九龍建業有限公司
KOWLOON DEVELOPMENT COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 34)

ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2018

HIGHLIGHTS

- For the year ended 31 December 2018, the Group's net profit attributable to shareholders of the Company amounted to HK$2,193 million compared to HK$1,635 million in 2017, an increase of 34.1%.
- Excluding revaluation gains from the Group's investment properties net of tax and fair value gains on its interests in the property development projects, underlying net profit attributable to shareholders of the Company for 2018 rose to HK$1,711 million, an increase of 12.2% over 2017. The underlying net earnings per share for 2018 were HK$1.45 compared to HK$1.31 in 2017.
- Final dividend in cash per share of HK$0.50 is proposed. Full year dividend in cash per share for 2018 amounts to HK$0.72. In addition, a Special Interim Dividend in the form of shares of Polytec Asset (Stock Code: 208) was already distributed (on the basis of 1 ordinary share of Polytec Asset for every 10 ordinary shares of the Company).

GROUP RESULTS AND DIVIDENDS

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

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

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

MARKET OVERVIEW AND BUSINESS REVIEW

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

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

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

Development Property Sales

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

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

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

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

Property Development

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

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

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

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

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

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

Major Property Projects under Planning and Development

Property Project	District/City	Usage	Approx. Total Site Area (sq m)	Approx. Total GFA (sq m)	Approx. Total GFA Booked※ (sq m)	Group's Interest	Status	Expected Date of Completion
Hong Kong								
63 Pokfulam	Sai Ying Pun, Hong Kong	Residential & retail	1,388	12,200	-	100%	Construction works in progress	2019
One East Coast	Lei Yue Mun, Kowloon	Residential & retail	3,240	29,200	-	100%	Public car park portion completed and in operations; construction works for main residential blocks in progress	2019
Tseung Kwan O	Sai Kung, New Territories	Residential	9,635	48,200	-	100%	Foundation works in progress	End-2021/ early 2022
Clear Water Bay Road	Ngau Chi Wan, Kowloon	Residential & commercial	19,335	196,400	-	100%	Land premium negotiation in progress	To be determined

Note: A property project in Hong Kong, namely Upper East, was completed during the year under review.

Major Property Projects under Planning and Development (continued)

Property Project	District/City	Usage	Approx. Total Site Area (sq m)	Approx. Total GFA (sq m)	Approx. Total GFA Booked※ (sq m)	Group's Interest	Status	Expected Date of Completion
Mainland China								
Le Cove City (Shenyang) 江灣城（瀋陽）	Hun Nan Xin District, Shenyang	Residential & commercial	165,303	712,000	313,644	100%	Advance building works for Phase 5 to commence soon	Phase 5 2021
The Gardenia (Shenyang) 翠堤灣（瀋陽）	Shenhe District, Shenyang	Residential & commercial	1,100,000	2,000,000	389,775	100%	Construction works for Phase 3A (North Block) in progress	Phase 3A (North Block) 2019
Le Cove Garden (Huizhou) 江灣南岸花園（惠州）#	Huicheng District, Huizhou	Residential & commercial	146,056	519,900	186,979	60%	Construction works for Phase 1B completed and decoration works in progress; foundation works for Phase 2 in progress	Phase 1B 2019; Phase 2 2021
The Lake (Foshan) 山語湖（佛山）	Nanhai District, Foshan	Residential & commercial	4,020,743	1,600,000	844,414	50%	Construction works and occupation delivery for high-rise residential towers in Phase 4 of development completed	Remaining development to be determined
Le Cove City (Wuxi) 江灣城（無錫）	Chong An District, Wuxi	Residential & commercial	68,833	365,000	107,320	100%	Phase 3 under planning; advance building works for Phase 4 in progress	Phase 4 mid-2023
City Plaza (Tianjin) 城市廣場（天津）	Hedong District, Tianjin	Residential & commercial	135,540	850,000*	238,057	49%	Construction works for residential flats in Phase 2 of development completed	Phase 3 to be determined
Shanghai (Shanghai)	Yangpu District, Shanghai	Residential & commercial	21,427	113,600△	-	100%	Under planning	2024
Zhongshan (Zhongshan)	South District, Zhongshan	Residential & commercial	234,802	587,000	-	35.4%	Under planning	2021-2023

※ Approx. total GFA booked and recognised in the financial statements.
* With additional underground GFA of approximately 35,000 sq m for the commercial portion.
△ Including underground GFA of approximately 39,035 sq m.
The development of this project is under the co-investment agreement with Polytec Holdings and its wholly-owned subsidiary.

Major Property Projects under Planning and Development (continued)

Property Project	District/City	Usage	Approx. Total Site Area (sq m)	Approx. Total GFA (sq m)	Approx. Total GFA Booked* (sq m)	Group's Interest	Status	Expected Date of Completion
Mainland China								
Zhuhai (Zhuhai)⊕	Xiangzhou District, Zhuhai	Commercial Office	43,656	179,000	-	42.5%	Under planning	2021

⊕ The acquisition to be completed within this year.

Property Investment in Hong Kong

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

Other Businesses through Polytec Asset

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

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

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

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

PROSPECTS

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

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

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

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

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

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

CONSOLIDATED RESULTS

The consolidated results of the Group for the year ended 31 December 2018 together with the comparative figures of 2017 are as follows:

Consolidated Income Statement

for the year ended 31 December 2018

	Note	**2018** *HK$'000*	2017 *HK$'000*
Revenue	*3*	**2,842,434**	3,120,369
Cost of sales		**(422,160)**	(1,729,663)
Other revenue		**33,605**	28,265
Other net income/(expenses)	*4*	**987**	(363,807)
Depreciation and amortisation		**(15,417)**	(16,196)
Staff costs		**(217,482)**	(224,338)
Selling, marketing and distribution expenses		**(148,729)**	(183,853)
Impairment of oil production and exploitation assets	*5*	**–**	(226,500)
Other operating expenses		**(74,857)**	(64,919)
Fair value changes on investment properties		**360,389**	106,797
Fair value changes on interests in property development		**174,500**	–
Profit from operations		**2,533,270**	446,155
Finance costs	*6*	**(210,544)**	(119,698)
Share of profits of associated companies		**57,552**	1,294,005
Share of profits of joint ventures		**343,627**	178,330
Profit before taxation	*7*	**2,723,905**	1,798,792
Income tax	*8*	**(72,033)**	(79,891)
Profit for the year		**2,651,872**	1,718,901
Attributable to :			
Shareholders of the Company		**2,193,309**	1,635,026
Non-controlling interests		**458,563**	83,875
Profit for the year		**2,651,872**	1,718,901
Earnings per share – Basic and diluted	*9*	**HK$1.86**	HK$1.41

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2018

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

Consolidated Statement of Financial Position
At 31 December 2018

	Note	2018 HK$'000	2018 HK$'000	2017 HK$'000	2017 HK$'000
Non-current assets					
Investment properties			**10,607,850**		10,313,500
Property, plant and equipment	*5*		**767,118**		541,625
Oil exploitation assets	*5*		**27,516**		28,175
Interests in property development	*11*		**12,966,296**		12,399,437
Interest in joint ventures			**4,533,371**		3,338,920
Interest in associated companies			**1,680,459**		1,824,171
Loans and advances	*12*		**818,470**		978,265
Deferred tax assets			**125,794**		122,010
			31,526,874		29,546,103
Current assets					
Inventories		**20,015,325**		14,440,005	
Interests in property development	*11*	**871,658**		1,264,017	
Trade and other receivables	*12*	**1,130,952**		1,072,018	
Loans and advances	*12*	**25,014**		26,171	
Amount due from related companies		**1,480,000**		-	
Amount due from fellow subsidiaries		**-**		665,161	
Amounts due from joint ventures		**301,926**		88,651	
Pledged bank deposits		**1,042,161**		15,000	
Cash and bank balances		**1,068,348**		1,969,391	
		25,935,384		19,540,414	

	Note	2018 HK$'000	2018 HK$'000	2017 HK$'000	2017 HK$'000
Current liabilities					
Trade and other payables	*13*	**6,401,167**		4,796,620	
Amount due to a joint venture		**709,312**		743,500	
Loan from an associated company		**45,218**		39,582	
Bank loans		**6,825,941**		7,316,136	
Current taxation		**176,819**		174,087	
		14,158,457		13,069,925	
Net current assets			**11,776,927**		6,470,489
Total assets less current liabilities			**43,303,801**		36,016,592
Non-current liabilities					
Loan from a related company		**4,274,519**		–	
Loan from ultimate holding company		**–**		619,526	
Bank loans		**8,455,488**		6,344,000	
Other payables		**17,450**		18,615	
Deferred tax liabilities		**730,970**		737,483	
			13,478,427		7,719,624
NET ASSETS			**29,825,374**		28,296,968
Capital and reserves					
Share capital			**8,636,490**		8,636,490
Reserves			**17,039,701**		16,269,193
Total equity attributable to the shareholders of the Company			**25,676,191**		24,905,683
Non-controlling interests			**4,149,183**		3,391,285
TOTAL EQUITY			**29,825,374**		28,296,968

Notes

1 BASIS OF PREPARATION

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

The financial information relating to the financial years ended 31 December 2018 and 2017 included in this announcement of annual results does not constitute the Company's statutory annual consolidated financial statements for those financial years but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2017 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance and will deliver the financial statements for the year ended 31 December 2018 in due course. The Company's auditor has reported on those financial statements for both years. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in the financial statements.

2 CHANGES IN ACCOUNTING POLICIES

Overview

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

(i) HKFRS 9, "Financial instruments"

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

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

The Group has been impacted by HKFRS 9 in relation to classification of financial assets and measurement of credit losses, and impacted by HKFRS 15 in relation to timing of revenue recognition. Details of the changes in accounting policies are discussed in note 2(b) for HKFRS 9 and note 2(c) for HKFRS 15.

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

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) HKFRS 9, "Financial instruments"

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

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

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

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

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

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) HKFRS 9, "Financial instruments" (continued)

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

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

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

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

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

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

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(c) HKFRS 15, "Revenue from contracts with customers" (continued)

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

	Amounts reported in accordance with HKFRS 15 (A) *HK$'000*	**Hypothetical amounts under HKAS 18** (B) *HK$'000*	**Difference: Estimated impact of adoption of HKFRS 15 on 2018** (A) – (B) *HK$'000*
Line items in the consolidated income statement of profit or loss for the year ended 31 December 2018 impacted by the adoption of HKFRS 15:			
Revenue	2,842,434	7,555,177	(4,712,743)
Cost of sales	(422,160)	(3,194,004)	2,771,844
Selling, marketing and distribution expenses	(148,729)	(310,701)	161,972
Profit from operations	**2,533,270**	**4,312,197**	**(1,778,927)**
Profit before taxation	**2,723,905**	**4,502,832**	**(1,778,927)**
Income Tax	(72,033)	(365,556)	293,523
Profit for the year	**2,651,872**	**4,137,276**	**(1,485,404)**
Profit attributable to shareholders of the Company	**2,193,309**	**3,678,713**	**(1,485,404)**
Earnings per share – Basic and diluted ***(HK$)***	**1.86**	**3.12**	**(1.26)**
Line items in the consolidated statement of comprehensive income for the year ended 31 December 2018 impacted by the adoption of HKFRS 15:			
Total comprehensive income for the year	**2,325,254**	**3,810,658**	**(1,485,404)**
Total comprehensive income for the year to shareholders of the Company	**1,867,966**	**3,353,370**	**(1,485,404)**
Line items in the consolidated statement of financial position as at 31 December 2018 impacted by the adoption of HKFRS 15:			
Deferred tax assets	125,794	107,075	18,719
Total non-current assets	**31,526,874**	**31,508,155**	**18,719**
Inventories	20,015,325	17,243,481	2,771,844
Trade and other receivables	1,130,952	3,576,598	(2,445,646)
Total current assets	**25,935,384**	**25,609,186**	**326,198**
Trade and other payables	6,401,167	4,296,042	2,105,125
Current taxation	176,819	451,623	(274,804)
Total current liabilities	**14,158,457**	**12,328,136**	**1,830,321**
Net assets	**29,825,374**	**31,310,778**	**(1,485,404)**
Reserves	17,039,701	18,525,105	(1,485,404)
Total equity attributable to shareholders of the Company	**25,676,191**	**27,161,595**	**(1,485,404)**
Total equity	**29,825,374**	**31,310,778**	**(1,485,404)**

3 SEGMENT REPORTING

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

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

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

– Oil segment: oil exploration and production.

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

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

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

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

3 SEGMENT REPORTING (CONTINUED)

(a) Segment results and assets

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

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

During the year ended 31 December 2018, the Group had recognised distributions from interests in property development in Macau and Mainland China with a total amount of HK$1,660,000,000 under the property development segment, which exceeded 10% of the Group's revenue.

3 SEGMENT REPORTING (CONTINUED)

(a) Segment results and assets (continued)

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

During the year ended 31 December 2017, the Group had recognised distributions from interests in property development in Macau and Mainland China with a total amount of HK$555,793,000 under the property development segment, which exceeded 10% of the Group's revenue.

3 SEGMENT REPORTING (CONTINUED)

(a) Segment results and assets (continued)

2018

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

2017

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

3 SEGMENT REPORTING (CONTINUED)

(b) Geographic information

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

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

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

4 OTHER NET INCOME/(EXPENSES)

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

5 OIL PRODUCTION AND EXPLOITATION ASSETS

As at 31 December 2018, the Group had oil production assets of HK$295,191,000 (2017: HK$309,402,000) (included in property, plant and equipment) and oil exploitation assets of HK$27,516,000 (2017: HK$28,175,000). Oil production assets and oil exploitation assets are stated at cost less accumulated depreciation/amortisation and impairment losses.

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

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

6 FINANCE COSTS

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

7 PROFIT BEFORE TAXATION

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

	2018 *HK$'000*	2017 *HK$'000*
Amortisation of oil exploitation assets *(Remark)*	**659**	955
Depreciation and amortisation of property, plant and equipment *(Remark)*	**32,415**	33,082
Staff costs *(Remark)*	**236,481**	245,378
Total staff costs	**273,415**	271,500
Less: Amount capitalised	**(36,934)**	(26,122)

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

8 INCOME TAX

	2018 *HK$'000*	2017 *HK$'000*
Current tax		
Provision for profits tax		
– Hong Kong	**57,405**	75,360
– Outside Hong Kong	**10,779**	75,304
	68,184	150,664
Land appreciation tax ("LAT")	**3,598**	13,053
Deferred tax	**251**	(83,826)
	72,033	79,891

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

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

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

9 EARNINGS PER SHARE

(a) Basic earnings per share

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

(b) Diluted earnings per share

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

10 DIVIDENDS

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

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

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

11 INTERESTS IN PROPERTY DEVELOPMENT

Interests in property development represent the Group's interests in the development of two properties located at Lote P and Lotes T+T1 of Novos Aterros da Areia Preta, in Macau and one property located at Huizhou, in Mainland China under co-investment agreements with a related company, Polytec Holdings International Limited ("Polytec Holdings") and two of its wholly owned subsidiaries. Pursuant to the terms of the co-investment agreements, the Group will provide funding to cover any shortfall in the funding of the property development projects which is subject to an aggregate maximum amount. In return, Polytec Holdings and its two wholly owned subsidiaries will pay to the Group cash flows from the property development projects according to the formulae set out in the co-investment agreements. Details of the funding arrangement and other key terms of the co-investment agreements are disclosed in the Company's Circular dated 23 May 2006 and 30 October 2013. Interests in property development are stated at fair value at the end of the reporting period.

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

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

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

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

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

11 INTERESTS IN PROPERTY DEVELOPMENT (CONTINUED)

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

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

12 TRADE AND OTHER RECEIVABLES/LOANS AND ADVANCES

Included in this item are trade receivables and loans and advances (net of loss allowance) with an ageing analysis (based on the due date) as follows:

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

The Group maintains a defined credit policy. An ageing analysis of trade receivables and loans and advance is prepared on a regular basis and is closely monitored to minimise any credit risk associated with receivables and loans and advances.

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

13 TRADE AND OTHER PAYABLES

Included in this item are trade payables with an ageing analysis (based on the due date) as follows:

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

FINANCIAL REVIEW

Financial resources and bank borrowings

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

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

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

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

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

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

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

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

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

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

Capital commitments

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

Pledge of assets

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

Contingent liabilities

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

HUMAN RESOURCES

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

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

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

OTHER INFORMATION

Review by Audit Committee

The Audit Committee of the Company has reviewed and discussed with the Group's independent auditor, KPMG, Certified Public Accountants, the consolidated financial statements of the Group for the year ended 31 December 2018 including critical accounting policies and practices adopted by the Group.

Scope of Work of KPMG

The financial figures in respect of the Group's consolidated statement of financial position, consolidated income statement and consolidated statement of comprehensive income, and the related notes thereto for the year ended 31 December 2018 as set out in the announcement have been compared by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's consolidated financial statements for the year ended 31 December 2018 and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

Compliance with the Corporate Governance Code

The Company has complied throughout the year with all code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), with the exception of Code Provision A.2.1 as explained below:

<u>Code Provision A.2.1</u>

Mr Or Wai Sheun, the Chairman, has performed the combined role as the chairman and the chief executive taking charge of the overall operations of the Group. This combining of the roles enables the Company to make prompt and effective decisions. The Company's approach to corporate governance emphasises the quality of the Board's governance and accountability to shareholders. In ensuring proper ethical and responsible decision making, the Board has established a series of mechanisms for formal review of particular aspects of the Company's affairs. Important decisions, including those which may be expected to affect the long-term shareholder interests, are made by the Board and applicable Board committees.

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

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

2019 AGM

The 2019 AGM of the Company will be held on Wednesday, 5 June 2019. The Notice of the 2019 AGM will be published and dispatched in due course.

Closure of Register of Members

For the purpose of determining shareholders' eligibility to attend and vote at the 2019 AGM, the Register of Members of the Company will be closed from Friday, 31 May 2019 to Wednesday, 5 June 2019, both dates inclusive. During the aforementioned period, no transfer of shares will be registered. In order to be eligible to attend and vote at the 2019 AGM, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 pm (Hong Kong time) on Thursday, 30 May 2019.

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

Publication of Annual Report

The Annual Report 2018 containing all the information as required by the Listing Rules will be published on the Company's website at www.kdc.com.hk and the website of Hong Kong Exchanges and Clearing Limited, while printed copies will be sent to shareholders on or about Friday, 26 April 2019.

By Order of the Board
Kowloon Development Company Limited
Or Wai Sheun
Chairman

Hong Kong, 27 March 2019

As at the date of this announcement, the Directors of the Company are Mr Or Wai Sheun (Chairman), Mr Lai Ka Fai, Mr Or Pui Kwan and Mr Lam Yung Hei as Executive Directors; Ms Ng Chi Man and Mr Yeung Kwok Kwong as Non-executive Directors; and Mr Li Kwok Sing, Aubrey, Mr Lok Kung Chin, Hardy, Mr Seto Gin Chung, John and Mr David John Shaw as Independent Non-executive Directors.