whole and estimated that the estimated recoverable amounts of the oil production and exploitation assets exceeded their carrying values. No further impairment loss is considered necessary for the year ended 31 December 2018. The recoverable amounts of oil production and exploitation assets were determined based on the value in use calculations applying a discount rate of 12.5% (2017: 12.5%). As at 31 December 2017, the carrying values of the oil production and exploitation assets exceeded their recoverable amounts by $226,500,000. Accordingly, impairment for oil production assets and oil exploitation assets amounting to $207,474,000 and $19,026,000 respectively, was recognised as a separate line item in the Group's consolidated income statement.

Crude oil price assumptions were based on market expectations. At 31 December 2018, it is estimated that an increase/decrease of 20% (2017: 20%) in the estimated crude oil price used in the assessment, with all other variables held constant would have increased/decreased the carrying amounts of the oil production and exploitation assets by $184,558,000/$194,237,000 (2017: $147,618,000/$171,862,000). The discount rate used represents the rate to reflect the time value of money and the risks specific to the assets. It is estimated that an increase/decrease of 200 basis points (2017: 200 basis points) in the discount rate used in the assessment, with all other variables held constant would have decreased/increased the carrying amounts of the oil production and exploitation assets by $39,176,000/$43,434,000 (2017: $26,053,000/$28,655,000).

2 Critical accounting judgements and key sources of estimation uncertainty *(Continued)*

(h) Land appreciation tax ("LAT")

LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sale of properties less deductible expenditure including the costs of land use rights, borrowing costs and all qualified property development expenditure. Significant judgement is required in determining the extent of LAT. The Group recognises LAT based on management's best estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the consolidated income statement in the periods in which such tax is finalised with local tax authorities.

3 Segment reporting

The Group manages its business by a mixture of both business lines and geography. In a manner consistent with the way in which information is reported internally to the Group's top management for the purposes of assessing segment performance and allocating resources between segments, the Group has identified the following six reportable segments.

- Property development segment (Hong Kong/Mainland China/Macau): the development and sale of properties and interests in property development. Given the importance of the property development division to the Group, the Group's property development business is segregated further into three reportable segments on a geographical basis.

- Property investment segment: the leasing of properties to generate rental income and to gain from the appreciation in the properties' values in the long term.

- Oil segment: oil exploration and production.

- Other businesses segment: mainly includes the provision of finance services, income from the sale of ice and the provision of cold storage services and treasury operations.

Revenue comprises mainly rental income from properties, gross proceeds from sale of properties and crude oil, income from interests in property development and interest income.

Reportable segment profit represents profit before taxation by excluding fair value changes on interests in property development and investment properties, finance costs, exceptional items and head office and corporate income/expenses.

Segment assets include all tangible, intangible assets and current assets with the exception of deferred tax assets and other corporate assets.

3 Segment reporting *(Continued)*

(a) Disaggregation of revenue

	2018 $'000	2017 $'000
Revenue from contracts with customers within the scope of HKFRS 15:		
Sale of properties	**547,005**	1,951,806
Sale of crude oil	**74,710**	61,844
Others	**123,719**	137,104
	745,434	2,150,754
Revenue from other sources:		
Distributions from interests in property development	**1,660,000**	555,793
Rental income	**350,183**	356,323
Others	**86,817**	57,499
	2,842,434	3,120,369

At 31 December 2018, the aggregate amount of revenue expected to be recognised in the consolidated income statement in the future from pre-completion sales contracts entered into in relation to the Group's properties under development in Hong Kong and Mainland China amounted to $4,492,134,000, which will be recognised when the pre-sold properties are assigned to the customers and which is expected to occur over the next 1 month to 24 months.

The Group has applied practical expedient in paragraph 121 of HKFRS 15 to exempt the disclosure of revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date with performance obligation is part of a contract that has an original expected duration of one year or less.

3 Segment reporting *(Continued)*

(b) Segment results and assets

Information regarding the Group's reportable segments as provided to the Group's top management for the purposes of resource allocation and assessment of segment performance for the year is set out below.

	2018						
		Property development					
	Consolidated $'000	Hong Kong $'000	Mainland China $'000	Macau $'000	Property investment $'000	Oil $'000	Others $'000
Revenue	2,842,434	65,492	741,513	1,400,000	350,183	75,053	210,193
Reportable segment profit	2,498,047	43,509	557,886	1,406,187	397,350	(14,777)	107,892
Other net income	987	–	–	–	987	–	–
Fair value changes on investment properties	360,389	–	–	–	360,389	–	–
Fair value changes on interests in property development	174,500	–	4,299	170,201	–	–	–
Share of fair value changes on investment properties of a joint venture	45,674	–	–	–	45,674	–	–
Head office and corporate expenses	(145,148)						
Finance costs	(210,544)						
Profit before taxation	2,723,905						
Share of profits of associated companies	57,552	–	55,335	–	–	–	2,217
Share of profits of joint ventures	343,627	–	232,008	–	111,619	–	–
Interest income	86,817	–	–	–	–	–	86,817
Depreciation and amortisation	(33,074)	–	–	–	–	(17,862)	(15,212)

3 Segment reporting *(Continued)*

(b) Segment results and assets *(Continued)*

	2017						
		Property development					
	Consolidated $'000	Hong Kong $'000	Mainland China $'000	Macau $'000	Property investment $'000	Oil $'000	Others $'000
Revenue	3,120,369	587,266	1,420,333	500,000	356,323	61,930	194,517
Reportable segment profit	2,251,078	32,743	1,473,150	505,213	405,880	(246,321)	80,413
Other net expenses	(363,807)	–	(364,900)	–	1,093	–	–
Fair value changes on investment properties	106,797	–	–	–	106,797	–	–
Share of fair value changes on investment properties of a joint venture	36,080	–	–	–	36,080	–	–
Head office and corporate expenses	(111,658)						
Finance costs	(119,698)						
Profit before taxation	1,798,792						
Share of profits of associated companies	1,294,005	–	1,290,752	–	–	–	3,253
Share of profits of joint ventures	178,330	–	72,168	–	106,162	–	–
Interest income	57,499	–	–	–	–	–	57,499
Write down of inventories	(364,900)	–	(364,900)	–	–	–	–
Impairment of oil production and exploitation assets	(226,500)	–	–	–	–	(226,500)	–
Depreciation and amortisation	(34,037)	–	–	–	–	(17,933)	(16,104)

3 Segment reporting *(Continued)*

(b) Segment results and assets *(Continued)*

	2018						
		Property development					
	Consolidated $'000	Hong Kong $'000	Mainland China $'000	Macau $'000	Property investment $'000	Oil $'000	Others $'000
Reportable segment assets	**55,095,682**	**11,050,856**	**16,896,729**	**13,305,655**	**12,134,318**	**343,485**	**1,364,639**
Deferred tax assets	**125,794**						
Pledged bank deposits	**1,042,161**						
Cash and bank balances	**1,068,348**						
Head office and corporate assets	**130,273**						
Consolidated total assets	**57,462,258**						
Interest in associated companies	**1,680,459**	**–**	**1,645,826**	**–**	**–**	**–**	**34,633**
Interest in and amounts due from joint ventures	**4,835,297**	**–**	**3,319,017**	**–**	**1,516,280**	**–**	**–**

	2017						
		Property development					
	Consolidated $'000	Hong Kong $'000	Mainland China $'000	Macau $'000	Property investment $'000	Oil $'000	Others $'000
Reportable segment assets	46,684,093	8,625,949	12,170,197	12,418,198	11,807,987	366,591	1,295,171
Deferred tax assets	122,010						
Pledged bank deposit	15,000						
Cash and bank balances	1,969,391						
Head office and corporate assets	296,023						
Consolidated total assets	49,086,517						
Interest in associated companies	1,824,171	–	1,791,755	–	–	–	32,416
Interest in and amounts due from joint ventures	3,427,571	–	1,954,226	–	1,473,345	–	–

3 Segment reporting *(Continued)*

(c) Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's non-current assets other than financial instruments and deferred assets. The geographical location of customers is based on the location at which the services were provided or the goods were delivered. The geographical location of non-current assets is based on the physical location of the asset and, in case of interests in associated companies and joint ventures, the location of operations.

	Revenue		Non-current assets	
	2018 $'000	2017 $'000	**2018 $'000**	2017 $'000
Hong Kong (place of domicile)	**577,314**	1,114,026	**11,109,843**	10,575,032
Mainland China	**790,067**	1,444,413	**4,667,484**	3,660,437
Macau	**1,400,000**	500,000	**1,516,280**	1,473,345
Kazakhstan	**75,053**	61,930	**322,707**	337,577
	2,842,434	3,120,369	**17,616,314**	16,046,391

In addition to the above non-current assets, the Group has interests in property development of $11,149,530,000 (2017: $10,586,970,000) and $1,816,766,000 (2017: $1,812,467,000) in Macau and Mainland China respectively.

(d) Major customers and suppliers

During the year ended 31 December 2018, the Group had recognised distributions from interests in property development in Macau and Mainland China with a total amount of $1,660,000,000 (2017: $555,793,000) under the "property development" segment, which exceeded 10% of the Group's revenue. Except for this, less than 30% of the Group's sales and less than 30% of the Group's purchases were attributable to the Group's five largest customers and five largest suppliers respectively.

4 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

(a) Other net income/(expenses) mainly represent written down of inventories of Nil (2017: $364,900,000).

4 Profit before taxation *(Continued)*

(b) Finance costs

	2018 $'000	2017 $'000
Interest on bank loans	**353,480**	200,147
Interest on loans from a related company/ ultimate holding company and a fellow subsidiary	**21,061**	13,189
Less: Amount capitalised *(Remark)*	**(163,997)**	(93,638)
	210,544	119,698

Remark: Borrowing costs were capitalised at rates of 1.78% – 3.60% (2017: 1.08% – 2.54%) per annum in Hong Kong and 6.65% (2017: 5.90%) per annum in Mainland China.

(c) Other items

	2018 $'000	2017 $'000
Auditors' remuneration	**5,852**	5,875
Amortisation of oil exploitation assets *(Remark)*	**659**	955
Depreciation and amortisation of property, plant and equipment *(Remark)*	**32,415**	33,082
Staff costs *(Remark)*	**236,481**	245,378
Total staff costs	**273,415**	271,500
Less: Amount capitalised	**(36,934)**	(26,122)
Impairment of trade receivables and loans and advances	**2**	2,310
Impairment of trade receivables and loans and advances written back	**(1,429)**	(37)
Rentals receivable under operating leases less outgoings	**(324,204)**	(329,751)
Rental income	**(350,183)**	(356,323)
Less: Outgoings	**25,979**	26,572
Interest income	**(86,817)**	(57,499)

Remark: Cost of sales includes $22,109,000 (2017: $22,410,000) relating to staff costs and depreciation and amortisation expenses, which amount is also included in the respective total amounts disclosed separately above.

5 Directors' and management's emoluments

(a) Directors' emoluments

Directors' emoluments disclosed pursuant to Section 383(1) to the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation is as follows:

	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Performance related bonuses $'000	Provident fund contributions $'000	2018 Total $'000
Executive directors					
Mr Or Wai Sheun	–	–	–	–	–
Mr Lai Ka Fai	190	2,348	500	217	3,255
Mr Or Pui Kwan	–	988	220	18	1,226
Mr Lam Yung Hei	–	1,129	250	18	1,397
Non-executive directors					
Ms Ng Chi Man	270	–	–	–	270
Mr Yeung Kwok Kwong	270	2,502	450	231	3,453
Independent non-executive directors					
Mr Li Kwok Sing, Aubrey	270	–	–	–	270
Mr Lok Kung Chin, Hardy	270	–	–	–	270
Mr Seto Gin Chung, John	270	–	–	–	270
Mr David John Shaw	270	–	–	–	270
	1,810	6,967	1,420	484	10,681

5 Directors' and management's emoluments *(Continued)*

(a) Directors' emoluments *(Continued)*

	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Performance related bonuses $'000	Provident fund contributions $'000	2017 Total $'000
Executive directors					
Mr Or Wai Sheun	–	–	–	–	–
Mr Lai Ka Fai	190	2,271	680	209	3,350
Mr Or Pui Kwan	–	1,022	270	18	1,310
Mr Lam Yung Hei	–	1,043	300	18	1,361
Non-executive directors					
Ms Ng Chi Man	270	–	–	–	270
Mr Yeung Kwok Kwong	270	2,453	630	245	3,598
Independent non-executive directors					
Mr Li Kwok Sing, Aubrey	270	–	–	–	270
Mr Lok Kung Chin, Hardy	270	–	–	–	270
Mr Seto Gin Chung, John	270	–	–	–	270
Mr David John Shaw	270	–	–	–	270
	1,810	6,789	1,880	490	10,969

5 Directors' and management's emoluments *(Continued)*

(b) Individuals with highest emoluments

Of the five individuals with the highest emoluments, two (2017: two) are directors whose emoluments are disclosed in note 5(a). The aggregate of the emoluments in respect of the remaining three (2017: three) individuals are as follows:

	2018 $'000	2017 $'000
Salaries and allowances	**7,809**	4,654
Performance related bonuses	**1,832**	1,445
Provident fund contributions	**182**	159
	9,823	6,258

The emoluments of the individuals with the highest emoluments are within the following bands:

	2018	2017
$1,000,001 – $2,000,000	**2**	–
$2,000,001 – $3,000,000	**–**	3
$3,000,001 – $4,000,000	**–**	–
$4,000,001 – $5,000,000	**–**	–
$5,000,001 – $6,000,000	**1**	–

6 Income tax

(a) Taxation in the consolidated income statement represents:

	2018 $'000	2017 $'000
Current tax – Hong Kong		
Provision for the year	**55,128**	58,104
Under-provision in respect of prior years	**2,277**	17,256
	57,405	75,360
Current tax – Outside Hong Kong		
Provision for the year	**13,409**	84,279
Over-provision in respect of prior years	**(2,630)**	(8,975)
	10,779	75,304
LAT	**3,598**	13,053
Deferred tax		
Change in fair value of investment properties	**–**	23,048
Origination and reversal of temporary differences	**251**	(106,874)
	251	(83,826)
	72,033	79,891

The provision for Hong Kong Profits Tax is calculated at 16.5% (2017: 16.5%) of the estimated assessable profits for the year.

Tax levied in jurisdictions outside Hong Kong is charged at the appropriate current rates of taxation ruling in relevant jurisdictions.

Under the Provisional Regulations on LAT in Mainland China, all gains arising from the transfer of real estate property in Mainland China are subject to LAT at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sale of properties less deductible expenditure including the costs of land use rights, borrowing costs and all property development expenditure.

Mainland China tax law also imposed a withholding tax at 10%, unless reduced by a treaty or agreement, for dividends distributed by a PRC-resident enterprise to its immediate holding company outside Mainland China for earnings generated beginning on 1 January 2008. Undistributed earnings generated prior to 1 January 2008 are exempt from such withholding tax. Provision for withholding tax is recognised for the dividends that have been declared and deferred tax liability is recognised for those to be declared in the foreseeable future. The Group did not recognise any withholding tax for the year of 2018 and 2017.

6 Income tax *(Continued)*

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2018 **$'000**	2017 $'000
Profit before taxation	**2,723,905**	1,798,792
Tax at applicable tax rates	**490,327**	255,143
Non-deductible expenses	**31,989**	39,322
Non-taxable income	**(449,523)**	(350,391)
Unrecognised tax losses	**22,857**	18,257
Previously unrecognised tax losses utilised	**(11,150)**	(20,790)
Previously unrecognised tax losses now recognised	**(9,028)**	–
Tax effect of temporary difference not recognised	**–**	45,300
Tax effect of derecognition of deferred tax asset	**–**	63,500
LAT on properties sold	**(3,331)**	2,683
Deferred LAT on changes in fair value of investment properties	**–**	14,719
(Over)/Under-provision in respect of prior years	**(353)**	8,281
Others	**245**	3,867
Actual tax expense	**72,033**	79,891

7 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of the Company of $2,193,309,000 (2017: $1,635,026,000) and the weighted average number of ordinary shares in issue during the year of 1,176,631,296 (2017: 1,162,483,202).

(b) Diluted earnings per share

There were no dilutive potential shares in existence during the years ended 31 December 2018 and 2017.

8 Dividends

(a) Dividends attributable to the year

	2018 $'000	2017 $'000
Cash dividends:		
Interim dividend declared and paid of $0.22 (2017: $0.22) per share	**258,859**	258,859
Final dividend proposed after the end of the reporting period of $0.50 (2017: $0.43) per share	**588,316**	505,951
	847,175	764,810
Special dividend by way of distribution in specie *(Remark)*	**81,188**	–
	928,363	764,810

Remark: On 22 August 2018, the Board declared a special dividend to be satisfied by way of distribution of specie of share in PAH on the basis of 1 ordinary share of PAH for every 10 ordinary shares of the Company. A total of 117,663,130 PAH shares with an aggregate market value of approximately of $81,188,000 were recognised as distribution during the year, which represented a distribution of approximately $0.069 per share of the Company.

The final dividend declared after the year end has not been recognised as a liability at 31 December.

(b) Dividends attributable to the previous financial year, approved and paid during the year

	2018 $'000	2017 $'000
Final dividend in respect of the previous financial year, approved and paid during the year, of $0.43 (2017: $0.39) per share	**505,951**	448,766

9 Deferred taxation

(a) The components of deferred tax (liabilities)/assets recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Future benefit of tax losses $'000	Revaluation of properties $'000	Accelerated depreciation allowances $'000	Others $'000	Total $'000
At 1 January 2017	17,333	(754,301)	34,782	16,406	(685,780)
Exchange adjustments	–	(13,519)	–	–	(13,519)
Credited/(Charged) to the income statement	75	147,575	(65,928)	2,104	83,826
At 31 December 2017	17,408	(620,245)	(31,146)	18,510	(615,473)
At 1 January 2018	**17,408**	**(620,245)**	**(31,146)**	**18,510**	**(615,473)**
Exchange adjustments	**–**	**10,548**	**–**	**–**	**10,548**
Credited/(Charged) to the income statement	**12,313**	**(10,242)**	**(2,324)**	**2**	**(251)**
At 31 December 2018	**29,721**	**(619,939)**	**(33,470)**	**18,512**	**(605,176)**

	2018 $'000	2017 $'000
Net deferred tax assets recognised in the consolidated statement of financial position	**125,794**	122,010
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(730,970)**	(737,483)
	(605,176)	(615,473)

(b) **Deferred tax assets not recognised**

The Group has not recognised deferred tax assets in respect of cumulative tax losses of $360,995,000 (2017: $305,738,000) and temporary difference of $830,000,000 (2017: $830,000,000) as the probability of generating future taxable profits in order to utilise the tax losses and temporary difference is uncertain at this point of time. The tax losses arising from Hong Kong operations do not expire under current tax legislation. The tax losses arising from the operations in Mainland China expire five years after the relevant accounting year end date. The tax losses arising from the operations in Kazakhstan will expire ten years after the relevant accounting year end date.

10 Investment properties

(a) Reconciliation of carrying amount

	Investment properties completed $'000	Investment properties under development $'000	Total $'000
Valuation			
At 1 January 2017	8,556,330	3,044,184	11,600,514
Exchange adjustments	–	99,670	99,670
Additions			
– Reclassified from inventories	–	2,194	2,194
– Others	–	140,367	140,367
Disposals	(6,800)	–	(6,800)
Reclassification to inventories	–	(1,629,242)	(1,629,242)
Fair value adjustment	70,770	36,027	106,797
At 31 December 2017	8,620,300	1,693,200	10,313,500
At 1 January 2018	**8,620,300**	**1,693,200**	**10,313,500**
Additions			
– Reclassified from inventories	**20,976**	**–**	**20,976**
– Others	**32,408**	**133,677**	**166,085**
Disposals	**(5,000)**	**–**	**(5,000)**
Transfer in/(out)	**372,020**	**(372,020)**	**–**
Reclassification to property, plant and equipment	**(248,100)**	**–**	**(248,100)**
Fair value adjustment	**233,546**	**126,843**	**360,389**
At 31 December 2018	**9,026,150**	**1,581,700**	**10,607,850**

The fair value adjustment on investment properties is recognised in the line item "Fair value changes on investment properties" on the face of the consolidated income statement.

The Group's investment properties under development are stated at fair value at the earlier of when the fair value first becomes reliably measurable or the date of completion of the property.

10 Investment properties *(Continued)*

(b) Fair values measurement of investment properties

The fair value of the Group's investment properties falls under Level 3 of the three-level fair value hierarchy as defined in HKFRS 13, "Fair value measurement". The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used valuation technique.

During the year, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2017: Nil).

The investment properties of the Group were revalued at 31 December 2018 by Vigers Appraisal and Consulting Limited, an independent qualified professional valuer, who has appropriate qualifications and experience in the valuation of similar properties in the relevant locations. The Group's top management hold discussions with the valuer on the valuation assumptions and valuation results at each interim and annual reporting date.

Information about Level 3 fair value measurements

	Valuation techniques (Note 2(c))	**Unobservable input**	**Range**	**Remark**
Investment properties completed	Income capitalisation approach	Capitalisation rate	4% to 4.75% (2017: 4% to 5.25%)	(1)
Investment properties under development	Direct comparison approach	Unit sale rate	$10,500 to $15,500 per square foot (2017: $9,900 to $15,500 per square foot)	(2)

Remarks:
Relationship of unobservable inputs to fair value:
(1) The fair value is negatively correlated to the unobservable input that the lower the factor the higher the fair value.
(2) The fair value is positively correlated to the unobservable input that the higher the factor the higher the fair value.

The movements during the year in the balance of these Level 3 fair value measurements are set out in note 10(a) to the financial statements.

10 Investment properties *(Continued)*

(c) Analysis of the carrying values of investment properties

	2018 **$'000**	2017 $'000
In Hong Kong		
– Long leases	**8,098,900**	7,809,140
– Medium-term leases	**2,508,950**	2,504,360
	10,607,850	10,313,500

(d) Investment properties leased out under operating leases

The Group leases out investment properties under operating leases. The leases typically run for an initial period of several months to four years. Some leases have an option to renew on expiry at which time all terms are renegotiated. Some leases have provisions for turnover rent. Turnover rent of $2,635,000 was recognised in 2018 (2017: $4,138,000).

The gross carrying amounts of investment properties of the Group held for use in operating leases were $9,026,150,000 (2017: $8,620,300,000).

All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment property.

The total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2018 **$'000**	2017 $'000
Within 1 year	**309,335**	284,886
After 1 year but within 5 years	**273,524**	250,133
	582,859	535,019

11 Property, plant and equipment

(a) Reconciliation of carrying amount

	Leasehold land held for own use $'000	Other property, plant and equipment: Buildings $'000	Other property, plant and equipment: Oil production assets $'000	Other property, plant and equipment: Others $'000	Total $'000
Cost or valuation					
At 1 January 2017	270,206	33,060	1,501,314	106,202	1,910,782
Exchange adjustments	–	–	–	1,042	1,042
Additions	–	–	281	1,932	2,213
Disposals	–	–	(510)	(889)	(1,399)
At 31 December 2017	270,206	33,060	1,501,085	108,287	1,912,638
At 1 January 2018	**270,206**	**33,060**	**1,501,085**	**108,287**	**1,912,638**
Exchange adjustments	**–**	**–**	**–**	**(714)**	**(714)**
Arising on acquisition of subsidiaries	**–**	**–**	**–**	**611**	**611**
Additions	**–**	**–**	**3,286**	**7,628**	**10,914**
Reclassifcation from investment properties	**124,050**	**124,050**	**–**	**–**	**248,100**
Disposals	**–**	**–**	**(322)**	**(3,241)**	**(3,563)**
At 31 December 2018	**394,256**	**157,110**	**1,504,049**	**112,571**	**2,167,986**
Accumulated depreciation, amortisation and impairment losses					
At 1 January 2017	73,531	9,449	967,662	80,128	1,130,770
Exchange adjustments	–	–	–	820	820
Charge for the year	6,604	833	16,978	8,799	33,214
Impairment loss (Note 2(g))	–	–	207,474	–	207,474
Written back on disposals	–	–	(431)	(834)	(1,265)
At 31 December 2017	80,135	10,282	1,191,683	88,913	1,371,013
At 1 January 2018	**80,135**	**10,282**	**1,191,683**	**88,913**	**1,371,013**
Exchange adjustments	**–**	**–**	**–**	**(602)**	**(602)**
Arising on acquisition of subsidiaries	**–**	**–**	**–**	**262**	**262**
Charge for the year	**6,604**	**834**	**17,203**	**7,914**	**32,555**
Written back on disposals	**–**	**–**	**(28)**	**(2,332)**	**(2,360)**
At 31 December 2018	**86,739**	**11,116**	**1,208,858**	**94,155**	**1,400,868**
Carrying value					
At 31 December 2018	**307,517**	**145,994**	**295,191**	**18,416**	**767,118**
At 31 December 2017	190,071	22,778	309,402	19,374	541,625

11 Property, plant and equipment *(Continued)*

(a) Reconciliation of carrying amount *(Continued)*

In 2018, an amount of $140,000 (2017: $132,000) included in the depreciation and amortisation charge for the year was capitalised under inventories.

Key sources of estimation uncertainty relating to oil production assets are disclosed in note 2(g).

(b) Analysis of the carrying values of properties

	2018 $'000	2017 $'000
In Hong Kong		
– Long leases	**1,855**	1,883
– Medium-term leases	**451,657**	210,966
	453,512	212,849

12 Interest in subsidiaries

The following table lists out the information relating to PAH, a material subsidiary of the Group which has non-controlling interests ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination:

	2018 $'000	2017 $'000
NCI percentage	**29.2%**	26.6%
Current assets	**2,873,240**	2,164,527
Non-current assets	**14,160,419**	12,573,167
Current liabilities	**(208,890)**	(1,483,711)
Non-current liabilities	**(3,073,486)**	(979,105)
Net assets	**13,751,283**	12,274,878
Carrying amount of NCI	**4,025,655**	3,269,515
Revenue	**1,592,854**	693,884
Profit for the year	**1,620,665**	271,548
Total comprehensive income	**1,620,665**	(138,305)
Profit allocated to NCI	**457,741**	73,612
Dividend paid to NCI	**39,941**	10,613
Cash flows generated from/(used in) operating activities	**662,099**	(21,958)
Cash flows generated from/(used in) investing activities	**65,311**	(128,469)
Cash flows (used in)/generated from financing activities	**(705,920)**	257,711

13 Oil exploitation assets

	2018 $'000	2017 $'000
Cost		
At 1 January	**130,579**	130,579
Disposals	**(9)**	–
At 31 December	**130,570**	130,579
Accumulated amortisation and impairment losses		
At 1 January	**102,404**	82,423
Amortisation for the year	**659**	955
Impairment loss *(Note 2(g))*	**–**	19,026
Written back on disposals	**(9)**	–
At 31 December	**103,054**	102,404
Carrying value		
At 31 December	**27,516**	28,175

Key sources of estimation uncertainty relating to oil exploitation assets are disclosed in note 2(g).

14 Interests in property development

	2018 $'000	2017 $'000
At 1 January	**13,663,454**	13,388,882
Distributions	**(1,660,000)**	(555,793)
Change in fair value recognised in profit or loss/other comprehensive income *(Remark)*	**1,834,500**	130,365
Net changes in fair value	**174,500**	(425,428)
Additional funding	**–**	700,000
At 31 December	**13,837,954**	13,663,454
Representing:		
Non-current assets	**12,966,296**	12,399,437
Current assets	**871,658**	1,264,017
	13,837,954	13,663,454

Remark: As a result of the adoption of HKFRS 9, fair value changes on interests in property development are recognised in profit or loss (see note 1(d)(ii)).

14 Interests in property development *(Continued)*

Interests in property development represent the Group's interests in the development of various properties located in Macau and Mainland China under co-investment agreements with Polytec Holdings and two of its wholly owned subsidiaries. Pursuant to the terms of the co-investment agreements, the Group will provide funding to cover any shortfall in the funding of the property development projects which is subject to an aggregate maximum amount. In return, Polytec Holdings and its two wholly owned subsidiaries will pay to the Group cash flows from the property development projects according to the formulae set out in the co-investment agreements. Details of the funding arrangements and other key terms of the co-investment agreements are disclosed in the Company's Circulars dated 23 May 2006 and 30 October 2013. Interests in property development are stated at fair value at the end of the reporting period. The basis and estimations for arriving at the fair value of the interests in property development are further described in note 2(e).

During the year, pursuant to the co-investment agreements, distributions of $260,000,000 (2017: $55,793,000) and $1,400,000,000 (2017: $500,000,000) were made by Polytec Holdings and one of its wholly owned subsidiaries, in relation to the property development projects at Huizhou and Lotes T+T1 respectively. Income arising from interests in property development recognised in the consolidated income statement during the year amounted to $1,660,000,000 (2017: $555,793,000).

As at 31 December 2018, interests in property development of $871,658,000 (2017: $1,264,017,000) was expected to be recoverable within one year and was classified as current assets.

15 Interest in joint ventures

	2018 $'000	2017 $'000
Share of net assets	**4,251,782**	3,119,420
Goodwill	**62,089**	–
Loan to a joint venture	**219,500**	219,500
	4,533,371	3,338,920
Amounts due from joint ventures	**301,926**	88,651
Amount due to a joint venture	**(709,312)**	(743,500)
	4,125,985	2,684,071

Loan to a joint venture is unsecured, interest bearing at a fixed rate with reference to bank lending rates and is not expected to be repaid within one year.

The amounts due from and to joint ventures are unsecured, interest free and repayable on demand.

During the year, the Group has recognised interest income of $16,199,000 (2017: $16,199,000) from a joint venture.

15 Interest in joint ventures *(Continued)*

Details of the Group's material interest in joint ventures which are accounted for using the equity method in the consolidated financial statements are as follows:

Joint venture	Place of incorporation/ operation	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
CITIC Polytec Property (Foshan) Company Limited *(Remark)*	Mainland China	50.0%	50.0%	–	Property development
South Bay Centre Company Limited	Macau	35.4%	–	50.0%	Property investment and trading
Smart Rising Limited	British Virgin Islands/ Mainland China	35.4%	–	50.0%	Investment holding and property development

Remark: CITIC Polytec Property (Foshan) Company Limited is an equity joint venture in Mainland China. It has wholly owned subsidiaries incorporated in Mainland China namely 佛山市南海區山語湖教育投資有限公司 and 佛山市山語湖酒店物業管理有限公司 whose principal businesses are the provision of educational services and the provision of property management services respectively. The Group's effective interest is 50%.

All joint ventures are unlisted corporate entities for which quoted market price are not available.

The aggregate financial information of joints ventures that are individually immaterial is as follows:

	2018 $'000	2017 $'000
Carrying amount in the consolidated financial statements	**4,313,871**	3,119,420
The Group's effective share of joint ventures:		
Profit for the year	**343,627**	178,330
Other comprehensive income	**(84,144)**	105,568
Total comprehensive income	**259,483**	283,898

16 Interest in associated companies

	2018 $'000	2017 $'000
Share of net assets	**1,163,022**	1,160,233
Loan to an associated company	**517,437**	663,938
	1,680,459	1,824,171
Loan from an associated company	**(45,218)**	(39,582)
	1,635,241	1,784,589

Loan to an associated company is unsecured, interest bearing at a rate determined by the shareholders and not expected to be repaid within one year. During the year, interest income of $920,000 (2017: $433,328,000) was recognised in profit or loss included in the share of profits of associated companies. As at 31 December 2018, accumulated accrued interest income of approximately RMB896,000,000 (2017: RMB794,000,000) due from an associated company has not been recognised as the Group considers it is not probable that the economic benefits will flow to the Group as at the end of the reporting period.

Loan from an associated company is unsecured, interest free and repayable on demand.

All of the associated companies are unlisted corporate entities for which quoted market prices are not available.

Associated company	Place of incorporation/ operation	Proportion of ownership interest		Principal activities
		Direct	Indirect	
CITIC Polytec Property (Tianjin) Co., Ltd	Mainland China	39.0% *(Remark)*	–	Property development
Easy Living Consultant Limited	Hong Kong	–	49.0%	Provision of building surveying, property management and guarding service
Jeeves (HK) Limited	Hong Kong	–	34.5%	Provision of high class dry cleaning and valeting services
東莞市嘉安達房地產開發有限公司	Mainland China	–	40.0%	Property development

Remark: In accordance with an agreement in relation to the acquisition of a property development site in Tianjin, Mainland China, the Group is entitled to a share of 49% of profits of the associated company and a 10% of the equity interest in the associated company was to have been transferred to the Group upon full payment of the acquisition consideration. The acquisition consideration was fully paid in 2012 but the transfer of the 10% registered capital had not been completed as at 31 December 2018. Upon the transfer of the title of the 10% registered capital, the related registered capital will be paid by the Group accordingly.

16 Interest in associated companies *(Continued)*

All of the associated companies are accounted for using the equity method in the consolidated financial statements.

Summarised financial information of CITIC Polytec Property (Tianjin) Co., Ltd, a material associated company, adjusted for any differences in accounting policies, and reconciled to the carrying amount in the consolidated financial statements, are disclosed below:

	2018 **$'000**	2017 $'000
Gross amounts of the associated company		
Current assets	**6,333,850**	7,445,759
Non-current assets	**5,045**	9,503
Current liabilities	**(3,966,661)**	(1,790,461)
Non-current liabilities	**(52,499)**	(3,345,417)
Net assets	**2,319,735**	2,319,384
Revenue	**31,004**	8,487,826
Profit for the year	**111,051**	1,723,554
Other comprehensive income	**(110,699)**	97,842
Total comprehensive income	**352**	1,821,396
Interest income received/receivable from the associated company	**920**	433,328
Reconciled to the Group's interest in the associated company		
Gross amounts of the net assets of the associated company	**2,319,735**	2,319,384
Group's effective interest	**49%**	49%
Group's shares of net assets of the associated company	**1,136,670**	1,136,498
Transfer of 10% registered capital to be completed	**(35,888)**	(37,619)
Carrying amount in the consolidated financial statements	**1,100,782**	1,098,879

16 Interest in associated companies *(Continued)*

The aggregate financial information of associated companies that are individually immaterial is as follows:

	2018 $'000	2017 $'000
Carrying amount in the consolidated financial statements	**62,240**	61,354
The Group's effective share of associated companies:		
Profit for the year	**2,217**	16,136
Other comprehensive income	**(3,621)**	(799)
Total comprehensive income	**(1,404)**	15,337

17 Inventories

	2018 $'000	2017 $'000
Land/Properties held for future development	**4,467,712**	13,064
Properties under development	**11,638,824**	13,043,852
Properties held for sale	**3,896,005**	1,369,567
Trading goods and consumables	**12,784**	13,522
	20,015,325	14,440,005

The amount of land/properties held for future development and properties under development expected to be recovered after more than one year is $4,467,712,000 (2017: $13,064,000) and $7,886,304,000 (2017: $10,006,197,000) respectively. All of the other inventories are expected to be recovered within one year.

17 Inventories *(Continued)*

The analysis of carrying value of land under inventories is as follows:

	2018 $'000	2017 $'000
In Hong Kong		
– Long leases	**1,684,504**	696,089
– Medium-term leases	**5,798,883**	5,636,440
	7,483,387	6,332,529
Outside Hong Kong		
– Freehold/Unspecified	**32,625**	32,625
– Long leases	**1,853,870**	1,986,629
– Medium-term leases	**5,014,865**	1,850,948
	6,901,360	3,870,202
	14,384,747	10,202,731

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2018 $'000	2017 $'000
Carrying amount on inventories sold	**525,860**	1,729,663
Write down of inventories	**–**	364,900
	525,860	2,094,563

18 Trade and other receivables/Loans and advances

(a) The following is an ageing analysis (based on the due date) of trade receivables and loans and advances (net of loss allowance) at 31 December:

	2018 $'000	2017 $'000
Current	**1,305,913**	1,651,015
Within 3 months	**15,139**	15,118
3 months to 6 months	**309**	770
More than 6 months	**16,510**	15,221
Trade receivables and loans and advances	**1,337,871**	1,682,124
Utility and other deposits	**184,737**	23,463
Prepaid tax	**99,790**	104,224
Other receivables and prepayments	**352,038**	266,643
	1,974,436	2,076,454
Representing:		
Non-current assets	**818,470**	978,265
Current assets	**1,155,966**	1,098,189
	1,974,436	2,076,454

Utility and other deposits of the Group of $7,838,000 (2017: $8,110,000) are expected to be recovered after more than one year.

Receivables and prepayments of the Group of $113,444,000 (2017: $244,103,000) are expected to be recovered after more than one year.

As at 31 December 2018, included in utility and other deposits was a deposit of $161,095,000 paid to Polytec Holdings for the proposed acquisition of 60% interest of a wholly owned subsidiary of Polytec Holdings together with the assignment of loans from Polytec Holdings. During the year, the Group has paid the deposit of $161,095,000 for the proposed acquisition through the loan from a related company. Details of the acquisition were disclosed in the announcement of the Company dated 22 June 2018.

18 Trade and other receivables/Loans and advances *(Continued)*

(b) Expected credit losses

As at 31 December 2018, the Group measures loss allowance for trade receivables and loans and advances at an amount equal to lifetime expected credit losses, which are calculated using a provision matrix. Given the Group has not experienced any significant credit losses in the past, holds sufficient rental deposits from tenants and hold properties as collateral from customers and borrowers to cover the potential exposure to credit risk, the allowance for expected credit losses is therefore insignificant.

The movement for the Group in the loss allowance for impairment of trade receivables and loans and advances during the year, including both specific and collective loss components, is as follows:

	2018 $'000	2017 $'000
At 1 January	**20,421**	18,148
Impairment loss recognised	**2**	2,310
Impairment loss written back	**(1,429)**	(37)
At 31 December	**18,994**	20,421

(c) As at 31 December 2017, trade and other receivables and loans and advances that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Trade and other receivables and loans and advances that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

19 Trade and other payables

The following is an ageing analysis (based on the due date) of trade payables at 31 December:

	2018 $'000	2017 $'000
Not yet due or on demand	**1,516,406**	1,547,182
Within 3 months	**14,914**	3,061
3 months to 6 months	**17**	1
More than 6 months	**3**	3
Trade payables	**1,531,340**	1,550,247
Rental and other deposits	**80,018**	76,467
Other payables and accrued expenses	**297,675**	300,626
Contract liabilities – deposits received on sale of properties *(Remark)*	**4,492,134**	2,869,280
	6,401,167	4,796,620

Remark: As a result of the adoption of HKFRS 15, deposits received on sale of properties are recognised as contract liabilities (see note 1(d)(iii)).

19 Trade and other payables *(Continued)*

(a) Rental and other deposits of the Group of $76,497,000 (2017: $73,266,000) are expected to be refunded after more than one year.

(b) Payables and accrued expenses of the Group of $106,307,000 (2017: $74,228,000) are expected to be settled after more than one year.

(c) Deposits received on sale of properties of the Group of $4,151,552,000 (2017: $2,806,916,000) are expected to recognise as income within one year.

(d) Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

Deposits received on sales of properties

The Group receives certain percentage of the amount of sale consideration as a deposit from customers when they sign the sale and purchase agreement relating to property sales. This deposit is recognised as a contract liability until the properties are completed and legally assigned to/accepted by the customer.

In some sale arrangements, the customers agree to pay the balance of the sale consideration early while construction is still ongoing, rather than when legal assignment is completed or the property is accepted by the customer. Such advance payment schemes result in contract liabilities being recognised throughout the remaining property construction period for the full amount of the sale consideration.

Movements in contract liabilities

	Deposits received on sale of properties $'000
At 1 January 2018	2,869,280
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	(390,521)
Increase in contract liabilities as a result of deposits received from customers on sale of properties during the year in relation to property projects still under development at the end of the year	2,071,895
Exchange movement	(58,520)
At 31 December 2018	4,492,134

20 Amounts due from related companies/fellow subsidiaries

As at 31 December 2018, amounts due from related companies of $1,480,000,000 were arisen from the distributions from the interests in property development. The amounts are unsecured, interest-free and subsequently settled against the loans from a related company after the year end.

As at 31 December 2017, amount due from a fellow subsidiary of $500,000,000 was arisen from the distribution from the interests in property development. The amount was unsecured, interest-free and subsequently settled during the year.

As at 31 December 2017, another amount due from a fellow subsidiary of $165,161,000 was unsecured, interest bearing at Hong Kong Interbank Offered Rate ("HIBOR") plus a margin per annum and subsequently settled during the year.

21 Loans from a related company/ultimate holding company

Loans from a related company/ultimate holding company are unsecured, interest bearing at HIBOR plus a margin per annum and are not expected to be repaid within one year.

22 Bank loans

At 31 December, bank loans were repayable as follows:

	2018 $'000	2017 $'000
Within 1 year or on demand	**6,825,941**	7,316,136
After 1 year but within 2 years	**5,913,500**	1,244,000
After 2 years but within 5 years	**2,541,988**	5,100,000
	8,455,488	6,344,000
	15,281,429	13,660,136

22 Bank loans *(Continued)*

At 31 December, bank loans were secured and unsecured as follows:

	2018 $'000	2017 $'000
Bank loans		
– secured	**13,333,075**	12,940,136
– unsecured	**1,948,354**	720,000
	15,281,429	13,660,136

Interest on bank loans is charged at HIBOR plus a margin per annum in Hong Kong or by reference to interest rates for term loans published by the People's Bank of China.

23 Total equity

(a) Movements in components of equity and distribution of reserves

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

Company

	Note	**Share capital $'000**	**Retained profits $'000**	**Total $'000**
At 1 January 2017		8,417,472	7,963,332	16,380,804
Issuance of new shares	24(d)(iv)	219,018	–	219,018
Final dividend declared and paid	8(b)	–	(448,766)	(448,766)
Interim dividend declared and paid	8(a)	–	(258,859)	(258,859)
Profit for the year		–	416,664	416,664
At 31 December 2017		8,636,490	7,672,371	16,308,861
At 1 January 2018		**8,636,490**	**7,672,371**	**16,308,861**
Final dividend declared and paid	8(b)	**–**	**(505,951)**	**(505,951)**
Interim dividend declared and paid	8(a)	**–**	**(258,859)**	**(258,859)**
Special dividend by way of distribution in specie	8(a)	**–**	**(81,188)**	**(81,188)**
Profit for the year		**–**	**528,781**	**528,781**
At 31 December 2018		**8,636,490**	**7,355,154**	**15,991,644**

23 Total equity *(Continued)*

(a) Movements in components of equity and distribution of reserves *(Continued)*

At 31 December 2018, the aggregate amount of reserves available for distribution to shareholders of the Company, as calculated under the provisions of Part 6 of the Hong Kong Companies Ordinance was $860,782,000 (2017: $1,289,999,000).

(b) Share capital

	2018 No. of shares	2018 Amount $'000	2017 No. of shares	2017 Amount $'000
Ordinary shares, issued and fully paid				
At 1 January	**1,176,631,296**	**8,636,490**	1,150,681,275	8,417,472
Issuance of new shares *(Note 24(d)(iv))*	**–**	**–**	25,950,021	219,018
At 31 December	**1,176,631,296**	**8,636,490**	1,176,631,296	8,636,490

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(c) Capital management

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of bank borrowings, borrowings from a related company/ultimate holding company, amounts due from related companies/fellow subsidiaries, cash and cash equivalents and equity attributable to shareholders of the Company, comprising issued share capital, reserves and retained profits.

The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital and maintains an appropriate gearing ratio determined as the Group's net borrowings (bank borrowings plus loans from a related company/ultimate holding company and net of cash and bank balances and amounts due from related companies/fellow subsidiaries) over equity attributable to shareholders of the Company. In view of this, the Group will balance its overall capital structure through the payment of dividends, new shares issues as well as raising new debts or redemption of existing debts. The Group's overall strategy remains unchanged from prior year and the gearing ratio as at 31 December 2018 is 66.2% (2017: 46.8%).

24 Notes to consolidated cash flow statement

(a) Reconciliation of profit before taxation to net cash generated from/(used in) operating activities:

	2018 $'000	2017 $'000
Profit before taxation	**2,723,905**	1,798,792
Adjustments for:		
Unclaimed dividend written back	**(496)**	(490)
(Gain)/loss on disposal of other property, plant and equipment	**(283)**	75
Gain on disposal of investment properties	**(987)**	(1,093)
Share of profits of associated companies	**(57,552)**	(1,294,005)
Share of profits of joint ventures	**(343,627)**	(178,330)
Distributions from interests in property development	**(1,660,000)**	(555,793)
Write down of inventories	**–**	364,900
Impairment of oil production and exploitation assets	**–**	226,500
Fair value changes on investment properties	**(360,389)**	(106,797)
Fair value changes on interests in property development	**(174,500)**	–
Interest income	**(43,032)**	(17,117)
Interest expenses	**210,544**	119,698
Depreciation and amortisation	**33,074**	34,037
Operating profit before working capital changes	**326,657**	390,377
Decrease/(Increase) in loans and advances	**160,952**	(107,765)
Increase in inventories	**(1,097,555)**	(860,519)
Decrease in trade and other receivables	**99,621**	830,214
Increase in amounts due from joint ventures	**(16,199)**	(16,199)
Decrease/(Increase) in amounts due from fellow subsidiaries	**165,161**	(165,161)
Increase/(Decrease) in trade and other payables	**1,604,242**	(376,304)
Cash generated from/(used in) operations	**1,242,879**	(305,357)
Distributions received from interests in property development	**680,000**	–
Interest received	**42,893**	17,092
Interest paid	**(375,291)**	(210,118)
Profits tax paid	**(64,615)**	(176,122)
Net cash generated from/(used in) operating activities	**1,525,866**	(674,505)

24 Notes to consolidated cash flow statement *(Continued)*

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statements as cash flows financing activities.

	Bank loans $'000 (Note 22)	Loan from a related company/ ultimate holding company $'000 (Note 21)	Loan from a fellow subsidiary $'000	Loan from an associated company $'000 (Note 16)	Total $'000
At 1 January 2017	10,070,053	1,534,546	814,056	35,781	12,454,436
Cash flows, net	3,590,083	543,563	(814,056)	1,510	3,321,100
Other changes:					
Non-cash repayment of loan from ultimate holding company *(Note 24(d)(i))*	–	(1,458,583)	–	–	(1,458,583)
Exchange adjustments	–	–	–	2,291	2,291
Total other changes	–	(1,458,583)	–	2,291	(1,456,292)
At 31 December 2017	13,660,136	619,526	–	39,582	14,319,244
At 1 January 2018	**13,660,136**	**619,526**	**–**	**39,582**	**14,319,244**
Cash flows, net	**423,718**	**(843,223)**	**–**	**3,346**	**(416,159)**
Other changes:					
Non-cash repayment of loan from a related company/ultimate holding company *(Note 24(d)(i))*	**–**	**(118,626)**	**–**	**–**	**(118,626)**
Non-cash drawdown of loan from a related company/ultimate holding company *(Notes 18(a), 24(c),24(d)(ii) and 24(d)(iii))*	**–**	**4,616,842**	**–**	**–**	**4,616,842**
Acquisition of a subsidiary *(Note 24(c))*	**1,198,355**	**–**	**–**	**–**	**1,198,355**
Exchange adjustments	**(780)**	**–**	**–**	**2,290**	**1,510**
Total other changes	**1,197,575**	**4,498,216**	**–**	**2,290**	**5,698,081**
At 31 December 2018	**15,281,429**	**4,274,519**	**–**	**45,218**	**19,601,166**

24 Notes to consolidated cash flow statement *(Continued)*

(c) Acquisition of a subsidiary

	2018 $'000
Fair value of assets of a subsidiary acquired	
Property, plant and equipment	**349**
Inventories	**3,309,254**
Other receivables and prepayment	**1,756**
Cash and cash equivalents	**5,557**
Trade and other payables	**(418)**
Amount due to Polytec Holdings	**(1,375,593)**
Bank loans	**(1,198,355)**
Net assets acquired	**742,550**
Amount due to Polytec Holdings assigned	**1,375,593**
Less: capital reserve recognised for the excess of intercompany loan assigned	**(7,901)**
Total consideration on acquisition of a subsidiary	**2,110,242**
Less: consideration satisfied by loan from Polytec Holdings	**(2,110,242)**
Less: cash and cash equivalents acquired	**(5,557)**
Net cash inflow	**(5,557)**

On 22 June 2018, the Group had entered into an agreement with Polytec Holdings for the proposed acquisition of 100% equity interest of a wholly owned subsidiary of Polytec Holdings together with the assignment of loan from Polytec Holdings for an aggregate consideration of $2,110,242,000 of which $742,550,000 for the purchase of shares and $1,367,692,000 for the assignment of the shareholder's loan. The assets held by the subsidiary comprised of two development projects located in Shanghai, Mainland China. The completion of such acquisition took place on 31 December 2018.

(d) Non-cash transactions

(i) During 2018, the Group has partially repaid a loan from a related company/ultimate holding company by transferring the interest income received and repayment of a loan to an associated company amounting to $118,626,000 (2017: $1,402,790,000) and distribution from interests in property development (note 14) of Nil (2017: $55,793,000).

24 Notes to consolidated cash flow statement *(Continued)*

(d) Non-cash transactions *(Continued)*

(ii) On 22 June 2018, a wholly owned subsidiary of PAH (a 70.8% owned subsidiary of the Group) had entered into two agreements with Polytec Holdings for the proposed acquisition of 50% and 60% equity interest of two wholly owned subsidiaries of Polytec Holdings ("target companies") together with the assignment of loans from Polytec Holdings for an aggregate consideration of $1,200,111,000 and $644,378,000 respectively. The assets held by the two subsidiaries comprised of development projects located in Zhongshan and Zhuhai, Mainland China, respectively.

The completion of the acquisition of one of the target companies which has assets comprised of development project located in Zhongshan, Mainland China took place on 31 December 2018 and it became a joint venture of the Group accordingly. The aggregate consideration of $1,200,111,000 is settled through current account with a related company, apportioned as to $1,003,652,000 for the acquisition of 50% equity interest of the target company and as to $196,459,000 for the assignment of loans from Polytec Holdings. At the date of acquisition, the fair value of the target company's identifiable net assets amounted to $941,563,000 and a goodwill of $62,089,000 is recognised.

(iii) During 2018, subsidiaries of Polytec Holdings acquired certain properties on behalf of the Group. As at 31 December 2018, properties with an aggregate value of $1,145,394,000 were held on trust by the subsidiaries of Polytec Holdings.

(iv) On 22 June 2017, the Group entered into sale and purchase agreements with non-controlling interests shareholders of Ideaplan Investments Limited ("Ideaplan", a 80% owned subsidiary) for the acquisition of remaining 20% equity interests in Ideaplan and assignments of shareholder's loans of $200 million, for an aggregate consideration of approximately $219 million. The consideration was satisfied by the allotment and issue of a total of 25,950,021 shares of the Company. The carrying amount of the non-controlling interests in Ideaplan on the date of acquisition was $93,467,000. The transaction was completed on 19 July 2017.

25 Capital commitments

Capital commitments outstanding at 31 December contracted but not provided for in the financial statements amounted to $43,405,000 (2017: $25,486,000).

26 Contingent liabilities

As at 31 December 2018, the Group has provided guarantees of $907,326,000 (2017: $1,130,504,000) representing a 50% proportional guarantee in respect of an aggregate of $1,814,651,000 term loan facilities (2017: $2,261,007,000) to a joint venture in Mainland China. The facilities were utilised to the extent of $570,645,000 (2017: $1,076,670,000) at 31 December 2018.

27 Pledge of assets

At 31 December 2018, properties having a value of approximately $16,863,598,000 (2017: $19,151,286,000) and bank deposits of $1,042,161,000 (2017: $15,000,000) were pledged to banks under fixed charges mainly to secure general banking facilities granted to the Group.

28 Subsidiaries

Details of the subsidiaries of Kowloon Development Company Limited, which principally affected the results, assets or liabilities of the Group, are as follows:

Subsidiary	Place of incorporation/ operation	Particulars of issued and paid up capital	Proportion of ownership interest		Principal activities
			Direct	Indirect	
Best Award Investments Limited	British Virgin Islands	US$1	100.0%	–	Property investment and investment holding
Best Power (Asia) Limited	Hong Kong	$2	–	100.0%	Property development
Cinema City (Film Production) Company Limited	Hong Kong	$5,000,000	–	85.0%	Cinematograph film distribution
Cinema City Company Limited	Hong Kong	$1,000,000	–	85.0%	Cinematograph film distribution
Country House Property Management Limited	Hong Kong	$10,000	–	100.0%	Provision of property management, security, technical and house keeping services
Easy Favour Limited	Hong Kong	$1	–	100.0%	Property investment
Elegant Florist Limited	British Virgin Islands	US$1,000	100.0%	–	Investment holding
Eversound Investments Limited	Hong Kong	$1,000,000	–	100.0%	Property development and investment
Fullco Development Limited	Hong Kong	$1	–	100.0%	Property development and investment
Fund Wealth Limited	Hong Kong	$1	–	100.0%	Retail
Golden Princess Amusement Company Limited	Hong Kong	$100,000	85.0%	–	Distribution of films and investment holding
Golden Princess Film Production Limited	Hong Kong	$10,000	–	85.0%	Cinematograph film distribution
Henmell Investment Limited	Hong Kong	$2	–	100.0%	Property development and investment
Jumbo Power Enterprises Limited	Hong Kong	$2	–	100.0%	Property development and investment
Kingbo Investment Limited	Hong Kong	$1	100.0%	–	Property investment

28 Subsidiaries *(Continued)*

Details of the subsidiaries of Kowloon Development Company Limited, which principally affected the results, assets or liabilities of the Group, are as follows: *(Continued)*

Subsidiary	Place of incorporation/ operation	Particulars of issued and paid up capital	Proportion of ownership interest		Principal activities
			Direct	Indirect	
Kowloon Development Engineering Limited	Hong Kong	$2	–	100.0%	Engaging in construction contracts
Kowloon Development Finance Limited	Hong Kong	$2,000,000	100.0%	–	Provision of financial services
Kowloon Development Properties Company Limited	Hong Kong	$1	100.0%	–	Project management
Li Profit Limited	Hong Kong	$7,000,000	–	100.0%	Property development
Marble King International Limited	British Virgin Islands	US$2	100.0%	–	Investment holding
Mass Ventures International Limited	British Virgin Islands/ Hong Kong	US$1	–	100.0%	Property investment
New Basic Holdings Limited	British Virgin Islands	US$1	100.0%	–	Investment holding
Polytec Asset Holdings Limited *(Listed in Hong Kong, Stock code: 208)*	Cayman Islands/ Hong Kong and Macau	$443,896,784	–	70.8%	Property development and investment, oil exploration and production, ice manufacturing and provision of cold storage
Polytec Property (Wuxi) Limited *(Remark 2)*	Mainland China	$1,202,500,000 *(Remark 1)*	–	100.0%	Property development
Polytec Property Good Companion (Shenyang) Limited *(Remark 2)*	Mainland China	US$109,800,000 *(Remark 1)*	–	100.0%	Property development
Spark Team Limited	Hong Kong	$2	100.0%	–	Retail sales
Top Sail International Limited	British Virgin Islands/ Hong Kong	US$1	–	100.0%	Property development
Tyleelord Development & Agency Company Limited	Hong Kong	$100,000	–	100.0%	Property investment

28 Subsidiaries *(Continued)*

Details of the subsidiaries of Kowloon Development Company Limited, which principally affected the results, assets or liabilities of the Group, are as follows: *(Continued)*

Subsidiary	Place of incorporation/ operation	Particulars of issued and paid up capital	Proportion of ownership interest		Principal activities
			Direct	Indirect	
Un Chau Properties Limited	Hong Kong	$2	–	100.0%	Property investment
Units Properties Limited	Hong Kong	$2	–	100.0%	Property investment
Wealrise Investments Limited	Hong Kong	$2	–	100.0%	Property development and investment
Wealth Genesis Limited	Hong Kong	$2	100.0%	–	Property development and investment
中山市長江兆業地產開發有限公司 *(Remark 2)*	Mainland China	$80,000,000 *(Remark 1)*	–	70.0%	Property development
保利達地產(瀋陽)高悦有限公司 *(Remark 2)*	Mainland China	US$59,600,000 *(Remark 1)*	–	100.0%	Property development
上海揚業房地產開發有限公司	Mainland China	RMB250,000,000 *(Remark 1)*	–	100.0%	Property development
上海城昱置業有限公司 *(Remark 2)*	Mainland China	RMB12,000,000 *(Remark 1)*	–	100.0%	Property development

Remarks:
(1) The amount represented the registered capital paid up.
(2) Wholly foreign owned enterprises incorporated in Mainland China.

29 Staff retirement scheme

The Group operates a defined contribution staff retirement scheme. Contributions under the scheme are charged to the income statement as incurred. The amount of contributions is based on a specified percentage of the basic salary of the eligible employees. No forfeited contributions in respect of unvested benefits of staff leavers was utilised to reduce the Group's ongoing contributions during the year 2018 and 2017. There were no unutilised forfeited contributions at the end of the reporting period of both years. The Group's annual contribution for the year was $632,000 (2017: $676,000).

Contributions to the Mandatory Provident Funds of $6,075,000 (2017: $6,000,000) as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance were charged to the income statement for the year.

Employees of the Group's subsidiaries in the Mainland China are required to participate in defined contribution retirement schemes which are administered and operated by the local municipal governments. The Group's subsidiaries contribute funds of $3,201,000 (2017: $3,583,000), which were calculated on certain percentages of the average employee salary as agreed by the local municipal governments, to the schemes to fund the retirement benefits of the employees.

30 Material related party transactions

In addition to the transactions and balances disclosed above, the Group also entered into the following material related party transactions:

(a) Polytec Holdings has guaranteed the due performance of the Company in respect of its obligations in the property development project in Tianjin, Mainland China.

(b) As at 31 December 2018, the Group has given guarantees to an insurance company and financial institutions in respect of performance bonds entered into by an associated company to the extent of $28,212,000 (2017: $23,312,000).

(c) As at 31 December 2018, certain bank loans were secured by properties and shares of and guaranteed by fellow subsidiaries of Polytec Holdings having a total value of $2,845,500,000 (2017: $2,845,500,000).

(d) During the year, the remuneration for key management personnel being short-term employee benefits amounted to $20,504,000 (2017: $17,227,000) as disclosed in notes 5(a) and 5(b). The remuneration of directors and senior management is recommended by the Remuneration Committee to the Board having regard to the performance and responsibilities of individuals and market trends.

31 Financial risk management and fair values

The Group is exposed to interest rate, credit, liquidity, currency and other price risks which arise in the normal course of the Group's business as set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner and these risks are limited by the financial policies and practices undertaken by the Group.

(a) Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing bank borrowings and borrowings from a related company/ultimate holding company. All the borrowings are on a floating rate basis. The risk is mainly concentrated on the fluctuation in interest rates arising from the Group's borrowings.

Interest rate risk is managed by the Group's management with defined policies through regular review to determine the strategy as of funding in floating/fixed rate mix appropriate to its current business profile, and to engage in relevant hedging arrangements at the appropriate time.

At 31 December 2018, it is estimated that an increase/decrease in interest rates by 100 basis points, with all other variables held constant, would have decreased/increased the Group's result attributable to shareholders of the Company and retained profits by approximately $92 million (2017: $52 million).

The sensitivity analysis has been determined based on the exposure to interest rate risk at the end of the reporting period. The analysis is prepared assuming the amount of interest bearing borrowings outstanding at the end of the reporting period was outstanding for the whole year. The analysis has been performed on the same basis for 2017.

(b) Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2018 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

The Group maintains a defined credit policy. An ageing analysis of trade debtors is prepared on a regular basis and is closely monitored to minimise any credit risk associated with receivables. Collateral is usually obtained in respect of loans and advances to customers.

Cash at bank and deposits placed with financial institutions are with counterparties with sound credit ratings to minimise credit exposure.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

31 Financial risk management and fair values *(Continued)*

(c) Liquidity risk

Cash management of the Company and wholly owned subsidiaries of the Group are substantially centralised at the Group level. The non wholly owned subsidiaries are responsible for their own cash management, including the short term investment of cash surpluses with creditworthy financial institutions and the raising of loans to cover expected cash demands, in accordance with the established policies and strategies with the concurrence by the management of the Group. The Group's policy is to regularly monitor current, expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash, readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables detail the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows and the earliest date the Group can be required to pay:

	Contractual undiscounted cash flows					
	Within 1 year or on demand $'000	More than 1 year but less than 2 years $'000	More than 2 years but less than 5 years $'000	Undated $'000	Total $'000	Carrying amount $'000
At 31 December 2018						
Trade and other payables	**1,716,166**	**80,782**	**23,955**	**78,067**	**1,898,970**	**1,898,970**
Bank loans	**7,227,995**	**362,252**	**8,480,592**	**–**	**16,070,839**	**15,281,429**
Loan from a related company	**–**	**–**	**–**	**4,274,519**	**4,274,519**	**4,274,519**
Amount due to a joint venture	**709,312**	**–**	**–**	**–**	**709,312**	**709,312**
Loan from an associated company	**–**	**–**	**–**	**45,218**	**45,218**	**45,218**
Other payables	**–**	**–**	**–**	**17,450**	**17,450**	**17,450**
	9,653,473	**443,034**	**8,504,547**	**4,415,254**	**23,016,308**	**22,226,898**
At 31 December 2017						
Trade and other payables	1,771,227	73,174	–	74,320	1,918,721	1,918,721
Bank loans	7,526,642	1,449,232	5,108,011	–	14,083,885	13,660,136
Loan from ultimate holding company	–	–	–	619,526	619,526	619,526
Amount due to a joint venture	743,500	–	–	–	743,500	743,500
Loan from an associated company	–	–	–	39,582	39,582	39,582
Other payables	–	–	–	18,615	18,615	18,615
	10,041,369	1,522,406	5,108,011	752,043	17,423,829	17,000,080

The Group is exposed to liquidity risk that arises from guarantees in respect of banking facilities of a joint venture. The guarantees are callable if the joint venture is unable to meet its obligations. Further details are set out in to note 26.

31 Financial risk management and fair values *(Continued)*

(d) Currency risk

The Group owns assets and conducts its business mainly in Hong Kong, Mainland China, Macau and Kazakhstan.

The Group's primary foreign currency exposures arise from its direct property development and investments in Mainland China. The Group is mainly exposed to the effects of fluctuation in Renminbi. Where appropriate and cost efficient, the Group seeks to finance these investments by Renminbi borrowings and as future returns from these investments are denominated in Renminbi, exposure to Renminbi currency risk is minimised.

The Group conducts its oil exploration and production business primarily in Kazakhstan. Currency exposure arises from sale of crude oil in a currency other than the local currency of the domicile of the Group entity making the sale. The sales are substantially denominated in United States Dollars, whilst the costs are substantially denominated in Kazakhstan Tenge.

Management considers this risk is insignificant to the Group as a whole but still manages and monitors this risk to ensure that its net exposure is kept to an acceptable low level.

(e) Other price risk

The Group is also exposed to property price risk through its interests in property development. The Group has a team reporting to the top management which performs the valuation of the interests in property development required for financial reporting purposes. Discussions of valuation processes and results are held between the top management and the team at least once every six months, in line with the Group's half-yearly reporting dates. The key unobservable market data used in the models of development projects at Lotes T+T1 in Macau and Huizhou in Mainland China includes estimated selling prices of the underlying properties which are derived from observable market data, including average market prices of residential properties in Macau and Mainland China, with certain adjustments to reflect the impacts of those factors on the development. The adjustments to the average market selling price range from –10% to +10%. The fair value measurement is positively correlated to adjustments to the selling prices of the underlying properties. At 31 December 2018, it is estimated that an increase/decrease of 5% in the expected/forecasted selling price of the underlying properties at Lotes T+T1 and Huizhou (2017: all underlying properties) of the Group's interests in property development, with all other variables held constant, would have increased/decreased the Group's retained earnings by $233,944,000/$233,927,000 (2017: the Group's fair value reserve by $617,189,000/$671,191,000).

The analysis has been determined assuming that the changes in the selling price of the underlying properties had occurred at the end of the reporting period and had been applied to the exposure to property price risk in existence at that date. The analysis has been performed on the same basis as for 2017 and taken into account of the expiration of the land concession as set out in note 2(e).

31 Financial risk management and fair values *(Continued)*

(f) Fair values measurement of financial instruments

Financial assets and liabilities measured at fair value

The following table presents the carrying value of financial instruments measured at fair value at the end of the reporting period across the three levels of the fair value hierarchy defined in HKFRS 13, "Fair value measurement", with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

– Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

– Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

– Level 3: fair values measured using valuation techniques in which any significant input is not based on observable market data

	2018 $'000	2017 $'000
Assets		
Level 3		
Interests in property development	**13,837,954**	13,663,454

During the year there were no significant transfers between instruments in Level 1 and Level 2.

The movement during the year in the balance of Level 3 fair value measurements are set out in note 14 to the financial statements.

32 Company-level statement of financial position

	Note	2018 $'000	2018 $'000	2017 $'000	2017 $'000
Non-current assets					
Investment properties			**7,318,000**		7,206,000
Property, plant and equipment			**5,437**		5,878
Interest in subsidiaries			**16,511,052**		13,724,220
Interest in a joint venture			**584,079**		584,079
Interest in an associated company			**647,170**		764,809
			25,065,738		22,284,986
Current assets					
Loans to subsidiaries		**5,540,236**		3,153,949	
Amount due from a fellow subsidiary		**–**		165,161	
Trade and other receivables		**7,500**		30,322	
Cash and bank balances		**285,962**		75,298	
		5,833,698		3,424,730	
Current liabilities					
Trade and other payables		**158,334**		155,071	
Amounts due to subsidiaries		**178**		183	
Amount due to a joint venture		**709,312**		743,500	
Loans from subsidiaries		**3,403,474**		1,049,611	
Current taxation		**55,912**		70,649	
		4,327,210		2,019,014	
Net current assets			**1,506,488**		1,405,716
Total assets less current liabilities			**26,572,226**		23,690,702
Non-current liabilities					
Loan from a related company		**4,274,519**		–	
Loan from ultimate holding company		**–**		619,526	
Loans from subsidiaries		**415,633**		1,614,286	
Bank loan		**5,840,000**		5,100,000	
Deferred tax liabilities		**50,430**		48,029	
			10,580,582		7,381,841
NET ASSETS			**15,991,644**		16,308,861

32 Company-level statement of financial position *(Continued)*

		2018		2017	
	Note	**$'000**	**$'000**	$'000	$'000
Capital and reserves					
Share capital			**8,636,490**		8,636,490
Reserves			**7,355,154**		7,672,371
TOTAL EQUITY	23(a)		**15,991,644**		16,308,861

Approved and authorised for issue by the board of directors on 27 March 2019.

Or Wai Sheun
Director

Lai Ka Fai
Director

33 Parent and ultimate holding company

At 31 December 2018, the Directors consider the parent company and ultimate holding company to be Intellinsight Holdings Limited and New Explorer Developments Limited, which are both incorporated in the British Virgin Islands. Neither entity produces financial statements available for public use.

On 18 December 2018, the indirect interest in shares in the Company previously held by Polytec Holdings had been transferred to New Explorer Developments Limited (the "Restructuring"). After the completion of Restructuring, New Explorer Developments Limited became the ultimate holding company of the Company and Polytec Holdings became a related company of the Company accordingly.

34 Comparative figures

The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of changes in accounting policies are disclosed in note 1(d).

35 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2018

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 16, "Leases"	1 January 2019
HK(IFRIC) 23, "Uncertainty over income tax treatments"	1 January 2019
Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019
Amendments to HKAS 28, "Long-term interest in associates and joint ventures"	1 January 2019

The Group is in the progress of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's result of operations and financial position.

Particulars of Properties

31 December 2018

A. Major Investment Properties

Location	Usage	Category of Lease	Approximate Total Gross Floor Area (sq m)	Group's Interest (%)
Hong Kong				
Pioneer Centre 750 Nathan Road Mongkok	Commercial	Long lease	45,891 sq m and 124 Car Parking Spaces	100.0
20th Floor of Argyle Centre Phase 1 688 Nathan Road and 65 Argyle Street Mongkok	Commercial	Medium-term lease	1,465	100.0
2nd to 23rd Floor and the Roof of The Elgin 51 Elgin Street Central	Residential	Long lease	1,327	100.0
The Whole Shop Spaces on Basement Peninsula Centre 67 Mody Road Tsim Sha Tsui	Commercial	Long lease	1,767 sq m and 10 Car Parking Spaces	100.0
32 Shop Units on Basement, Ground Floor, Mezzanine Floor and 1st Floor Sino Centre 582-592 Nathan Road Mongkok	Commercial	Medium-term lease	614	100.0

B. Major Properties Under Development/Held For Sale

Location	Usage	Approximate Total Site Area (sq m)	Approximate Total Gross Floor Area (sq m)	Status	Expected Date of Completion	Group's Interest (%)
Hong Kong						
35 Clear Water Bay Road Ngau Chi Wan	Residential and Commercial	19,335	196,400	Land premium negotiation in progress	To be determined	100.0
63 Pokfulam 63 Pok Fu Lam Road Sai Ying Pun	Residential and Retail	1,388	12,200	Construction works in progress	2019	100.0
One East Coast 1 Lei Yue Mun Path Lei Yue Mun	Residential and Retail	3,240	29,200	Public car park portion completed and in operations; construction works for main residential blocks in progress	2019	100.0
1-3 Shek Kok Road Area 85, Tseung Kwan O Sai Kung,	Residential	9,635	48,200	Foundation works in progress	End-2021/ early 2022	100.0
Mainland China						
The Gardenia (翠堤灣) West of Daba Road Shenhe District Shenyang	Residential and Commercial	1,100,000	2,000,000	Construction works for Phase 3A (North Block) in progress	Phase 3A (North Block) 2019	100.0
Le Cove City (江灣城) 6 Hun Nan Er Road Hun Nan Xin District Shenyang	Residential and Commercial	165,303	712,000	Advance building works for Phase 5 to commence soon	Phase 5 2021	100.0
Le Cove City (江灣城) Tongyun Road and Gongyun Road Chong An District Wuxi	Residential and Commercial	68,833	365,000	Phase 3 under planning; advance building works for Phase 4 in progress	Phase 4 mid-2023	100.0

Particulars of Properties
31 December 2018

C. Major Land Held For Future Development

Location	Usage	Approximate Total Site Area (sq m)	Approximate Total Gross Floor Area (sq m)	Group's Interest (%)
Mainland China				
176 Jiefang Siping Road Yangpu District Shanghai	Residential and Commercial	21,427	113,600 *(Note)*	100.0

Note:
Including underground gross floor area of approximately 39,035 sq m.

D Investment Properties of Joint Venture

Location	Usage	Category of Lease	Approximate Total Gross Floor Area (sq m)	Group's Interest (%)
Macau				
208 Shop Units and 208 Office Units The Macau Square Rua do Dr. Pedro Jose Lobo Nos. 2–16A Avenida do Infante D. Henrique Nos. 43-53A and Avenida Doutor Mario Soares Nos. 81–113	Commercial	Short-term lease	36,553 sq m and 265 Car Parking Spaces	35.4

Particulars of Properties
31 December 2018

E. Properties Under Development/Held For Sale of Joint Venture

Location	Usage	Approximate Total Site Area (sq m)	Approximate Total Gross Floor Area (sq m)	Status	Expected Date of Completion	Group's Interest (%)
Mainland China						
The Lake (山語湖) Heshun Meijing Shuiku Sector Lishui Town Nanhai District Foshan	Residential and Commercial	4,020,743	1,600,000	Construction works and occupation delivery for high-rise residential towers in Phase 4 of development completed	Remaining development to be determined	50.0

F. Land Held For Future Development of Joint Venture

Location	Usage	Approximate Total Site Area (sq m)	Approximate Total Gross Floor Area (sq m)	Group's Interest (%)
Mainland China				
Nantongwei and Shawei Beitai Village South District Zhongshan	Residential and Commercial	234,802	587,000	35.4

Particulars of Properties
31 December 2018

G. Properties Under Development/Held For Sale of Associated Company

Location	Usage	Approximate Total Site Area (sq m)	Approximate Total Gross Floor Area (sq m)	Status	Expected Date of Completion	Group's Interest (%)
Mainland China						
City Plaza (城市廣場) Lot No. Jin Dong Liu 2004-066 intersection of Shiyijing Road and Liuwei Road Hedong District Tianjin	Residential and Commercial	135,540	850,000 *(Note)*	Construction works for residential flats in Phase 2 of development completed	Phase 3 to be determined	49.0

Note:
With additional underground gross floor area of approximately 35,000 sq m for the commercial portion.

H. Interests in Property Development of the Group

Location	Usage	Approximate Total Site Area (sq m)	Approximate Total Gross Floor Area (sq m)	Status	Expected Date of Completion	Group's Interest (%)
Mainland China						
Le Cove Garden *(江灣南岸花園)* Dongjiang North Shore Wangjiang Lot Huicheng District Huizhou *(Note)*	Residential and Commercial	146,056	519,900	Construction works for Phase 1B completed and decoration works in progress; foundation works for Phase 2 in progress	Phase 1B 2019; Phase 2 2021	60.0
Macau						
La Marina (海上居) *Lotes T+T1* *The Orient Pearl District* *Novos Aterros da Areia Preta* *(Note)*	Residential and Retail	17,900	182,000	Completed	N/A	56.6

Note:
The development of these properties are under the co-investment agreements with a related company and its wholly owned subsidiary.

www.kdc.com.hk

MIX
Paper from
responsible sources
FSC™ C007445