

# RW 嘉華國際集團有限公司

K. WAH INTERNATIONAL HOLDINGS LIMITED

於百慕達註冊成立之有限公司 Incorporated in Bermuda with limited liability

Stock code 股份代號 00173

ANNUAL REPORT 2018 年報



Delivering Value with  
**Distinctive Quality**

建優創值 力臻恆遠



## OUR MISSION

It is our mission to focus on customer needs and pursue the spirit of excellence with quality products and services through our commitment to research, design and value creation. With vision, perseverance and teamwork, we strive to provide shareholders with the best return on their investment.



## CORPORATE PROFILE

K. Wah International Holdings Limited (“KWIH” or “the Group”, stock code: 00173) is the listed property arm of K. Wah Group. With a strong foothold established in Hong Kong, KWIH has grown and prospered into a leading integrated developer and investor of exquisite and niche projects, with a strategic focus on Hong Kong, the Yangtze River Delta and Pearl River Delta regions.

Committed to delivering premium projects built to an uncompromising standard of quality, our portfolio of residential developments, Grade A office towers, hotels, serviced apartments and retail complexes are truly one-of-a-kind. Each of our properties boasts a perfect interplay of superb design, delicate craftsmanship, top-notch facilities and innovative features, thanks to a team of seasoned professionals. That is also why we are honoured with a host of international accolades, besides earning a reputed name for impeccable living.

Cresleigh Property, the property management arm of the Group, delivers exceptional hotel serviced property management services guided by advanced and international standards in general to premium residential buildings, commercial facilities, office towers and real estate complexes.

Sharing the common vision of excellence and sustainability, we go beyond both in the projects we develop and the communities we help grow and cultivate. We have always been a trend-setter pioneering unique and sophisticated lifestyle, embracing customers’ needs and creating added value in the projects we undertake as a premiere brand.

Taking pride in our track record and strong financial capability, guided by the spirit of prudence and excellence, we will continue to adopt a progressive strategy with a disciplined approach in land acquisition, in strive for setting ever higher standards of quality living spaces and delivering long term shareholder value.

## 企業使命

秉承以客為本及追求卓越之精神，不斷透過研究、設計及創造價值，恪守不屈不撓、群策群力及具遠見之經營理念，為客戶提供優質產品及服務，並為股東帶來理想投資回報。

## 公司簡介

嘉華國際集團有限公司（「嘉華國際」或「集團」；股份代號：00173）為嘉華集團旗下之房地產業務旗艦，創立並紮根於香港，至今已發展成以香港、長三角及珠三角地區為策略據點之綜合發展商及投資者，所開發之項目均以品精質優見稱。

嘉華國際擅長於開發精品物業，由旗下專業團隊所拓展之項目涵蓋住宅、甲級商廈、酒店、服務式公寓及特色商舖，物業皆匠心獨運，揉合特色設計、精湛技術、頂尖設備及創新元素於一身，多年來物業質素備受市場認同，建築及設計屢獲國際殊榮。

集團旗下的嘉英物業以先進的管理理念和國際高端精品酒店的營運模式，為物業提供專業及優質的管理服務，其服務類型涵蓋主流及高端住宅、商業設施、寫字樓和房地產綜合體。

集團以締造理想和諧的生活國度為發展宗旨，因地制宜，不僅用心傳承「嘉華」的優質品牌內涵，更以臻善創新的意念打造別樹一幟的物業，塑造現代生活新標準，切合用家需要的同時，亦為物業注入長遠價值。

憑藉資深經驗及雄厚財政實力，嘉華國際將繼續以審慎進取的策略，物色具潛力的土地，竭誠為客戶打造優質的生活空間，為股東帶來長遠而持續的回報。





*Company website*

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**WINDERMERE**  
SHANGHAI





# Hall of Achievement

## K. Wah International Holdings Limited

- BCI Asia Top 10 Developers Award 2018 (Hong Kong)
- Outstanding Corporate Governance Award 2018
- Listed Company Award of Excellence 2018
- Best IR Company Award
- Best Investment Value Award
- Hong Kong Arts Development Awards 2017: Arts Sponsorship Awards
- 2017/18 Family-Friendly Employers Award Scheme: "Family-Friendly Employers" and "Awards for Breastfeeding Support"
- LinkedIn Bronze award – Best Learning Culture Award
- Employer of Choice & Employee Communication Award
- China Human Resource Pioneer Employer 2018
- 2018–2019 China's Healthiest Workplace: "Innovating Health Practice Award"
- Happy Company Logo

- Hong Kong Corporate Citizenship Logo
- Gold Pilot Award: Corporate Award
- 2018 annual report: Silver award – "Real Estate Development – Integrated Presentation"
- 2018 annual report: Bronze award – "Cover Photo/Design: Real Estate Development/SVC: Various & Multi-Use"
- 2018 annual report: Silver Award in the "Print: Annual Report" category and the "Top 100 Global Communications Materials"

## K. City, Hong Kong

- Best Residential High-rise Development Hong Kong

## Solaria, Hong Kong

- Best Residential Architecture Design with Twin Clubhouses
- Best Residential Development for Inspirational Community
- Most Iconic Residential Architecture Design with Twin Clubhouses





### Stanford Residences Serviced Apartment

- China Hotel Starlight Awards: Best Serviced Apartment Brand of China
- Golden-Pillow Award of China Hotels: China's Best Upscale Long Term Rental Apartment Brand
- China's Outstanding High-end Serviced Apartments of the Year 2018
- BRICS Forum cum Awards: Best High-end Serviced Apartment Operator of the Year 2018
- Model Brand Of China's High-end Service Apartments 2018
- Timeout Love Shanghai: Serviced Apartments of The Year 2018
- 2018 iDEAL Shanghai: iDEAL Serviced Apartment Brand
- China Travel & Meeting Industry Awards 2018: Best Serviced Apartment Operator
- Stanford Residence Xu Hui: Family-Friendly Residential Complex Of The Year 2018

### The Peak, Nanjing

- Quality Brand of the Year

### J Metropolis, Guangzhou

- Guangzhou's Influential Real Estate: Best Popular Selling Residence
- China's Outstanding Property Project of the Year 2018

### Silver Cove, Dongguan

- The Greater Bay Area Metal Real Estate Brands Awards 2018: Best Quality Residence of the Year in the Greater Bay Area
- Guangdong Property Brands Awards 2018: Best Investment Value Residence in the Greater Bay Area
- Iconic Residence of the Year 2018
- Best Residence of the Year 2018 in Dongguan, China





# Financial Calendar

<b>DATES</b>	<b>EVENTS</b>
22 August 2018	Announcement of Interim Results for the six months ended 30 June 2018
22 October 2018	Payment of 2018 Interim Scrip Dividend (with a cash option) of 6 HK cents per share
20 March 2019	Announcement of Annual Results for the year ended 31 December 2018
31 May 2019 to 5 June 2019 (both dates inclusive)	Closure of Registers of Members for ascertaining shareholders' eligibility to attend and vote at the 2019 Annual General Meeting
5 June 2019	2019 Annual General Meeting
14 June 2019 to 19 June 2019 (both dates inclusive)	Closure of Registers of Members for ascertaining shareholders' entitlement to the 2018 Final Dividend
19 June 2019	Record Date for 2018 Final Dividend
17 July 2019	Payment of 2018 Final Cash Dividend of 14 HK cents per share



# Corporate Information

## CHAIRMAN & MANAGING DIRECTOR

Dr. Lui Che-woo, *GBM, MBE, JP, LLD, DSSc, DBA*

## EXECUTIVE DIRECTORS

Mr. Francis Lui Yiu Tung  
Ms. Paddy Tang Lui Wai Yu, *BBS, JP*  
Mr. Alexander Lui Yiu Wah

## NON-EXECUTIVE DIRECTOR

Dr. Moses Cheng Mo Chi, *GBM, GBS, OBE, JP*

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Robin Chan Yau Hing, *GBM, GBS, LLD, JP*  
Dr. William Yip Shue Lam, *LLD*  
Mr. Au Man Chu  
Mr. Wong Kwai Lam

## AUDIT COMMITTEE

Dr. William Yip Shue Lam, *LLD (Chairman)*  
Dr. Moses Cheng Mo Chi, *GBM, GBS, OBE, JP*  
Mr. Au Man Chu

## REMUNERATION COMMITTEE

Dr. William Yip Shue Lam, *LLD (Chairman)*  
Dr. Lui Che-woo, *GBM, MBE, JP, LLD, DSSc, DBA*  
Mr. Wong Kwai Lam

## NOMINATION COMMITTEE

Dr. Lui Che-woo, *GBM, MBE, JP, LLD, DSSc, DBA (Chairman)*  
Dr. William Yip Shue Lam, *LLD*  
Mr. Wong Kwai Lam

## COMPANY SECRETARY

Ms. Cecilia Lee Wai Kwan

## INDEPENDENT AUDITOR

PricewaterhouseCoopers

## REGISTERED OFFICE

Canon's Court  
22 Victoria Street  
Hamilton HM 12  
Bermuda

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

29th Floor, K. Wah Centre  
191 Java Road  
North Point, Hong Kong

## PRINCIPAL BANKERS\*

Bank of China  
China Construction Bank, Asia  
DBS Bank  
Hang Seng Bank  
Hongkong and Shanghai Banking Corporation  
Oversea-Chinese Banking Corporation

## LEGAL ADVISORS\*

Baker & McKenzie  
King & Wood Mallesons  
P.C. Woo & Co.  
Wilkinson & Grist

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited  
Shops 1712–1716  
17th Floor, Hopewell Centre  
183 Queen's Road East  
Wanchai, Hong Kong

## WEBSITE ADDRESS

<http://www.kwih.com>

## SHARE LISTING

The Stock Exchange of Hong Kong Limited  
("HK Stock Exchange")

## STOCK CODE

HK Stock Exchange : 00173  
Bloomberg : 173 HK  
Reuters : 0173.HK

\* Listed in alphabetical order





# Five Years Summary

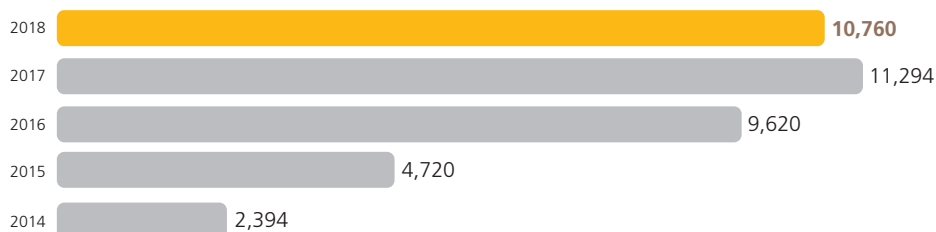
## CONSOLIDATED PROFIT AND LOSS STATEMENT

	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000
Revenue	2,393,967	4,720,487	9,619,956	11,293,887	<b>10,759,792</b>
Profit before tax	2,707,293	2,815,345	5,071,846	6,735,327	<b>5,538,504</b>
Taxation charge	(815,250)	(1,368,223)	(1,845,715)	(2,218,052)	<b>(1,361,800)</b>
Profit for the year	1,892,043	1,447,122	3,226,131	4,517,275	<b>4,176,704</b>
Non-controlling interests	(62,083)	(80,368)	(44,135)	(611,093)	<b>(130,314)</b>
Profit attributable to equity holders of the Company	1,829,960	1,366,754	3,181,996	3,906,182	<b>4,046,390</b>
Earnings per share (HK cents)	65.7	48.1	107.6	128.2	<b>129.5</b>
Dividend per share (HK cents)	15.0	17.0	18.0	18.0	<b>20.0</b>

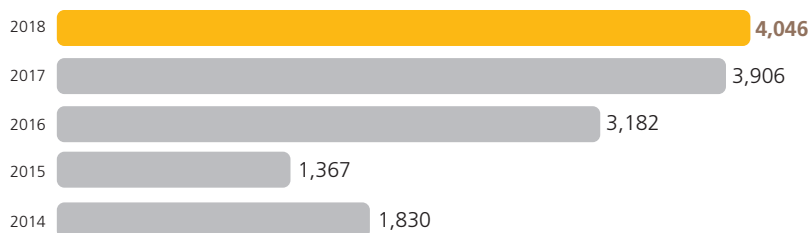
## CONSOLIDATED BALANCE SHEET

	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000
Non-current assets	8,735,721	8,446,513	8,831,175	13,181,711	<b>14,738,109</b>
Associated companies and joint ventures	3,452,498	1,347,748	2,255,043	8,344,364	<b>7,542,438</b>
Other non-current assets/ investments	7,145,083	4,059,194	5,668,480	10,772,942	<b>8,661,605</b>
Net current assets	24,934,237	23,270,988	19,880,535	24,532,041	<b>26,118,563</b>
Employment of capital	44,267,539	37,124,443	36,635,233	56,831,058	<b>57,060,715</b>
Financed by:					
Share capital	278,715	283,959	295,674	305,546	<b>312,485</b>
Reserves	24,866,467	21,541,214	25,064,023	34,697,102	<b>35,328,008</b>
Shareholders' funds	25,145,182	21,825,173	25,359,697	35,002,648	<b>35,640,493</b>
Non-controlling interests	1,545,781	1,511,587	1,766,770	2,014,039	<b>1,361,232</b>
Long-term borrowings and guaranteed notes	15,947,623	12,124,823	7,932,834	17,667,263	<b>17,609,943</b>
Other non-current liabilities	1,628,953	1,662,860	1,575,932	2,147,108	<b>2,449,047</b>
Capital employed	44,267,539	37,124,443	36,635,233	56,831,058	<b>57,060,715</b>
Net assets value per share (HK\$)	9.02	7.69	8.58	11.46	<b>11.41</b>

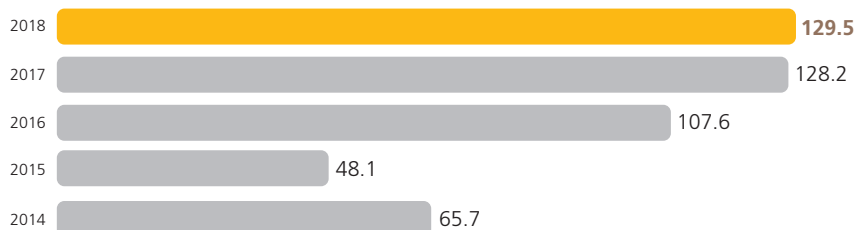
## Revenue (HK\$ Million)



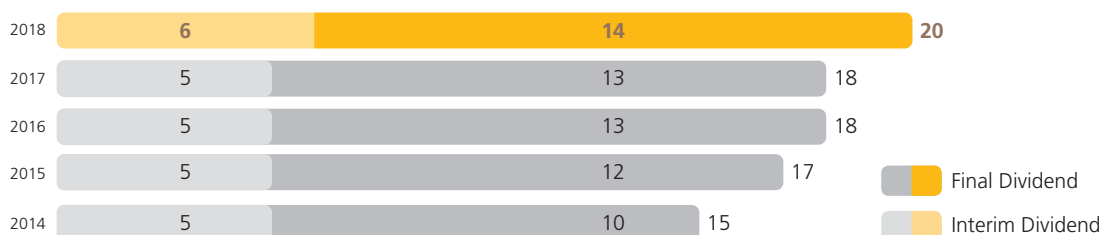
## Profit Attributable to Equity Holders of the Company (HK\$ Million)



## Earnings Per Share (HK Cents)



## Dividend Per Share (HK Cents)



## Net Assets Value Per Share (HK\$)





## Statement from the Chairman



### *Dear Shareholders,*

2018 was a fruitful year for KWIH with satisfactory business results. KWIH's attributable contracted sales amounted to HK\$12.1 billion for the financial year ended 31 December 2018, exceeding the HK\$10 billion benchmark for the fourth consecutive year. Attributable revenue reached HK\$10,918 million. Profit attributable to equity holders amounted to HK\$4,046 million. Underlying profit was HK\$3,005 million.

The Board has recommended a final dividend of 14 HK cents per share for the year ended 31 December 2018. Together with the interim dividend of 6 HK cents per share, the dividend for the full

year amounted to 20 HK cents per share, a 11% year-on-year increase that illustrates the Board's confidence in the Group to sustain its long-term business growth.

We have endured an eventful year of change in terms of political and economic developments, both in Hong Kong and globally – notably with the Mainland China-US trade conflict and the shadow of Brexit. In the meantime, four successive US interest rate hikes were matched by the first hike in Hong Kong's prime rates since 2006. While the Hong Kong Government introduced new housing policies, economic sentiment turned cautious. As Mainland



China-US trade disputes continued, the local Hong Kong property market experienced an adjustment in the second half of the year with a slowdown in new project sales. Registered primary sales of private residential units for the full year reduced by approximately 16%, year-on-year, to 15,600 transactions, although the average sales amount per transaction increased by approximately 8% to more than HK\$14 million, as compared to 2017.

Adhering to its prudent yet precise strategic approach, during the period under review the Group accurately timed the launches of its premium projects, while their quality was clearly recognised in the market, resulting in outstanding sales. Solaria in Pak Shek Kok, Tai Po launched sales in June 2018 and approximately 700 units were sold in just a two-month period. At the same time, a unit at K. City, Kai Tak was sold for HK\$109 million at an average price of more than HK\$50,000 per square foot, a figure that set a record price per square foot for the project and the Kai Tak area.

In 2018, the Mainland China property market continued its consolidation: During the first three quarters, China's tier-one and other major cities maintained their stringent restrictive measures over primary residential property sales. Consequently, the supply and sales volume of residential units stayed at comparatively low transaction levels, whereas housing prices remained relatively stable. As the effects of these restrictive measures became evident, some of the cities began to ease part of their housing policies in the fourth quarter. During the year, the Group reported satisfactory sales for their projects in Shanghai, Nanjing, Guangzhou and Dongguan.

During the year under review, KWIH affirmed its flexible development strategy and acquired projects on its own and also via joint ventures. Located in the Pearl River Delta and Yangtze River Delta regions, the new projects acquired in the year under review increased the Group's land bank by approximately 280,000 sqm of attributable GFA and further expanded its business footprint.

## OUTLOOK

In 2019, global political and economic uncertainties, including trade protectionism – in particular the trade conflict between Mainland China and US – geopolitical risks, the monetary policies of various central banks and also Brexit will all continue to impact both the Hong Kong and global economy.

Nevertheless, the fundamentals of success on which Hong Kong has been built in the past, as an international city, have not changed. Hong Kong will continue to attract global investments to its property market. Meanwhile, our stable, growing population and low unemployment rate will continue to support the end-user demand for residential properties. The Group believes that Hong Kong's housing market will again be underpinned by improving market sentiments when there are less uncertainties.

Furthermore, the Hong Kong Government has continued to put efforts into improving its housing policies and increasing land supply to cater for residents' housing demands, benefitting the healthy development of the property market in the long term.

In Mainland China, the Central Government have pledged to stabilise land and home prices as well as market expectations in the property market. The Group expects the Central Government will continue to support end-user housing demand and step up efforts to curtail speculative purchases. With our long-established presence in the Mainland China market, the Group has gained competitive advantages over the years and KWIH is well-prepared to address vulnerabilities through full execution of and flexibility in its distinctive development strategy.

With all the challenges ahead, KWIH will closely monitor global political and economic developments while continuing to stick to its strategy of "Quality and Excellence". By providing premium properties and services that exceed customer expectations, our ongoing efforts are set to bolster our overall competitive strengths. The Group will continue to apply a pro-active, discipline and strategic approach for land replenishment at opportune time that promises satisfactory returns in Hong Kong, the Yangtze River Delta and the Pearl River Delta regions. Underpinned by improving cross-border transport connectivity, such as the Hong Kong-Zhuhai-Macao Bridge and the development of the Guangdong-Hong Kong-Macao Greater Bay Area, the Group will continue to increase its investments in the Greater Bay Area, with a view to further extending the well-established brand reputation of "K. Wah".

To conclude, I would like to thank the leadership of the management team and recognise the hard work of all our colleagues. I am grateful to them all for their outstanding contributions to KWIH. I look forward to their continued efforts and co-operation in enhancing our operations, as we reward our stakeholders for their longstanding support and create more value to our shareholders, while realising our vision for the Group's long-term and sustained business growth.

**Dr. Lui Che-woo**  
*Chairman*

20 March 2019



**SOLARIA**  
HONG KONG



**K. CITY**  
HONG KONG





# Management Discussion and Analysis

## REVIEW OF OPERATIONS

### Operating Results

Attributable contracted sales of the Group (comprised of contracted sales of the Group and attributable contracted sales from joint ventures and associated companies) in 2018 amounted to approximately HK\$12.1 billion, mainly derived from Solaria, K. City and The Spectra in Hong Kong, The Peak and Royal Creek in Nanjing, The Palace in Shanghai, J Metropolis in Guangzhou and Silver Cove in Dongguan, Mainland China.

Following the revised standard for revenue recognition became effective on 1 January 2018, sales are generally recognised at a later point of time than in previous years, upon the completed units being handed over to our customers. Accordingly, certain contracted sales for completed projects were yet to be accounted for in the year. As of 31 December 2018, the Group had attributable unrecognised contracted sales amounted to approximately HK\$12.2 billion, expected to be accounted for in the next two years.

The revenue of the Group for the year ended 31 December 2018 was HK\$10,760 million, primarily derived from the property sales of K. City and The Spectra in Hong Kong, The Peak in Nanjing, The Palace in Shanghai, J Metropolis in Guangzhou, and

Silver Cove in Dongguan, as well as the rental income of Shanghai K. Wah Centre. The attributable revenue of the Group (comprising the revenue of the Group and attributable revenue from joint ventures and associated companies of HK\$158 million) was HK\$10,918 million for the year ended 31 December 2018.

Profit attributable to equity holders of the Company was HK\$4,046 million, while underlying profit of the Group (before fair value gain of investment properties, net of tax) was HK\$3,005 million for the year ended 31 December 2018.

The total comprehensive income attributable to equity holders of the Company was HK\$911 million for the year ended 31 December 2018 after accounting for the fair value change on the non-current investment of an approximately 3.8% interest in Galaxy Entertainment Group Limited ("GEG") and exchange differences arising from translation of the Group's RMB denominated net assets at year end.

	Property development			Property investment	Others	Total
	Hong Kong HK\$'000	Mainland China HK\$'000	Others HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>2018</b>						
Revenue	7,115,001	2,994,180	—	539,008	111,603	10,759,792
Adjusted EBITDA	3,202,044	950,404	(3,422)	432,536	(212,801)	4,368,761
Total assets	25,147,212	21,214,079	9,555	14,489,103	9,033,899	69,893,848
<b>2017</b>						
Revenue	5,399,461	5,324,044	—	463,630	106,752	11,293,887
Adjusted EBITDA	1,902,210	3,134,452	(3,101)	370,691	(205,825)	5,198,427
Total assets	27,211,662	21,295,746	149,506	12,911,490	10,938,315	72,506,719





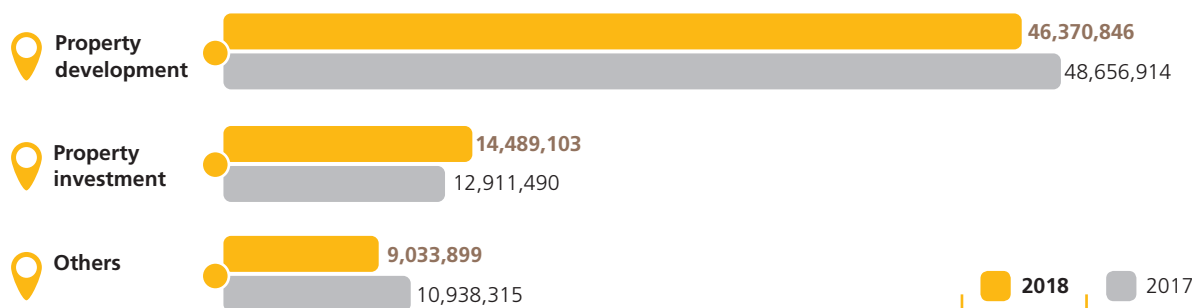
### Revenue by Division

For the year ended 31 December 2018  
(HK\$'000)



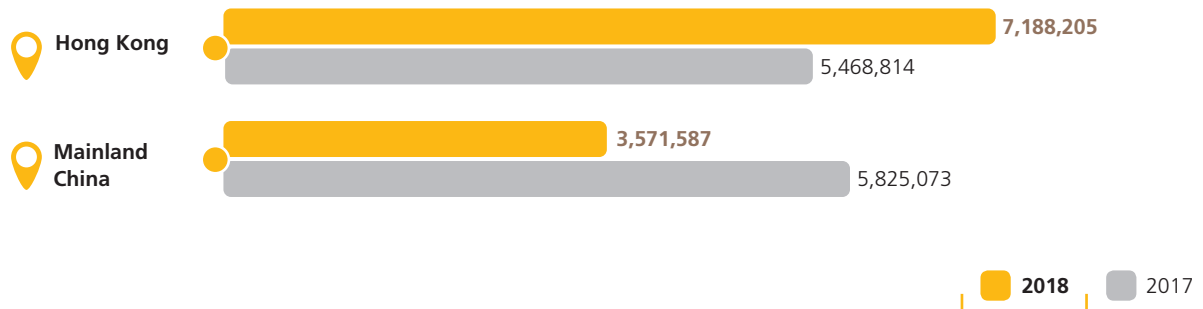
### Total Assets by Division

As at 31 December 2018  
(HK\$'000)



### Revenue by Geographical Area

For the year ended 31 December 2018  
(HK\$'000)



### Total Assets by Geographical Area

As at 31 December 2018  
(HK\$'000)



## Property Development and Investment in Hong Kong

The property market was on an upward trend with home prices continued to reach new heights until August when market sentiment turned soft in the year, as reflected in both transaction volume as well as property price. Homebuyers and investors became more cautious amid interest rate hikes, trade tensions between Mainland China and the US, and global uncertainties.

The Group launched Solaria at an opportune time in June and received an overwhelming response. Initial batches of units were all sold out on the dates of launch at escalating prices. In addition, the Group continued to market the remaining units of K. City and joint venture projects, The Spectra, Marinella, Providence Bay and Providence Peak. The certificate of compliance for K. City was obtained in late November and consequently, the results for approximately 70% of the sold units were recognised in 2018 upon handover to buyers.

The Group's leasing performance continued to be satisfactory during the year. Our premium dining and shopping arcade J SENSES, luxury apartments Chantilly and commercial complex in Twin Peaks all maintained high occupancy with satisfactory rental income. Meanwhile, the remaining office units in Kingsfield Centre were transferred to investment properties in accordance with the Group's strategy to increase recurring income.

### (A) Current Major Development Properties

#### ***K. City, Kai Tak (100% owned)***

This premium residential development is located in the heart of the Kai Tak Development Area with close proximity to Kai Tak MTR Station (under construction) of the Shatin to Central Link. The development offers 900 units with a total GFA of approximately 51,000 square metres. Pre-sales began in 2017 with an overwhelming market response, achieving contracted sales of approximately HK\$9.3 billion and only 11 residential units remained available for sale as of year-end. The development is complete with the certificate of compliance obtained in late November 2018.



K. City, Hong Kong



***Solaria, Tai Po (100% owned)***

This premium residential development with a total GFA of approximately 61,600 square metres, is located in close proximity to our joint venture projects in Pak Shek Kok. The district is a maturing community with good potential. The development offers 1,122 units. Pre-sales launched in June 2018 and were well received by the market. Of the units launched, over 90% or 709 units were pre-sold for approximately HK\$6.3 billion as of year-end. Superstructure works are in progress as scheduled with expected completion in late 2019 or early 2020.

***New Kowloon Inland Lot No. 6566, Kai Tak Area 1K Site 2 (100% owned)***

This development has a total GFA of approximately 53,000 square metres and is located in the heart of the Kai Tak Development Area near the Kai Tak MTR Station (under construction) of the Shatin to Central Link. It is being developed into a premium residential project and foundation works are in progress as scheduled, with

targeted completion by 2021. The application for pre-sales consent was submitted in November 2018.

***2 Grampian Road, Kowloon (100% owned)***

This unique development is situated in one of Kowloon's prime residential areas with a total GFA of approximately 2,000 square metres. It will comprise 5 quality house units. Superstructure works are well underway with targeted completion in late 2019 or early 2020. Sales will then be launched.

***New Kowloon Inland Lot No. 6549, Cheung Sha Wan (22.5% owned)***

Acquired in 2017, with a total GFA of approximately 91,800 square metres, the site is situated at a coveted urban waterfront location providing a panoramic harbour view. It is within walking distance to MTR. This is a jointly developed project with other property developers and is being developed into a premium-graded residential property. Foundation works are in progress as scheduled with targeted completion by 2022.



Solaria, Hong Kong



(Top) The Spectra, Hong Kong  
(Bottom) Chantilly, Hong Kong



**Lot No.1040 in D.D. No.103, Kam Sheung Road Station Package One Property Development, Yuen Long (33<sup>1</sup>/<sub>3</sub>% owned)**

This site that was acquired in 2017, with a total GFA of approximately 114,800 square metres, is next to the West Rail Kam Sheung Road Station connecting to other parts of the city and offering convenient access to Mainland China. The site will be developed into a premium residential project in a joint venture with other property developers. Development works are underway.

**The Spectra, Yuen Long (60% owned)**

This residential development has been undertaken together with another property developer. The total GFA is approximately 49,000 square metres comprising 912 units. The project is complete, and only a few units remained available for sale as of year-end.

**Marinella, Aberdeen (35% owned)**

Marinella is a luxury residential development with a total GFA of approximately 69,300 square metres that offers 411 units. The project is complete and only two houses remain available for sale as of year-end.

**(B) Investment properties**

**J SENSES at J Residence, Johnston Road, Wan Chai (100% owned)**

With a total GFA of approximately 3,400 square metres, J SENSES is a premium dining and shopping arcade located in the prime location on Hong Kong Island offering a dining and leisure environment to the neighborhood. It was fully leased as of year-end and continues to deliver recurring cash flow to the Group.

**Commercial Complex at Twin Peaks, Tseung Kwan O (100% owned)**

With a total GFA of approximately 3,500 square metres, the complex serves the residents of Twin Peaks and the neighborhood. It was fully leased as of year-end and continues to deliver recurring cash flow to the Group.



**HONG KONG**

- 1** The Spectra
- 2** K. City
- 3** Solaria
- 4** Kai Tak Area 1K Site 2
- 5** Marinella
- 6** 2 Grampian Road
- 7** 30 Po Shan Road
- 8** Kam Sheung Road Station Package One Property Development
- 9** New Kowloon Inland Lot No. 6549, Cheung Sha Wan
- 10** J SENSES
- 11** Chantilly
- 12** Commercial Complex at Twin Peaks



**THE  
PALACE**  
SHANGHAI



**SILVER  
COVE**  
DONGGUAN





***Chantilly, 6 Shiu Fai Terrace, Stubbs Road (100% owned)***

Located in an exquisite area on Hong Kong Island, Chantilly with a total GFA of approximately 5,100 square metres is held for long term investment. Approximately 70% of the available units were leased as of year-end.

**Property Development and Investment in Mainland China**

During the year, the overall property market remained steady. Home prices in Tier 1 and 2 cities remained stable while transaction volumes were lowered as a result of various home purchase restrictions, credit tightening policies and adverse market sentiment due to the trade conflicts with the US and global political and economic uncertainties.

The Group's sales launches during the year included UpTown (J Metropolis Phase IV) in Guangzhou in the second quarter, Huadu Jiahua Plaza Phase III in Guangzhou and Windermere in Shanghai in the last quarter. They all received an encouraging market response. The Group also continued to market the remaining units of The Palace in Shanghai, J Metropolis, Le Palais and J Wings in Guangzhou, Silver Cove in Dongguan, The Peak and Royal Creek

in Nanjing, all with good responses due to their good locations and outstanding quality. Occupation permits for The Palace Phase III, The Peak, Silver Cove Phase III and Huadu Jiahua Plaza Phases III & IV were obtained in the year.

To diversify its business risks and broaden its land replenishment channels, the Group participated in four joint ventures with several property developers for property development in Kunshan, Suzhou, Jiangmen and Jiaxing with a total attributable land premium of approximately RMB1.11 billion, broadening the Group's means of land replenishment. In August, the Group also solely acquired a land site in Dongguan with a GFA of approximately 159,000 square metres for approximately RMB1.77 billion. Other than the joint venture project in Jiangmen, the other three commenced pre-sales in the second half of 2018 with satisfactory market responses.

The Group's investment properties have maintained excellent occupancy throughout the year. Shanghai K. Wah Centre, continued to achieve over 95% occupancy rate. Our serviced apartments branded under "Stanford Residences" have been very well received and enjoy high occupancy. Following two



The Palace III, Shanghai



towers of The Palace launching for leasing in 2017, two more were also put into the market upon completion during the year. In addition, an offices tower and retail portions of Huadu Jiahua Plaza Phases III & IV with a GFA of approximately 38,000 square metres were put up for leasing and transferred to investment properties upon completion in November. Market response to the leasing campaign has been satisfactory. An apartment tower therein was also launched for sale with satisfactory response.

### (A) Current Major Development Properties Shanghai, Nanjing and Suzhou

#### *The Palace, Jianguoxi Road, Xuhui District, Shanghai (100% owned)*

This unique luxury development is located in an affluent, traditionally residential area of Shanghai. The total GFA of this project is approximately 140,000 square metres, featuring 14 blocks of luxury residential buildings and upscale commercial facilities. The first and second phases of the project comprise 12 towers of which 4 towers are

being operated as serviced apartments under “Stanford Residences Xu Hui”. The entire project is complete following the occupation permit for Phase III being obtained in March 2018. Phase III comprising 2 towers of approximately 43,000 square metres was expected to be launched for sale in the first quarter of 2019.

#### *Grand Summit, Xinzha Road, Jingan District, Shanghai (100% owned)*

Situated in an upmarket area of Jingan District close to the vibrant central retail and business district of Nanjing West Road, this exclusive luxury residential project has a total GFA of approximately 100,000 square metres offering 257 residential units for sale and 129 units held as serviced apartments under “Stanford Residences Jing An”. The project is complete and only 3 penthouses are available for sale as of year-end.



#### SHANGHAI

- 1 The Palace, Stanford Residences Xu Hui & Palace Lane
- 2 Grand Summit & Stanford Residences Jing An
- 3 Azure & Stanford Residences Jin Qiao
- 4 Windermere
- 5 Weifang Village Street project
- 6 Shanghai K. Wah Centre
- 7 Office project, Suhe Creek, Jingan District

#### NANJING

- 8 The Peak
- 9 Site G89, Jiangning District
- 10 Royal Creek

#### SUZHOU

- 11 Lot 42, National Hi-Tech District
- 12 Lot 58, National Hi-Tech District

#### KUNSHAN

- 13 Lot 12-2, Economic & Technological Development Zone

#### JIAOXING

- 14 Lot 44, Xiuzhou National Hi-Tech District



***The Peak, Xingxian Road, Qixia District, Nanjing (100% owned)***

The project, with a total GFA of approximately 132,000 square metres, is an integrated residential and commercial complex offering 1,167 residential units to the market. Pre-sales began in 2016 with good market responses with over 85% sold as of year end. It is located in a well-developed community. Construction of the project was completed and handover of sold units commenced in the second half of 2018.

***Windermere, Qingpu District, Shanghai (100% owned)***

Located in Zhujiajiao Town in Qingpu District, the development is comprised of 256 house units with ancillary commercial facilities for a total GFA of approximately 71,000 square metres. The project is complete and the first batch of 56 units was launched for sale in mid December.

***Azure, Jingye Road, Pudong New District, Shanghai (100% owned)***

This project, completed in 2017, is a premium residential development comprised of 232 units with a total GFA of approximately 29,000 square metres. 102 units with a total GFA of approximately 13,000 square metres have been retained as serviced apartments under “Stanford Residences Jin Qiao”. It is within a well-developed residential area that offers good transportation links to the Pudong CBD. The sales launch of the remaining 130 units is subject to the market condition.

***Site 7-7, Unit E18, Weifang Village Street, Pudong District, Shanghai (100% owned)***

This project is located by the Huangpu River in Pudong, with a total GFA of approximately 14,200 square metres. It is situated in a prime location between the Lujiazui Financial Centre and the convention, exhibition and business zone of the World Expo headquarters. Government approval for the project’s master layout plan was obtained and its construction is expected to be commenced in the first half of 2019.



Weifang Village Street Project, Shanghai



(Top) The Peak, Nanjing

(Bottom) Site G89, Jiangning District, Nanjing



**Site G89, Jiangning District, Nanjing (100% owned)**

This project is located in Jiangning District, close to several railway and transportation networks and within 1 kilometre of the Nanjing South Railway Station. It has a total GFA of approximately 49,700 square metres and is being developed into residential buildings with ancillary commercial facilities. Construction works are in progress with expected completion in 2021.

**Royal Creek, Pukou District, Nanjing (33% owned)**

The Group participated in a joint venture with two property developers in 2017 to develop this site located in Pukou District, lying northwest across the Yangtze River from downtown Nanjing, with a total GFA of approximately 98,500 square metres, into residential buildings. Pre-sales began in late 2017 and now almost all of the residential units have been sold. Development progress is well underway with expected completion in late 2019.

**Lot 42 in National Hi-Tech District, Suzhou (100% owned)**

This site acquired in November 2017, located in Suzhou National Hi-Tech District, is next to the Suzhou Xinqu Railway Station, Suzhou Rail Transit Line 3 (under construction and scheduled to be completed by 2019) and Suzhou Rail Transit Line 6 (under construction). It has a total GFA of approximately 59,000 square metres and is being developed into residential buildings with commercial facilities. Construction works are in progress with expected completion in 2021.

**Lot 58 in National Hi-Tech District, Suzhou (47% owned)**

This new joint venture project, located in Suzhou National Hi-Tech District, is close to the Suzhou Xinqu Railway Station, Suzhou Rail Transit Line 3 (under construction and scheduled to be completed by 2019) and Suzhou Rail Transit Line 6 (under construction). It has a total GFA of approximately 75,000 square metres and is being developed into 11 residential buildings offering 654 units. Pre-sales started in December with satisfactory responses. Construction works are in progress with expected completion in 2020.



### ***Guangzhou, Dongguan and Jiangmen***

#### ***Huadu Jiahua Plaza, Yingbin Road, Huadu District, Guangzhou (100% owned)***

This site is close to Baiyun International Airport and has a total GFA of approximately 231,000 square metres. The project is a composite development with residential units, hotels, office space, apartments and commercial facilities. The first phase of the project is complete and operational, includes a hotel and an office tower with a GFA of approximately 32,000 square metres and 13,000 square metres respectively. The second phase, J Wings, has a GFA of approximately 100,000 square metres is complete and almost fully sold. The third and fourth phases of Huadu Jiahua Plaza with a total GFA of approximately 86,000 square metres consist of four buildings which include apartments, retail facilities, a hotel and office premises. The development was completed in November 2018. Of the 2 apartment towers with GFA of approximately 34,000 square metres, a tower was launched for sale in December while the offices tower and retail portions with GFA of approximately 38,000 square metres are being held as investment properties for rental. The hotel with a GFA of approximately 14,000 square metres is expected to commence operation in 2019.

#### ***Le Palais, Jianshebei Road, Huadu District, Guangzhou (100% owned)***

Located in the downtown area of Huadu, this residential development covers a total GFA of approximately 46,000 square metres and is about a 20-minute drive from the Baiyun International Airport. The project is complete and almost all of the residential units were sold.

#### ***Huadu Integrated Project, Xinhuzhen, Huadu District, Guangzhou (99% owned)***

The project is only a step away from Baiyun District and is poised to benefit from the build-up of a new transportation network. The total GFA of this project is approximately 805,000 square metres with development to be undertaken in phases in the East and West Sites.

#### ***J Metropolis, Xinhuzhen East***

The project has a total GFA of approximately 226,000 square metres, offering 1,849 residential units in total. The development is complete and almost all of the residential units have been sold.



Xinhuzhen West Site, Guangzhou





### *Xinhuazhen West Site*

The site has a GFA of approximately 579,000 square metres and will be developed in phases for residential units and commercial complexes. Government approval for the project's master layout plan has just been obtained for the first phase and its construction will commence upon obtaining the relevant government approvals. The first phase, with a GFA of approximately 187,000 square metres, will comprise approximately 1,500 residential units and a commercial complex.

### *Silver Cove, Shilong Town, Dongguan (100% owned)*

This project located in the Xihu Village of Shilong Town enjoys an expansive river frontage and is within walking distance of the Dongguan station. It has a total GFA of approximately 236,000 square metres offering 1,867 residential units for sale, and commercial portions with a GFA of approximately 11,600 square metres retained for rental. The development is complete and over 85% of the residential units sold as of year end.

### *Hengjiang Village, Chashan, Dongguan (100% owned)*

This newly acquired site, located in Hengjiang Village, Chashan, is close to Dongguan Metro Station and Dongguan Rail Transit Line 2. It has a total GFA of approximately 159,000 square metres and will be developed into approximately 1,200 residential units with commercial facilities of approximately 2,000 square metres. Construction is expected to be commenced in 2019.

### *Jianghai Site No. 02, Jianghai District, Jiangmen (100% owned)*

This residential development site was acquired in August 2017 and is located in Jianghai District. It has a total GFA of approximately 133,700 square metres and is being developed into residences with commercial and retail components. Construction works are in progress with expected completion in 2020.



Chashan project, Dongguan

***Jianghai Site No. 12, Jianghai District, Jiangmen (100% owned)***

This residential development site was acquired in October 2017 and is located in Jianghai District, adjacent to Jiangmendong Railway Station of the Guangzhou-Zhuhai Intercity Rail Transit and next to the previously-acquired Jianghai Site No. 02. It has a total GFA of approximately 144,900 square metres and is being developed into residences with commercial and retail components. Construction works are in progress with expected completion in 2020.

***Xinhui Site No. 03, Xinhui District, Jiangmen (50% owned)***

This site is located in the area of Jiangmen Avenue, in the heart of transportation networks, schools and commercial areas. It has a total GFA of approximately 100,000 square metres and will be developed into residential buildings. Planning and design work is underway. Construction is expected to be commenced in 2019.

**(B) Investment Properties**

***Shanghai K. Wah Centre, Huaihai Zhong Road, Shanghai (69.6% effective interest)***

This prime investment property with a total GFA of approximately 72,000 square metres continued to achieve an average 95% occupancy throughout the year. The average rental rate increased moderately upon the renewals of existing tenancies and execution of new tenancies, providing good rental income for the Group.

***Stanford Residences, Shanghai (100% owned)***

The Group is dedicated to creating a privileged lifestyle residential environment for tenants in pursuit of high-end modern living. "Stanford Residences" including "Jing An", "Xu Hui" and "Jin Qiao" with a total GFA of approximately 71,000 square metres, offers everything from five-star management services to sophisticated and contemporary interiors that feature stylish furniture and fittings. Throughout the year, they all achieved high occupancy and contributed stable rental income to the Group.



Jinghai Site No. 02, Jianghai District, Jiangmen



Shanghai K. Wah Centre





### ***Palace Lane, Shanghai (100% owned)***

To serve its prestige residents at The Palace and the high end retail market in Xuhui, Palace Lane, with a total GFA of approximately 8,000 square metres, became fully operational in the year. It has been very well received, with over 90% was leased as of year-end.

### ***J Town, Dongguan (100% owned)***

Aiming to create a fun and exciting lifestyle experience for visitors, J Town, a commercial complex situated within Silver Cove, has a total GFA of approximately 11,600 square metres. It provides daily needs to residents, as well as being a popular destination for the surrounding neighbourhood by offering consumers a wide variety of entertainment, leisure and food and beverage experiences to consumers. J Town was fully operational in the year. It has enjoyed high patronage and very positive market feedback, over 80% leased as of year-end.

### ***Huadu Jiahua Plaza, Guangzhou (100% owned)***

Retail portions of the third phase of Huadu Jiahua Plaza and fourth phase comprising of an office tower with retail facilities, completed in November, with an aggregate GFA of approximately 38,000 square metres is held for rental and were just launched to the market for leasing.

### ***Office project, Suhe Creek, Jingan District, Shanghai (53.61% owned)***

The site located by Suhe Creek in Jingan District with a total GFA of approximately 20,000 square metres is being developed into an office building, with some portions for cultural and commercial activities. Construction works are underway with expected completion in the first half of 2020.



Jianghai Site No. 12, Jianghai District, Jiangmen



### Investment in GEG

The Group maintains a non-current investment of 162 million shares, or an approximate 3.8% interest, in GEG carried at fair market value. As of 31 December 2018, the share price of GEG was HK\$49.8 compared with HK\$62.7 as of 31 December 2017. The change in fair value of approximately HK\$2,096 million was recorded in reserve.

## OUTLOOK AND STRATEGY

### Global and Mainland China

During the year, global economies were volatile mainly as a result of the trade conflicts between Mainland China and the US. British Prime Minister, Theresa May, struggled with EU on the terms for Brexit. Germany chancellor, Angela Merkel, decided in October not to run for another term after her current term ends in 2021. Emmanuel Macron, the French President, was busy dealing with anti-government movements. These political instabilities together with the weakening economies of certain southern EU countries have caused concerns over the possible breakup of the EU and its economic growth. The US continued to stand out and perform

well in the year although the US Federal Reserve raised the federal fund rate four times, each by 0.25% after three hikes of 0.25% each in 2017.

With all the uncertainties globally, US economy recently slowed down which made the market expect that US interest rate hike cycle is ending soon. The RMB appreciated in early 2018 until April and subsequently dropped due to weakened economic growth resulting partly from additional tariffs by the US on its exports there. Nevertheless, with trade talks between Mainland China and the US progressed, the RMB rebounded from November which ended up devaluing only 6% against USD in the year and remained strong in early 2019.

US GDP grew 2.9% in the year compared to 2.3% for 2017 while the US Federal Reserve expects a growth of 2.3% in 2019. China's GDP grew 6.6% in the year, exceeding the government target of 6.5% with the target adjusted downwards to 6–6.5% for 2019. In Hong Kong, GDP grew 3% in the year, on the low end of the government's full year revised forecast of 3–4%. GDP growth rate between 2–3% was forecasted for 2019.



Office project, Suhe Creek, Jingan District, Shanghai



### The property market in Hong Kong and Mainland China

The Hong Kong Government announced in November its “Lantau Tomorrow Vision” for reclamation of 1,700 hectares land east of Lantau Island and recently adopted the report by the Task Force on Land Supply, demonstrating its commitment to land supplies that meet Hong Kong’s development need. Property prices reached record highs in August before starting a correction, mainly due to concerns over the trade war between Mainland China and the US, and possible interest rate hikes affecting buyers’ affordability. There were approximately 15,600 primary transactions registered with the total amount of HK\$219.5 billion for the year compared with the total of 18,600 for 2017 of HK\$240.5 billion. With recent positive news on the progress of the trade talks between Mainland China and the US lately, the market has stabilised with transaction prices and volumes recovered amid the strong fundamentals and it is not expected to see significant adjustments in the near term.

Restrictive measures in Mainland China will not be significantly relieved. Transaction volumes, particularly for Tier 1 and 2 cities, remained

relatively low while home prices will remain stable, supported by the genuine underlying demand. The situation is expected to stabilise and we remain optimistic on the Mainland China property market in the medium and longer term, particularly in the Pearl River and Yangtze River Deltas where we have our operations focused on, due to the preferential policies adopted by the Central Government for building clusters of cities in these regions to enhance their overall competitiveness.

### Project sales and progress

In Hong Kong, handover of the sold units of K. City commenced immediately upon the certificate of compliance was granted in late November 2018. Approximately 70% of units were delivered as of the year end out of 889 units sold with revenue of HK\$6.7 billion recognised in the year. The remaining sold units will also be delivered to buyers with the related sales recognised in the first half of 2019. The Group will continue to market the project’s remaining units. Construction for Solaria in Tai Po progressed as scheduled. Pre-sales of the project launched in June 2018 received overwhelming responses with 709 units sold as of the year end. Sales will be recognised upon delivery of sold units



Crowne Plaza Hotel Guangzhou Huadu



(Top) Stanford Residences Jing An, Shanghai

(Bottom) Stanford Residences Xu Hui, Shanghai



to buyers. Development of its joint venture projects for Cheung Sha Wan and Kam Sheung Road progressed as scheduled.

In Mainland China, the Group launched for sale of its completed projects, Windermere in Shanghai and the apartments in its completed Phase III of Huadu Jiahua Plaza in late December. New batches of units of these two projects will continue to be marketed in 2019. The Group will soon launch the completed Phase III of The Palace in Shanghai in the first quarter of 2019. Handover of the remaining sold units of The Peak and other projects will continue in 2019 with satisfactory progress, upon which sales will be recognised. Development of the Group's other wholly owned projects and the new joint venture development in Jiangmen progressed as scheduled. Construction of Royal Creek, a 33% owned project in Nanjing of which 97% was presold by year end, is expected to be completed in late 2019. Development of the Group's new joint venture projects in Kunshan, Suzhou and Jiaxing progressed as scheduled and sales of which were launched in the year. The Group will also continue to market its remaining units in various projects in Mainland China.

### Land bank replenishment

The Group actively participated in land bids in Hong Kong in the year but did not secure any, whereas land sites, wholly owned or via joint ventures, were acquired in Mainland China. It will continue to exercise discipline and sound judgment in evaluating land replenishment opportunities, taking advantage of the softening land market in Hong Kong and Mainland China.

### Recurring income

In Shanghai, following the full completion of the second phase of The Palace in the year, two more towers of approximately 11,000 square metres were converted into serviced apartments under "Stanford Residences Xu Hui". Palace Lane, the commercial portion of The Palace, with a GFA of approximately 8,000 square metres, and J Town, the commercial portion in Silver Cove, Dongguan, with approximately 11,600 square metres, were fully operational in the year. Phases III and IV of Huadu Jiahua Plaza were completed in November. Commercial portions and offices of approximately 38,000 square metres were launched for leasing with favourable response. The hotel with a GFA of approximately 14,000 square metres is expected to



J Town, Dongguan





## Management Discussion and Analysis

commence operation in 2019. In Hong Kong, the remaining office units in Kingsfield Centre were transferred to investment properties for rental. As a result, the Group's investment property portfolio grew from approximately 190,000 square metres on 31 December 2017 to approximately 240,000 square metres as of year end. With our office project at Suhe Creek, Jingan, Shanghai, expected to be completed in 2020 and the commercial portions of our projects under development to be held for rental, we are on track to enlarge our portfolio for recurring income.

Dividend derived from our approximately 3.8% interest in GEG increased by over 54% compared to 2017 and remains a source of our recurring income.

### Conclusion

Major developed countries, Mainland China and Hong Kong generally performed well in 2018 although their economic growth weakened in the second half of the year mainly due to the trade

conflicts between Mainland China and the US. Their economic growth is expected to continue to be stable in 2019 unless the trade war between Mainland China and the US escalates dramatically while there are challenges ahead.

While there is less concern over interest rate hikes by US, quick catching up of US interest rate hikes by Hong Kong is not expected. Unemployment rate will also remain low in Hong Kong in 2019 and it is conservatively expected that the prevailing high liquidity and fundamental demand in the market will continue in the near future.

The risk of administrative policies by the government will remain the major factor in suppressing property transactions in Mainland China while its economy is expected to grow, although at a lower rate than the previous years. It is expected to continue to outperform developed countries, providing support for the RMB which is forecasted to remain stable in 2019.



K. Wah Plaza, Guangzhou

The Group will continue to develop our existing projects and to have the projects in our pipeline launched according to schedules, as well as to further to replenish our land bank in a disciplined manner. We prudently believe that the Mainland China property market will still grow healthily in the longer term despite the restrictive measures implemented and slowing economic growth. The Group is well positioned to capture any opportunities in the softened market, both in Hong Kong and Mainland China.

## REVIEW OF FINANCE

### Financial Position

The financial position of the Group remained healthy throughout the year. As of 31 December 2018, total funds employed (being total equity and total borrowings and guaranteed notes) was HK\$56 billion (2017: HK\$55 billion). The number of issued shares of the Company increased to 3,124,854,615 as of 31 December 2018 (2017: 3,055,461,052) as a result of the issuance of scrip dividends and exercise of share options during the year.

### Group Liquidity, Financial Resources and Gearing Ratio

The Group monitors its liquidity requirements on a short-to-medium-term rolling basis and arranges refinancing of the Group's borrowings when appropriate. As of 31 December 2018, the Group's borrowings of bank loans and guaranteed notes were HK\$18,711 million, with a maturity profile spread over a period of up to five years except for HK\$199 million which is due after 5 years, 6% of the rest is repayable within one year and the remaining 94% repayable over one to five years. The average interest rate for the Group during the year was approximately 2.5%.

As of 31 December 2018, the Group had available undrawn banking facilities totaling HK\$13,781 million comprising HK\$9,382 million for working capital and HK\$4,399 million for project facility purposes.

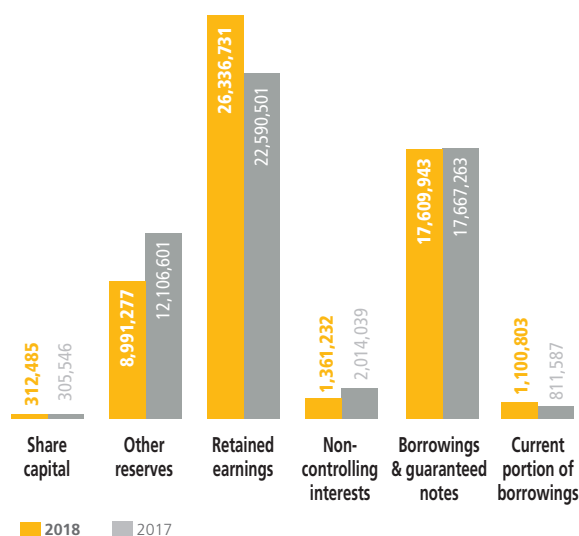
As of 31 December 2018, cash and bank deposits stood at HK\$7,489 million, and approximately 31% was held in Renminbi.

The gearing ratio, defined as the ratio of total borrowings and guaranteed notes less cash and bank deposits to total equity, stayed at 30% as of 31 December 2018 (2017: 34%).

A 5-year revolving credit and term loan facilities of HK\$7 billion were executed in January 2018 for refinancing at lower cost and additional funding source to enhance the Group's funding capability.

### Sources of Funding

As at 31 December 2018  
(HK\$'000)



### Treasury Policies

In order to minimise risk, the Group continues to adopt a prudent approach regarding foreign exchange exposure. Forward foreign exchange contracts are utilised when considered appropriate and when attractive pricing opportunities arise to mitigate foreign exchange exposures. Interest rate swap contracts are also utilised as appropriate to avoid the impact of any undue interest rate fluctuations on the Group's operations.

Of the Group's bank loans and guaranteed notes of HK\$18,711 million as of 31 December 2018, approximately 92% was denominated in Hong Kong dollars, with the remainder in Renminbi. Approximately 91% of such borrowings and notes were on a floating rate basis, with the remainder on fixed rate basis.



### Charges on Group Assets

As of 31 December 2018, certain subsidiaries of the Group pledged assets (comprising investment properties, development properties, leasehold land and land use rights, and buildings) with aggregate carrying values of HK\$15,962 million (2017: HK\$5,338 million) to banks in order to secure the Group's borrowing facilities.

### Guarantees

As of 31 December 2018, the Company has executed guarantees in favour of banks and financial institutions, in respect of facilities granted to certain subsidiaries and joint ventures, amounting to HK\$28,347 million (2017: HK\$17,779 million) and HK\$3,609 million (2017: HK\$1,460 million) respectively. Of these, facilities totalling HK\$16,953 million (2017: HK\$16,990 million) and HK\$2,880 million (2017: HK\$1,323 million) respectively have been utilised.

In addition, certain subsidiaries of the Company provided guarantees amounting to HK\$1,081 million (2017: HK\$1,241 million) in respect of mortgage facilities granted by banks relating to mortgage loans arranged for purchasers of the Group's properties.

### EMPLOYEES AND REMUNERATION POLICY

As of 31 December 2018, the Group, excluding its associated companies and joint ventures, employs 983 employees in Hong Kong, Mainland China and Singapore. Employees cost, excluding Directors' emoluments, amounted to approximately HK\$401 million for the year under review.

The Group believes its long-term growth and success depend upon the quality, performance and commitment of its employees. The Group's remuneration policy aims to offer competitive remuneration packages to attract, retain and motivate talents. With result-driven incentive programmes which are built upon our established performance management framework, the Group believes the remuneration packages of its employees are fair, reasonable and competitive in relation to comparable organisations with similar business interests.

The Group has put in place a share option scheme for its executives and employees since 1989 for the purposes of providing competitive remuneration package as well as retaining talents in the long term. The Group puts emphasis on employees' training and development opportunities which form an important component of the Group's human resources strategy. Training and development programmes are provided through internal and external resources in each year to address the needs of our employees for the sustainable development of our businesses.

### ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICIES

The Group had prepared a report for 2018 in compliance with Appendix 27 to the Rules Governing the Listing of Securities ("Listing Rules") of The Stock Exchange of Hong Kong Limited ("HK Stock Exchange") on "Environmental, Social and Governance Reporting Guide". Highlights of the Group's environmental, social and governance policies and performance were presented in this discussion.

The Group has taken the necessary steps to develop and put forth an environmentally conscious business approach which promotes operations that are in line with industry best practices. We are keen to explore all possible areas to help us further improve our environmental performance. Sustainable designs and considerations are incorporated into our projects from the early stage of development while our sustainability vision ensures that operations and procedures adhere to the principles of resource conservation and energy efficiency. Our efforts have been recognised through multiple avenues such as inclusion on constituent of the Hang Seng Corporate Sustainability Benchmark Index in 2018, which enables us to evaluate ourselves against industry peers and provide a benchmark for sustainable investments. Ultimately, we strive to improve our Company-wide environmental performance and will continue to work diligently towards a sustainable future.



As our business is primarily focused on property development and investment, we recognise the importance of efficient resource management through the use of innovative technologies and positive behavioural changes. To control unnecessary energy consumption, we have installed Building Automation Systems in the offices which automatically adjust lighting and air-conditioning to optimal levels. To further reduce our dependence on air-conditioning, we have also installed solar window films to reduce heat gain and moderate indoor air temperature. Our efforts in waste reduction continue to yield excellent results as we proceed to adopt new measures and initiatives. In our Shanghai and Nanjing offices, internal application and approval procedures have been migrated online onto an Office Automation System significantly reducing paper use.

Moving forward, we will continue to incorporate sustainable features and technologies into building design and pursue internationally recognised green building standards in our new projects, such as the LEED certification from the US Green Building Council. Additionally, we encourage our partners to operate in line with sound environmental stewardship practices. We have made considerable efforts to strike an optimal balance between environmental performance, quality and comfort for our building users.

#### **Account of Key Relationships with Employees, Customers and Suppliers**

The Group consistently engages with various stakeholder groups to gather their views and understand their expectations and interests. We look to foster positive relationships with our stakeholders and will take their needs into consideration when deliberating on corporate decisions.

#### **Employees**

We recognise the importance of our employees to the success and longevity of the Group. We work meticulously to ensure the health, safety, and well-being of all members of our staff; building a safe and comfortable environment for our employees is of utmost importance. Furthermore, we believe that the performance of an individual is maximised when they feel respected and are given the opportunities for self-expression. Therefore, we continue to implement merit-based appraisal policies and assert zero-tolerance for any form of discrimination during our recruitment or promotion processes. The Group continues to offer our employees competitive remuneration and benefit packages, including some that also apply to their family members, in order to promote work-life balance and personal well-being.

To fully support their continual development, we provide our staff with access to online courses as well as sponsorships for relevant external training courses.

#### **Customers**

The Group maintains high quality standards to ensure we meet the expectations of our customers. Stringent control measures are in place to screen and prioritise qualified contractors to assure product quality. In Hong Kong, these measures include a pre-qualification screening to ensure selected contractors are ISO 9000 quality management system certified. Our Mainland China projects are subject to similar assurance measures, as well as our Standard Operating Procedures, which guide our quality control processes from the design phase of a project to its completion.

We hold our business to the highest ethical standards and strictly comply with all relevant advertising, data privacy, and product responsibility standards and regulations.



### **Suppliers**

KWIH actively engages a wide range of suppliers and contractors with the purpose of extending our corporate commitments beyond the Company. We work closely with the various participants of our supply chain to mitigate the potential social and environmental risks that may arise. Our supplier selection criteria includes the review of past performance and suppliers' job references so that only competent suppliers are nominated. Once chosen, they are required to follow rigorous quality control and audit procedures.

### **Compliance Status with Relevant Laws and Regulations that have a Significant Impact on the Business**

During the reporting year, the Company did not receive any cases of non-compliance with the relevant laws and regulations regarding the environment, labour standards, occupational health and safety, anti-corruption, or data privacy in Hong Kong and Mainland China.

# Investor Relations



KWIH is a constituent stock of the Hang Seng Composite MidCap Index, Hang Seng Corporate Sustainability Benchmark Index and MSCI Hong Kong Small Cap Index as well as an eligible stock under the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect programmes.

KWIH values the trust that our shareholders, investors and all its other stakeholders place in us. To that end, we give our best to realize management with a high degree of transparency by means of prompt, appropriate, and fair information disclosure.

The Group discloses information in compliance with relevant laws and policies as prescribed by the regulatory authorities. Corporate information, be it financial or non-financial, must be disclosed in a transparent, timely and fair manner through easily accessible channels such as KWIH's official website and its other online platforms, and must be credible, non-misleading and sufficient for investment decisions, as well as deepening the understanding of the Group among investors.

KWIH strives to enhance communication and cultivates trust-based relationships with our investors and shareholders. We engage in every possible mean to ensure an ongoing communication with these

stakeholders. Our senior management is proactive in attending regular briefing sessions on financial results for investors and analysts, project site tours, interviews in person, by phone and/or in small meetings, and participates in IR conferences and roadshows in both Hong Kong and overseas. Comments received through these dialogues and exchanges are fed back to our other management and directors with an aim to maximize our corporate value.

In 2018, KWIH was proud to receive an array of awards that recognised its excellence in upholding the highest standard of corporate governance and all-round IR performances. They include Outstanding Corporate Governance Award; Listed Company Award of Excellence Large Cap; Best IR Company Award; Best Investment Value Award; 2018 Spotlight Awards: Silver Award in the "Print: Annual Report" category and the "Top 100 Global Communications Materials"; ARC Awards 2018: Bronze award in the "Cover Photo/Design: Real Estate Development/SVC: Various & Multi-Use"; IADA Awards 2018: Silver award – "Real Estate Development – Integrated Presentation".







# Corporate Social Responsibility

KWIH values long-term relationships with our employees and the communities in which we operate. In line with our core principle of “giving back to the society from which one has benefitted”, we are committed to creating positive impacts on our people and in the communities through delivering extensive outreach programmes, with a view of promoting greater integration and harmony for the betterment of the society.

## OUR PEOPLE

### Empowering our people

KWIH values the contributions of our employees that are crucial to our success and implementation of our corporate strategies to drive the continued growth of the Company. We strive to support our employees to unleash their full potential.

In November, KWIH organised a team building activity in Qingdao for its 180 colleagues. The activity has successfully enhanced staff commitment to team effort and bred cooperative excellence.

### Caring our people

Employee health and safety is of paramount importance to KWIH. We encourage our employees to be mindful of healthy living in their everyday lives. In 2018, we organised a variety of activities to promote healthy lifestyles. Pop Pilates and Fat Burning Classes; Sun Life Stanley International Dragon Boat Championships; Oxfam Trailwalker 2018 Challenge.

## OUR COMMUNITY

### Community empowerment

KWIH is devoted to investment and engagement in the communities in which we operate, with focus areas on community empowerment, arts and culture, youth development and environmental protection.

In May, our employees visited Guxiong Primary School in Nanjing to show our love to students with financial burden. In June, our volunteers showed our continuous support and met with children with cerebral palsy in the CereCare Wellness Centre for Children.



In collaboration with St. James' Settlement in November, KWIH created a meaningful day with more than 20 children and our volunteer team in a pizza-making workshop. We watched a lovely movie in a theatre to end the day with joy and fullness.



## Youth Development

In October, KWIH exclusively sponsored the first Annual Cornell CUHK Regional Real Estate Competition, Asia to support eight undergraduate teams from Hong Kong, Mainland China, Taiwan, Korea and Indonesia in the exchange of their ideas to real-world challenges.



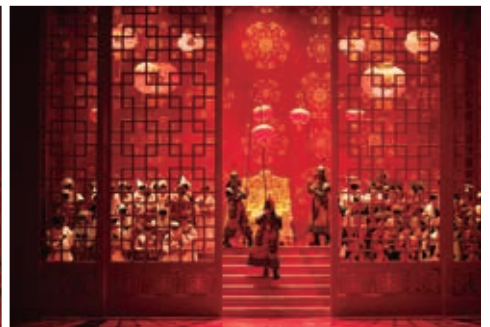
## Environmental Protection

Raising awareness is essential for enhancing environmental protection within the community. KWIH showed our continuous support for the "Day run Night Walk for The Green Earth 2018" to spread the message of Cherish the Earth and promote a "zero-waste" lifestyle.



## Arts & culture

In 2018, KWIH continued to work closely with Opera Hong Kong for 27 opera performances, attracting more than 24,000 audiences in town.



Additionally, we supported the performances of *K. Wah Opera Hong Kong Summer School 2018 – The Magic Flute* and the *K. Wah Opera Hong Kong Children Chorus Annual Concert 2018*, offering local children and teenage an opportunity to demonstrate their talent on stage.

12 mini-opera school tours and a mini-concert were held to introduce the beauty of opera at schools. In 2018, KWIH garnered the "Award for Arts Sponsorship" at the Hong Kong Arts Development Awards 2017 from the Hong Kong Arts Development Council, in recognition of its outstanding contribution to the development of the arts in Hong Kong.







J SENSES  
HONG KONG



PALACE  
LANE  
SHANGHAI







# Corporate Governance Report

As at 20 March 2019

The Board presents this Corporate Governance Report in the Company's annual report for the year ended 31 December 2018.

The objective of the management structure within the Group — headed by our Board and led by the Chairman — is to deliver sustainable value to our Shareholders. To this end, good corporate governance plays a significant role.

The Board has applied the code provisions ("CPs") in the Corporate Governance Code ("CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("HK Stock Exchange") during the year.

## BOARD OF DIRECTORS

**The Board** Led by the Chairman, the Board as the highest governing body of the Company has the responsibility for leadership and control of the Group. The Board sets the strategy of the Group and approves the annual operating budget prepared and presented by the management for achieving the Group's strategic objectives.

**Chairman and Managing Director** Dr. Lui Che-woo currently takes the roles of both the Chairman and the Managing Director of the Company. He leads the Board and oversees the day-to-day management of the Group. The Chairman has encouraged all Directors, especially the NED and the INEDs to express their opinion freely before proposing the resolutions for voting.

**Board Composition** The Board currently comprises 9 Board members: the Chairman and Managing Director, 3 other executive Directors ("EDs"), one non-executive Director ("NED") and 4 independent non-executive Directors ("INEDs"); with one of the INEDs has accounting professional qualification. The biographical details of the current Directors are set out on pages 47 to 50 of this annual report as well as on the website of the Company. The list of Directors with their roles and functions is also disclosed on the websites of the Company and Hong Kong Exchanges and Clearing Limited ("HKEx") respectively.

The EDs are employees of the Company who carry out executive functions in addition to their duties as Directors. They are collectively responsible for promoting the success of the Company by directing strategic objectives, developing strategic plans and overseeing the day-to-day management of the Group's business to ensure the efficient disposition of the Group's resources for the achievement of the strategic objectives set by the Board.

The NED and INEDs are not employees of the Company and do not participate in the daily management of the Group's business. Our NED and INEDs bring external perspectives, constructively challenge and help develop proposals on strategies, scrutinize the management in meeting agreed goals and monitor performance reporting. Through their wealth of experience across a number of industries and business sectors, our NED and INEDs contribute valuable views and proposals for the Board's deliberation and decisions.

**Board Practices** In 2018, the Board held 4 Board meetings at approximately quarterly intervals and the dates of which had been scheduled at the beginning of the year. Notice of at least 14 days in advance was given for convening a regular Board meeting. The Directors actively participated in person at each Board meeting to consider and, if appropriate, approve the annual budget and to review the business progress against the budget. Matters requiring Board consents were given by vote at the Board meeting where Board members acted collectively as a unit. The Chairman also encourages and allows all Directors to have sufficient time to raise questions on each agenda item during the meeting. Between scheduled Board meetings, routine/operational matters were considered and approved by the Board via the circulation of written resolutions with supporting materials, explanatory write-ups from the Company Secretary or briefings from the management as appropriate.

In addition to Board meetings, the Chairman also has regular gatherings with other Directors, occasionally with INEDs and without the presence of other Directors, to consider issues in an informal setting. The INEDs freely provide their independent views to the Board.



## Corporate Governance Report

As at 20 March 2019

The Company has a set of comprehensive induction materials for newly appointed Directors. The Company Secretary has regularly updated Directors on compliance developments. All Directors have access to the advice and services from the management and the Company Secretary with a view to ensuring that Board procedures, and applicable rules and regulations, are followed. There are also arrangements in place for providing continuous professional development training (including attendance at external forums or briefing sessions and delivering of speeches on the relevant topics) and relevant reading materials to Directors to help ensure that they are apprised of the latest changes in the commercial, legal and regulatory environment in which the Group conducts its businesses and to refresh their knowledge and skills on the roles, functions and duties of a listed company director. There is satisfactory attendance at Board meetings, Board Committee meetings and the meetings between the Chairman and the INEDs and the general meeting during the year 2018. The Company receives notification from each Director on an annual basis a list showing the nature of offices he holds in other public listed companies and organizations and other significant commitments and also indication of the respective estimated time involved.

The Company has arranged appropriate directors' and officers' liability insurance cover in respect of potential legal actions against their risks and exposure arising from the Group's business and activities.

Our NED and INEDs are either veteran professionals or businessmen who have brought not only a wide range of skills and experience to the Group but also independent judgment to bear on issues of strategy, performance, risk and people through their contributions at Board meetings and also at meetings of the audit committee ("Audit Committee"), the remuneration committee ("Remuneration Committee") and the nomination committee ("Nomination Committee") of the Company.

The Board has procedures in place to ensure that conflict of interest will be resolved in accordance with the spirit and requirement of CP A.1.7 of the CG Code of the Listing Rules on the HK Stock Exchange. The Company assists the INEDs with professional advice (at the Company's expenses) and management briefings for them to arrive at their recommendations on matters involving conflict of interest.

**Supply and Access to Information** The Company Secretary circulates meeting agenda (with arrangements for Directors to include their own items if thought fit) and supporting papers to the Directors at least 3 days in advance of a Board meeting, and attends Board meetings to assist in the proceedings.

All Directors have access to and open contact with management for any information and are entitled to have access to board papers and related materials as they require to make informed decisions on matters placed before them. Assisted by the Company Secretary, the Chairman of the Board has ensured that the Directors have been properly briefed on issues arising at Board meetings and supplied with information and papers as promptly and fully as possible. The Directors have access to independent professional advice when it becomes necessary and also the services of the Company Secretary who has been regularly updating the Directors on governance and regulatory matters. The service of independent professional advice at the Company's expense is also available to the members of the Audit Committee, Remuneration Committee and Nomination Committee. The external auditor, PricewaterhouseCoopers ("PwC"), attended all the Audit Committee meetings as well as Board meetings convened for approving annual and interim results.

The Company Secretary has kept all the minutes of Board meetings, which together with any supporting board papers, are available for all Board members for inspection. These minutes recorded matters considered by the Board and views expressed by the Directors. Draft and final versions of these minutes are sent to all Directors for their comments and records respectively, in both cases, within a reasonable time after each meeting.

Directors' attendance at Board and other meetings in 2018 is as follows:

Name of Directors	Meetings attended/Eligible to attend				
	Board Meeting (4)	Audit Committee Meeting (2)	Remuneration Committee Meeting (1)	Nomination Committee Meeting (1)	Annual General Meeting (1)
<b>Executive Directors</b>					
Lui Che-woo ( <i>Chairman &amp; Managing Director</i> ) <sup>1</sup>	4	N/A	1	1	1
Francis Lui Yiu Tung <sup>2</sup>	–	N/A	N/A	N/A	–
Paddy Tang Lui Wai Yu <sup>3</sup>	4	N/A	N/A	N/A	1
Alexander Lui Yiu Wah <sup>4</sup>	4	N/A	N/A	N/A	1
<b>Non-executive Director</b>					
Moses Cheng Mo Chi	4	–	N/A	N/A	1
<b>Independent Non-executive Directors</b>					
Robin Chan Yau Hing	4	N/A	N/A	N/A	1
William Yip Shue Lam	4	2	1	1	1
Au Man Chu	4	2	N/A	N/A	1
Wong Kwai Lam	4	N/A	1	1	1
<b>Average attendance rate</b>	89%	67%	100%	100%	89%

1. Dr. Lui Che-woo is the father of Mr. Francis Lui Yiu Tung, Ms. Paddy Tang Lui Wai Yu and Mr. Alexander Lui Yiu Wah.
2. Mr. Francis Lui Yiu Tung is the son of Dr. Lui Che-woo, the younger brother of Ms. Paddy Tang Lui Wai Yu and the elder brother of Mr. Alexander Lui Yiu Wah.
3. Ms. Paddy Tang Lui Wai Yu is the daughter of Dr. Lui Che-woo, the elder sister of Mr. Francis Lui Yiu Tung and Mr. Alexander Lui Yiu Wah.
4. Mr. Alexander Lui Yiu Wah is the son of Dr. Lui Che-woo, the younger brother of Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu.

**Appointment, Re-election and Removal** All our NED and INEDs are appointed for a specified term of 3 years, subject to re-election by Shareholders at the annual general meeting of the Company.

In accordance with the Bye-laws of the Company, other than the Chairman and the Managing Director of the Company, one-third of the Directors for the time being (or the number nearest one-third) shall retire by rotation, but can stand for re-election, at each annual general meeting of the Company. At the forthcoming 2019 annual general meeting ("2019 AGM") of the Company, Dr. Moses Cheng Mo Chi (NED), Dr. Robin Chan Yau Hing (INED) and Dr. William Yip Shue Lam (INED) will retire by rotation. Dr. Moses Cheng Mo Chi and Dr. William Yip Shue Lam, being eligible, will offer themselves for re-election and expressed if they are re-elected, they are willing to remain in office.

Dr. Robin Chan Yau Hing has tendered his intention, to retire as INED of the Company upon completion of his service contract with the Company in June 2019 and at the conclusion of the 2019 AGM. The Board would like to express sincere appreciation to Dr. Robin Chan Yau Hing for his invaluable contribution to the Company during his tenure.

Pursuant to CP A.4.3. of the CG Code, any re-appointment of INEDs who served more than 9 years shall be subject to a separate resolution to be approved by the shareholders of the Company ("Shareholders"). Dr. William Yip Shue Lam served the Company for more than 9 years and is due to retire at the 2019 AGM. During his years of appointment, Dr. William Yip Shue Lam has expressed objective views and given independent guidance to the Company over the years. Notwithstanding his years of service as INED of the Company, the Board is of the view that Dr. William Yip Shue Lam is able to continue to fulfill his role as required with in-depth understanding of the Company's operations and business and with professional qualifications. Dr. William Yip Shue Lam has the required character, integrity and experience to continue fulfilling the role of INED and thus recommends him for re-election at the 2019 AGM. Dr. William Yip Shue Lam had made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Board is satisfied that Dr. William Yip Shue Lam remains independent, and there is no evidence that his tenure has had an impact on his independence.





## Corporate Governance Report

As at 20 March 2019

Particulars of the said retiring Directors and the recommendation of the Board for their re-election are set out in a circular accompanied with this annual report for being despatched to the Shareholders.

**Confirmation of Independence** The Board considers all of its INEDs independent in character and judgment as within the guidelines under Rule 3.13 of the Listing Rules. In reaching its determination, the Board has concluded that there are no relationships or circumstances that are likely to affect any INED's judgment. In accordance with Rule 3.13 of the Listing Rules, each of the 4 INEDs determined by the Board as independent has provided an annual written confirmation of his independence to the Company. The Company has identified its INEDs as such in all its corporate communications to the Shareholders.

**Directors' Induction and Continuous Professional Development** All Directors have participated in continuous professional development training (including attendance at external forums or briefing sessions, delivering of speeches and in-house seminars on the relevant topics) and have been provided with relevant reading materials to ensure they are apprised of the latest changes on the relevant laws, rules and regulations to further strengthen their knowledge and skills on their roles, functions and duties. The Company from time to time provides written training materials and latest development of the Listing Rules, applicable laws, rules and regulations relating to the Directors' duties and responsibilities.

During the year under review, the Company at its own expenses had provided Directors with written training materials for regulatory updates and arranged in-house seminar sessions conducted by qualified professionals experienced on the following topics for the Directors and the management of the Company to attend:

- (1) seminar on "Opportunities under China's Policies and the Role of Hong Kong";
- (2) seminar on "Global — China Macroeconomic Outlook"; and
- (3) seminar on "The Development and Important Impact of the Current Sino-US Trade War".

The Company has maintained records of training provided for each Director, summarized as follows:

Members of the Board	Attending Seminars	Reading Materials
<b>Executive Directors</b>		
Lui Che-woo ( <i>Chairman &amp; Managing Director</i> )	(2),(3)	(1)
Francis Lui Yiu Tung	—	(1),(2),(3)
Paddy Tang Lui Wai Yu	(1),(2),(3)	—
Alexander Lui Yiu Wah	(1),(2),(3)	—
<b>Non-executive Director</b>		
Moses Cheng Mo Chi	(1),(2),(3)	—
<b>Independent Non-executive Directors</b>		
Robin Chan Yau Hing	(1)	(2),(3)
William Yip Shue Lam	(1),(2),(3)	—
Au Man Chu	(1),(2),(3)	—
Wong Kwai Lam	(1),(2),(3)	—

**Model Code for Securities Transactions by Directors** The Board has adopted a code for transactions in the Company's securities by Directors and their connected persons that complies with the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules. Each Director has confirmed that he or she has complied with the adopted code throughout the year ended 31 December 2018. The Company has also adopted written guidelines — on no less exacting terms than the Model Code — for transactions in the Company's securities by its certain employees.

Other than the continuing connected transactions disclosed in the Report of the Directors, none of the Directors had, at any time during the year and up to the date of this Report or at the balance sheet date, a material interest, directly or indirectly, in any significant transaction, arrangement and contract of significance with the Company or any of its subsidiaries.

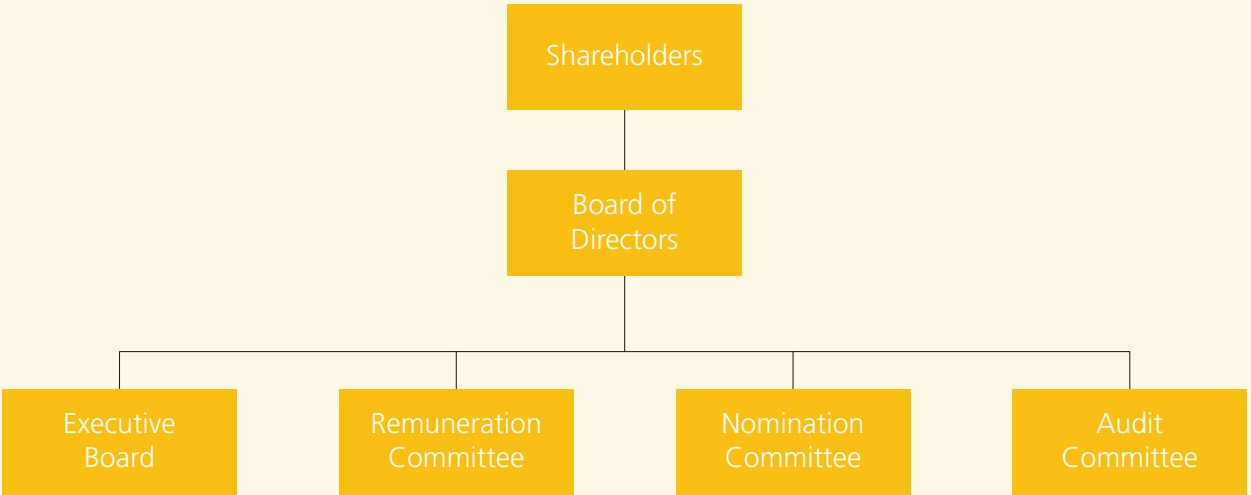
**Corporate Governance Functions** A policy for the Corporate Governance Policy including all the required terms of reference stated in CP D.3.1 of the CG Code was adopted by the Board on 22 March 2012 and is subject to review annually. The Board is primarily responsible for determining the policy for the corporate governance of the Company and performing the following corporate governance duties as required under the CG Code:

- To develop and review the Company’s policies and practices on corporate governance and make recommendations;
- To review and monitor the training and continuous professional development of Directors and senior management;
- To review and monitor the Group’s policies and practices on compliance with all legal and regulatory requirements (where applicable);
- To develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors of the Group; and
- To review the Group’s compliance with the CG Code and disclosure requirements in the Corporate Governance Report.

During the year under review, the Board reviewed the Policy for Nomination of Directors (“Nomination Policy”), the Model Code, the Corporate Governance Policy, Shareholders Communication Policy and the amounts under the annual caps on continuing connected transactions of the Group, as well as the effectiveness and adequacy of the internal control and risk management systems of the Company through the internal audit function and the Audit Committee. The Company has also established an internal policy on handling of confidential and inside information, and securities transactions for all employees of the Group to comply with the requirements under Part XIVA of the Securities and Future Ordinance when they are in possession of confidential and inside information in relation to the Group.

**DELEGATION BY THE BOARD**

The Board has set up 4 committees, namely, the Executive Board, the Remuneration Committee, the Nomination Committee and the Audit Committee, to assist it in carrying out its responsibilities. The structure of which is as follows:





**Executive Board** Within the clear guidelines which it sets, the Board has delegated to an executive board (“Executive Board”) established by it, comprising all the EDs, authority to oversee the implementation of the Group’s strategy set by the Board, monitor the Group’s investment and trading performance as well as funding and finance requirements, and review management performance. The Board retains to itself authority on annual budgets and accounts, dividends, share capital, derivative transactions, connected transactions and transactions requiring Shareholders’ approval, and certain financing, acquisitions, disposals and operation issues above predetermined thresholds.

The Executive Board also meets regularly and operates as a general management committee under the direct authority of the Board. The Executive Board reports through the Chairman and Managing Director to the Board and circulates its resolutions and minutes of the Board or committees or general meetings to all Directors on a quarterly basis. The Executive Board sub-delegates day-to-day administration details to the management committees charged with specific operation tasks under the leadership of the Executive Board. Management, pursuant to the level of authority formally approved by the Executive Board, submit written proposals with detailed analysis on financial and commercial aspects and recommendations to the Executive Board for consideration and approval. When the matter exceeds the authority of the Executive Board or relates to any matters specifically reserved to the Board, it would be submitted to the Board for approval.

### REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

**Remuneration Committee** The Remuneration Committee currently comprises 3 members identified in the table on page 39 (Dr. William Yip Shue Lam, Dr. Lui Che-woo and Mr. Wong Kwai Lam) and is chaired by Dr. William Yip Shue Lam (INED). The Company Secretary acts as the secretary of the Remuneration Committee, who has kept full minutes of the Remuneration Committee meetings with drafts and final versions circulating to members for their comments and records respectively within a reasonable time after the relevant meetings. The written terms of reference of the Remuneration Committee (in both English and Chinese versions) is available on the websites of the Company and HKEx respectively.

In accordance with its terms of reference, the Remuneration Committee:

- on 5 February 2018, reviewed and approved the 2017 year-end bonus paid to the EDs;
- on 14 March 2018, reviewed the level of Directors’ fees for 2017 as well as remuneration packages of EDs (who also constituted senior management of the Company) for 2018;
- on 18 July 2018, considered and endorsed the Executive Board’s Share Option Scheme 20th Offer Proposal on granting options to (among others) Directors;
- on 14 February 2019, reviewed and approved the 2018 year-end bonus paid to the EDs; and
- on 13 March 2019, reviewed the level of Directors’ fees for 2018 as well as remuneration packages of EDs (who also constituted senior management of the Company) for 2019.

The Remuneration Committee’s proposals on the EDs’ remuneration packages and the Directors’ fees for 2018 have been endorsed by the Board, and the proposed Directors’ fees will be recommended for Shareholders’ approval at the 2019 AGM. The Remuneration Committee submitted its written report and/or recommendations to the Board after its meeting.

No Director had participated in the determination of his or her own remuneration.

Details of Directors’ Remuneration and Five Highest Pay Individuals of the Group for the year ended 31 December 2018 are set out in notes 12 and 13 to the 2018 Financial Statements respectively.

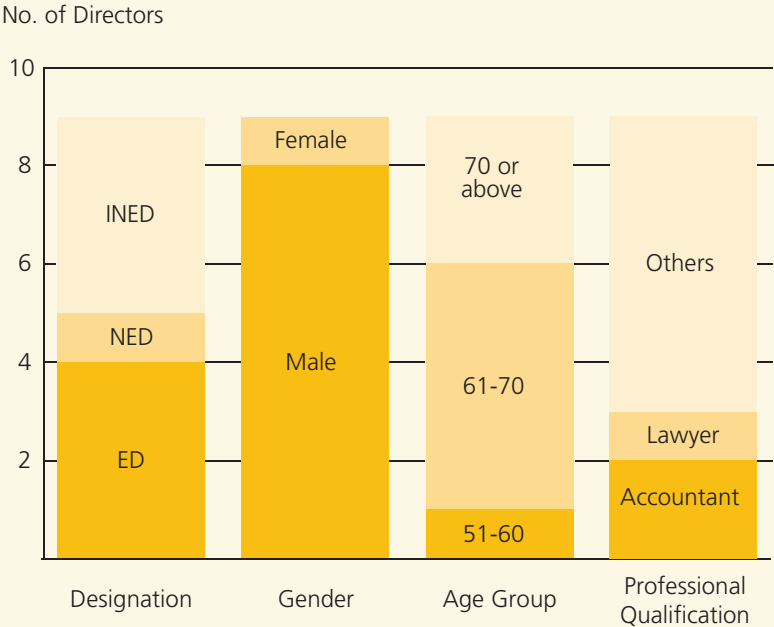
**Nomination Committee** The Nomination Committee comprises 3 members identified in the table on page 39 of whom 2 are INEDs (Dr. William Yip Shue Lam and Mr. Wong Kwai Lam) and is chaired by Dr. Lui Che-woo. The Company Secretary acts as the secretary of the Nomination Committee, who has kept full minutes of the Nomination Committee meetings with drafts and final versions being circulated to members for their comments and records respectively within a reasonable time after the relevant meetings.



The Nomination Committee is responsible for reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually; making recommendations on any proposed changes to the Board to complement the Company's corporate strategy; identifying individuals suitably qualified to become members of the Board and selecting or making recommendations to the Board on the selection of individuals nominated for directorships; conducting assessment of the independence of each INED and the management of Board succession. In order to facilitate its functions for the nomination of procedures and the process and criteria to select and recommend candidates for directorship of the Company, the Nomination Policy had been adopted by the Board on 22 March 2012 and was revised in March 2013 and March 2019 to include the diversity of board members. The Company seeks to achieve board diversity through the consideration of a number of factors, including but not limited to gender, age, ethnicity, reputation for integrity, cultural and educational background, professional experience, skills, knowledge and other qualities relevant to duties of Directors. The Company will also take into consideration its own business model and specific needs from time to time in determining the optimum composition of the Board. The Nomination Committee will review the Nomination Policy, as appropriate, to ensure its continued effectiveness from time to time. The Nomination Committee is also responsible for assessing the independence of INEDs and reviewing their annual confirmation on their independence. The written terms of reference of the Nomination Committee (in both English and Chinese versions) is available on the websites of the Company and HKEx respectively.

In 2018, the Nomination Committee met once in March 2018 with all members attended. At its meeting held on 13 March 2019, the Nomination Committee reviewed the structure, size and composition of the Board; assessed the independence of all INEDs; made recommendation on the retirement and reappointment of Directors at the 2019 AGM; and made recommendation on the amendments to the Nomination Policy to conform with the revised CG Code and other related requirements. The Nomination Committee submitted its written report and/or recommendations to the Board after its meeting.

The diversity profile of the Board as at 20 March 2019 is as follows:



**Audit Committee** The Audit Committee is accountable to the Board and assists the Board to oversee the Company's financial reporting process and risk management and internal control systems and to review the Group's interim and annual consolidated financial statements.



## Corporate Governance Report

As at 20 March 2019

The Audit Committee comprises 1 NED (Dr. Moses Cheng Mo Chi) and 2 INEDs (Dr. William Yip Shue Lam and Mr. Au Man Chu), identified in the table on page 39 and is chaired by Dr. William Yip Shue Lam. The Company Secretary acts as the secretary of the Audit Committee, who has kept full minutes of the Audit Committee meetings with drafts and final versions being circulated to the members for their comment and records respectively within a reasonable time after the relevant meetings. Regular attendees at the Audit Committee meetings are the management of the Company responsible for the accounting and financial reporting function, head of the internal audit function, and the senior representatives of PwC as the external auditor.

In 2018, the Audit Committee met twice in March 2018 for reviewing the Group's 2017 annual results and financial statements and in August 2018 for reviewing the Group's 2018 interim results and financial statements. At its meeting on 13 March 2019, the Audit Committee reviewed the Group's annual results and financial statements for 2018, the effectiveness and adequacy of the risk management and internal control systems of the Group, the effectiveness of the Group's internal audit function and recommended the Board to adopt a dividend policy of the Company. Each meeting received written reports and papers from PwC.

The written terms of reference of the Audit Committee has been revised in December 2015 to include an ongoing responsibility to oversee the Company's risk management system in compliance with the new CG Code which takes effect from 1 January 2016. The revised written terms of reference of the Audit Committee (in both English and Chinese versions) is available on the websites of the Company and HKEx respectively.

The Audit Committee was satisfied with the independence of PwC during the year and has recommended the Board to propose for the re-appointment of PwC as the external auditor of the Company at the 2019 AGM. An analysis of the fees for 2018 paid to external auditor appears in note 10 to the 2018 Financial Statements.

**Company Secretary** The Company Secretary is a full time employee of the Company, who reports to the Chairman and assists the Board in ensuring effective information flow among Board members and that the Board policy and procedures including those on corporate governance matters are followed. The Company Secretary had complied with Rule 3.29 of the Listing Rules during the year under review.

### ACCOUNTABILITY

**Financial Reporting** The Board is accountable for the proper stewardship of the Group's affairs, and Directors acknowledge their responsibility for preparing the financial statements of the Company in accordance with generally accepted accounting standards in Hong Kong, the requirements of the Listing Rules and applicable laws as well as the integrity of the financial information so reported. Such responsibility is extended to cover not only the annual and interim reports but also announcements and other financial disclosures of the Company required under the Listing Rules. The external auditor has a primary responsibility for auditing and reporting on the financial statements and the Independent Auditor's Report to the Shareholders is set out on pages 62 to 66 of this annual report.

The management of individual businesses within the Group provides the Directors with such information and explanations necessary to enable them to make an informed assessment of the financial and other information put before the Board for approval. Starting from April 2012, the Company provided all Directors with monthly management updates giving a balanced and understandable assessment of the Company's performance, financial position and prospects to enable the Board as a whole and each Director to discharge their duties under Rule 3.08 and Chapter 13 of the Listing Rules.

The Group has adopted the going concern basis in preparing its financial statements.

**Risk Management and Internal Control** The Board acknowledges its responsibility for maintaining and reviewing the effectiveness of the Group's risk management and internal control systems on an ongoing basis.

The Group has a clear organizational structure with well-defined responsibilities, reporting lines and authority limits and budgetary controls for managers of operating divisions. Policies and procedures are in place to effect all material controls, including financial, operational and compliance controls.

Risk management strategies have been established to help individual operating divisions manage risks facing the Group and support the Board in discharging its corporate governance responsibilities. Risk assessment exercise is performed through questionnaires and interviews with the senior executives and function heads to identify and evaluate significant risks of the Group and the results of which are reported to the Board for considering any risk mitigation actions and controls through the Audit Committee. Appropriate risk mitigation actions are being taken to manage and control individual risks.

The Board, through the Audit Committee, has reviewed the Group's risk management system annually and internal control system semi-annually which are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board's review also considered the adequacy of resources, staff qualifications and experience, training programs and budget of the Group's accounting, internal audit and financial reporting functions.

The Group's Internal Audit Department has been established to carry out the analysis and independent appraisal of the adequacy and effectiveness of the Group's risk management and internal control systems. Its audit work covers all material controls, including financial, operational and compliance controls.

The Chairman of the Audit Committee has open access to the head of Internal Audit Department. During the year 2018 and up to the date of the financial statements, there were no significant control failings or weaknesses, as the Internal Audit Department so reported to the Board through the Audit Committee.

## **COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS**

The Board established a shareholders communication policy in March 2012 setting out the principles of the Company in relation to its communication with the Shareholders, with the objective of ensuring the effective and timely dissemination of information to Shareholders at all times. In addition to sending annual reports, interim reports, circulars and notices to the Shareholders, the Company also makes sure these materials, which contain extensive information about the Group's activities, timely available for access by Shareholders on both the websites of the Company and HKEx. The Company's website at <http://www.kwih.com> is also an informative platform for investors and it contains a dedicated investor relations section offering timely and direct access to our financial reports, corporate announcements, press releases and other business information.

The Company has delegated its management specifically charged with investor relation functions. The Company responds to enquiries from Shareholders and investors on matters relating to the business of the Group in an informative and timely manner. Every year, upon announcing results, the Company holds a press conference and briefings with the investment community, and the EDs also have dialogues with institutional investors and financial analysts. In between times, the Company organizes site visits and meetings for reserved analysts in order to provide them with a comprehensive knowledge of our projects.

The Company received coverage and regular reports on its business and stock performance from leading financial commentators and analysts of local and international securities houses.

The Company encourages the Shareholders to attend annual general meetings and all its other shareholders' meetings to discuss progress and matters. The Chairman of the Board and other Directors are available at these meetings to answer Shareholders' questions. Separate resolution is proposed at general meetings of the Company on each substantially separate issue, including the election of individual directors. All the resolutions proposed at the 2018 annual general meeting ("2018 AGM") were passed by way of poll in compliance with Rule 13.39(4) of the Listing Rules. The Chairman of the 2018 AGM had at the meeting ensured that an explanation was provided for the detailed procedures for conducting a poll. The Company's branch share registrar and transfer office in Hong Kong had acted as the scrutineer for the vote-taking at the 2018 AGM, the voting results of which had been announced by the Company in accordance with Rule 2.07C of the Listing Rules on the websites of the Company and HKEx respectively. The Company had sent the notice of 2018 AGM to Shareholders more than 20 clear business days before the 2018 AGM. The Chairman of the 2019 AGM (and chairman of any other shareholders' meetings) will ensure that any vote of Shareholders at the 2019 AGM (and any other shareholders' meetings) will be taken by poll in compliance with the said Rule 13.39(4) of the Listing Rules.





### SHAREHOLDERS' RIGHTS

**Convening a special general meeting by shareholders** Pursuant to the provisions of Section 74 of the Companies Act 1981 of Bermuda (as amended), a special general meeting may be convened by the Board of Directors upon requisition by any shareholder(s) holding not less than one-tenth of the paid up capital of the Company as at the date of the deposit carries the right of voting at general meetings of the Company. The requisition must state the purposes of the meeting, and must be signed by the relevant shareholder(s) and deposited at the principal place of business in Hong Kong of the Company. If the Board of Directors do not within twenty-one days from the date of the deposit of the requisition proceed duly to convene a meeting, the shareholder(s), or any of them representing more than one half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date.

**Putting forward proposals at general meeting** A shareholder shall make a written requisition to move a resolution at general meeting to the Board of Directors or the Company Secretary of the Company at the principal place of business in Hong Kong of the Company, specifying the shareholding information of the shareholder, his/her contact details and the proposal he/she intends to put forward at general meeting regarding any specified transaction/business and its supporting documents.

**Proposal for election of Director** If a shareholder intends to propose a person other than a retiring Director of the Company for election as Director, the procedures have been set out in the Company's website.

**Enquiries to the Board** Shareholders may put forward their enquiries about the Company to the Board of Directors at the Company's principal place of business in Hong Kong or by email through the Investor Relations of the Company.

### CONSTITUTIONAL DOCUMENTS

The Company's Memorandum of Association and Bye-laws has been published on the websites of the Company and HKEx respectively. There have been no changes in the Company's Memorandum of Association and Bye-laws since the last alternation in June 2007.

### COMPLIANCE WITH APPENDIX 14 OF THE LISTING RULES

The Board and the management of the Company are committed to principles of observing good corporate governance consistent with prudent management and enhancement of shareholders' value. The full Board is entrusted with the overall responsibility of developing and ensuring adherence to the Corporate Governance Policy and the Shareholders Communication Policy. The Company is committed to maintaining high standards of corporate governance and enhancing corporate transparency and accountability.

Throughout the year ended 31 December 2018, the Company had complied with the CPs of the CG Code as set out in Appendix 14 to the Listing Rules, apart from the following CPs:

**CP A.2.1** — there was no separation of the roles of the Chairman and the Managing Director, both of the roles are currently undertaken by Dr. Lui Che-woo. The Board is of the view that the current management structure has been effective in facilitating the Company's operation and business development and that necessary checks and balances consistent with sound corporate governance practices are in place. The implementation of strategies and policies of the Board and the operations of each business unit are overseen and monitored by designated responsible EDs. The Board found that the current management had worked effectively in enabling it to discharge its responsibilities satisfactorily. In addition, all INEDs have contributed valuable views and proposals independently for the Board's deliberation and decisions.

**CP A.4.2** — Given that the other Directors do retire by rotation in accordance with the Bye-laws of the Company and the Board considers that the Group is best served by not requiring the Chairman and the Managing Director to retire by rotation as his continuity in office is of considerable benefit to the Company and his leadership, vision and profound knowledge in the widespread geographical business of the Group is a valuable asset of the Company.



# Biographical Information of Directors

## EXECUTIVE DIRECTORS

**Dr. Lui Che-woo**, *GBM, MBE, JP, LLD, DSSc, DBA*, aged 89, the founder of the Group, has been the Chairman since June 1989 and is presently the Chairman and the Managing Director, a member of the remuneration committee (ceased to act as the chairman on 22 March 2012 but remains as a member) as well as the chairman of the nomination committee (appointed on 22 March 2012) of the Company. Dr. Lui is also the chairman and an executive director of Galaxy Entertainment Group Limited. Save as disclosed herein, he has no previous directorships in other public listed companies in the last 3 years. He has over 50 years' experience in quarrying, construction materials and property development. He was the founding chairman of the Institute of Quarrying in the UK (Hong Kong Branch) and the chairman of the Tung Wah Group of Hospitals. Dr. Lui is also the founding chairman of The Federation of Hong Kong Hotel Owners, the president of Tsim Sha Tsui East Property Developers Association, the founding president of Hong Kong – Guangdong Economic Development Association and an Honorary President of Hong Kong – Shanghai Economic Development Association. Dr. Lui has been appointed as a member of Steering Committee on MICE (Meetings, Incentives, Conventions and Exhibitions) since 2007. Furthermore, Dr. Lui was a member of the 9th National Committee of the Chinese People's Political Consultative Conference, a member of the Selection Committee for the First Government of the HKSAR and a member of the Election Committee of the HKSAR. Dr. Lui has been again elected as a member of the Election Committee of the HKSAR in December 2006. In 1995, an asteroid discovered by the Purple Mountain Observatory in Nanjing was named "Lui Che Woo Star". Dr. Lui was presented the Outstanding Contribution Award in Guangzhou in 1996. Dr. Lui was awarded the Gold Bauhinia Star by the Government of the HKSAR in July 2005. Dr. Lui was also awarded the Grand Bauhinia Medal by the Government of the HKSAR in June 2012. Dr. Lui was awarded Business Person of the Year 2007 by DHL/SCMP Hong Kong Business Awards and the Lifetime Achievement Award by American Academy of Hospitality Sciences of 2007 respectively. Dr. Lui was presented the Diamond Award by Macau Tatler and the Lifetime Achievement Award by All Leaders Publication Group Limited, both in 2011. Dr. Lui was awarded Asia Pacific Entrepreneurship Awards 2012 – Lifetime Achievement Award by Enterprise Asia in 2012 and Lifetime Achievement Award by Golden Horse Award of China Hotel in 2013. Dr. Lui was presented the Outstanding Contribution Award at the International Gaming Awards, as well as Entrepreneur of the Year at the Asian Awards in 2014. Dr. Lui was awarded the Lifetime Achievement Award and the Outstanding Leadership in Social Responsibility Award by the World Travel Awards in 2015 and 2018 respectively. Dr. Lui is the founder of the Lui Che Woo Prize – Prize for World Civilisation established in Hong Kong in 2015 for sustainable development of the world, welfare of mankind and promotion of positive life attitude. Furthermore, Dr. Lui is Honourary Trustee of Peking University, Founding Honorary Patron of The University of Hong Kong Foundation for Educational Development and Research, Member of the Board of Trustees of United College of the Chinese University of Hong Kong, Honorary Member of the Court of Hong Kong University of Science and Technology, Honorary Life Chairman of the Hong Kong Polytechnic University Foundation and Member of the Court of the Hong Kong Polytechnic University, Member of the Board of Directors of Fudan University and Life Honorary Chairman of Wuyi University Board of Trustees. Dr. Lui is the father of Mr. Francis Lui Yiu Tung, Ms. Paddy Tang Lui Wai Yu and Mr. Alexander Lui Yiu Wah.

**Mr. Francis Lui Yiu Tung**, aged 63, joined K. Wah group in 1979. He has been an executive Director of the Company since June 1989. Mr. Lui is also the deputy chairman and a member of each of the executive board, nomination committee and remuneration committee as well as the chairman of corporate governance committee of Galaxy Entertainment Group Limited. Save as disclosed herein, he has no previous directorships in other public listed companies in the last 3 years. He holds a Bachelor of Science degree in civil engineering and a Master of Science degree in structural engineering from the University of California at Berkeley, USA. Mr. Lui is a member of the 13th National Committee of the Chinese People's Political Consultative Conference, a member of the Election Committee of the HKSAR and a member of the Chief Executive Election Committee, Tourism Development Committee and Cultural Consultative Committee of Macau SAR. He is also a director of the 70th Term of Macao Chamber of Commerce, an Honorary Chairman of the 20th Term of Kiang Wu Hospital Charitable Association, a member of the 10th Standing Committee of the All-China Federation of Returned Overseas Chinese, an executive director of the Chamber of Tourism of the All-China Federation of Industry and Commerce, a Forever Honorary Chairman of the Association of Macau Travel Industry Professionals and Counsellor of Our Hong Kong Foundation. Mr. Lui was awarded the Medal of Merit – Tourism by Macau SAR in 2012 and Asia Pacific Entrepreneurship Awards 2014 – Entrepreneur of the Year by Enterprise Asia in 2014. Furthermore, Mr. Lui is the Honorary Citizen of each of Guangzhou Municipal, Shenzhen Municipal and Jiangmen Municipal. Mr. Lui is the son of Dr. Lui Che-woo, the younger brother of Ms. Paddy Tang Lui Wai Yu and the elder brother of Mr. Alexander Lui Yiu Wah.



**Ms. Paddy Tang Lui Wai Yu**, *BBS, JP*, aged 65, joined K. Wah group in 1980 and has been an executive Director of the Company since June 1989. She is also an executive director of Galaxy Entertainment Group Limited. Save as disclosed herein, she has no previous directorships in other public listed companies in the last 3 years. She holds a Bachelor of Commerce degree from McGill University, Canada and is a member of The Institute of Chartered Accountants in England and Wales. Ms. Lui has been elected as a member of the Shanghai Committee of the Chinese People's Political Consultative Conference in December 2012. She was appointed as a member of board of trustees of Shanghai Jiao Tong University on 30 October 2014. Ms. Lui was formerly a member of the Standing Committee on Company Law Reform, the Tourism Strategy Group, the Statistic Advisory Board, the Hong Kong Arts Development Council and the Board of Ocean Park Corporation and a non-executive director of the Mandatory Provident Fund Schemes Authority. Ms. Lui has been elected as a member of the Election Committee of the HKSAR since 1998. Ms. Lui is the daughter of Dr. Lui Che-woo and the elder sister of Mr. Francis Lui Yiu Tung and Mr. Alexander Lui Yiu Wah.

**Mr. Alexander Lui Yiu Wah**, aged 56, joined K. Wah group in 1984 and is presently the Managing Director of Hong Kong Properties of the Group. He has been an executive Director of the Company since April 2010. Mr. Lui is also a director of a number of affiliated companies of the Group. Save as disclosed herein, he has no previous directorships in other public listed companies in the last 3 years. He holds a Bachelor of Science degree in Industrial and Systems Engineering from the University of Southern California, USA. Mr. Lui was a committee member of Guangzhou Committee of the 11th Chinese People's Political Consultative Conference and has been again elected as a committee member of Guangzhou Committee of the 12th Chinese People's Political Consultative Conference in 2011. He was a committee member of Guangdong Provincial Committee of the 11th Chinese People's Political Consultative Conference on 14 January 2013 and has been again elected as a committee member of Guangdong Provincial Committee of the 12th Chinese People's Political Consultative Conference in January 2018. Mr. Lui was elected as a committee member of Jiangmen City Xinhui District Committee of the 13th Chinese People's Political Consultative Conference in 2006 and has been again elected as a committee member of Jiangmen City Xinhui District Committee of the 14th Chinese People's Political Consultative Conference in 2012. Mr. Lui was elected as the managing vice-chairman and director of the 5th Board of Directors of Guangzhou Municipal Committee Hong Kong Members Association in January 2013. Mr. Lui was re-appointed as the managing vice-chairman of the 6th Board of Directors of Guangzhou Overseas Friendship-Liaison Association on 26 March 2013. Mr. Lui has been appointed as the deputy chairman (vice president) of the Guangdong Federation of Industry and Commerce in PRC for the years from 2012 to 2017. Mr. Lui has been appointed as a member of Hong Kong CPPCC (Provincial) Members Association Limited on 17 April 2013. In August 2014, Mr. Lui was appointed as a director of the 3rd Board of Directors of the Association of The Hong Kong Members of Guangdong's Chinese People's Political Consultative Conference Committees. He was appointed as the executive vice-chairman of Hong Kong Guang Fo Zhao Fraternity Association (2014–2017). In December 2015, Mr. Lui was appointed as the managing director of the 7th Board of Directors of Guangdong Overseas Friendship Association. In December 2016, Mr. Lui has been appointed as the managing vice-chairman of the 1st Board of Directors of Hong Kong Guangdong Youth Association. He was elected as the vice president of Federation of Hong Kong Guangdong Community Organisations on 1 July 2017. In October 2017, he was appointed as the honorary advisor of Guangdong – Hong Kong – Macau Greater Bay Area Youth Association. In December 2017, he was awarded the honorable president of the 1st Council of Pengjiang Overseas Youth Association. In March 2018, he was appointed as the managing vice-chairman and a managing director of the 2nd Executive Committee of Hong Kong Federation of Guangzhou Associations and the honorary advisor of China (Guangdong) Pilot Free Trade Zone – Hengqin New Area of Zhuhai. He was also appointed as the honorary president of GMC Hong Kong Members Association on 15 November 2018. He is the vice president of The Hong Kong Real Estate Association. He has been a member of the board of directors of The Real Estate Developers Association of Hong Kong since 1999. Mr. Lui has been appointed as a director of Business & Professionals Federation of Hong Kong since 27 September 2002 and was re-elected as a member of the executive committee in September 2015. He was a member of The Appeal Panel on Housing, Hong Kong during the period from 1 July 2002 to 31 March 2008. He was a member of Estate Agents Authority (EAA) from 2008 to October 2014. Mr. Lui is the son of Dr. Lui Che-woo, the younger brother of Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu.



## NON-EXECUTIVE DIRECTOR

**Dr. Moses Cheng Mo Chi**, *GBM, GBS, OBE, JP*, aged 69, has been a non-executive Director of the Company since August 2009. He has been appointed as a member of the audit committee of the Company with effect from 31 July 2015. Dr. Cheng is a practising solicitor and a consultant of P.C. Woo & Co., a Hong Kong firm of solicitors, after serving as its senior partner from 1994 to 2015. He was also the founding chairman of The Hong Kong Institute of Directors of which he is now the Honorary President and Chairman Emeritus. Dr. Cheng was a member of the Legislative Council of Hong Kong and the chairman of the Main Board Listing Committee and the Growth Enterprise Market Listing Committee of the HK Stock Exchange and a remuneration committee member of The Financial Reporting Council in Hong Kong. Dr. Cheng is currently an independent non-executive director in China Mobile Limited, China Resources Beer (Holdings) Company Limited, Guangdong Investment Limited, Liu Chong Hing Investment Limited, The Hong Kong and China Gas Company Limited and Towngas China Company Limited, all being public listed companies on the Main Board of the HK Stock Exchange. He is also a non-executive director in Kader Holdings Company Limited and Tian An China Investments Company Limited, all being public listed companies on the Main Board of the HK Stock Exchange. Dr. Cheng is also the chairman of the Insurance Authority. On 1 July 2013, he was appointed as an independent non-executive director of OTC Clearing Hong Kong Limited (a subsidiary of Hong Kong Exchanges and Clearing Limited). Dr. Cheng had ceased as an independent non-executive director of ARA Asset Management Limited (a company formerly listed in Singapore) with effect from 20 April 2017. Save as disclosed herein, he has no previous directorships in other public listed companies in the last 3 years. Dr. Cheng was awarded the Grand Bauhinia Medal by the Government of the HKSAR in July 2016.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Dr. Robin Chan Yau Hing**, *GBM, GBS, LLD, JP*, aged 86, has been a Director since June 1989 and has become an independent non-executive Director of the Company since 1998. Dr. Chan holds different positions in public listed companies on the Main Board of the HK Stock Exchange, including the chairman and an executive director of Asia Financial Holdings Limited and an independent non-executive director of Keck Seng Investments (Hong Kong) Limited. Save as disclosed herein, he has no previous directorships in other public listed companies in the last 3 years. In addition, Dr. Chan is an adviser of All-China Federation of Returned Overseas Chinese and the life honorary chairman of The Chinese General Chamber of Commerce, Hong Kong. He is also the founding chairman and president of the Hong Kong Federation of Overseas Chinese Associations Limited, the honorary chairman of both the China Federation of Overseas Chinese Entrepreneurs and the Federation of HK Chiu Chow Community Organizations Limited; and the Executive Vice Chairman of the China Overseas Chinese Entrepreneurs Association. Dr. Chan had been a deputy to The National People's Congress of the People's Republic of China from March 1988 to February 2008. He has extensive experience in the banking industry and acts as an adviser to numerous other companies. Dr. Chan was awarded the Knight Commander (Second Class) of the Most Noble Order of the Crown of Thailand by His Majesty, the King of Thailand and the Gold Bauhinia Star by the Government of the HKSAR in 2000. Dr. Chan was also awarded the Grand Bauhinia Medal by the Government of the HKSAR in July 2018. Dr. Chan was conferred with the Honorary University Fellowships by Hong Kong Baptist University and the University of Hong Kong in 2010 and 2011 respectively, and the Honorary Fellowship by The Hong Kong University of Science and Technology in June 2013.

**Dr. William Yip Shue Lam**, *LLD*, aged 81, has been an independent non-executive Director and the chairman of the audit committee since June 2008 as well as the chairman of the remuneration committee and a member of the nomination committee (both appointed on 22 March 2012) of the Company. He holds a Bachelor of Arts degree and an honorary Doctor of Laws degree from the Concordia University, Canada. He is the founder and the chairman of Canada Land Limited ("Canada Land") since 1972. Canada Land engaged in real estate development and tourist attraction business, listed in 1994 on the Australian Stock Exchange and was privatized in May 2013. He remains as the chairman of Canada Land. Dr. Yip is also an independent non-executive director of Galaxy Entertainment Group Limited. Save as disclosed herein, he has no previous directorships in other public listed companies in the last 3 years. He was also the chairman of Cantravel Limited, Guangzhou since 1996 and became a director in October 2013. Dr. Yip has been active in public services and has been appointed as an honorary standing committee member of The Chinese General Chamber of Commerce (November 2012–October 2022) and the president of Concordia University Hong Kong Foundation Limited and chairman of Board of Governors, Canadian University Association in Hong Kong. He had been the president (1998–2000) and currently the member of the Board of Governors of The Canadian Chamber of Commerce in Hong Kong, and the fellow member of The Hong Kong Institute of Directors. In addition, Dr. Yip has been elected a Guangzhou Municipal Honorable Citizen.



## Biographical Information of Directors

**Mr. Au Man Chu**, aged 68, has been appointed as an independent non-executive Director and a member of the audit committee of the Company since August 2011. Mr. Au holds a Bachelor of Commerce degree from the University of Alberta in Canada and is a member of The Canadian Institute of Chartered Accountants. Mr. Au was an executive director of Noble Group Limited (a company listed in Singapore) from 1 December 1995 to 31 December 2003 and was re-designated as a non-executive director since 1 January 2004 and retired from its board on 16 April 2015. Save as disclosed herein, he has no previous directorships in other public listed companies in the last 3 years. Mr. Au was a director of Hong Kong International Film Festival Society Limited since 7 December 2005 and retired from its board on 7 November 2016.

**Mr. Wong Kwai Lam**, aged 69, has been appointed as an independent non-executive Director and a member of the remuneration committee since August 2011 as well as a member of the nomination committee (appointed in March 2012) of the Company. Mr. Wong obtained a degree of Bachelor of Arts from The Chinese University of Hong Kong (“CUHK”) in 1972 and a Ph. D from Leicester University, England in 1977. He has over 30 years of experience in the commercial and investment banking industry. He worked with Merrill Lynch (Asia Pacific) Limited (“Merrill Lynch”) from May 1993 to August 2009 where he served as a managing director in the Asia investment banking division since January 1995. Mr. Wong was appointed as a senior client advisor to Merrill Lynch in September 2009 and served in that position for one year. In his 17 years of experience in various senior positions with Merrill Lynch, Mr. Wong’s responsibilities included, among others, managing the overall business of its Asia investment banking division from March 2003 to May 2005. Prior to joining Merrill Lynch, Mr. Wong had been a director in the investment banking division of CS First Boston (Hong Kong) Limited and a director and the head of primary market in Standard Chartered Asia Limited. Mr. Wong is currently the chairman of IncitAdv Consultants Limited. Mr. Wong has been appointed as a member of the investment sub-committee and a vice chairman of the Board of Trustees of New Asia College of CUHK. He was appointed as a member of the Advisory Board of Continuing and Professional Studies of CUHK with effect from August 2017. Mr. Wong is an independent non-executive director and a member of the audit committee and designated (finance) committee of ARA Asset Management (Prosperity) Limited as the manager of Prosperity Real Estate Investment Trust (a publicly-listed company on the Main Board of the HK Stock Exchange). In April 2013, Mr. Wong was also appointed as an independent non-executive director of Langham Hospitality Investments and Langham Hospitality Investments Limited (“LHIL”) (a publicly-listed company on the Main Board of the HK Stock Exchange) and LHIL Manager Limited (“LHIL Manager”) which is the trustee-manager of Langham Hospitality Investments. Mr. Wong is the chairman of the audit committee of LHIL and LHIL Manager, and a member of the remuneration committee and nomination committee of LHIL. In December 2015, Mr. Wong has been appointed as an independent non-executive director of both Hutchison Port Holdings Trust (“HPH Trust”) (a company listed in Singapore) and Hutchison Port Holdings Management Pte. Limited (as the trustee-manager of HPH Trust). In addition, Mr. Wong was appointed as a member of the Hospital Governing Committee of The Prince of Wales Hospital, Hong Kong in April 2013 and has also been appointed as a director of CUHK Medical Centre Limited effective in February 2016. He was formerly a member of the Advisory Committee to the Securities and Futures Commission in Hong Kong, a member of the Real Estate Investment Trust (REIT) Committee of the Securities and Futures Commission in Hong Kong and a member of the China Committee to the Hong Kong Trade Development Council. Mr. Wong has ceased as an independent non-executive director and chairman of the remuneration and appraisal committee and a member of the audit committee of China Merchants Bank Company Limited (a public listed company on the Main Board of the HK Stock Exchange and The Shanghai Stock Exchange) on 30 November 2018. He has resigned as a director and the chairman of Opera of Hong Kong Limited on 14 March 2019. Save as disclosed herein, he has no previous directorships in other publicly-listed companies in the last 3 years.

### SENIOR MANAGEMENT

Assisted by head of departments, the executive Directors are under the direct responsibilities for the business and operations of the Group and the executive Directors are therefore regarded as the senior management of the Company.



# Report of the Directors

The Directors have pleasure in presenting to the Shareholders their report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2018 (“2018 Financial Statements”).

## PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. Our principal subsidiaries, joint ventures and associated companies are primarily engaged in property development and property investment in Hong Kong and Mainland China, and their activities are set out in note 44 to the 2018 Financial Statements.

Further discussion and analysis of these activities, including a fair review of the Group’s business and a discussion of the principal risks and uncertainties facing by the Group, particulars of important events affecting the Group that have occurred since the end of the financial year ended 31 December 2018, and an indication of likely future development in the Group’s business, can be founded in the sections headed “Five Years Summary”, “Statement from the Chairman”, “Management Discussion and Analysis”, “Investor Relations”, “Corporate Social Responsibility” and “Corporate Governance Report” of this annual report as well as the Environmental, Social and Governance Report available on the websites of both Hong Kong Exchanges and Clearing Limited and the Company. The above sections form part of this Report of the Directors.

## RESULTS AND APPROPRIATIONS

The 2018 Financial Statements on pages 67 to 138 of this annual report set out the results of the Group for the year ended 31 December 2018.

An interim scrip dividend (with a cash option) of HK\$0.06 per ordinary share of the Company (“Share”) was paid during the year. The Board recommends the payment of a final cash dividend of HK\$0.14 per Share. Together with the interim dividend paid, the total dividends per Share for the year amount to HK\$0.20 (2017: HK\$0.18 per Share). Details of dividends are set out in note 16 to the 2018 Financial Statements.

## DIVIDEND POLICY

The Board has approved and adopted a dividend policy on 20 March 2019 that, in deciding whether to propose a dividend and the amount, if applicable, the Board shall take into account (i) the Group’s actual and expected operating results; (ii) the Group’s working capital requirements and future investment opportunities; (iii) the Group’s financial and liquidity position; (iv) any statutory and contractual restrictions on payment of dividends; and (v) any other factors that the Board consider relevant.

## SHARES ISSUED

Note 29 to the 2018 Financial Statements contains details of the shares issued by the Company during the year and the increase in issued share capital of the Company during the year was due to exercise of options and allotment of new Shares for scrip dividends.

## DEALINGS IN LISTED SECURITIES

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

## EQUITY-LINKED AGREEMENTS

Save for the share option scheme described below, the Group has not entered into any equity-linked agreements during the year.





## DISTRIBUTABLE RESERVES

The distributable reserves of the Company as at 31 December 2018, calculated under Companies Act 1981 of Bermuda, amounted to HK\$1,425,277,000 (2017: HK\$1,530,114,000).

## DONATIONS

During the year, the Group made charitable donations amounting to HK\$4,016,000 (2017: HK\$24,389,000).

## SIGNIFICANT PROPERTIES

Details of the significant properties held by the Group as at 31 December 2018 for investment and development purposes are set out on pages 139 to 140 of this annual report.

## DIRECTORS

The Directors of the Company who served during the year and up to the date of this Report of the Directors were Dr. Lui Che-woo, Mr. Francis Lui Yiu Tung, Ms. Paddy Tang Lui Wai Yu, Mr. Alexander Lui Yiu Wah, Dr. Moses Cheng Mo Chi, Dr. Robin Chan Yau Hing, Dr. William Yip Shue Lam, Mr. Au Man Chu and Mr. Wong Kwai Lam.

Biographical details of the current Directors are set out on pages 47 to 50 of this annual report.

In accordance with bye-laws 109(A) and 189(viii) of the Bye-laws of the Company, Dr. Moses Cheng Mo Chi, Dr. Robin Chan Yau Hing and Dr. William Yip Shue Lam will retire by rotation at the forthcoming 2019 annual general meeting of the Company ("2019 AGM"). Dr. Moses Cheng Mo Chi and Dr. William Yip Shue Lam, being eligible, will offer themselves for re-election at the 2019 AGM.

Dr. Robin Chan Yau Hing has tendered his intention, to retire as Independent Non-executive Director of the Company upon completion of his service contract with the Company in June 2019 and at the conclusion of the 2019 AGM. The Board would like to express sincere appreciation to Dr. Robin Chan Yau Hing for his invaluable contribution to the Company during his tenure.

None of the Directors proposed for re-election has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation (other than statutory compensation).

Subject to the approval of Shareholders at the 2019 AGM, the following fees in respect of year ended 31 December 2018 will be paid to the Directors:

	Chairman HK\$	Member HK\$
Board	232,000	200,000
Audit Committee	146,000	125,000
Remuneration Committee	60,000	50,000
Nomination Committee	60,000	50,000

## DIRECTORS' EMOLUMENTS

The emoluments of the Directors of the Company (including executive Directors and independent non-executive Directors) on a named basis are set out in note 12 to the 2018 Financial Statements.

## PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors and officers is currently in force and was in force throughout the financial year. The Company has taken out and maintained appropriate directors' and officers' liability insurance cover in respect of potential legal actions against their risks and exposure arising from the Group's business and activities.

## DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Save as disclosed in this Report of the Directors, no other significant transactions, arrangements and contracts of significance in relation to the Group's business, to which the Company or its subsidiaries was a party and in which a Director or his or her connected entity has or had a material beneficial interest, whether directly or indirectly, subsisted as at 31 December 2018 or at any time during the year.

## DIRECTORS' INTERESTS IN SECURITIES AND UNDERLYING SHARES

As of 31 December 2018, the interests and short positions of each Director in the Shares, underlying Shares and debentures of the Company or any of its specified undertakings or its other associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), if any, and the details of any right to subscribe for Shares and of the exercise of such rights, as required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("HK Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions, if any, which they were taken or deemed to have under such provisions of the SFO) or as recorded in the register of the Company required to be kept under section 352 of the SFO, or as otherwise required to be notified to the Company and the HK Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Rules Governing the Listing of Securities ("Listing Rules") on the HK Stock Exchange, were as follows:

### (A) Ordinary Shares

Name of Directors	Number of Shares (including Underlying Shares)					Approximate % of Issued Share Capital
	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	
Lui Che-woo	33,235,941	8,317,120 <sup>(1)</sup>	300,814,213 <sup>(2)</sup>	1,633,497,769 <sup>(3)</sup>	1,975,865,043	63.23
Francis Lui Yiu Tung	12,638,035	–	–	1,633,497,769 <sup>(3)</sup>	1,646,135,804	52.68
Paddy Tang Lui Wai Yu	30,187,605	–	–	1,633,497,769 <sup>(3)</sup>	1,663,685,374	53.24
Alexander Lui Yiu Wah	22,381,428	–	4,005,183 <sup>(4)</sup>	1,633,497,769 <sup>(3)</sup>	1,659,884,380	53.12
Moses Cheng Mo Chi	1,049,175	–	–	–	1,049,175	0.03
Robin Chan Yau Hing	3,015,933	–	–	–	3,015,933	0.10
William Yip Shue Lam	1,052,726	–	–	–	1,052,726	0.03
Au Man Chu	1,047,568	–	–	–	1,047,568	0.03
Wong Kwai Lam	1,240,000	–	–	–	1,240,000	0.04

Unless otherwise stated, all personal interests stated above were held by the respective Directors in the capacity of beneficial owners.

#### Notes:

- (1) Dr. Lui Che-woo is deemed to be interested in 8,317,120 Shares through the interests of his spouse.
- (2) Such Shares are held by companies which are controlled by Dr. Lui Che-woo.
- (3) Such interests in the Shares are indirectly held by a company which is the trustee of a discretionary family trust established by Dr. Lui Che-woo as settlor. Dr. Lui Che-woo, Mr. Francis Lui Yiu Tung, Ms. Paddy Tang Lui Wai Yu and Mr. Alexander Lui Yiu Wah are deemed to be interested in those Shares by virtue of being the discretionary beneficiaries of the discretionary family trust.
- (4) Such Shares are held by a company controlled by Mr. Alexander Lui Yiu Wah.



### (B) Underlying Shares – Share Options

Details are set out in the SHARE OPTION SCHEME section below.

All the interests stated above represent long positions.

Dr. Lui Che-woo, Mr. Francis Lui Yiu Tung, Ms. Paddy Tang Lui Wai Yu and Mr. Alexander Lui Yiu Wah, by virtue of their deemed interests in the Shares as described in Note (3) above and as Directors of the Company, are deemed to be interested in the issued share capital of every subsidiary, joint venture and associated company of the Company held through the Company under the provision of the SFO.

Save as disclosed above, as of 31 December 2018, none of the Directors had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its specified undertakings or its other associated corporations (within the meaning of Part XV of the SFO).

### SUBSTANTIAL SHAREHOLDERS' INTERESTS

As of 31 December 2018, the interests of every person (not being a Director or chief executive of the Company) in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO or as otherwise notified to the Company and the HK Stock Exchange were as follows:

Name of Shareholders	Number of Shares (Long Position)	Approximate % of Issued Share Capital
CWL Assets (PTC) Limited	1,633,497,769	52.27
HSBC International Trustee Limited <sup>(1)</sup>	1,625,792,737	52.03
Super Focus Company Limited	1,108,910,673	35.49
Star II Limited	264,752,460	8.48
Favor Right Investments Limited	211,594,444	6.77
Premium Capital Profits Limited	184,229,079	5.90
Lui Che Woo Foundation Limited	172,487,639	5.52

Note:

- (1) HSBC International Trustee Limited is the trustee of a trust established by Dr. Lui Che-woo as the settlor, was interested in 1,633,497,769 Shares of the Company.

There was duplication of interests of 1,633,497,769 Shares among Dr. Lui Che-woo, Mr. Francis Lui Yiu Tung, Ms. Paddy Tang Lui Wai Yu, Mr. Alexander Lui Yiu Wah, HSBC International Trustee Limited and CWL Assets (PTC) Limited. Of these Shares, 1,108,910,673 Shares were interested by Super Focus Company Limited, 48,240,192 Shares were interested by Best Chance Investments Ltd., 211,594,444 Shares were interested by Favor Right Investments Limited, 184,229,079 Shares were interested between Premium Capital Profits Limited and Star II Limited and 80,523,381 Shares were interested between Mark Liaison Limited and Star II Limited.

Save as disclosed above, as of 31 December 2018 the Company had not been notified by any persons who had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.



## SHARE OPTION SCHEME

The share option scheme of the Company ("Share Option Scheme") adopted by the Shareholders of the Company at its annual general meeting held on 20 June 2011 is summarized below:

### (1) Purposes

- (i) to attract and retain the best quality personnel for the development of the Company's businesses;
- (ii) to provide additional incentives to employees, consultants, agents, representatives, advisers, suppliers of goods or services, customers, contractors, business allies and joint venture partners; and
- (iii) to promote the long term financial success of the Company by aligning the interests of option holders to Shareholders.

### (2) Participants

- (i) any selected employees of the Company or any affiliate and any senior executive or directors (including independent non-executive directors) of the Company or any affiliate; or
- (ii) any consultants, agents, representatives or advisers of the Company or any affiliate; or
- (iii) any persons who provide goods or services to the Company or any affiliate; or
- (iv) any customers or contractors of the Company or any affiliate; or
- (v) any business allies or joint venture partners of the Company or any affiliate; or
- (vi) any trustee of any trust established for the benefit of employees; or
- (vii) in relation to any of the above qualifying grantee who is an individual, a trust solely for the benefit of the qualifying grantee or his immediate family members, and companies controlled solely by the qualifying grantee or his immediate family members.

"Affiliate" means any company which is (a) a holding company of the Company; or (b) a subsidiary of a holding company of the Company; or (c) a subsidiary of the Company; or (d) a controlling shareholder of the Company; or (e) a company controlled by a controlling shareholder of the Company; or (f) a company controlled by the Company; or (g) an associated company of a holding company of the Company; or (h) an associated company of the Company.

### (3) Total number of Shares available for issue

**Mandate Limit** – Subject to the paragraph below, the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company must not in aggregate exceed 10% of the Shares in issue as of 20 June 2011, being 255,195,221 Shares.

**Overriding Limit** – The Company may by ordinary resolutions of the Shareholders refresh the Mandate Limit as referred to in the above paragraph provided that the Company shall issue a circular to the Shareholders before such approval is sought. The overriding limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Company must not exceed 30% of the Shares in issue from time to time.

As of the date of this annual report, the total number of Shares available for issue and the maximum number of options available to be granted under the Share Option Scheme were 62,206,000 and 168,481,221 respectively, which represented approximately 1.99% and 5.39% respectively of the issued share capital of the Company on that date.



**(4) Maximum entitlement of each participant**

The total number of Shares issued and to be issued upon exercise of options (whether exercised or outstanding) in any 12-month period granted to each participant must not exceed 1% of the Shares in issue. However, subject to separate approval by the Shareholders in general meeting with the relevant participant and his close associates (as defined in the Listing Rules) abstaining from voting and provided that the Company shall issue a circular to Shareholders before such approval is sought, the Company may grant a participant options which would exceed the aforesaid limit.

**(5) Option period**

The period during which an option may be exercised as determined by the Board in its absolute discretion at the time of grant, save that such period must not exceed 10 years from the date of grant of the relevant option.

**(6) Minimum period for which an option must be held before it is vested**

The minimum period, if any, for which an option must be held before it is vested shall be determined by the Board in its absolute discretion. The Share Option Scheme itself does not specify any minimum holding period.

**(7) Payment on acceptance of the option**

HK\$1.00 is payable by the grantee to the Company on acceptance of the option offer. An offer must be accepted within 14 days from the date of offer (or such longer period as the Board may specify in writing).

**(8) Basis of determining the subscription price**

The subscription price shall be determined by the Board in its absolute discretion at the time of grant of the relevant option but shall not be less than the highest of:

- (i) the closing price of the Shares as stated in the HK Stock Exchange's daily quotation sheet on the date of grant;
- (ii) the average closing price of the Shares as stated in the HK Stock Exchange's daily quotation sheet for the five (5) business days immediately preceding the date of grant; and
- (iii) the nominal value of a Share.

**(9) Effects of re-organisation of capital structure**

In the event of any alteration in the capital structure of the Company whilst any option remains exercisable, whether by way of a capitalization of profits or reserves (other than pursuant to a scrip dividend scheme), rights issue, consolidation or subdivision of shares or reduction of capital, such corresponding alterations (if any) shall be made to: (a) the number and/or nominal amount of Shares subject to the option so far as unexercised; (b) the subscription price; and/or (c) the maximum number of Shares subject to the Share Option Scheme, as the auditors shall certify in writing to the Board to be in their opinion fair and reasonable (except in the case of a capitalization issue where no such certification shall be required), provided that: (i) any such alterations shall be made on the basis that the aggregate subscription price payable by an option holder on the full exercise of any option shall remain as nearly as possible the same (but shall not be greater than) it was before such event; (ii) no such alterations shall be made the effect of which would be to enable a Share to be issued at less than its nominal value; and (iii) no such alterations shall be made the effect of which would be to increase the proportion of the issued share capital of the Company for which any option holder is entitled to subscribe pursuant to the options held by him.

**(10) The remaining life of the Share Option Scheme**

The life span of the Share Option Scheme is 10 years commencing from 20 June 2011 and will expire on 19 June 2021.

Particulars of the movement of the options held by each of the Directors, and the employees of the Company and its affiliates and other qualifying grantees in aggregate under the Share Option Scheme during the year ended 31 December 2018, were as follows:

Holders	Date of grant	Number of options				Held at 31 December 2018	Exercise price per Share (HK\$)	Exercise period
		Held at 1 January 2018	Granted during the year <sup>(a)</sup>	Exercised during the year	Lapsed during the year			
Lui Che-woo	21 Jan 2013	2,630,000	-	-	-	2,630,000	4.610	21 Jan 2014–20 Jan 2019
	30 Sep 2014	2,700,000	-	-	-	2,700,000	4.500	30 Sep 2015–29 Sep 2020
	21 Jan 2016	2,800,000	-	-	-	2,800,000	2.796	21 Jan 2017–20 Jan 2022
	17 Jul 2017	2,900,000	-	-	-	2,900,000	4.760	17 Jul 2018–16 Jul 2023
	18 Jul 2018	-	3,000,000	-	-	3,000,000	4.520	18 Jul 2019–17 Jul 2024
Francis Lui Yiu Tung	17 Jan 2012	1,400,000	-	1,400,000 <sup>(b)</sup>	-	-	2.120	17 Jan 2013–16 Jan 2018
	21 Jan 2013	1,500,000	-	-	-	1,500,000	4.610	21 Jan 2014–20 Jan 2019
	30 Sep 2014	1,300,000	-	-	-	1,300,000	4.500	30 Sep 2015–29 Sep 2020
	21 Jan 2016	1,300,000	-	-	-	1,300,000	2.796	21 Jan 2017–20 Jan 2022
	17 Jul 2017	1,300,000	-	-	-	1,300,000	4.760	17 Jul 2018–16 Jul 2023
	18 Jul 2018	-	1,300,000	-	-	1,300,000	4.520	18 Jul 2019–17 Jul 2024
Paddy Tang Lui Wai Yu	21 Jan 2013	2,630,000	-	-	-	2,630,000	4.610	21 Jan 2014–20 Jan 2019
	30 Sep 2014	2,700,000	-	-	-	2,700,000	4.500	30 Sep 2015–29 Sep 2020
	21 Jan 2016	2,800,000	-	-	-	2,800,000	2.796	21 Jan 2017–20 Jan 2022
	17 Jul 2017	2,900,000	-	-	-	2,900,000	4.760	17 Jul 2018–16 Jul 2023
	18 Jul 2018	-	3,000,000	-	-	3,000,000	4.520	18 Jul 2019–17 Jul 2024
Alexander Lui Yiu Wah	17 Jan 2012	2,358,000	-	2,358,000 <sup>(b)</sup>	-	-	2.120	17 Jan 2013–16 Jan 2018
	21 Jan 2013	2,630,000	-	-	-	2,630,000	4.610	21 Jan 2014–20 Jan 2019
	30 Sep 2014	2,700,000	-	-	-	2,700,000	4.500	30 Sep 2015–29 Sep 2020
	21 Jan 2016	2,800,000	-	-	-	2,800,000	2.796	21 Jan 2017–20 Jan 2022
	17 Jul 2017	2,900,000	-	-	-	2,900,000	4.760	17 Jul 2018–16 Jul 2023
	18 Jul 2018	-	3,000,000	-	-	3,000,000	4.520	18 Jul 2019–17 Jul 2024
Moses Cheng Mo Chi	21 Jan 2013	200,000	-	-	-	200,000	4.610	21 Jan 2014–20 Jan 2019
	30 Sep 2014	160,000	-	-	-	160,000	4.500	30 Sep 2015–29 Sep 2020
	21 Jan 2016	160,000	-	-	-	160,000	2.796	21 Jan 2017–20 Jan 2022
	17 Jul 2017	160,000	-	-	-	160,000	4.760	17 Jul 2018–16 Jul 2023
	18 Jul 2018	-	160,000	-	-	160,000	4.520	18 Jul 2019–17 Jul 2024
Robin Chan Yau Hing	30 Sep 2014	160,000	-	-	-	160,000	4.500	30 Sep 2015–29 Sep 2020
	21 Jan 2016	160,000	-	160,000 <sup>(c)</sup>	-	-	2.796	21 Jan 2017–20 Jan 2022
	17 Jul 2017	160,000	-	-	-	160,000	4.760	17 Jul 2018–16 Jul 2023
	18 Jul 2018	-	160,000	-	-	160,000	4.520	18 Jul 2019–17 Jul 2024
William Yip Shue Lam	30 Sep 2014	160,000	-	-	-	160,000	4.500	30 Sep 2015–29 Sep 2020
	17 Jul 2017	160,000	-	-	-	160,000	4.760	17 Jul 2018–16 Jul 2023
	18 Jul 2018	-	160,000	-	-	160,000	4.520	18 Jul 2019–17 Jul 2024
Au Man Chu	21 Jan 2013	200,000	-	-	-	200,000	4.610	21 Jan 2014–20 Jan 2019
	30 Sep 2014	160,000	-	-	-	160,000	4.500	30 Sep 2015–29 Sep 2020
	21 Jan 2016	160,000	-	160,000 <sup>(d)</sup>	-	-	2.796	21 Jan 2017–20 Jan 2022
	17 Jul 2017	160,000	-	-	-	160,000	4.760	17 Jul 2018–16 Jul 2023
	18 Jul 2018	-	160,000	-	-	160,000	4.520	18 Jul 2019–17 Jul 2024
Wong Kwai Lam	21 Jan 2013	200,000	-	-	-	200,000	4.610	21 Jan 2014–20 Jan 2019
	30 Sep 2014	160,000	-	-	-	160,000	4.500	30 Sep 2015–29 Sep 2020
	21 Jan 2016	160,000	-	-	-	160,000	2.796	21 Jan 2017–20 Jan 2022
	17 Jul 2017	160,000	-	-	-	160,000	4.760	17 Jul 2018–16 Jul 2023
	18 Jul 2018	-	160,000	-	-	160,000	4.520	18 Jul 2019–17 Jul 2024
Employees and others (in aggregate)	17 Jan 2012	60,000	-	-	60,000	-	2.120	17 Jan 2013–16 Jan 2018
	21 Jan 2013	3,518,000	-	460,000 <sup>(e)</sup>	638,000	2,420,000	4.610	21 Jan 2014–20 Jan 2019
	30 Sep 2014	4,510,000	-	270,000 <sup>(f)</sup>	640,000	3,600,000	4.500	30 Sep 2015–29 Sep 2020
	21 Jan 2016	1,530,000	-	460,000 <sup>(g)</sup>	-	1,070,000	2.796	21 Jan 2017–20 Jan 2022
	17 Jul 2017	8,250,000	-	-	1,210,000	7,040,000	4.760	17 Jul 2018–16 Jul 2023
	18 Jul 2018	-	8,726,000	-	-	8,726,000	4.520	18 Jul 2019–17 Jul 2024





### Notes:

- (a) The closing price of the Shares immediately before the date on which the options were granted during the year was HK\$4.500 per share.
- (b) The weighted average closing price of the Shares immediately before the date on which the options were exercised during the year was HK\$4.270 per share.
- (c) The weighted average closing price of the Shares immediately before the date on which the options were exercised during the year was HK\$4.320 per share.
- (d) The weighted average closing price of the Shares immediately before the date on which the options were exercised during the year was HK\$5.250 per share.
- (e) The weighted average closing price of the Shares immediately before the date on which the options were exercised during the year was HK\$5.308 per share.
- (f) The weighted average closing price of the Shares immediately before the date on which the options were exercised during the year was HK\$5.365 per share.
- (g) The weighted average closing price of the Shares immediately before the date on which the options were exercised during the year was HK\$4.828 per share.

No option was cancelled during the year.

Except for the Share Option Scheme, at no time during the year was the Company or its subsidiaries a party to any arrangements to enable the Directors or their spouses or children under 18 years of age to acquire Shares in or debentures of the Company or any other body corporate.

### CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2018, the Company had the following continuing connected transactions, details of which are set out below:

1. On 27 October 2014, the Company as lessee and Polymate Co., Ltd. ("Polymate") (a wholly-owned subsidiary of a substantial shareholder of the Company which in turn is the trustee of a discretionary family trust established by Dr. Lui Che-woo and of which members of Lui's family, including Dr. Lui Che-woo, Mr. Francis Lui Yiu Tung, Ms. Paddy Tang Lui Wai Yu and Mr. Alexander Lui Yiu Wah, are the beneficiaries) as lessor had entered into the master lease agreement ("2014 Master Lease Agreement") in respect of the leasing and/or licensing of certain properties beneficially owned by the respective subsidiaries of Polymate for a term of 3-year period from 1 November 2014 to 31 October 2017 (both days inclusive). Since it was expected that the continuing connected transactions under the 2014 Master Lease Agreement shall continue after its expiration, the Company as lessee and Polymate as lessor had entered into another master lease agreement on 23 August 2017 ("2017 Master Lease Agreement") for a term of 3-year period from 1 November 2017 to 31 October 2020 (both days inclusive). Pursuant to the 2014 Master Lease Agreement and 2017 Master Lease Agreement, the amount of annual rent payable by the relevant subsidiaries of the Company to the respective subsidiaries of Polymate is subject to the annual caps ("Annual Caps") fixed for each corresponding financial year as disclosed in the announcements of the Company dated 27 October 2014 and 23 August 2017 ("Announcements") respectively. For the year ended 31 December 2018, the aggregate annual rent of HK\$14,760,000 was paid and payable by the relevant subsidiaries of the Company under the 2014 Master Lease Agreement and 2017 Master Lease Agreement, which is within the Annual Caps.

The entering into of the 2014 Master Lease Agreement and 2017 Master Lease Agreement constituted as continuing connected transactions of the Company, with applicable percentage ratios more than 0.1% but less than 5%, was exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules. Details of the continuing connected transactions have been disclosed in the Announcements.

2. On 5 March 1997, KWP Quarry Co. Limited (“KWP”) (a subsidiary of Galaxy Entertainment Group Limited) was awarded a contract (Contract No. GE/96/10) (“Contract”) by the Government of the HKSAR for the quarrying rights and rehabilitation of the quarry at Tai Sheung Tok, Anderson Road, Kowloon (“Quarry”). On the same date, the Company had executed a guarantee in favour of the Government of the HKSAR in respect of the performance by KWP of its obligations under the Contract. Thereafter, the Contract was supplemented by the Second Supplementary Agreement, the Fourth Supplementary Agreement, the Fifth Supplementary Agreement and the Seventh Supplementary Agreement dated 5 May 2009, 23 February 2016, 30 August 2016 and 26 May 2017 respectively, all made between the Government of the HKSAR and KWP. On 31 July 2017, the site where the Quarry was located at was returned to the Government of the HKSAR. During the year ended 31 December 2018, the Government of the HKSAR issued the Certificate of Completion of the Works and Maintenance Certificate of the Works to KWP. No annual cap was involved. Details of this continuing connected transaction were already disclosed in the announcement of the Company dated 10 November 2006.

The Board of Directors of the Company (including the independent non-executive Directors) had noted and approved the abovementioned continuing connected transactions. These continuing connected transactions have also been reviewed by the independent non-executive Directors of the Company who are not interested in any continuing connected transaction with the Company and they confirmed that these transactions have been entered into in the ordinary and usual course of business of the Group and on normal commercial term; and in accordance with the relevant agreements governing the respective transactions, on terms that are fair and reasonable and in the interests of the Company and the Shareholders of the Company as a whole.

The Company’s independent auditor was engaged to report on the Group’s continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 “Assurance Engagements other than Audits or Reviews of Historical Financial Information” and with reference to Practice Note 740 “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed above in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor’s letter has been provided by the Company to the HK Stock Exchange.

Save as disclosed above, none of the related party transactions (as defined in HKAS 24 – Related Party Disclosures) entered into by the Group during the year ended 31 December 2018 disclosed in Note 41 to the 2018 Financial Statements falls under the scope of connected transaction or continuing connected transaction as defined in Chapter 14A of the Listing Rules which is subject to the reporting, announcement or Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

## **PRE-EMPTIVE RIGHTS**

There are no shareholders pre-emptive rights as a matter of Bermuda law, either under statute or at common law.

## **DIRECTORS’ COMPETING BUSINESS**

Dr. Lui Che-woo, Mr. Francis Lui Yiu Tung, Ms. Paddy Tang Lui Wai Yu and Mr. Alexander Lui Yiu Wah (collectively, the “Relevant Directors”), as either directly or indirectly through a discretionary family trust and other privately-owned companies, are deemed to be interested in several independently managed companies, which are also engaging in property investment, trading, and development. The business of these companies (“Competing Business”) may compete, directly or indirectly, with the business of the Group. The Relevant Directors are also directors of certain holding companies of the Competing Business.



Notwithstanding the interests of the Relevant Directors in the Competing Business disclosed above, the Group is able to carry on its business independent of, and at arm's length from, the Competing Business, given that the Company has a strong and independent Board with 5 out of 9 Directors being non-executive/independent non-executive Directors as at the date of this Report of the Directors. These non-executive/independent non-executive Directors are professionals (audit/accounting and legal) or prominent businessmen. The Company has established corporate governance procedures, which ensure investment opportunities and business performance are independently assessed and reviewed. The Relevant Directors are fully aware of their fiduciary duty to the Company, and will abstain from voting on any matter where there is, or there may be, a conflict of interest. The Directors therefore consider that the Group's interests are adequately safeguarded.

Save as disclosed above, there is no other competing business interest between the Directors and his/her respective close associates and the Group.

### SUFFICIENCY OF PUBLIC FLOAT

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

### DISCLOSURE UNDER RULE 13.22 OF THE LISTING RULES

As of 31 December 2018, the Group had given financial assistance and guarantees to financial institutions for the benefit of its affiliated companies. In compliance with the requirements of Rule 13.22 of the Listing Rules, the combined balance sheet of the affiliated companies as at the balance sheet date is disclosed as follows:

	<b>Combined Balance Sheet HK\$'000</b>	<b>Group's Attributable Interest HK\$'000</b>
Non-current assets	2,496,486	600,423
Current assets	41,505,322	11,354,351
Current liabilities	(3,564,480)	(1,087,866)
	<b>40,437,328</b>	<b>10,866,908</b>
Share capital	1,763,307	712,977
Reserves	7,531,850	1,856,679
Amounts due to shareholders	18,952,441	4,977,947
Non-current liabilities	12,189,730	3,319,305
	<b>40,437,328</b>	<b>10,866,908</b>

### FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the 2018 Financial Statements, is shown on pages 6 to 7 of this annual report.



## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2018:

- (1) the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30% of the Group's total turnover; and
- (2) the aggregate amount of purchases (not including the purchases of items which were of a capital nature) attributable to the Group's major suppliers of the Group's total of such purchases is as follow:

The largest supplier	33%
Five largest suppliers	68%

None of the Directors, their close associates or any Shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had any interest in the five largest customers or suppliers (suppliers of items which were not of a capital nature).

## MANAGEMENT CONTRACTS

No substantial contracts concerning the management and administration of the Company were entered into or existed during the year.

## AUDITOR

The 2018 Financial Statements have been audited by PricewaterhouseCoopers, who will retire and, being eligible, offer themselves for re-appointment at the 2019 AGM.

On behalf of the Board

**Lui Che-woo**

*Chairman and Managing Director*

Hong Kong, 20 March 2019



# Independent Auditor's Report



羅兵咸永道

## To the Shareholders of K. Wah International Holdings Limited

*(incorporated in Bermuda with limited liability)*

### OPINION

#### What we have audited

The consolidated financial statements of K. Wah International Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 67 to 138, which comprise:

- the consolidated balance sheet as at 31 December 2018;
- the consolidated profit and loss statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

#### Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

#### BASIS FOR OPINION

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

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

#### Independence

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

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Valuation of investment properties
- Realisation of development properties held by the Group

### Key Audit Matter

#### **Valuation of investment properties**

*Refer to notes 3.5 (Summary of significant accounting policies), 5(a) (Critical accounting estimates and judgments), 8 and 18 (Notes to the consolidated financial statements)*

The Group had investment properties of HK\$14,138,018,000 as at 31 December 2018 for which fair value gains were recognised and presented as “fair value gain on transfer of development properties to investment properties” and “change in fair value of investment properties” respectively in the consolidated profit and loss statement. The Group’s investment property portfolio comprises completed properties in Hong Kong and Mainland China.

Independent valuers were engaged by the Group to determine the valuation of the Group’s investment properties. The valuation of completed investment properties was arrived at using the income capitalisation method by considering the capitalised income derived from existing tenancies and the reversionary potential, including capitalisation rates and prevailing market rents, of the properties, and whenever appropriate, the direct comparison approach by reference to market evidence of recent market transaction prices of comparable properties. Significant judgment and estimates are applied in the valuation of investment properties.

### How our audit addressed the Key Audit Matter

We evaluated the independent valuers’ competence, capabilities and objectivities, obtained the valuation reports and met with the independent valuers to discuss the valuation methodologies applied.

We checked the accuracy of the input data, on a sample basis, used by the independent valuers in the valuation of properties including rental rates from existing tenancies and occupancy rates, by agreeing them to the underlying agreements with the tenants and the Group’s record respectively. We also compared the recent market transaction prices of comparable properties used by the independent valuers, on a sample basis, to the published market transaction prices of these properties, where appropriate.

We assessed the methodologies used by the valuers and the appropriateness of the key assumptions used in the valuation of properties by comparing published market yields for capitalisation rates, prevailing market rents of leasing transactions of comparable properties and recent market transaction prices of properties with comparable conditions and locations, where appropriate. We also involved our in-house valuation experts in the assessment of the valuation of selected investment properties.

Based on the audit procedures performed, we found the valuation of investment properties were supportable in light of available evidence.



## KEY AUDIT MATTERS (cont'd)

### Key Audit Matter

#### **Realisation of development properties held by the Group**

*Refer to notes 3.10 (Summary of significant accounting policies), 5(b) (Critical accounting estimates and judgments) and 24 (Notes to the consolidated financial statements)*

Development properties is the key component of the net assets value attributable to the equity holders. The carrying value of development properties as at 31 December 2018 was HK\$29,952,900,000. The Group's development properties portfolio comprises completed properties and properties under development in Hong Kong and Mainland China, which required management to apply significant judgment in their realisation assessment.

Management assessed the realisation of the Group's development properties based on the net realisable value of the underlying properties. Significant judgment is applied in the estimation of the net realisable value, which takes into account the estimated future sales price based on current market price of properties of comparable locations and conditions, less applicable variable selling expenses and anticipated costs to completion.

### OTHER INFORMATION

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

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

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

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

### How our audit addressed the Key Audit Matter

We tested the key controls in relation to the development properties with particular focus on controls over cost budgeting and periodic review of the budgets.

We understood management's assessment of the net realisable value of the underlying properties and assessed the reasonableness of key estimates adopted by management. For the estimated future sales price, we checked, on a sample basis, contracted sales price of the underlying properties and recent market transaction prices of properties with comparable nature and locations, where appropriate. For anticipated costs to completion, we assessed the reasonableness of the latest budgets of total construction costs and tested, on a sample basis, the construction costs to construction contracts and other documentation.

Based on the audit procedures performed, we found that the estimates used in the calculation of the net realisable value were supportable in light of available evidence.



## RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgment 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.



## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit 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 Mr. Ho Chi Keung.

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 20 March 2019

# Consolidated Profit and Loss Statement

For the year ended 31 December 2018

	Note	2018 HK\$'000	2017 HK\$'000
Revenue	7	<b>10,759,792</b>	11,293,887
Cost of sales		<b>(5,929,784)</b>	(5,633,511)
Gross profit		<b>4,830,008</b>	5,660,376
Other operating income		<b>270,445</b>	220,923
Other net (losses)/gains		<b>(70,187)</b>	48,531
Fair value gain on transfer of development properties to investment properties	8	<b>1,105,792</b>	1,275,065
Change in fair value of investment properties		<b>310,846</b>	458,631
Other operating expenses		<b>(492,647)</b>	(608,661)
Administrative expenses		<b>(490,044)</b>	(493,379)
Finance costs	9	<b>(12,465)</b>	(20,353)
Share of profits of joint ventures		<b>14,980</b>	131,430
Share of profits of associated companies		<b>71,776</b>	62,764
Profit before taxation	10	<b>5,538,504</b>	6,735,327
Taxation charge	14	<b>(1,361,800)</b>	(2,218,052)
Profit for the year		<b>4,176,704</b>	4,517,275
Attributable to:			
Equity holders of the Company		<b>4,046,390</b>	3,906,182
Non-controlling interests		<b>130,314</b>	611,093
		<b>4,176,704</b>	4,517,275
Earnings per share	15	<b>HK cents</b>	HK cents
Basic		<b>129.51</b>	128.18
Diluted		<b>129.34</b>	127.78



# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	<b>2018</b> <b>HK\$'000</b>	2017 HK\$'000 (Restated)
<b>Profit for the year</b>	<b>4,176,704</b>	4,517,275
<b>Other comprehensive (loss)/income:</b>		
<i>Item that will not be reclassified to profit and loss:</i>		
Change in fair value of financial assets at fair value through other comprehensive income	<b>(2,096,044)</b>	4,695,789
<i>Items that may be reclassified to profit and loss:</i>		
Exchange differences arising from translation	<b>(1,093,927)</b>	1,259,199
Release of exchange reserve upon reduction of interest in subsidiaries	—	(40,182)
Other comprehensive (loss)/income for the year	<b>(3,189,971)</b>	5,914,806
<b>Total comprehensive income for the year</b>	<b>986,733</b>	10,432,081
<b>Total comprehensive income attributable to:</b>		
Equity holders of the Company	<b>911,053</b>	9,742,210
Non-controlling interests	<b>75,680</b>	689,871
	<b>986,733</b>	10,432,081





# Consolidated Balance Sheet

As at 31 December 2018

	Note	2018 HK\$'000	2017 HK\$'000 (Restated)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	17	485,296	447,913
Investment properties	18	14,138,018	12,599,451
Leasehold land and land use rights	19	17,149	14,684
Joint ventures	20	6,436,888	7,237,381
Associated companies	21	1,105,550	1,106,983
Financial assets at fair value through other comprehensive income	22	8,091,706	10,187,750
Deferred taxation assets	35	97,646	119,663
Other non-current assets	23	569,899	585,192
		<b>30,942,152</b>	32,299,017
<b>Current assets</b>			
Development properties	24	29,952,900	29,696,662
Inventories		2,226	3,990
Amounts due from associated companies	21	5,165	3,674
Debtors and prepayments	25	562,070	2,118,931
Land and tender deposits	26	25,000	1,896,658
Financial assets at fair value through profit or loss	27	498,915	270,024
Taxes recoverable		416,884	368,954
Cash and bank deposits	28	7,488,536	5,848,809
		<b>38,951,696</b>	40,207,702
<b>Total assets</b>		<b>69,893,848</b>	72,506,719
<b>EQUITY</b>			
Share capital	29	312,485	305,546
Reserves	31	35,328,008	34,697,102
Shareholders' funds		<b>35,640,493</b>	35,002,648
Non-controlling interests		<b>1,361,232</b>	2,014,039
<b>Total equity</b>		<b>37,001,725</b>	37,016,687



## Consolidated Balance Sheet

As at 31 December 2018

	Note	2018 HK\$'000	2017 HK\$'000 (Restated)
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	32	<b>16,609,816</b>	16,668,400
Guaranteed notes	33	<b>1,000,127</b>	998,863
Deferred taxation liabilities	35	<b>2,449,047</b>	2,147,108
		<b>20,058,990</b>	19,814,371
<b>Current liabilities</b>			
Amounts due to joint ventures	20	<b>1,243,750</b>	824,220
Amounts due to associated companies	21	<b>372,909</b>	415,839
Creditors and accruals	36	<b>1,669,632</b>	2,213,195
Pre-sales deposits	37	<b>6,261,399</b>	7,731,214
Current portion of borrowings	32	<b>1,100,803</b>	811,587
Derivative financial instruments	34	—	615
Taxes payable		<b>2,184,640</b>	3,678,991
		<b>12,833,133</b>	15,675,661
<b>Total liabilities</b>		<b>32,892,123</b>	35,490,032
<b>Total equity and liabilities</b>		<b>69,893,848</b>	72,506,719
<b>Net current assets</b>		<b>26,118,563</b>	24,532,041
<b>Total assets less current liabilities</b>		<b>57,060,715</b>	56,831,058

**Lui Che-woo**  
*Chairman and Managing Director*

**Paddy Tang Lui Wai Yu**  
*Executive Director*

# Consolidated Cash Flow Statement

For the year ended 31 December 2018

	Note	2018 HK\$'000	2017 HK\$'000
<b>Cash flows from operating activities</b>			
Cash generated from/(used in) operations	38(a)	3,803,350	(1,932,795)
Tax paid		(2,329,248)	(860,083)
Interest paid		(415,244)	(336,921)
Net cash generated from/(used in) operating activities		1,058,858	(3,129,799)
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment		(3,864)	(8,878)
Advances to joint ventures		(712,058)	(6,164,976)
Repayments from joint ventures		2,102,353	309,325
Advances to associated companies		(198,048)	(41,398)
Repayments from associated companies		97,740	216,580
Increase in financial assets at fair value through profit or loss		(228,258)	(104,046)
Net settlement gain/(loss) on derivative financial instruments		3,750	(7,680)
Decrease in bank deposits		279,926	306,358
Proceeds from disposal of property, plant and equipment		44	203
Interest received		63,369	79,811
Dividends received from associated companies		214,751	274,920
Dividend income from financial assets at fair value through other comprehensive income		147,860	95,866
Net cash from/(used in) investing activities		1,767,565	(5,043,915)
<b>Cash flows from financing activities</b>			
Issue of new shares		13,484	42,453
Proceeds from borrowings and guaranteed notes	38(b)	17,230,757	19,962,200
Repayments of borrowings and guaranteed notes	38(b)	(16,994,878)	(12,615,488)
Capital contribution from non-controlling interests		—	53,630
Repayment of capital to non-controlling interests		(673,874)	(476,313)
Dividends paid to non-controlling interests		(54,613)	(19,919)
Dividends paid to shareholders		(302,343)	(150,380)
Net cash (used in)/from financing activities		(781,467)	6,796,183
<b>Net increase/(decrease) in cash and cash equivalents</b>			
Cash and cash equivalents at beginning of year		5,489,914	6,616,555
Changes in exchange rates		(108,796)	250,890
<b>Cash and cash equivalents at end of year</b>		<b>7,426,074</b>	<b>5,489,914</b>



# Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Share capital	Other reserves	Retained earnings	Shareholders' funds	Non- controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>At 1 January 2018</b>	<b>305,546</b>	<b>12,106,601</b>	<b>22,590,501</b>	<b>35,002,648</b>	<b>2,014,039</b>	<b>37,016,687</b>
<b>Comprehensive income</b>						
Profit for the year	—	—	4,046,390	4,046,390	130,314	4,176,704
<b>Other comprehensive loss</b>						
Other comprehensive loss for the year	—	(3,135,337)	—	(3,135,337)	(54,634)	(3,189,971)
<b>Transactions with equity holders</b>						
Fair value of share options	—	15,651	—	15,651	—	15,651
Issue of shares upon exercise of share options	527	12,957	—	13,484	—	13,484
Lapse of share options	—	(2,183)	2,183	—	—	—
Shares issued as scrip dividends	6,412	(6,412)	—	—	—	—
Reserve arising on scrip dividends	—	—	282,544	282,544	—	282,544
Repayment of capital to non-controlling interests	—	—	—	—	(673,874)	(673,874)
Dividends	—	—	(584,887)	(584,887)	(54,613)	(639,500)
<b>At 31 December 2018</b>	<b>312,485</b>	<b>8,991,277</b>	<b>26,336,731</b>	<b>35,640,493</b>	<b>1,361,232</b>	<b>37,001,725</b>
At 1 January 2017	295,674	6,234,108	18,829,915	25,359,697	1,766,770	27,126,467
<b>Comprehensive income</b>						
Profit for the year	—	—	3,906,182	3,906,182	611,093	4,517,275
<b>Other comprehensive income</b>						
Other comprehensive income for the year	—	5,836,028	—	5,836,028	78,778	5,914,806
<b>Transactions with equity holders</b>						
Fair value of share options	—	8,668	—	8,668	—	8,668
Issue of shares upon exercise of share options	1,377	41,076	—	42,453	—	42,453
Lapse of share options	—	(4,784)	4,784	—	—	—
Shares issued as scrip dividends	8,495	(8,495)	—	—	—	—
Reserve arising on scrip dividends	—	—	385,775	385,775	—	385,775
Capital contribution from non-controlling interests	—	—	—	—	53,630	53,630
Repayment of capital to non-controlling interests	—	—	—	—	(476,313)	(476,313)
Dividends	—	—	(536,155)	(536,155)	(19,919)	(556,074)
At 31 December 2017	305,546	12,106,601	22,590,501	35,002,648	2,014,039	37,016,687





# Notes to the Consolidated Financial Statements

## 1 GENERAL INFORMATION

K. Wah International Holdings Limited (the “Company”) is a limited liability company incorporated in Bermuda and has its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited. The address of its registered office is Canon’s Court, 22 Victoria Street, Hamilton HM 12, Bermuda and its principal place of business in Hong Kong is 29th Floor, K. Wah Centre, 191 Java Road, North Point, Hong Kong.

The principal activities of the Company and its subsidiaries (together the “Group”) are property development and investment in Hong Kong and Mainland China.

These consolidated financial statements are presented in Hong Kong dollars, unless otherwise stated and have been approved for issue by the Board of Directors on 20 March 2019.

## 2 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants under the historical cost convention as modified by the revaluation of investment properties, certain financial assets (including financial assets at fair value through other comprehensive income, derivative financial instruments and financial assets at fair value through profit or loss), which are carried at fair values.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

The accounting policies and methods of computation used in the preparation of the financial statements are consistent with those used in the financial statements for the year ended 31 December 2017, except as stated below.

### The adoption of new standards and amendments and interpretation to standards

In 2018, the Group adopted the following new standards and amendments and interpretation to standards, which are relevant to its operations.

HKFRS 2 (Amendment)	Classification and Measurement of Share-based Payment Transactions
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HKFRS 15 (Amendment)	Clarifications to HKFRS 15
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Annual Improvements to HKFRSs 2014–2016 Cycle	

The impact of the adoption of HKFRS 9 and HKFRS 15 are disclosed in Note (i) below. The other amendments and interpretation to standards did not have significant impact on the Group’s accounting policies and did not require retrospective adjustments.



## 2 BASIS OF PREPARATION (cont'd)

### New standards and amendments and interpretations to standards that are not yet effective

		Effective for accounting periods beginning on or after
HKAS 19 (Amendment)	Employee Benefits — Plan Amendment, Curtailment or Settlement	1 January 2019
HKAS 28 (Amendment)	Long-term Interests in Associates and Joint Ventures	1 January 2019
HKFRS 3 (Amendment)	Definition of a Business	1 January 2020
HKFRS 9 (Amendment)	Prepayment Features with Negative Compensation	1 January 2019
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	No mandatory effective date
HKFRS 16	Leases	1 January 2019
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments	1 January 2019
Annual Improvements to HKFRSs 2015–2017 Cycle		1 January 2019
Conceptual Framework for Financial Reporting 2018		1 January 2020

The Group will adopt the above new standards and amendments and interpretation to standards as and when they become effective. The Group has performed a preliminary assessment of the likely impact of adopting the above new standards and amendments and interpretation to standards, in which the impact arising from adopting of HKFRS 16 is detailed below. The Group will continue to assess the impact in more details.

#### **HKFRS 16 'Leases'**

The new standard will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased asset) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases.

As at 31 December 2018, the Group had operating lease commitments of HK\$22 million. Upon adoption of HKFRS 16, the majority of operating lease commitments will be recognised in the consolidated balance sheet as lease liabilities and right-of-use assets. The lease liabilities would subsequently be measured at amortised cost and the right-of-use asset will be depreciated on a straight-line basis during the lease term. Based on the preliminary assessment, it is estimated that the impact to the Group's profit and total equity upon the adoption of HKFRS 16 is insignificant.

## 2 BASIS OF PREPARATION (cont'd)

### New standards and amendments and interpretations to standards that are not yet effective (cont'd)

#### **HKFRS 16 'Leases' (cont'd)**

The new standard is mandatory for financial years commencing on or after 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

Apart from the above, there was no significant impact on the Group's results and financial position or any substantial changes in the Group's accounting policies and presentation of the consolidated financial statements.

#### **(i) Changes in accounting policies**

The changes in accounting policies upon the adoption of HKFRS 9 'Financial Instruments' and HKFRS 15 'Revenue from Contracts with Customers' are set out below:

##### **HKFRS 9 'Financial Instruments'**

Classification, measurement and derecognition of financial assets

The Group's management has assessed the Group's business models of management, and the contractual cash flow characteristics, of each of the Group's financial instruments, and has classified them into appropriate categories under HKFRS 9.

The Group has elected to present changes in the fair value of its listed equity securities not held for trading (previously classified under non-current investment and accounted for as available-for-sale financial asset) in other comprehensive income. Under this election, only qualifying dividends are recognised in profit and loss unless they clearly represented recovery of a part of the cost of the investment. Changes in fair value are recognised in other comprehensive income and never recycled to profit and loss, even if the asset is impaired, sold or otherwise derecognised.

Impairment of financial assets

The Group assessed on a forward looking basis for the expected credit losses associated with its financial assets carried at amortized cost. The results of the adopted new impairment model have not resulted in material impact on the carrying amount of the Group's financial assets as at 1 January 2017 and 31 December 2017.

The Group has elected to apply the new standard retrospectively and has restated comparatives for the prior periods presented. Accordingly, non-current investment of approximately HK\$5.5 billion and HK\$10.2 billion as at 1 January 2017 and 31 December 2017 respectively, was reclassified to financial assets at fair value through other comprehensive income. Investment reserve of approximately HK\$5.3 billion and HK\$10.0 billion as at 1 January 2017 and 31 December 2017 respectively, was reclassified to fair value through other comprehensive income reserve (note 31).



## 2 BASIS OF PREPARATION (cont'd)

### (i) *Changes in accounting policies (cont'd)*

#### *HKFRS 15 'Revenue from Contracts with Customers'*

In prior reporting years, revenue from the sale of properties was recognised when significant risks and rewards of ownership of properties have been transferred to the customers.

Under HKFRS 15, revenue from pre-sales of properties under development is recognised when or as the control of the asset is transferred to the customer. Depending on the terms of the contracts and the relevant laws that apply to the contracts, control of the properties under development may transfer over time or at a point in time. If properties have no alternative use to the Group contractually and the Group has an enforceable right to payment from the customers for performance completed to date, the Group satisfies the performance obligation over time and therefore, recognises revenue over time by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the completed property.

Revenue from sales of completed properties is recognised at a later point in time when the underlying property is legally and/or physically transferred to the customer.

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

Pre-sales deposits in relation to advanced proceeds received from customers represent contract liabilities under HKFRS 15.

Incremental costs incurred to obtain a contract, if recoverable, are capitalised as contract acquisition cost and subsequently amortised when the related revenue is recognised.

Please refer to the accounting policy in relation to revenue recognition in note 3.23.

The Group has elected to use a modified retrospective approach on all the uncompleted contracts as at 1 January 2018, which the cumulative impact of the adoption is recognised as an adjustment to the retained earnings as at 1 January 2018 and that the comparatives is not restated. The adoption of HKFRS 15 has no material impact to the retained earnings as at 1 January 2018 and therefore, no adjustment was made.



### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### 3.1 Consolidation

##### (a) *Subsidiaries*

Subsidiaries are entities (including structured entities) over which the Group has control. The Group controls entities when the Group is exposed to, or has rights to, variable returns from its involvement with the entities and has the ability to affect those returns through its power over the entities. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-group transactions, balances, unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

##### (i) *Business combinations*

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRSs. Acquisition related costs are expensed as incurred. If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.



### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### 3.1 Consolidation (cont'd)

##### (a) Subsidiaries (cont'd)

###### (i) Business combinations (cont'd)

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKFRS 9 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

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

###### (ii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

###### (iii) Disposal of subsidiaries

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

###### (iv) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

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

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### 3.1 Consolidation (cont'd)

##### **(b) Associated companies**

Associated companies are entities over which the Group has significant influence but not control. Investments in associated companies are accounted for using the equity method of accounting and are initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

The Group's investment in associated companies includes goodwill identified on acquisition, net of any accumulated impairment loss. Upon the acquisition of the ownership interest in an associated company, any difference between the cost of the associated company and the Group's share of the net fair value of the associated company's identifiable assets and liabilities is accounted for as goodwill.

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

The Group determines at each reporting date whether there is any objective evidence that the investment in the associated company is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associated company and its carrying value and recognises the amount in the consolidated profit and loss statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associated companies are recognised in the consolidated profit and loss statement.

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



### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### 3.1 Consolidation (cont'd)

##### (c) Joint arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

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

#### 3.2 Segment reporting

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

#### 3.3 Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.



### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### 3.4 Property, plant and equipment

Land and buildings comprise mainly offices and hotel building. Leasehold land classified as finance leases and all other property, plant and equipment are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably.

The carrying amount of the replaced asset is derecognised. All other repairs and maintenance costs are charged to the profit and loss statement during the financial period in which they are incurred.

All direct and indirect costs relating to the construction of property, plant and equipment, including borrowing costs during the construction period are capitalised as the costs of the assets.

Leasehold land classified as finance lease commences amortisation from the time when the land interest becomes available for its intended use. Buildings (including hotel buildings) on leasehold land are depreciated over their shorter useful life or respective lease periods using the straight-line method. No depreciation is provided on assets under construction. Depreciation of other property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

Hotel buildings	20 years
Land and buildings	Shorter of remaining lease term or useful life
Plant and machinery	10 years
Other assets	3 to 10 years

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its estimated recoverable amount if the asset's carrying amount is greater than its recoverable amount. Gains or losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the profit and loss statement.

#### 3.5 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group, is classified as investment property. Investment property principally comprises leasehold lands and buildings. It also includes properties that are being constructed or developed for future use as investment properties. Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases.



### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### 3.5 Investment properties (cont'd)

Investment property is measured initially at its cost, including related transaction costs and borrowing costs. After initial recognition, investment property is carried at fair value, representing open market value determined at each balance sheet date by external valuers. Fair value is based on valuations carried out by professional valuers. Where fair value of investment property under construction is not reliably determinable, such investment property under construction is measured at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier).

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of leasehold land, if any, classified as investment property; others, including contingent rent payments, are not recognised in the financial statements.

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

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

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

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

If an owner-occupied property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this property at the date of transfer is recognised in other comprehensive income as revaluation reserves of property, plant and equipment. However, if the fair value gives rise to a reversal of a previous impairment, this write-back is recognised in the profit and loss statement. This revaluation reserve shall remain and be transferred to retained earnings upon disposal of this property.

If a development property becomes an investment property when there is a change in use, any difference resulting between the fair value of the property at that date and its previous carrying amount is recognised in the profit and loss statement. A change in use would involve an assessment of whether a property meets the definition of investment property and supporting evidence that a change in use has occurred. A change in intention, in isolation, is not enough to support a transfer.

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### 3.6 Impairment of non-financial assets

Non-financial assets that have an indefinite useful life or have not yet been available for use are not subject to amortisation, but are tested at least annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each balance sheet date.

#### 3.7 Financial assets

##### (i) *Classification*

The Group classifies its financial assets in the categories of those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss) and those to be measured at amortised costs. The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

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

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

##### (ii) *Recognition and derecognition*

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



### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### 3.7 Financial assets (cont'd)

##### **(iii) Measurement**

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

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

##### **Debt instruments**

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

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other net gains/losses together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the profit and loss statement.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income ("OCI"), except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other net gains/losses. Interest income from these financial assets is included in finance income using the effective interest method. Foreign exchange gains and losses are presented in other net gains/losses and impairment expenses are presented as separate line item in the profit and loss statement.
- **FVPL:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other net gains/losses in the period in which it arises.

##### **Equity instruments**

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



### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### 3.7 Financial assets (cont'd)

##### **(iii) Measurement (cont'd)**

###### *Equity instruments (cont'd)*

Changes in the fair value of financial assets at fair value through profit or loss are recognised in other net gains/losses in the profit and loss statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

##### **(iv) Impairment**

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

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

#### 3.8 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

#### 3.9 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at the end of each reporting period. The derivative is classified as a non-current asset or liability when the remaining maturity is more than twelve months, and as a current asset or liability when the remaining maturity of the contract is less than twelve months. Changes in fair value of derivatives are recognised in the profit and loss statement.

#### 3.10 Development properties

Development properties comprise leasehold land and land use rights, construction costs, an appropriate proportion of overhead expenditure and borrowing costs incurred during the construction period, less provisions for impairment. Development properties are carried at the lower of cost and net realisable value. Net realisable value takes into account the price ultimately expected to be realised, less applicable variable selling expenses and anticipated costs to completion.

Development properties are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle.



### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### 3.11 Inventories

Inventories comprise primarily operating supplies, food and beverages, engineering spare parts and guest supplies. Operating supplies, food and beverages are stated at the lower of cost and net realisable value. Engineering spare parts and guest supplies are stated at lower of cost and net realisable value and expensed when consumed. Costs are assigned to individual items on the first-in, first-out method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

#### 3.12 Trade debtors

Trade debtors are recognised initially at the amount of consideration that is unconditional and subsequently measured at amortised cost using the effective interest method, less provision for impairment, as the Group holds the trade debtors with the objective to collect the contractual cash flows and those cash flows represent solely payments of principal and interest. The Group's impairment policies are set out in note 3.7(iv). The carrying amount of trade debtors is reduced through the use of an allowance account and the amount of the provision is recognised in the profit and loss statement within other operating expenses. When a debtor is uncollectible, it is written off against the allowance account for trade debtors. Subsequent recoveries of amounts previously written off are credited against other operating income in the profit and loss statement.

If the collection of trade debtors is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

#### 3.13 Mortgage loans receivable

First mortgage loans receivable is initially recognised at and are subsequently remeasured to their fair value at the end of each reporting period. Second mortgage loans receivable is classified as loans and receivable and is recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Mortgage loans receivable is classified as current assets if expected to be settled within twelve months from the balance sheet date; otherwise, is classified as non-current.

#### 3.14 Cash and cash equivalents

In the consolidated cash flow statement, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities.

### **3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

#### **3.15 Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

#### **3.16 Borrowings and guaranteed notes**

Borrowings and guaranteed notes are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability including fees and commissions to agents, advisers, levies by regulatory agencies and securities exchange, and transfer taxes and duties. Borrowings and guaranteed notes are subsequently stated at amortised cost; any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the profit and loss statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates. Borrowings and guaranteed notes are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

#### **3.17 Trade creditors**

Trade creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Trade creditors are classified as current liabilities if payment is due within one year or less (or in normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

#### **3.18 Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit and loss statement on a straight-line basis over the period of the lease. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the profit and loss statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.



### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### 3.19 Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Where a provision is expected to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

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

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

#### 3.20 Current and deferred taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit and loss statement, except to the extent that it relates to items recognised directly in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

The current taxation charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the subsidiaries, joint ventures and associated companies operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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



### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### 3.20 Current and deferred taxation (cont'd)

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

Deferred taxation liability are provided on taxable temporary differences arising from investments in subsidiaries, associated companies and joint arrangements, except for deferred taxation liabilities where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associated companies. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred taxation liability in relation to taxable temporary differences arising from the associated company's undistributed profits is not recognised.

Deferred taxation assets are recognised on deductible temporary differences arising from investments in subsidiaries, associated companies and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

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

#### 3.21 Employee benefits

##### (a) *Employee entitlements, benefits and bonuses*

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

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

Provisions for bonus plans due wholly within twelve months after balance sheet date are recognised when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.



### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### 3.21 Employee benefits (cont'd)

##### (b) *Share-based compensation*

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group.

The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each balance sheet date, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in the profit and loss statement, with a corresponding adjustment to equity.

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

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

#### 3.22 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to complete and prepare for its intended use or sale are capitalised as part of the cost of that asset until such time as the assets are substantially ready for their intended use or sales. All other borrowing costs are charged to the profit and loss statement in the financial period in which they are incurred.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### 3.23 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable and is shown, net of value-added tax, returns, rebates and discounts, allowances for credit and other revenue reducing factors.

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

##### **(a) Sales of properties**

Revenue is recognised when or as the control of the asset is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the asset may be transferred over time or at a point in time. If properties have no alternative use to the Group contractually and the Group has an enforceable right to payment from the customers for performance completed to date, the Group satisfies the performance obligation over time and therefore, recognises revenue over time in accordance with the input method for measuring progress. Otherwise, revenue is recognised at a point in time when the customer obtains control of the completed property.

For property development and sales contract for which the control of the property is transferred over-time, the performance obligation is measured based on the Group's efforts or inputs to the satisfaction of the performance obligation, by reference to the contract costs incurred up to the end of reporting period as a percentage of total estimated costs for each contract.

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

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

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

##### **(b) Rental income**

Rental income net of any incentives given to the lessees is recognised over the periods of the respective leases on a straight-line basis.

##### **(c) Hotel operation income**

Hotel operation income is recognised when the services are rendered.



### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### 3.23 Revenue recognition (cont'd)

**(d) Interest income**

Interest income from financial assets at FVPL is included in the net fair value gains/losses on these assets. Interest income on financial assets at amortised cost is recognised in the profit and loss statement as other operating income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

**(e) Dividend income**

Dividend is received from financial assets measured at FVOCI and is recognised as other operating income in profit or loss when the right to receive payment is established.

#### 3.24 Foreign currencies

**(a) Functional and presentation currency**

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

**(b) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss statement, except when deferred in other comprehensive income as qualifying cash flow hedges or qualifying net investment hedges.

Foreign exchange gains and losses are presented in the profit and loss statement as other net gains/losses. Exchange differences arising from translation of inter-company loan balances between Group entities are recognised in other comprehensive income and accumulated under the heading of exchange reserve when such loans form part of the Group's net investment in a foreign entity.

Translation differences on non-monetary financial assets held at FVPL are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets held at FVOCI are included in the fair value through other comprehensive income reserve in other comprehensive income.



### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### 3.24 Foreign currencies (cont'd)

##### **(c) Group companies**

The results and financial position of all the entities in the Group that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rates at the date of that balance sheet;
- (ii) income and expenses for each profit and loss statement are translated at average exchange rates; and
- (iii) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rates at the balance sheet date. Exchange differences arising are recognised in other comprehensive income.

##### **(d) Disposal of foreign operation and partial disposal**

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associated company that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associated companies or joint ventures that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

#### 3.25 Financial guarantees

Financial guarantees are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of (1) the amount determined in accordance with the expected credit loss model under HKFRS 9; and (2) the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of HKFRS 15.

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

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



### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### 3.26 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

### 4 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The property industry is sensitive to the economic environment in Hong Kong and Mainland China, which will affect the volumes and selling prices of property transactions. The Group mainly relies on sales of properties, renewal of bank borrowings and issuance of guaranteed notes to fund its operations.

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

#### 4.1 Financial risk factor

##### 4.1.1 Market risk

###### (i) Foreign exchange risk

The Group operates in Hong Kong and Mainland China and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Renminbi ("RMB").

Foreign exchange risk mainly arises from future commercial transactions, recognised assets and liabilities, which are denominated in a currency that is not the functional currency of the entities in the Group.

The Group's borrowings are mainly denominated in the functional currency of the entities to minimise the foreign currency risk.

The Group would also consider entering into forward foreign exchange contracts to reduce foreign exchange risk exposure where necessary. The Group does not hedge any net investments in foreign operations.

At 31 December 2018, if Hong Kong dollar had strengthened or weakened by 3% (2017: 3%) against RMB, with all other variables held constant, profit before taxation for the year would have been higher or lower by approximately HK\$9 million (2017: HK\$2 million) mainly as a result of foreign exchange gains/losses arising from cash at banks.

## 4 FINANCIAL RISK MANAGEMENT (cont'd)

### 4.1 Financial risk factor (cont'd)

#### 4.1.1 Market risk (cont'd)

##### (ii) Interest rate risk

The Group is exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank deposits, amount due from a joint venture, mortgage loans receivable and bank loans.

The interest rate risk arises primarily from borrowings. Borrowings with variable rates expose the Group to cash flow interest rate risk. Borrowings with fixed rates expose the Group to fair value interest rate risk.

With regard to cash flow interest rate risk of borrowings, when opportunities arise, the Group considers the use of interest rate swaps to fix the interest costs for long term. In case of funding requirement, other than bank borrowings, the Group may issue fixed-rate instruments, such as bonds, to avoid fluctuation of interest costs over the period of the instruments.

The Group has followed a policy of developing long-term banking facilities to match its long-term investments in Hong Kong and Mainland China. The policy also involves close monitoring of interest rate movements and replacing and entering into new banking facilities when favourable pricing opportunities arise. At 31 December 2018, if interest rates had been increased or decreased by 1% (2017: 1%) with all other variables held constant, the profit before taxation for the year (before capitalisation) would decrease or increase by approximately HK\$73 million (2017: HK\$110 million) mainly as a result of higher or lower interest expenses.

##### (iii) Price risk

The Group is exposed to equity securities price risk through investments held by the Group classified as financial assets at fair value through other comprehensive income which are publicly traded and financial assets at fair value through profit or loss.

At 31 December 2018, if the share price of the financial assets at fair value through other comprehensive income had been increased or decreased by 10% (2017: 10%) with all other variables held constant, the equity would increase or decrease by approximately HK\$809 million (2017: HK\$1,019 million).

At 31 December 2018, if the trade price of the financial assets at fair value through profit or loss had been increased or decreased by 10% (2017: 10%) with all other variables held constant, the profit before taxation for the year would increase or decrease by approximately HK\$50 million (2017: HK\$27 million).



## 4 FINANCIAL RISK MANAGEMENT (cont'd)

### 4.1 Financial risk factor (cont'd)

#### 4.1.2 Credit risk

The Group's credit risk is primarily attributable to trade and other debtors, mortgage loans receivable, bank deposits, amounts due from joint ventures and associated companies.

The Group has policies in place to ensure that sales of properties, goods and services are made to customers with an appropriate credit history. The Group reviews the recoverable amount of the debtors and loans receivable on a regular basis and an allowance for doubtful debts is made where there is an expected credit loss.

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

In respect of credit exposures to customers for sales of properties, the Group normally receives deposits or progress payments from individual customers prior to the completion of sales transactions. For mortgage loans receivable, credit assessments are carried out before approving loans to the customers. Regular review with stringent monitoring procedures are conducted for overdue debts. With regard to credit exposure to customers for rental of properties, the Group also receives rental payments in advance with sufficient initial rental deposits to cover potential default in future rental payments. The Group monitors the credibility of joint ventures and associated companies continuously.

The credit risk on liquid funds is limited because around 92% (2017: 81%) of the funds are placed in banks with high credit rankings, ranging from Aa to A, and the remaining 8% (2017: 19%) in local banks in different countries with close monitoring by the management and there is no concentration in any particular bank. Management does not expect any losses from non-performance of these banks.

#### 4.1.3 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its current obligations when they fall due.

The Group measures and monitors its liquidity through the maintenance of prudent ratios regarding the liquidity structure of the overall assets, liabilities, loans and commitments of the Group. It prepares cash flow forecasts to assess funding needs on a regular basis and, if necessary, obtains financing to meet the funding requirement.

The Group also maintains a level of liquid assets that ensures the availability of sufficient cash flows to meet any unexpected and material cash requirements in the course of ordinary business. In addition, standby credit facilities are obtained from banks to provide contingent liquidity support. As at 31 December 2018, the Group's total undrawn facilities amounted to approximately HK\$13.8 billion (2017: HK\$1.1 billion).

## 4 FINANCIAL RISK MANAGEMENT (cont'd)

### 4.1 Financial risk factor (cont'd)

#### 4.1.3 Liquidity risk (cont'd)

The Group has a number of alternative plans to mitigate the potential impacts on anticipated cash flows should there be significant adverse changes in economic environment. These include adjusting the construction progress of development properties, implementing cost control measures and accelerating sales with more flexible pricing. The Group will, base on its assessment of the relevant future costs and benefits, pursue such options as are appropriate.

The contractual maturity of the Group for its financial liabilities, drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group is required to pay and include both interest and principal, is set out below.

	Within 1 year HK\$'000	Between 1 and 2 years HK\$'000	Between 2 and 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
<b>At 31 December 2018</b>					
Borrowings	1,665,025	3,801,971	13,730,369	212,676	19,410,041
Guaranteed notes	44,730	44,730	1,023,102	—	1,112,562
Trade creditors	1,264,651	—	—	—	1,264,651
Other creditors and accruals	209,737	—	—	—	209,737
Amounts due to joint ventures	1,243,750	—	—	—	1,243,750
Amounts due to associated companies	372,909	—	—	—	372,909
<b>Total</b>	<b>4,800,802</b>	<b>3,846,701</b>	<b>14,753,471</b>	<b>212,676</b>	<b>23,613,650</b>
<b>At 31 December 2017</b>					
Borrowings	1,205,306	3,174,152	14,362,437	—	18,741,895
Guaranteed notes	44,730	44,730	1,067,729	—	1,157,189
Net settled derivative financial instruments	1,130	—	—	—	1,130
Trade creditors	1,749,118	—	—	—	1,749,118
Other creditors and accruals	278,210	—	—	—	278,210
Amounts due to joint ventures	824,220	—	—	—	824,220
Amounts due to associated companies	415,839	—	—	—	415,839
<b>Total</b>	<b>4,518,553</b>	<b>3,218,882</b>	<b>15,430,166</b>	<b>—</b>	<b>23,167,601</b>

Note:

The table above excludes guarantees executed by the Group that management considers the likely crystallisation of the guarantees to be as minimal.

Interest on borrowings and guaranteed notes are calculated on balances held as at 31 December 2018 and 2017. Floating-rate interest is estimated using the current interest rate as at 31 December 2018 and 2017 respectively.





## 4 FINANCIAL RISK MANAGEMENT (cont'd)

### 4.2 Capital risk 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 borrowings and equity.

The Directors of the Company review the capital structure periodically. As a part of this review, the Directors of the Company assess the annual budget prepared by its finance team which reviews the planned construction projects proposed by its project team and takes into account the provision of funding. Based on the proposed annual budget, the Directors of the Company consider the cost of capital and the risks associated with capital. The Directors of the Company also balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio, which is calculated as net borrowings to total equity. Net borrowings is calculated as total borrowings, including current, non-current borrowings and guaranteed notes, less cash and bank deposits.

The gearing ratio is calculated as follows:

	<b>2018</b>	2017
	<b>HK\$'000</b>	HK\$'000
Total borrowings	<b>18,710,746</b>	18,478,850
Less: Cash and bank deposits	<b>(7,488,536)</b>	(5,848,809)
Net borrowings	<b>11,222,210</b>	12,630,041
Total equity	<b>37,001,725</b>	37,016,687
Gearing ratio	<b>30%</b>	34%

### 4.3 Fair value estimation

The disclosure of fair value measurements of financial instruments carried at fair value by level in the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

## 4 FINANCIAL RISK MANAGEMENT (cont'd)

### 4.3 Fair value estimation (cont'd)

#### (a) *Financial instruments in Level 1*

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily Hong Kong listed equity investments classified as financial assets at fair value through other comprehensive income (note 22).

#### (b) *Financial instruments in Level 2*

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Note that all the resulting fair value estimates are included in Level 2.

Instruments included in Level 2 comprise financial assets at fair value through profit or loss (note 27) and derivative financial instruments (note 34).

There was no transfer of financial assets between Level 1 and Level 2 fair value hierarchy classifications.



## 4 FINANCIAL RISK MANAGEMENT (cont'd)

### 4.3 Fair value estimation (cont'd)

The fair values of long-term borrowings are estimated using the expected future contractual payments discounted at current market interest rates.

The fair values of financial instruments that are not traded in an active market, which include unlisted pooled fund are determined with reference to quoted market price provided by the bank which may use established valuation techniques to ascertain the price.

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year, balances with joint ventures and associated companies, debtors, tender deposits, bank balances, creditors and current borrowings are assumed to approximate their fair values.

See note 18 for disclosures of the investment properties that are measured within level 3 of the fair value hierarchy.

The fair value of first mortgage loans receivable (note 23) is determined using discounted cash flow valuation techniques with reference to the lending rates from financial institution and is measured within level 3 of the fair value hierarchy.

## 5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments used in preparing the consolidated financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are addressed below:

### (a) Fair values of investment properties

The fair values of investment properties are determined by independent valuers on an open market for existing use basis. In making the judgment, the Group considers information from a variety of sources including:

- (i) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;
- (ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
- (iii) discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

## 5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (cont'd)

### (a) Fair values of investment properties (cont'd)

If information on current or recent prices of investment properties is not available, the fair values of investment properties are determined using valuation techniques as disclosed in note 18. The Group uses assumptions that are mainly based on market conditions existing at each balance sheet date.

The principal assumptions underlying management's estimation of fair value are those related to: the receipt of contractual rentals; expected future market rentals; maintenance requirements; and appropriate discount rates. These valuations are regularly compared to actual market yield data, and actual transactions by the Group and those reported by the market. The valuations are reviewed annually by external valuers.

### (b) Provision for development properties

The Group assesses the carrying amounts of properties under development and completed properties for sale according to their net realisable value based on the realisability of these properties, taking into account estimated costs to completion based on past experience and estimated net sales value based on prevailing market conditions. Provision is made when events or changes in circumstances indicate that the carrying amounts may not be realised. The assessment requires the use of judgment and estimates.

### (c) Current and deferred taxation and land appreciation tax

Significant judgment is required in determining the provision for taxation. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final taxation outcome of these matters is different from the amounts that were initially recorded, such difference will impact the provision for current and deferred taxation in the financial period in which such determination is made.

The Group is subject to land appreciation tax in Mainland China. However, the actual implementation of this tax is uncertain and varies amongst local tax authorities. Accordingly, significant judgment is required in determining the amount of the land appreciation tax and its related tax provision. The Group recognises land appreciation tax based on best estimates according to the understanding of the tax rules. The final taxation outcome could be different from the amounts that were initially recorded, and these differences will impact the provision for taxation in the financial period in which such determination is made.

Deferred taxation assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

### (d) Share-based payments

The fair value of option granted is estimated by an independent professional valuer based on the various assumptions on volatility, life of options, dividend paid out rate and annual risk-free interest rate, excluding the impact of any non-market vesting conditions, which generally represent the best estimate of the fair value of the options at the date of granting the options.



## 5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (cont'd)

### (e) Impairment of non-financial assets

The Group tests at each balance sheet date whether assets that have indefinite useful lives have suffered any impairment. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount.

The recoverable amount of an asset or a cash-generating unit is determined based on value-in-use calculations. These calculations require the use of estimates, such as discount rates, future profitability and growth rates.

### (f) Recoverability of other non-current assets and debtors

The Group assess whether there is objective evidence that other non-current assets and debtors are impaired. It recognises impairment based on assumptions about risk of default and expected loss rates. The Group use judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting year. The final outcome of the recoverability and cash flows of these non-current assets and debtors will impact the amount of impairment required.

### (g) Revenue recognition

Revenue from pre-sales of properties is recognised over time when the properties have no alternative use to the Group contractually and the Group has an enforceable right to payment for performance completed to date; otherwise, revenue is recognised at a point in time. Whether there is an enforceable right to payment and hence the related contract revenue should be recognised over time, depends on the terms of each contract and the relevant laws that apply to that contract. To assess the enforceability of right to payment, the Group has reviewed the terms of its contracts and the relevant local laws, considered the local regulators' views and practices and obtained legal advice, where necessary.

## 6 SEGMENT INFORMATION

The Group is principally engaged in property development and investment in Hong Kong and Mainland China. In accordance with the internal financial reporting of the Group provided to the chief operating decision-maker for the purposes of allocating resources, assessing performance of the operating segments and making strategic decisions, the reportable operating segments are property development and property investment. The Group regards the Board of Directors as the chief operating decision-maker.

The results of the operating segments represent the adjusted earnings before interest, tax, depreciation, amortisation and certain items (the "Adjusted EBITDA"). Certain items include other operating income/expenses, other net losses/gains, fair value gain on transfer of development properties to investment properties and change in fair value of investment properties. Also the Adjusted EBITDA excludes the share of results of joint ventures and associated companies. There are no sales or trading transactions between the operating segments. Others represent corporate level activities including central treasury management, hotel operation and administrative function.



## 6 SEGMENT INFORMATION (cont'd)

Segment assets primarily consist of property, plant and equipment, leasehold land and land use rights, deferred taxation assets, other non-current assets, development and investment properties, debtors and prepayments, land and tender deposits, financial assets at fair value through profit or loss, taxes recoverable, cash and bank deposits and other assets mainly include financial assets at fair value through other comprehensive income, hotel buildings, inventories and other non-operating assets held by the corporate office. Segment liabilities comprise mainly creditors and accruals, pre-sales deposits, amounts due to joint ventures and associated companies, borrowings, guaranteed notes, derivative financial instruments, taxes payable and deferred taxation liabilities. Other liabilities include liabilities not arising from the operation of the operating segments.

	Property development			Property investment	Others	Total
	Hong Kong HK\$'000	Mainland China HK\$'000	Others HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Year ended 31 December 2018</b>						
Revenue from contracts with customers:						
— Recognised at a point in time	7,115,001	2,994,180	—	—	—	10,109,181
— Recognised over time	—	—	—	—	111,603	111,603
Revenue from other sources:						
— Rental income	—	—	—	539,008	—	539,008
<b>Revenue</b>	<b>7,115,001</b>	<b>2,994,180</b>	<b>—</b>	<b>539,008</b>	<b>111,603</b>	<b>10,759,792</b>
<b>Adjusted EBITDA</b>	<b>3,202,044</b>	<b>950,404</b>	<b>(3,422)</b>	<b>432,536</b>	<b>(212,801)</b>	<b>4,368,761</b>
Other income and expenses/losses, net						(292,389)
Depreciation and amortisation						(28,797)
Fair value gain on transfer of development properties to investment properties				1,105,792		1,105,792
Change in fair value of investment properties				310,846		310,846
Finance costs						(12,465)
Share of profits/(losses) of joint ventures	32,164	(17,184)				14,980
Share of profits/(losses) of associated companies	73,695	(1,919)				71,776
<b>Profit before taxation</b>						<b>5,538,504</b>
Taxation charge						(1,361,800)
<b>Profit for the year</b>						<b>4,176,704</b>
<b>As at 31 December 2018</b>						
Segment assets	18,848,005	19,965,683	9,555	14,489,103	—	53,312,346
Other assets	—	—	—	—	9,033,899	9,033,899
Joint ventures	5,319,488	1,117,400	—	—	—	6,436,888
Associated companies	979,719	130,996	—	—	—	1,110,715
<b>Total assets</b>	<b>25,147,212</b>	<b>21,214,079</b>	<b>9,555</b>	<b>14,489,103</b>	<b>9,033,899</b>	<b>69,893,848</b>
<b>Total liabilities</b>	<b>16,519,036</b>	<b>13,672,551</b>	<b>446</b>	<b>2,634,444</b>	<b>65,646</b>	<b>32,892,123</b>



## 6 SEGMENT INFORMATION (cont'd)

	Property development			Property investment	Others	Total
	Hong Kong HK\$'000	Mainland China HK\$'000	Others HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Year ended 31 December 2017</b>						
Revenue	5,399,461	5,324,044	—	463,630	106,752	11,293,887
Adjusted EBITDA	1,902,210	3,134,452	(3,101)	370,691	(205,825)	5,198,427
Other income and expenses/gains, net						(339,207)
Depreciation and amortisation						(31,430)
Fair value gain on transfer of development properties to investment properties				1,275,065		1,275,065
Change in fair value of investment properties				458,631		458,631
Finance costs						(20,353)
Share of profits/(losses) of joint ventures	135,413	(3,983)				131,430
Share of profits of associated companies	62,764	—				62,764
Profit before taxation						6,735,327
Taxation charge						(2,218,052)
Profit for the year						4,517,275
<b>As at 31 December 2017</b>						
Segment assets	19,334,857	20,824,513	149,506	12,911,490	—	53,220,366
Other assets	—	—	—	—	10,938,315	10,938,315
Joint ventures	6,766,148	471,233	—	—	—	7,237,381
Associated companies	1,110,657	—	—	—	—	1,110,657
Total assets	27,211,662	21,295,746	149,506	12,911,490	10,938,315	72,506,719
Total liabilities	17,583,923	15,489,392	648	2,356,300	59,769	35,490,032
<b>Year ended 31 December 2018</b>						
Additions to non-current assets	—	2,931	8	18	907	3,864
<b>Year ended 31 December 2017</b>						
Additions to non-current assets	—	7,248	15	412	1,203	8,878

## 6 SEGMENT INFORMATION (cont'd)

### Geographical segment information

The Group operates in two (2017: two, as restated) main geographical areas, including Hong Kong and Mainland China. The Singapore segment is not considered to be of continuing significance for the year ended 31 December 2018. Accordingly, it is not separately disclosed and certain comparatives are restated to conform with current year's presentation.

The revenue for the years ended 31 December 2018 and 2017 and total non-current assets (other than joint ventures, associated companies, financial assets at fair value through other comprehensive income, deferred taxation assets and other non-current assets) as at 31 December 2018 and 2017 by geographical area are as follows:

	2018 HK\$'000	2017 HK\$'000
<b>Revenue</b>		
Hong Kong	7,188,205	5,468,814
Mainland China	3,571,587	5,825,073
	<b>10,759,792</b>	11,293,887

	2018 HK\$'000	2017 HK\$'000
<b>Non-current assets</b>		
Hong Kong	3,003,484	2,940,511
Mainland China	11,636,826	10,121,355
Other	153	182
	<b>14,640,463</b>	13,062,048

## 7 REVENUE

	2018 HK\$'000	2017 HK\$'000
Sale of properties	10,109,181	10,723,505
Rental income	539,008	463,630
Hotel operations	111,603	106,752
	<b>10,759,792</b>	11,293,887

## 8 FAIR VALUE GAIN ON TRANSFER OF DEVELOPMENT PROPERTIES TO INVESTMENT PROPERTIES

The amount represents fair value gain on transfer of certain development properties to investment properties in pursuance of the Group's strategy to increase the recurring income.



## 9 FINANCE COSTS

	2018 HK\$'000	2017 HK\$'000
Interest expenses		
Bank loans, guaranteed notes, overdrafts and others	491,337	439,946
Capitalised as cost of properties under development	(478,872)	(419,593)
	12,465	20,353

The capitalisation rates used to determine the amounts of borrowing costs eligible for the development of properties are from 2% to 5% per annum (2017: 1% to 5% per annum).

## 10 PROFIT BEFORE TAXATION

	2018 HK\$'000	2017 HK\$'000
Profit before taxation is stated after crediting:		
Interest income from banks	66,705	80,350
Interest income from a joint venture	917	8,867
Interest income from mortgage loans and others	15,014	7,154
Dividend income from financial assets at fair value through other comprehensive income	147,860	95,866
Release of exchange reserve upon reduction of interest in subsidiaries	—	40,182
Net gain on settlement of derivative financial instruments	4,365	—
Net fair value gains on derivative financial instruments	—	3,717
Net fair value gains on financial assets at fair value through profit or loss	13,507	9,464
Net exchange gains	—	2,904
and after charging:		
Cost of properties sold	5,800,661	5,525,278
Cost of inventories consumed/sold	20,730	20,869
Selling and marketing expenses	460,145	581,026
Depreciation (net of amount capitalised under properties under development of HK\$387,000 (2017: HK\$288,000))	28,674	31,310
Amortisation for leasehold land and land use rights	123	120
Auditors' remuneration to the auditor of the Company		
Audit services	4,750	4,527
Non-audit services	730	539
Loss on disposal of property, plant and equipment	171	56
Operating lease rental for land and buildings	7,924	8,041
Outgoings in respect of investment properties		
Direct operating expense of investment properties that generate rental income	43,366	32,322
Direct operating expense of investment properties that did not generate rental income	10,154	7,692
Net loss on settlement of derivative financial instruments	—	7,680
Net exchange losses	87,888	—

## 11 EMPLOYEE BENEFIT EXPENSES

	2018 HK\$'000	2017 HK\$'000
Staff costs including directors' emoluments	415,920	391,061
Pension costs — defined contribution plans	25,987	23,685
Share options granted to directors and employees	15,651	8,668
	<b>457,558</b>	423,414
Capitalised as cost of properties under development	<b>(86,267)</b>	(81,297)
	<b>371,291</b>	342,117

The Group operates two defined contribution schemes in Hong Kong which comply with all the respective requirements under the Occupational Retirement Schemes Ordinance (“ORSO”) and Mandatory Provident Fund (“MPF”) Schemes Ordinance. All the assets under the schemes are held separately from the Group under independently administered funds. Contributions to the MPF Scheme follow the MPF Schemes Ordinance while contributions to the ORSO Scheme are based on a percentage ranging from 5% to 10% (depending upon the length of employment) of the basic salary of the employees, minus the mandatory contributions to the MPF Scheme. The contributions to the ORSO Scheme may be reduced by contributions forfeited in respect of those employees who leave the scheme prior to the full vesting of the contributions of the Group on the employees.

Employees in Mainland China participate in various pension plans organised by the relevant municipal and provincial governments under which the Group is required to make monthly defined contributions to those plans at rates ranging from 13% to 20% of the basic salaries of the employees, depending upon the applicable local regulations. The Group has no other obligations for the payment of pension and other post-retirement benefits of employees other than the above payments.

During the year, contributions forfeited of HK\$766,000 (2017: HK\$812,000) were utilised, leaving HK\$137,000 (2017: nil) available at the balance sheet date to reduce future contributions.



## 12 BENEFITS AND INTERESTS OF DIRECTORS

### (a) Directors' emoluments

Name	(note i)		(note ii)				Total HK\$'000
	Directors' fee HK\$'000	Estimated money value of other benefits (note iii) HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonuses HK\$'000	Retirement benefit scheme contributions HK\$'000	Estimated money value of other benefits (note iii) HK\$'000	
<b>2018</b>							
Lui Che-woo	330	—	13,076	4,167	1,366	2,460	21,399
Francis Lui Yiu Tung	190	—	1,615	453	162	1,086	3,506
Paddy Tang Lui Wai Yu	190	—	7,138	2,243	714	2,460	12,745
Alexander Lui Yiu Wah	190	—	9,704	3,049	970	2,460	16,373
Robin Chan Yau Hing	190	134	—	—	—	—	324
William Yip Shue Lam	440	134	—	—	—	—	574
Moses Cheng Mo Chi	310	134	—	—	—	—	444
Au Man Chu	310	134	—	—	—	—	444
Wong Kwai Lam	290	134	—	—	—	—	424
	<b>2,440</b>	<b>670</b>	<b>31,533</b>	<b>9,912</b>	<b>3,212</b>	<b>8,466</b>	<b>56,233</b>
<b>2017</b>							
Lui Che-woo	330	—	12,573	4,030	1,316	1,320	19,569
Francis Lui Yiu Tung	190	—	1,553	498	155	592	2,988
Paddy Tang Lui Wai Yu	190	—	6,863	2,200	686	1,320	11,259
Alexander Lui Yiu Wah	190	—	9,331	2,991	933	1,320	14,765
Robin Chan Yau Hing	190	73	—	—	—	—	263
William Yip Shue Lam	440	73	—	—	—	—	513
Moses Cheng Mo Chi	310	73	—	—	—	—	383
Au Man Chu	310	73	—	—	—	—	383
Wong Kwai Lam	290	73	—	—	—	—	363
	<b>2,440</b>	<b>365</b>	<b>30,320</b>	<b>9,719</b>	<b>3,090</b>	<b>4,552</b>	<b>50,486</b>

- (i) The amounts represented emoluments paid or receivable in respect of a person's services as a director of the Company or its subsidiary undertakings.
- (ii) The amounts represented emoluments paid or receivable in respect of a person's other services in connection with the management of the affairs of the Company or its subsidiary undertakings. The discretionary bonuses paid in 2018 were in relation to performance and services for 2017.
- (iii) Other benefits represented share options granted to the Directors under the share option scheme of the Company. The value represented the fair value of these options charged to the profit and loss statement for the year in accordance with the accounting policies of the Group.

There was no arrangement under which a Director waived or agreed to waive any emoluments during the current and prior years.

## 12 BENEFITS AND INTERESTS OF DIRECTORS (cont'd)

### (b) Directors' material interests in transactions, arrangements or contracts

Pursuant to a guarantee dated 5 March 1997, the Company had given corporate guarantee in favour of the Hong Kong Government in respect of the contract for quarrying rights and rehabilitation of the quarry at Tai Sheung Tok Anderson Road to KWP Quarry Co. Limited ("KWP"). KWP is a subsidiary of Galaxy Entertainment Group Limited, which the substantial shareholder is the trustee of a discretionary family trust ("Trust") established by Dr. Lui Che-woo and of which members of Lui's family, including Dr. Lui Che-woo, Mr. Francis Lui Yiu Tung, Ms. Paddy Tang Lui Wai Yu and Mr. Alexander Lui Yiu Wah, are the beneficiaries. On 31 July 2017, the quarry site of the contract was returned to the Hong Kong Government. During the year, the Hong Kong Government issued the certificate of completion of the works and maintenance certificate of the works to KWP.

Pursuant to the master lease agreement dated 23 August 2017, made between the Company and Polymate Co., Ltd ("Polymate"), an aggregated annual rent of HK\$14,760,000 for the year ended 31 December 2018 (2017: HK\$11,338,000) was paid to Polymate, which is a wholly-owned subsidiary of a substantial shareholder of the Company which in turn is the trustee of the Trust.

On 15 January 2016, a subsidiary of the Company entered into four sales and purchase agreements with Dr. Lui Che-woo, being the Chairman and Managing Director of the Company and also a substantial shareholder of the Company, in respect of four residential units at a total consideration approximately HK\$13,883,000. The transactions were based on prevailing market prices and completed in January 2017.

Save for the aforementioned contract and arrangement, no other significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2017: nil).

**13 FIVE HIGHEST PAY INDIVIDUALS**

The five individuals whose emoluments were the highest in the Group for the year include three (2017: three) Directors. The emoluments of the five individuals are as follows:

	<b>2018</b>	2017
	<b>HK\$'000</b>	HK\$'000
Salaries and other emoluments	<b>35,928</b>	34,109
Pension cost — defined contribution plans	<b>3,445</b>	3,290
Discretionary bonuses	<b>15,198</b>	15,664
Share options granted	<b>8,062</b>	4,345
	<b>62,633</b>	57,408

The emoluments of the individuals fell within the following bands:

	<b>Number of employees</b>	
	<b>2018</b>	2017
HK\$5,000,001–HK\$5,500,000	—	1
HK\$5,500,001–HK\$6,000,000	<b>1</b>	—
HK\$6,000,001–HK\$6,500,000	<b>1</b>	1
HK\$11,000,001–HK\$11,500,000	—	1
HK\$12,500,001–HK\$13,000,000	<b>1</b>	—
HK\$14,500,001–HK\$15,000,000	—	1
HK\$16,000,001–HK\$16,500,000	<b>1</b>	—
HK\$19,500,001–HK\$20,000,000	—	1
HK\$21,000,001–HK\$21,500,000	<b>1</b>	—
	<b>5</b>	5

**14 TAXATION CHARGE**

	<b>2018</b>	2017
	<b>HK\$'000</b>	HK\$'000
Current		
Hong Kong profits tax	<b>429,335</b>	261,175
Mainland China		
— Income tax	<b>245,599</b>	499,970
— Land appreciation tax	<b>266,549</b>	1,036,103
Overseas	—	141
Over-provision in previous years	<b>(203)</b>	(5,497)
Deferred (note 35)	<b>420,520</b>	426,160
	<b>1,361,800</b>	2,218,052

## 14 TAXATION CHARGE (cont'd)

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits for the year after setting off available tax losses brought forward. Taxation assessable on profits generated in Mainland China and overseas has been provided at the rates of taxation prevailing in the countries in which the Group operates. There is no income tax provided on other comprehensive income.

Land appreciation tax in Mainland China is normally provided at statutory progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including lease charges of land use rights and all property development expenditures, which is included in the profit and loss statement as taxation charge.

The taxation charge on the profit before taxation differs from the theoretical amount that would arise using the applicable taxation rate being the weighted average of rates prevailing in the countries in which the Group operates, as follows:

	2018 HK\$'000	2017 HK\$'000
Profit before taxation	5,538,504	6,735,327
Share of profits of joint ventures	(14,980)	(131,430)
Share of profits of associated companies	(71,776)	(62,764)
	<b>5,451,748</b>	6,541,133
Tax calculated at applicable tax rates	1,135,920	1,379,137
Income not subject to taxation	(43,520)	(86,586)
Expenses not deductible for taxation purposes	61,928	35,296
Recognition and utilisation of previously unrecognised tax losses	(27,069)	(19,160)
Tax loss not recognised	15,248	30,066
Land appreciation tax deductible for calculation of income tax	(66,637)	(259,026)
Over-provision in previous years	(203)	(5,497)
	<b>1,075,667</b>	1,074,230
Withholding tax	19,584	107,719
Land appreciation tax	266,549	1,036,103
Taxation charge	<b>1,361,800</b>	2,218,052



## 15 EARNINGS PER SHARE

The calculation of basic and diluted earnings per share for the year is based on the following:

	<b>2018</b>	2017
	<b>HK\$'000</b>	HK\$'000
Profit attributable to equity holders of the Company	<b>4,046,390</b>	3,906,182
	<b>Number of shares</b>	
	<b>2018</b>	2017
Weighted average number of shares for calculating basic earnings per share	<b>3,124,438,000</b>	3,047,517,000
Effect of dilutive potential ordinary shares — Share options	<b>4,100,000</b>	9,339,000
Weighted average number of shares for calculating diluted earnings per share	<b>3,128,538,000</b>	3,056,856,000

## 16 DIVIDENDS

	<b>2018</b>	2017
	<b>HK\$'000</b>	HK\$'000
Interim scrip dividend (with a cash option) of 6 HK cents (2017: Interim scrip dividend (with a cash option) of 5 HK cents) per share	<b>187,034</b>	151,147
Proposed final cash dividend of 14 HK cents (2017: final scrip dividend (with a cash option) of 13 HK cents) per share	<b>437,480</b>	397,853
	<b>624,514</b>	549,000
The dividends have been settled by cash as follows:		
Interim	<b>159,434</b>	33,447
Final	<b>—</b>	142,909
	<b>159,434</b>	176,356

The Board of Directors recommended the payment of final cash dividend in respect of 2018 of 14 HK cents (2017: final scrip dividend (with a cash option) of 13 HK cents) per share. This dividend will be accounted for as an appropriation of retained earnings in the year ending 31 December 2019.



## 17 PROPERTY, PLANT AND EQUIPMENT

	Hotel buildings HK\$'000	Land and buildings HK\$'000	Plant and machinery HK\$'000	Other assets HK\$'000	Total HK\$'000
<b>Cost</b>					
At 1 January 2017	389,496	172,547	28,330	124,987	715,360
Exchange differences	27,305	4,123	1,989	4,980	38,397
Additions	—	—	77	8,801	8,878
Disposals	—	—	—	(1,160)	(1,160)
At 31 December 2017	416,801	176,670	30,396	137,608	761,475
Exchange differences	(19,170)	(2,894)	(1,402)	(3,692)	(27,158)
Additions/transfer	78,770	—	107	3,757	82,634
Disposals	—	—	—	(1,151)	(1,151)
<b>At 31 December 2018</b>	<b>476,401</b>	<b>173,776</b>	<b>29,101</b>	<b>136,522</b>	<b>815,800</b>
<b>Accumulated depreciation</b>					
At 1 January 2017	101,342	43,433	24,039	100,186	269,000
Exchange differences	7,722	807	1,697	3,639	13,865
Charge for the year	17,737	3,077	341	10,443	31,598
Disposals	—	—	—	(901)	(901)
At 31 December 2017	126,801	47,317	26,077	113,367	313,562
Exchange differences	(6,441)	(661)	(1,213)	(2,868)	(11,183)
Charge for the year	18,121	3,112	381	7,447	29,061
Disposals	—	—	—	(936)	(936)
<b>At 31 December 2018</b>	<b>138,481</b>	<b>49,768</b>	<b>25,245</b>	<b>117,010</b>	<b>330,504</b>
<b>Net book value</b>					
<b>At 31 December 2018</b>	<b>337,920</b>	<b>124,008</b>	<b>3,856</b>	<b>19,512</b>	<b>485,296</b>
At 31 December 2017	290,000	129,353	4,319	24,241	447,913

Land and buildings with carrying values of HK\$45,888,000 (2017: HK\$129,353,000) were pledged to secure the banking facilities of the Group. Other assets comprise cruiser, furniture and equipment, leasehold improvements and motor vehicles.

**18 INVESTMENT PROPERTIES**

	<b>Hong Kong</b>	<b>Mainland</b>	
	<b>HK\$'000</b>	<b>China</b>	<b>Total</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
At 1 January 2017	1,918,800	6,372,275	8,291,075
Exchange differences	—	486,508	486,508
Transfer from development properties	288,453	1,799,719	2,088,172
Fair value gain on transfer of development properties to investment properties	385,647	889,418	1,275,065
Change in fair value	264,100	194,531	458,631
At 31 December 2017	2,857,000	9,742,451	12,599,451
Exchange differences	—	(495,679)	(495,679)
Transfer from development properties	43,402	574,206	617,608
Fair value gain on transfer of development properties to investment properties	63,598	1,042,194	1,105,792
Change in fair value	(41,800)	352,646	310,846
<b>At 31 December 2018</b>	<b>2,922,200</b>	<b>11,215,818</b>	<b>14,138,018</b>

- (a) Investment properties were valued at 31 December 2018 on an open market value basis by Cushman & Wakefield Limited, Savills Valuation and Professional Services Limited and Knight Frank Petty Limited, independent professional valuers.
- (b) Investment properties with carrying values of HK\$6,642,319,000 (2017: HK\$4,377,916,000) were pledged to secure the banking facilities of the Group.

**(c) Valuation processes of the Group**

The Group's investment properties were valued at 31 December 2018 by independent professionally qualified valuers who hold recognised relevant professional qualifications and have recent experience in the locations and segments of the investment properties valued. For all investment properties, their current use equates to the highest and best use.

The Group's finance department reviews the valuations performed by the independent valuers and reports directly to senior management of the Group. Discussions of valuation processes and results are held between the management and valuers at least once every six months, in line with the Group's interim and annual reporting dates. At each financial year end the finance department:

- Verifies major inputs to the independent valuation report;
- Assesses property valuations movements when compared to the prior year valuation report;
- Holds discussions with the independent valuer.

## 18 INVESTMENT PROPERTIES (cont'd)

### (d) Valuation technique

#### *Fair value measurements using significant unobservable inputs*

Fair values of completed residential and commercial properties are generally derived using the income capitalisation method or, where appropriate, by reference to direct comparison approach. Income capitalisation method is based on the capitalisation of the net income and reversionary income potential by adopting appropriate capitalisation rates, which are derived from analysis of sale transactions and valuers' interpretation of prevailing investor requirements or expectations. The prevailing market rents adopted in the valuation have reference to recent lettings, within the subject properties and other comparable properties.

Direct comparison approach is based on sales prices of comparable properties in close proximity and adjusted for differences in key attributes such as property size.

There were no changes to the valuation techniques during the year.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

Information about the significant unobservable inputs used for the fair value measurements of completed residential and commercial properties valued under the income capitalisation method is as follows:

	Residential Properties		Commercial Properties	
	Hong Kong	Mainland China	Hong Kong	Mainland China
<b>2018</b>				
Rental value (HK\$/sqm/month)	<b>454 to 600</b>	<b>240 to 356</b>	<b>260 to 868</b>	<b>30 to 726</b>
Capitalisation rate (%)	<b>1.85 to 2.00</b>	<b>3.75 to 5.00</b>	<b>3.13 to 6.00</b>	<b>4.50 to 9.25</b>
<b>2017</b>				
Rental value (HK\$/sqm/month)	414 to 664	253 to 370	269 to 1,615	34 to 736
Capitalisation rate (%)	2.00	3.50	3.25 to 6.00	5.50 to 9.25

Prevailing market rents are estimated based on valuers' view of recent lettings, within the subject properties and other comparable properties. The lower the rents, the lower the fair value.

Capitalisation and discount rates are estimated by valuers based on the risk profile of the properties being valued. The higher the rates, the lower the fair value.



## 19 LEASEHOLD LAND AND LAND USE RIGHTS

	2018 HK\$'000	2017 HK\$'000
At beginning of year	14,684	14,309
Exchange differences	(1,151)	495
Addition/transfer	3,739	—
Amortisation for the year	(123)	(120)
At end of year	17,149	14,684

Leasehold land and land use rights with carrying values of HK\$3,323,000 (2017: HK\$3,607,000) were pledged to secure the banking facilities of the Group.

## 20 JOINT VENTURES

	2018 HK\$'000	2017 HK\$'000
Share of net assets	1,703,857	1,281,963
Amounts due from joint ventures	4,733,031	5,955,418
	6,436,888	7,237,381

The share of the aggregate amounts of the assets, liabilities and results of the joint ventures, all of which are unlisted, attributable to the Group is as follows:

	2018 HK\$'000	2017 HK\$'000
Assets	10,734,800	8,697,412
Liabilities	(9,030,943)	(7,415,449)
Net assets	1,703,857	1,281,963
Revenue	52,535	300,445
Profit after taxation	14,980	131,430
Other comprehensive (loss)/income	(12,963)	12,102
Total comprehensive income	2,017	143,532

Amounts due from joint ventures classified as non-current assets are unsecured, will not be repayable within next 12 months and non-interest bearing (except for an amount of HK\$2,363,625,000 (2017: HK\$163,737,000) which carries interest at prevailing market rate). Amounts due from/to joint ventures classified as current assets/liabilities are unsecured, non-interest bearing and repayable on demand. There is no single joint venture material to the Group.

## 20 JOINT VENTURES (cont'd)

Details of principal joint ventures of the Group are given in note 44(b). There are no contingent liabilities relating to the Group's interest in the joint ventures as at 31 December 2018 and 31 December 2017.

All the joint ventures are private companies and there are no quoted market price available for their shares.

## 21 ASSOCIATED COMPANIES

	<b>2018</b> <b>HK\$'000</b>	2017 HK\$'000
Share of net assets	<b>865,799</b>	1,008,709
Amounts due from associated companies	<b>239,751</b>	98,274
	<b>1,105,550</b>	1,106,983

The share of the aggregate amounts of the assets, liabilities and results of the associated companies, all of which are unlisted, attributable to the Group is as follows:

	<b>2018</b> <b>HK\$'000</b>	2017 HK\$'000
Assets	<b>1,219,974</b>	1,292,333
Liabilities	<b>(354,175)</b>	(283,624)
Net assets	<b>865,799</b>	1,008,709
Revenue	<b>105,410</b>	142,834
Profit after taxation	<b>71,776</b>	62,764
Other comprehensive income	<b>65</b>	—
Total comprehensive income	<b>71,841</b>	62,764
Dividends received from associated companies	<b>214,751</b>	274,920

Amounts due from associated companies classified as non-current assets are unsecured, will not be repayable within next 12 months and non-interest bearing. Amounts due from/to associated companies classified as current assets/liabilities are unsecured, non-interest bearing and repayable on demand. There is no single associated company material to the Group.

Details of principal associated companies of the Group are given in note 44(c). There are no contingent liabilities relating to the Group's interest in the associated companies as at 31 December 2018 and 31 December 2017.

All the associated companies are private companies and there are no quoted market price available for their shares.



**22 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

	<b>2018</b>	2017
	<b>HK\$'000</b>	HK\$'000
Listed equity securities, at fair value	<b>8,091,706</b>	10,187,750

The listed securities represent the Group's 3.8% (2017: 3.8%) equity interest in Galaxy Entertainment Group Limited ("GEG"), which is incorporated and listed in Hong Kong. The principal activities of GEG are gaming, provision of hospitality, sale, manufacture and distribution of construction materials.

**23 OTHER NON-CURRENT ASSETS**

	<b>2018</b>	2017
	<b>HK\$'000</b>	HK\$'000
Maintenance deposits	—	117,385
Mortgage loans receivables	<b>569,899</b>	467,807
	<b>569,899</b>	585,192

Mortgage loans are advances to purchasers of development properties of the Group and are secured by first or second mortgages on the related properties. The current portion of the mortgage loans amounting to HK\$20,430,000 (2017: HK\$11,028,000) is included under other debtors. Mortgage loans receivables included first mortgage loans of HK\$69,629,000 (2017: HK\$161,423,000). The Group has not provided any impairment loss for its mortgage loans during the year (2017: nil).

**24 DEVELOPMENT PROPERTIES**

	<b>Completed</b>	<b>Under</b>	<b>2018</b>	Completed	Under	2017
	<b>HK\$'000</b>	<b>development</b>	<b>HK\$'000</b>	HK\$'000	<b>development</b>	HK\$'000
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	HK\$'000	HK\$'000	HK\$'000
Leasehold land and land use rights	<b>4,221,625</b>	<b>17,399,099</b>	<b>21,620,724</b>	2,219,167	18,664,444	20,883,611
Development costs	<b>5,459,643</b>	<b>2,872,533</b>	<b>8,332,176</b>	3,225,344	5,587,707	8,813,051
	<b>9,681,268</b>	<b>20,271,632</b>	<b>29,952,900</b>	5,444,511	24,252,151	29,696,662

Development properties with carrying values of HK\$9,270,354,000 (2017: HK\$827,278,000) were pledged to secure the banking facilities of the Group.

As at 31 December 2018, development properties under development amounting to HK\$15,389,313,000 (2017: HK\$14,639,367,000) were not scheduled for completion within 12 months.

## 25 DEBTORS AND PREPAYMENTS

	2018 HK\$'000	2017 HK\$'000
Trade debtors	5,324	1,274,660
Other debtors	258,529	251,894
Amounts due from non-controlling interests	11,984	—
Prepayments and other deposits	49,041	328,101
Sales commissions	91,109	186,363
Sales taxes	146,083	77,913
	<b>562,070</b>	2,118,931

The debtors and prepayments are denominated in the following currencies:

	2018 HK\$'000	2017 HK\$'000
Hong Kong dollar	194,693	1,397,017
RMB	366,941	721,257
Singapore dollar	436	657
	<b>562,070</b>	2,118,931

Trade debtors mainly comprise proceeds receivables in respect of sales of properties and rental receivable. Proceeds receivables in respect of sales of properties are settled in accordance with the terms stipulated in the sales and purchase agreements. Rental from tenants is due and payable in advance.

The aging analysis of the trade debtors of the Group based on the date of invoices and net of provision for bad and doubtful debts is as follows:

	2018 HK\$'000	2017 HK\$'000
Within one month	4,525	1,260,808
Two to three months	180	11,741
Four to six months	75	408
Over six months	544	1,703
	<b>5,324</b>	1,274,660

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

	2018 HK\$'000	2017 HK\$'000
Current	4,525	1,260,808
Within three months past due	180	11,741
Over three months past due	619	2,111
	<b>5,324</b>	1,274,660

**25 DEBTORS AND PREPAYMENTS (cont'd)**

No provision for impairment for trade debtors was made as at 31 December 2018 (2017: nil).

As at 31 December 2018, other debtors included a loan receivable of HK\$84,410,000 (2017: HK\$89,377,000) which is unsecured, interest-free, denominated in RMB and matured within a year. The loan was fully performing. The Group does not hold any collateral as security. As at 31 December 2018, no other debtors was impaired (2017: nil).

Sales commissions represent contract acquisition costs incurred to obtain property sale contracts. The Group has capitalised the amounts and amortised when the related revenue is recognised. For the year ended 31 December 2018, the prepaid amount recognised to profit or loss was HK\$169,300,000 and there was no impairment loss in relation to the costs capitalised.

The carrying amounts of the debtors and prepayments approximate to their fair value. There is no concentration of credit risk with respect to trade debtors as the Group has a large number of customers. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above.

**26 LAND AND TENDER DEPOSITS**

Balance comprises tender deposits of HK\$25,000,000 (2017: land deposits of HK\$1,226,658,000 and tender deposits of HK\$670,000,000).

**27 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

The amount represents unlisted pool funds in Mainland China denominated in RMB.

**28 CASH AND BANK DEPOSITS**

	<b>2018</b>	2017
	<b>HK\$'000</b>	HK\$'000
Cash at bank and in hand	<b>2,591,073</b>	3,437,743
Short-term and other bank deposits	<b>4,835,001</b>	2,052,171
Cash and cash equivalents	<b>7,426,074</b>	5,489,914
Short-term bank deposits maturing after three months	<b>62,462</b>	—
Structured bank deposits	—	358,895
Cash and bank deposits	<b>7,488,536</b>	5,848,809

## 28 CASH AND BANK DEPOSITS (cont'd)

The cash and bank deposit include HK\$3,093,787,000 (2017: HK\$2,491,148,000) which have been pledged or assigned for specific purposes under certain conditions.

As as 31 December 2017, the structured bank deposits were principal-protected deposits denominated in RMB with fixed maturity dates of not more than 3 months and their interest rates range from 4.40% to 4.45% per annum, with reference to certain interest rate and foreign currency exchange rates. The Group used the deposits primarily to enhance the interest yield.

The effective interest rate on bank deposits is 2.19% (2017: 1.72%) per annum, these deposits have an average of 37 days (2017: 45 days).

The cash and bank deposits are denominated in the following currencies:

	<b>2018</b>	2017
	<b>HK\$'000</b>	HK\$'000
Hong Kong dollar	<b>5,138,336</b>	2,727,124
RMB	<b>2,339,595</b>	2,972,051
Others	<b>10,605</b>	149,634
	<b>7,488,536</b>	5,848,809

The credit quality of cash and bank deposits by reference to Moody's credit ratings is as follows:

	<b>2018</b>	2017
	<b>HK\$'000</b>	HK\$'000
Credit Rating:		
Aa	<b>3,271,010</b>	2,660,000
A	<b>3,640,121</b>	2,085,143
Baa	<b>219,221</b>	264,789
Others	<b>358,184</b>	838,877
	<b>7,488,536</b>	5,848,809



## 29 SHARE CAPITAL

	2018		2017	
	Shares of HK\$0.10 each Number of shares	HK\$'000	Shares of HK\$0.10 each Number of shares	HK\$'000
Authorised:				
At beginning and end of year	<b>5,000,000,000</b>	<b>500,000</b>	5,000,000,000	500,000
Issued and fully paid:				
At beginning of year	<b>3,055,461,052</b>	<b>305,546</b>	2,956,748,603	295,674
Share options exercised	<b>5,268,000</b>	<b>527</b>	13,771,000	1,377
Issued as scrip dividends	<b>64,125,563</b>	<b>6,412</b>	84,941,449	8,495
At end of year	<b>3,124,854,615</b>	<b>312,485</b>	3,055,461,052	305,546

During the year, share options to subscribe for 5,268,000 (2017: 13,771,000) shares were exercised, of which HK\$527,000 (2017: HK\$1,377,000) and HK\$16,855,000 (2017: HK\$52,930,000) were credited to share capital and share premium respectively and HK\$3,898,000 (2017: HK\$11,854,000) was debited to share option reserve.

## 30 SHARE OPTION SCHEME

The Company operates a share option scheme under which options to subscribe for shares in the Company may be granted to Directors, senior executives or employees of the Company or its affiliates and other qualifying grantees. Options are exercisable at a price of the higher of the closing price of the shares on the date of grant or the average closing prices of the shares for the five business days immediately preceding the date of grant and subject to a one year vesting period. Consideration to be paid on each grant of option is HK\$1.00. The period within which the shares must be taken up under an option is determined by the Board from time to time, except that such period shall not expire more than ten years from the date of grant of the option.

Movements of share options and their related weighted average exercise prices per share during the year are as follows:

	2018		2017	
	Average exercise price HK\$	Number of share options	Average exercise price HK\$	Number of share options
At beginning of year	<b>4.1367</b>	<b>62,956,000</b>	3.7257	61,010,000
Granted	<b>4.5200</b>	<b>19,826,000</b>	4.7600	19,080,000
Exercised	<b>2.5595</b>	<b>(5,268,000)</b>	3.0828	(13,771,000)
Lapsed	<b>4.5950</b>	<b>(2,548,000)</b>	4.5337	(3,363,000)
At end of year	<b>4.3333</b>	<b>74,966,000</b>	4.1367	62,956,000
Vested at end of year	<b>4.2662</b>	<b>55,140,000</b>	3.8662	43,906,000



### 30 SHARE OPTION SCHEME (cont'd)

The weighted average share price at the date of exercise for share options exercised during the year was HK\$4.497 (2017: HK\$4.595) per share.

The options outstanding at 31 December 2018 have exercise prices ranging from HK\$2.796 to HK\$4.76 (2017: HK\$2.12 to HK\$4.76) per share with weighted average remaining contractual life of 3.4 years (2017: 3.3 years).

Share options outstanding at the end of the year have the following exercise periods and exercise prices per share:

Exercise period	Exercise price HK\$	Number of share options	
		2018	2017
<b>Directors</b>			
17 January 2013 to 16 January 2018	2.120	—	3,758,000
21 January 2014 to 20 January 2019	4.610	<b>9,990,000</b>	9,990,000
30 September 2015 to 29 September 2020	4.500	<b>10,200,000</b>	10,200,000
21 January 2017 to 20 January 2022	2.796	<b>10,020,000</b>	10,340,000
17 July 2018 to 16 July 2023	4.760	<b>10,800,000</b>	10,800,000
18 July 2019 to 17 July 2024	4.520	<b>11,100,000</b>	—
<b>Employees and others</b>			
17 January 2013 to 16 January 2018	2.120	—	60,000
21 January 2014 to 20 January 2019	4.610	<b>2,420,000</b>	3,518,000
30 September 2015 to 29 September 2020	4.500	<b>3,600,000</b>	4,510,000
21 January 2017 to 20 January 2022	2.796	<b>1,070,000</b>	1,530,000
17 July 2018 to 16 July 2023	4.760	<b>7,040,000</b>	8,250,000
18 July 2019 to 17 July 2024	4.520	<b>8,726,000</b>	—
		<b>74,966,000</b>	62,956,000

The fair value of options granted during the year, as determined by using the Black-Scholes valuation model, was HK\$0.76 (2017: HK\$0.91) per option. The significant inputs into the model were share price of HK\$4.52 (2017: HK\$4.76) at the grant date, exercise price at the date of granting the options, expected volatility of 30% (2017: 35%), expected life of options of 3.5 years (2017: 3.5 years), dividend yield of 4.1% (2017: 3.9%) and annual risk-free interest rate of 1.974% (2017: 0.968%). The volatility is measured based on the historical share price movement of the Company in the relevant period matching expected time to exercise before the option grant date.

## 31 RESERVES

	Share premium HK\$'000	Share option reserve HK\$'000	Contributed surplus HK\$'000	Capital redemption/ Capital reserve HK\$'000	Revaluation reserve HK\$'000	Investment reserve HK\$'000	Fair value through other comprehensive income reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
<b>At 1 January 2018</b>	<b>1,764,492</b>	<b>51,993</b>	<b>99,089</b>	<b>872</b>	<b>704</b>	<b>—</b>	<b>10,015,517</b>	<b>173,934</b>	<b>22,590,501</b>	<b>34,697,102</b>
<b>Comprehensive income</b>										
Profit for the year	—	—	—	—	—	—	—	—	4,046,390	4,046,390
<b>Other comprehensive income</b>										
Exchange differences arising from translation	—	—	—	—	(32)	—	—	(1,026,363)	—	(1,026,395)
Translation differences for joint ventures and an associated company	—	—	—	—	—	—	—	(12,898)	—	(12,898)
Change in fair value of financial assets at fair value through other comprehensive income	—	—	—	—	—	—	(2,096,044)	—	—	(2,096,044)
<b>Transactions with equity holders</b>										
Fair value of share options	—	15,651	—	—	—	—	—	—	—	15,651
Exercise of share options	16,855	(3,898)	—	—	—	—	—	—	—	12,957
Lapse of share options	—	(2,183)	—	—	—	—	—	—	2,183	—
Shares issued as scrip dividends	(6,412)	—	—	—	—	—	—	—	—	(6,412)
Reserve arising on scrip dividends	—	—	—	—	—	—	—	—	282,544	282,544
2017 final dividend	—	—	—	—	—	—	—	—	(397,853)	(397,853)
2018 interim dividend	—	—	—	—	—	—	—	—	(187,034)	(187,034)
<b>At 31 December 2018</b>	<b>1,774,935</b>	<b>61,563</b>	<b>99,089</b>	<b>872</b>	<b>672</b>	<b>—</b>	<b>7,919,473</b>	<b>(865,327)</b>	<b>26,336,731</b>	<b>35,328,008</b>
At 1 January 2017	1,720,057	59,963	99,089	872	658	5,319,728	—	(966,259)	18,829,915	25,064,023
Change in accounting policy (note 2(i))	—	—	—	—	—	(5,319,728)	5,319,728	—	—	—
At 1 January 2017 (Restated)	1,720,057	59,963	99,089	872	658	—	5,319,728	(966,259)	18,829,915	25,064,023
<b>Comprehensive income</b>										
Profit for the year	—	—	—	—	—	—	—	—	3,906,182	3,906,182
<b>Other comprehensive income</b>										
Exchange differences arising from translation	—	—	—	—	46	—	—	1,168,273	—	1,168,319
Translation differences for joint ventures	—	—	—	—	—	—	—	12,102	—	12,102
Release of exchange reserve upon reduction of interest in subsidiaries	—	—	—	—	—	—	—	(40,182)	—	(40,182)
Change in fair value of financial assets at fair value through other comprehensive income	—	—	—	—	—	—	4,695,789	—	—	4,695,789
<b>Transactions with equity holders</b>										
Fair value of share options	—	8,668	—	—	—	—	—	—	—	8,668
Exercise of share options	52,930	(11,854)	—	—	—	—	—	—	—	41,076
Lapse of share options	—	(4,784)	—	—	—	—	—	—	4,784	—
Shares issued as scrip dividends	(8,495)	—	—	—	—	—	—	—	—	(8,495)
Reserve arising on scrip dividends	—	—	—	—	—	—	—	—	385,775	385,775
2016 final dividend	—	—	—	—	—	—	—	—	(385,008)	(385,008)
2017 interim dividend	—	—	—	—	—	—	—	—	(151,147)	(151,147)
At 31 December 2017	1,764,492	51,993	99,089	872	704	—	10,015,517	173,934	22,590,501	34,697,102

## 32 BORROWINGS

	2018 HK\$'000	2017 HK\$'000
Long-term bank loans		
Secured	3,221,139	297,882
Unsecured	13,804,700	16,882,105
	<b>17,025,839</b>	17,179,987
Short-term bank loans		
Secured	—	300,000
Unsecured	684,780	—
	<b>17,710,619</b>	17,479,987
Current portion included in current liabilities	<b>(1,100,803)</b>	(811,587)
	<b>16,609,816</b>	16,668,400

The bank loans are repayable within the following periods:

	2018 HK\$'000	2017 HK\$'000
Within one year	1,100,803	811,587
Between one to two years	3,324,283	2,832,723
Between two to five years	13,086,549	13,835,677
After five years	198,984	—
	<b>17,710,619</b>	17,479,987

The carrying amounts of the long-term and short-term bank loans approximate to their fair value based on prevailing market interest rate. The effective interest rate is approximately 2.5% (2017: 2.0%). Borrowings are within Level 2 of the fair value hierarchy.



### 32 BORROWINGS (cont'd)

The borrowings are denominated in the following currencies:

	2018 HK\$'000	2017 HK\$'000
Hong Kong dollar	16,135,110	17,182,105
RMB	1,575,509	297,882
	<b>17,710,619</b>	17,479,987

Secured bank borrowings are pledged by land and buildings, investment properties, leasehold land and land use rights and development properties (Notes 17, 18, 19 and 24).

### 33 GUARANTEED NOTES

K. Wah International Financial Services Limited, a wholly-owned subsidiary of the Company, issued guaranteed notes of HK\$1 billion at 100% of face value through private placement in 2014. The notes are guaranteed by the Company and carry a coupon rate of 4.25% to 4.73% per annum and have a maturity of 7 years. The fair value of these guaranteed notes as at 31 December 2018 was HK\$1,029 million (2017: HK\$1,047 million).

The fair values of the guaranteed notes are within Level 2 of the fair value hierarchy.

### 34 DERIVATIVE FINANCIAL INSTRUMENTS

	2018 HK\$'000	2017 HK\$'000
Interest rate swaps	—	615

As at 31 December 2017, the notional principal amounts of the outstanding interest rate swaps were HK\$800 million.

### 35 DEFERRED TAXATION

	2018 HK\$'000	2017 HK\$'000
Deferred taxation assets	97,646	119,663
Deferred taxation liabilities	(2,449,047)	(2,147,108)
	<b>(2,351,401)</b>	(2,027,445)

### 35 DEFERRED TAXATION (cont'd)

Deferred taxation assets and liabilities are offset when there is a legally enforceable right to offset taxation assets against taxation liabilities and when the deferred taxes relate to the same fiscal authority. The above assets/liabilities are determined after appropriate offsetting of the relevant amounts.

	Accelerated depreciation allowance HK\$'000	Fair value gains HK\$'000	Undistributed profits of subsidiaries HK\$'000	Other temporary differences HK\$'000	Total HK\$'000
At 1 January 2017	(177,592)	(1,072,976)	(204,227)	(40,720)	(1,495,515)
Exchange differences	(12,999)	(80,812)	(14,517)	2,558	(105,770)
(Charged)/credited to profit and loss statement	(15,763)	(356,473)	(102,075)	48,151	(426,160)
At 31 December 2017	(206,354)	(1,510,261)	(320,819)	9,989	(2,027,445)
Exchange differences	10,033	75,742	12,818	(2,029)	96,564
Charged to profit and loss statement	(16,104)	(362,177)	(13,471)	(28,768)	(420,520)
<b>At 31 December 2018</b>	<b>(212,425)</b>	<b>(1,796,696)</b>	<b>(321,472)</b>	<b>(20,808)</b>	<b>(2,351,401)</b>

Except for certain tax losses, all the other deferred taxation assets and liabilities are expected to be recovered or settled after twelve months.

Deferred taxation assets of HK\$74,896,000 (2017: HK\$102,076,000) arising from unused tax losses of HK\$387,791,000 (2017: HK\$521,092,000) have not been recognised in the financial statements. Unused tax losses of HK\$259,434,000 (2017: HK\$331,787,000) have no expiry date and the remaining balances have various expiry dates up to and including 2023 (2017: up to and including 2022).

Deferred taxation liabilities of HK\$10,967,000 (2017: HK\$6,575,000) arising from temporary differences associated with investments in subsidiaries have not been recognised in the financial statements, as the Group considers that the timing of reversal of the related temporary differences can be controlled and the temporary differences will not be reversed in the foreseeable future.

### 36 CREDITORS AND ACCRUALS

	2018 HK\$'000	2017 HK\$'000
Trade creditors	<b>1,264,651</b>	1,749,118
Other creditors	<b>62,536</b>	65,871
Accrued operating expenses	<b>147,201</b>	212,339
Rental and other deposits received	<b>195,244</b>	185,867
	<b>1,669,632</b>	2,213,195





### 36 CREDITORS AND ACCRUALS (cont'd)

The creditors and accruals are denominated in the following currencies:

	2018 HK\$'000	2017 HK\$'000
Hong Kong dollar	436,716	661,198
RMB	1,232,469	1,551,495
Singapore dollar	447	502
	<b>1,669,632</b>	2,213,195

The carrying amounts of the creditors and accruals approximate to their fair value.

The aging analysis of the trade creditors of the Group based on the date of the invoices is as follows:

	2018 HK\$'000	2017 HK\$'000
Within one month	1,239,733	1,738,121
Two to three months	2,336	3,879
Four to six months	380	1,878
Over six months	22,202	5,240
	<b>1,264,651</b>	1,749,118

### 37 PRE-SALES DEPOSITS

The Group receives payments from customers based on billing schedule as established in contracts. Payments are usually received in advance of the performance under the contracts.

Pre-sales deposits of HK\$6,932,545,000 held as at 1 January 2018 was recognised as sales of properties for the year ended 31 December 2018.

The following table shows the amount of unsatisfied performance obligations resulting from property sales for contracts with an original expected duration of one year or more:

	2018 HK\$'000
Expected to be recognised within one year	4,868,000
Expected to be recognised after one year	6,272,000
	<b>11,140,000</b>

## 38 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Reconciliation of profit before taxation to cash generated from/(used in) operations

	2018 HK\$'000	2017 HK\$'000
Profit before taxation	5,538,504	6,735,327
Share of profits of joint ventures	(14,980)	(131,430)
Share of profits of associated companies	(71,776)	(62,764)
Finance costs	12,465	20,353
Fair value gain on transfer of development properties to investment properties	(1,105,792)	(1,275,065)
Change in fair value of investment properties	(310,846)	(458,631)
Depreciation of property, plant and equipment	28,674	31,310
Amortisation of leasehold land and land use rights	123	120
Interest income	(67,622)	(89,217)
Loss on disposal of property, plant and equipment	171	56
Fair value of share options granted	15,651	8,668
Dividend income	(147,860)	(95,866)
Net settlement (gain)/loss on derivative financial instruments	(4,365)	7,680
Net fair value gains on derivative financial instruments	—	(3,717)
Net fair value gains on financial assets at fair value through profit or loss	(13,507)	(9,464)
Release of exchange reserve upon reduction of interest in subsidiaries	—	(40,182)
Unrealised exchange difference	68,846	—
Operating profit before working capital changes	3,927,686	4,637,178
Increase in development properties	(42,121)	(6,743,699)
Decrease/(increase) in land and tender deposits	645,000	(653,521)
Decrease/(increase) in debtors and prepayments	1,267,620	(858,929)
Decrease/(increase) in inventories	1,764	(1,935)
Decrease/(increase) in other non-current assets	9,894	(411,527)
(Decrease)/increase in pre-sales deposits	(1,513,861)	1,744,291
(Decrease)/increase in creditors and accruals	(492,632)	355,347
Cash generated from/(used in) operations	3,803,350	(1,932,795)



### 38 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (cont'd)

#### (b) The movement of liabilities from financing activities and the repayment periods

	Borrowings		Guaranteed notes		Total HK\$'000
	within 1 year HK\$'000	after 1 year HK\$'000	within 1 year HK\$'000	after 1 year HK\$'000	
At 1 January 2017	1,366,069	6,934,991	1,713,719	997,843	11,012,622
Exchange differences	1,007	20,318	5,252	—	26,577
Drawdowns	2,350,000	17,612,200	—	—	19,962,200
Repayments	(3,216,069)	(7,693,139)	(1,706,280)	—	(12,615,488)
Reclassifications	286,373	(286,373)	—	—	—
Other non-cash movements	24,207	80,403	(12,691)	1,020	92,939
At 1 January 2018	811,587	16,668,400	—	998,863	18,478,850
Exchange differences	(55,093)	(13,183)	—	—	(68,276)
Drawdowns	6,520,743	10,710,014	—	—	17,230,757
Repayments	(13,392,801)	(3,602,077)	—	—	(16,994,878)
Reclassifications	7,215,167	(7,215,167)	—	—	—
Other non-cash movements	1,200	61,829	—	1,264	64,293
<b>At 31 December 2018</b>	<b>1,100,803</b>	<b>16,609,816</b>	<b>—</b>	<b>1,000,127</b>	<b>18,710,746</b>

### 39 COMMITMENTS

#### (a) Contracted but not provided for

	2018 HK\$'000	2017 HK\$'000
Commitments in respect of		
— property investment	—	—
— property development	2,467,465	2,468,252
— joint venture and associated company	514,345	6,989
	<b>2,981,810</b>	2,475,241

#### (b) Operating lease commitments

The future aggregate minimum lease rental expense in respect of land and buildings under non-cancellable operating leases is payable in the following periods:

	2018 HK\$'000	2017 HK\$'000
Within one year	8,738	13,109
Two to five years	12,166	18,240
After five years	784	—
	<b>21,688</b>	31,349

### 39 COMMITMENTS (cont'd)

#### (c) Operating lease rental receivables

The future aggregate minimum lease rental income in respect of land and buildings under non-cancellable operating leases is receivable in the following periods:

	2018 HK\$'000	2017 HK\$'000
Within one year	492,136	444,737
Two to five years	714,150	625,037
After five years	153,028	166,833
	<b>1,359,314</b>	1,236,607

### 40 GUARANTEES

As at 31 December 2018, the Group has executed the following guarantees in respect of loan facilities granted by banks and financial institutions:

	2018		2017	
	Outstanding HK\$'000	Utilised HK\$'000	Outstanding HK\$'000	Utilised HK\$'000
Joint ventures	3,609,134	2,879,579	1,460,384	1,323,434
Properties buyers	1,081,096	1,081,096	1,240,998	1,240,998
	<b>4,690,230</b>	<b>3,960,675</b>	2,701,382	2,564,432

The Group has provided guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties in Mainland China. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible for repaying the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take over the legal title and possession of the related properties. Such guarantees shall terminate upon issuance of the relevant property ownership certificates.

The Group monitors the net realisable values of the relevant properties which are subject to the fluctuation of the property market. As at 31 December 2018, no provision on the above guarantees was made (2017: nil).

As at 31 December 2018, the Company has executed guarantees in favour of banks, in respect of loan facilities granted to certain subsidiaries, amounting to HK\$28,347 million (2017: HK\$17,779 million). Of these, facilities of HK\$16,953 million (2017: HK\$16,990 million) were utilised.

Apart from the above, the Company has executed a guarantee in favour of the Hong Kong Government in respect of the performance obligation of an investee company under a contract on a quarry site with the Hong Kong Government. On 31 July 2017, the works under the contract was completed and the quarry site of the contract was returned to the Hong Kong Government. During the year, the Hong Kong Government issued the certificate of completion of the works and maintenance certificate of the works to the investee company.



#### 41 RELATED PARTY TRANSACTIONS

The following is a summary of significant transactions between the Group and related parties, in addition to those disclosed elsewhere in the consolidated financial statements which in the opinion of the Directors, were carried out in the normal course of business during the year:

- (a) Key management personnel comprise Executive Directors of the Company and their emoluments are set out as follows:

	<b>2018</b>	2017
	<b>HK\$'000</b>	HK\$'000
Fees	<b>900</b>	900
Salaries and other emoluments	<b>31,533</b>	30,320
Discretionary bonuses	<b>9,912</b>	9,719
Pension costs — defined contribution plans	<b>3,212</b>	3,090
Share option	<b>8,466</b>	4,552
	<b>54,023</b>	48,581

- (b) Rental income from an investee company amounted to HK\$1,424,000 (2017: HK\$1,411,000) based on the terms of rental agreement between the parties.
- (c) Rental expense to related companies amounted to HK\$14,760,000 (2017: HK\$11,338,000) based on the terms of master lease agreement between the parties.
- (d) The Company has executed a guarantee in favour of the Hong Kong Government in respect of the contract for quarrying rights and rehabilitation of the quarry of Tai Sheung Tok Anderson Road of an investee company. On 31 July 2017, the works under the contract was completed and the quarry site of the contract was returned to the Hong Kong Government. During the year, the Hong Kong Government issued the certificate of completion of the works and maintenance certificate of the works to the investee company.
- (e) On 15 January 2016, a subsidiary of the Company entered into four sales and purchase agreements with Dr. Lui Che-woo, being the Chairman and Managing Director of the Company and also a substantial shareholder of the Company, in respect of four residential units at a total consideration of approximately HK\$13,883,000. The transactions were based on prevailing market prices and completed in January 2017.



## 42 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

### Balance sheet of the Company

As at 31 December 2018

	2018 HK\$'000	2017 HK\$'000
<b>ASSETS</b>		
<b>Non-current asset</b>		
Subsidiaries	259,561	259,561
<b>Current assets</b>		
Amounts due from subsidiaries	3,310,341	3,394,261
Cash and bank deposits	7,222	1,127
	3,317,563	3,395,388
<b>Total assets</b>	<b>3,577,124</b>	<b>3,654,949</b>
<b>EQUITY</b>		
Share capital	312,485	305,546
Reserves (note a)	3,261,788	3,346,612
Shareholders' funds	3,574,273	3,652,158
<b>LIABILITY</b>		
<b>Current liability</b>		
Creditors and accruals	2,851	2,791
<b>Total equity and liability</b>	<b>3,577,124</b>	<b>3,654,949</b>
<b>Net current assets</b>	<b>3,314,712</b>	<b>3,392,597</b>
<b>Total assets less current liability</b>	<b>3,574,273</b>	<b>3,652,158</b>

**Lui Che-woo**  
*Chairman and Managing Director*

**Paddy Tang Lui Wai Yu**  
*Executive Director*



## 42 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (cont'd)

### (a) Reserve movement of the Company

	Share premium HK\$'000	Share option reserve HK\$'000	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
<b>At 1 January 2018</b>	<b>1,764,492</b>	<b>51,993</b>	<b>213,560</b>	<b>13</b>	<b>1,316,554</b>	<b>3,346,612</b>
<b>Comprehensive income</b>						
Profit for the year	—	—	—	—	195,323	195,323
<b>Transactions with equity holders</b>						
Fair value of share options	—	15,651	—	—	—	15,651
Exercise of share options	16,855	(3,898)	—	—	—	12,957
Lapse of share options	—	(2,183)	—	—	2,183	—
Shares issued as scrip dividends	(6,412)	—	—	—	—	(6,412)
Reserve arising on scrip dividends	—	—	—	—	282,544	282,544
2017 final dividend	—	—	—	—	(397,853)	(397,853)
2018 interim dividend	—	—	—	—	(187,034)	(187,034)
<b>At 31 December 2018</b>	<b>1,774,935</b>	<b>61,563</b>	<b>213,560</b>	<b>13</b>	<b>1,211,717</b>	<b>3,261,788</b>
At 1 January 2017	1,720,057	59,963	213,560	13	1,357,479	3,351,072
<b>Comprehensive income</b>						
Profit for the year	—	—	—	—	104,671	104,671
<b>Transactions with equity holders</b>						
Fair value of share options	—	8,668	—	—	—	8,668
Exercise of share options	52,930	(11,854)	—	—	—	41,076
Lapse of share options	—	(4,784)	—	—	4,784	—
Shares issued as scrip dividends	(8,495)	—	—	—	—	(8,495)
Reserve arising on scrip dividends	—	—	—	—	385,775	385,775
2016 final dividend	—	—	—	—	(385,008)	(385,008)
2017 interim dividend	—	—	—	—	(151,147)	(151,147)
At 31 December 2017	1,764,492	51,993	213,560	13	1,316,554	3,346,612

### 43 MATERIAL NON-CONTROLLING INTERESTS

Set out below is the summarised consolidated financial information for Choice Treasure Limited and its subsidiaries that have non-controlling interests which are material to the Group for the year ended 31 December 2017.

#### Summarised consolidated balance sheet

As at 31 December 2017

	HK\$'000
Current	
Assets	2,566,094
Liabilities	(1,534,422)
	1,031,672
Non-current	
Assets	250,260
Net assets	1,281,932

#### Summarised consolidated statement of comprehensive income

For the year ended 31 December 2017

	HK\$'000
Revenue	5,298,580
Profit after taxation and total comprehensive income	1,338,134
Profit after taxation and total comprehensive income allocated to non-controlling interests	535,253

#### Summarised consolidated cash flow statement

For the year ended 31 December 2017

	HK\$'000
Net cash generated from operating activities	1,722,072
Net cash from investing activities	3,067
Net cash used in financing activities	(1,481,455)
Net increase in cash and cash equivalents	243,684
Cash and cash equivalents at beginning of year	881,501
Cash and cash equivalents at end of year	1,125,185

## 44 PRINCIPAL SUBSIDIARIES, JOINT VENTURES AND ASSOCIATED COMPANIES

## (a) Subsidiaries

Name of company	Principal place of operation	Issued share capital		Effective percentage of equity held by the Group	Principal activities
		Number of shares	Amount per share		
<b>Directly held by the Company</b>					
<b>Incorporated in the British Virgin Islands</b>					
Sutimar Enterprises Limited	Hong Kong	100	US\$1	100	Investment holding
<b>Indirectly held by the Company</b>					
<b>Incorporated in Hong Kong</b>					
Century Basis Limited	Hong Kong	1	N/A	100	Property development
Chely Well Limited	Hong Kong	1,000	N/A	72	Investment holding
Colour Day International Limited	Hong Kong	2	N/A	100	Investment holding
Dragon Star Pacific Limited	Hong Kong	1	N/A	60	Provision of financial services
Faithfulink Limited	Hong Kong	1	N/A	100	Investment holding
Grand Place Limited	Hong Kong	1	N/A	100	Investment holding
Grand Spark Limited	Hong Kong	1	N/A	100	Property investment
Greenwell Investments Limited	Hong Kong	2	N/A	100	Investment holding
Goldstar Power Limited	Hong Kong	1	N/A	100	Investment holding
Goodsave International Limited	Hong Kong	1	N/A	100	Investment holding
Hero Plaza Limited	Hong Kong	2	N/A	100	Property development
Infinity Profit Limited	Hong Kong	1	N/A	100	Investment holding
K. Wah Financial Services Limited	Hong Kong	2	N/A	100	Provision of financial services
K. Wah Management Services Limited	Hong Kong	100	N/A	100	Provision of management services
K. Wah Project Management Service Limited	Hong Kong	2	N/A	100	Provision of management services
K. Wah Properties Investment Limited	Hong Kong	1,000	N/A	100	Investment holding
K. Wah Stones (Holdings) Limited	Hong Kong	439,463,724	N/A	100	Investment holding
King Rays Limited	Hong Kong	2	N/A	100	Property development
Lucky Way Investment Limited	Hong Kong	2	N/A	100	Property investment
Manful Global Development Limited	Hong Kong	1	N/A	100	Property development
Max Orient Holdings Limited	Hong Kong	1,000	N/A	100	Investment holding
Mazy Asia Limited	Hong Kong	1	N/A	100	Investment holding
Minter Limited	Hong Kong	2	N/A	100	Investment holding
New Fine Limited	Hong Kong	1	N/A	100	Property development
New Regent Asia Limited	Hong Kong	1	N/A	100	Property investment
Oriental Control Limited	Hong Kong	1	N/A	100	Investment holding
Polynice Limited	Hong Kong	2	N/A	100	Provision of financial services
Powerful Wave Limited	Hong Kong	1	N/A	100	Investment holding
Pure United Limited	Hong Kong	1	N/A	100	Investment holding
Raise Union Limited	Hong Kong	1	N/A	100	Investment holding
Royal Mark Investments Limited	Hong Kong	1	N/A	100	Property development
Skyport Fareast Limited	Hong Kong	1	N/A	100	Investment holding
Union Profits Limited	Hong Kong	2	N/A	100	Property investment
United Best Hong Kong Limited	Hong Kong	1	N/A	60	Property development
Victory Way Limited	Hong Kong	9,901,000	N/A	99.99	Investment holding
Wealthy Vision Limited	Hong Kong	1	N/A	100	Investment holding
Well Plant Limited	Hong Kong	1	N/A	100	Investment holding
Well Sense Limited	Hong Kong	1	N/A	100	Investment holding
Winway Global Development Limited	Hong Kong	1	N/A	100	Investment holding
Worldtop China Limited	Hong Kong	1	N/A	100	Investment holding

## 44 PRINCIPAL SUBSIDIARIES, JOINT VENTURES AND ASSOCIATED COMPANIES (cont'd)

### (a) Subsidiaries (cont'd)

Name of company	Principal place of operation	Issued share capital		Effective percentage of equity held by the Group	Principal activities
		Number of shares	Amount per share		
<b>Indirectly held by the Company</b>					
<b>Incorporated in the British Virgin Islands</b>					
			US\$		
Amazing Enterprises Limited	Hong Kong	10	1	100	Investment holding
Bestfull Profits Limited	Hong Kong	10	1	100	Investment holding
Choice Treasure Limited	Hong Kong	10	1	60	Investment holding
Greatest Smart Limited	Hong Kong	10	1	100	Investment holding
Grow Ever Limited	Hong Kong	1	1	100	Investment holding
K. Wah International Financial Services Limited	Hong Kong	10	1	100	Provision of financial services
League Trend Limited	Hong Kong	1	1	100	Investment holding
Lehorne Properties Limited	Hong Kong	10	1	100	Investment holding
Million Link Group Limited	Hong Kong	1	1	100	Investment holding
Ragon Properties Limited	Hong Kong	10	1	100	Investment holding
Select Vantage Profits Limited	Hong Kong	10	1	100	Investment holding
Top Ridge Management Limited	Singapore	10	1	100	Property investment

Name of company	Principal place of operation	Registered capital	Effective percentage of equity held by the Group	Principal activities
<b>Incorporated in Mainland China</b>				
<b>Wholly-owned foreign enterprise</b>				
嘉華(中國)投資有限公司(K. Wah (China) Investment Co., Ltd.)	Shanghai	US\$118,000,000	100	Investment holding
上海嘉港城房地產開發經營有限公司(Shanghai Jia Gang Cheng Real Estate Development Co., Ltd.)	Shanghai	US\$13,000,000	100	Property investment
上海嘉申房地產開發經營有限公司(Shanghai Jia Shen Real Estate Development Co., Ltd.)	Shanghai	US\$126,000,000	100	Property development and investment
上海嘉兆房地產開發經營有限公司(Shanghai Jia Zhao Real Estate Development Co., Ltd.)	Shanghai	US\$119,500,000	100	Property development and investment
上海嘉敏房地產開發經營有限公司(Shanghai Jia Min Real Estate Development Co., Ltd.)	Shanghai	US\$110,230,000	100	Property development and investment
上海嘉澤房地產開發經營有限公司(Shanghai Jia Ze Real Estate Development Co., Ltd.)	Shanghai	RMB800,000,000	100	Property development
上海嘉爵房地產開發經營有限公司(Shanghai Jia Jue Real Estate Development Co., Ltd.)	Shanghai	RMB600,000,000	100	Property development
上海嘉悅房地產開發經營有限公司(Shanghai Jia Yue Real Estate Development Co., Ltd.)	Shanghai	RMB700,000,000	100	Property development and investment
上海嘉瑤置業有限公司(Shanghai Jia Yao Real Estate Development Co., Ltd.)	Shanghai	RMB280,000,000	100	Property investment
上海嘉瑤裝飾設計有限公司(Shanghai Jia Chen Decoration & Design Co., Ltd.)	Shanghai	RMB50,000,000	100	Provision of decoration services
上海嘉英物業管理有限公司(Cresleigh Property Management (Shanghai) Co., Ltd.)	Shanghai	RMB5,000,000	100	Property management
南京嘉耀房地產開發有限公司(Nanjing Jia Yao Real Estate Development Co., Ltd.)	Nanjing	RMB1,800,000,000	100	Property development
南京嘉琛房地產開發有限公司(Nanjing Jia Chen Real Estate Development Co., Ltd.)	Nanjing	RMB1,360,000,000	100	Property development
蘇州嘉兆房地產開發經營有限公司(Suzhou Jia Zhao Real Estate Development Co., Ltd.)	Suzhou	RMB500,000,000	100	Property development
廣州市嘉華花都置業有限公司(Guangzhou Jiahua Huadu Property Development Co., Ltd.)	Guangzhou	HK\$488,000,000	100	Property development and investment
廣州嘉揚房地產開發有限公司(Guangzhou Jia Yang Real Estate Development Co., Ltd.)	Guangzhou	HK\$300,000,000	100	Property development
東莞廣裕房地產開發有限公司(Dongguan Guang Yu Real Estate Development Co., Ltd.)	Dongguan	HK\$1,430,000,000	100	Property development and investment
東莞嘉裕房地產開發有限公司(Dongguan Jia Yu Real Estate Development Co., Ltd.)	Dongguan	RMB500,000,000	100	Property development
江門市嘉豐房地產開發有限公司(Jiangmen Jia Feng Real Estate Development Co., Ltd.)	Jiangmen	HK\$18,300,000	100	Property development
江門市嘉瀚房地產開發有限公司(Jiangmen Jia Han Real Estate Development Co., Ltd.)	Jiangmen	HK\$2,600,000,000	100	Property development

## 44 PRINCIPAL SUBSIDIARIES, JOINT VENTURES AND ASSOCIATED COMPANIES (cont'd)

## (a) Subsidiaries (cont'd)

Name of company	Principal place of operation	Registered capital	Effective percentage of equity held by the Group	Principal activities
<b>Indirectly held by the Company</b>				
<b>Incorporated in Mainland China (cont'd)</b>				
<b>Cooperative joint venture</b>				
廣州匯城房地產開發有限公司 (Guangzhou Hui Cheng Real Estate Development Co., Ltd.)	Guangzhou	HK\$600,000,000	99	Property development
<b>Equity joint venture</b>				
上海嘉匯達房地產開發經營有限公司 (Shanghai Jia Hui Da Real Estate Development Co., Ltd.)	Shanghai	US\$20,000,000	69.6	Property investment
上海凱通文安建設開發有限公司 (Shanghai Kaitong Wenan Construction Development Co., Ltd.)	Shanghai	RMB234,000,000	53.61	Property development

Name of company	Principal place of operation	Issued share capital		Effective percentage of equity held by the Group	Principal activities
		Number of shares	Amount per share		

## (b) Joint Ventures

**Indirectly held by the Company****Incorporated in Hong Kong**

Teamer International Limited	Hong Kong	1	N/A	35	Property development
Ample Excellent Limited	Hong Kong	2	N/A	50	Property development
Asia Bright Development Limited	Hong Kong	1,000	N/A	22.5	Investment holding
Sky Asia Properties Limited	Hong Kong	1	N/A	22.5	Property development
Top Regent Holdings Limited	Hong Kong	90	N/A	33 <sup>1</sup> / <sub>3</sub>	Investment holding
Grand Ample Limited	Hong Kong	1	N/A	33 <sup>1</sup> / <sub>3</sub>	Property development

**Incorporated in the British Virgin Islands**

Homeast Limited	Hong Kong	1,000	US\$1	35	Investment holding
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**Incorporated in Mainland China**

		Registered capital		
南京弘威盛房地產開發有限公司 (Nanjing Hongwei Sheng Real Estate Development Co., Ltd.)	Nanjing	RMB765,000,000	33	Property development
蘇州禹鴻遠盈置業有限公司 (Suzhou Yuhongyuanyin Property Development Co., Ltd.)	Suzhou	RMB20,000,000	47	Property development
嘉興榮聿置業有限公司 (Jiaxing Rongyu Property Development Co., Ltd.)	Jiaxing	RMB50,000,000	17	Property development
江門市新會區駿景灣譽峰房地產有限公司 (Jiangmen Xinhui Junjingwan Yufeng Real Estate Co., Ltd.)	Jiangmen	RMB700,000,000	50	Property development

## (c) Associated Company (note)

**Indirectly held by the Company****Incorporated in Mainland China**

		Registered capital		
崑山卓彌房地產開發有限公司 (Kunshan Zhoumi Real Estate Co., Ltd.)	Kunshan	RMB80,000,000	16.66	Property development

Note: Despite less than 20% equity interest in the company, significant influence is exercised in the management and thus the company has been accounted for as an associated company of the Group through the participation in the Board.



# The Group's Significant Properties

As at 31 December 2018

	Type of Property	Gross Floor Area <sup>(1)</sup> sq. metres (Approximately)	Group's Interest %	Lease Term	Stage of Completion	Estimated Completion Date
<b>INVESTMENT AND OTHER PROPERTIES</b>						
<b>Hong Kong</b>						
K. Wah Centre 28th, 29th and 30th Floors, 191 Java Road, North Point, Hong Kong	Office	2,926	100	2106	Completed	Existing
J SENSES 60, 60A-66 Johnston Road, Wanchai, Hong Kong	Commercial	3,400	100	2054	Completed	Existing
Chantilly No. 6 Shiu Fai Terrace, Hong Kong	Residential	5,100	100	2070	Completed	Existing
Twin Peaks 9 Chi Shin Street, Tseung Kwan O, New Territories	Commercial	3,500	100	2062	Completed	Existing
<b>Mainland China</b>						
Shanghai K. Wah Centre No. 1010 Huaihai Zhong Road, Xuhui District, Shanghai	Office	72,000	69.6	2047	Completed	Existing
Stanford Residences Jing An Lane 1999, Xinzha Road, Jingan District, Shanghai	Residential	32,000	100	2072	Completed	Existing
Stanford Residences Xu Hui 236 Jianguoxi Road, Xuhui District, Shanghai	Residential	26,000	100	2065	Completed	Existing
Stanford Residences Jin Qiao 58 Jingye Road, Pudong New District, Shanghai	Residential	13,000	100	2083	Completed	Existing
Palace Lane 236 Jianguoxi Road, Xuhui District, Shanghai	Commercial	8,000	100	2065	Completed	Existing
Huadu Jiahua Plaza Yingbin Road, Xinhuaazhen, Huadu District, Guangzhou	Hotel/Office/ Commercial	97,000	100	2039	Completed	Existing
J Town 111 Xihu Zhong Road, Xihu District, Shilong Town, Dongguan	Commercial	11,600	100	2052 to 2054	Completed	Existing
<b>DEVELOPMENT PROPERTIES</b>						
<b>Hong Kong</b>						
Marinella 9 Welfare Road, Aberdeen, Hong Kong	Residential	800	35	2057	Completed	Existing
The Spectra 8 Kwong Yip Street, Yuen Long, New Territories	Residential	600	60	2063	Completed	Existing
K. City 7 Muk Ning Street, Kowloon	Residential	13,100	100	2064	Completed	Existing
Solaria 16 Fo Chun Road, Tai Po, New Territories	Residential	61,600	100	2065	Construction	2020
2 Grampian Road, Kowloon	Residential	2,000	100	2047	Construction	2020
New Kowloon Inland Lot No. 6566, Kai Tak Area 1K Site 2	Residential	53,000	100	2067	Construction	2021
New Kowloon Inland Lot No. 6549, Cheung Sha Wan	Residential	91,800	22.5	2067	Construction	2022
Lot No.1040 in D.D. No.103, Kam Sheung Road Station Package One Property Development, Yuen Long	Residential	114,800	33 $\frac{1}{3}$	2067	Planning	2022 or beyond
No. 30 Po Shan Road, Mid-levels, Hong Kong	Residential	3,700	50	2090	Planning	2022 or beyond

Note 1: For certain properties, the floor area represents Saleable Floor Area.

## The Group's Significant Properties

As at 31 December 2018

	Type of Property	Gross Floor Area sq. metres (Approximately)	Group's Interest %	Lease Term	Stage of Completion	Estimated Completion Date
<b>DEVELOPMENT PROPERTIES (cont'd)</b>						
<b>Mainland China</b>						
The Palace Phase 3 236 Jianguoxi Road, Xuhui District, Shanghai	Residential	43,000	100	2065	Completed	Existing
Grand Summit Lane 1999, Xinzha Road, Jingan District, Shanghai	Residential	2,000	100	2072	Completed	Existing
Windermere Plot B3, B4 Zhujiajiao Qingpu District, Shanghai	Residential/ Commercial	71,000	100	2050 to 2080	Completed	Existing
Azure 58 Jingye Road, Pudong New District, Shanghai	Residential	16,000	100	2083	Completed	Existing
Site 7-7, Unit E18, Weifang Village Street, Pudong District, Shanghai	Residential	14,200	100	2084	Planning	2021
Suhe Creek, Jingan District, Shanghai	Office	20,000	53.61	2056	Construction	2020
The Peak 19 Xingxian Road, Nanjing	Residential/ Commercial	71,000	100	2054 to 2084	Completed	Existing
Royal Creek Pukou District, Nanjing	Residential	98,500	33	2087	Construction	2019
Site G89, Jiangning District, Nanjing	Residential/ Commercial	49,700	100	2057 to 2087	Construction	2021
Lot 42 in National Hi-Tech District, Suzhou	Residential	59,000	100	2088	Construction	2021
Lot 58 in National Hi-Tech District, Suzhou	Residential	75,000	47	2088	Construction	2020
Lot 12-2 in Economic & Technological Development Zone, Kunshan	Residential	66,000	16.66	2088	Construction	2020
Lot 44 in National Hi-Tech District, Jiaxing	Residential	130,000	17	2087	Construction	2020
Huadu Jiahua Plaza Yingbin Road, Xinhuaazhen, Huadu District, Guangzhou	Apartment	34,000	100	2039	Completed	Existing
J Metropolis (West Site) Xinhuaazhen, Huadu District, Guangzhou	Residential/ Commercial	579,000	99	2034 to 2068	Planning	2021 or beyond
Silver Cove Xihu District, Shilong Town, Dongguan	Residential	48,800	100	2082 to 2084	Completed	Existing
Hengjiang Village, Chashan, Dongguan	Residential/ Commercial	159,000	100	2058 to 2088	Planning	2021
Jianghai Site No. 02, Jianghai District, Jiangmen	Residential/ Commercial	133,700	100	2057 to 2087	Construction	2020
Jianghai Site No. 12, Jianghai District, Jiangmen	Residential/ Commercial	144,900	100	2058 to 2088	Construction	2020
Xinhui Site No. 03, Xinhui District, Jiangmen	Residential	100,000	50	2088	Planning	2021

The information, drawings (including design concept drawings) and/or photos of the developments in Hong Kong (inclusive of the developments under construction) as provided in this Annual Report are for the purpose of the Annual Report of K. Wah International Holdings Limited (“KWIH”) (please refer to the sales brochures for details of the respective developments) and are not and do not form part of any advertisement purporting to promote the sale of any residential property, and do not constitute and shall not be construed as constituting any offer, representation, warranty, covenant or contractual term whether expressed or implied (whether related to view or surrounding environment or not). No publishing or transfer to any third party is allowed without the prior written consent of KWIH and the respective vendors as stated in the sales brochures of the respective developments (each a “Vendor”). KWIH and the respective Vendors shall not be liable for any reliance of these information, drawings and/or photos by any party for his/her decision on purchase of any residential property in the respective developments or otherwise.

All photos, images, drawings or sketches in this Annual Report represent artists’ impressions of the respective developments or the part of the respective developments concerned only. They are not drawn to scale and/or may have been edited and processed with computerized imaging techniques. In respect of any design concept drawings of the respective residential developments contained in this Annual Report, they are products of computer renderings. Pipes, conduits, air-conditioners, grilles etc. which might exist on the external walls, flat roofs or roofs, etc. of the respective developments, and the surrounding environment and buildings of the respective developments have been omitted. The respective renderings do not simulate or reflect the actual appearance and the surrounding environment of the respective developments. The respective design concept drawings do not simulate or reflect the view from any part of the respective developments and the present or future condition of the surrounding environment and buildings of the respective developments. The layout, partition, specifications, dimensions, colour, materials, fittings, finishes, appliances, equipment, furniture, household accessories, display, decorations, signs, clubhouse facilities, sculptures, models, artwork, plant, trees, landscape design, lighting features and lightings, etc. shown in the respective design concept drawings might be different from those, if any, to be actually provided in the respective developments and that they might not appear in the part of the developments concerned. The respective vendors reserve the right to alter, increase and reduce the above items and clubhouse and recreational facilities, which are subject to the agreements for sale and purchase. The respective Vendors reserve the right to alter the building plans and other plans from time to time, which are subject to the final approvals of the relevant Government authorities. The provision of clubhouses and recreational facilities are subject to the terms and conditions of the agreements of sale and purchase and the final approvals of the relevant Government authorities. The opening time and use of different clubhouses and recreational facilities are subject to the relevant laws, land grant conditions, terms of the deed of mutual covenant and the actual conditions of the facilities. The use and operations of some parts of the facilities and /or services may be subject to the consents or permits to be issued by the relevant Government authorities. The respective vendors reserve the right to amend the use of the facilities and/or services which are shown or not shown or specified in the design concept drawings. The names of the clubhouse and recreational facilities (if shown) are for promotional purpose only. The names of the facilities shown in this presentation are pending determination and may subject to change, and such names (including clubhouse) may not be identical to the names of such facilities when they are open and will not appear in any of the title documents. Such facilities (including clubhouse and ancillary recreational facilities, etc.) may not be in operation when the respective developments can be occupied. The respective vendors reserve the rights to alter the clubhouse facilities and the partition, design, layout and use thereof. Fees may be separately charged on the use of the clubhouse(s) and different recreational facilities.

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