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KERRY PROPERTIES LIMITED

(Incorporated in Bermuda with limited liability)

嘉里建設有限公司*

website: www.kerryprops.com

(Stock Code: 683)

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

The Board of Directors (the “**Board**”) of the Company announces the consolidated final results of the Group for the year ended 31 December 2017. The Audit and Corporate Governance Committee of the Company has met to review the results and the financial statements of the Group for the year ended 31 December 2017 prior to recommending them to the Board for approval.

OVERALL RESULTS

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

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

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

* For identification purpose only

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

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

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

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
		2017	2016
	Note	HK\$'000	HK\$'000
Turnover	2	35,548,123	12,990,536
Cost of sales and direct expenses		(25,802,623)	(7,134,645)
Gross profit	2	9,745,500	5,855,891
Other income and net gains		884,192	1,115,592
Administrative and other operating expenses		(997,524)	(1,275,629)
Increase in fair value of investment properties		1,933,747	3,244,197
Operating profit before finance costs		11,565,915	8,940,051
Finance costs	3	(628,209)	(411,033)
Operating profit	3	10,937,706	8,529,018
Share of results of associates and joint ventures		2,060,052	1,800,981
Profit before taxation		12,997,758	10,329,999
Taxation	4	(2,787,026)	(2,595,232)
Profit for the year		10,210,732	7,734,767
Profit attributable to :			
Company's shareholders		9,242,116	6,537,258
Non-controlling interests		968,616	1,197,509
		10,210,732	7,734,767
Earnings per share	5		
- Basic		HK\$6.40	HK\$4.53
- Diluted		HK\$6.40	HK\$4.53

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2017	2016
	HK\$'000	HK\$'000
Profit for the year	10,210,732	7,734,767
Other comprehensive income		
Items that may be reclassified to profit or loss		
Cash flow hedges	(131,745)	107,278
Available-for-sale investments		
- Fair value gains	225,273	62,517
- Release of reserve upon disposal of available-for-sale investments	-	(264,031)
Release of exchange fluctuation reserve upon disposal of a subsidiary	-	(22,505)
Share of other comprehensive income of associates and joint ventures	311,482	(736,060)
Net translation differences on foreign operations	4,592,089	(3,781,952)
Other comprehensive income for the year, net of tax	4,997,099	(4,634,753)
Total comprehensive income for the year	<u>15,207,831</u>	<u>3,100,014</u>
Total comprehensive income attributable to:		
Company's shareholders	13,215,789	2,742,258
Non-controlling interests	<u>1,992,042</u>	<u>357,756</u>
	<u>15,207,831</u>	<u>3,100,014</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
		2017	2016
	Note	HK\$'000	HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		6,109,169	5,758,321
Investment properties		64,340,586	56,949,967
Leasehold land and land use rights		2,114,323	1,893,221
Properties under development		20,545,581	22,307,035
Land deposits		1,803,074	1,085,695
Associates and joint ventures		23,832,979	18,650,834
Derivative financial instruments		37,342	100,139
Available-for-sale investments		5,344,294	4,856,190
Mortgage loans receivable		3,641,905	1,001,386
Intangible assets		122,504	122,504
		127,891,757	112,725,292
Current assets			
Properties under development		6,849,586	34,984,502
Completed properties held for sale		16,871,931	3,787,415
Accounts receivable, prepayments and deposits	6	7,566,211	2,478,616
Current portion of mortgage loans receivable		30,025	13,663
Tax recoverable		145,952	137,434
Tax reserve certificates		189,347	189,255
Listed securities at fair value through profit or loss		7,732	5,709
Derivative financial instruments		3,645	59,388
Restricted bank deposits		595,906	206,719
Cash and bank balances		13,151,714	16,274,538
		45,412,049	58,137,239
Non-current assets reclassified as held for sale		-	385,574
Assets of disposal groups classified as held for sale		-	1,397,583
		45,412,049	59,920,396
Current liabilities			
Accounts payable, deposits received and accrued charges	7	7,630,548	6,659,401
Deposits received on sale of properties		8,133,574	13,874,666
Taxation		2,093,149	1,490,836
Short-term bank loans and current portion of long-term bank loans	8	8,903,148	3,856,100
Fixed rate bonds		-	4,652,074
Derivative financial instruments		-	62,125
		26,760,419	30,595,202
Liabilities of disposal groups classified as held for sale		-	339,245
		26,760,419	30,934,447
Net current assets		18,651,630	28,985,949
Total assets less current liabilities		146,543,387	141,711,241
Non-current liabilities			
Long-term bank loans	8	26,781,716	34,507,291
Fixed rate bonds		2,336,901	2,317,612
Amounts due to non-controlling interests		2,106,291	2,590,684
Derivative financial instruments		-	150,164
Deferred taxation		7,606,669	6,927,118
		38,831,577	46,492,869
ASSETS LESS LIABILITIES		107,711,810	95,218,372
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital		1,446,538	1,443,148
Share premium		12,515,673	12,408,816
Other reserves		12,294,722	8,179,121
Retained profits		68,092,523	60,713,322
		94,349,456	82,744,407
Non-controlling interests		13,362,354	12,473,965
TOTAL EQUITY		107,711,810	95,218,372

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation and accounting policies

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants. In addition, 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**”).

The accounting policies are consistent with those as described in the Group’s financial statements for the year ended 31 December 2016.

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

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

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

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

	Applicable for accounting periods beginning on/after
HKFRS 9, ‘Financial instruments’	1 January 2018
HKFRS 15, ‘Revenue from contracts with customers’	1 January 2018
Amendments to HKFRS 1, ‘Deletion of short-term exemptions for first-time adopters’	1 January 2018
Amendments to HKFRS 2, ‘Classification and measurement of share-based payment transactions’	1 January 2018
Amendments to HKFRS 4, ‘Applying HKFRS 9 ‘Financial instruments’ with HKFRS 4 ‘Insurance contracts’	1 January 2018
Amendments to HKFRS 15, ‘Clarifications to HKFRS 15’	1 January 2018
Amendments to HKAS 28, ‘Measuring an associate or joint venture at fair value’	1 January 2018
Amendments to HKAS 40, ‘Transfers of investment property’	1 January 2018
HK(IFRIC) – Int 22, ‘Foreign currency transactions and advance consideration’	1 January 2018
HKFRS 16, ‘Leases’	1 January 2019
Amendments to HKAS 28, ‘Long-term interests in an associate or joint venture’	1 January 2019
Amendments to HKFRS 9, ‘Prepayment features with negative compensation’	1 January 2019
Annual improvements to HKFRSs 2015-2017 cycle	1 January 2019

1. Basis of preparation and accounting policies (continued)

	Applicable for accounting periods beginning on/after
HK(IFRIC) – Int 23, ‘Uncertainty over income tax treatments’	1 January 2019
HKFRS 17, ‘Insurance contracts’	1 January 2021
Amendments to HKFRS 10 and HKAS 28, ‘Sale or contribution of assets between an investor and its associate or joint venture’	To be determined

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

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

The application of HKFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue. Certain costs incurred in fulfilling a contract which are currently expensed may need to be recognised as an asset under HKFRS 15.

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

2. Principal activities and segmental analysis of operations

An analysis of the Group's turnover and gross profit for the year by principal activity and market is as follows:

	Turnover		Gross profit	
	Year ended 31 December		Year ended 31 December	
	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Principal activities:				
Property rental and others				
- The People's Republic of China ("PRC") Property	3,443,835	2,994,753	2,713,551	2,380,745
- Hong Kong Property	1,097,098	1,057,831	873,773	833,807
	4,540,933	4,052,584	3,587,324	3,214,552
Property sales				
- PRC Property (Note (i))	8,463,435	6,655,037	2,659,034	2,308,357
- Hong Kong Property	20,626,040	549,401	3,090,394	155,220
	29,089,475	7,204,438	5,749,428	2,463,577
Hotel operations - PRC Property	1,917,715	1,733,514	408,748	177,762
	35,548,123	12,990,536	9,745,500	5,855,891
Principal markets:				
- PRC	13,824,985	11,383,304	5,781,333	4,866,864
- Hong Kong	21,723,138	1,607,232	3,964,167	989,027
	35,548,123	12,990,536	9,745,500	5,855,891

Note (i): Sales of investment properties for the year ended 31 December 2017 amounting to HK\$94,013,000 (2016: HK\$323,915,000) are excluded from turnover.

2. Principal activities and segmental analysis of operations (continued)

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

	Year ended 31 December 2017				
			Total		Total HK\$'000
	PRC	Hong Kong	Operating	Others	
	Property HK\$'000	Property HK\$'000	Segments HK\$'000	HK\$'000	
Revenue					
Turnover	<u>13,824,985</u>	<u>21,723,138</u>	<u>35,548,123</u>	<u>-</u>	<u>35,548,123</u>
Results					
Segment results - gross profit	5,781,333	3,964,167	9,745,500	-	9,745,500
Other income and net gains					884,192
Administrative and other operating expenses					(997,524)
Increase in fair value of investment properties					1,933,747
Operating profit before finance costs					<u>11,565,915</u>
Finance costs					(628,209)
Operating profit					<u>10,937,706</u>
Share of results of associates and joint ventures					2,060,052
Profit before taxation					<u>12,997,758</u>
Taxation					(2,787,026)
Profit for the year					<u>10,210,732</u>
Profit attributable to:					
Company's shareholders					9,242,116
Non-controlling interests					968,616
					<u>10,210,732</u>
Depreciation and amortisation	<u>445,797</u>	<u>18,920</u>	<u>464,717</u>	<u>3,040</u>	<u>467,757</u>

2. Principal activities and segmental analysis of operations (continued)

	Year ended 31 December 2016				
			Total		Total HK\$'000
	PRC	Hong Kong	Operating	Others	
	Property HK\$'000	Property HK\$'000	Segments HK\$'000	HK\$'000	
Revenue					
Turnover	11,383,304	1,607,232	12,990,536	-	12,990,536
Results					
Segment results - gross profit	4,866,864	989,027	5,855,891	-	5,855,891
Other income and net gains					1,115,592
Administrative and other operating expenses					(1,275,629)
Increase in fair value of investment properties					3,244,197
Operating profit before finance costs					8,940,051
Finance costs					(411,033)
Operating profit					8,529,018
Share of results of associates					1,800,981
Profit before taxation					10,329,999
Taxation					(2,595,232)
Profit for the year					7,734,767
Profit attributable to:					
Company's shareholders					6,537,258
Non-controlling interests					1,197,509
					7,734,767
Depreciation and amortisation	532,407	20,069	552,476	2,624	555,100

3. Operating profit

	Year ended 31 December	
	2017	2016
	HK\$'000	HK\$'000
Operating profit is stated after crediting/charging the following:		
<i>Crediting</i>		
Dividend income	77,904	105,387
Interest income	540,392	301,388
Gain on sale of investment properties, net	18,707	102,415
<i>Charging</i>		
Depreciation of property, plant and equipment and amortisation of leasehold land and land use rights	467,757	555,100
Provision for impairment loss for hotel property	-	80,682
Total finance costs incurred	1,347,197	1,169,256
Less: amount capitalised in properties under development and investment properties under construction	(493,494)	(901,329)
	853,703	267,927
Fair value (gain)/loss on derivative financial instruments	(225,494)	143,106
Total finance costs expensed during the year	628,209	411,033

4. Taxation

	Year ended 31 December	
	2017	2016
	HK\$'000	HK\$'000
The taxation (charge)/credit comprises:		
PRC taxation		
Current	(1,740,557)	(1,444,374)
Under-provision in prior years	(7,712)	(912)
Deferred	(385,973)	(969,247)
	(2,134,242)	(2,414,533)
Hong Kong profits tax		
Current	(553,379)	(114,359)
(Under)/over-provision in prior years	(51,268)	770
Deferred	(24,361)	(47,003)
	(629,008)	(160,592)
Overseas taxation		
Current	(10,158)	(8,415)
Over-provision in prior years	-	25
Deferred	(13,618)	(11,717)
	(23,776)	(20,107)
	<u>(2,787,026)</u>	<u>(2,595,232)</u>

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profit for the year. Income tax on PRC and overseas profits has been calculated on the estimated assessable profit for the year at the respective rates of taxation prevailing in the PRC and the overseas countries in which the Group operates.

Land appreciation tax in the PRC is levied on properties developed by the Group for sale, at progressive rates ranging from 30% to 60% on the appreciation of land value, which under the applicable regulations is calculated based on the proceeds of sales of properties less deductible expenditures including land costs, borrowing costs and all property development expenditures.

The Group's share of taxation of associates and joint ventures for the year of HK\$559,266,000 (2016: HK\$440,467,000) is included in the share of results of associates and joint ventures in the consolidated income statement.

5. Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
	2017	2016
Weighted average number of ordinary shares in issue	1,443,939,549	1,443,354,936
	HK\$'000	HK\$'000
Profit attributable to shareholders	9,242,116	6,537,258
Basic earnings per share	HK\$6.40	HK\$4.53

Diluted

Diluted earnings per share is calculated by adjusting the profit attributable to shareholders of the Company and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

	Year ended 31 December	
	2017	2016
Weighted average number of ordinary shares in issue	1,443,939,549	1,443,354,936
Adjustment for share options	1,075,525	111,056
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	1,445,015,074	1,443,465,992
	HK\$'000	HK\$'000
Profit attributable to shareholders	9,242,116	6,537,258
Diluted earnings per share	HK\$6.40	HK\$4.53

6. Accounts receivable, prepayments and deposits

Included in accounts receivable, prepayments and deposits are trade receivables. The Group maintains a defined credit policy. The ageing analysis of trade receivables as at 31 December 2017 is as follows:

	As at 31 December 2017 HK\$'000	As at 31 December 2016 HK\$'000
Below 1 month	1,905,122	104,343
Between 1 month and 3 months	427,595	48,912
Over 3 months	1,999,300	194,533
	<u>4,332,017</u>	<u>347,788</u>

7. Accounts payable, deposits received and accrued charges

Included in accounts payable, deposits received and accrued charges are trade payables. The ageing analysis of trade payables as at 31 December 2017 is as follows:

	As at 31 December 2017 HK\$'000	As at 31 December 2016 HK\$'000
Below 1 month	669,119	535,487
Between 1 month and 3 months	29,869	34,763
Over 3 months	15,079	32,489
	<u>714,067</u>	<u>602,739</u>

8. Bank loans

	As at 31 December 2017 HK\$'000	As at 31 December 2016 HK\$'000
Bank loans - unsecured	32,439,379	33,195,720
Bank loans - secured	3,245,485	5,167,671
Total bank loans (note (i))	35,684,864	38,363,391
Less : Short-term bank loans and current portion of long-term bank loans	<u>(8,903,148)</u>	<u>(3,856,100)</u>
	<u>26,781,716</u>	<u>34,507,291</u>

8. Bank loans (continued)

(i) As at 31 December 2017, the Group's bank loans were repayable as follows:

	As at 31 December 2017 HK\$'000	As at 31 December 2016 HK\$'000
Within one year	8,903,148	3,856,100
In the second to fifth year		
- In the second year	8,263,691	8,888,834
- In the third year	8,665,414	8,891,789
- In the fourth year	5,702,611	8,095,992
- In the fifth year	4,150,000	7,743,122
	<u>26,781,716</u>	<u>33,619,737</u>
Repayable within five years	35,684,864	37,475,837
Over five years	-	887,554
	<u>35,684,864</u>	<u>38,363,391</u>

9. Commitments

At 31 December 2017, the Group had capital and other commitments in respect of property, plant and equipment, investment properties, leasehold land and land use rights, properties under development, interest in joint ventures and others contracted for at the end of the year but not provided for in these financial statements as follows:

	As at 31 December 2017 HK\$'000	As at 31 December 2016 HK\$'000
Property, plant and equipment	5,189	3,237
Investment properties	48,191	4,314
Leasehold land and land use rights	342,636	1,014,419
Properties under development	3,789,833	7,253,699
Interest in joint ventures	1,092,326	-
Others	313,205	303,319
	<u>5,591,380</u>	<u>8,578,988</u>

10. Contingent liabilities

Guarantees for banking and other facilities

	As at 31 December 2017 HK\$'000	As at 31 December 2016 HK\$'000
- Guarantees for banking and other facilities of certain associates (note (i))	1,313,629	862,338
- Guarantees to certain banks for mortgage facilities granted to first buyers of certain properties in the PRC (note (ii))	<u>4,242,516</u>	<u>4,195,988</u>
	<u>5,556,145</u>	<u>5,058,326</u>

- (i) The Group has executed guarantees for banking and other facilities granted to certain associates. The utilised amount of such facilities covered by the Group's guarantees which also represented the financial exposure of the Group as at 31 December 2017 amounted to approximately HK\$1,313,629,000 (2016: HK\$862,338,000). The total amount of such facilities covered by the Group's guarantees as at 31 December 2017 amounted to approximately HK\$1,313,629,000 (2016: HK\$890,338,000).
- (ii) The Group has executed guarantees to certain banks for mortgage facilities granted to first buyers of certain properties developed by the Group in the PRC. The utilised amount of such facilities covered by the Group's guarantees which also represented the financial exposure of the Group as at 31 December 2017 amounted to approximately HK\$4,242,516,000 (2016: HK\$4,195,988,000).

Apart from the above, there are no material changes in contingent liabilities of the Group since 31 December 2016.

11. Pledge of assets

At 31 December 2017, the Group's total bank loans of HK\$35,684,864,000 (2016: HK\$38,363,391,000) included an aggregate amount of HK\$32,439,379,000 (2016: HK\$33,195,720,000) which is unsecured and an aggregate amount of HK\$3,245,485,000 (2016: HK\$5,167,671,000) which is secured. The securities provided for the secured banking facilities available to the Group are as follows:

- (i) legal charges over certain properties with an aggregate net book value of HK\$16,585,886,000 (2016: HK\$20,670,324,000); and
- (ii) assignments of insurance proceeds of certain properties.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF PROPERTY BUSINESS

OVERVIEW

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

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

Property Portfolio Composition

As at 31 December 2017:

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

Note:

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

PRC PROPERTY DIVISION

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

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

INVESTMENT PROPERTIES

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

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

As at 31 December 2017:

	Group's attributable GFA						Occupancy Rate
	Beijing	Shanghai	Shenzhen	Tianjin	Hangzhou	Fuzhou	
	('000 square feet)						
Office	711	1,436	1,552	-	100	-	97%
Commercial	98	1,096	104	428	812	-	95%
Apartment	277	774	-	-	-	-	91% [#]
	1,086	3,306	1,656	428	912	-	7,388

As at 31 December 2016:

	Group's attributable GFA						Occupancy Rate
	Beijing	Shanghai	Shenzhen	Tianjin	Hangzhou	Fuzhou	
	('000 square feet)						
Office	711	1,453	1,552	-	100	-	97%
Commercial	98	1,096	212	428	812	12	93%
Apartment	277	774	-	-	-	-	89%
	1,086	3,323	1,764	428	912	12	7,525

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

Comparative occupancy rates of key investment properties are outlined below:

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

Note:

(1) Excluding hotel.

Jing An Kerry Centre, Shanghai

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

Kerry Parkside, Shanghai

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

Beijing Kerry Centre

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

Shenzhen Kerry Plaza

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

Hangzhou Kerry Centre

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

Tianjin Kerry Centre

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

SALES OF PROPERTIES

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

The Metropolis-Arcadia Court, Chengdu

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

Jinling Arcadia Court, Nanjing

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

Castalia Court, Hangzhou

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

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

Shenyang Arcadia Court and Enterprise Square

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

Lake Grandeur, Hangzhou

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

Habitat, Qinhuangdao

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

Nanchang Arcadia Court

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

PROPERTIES UNDER DEVELOPMENT

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

Qianhai, Shenzhen

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

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

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

Shenyang

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

Nanchang

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

Zhengzhou

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

Kunming

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

Ningbo

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

Jinan

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

Putian

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

Shanghai

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

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

Properties under development in the PRC

As at 31 December 2017:

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

HONG KONG PROPERTY DIVISION

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

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

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

INVESTMENT PROPERTIES

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

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

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

Note:

[#] Excluding Resiglow with leasing commenced in third quarter of 2017.

Enterprise Square Five/MegaBox, Kowloon Bay

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

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

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

Kerry Centre, Quarry Bay

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

Resiglow, Happy Valley

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

SALES OF PROPERTIES

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

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

Mantin Heights, Ho Man Tin

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

The Bloomsway, So Kwun Wat

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

Dragons Range, Kau To, Sha Tin

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

PROPERTIES UNDER DEVELOPMENT

Hing Hon Road, Sai Ying Pun

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

Lung Kui Road, Beacon Hill

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

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

La Salle Road/Boundary Street, Ho Man Tin

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

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

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

Properties under development in Hong Kong

As at 31 December 2017:

	Group's attributable GFA upon completion ('000 square feet)
Residential	818
	818

Macau

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

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

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

OVERSEAS PROPERTY DIVISION

The Philippines

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

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

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

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

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

Sri Lanka

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

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

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

Overseas Property Portfolio

As at 31 December 2017:

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

OUTLOOK

PRC PROPERTY DIVISION

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

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

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

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

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

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

HONG KONG PROPERTY DIVISION

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

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

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

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

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

FINANCIAL REVIEW

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

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

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

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

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

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

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

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

Details of contingent liabilities and pledge of assets are set out in notes 10 and 11 to the financial statements of the Group included in this announcement.

STAFF

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

SHARE OPTIONS

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

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

As at 31 December 2017, a total of 39,637,000 Share Options were outstanding which comprised 10,635,000 and 29,002,000 Share Options granted under the 2002 Share Option Scheme and the 2011 Share Option Scheme respectively.

CORPORATE GOVERNANCE

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

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

2018 ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on Friday, 18 May 2018 at 2:30 p.m. (the “**2018 AGM**”) at Island Ballroom, Level 5, Island Shangri-La Hotel, Pacific Place, Supreme Court Road, Central, Hong Kong.

CLOSURE OF REGISTERS OF MEMBERS

The registers of members of the Company (the “**Registers of Members**”) will be closed from Tuesday, 15 May 2018 to Friday, 18 May 2018, both days inclusive, for the purpose of determining Shareholders’ eligibility to attend and vote at the 2018 AGM and during which period no transfer of shares will be effected. In order to be entitled to attend and vote at the 2018 AGM, all transfers accompanied by the relevant share certificates must be lodged for registration with the Company’s branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:30 p.m. on Monday, 14 May 2018.

The Registers of Members will also be closed on Friday, 25 May 2018 for the purpose of determining Shareholders’ entitlement to the Final Dividend and the Special Dividend and no transfer of shares will be effected on that date. In order to qualify for the Final Dividend and the Special Dividend, all transfers accompanied by the relevant share certificates must be lodged for registration with Tricor Abacus Limited at the above address not later than 4:30 p.m. on Thursday, 24 May 2018. The Final Dividend and the Special Dividend are payable on Tuesday, 5 June 2018 to Shareholders whose names appear on the Registers of Members on Friday, 25 May 2018.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017.

By Order of the Board
Wong Siu Kong
Chairman

Hong Kong, 16 March 2018

As at the date of this announcement, the Directors of the Company are:

Executive Directors: *Messrs. Wong Siu Kong, Ho Shut Kan and Bryan Pallop Gaw*

Non-executive Director: *Mr. Kuok Khoon Hua*

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