

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



嘉里建設有限公司\*

KERRY PROPERTIES LIMITED

*(Incorporated in Bermuda with limited liability)*

*website: [www.kerryprops.com](http://www.kerryprops.com)*

**(Stock Code: 683)**

## **FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019, PROPOSED ADOPTION OF THE 2020 SHARE OPTION SCHEME AND TERMINATION OF THE 2011 SHARE OPTION SCHEME**

The Board of Directors (the “**Board**”) of the Company announces the consolidated final results of the Group for the year ended 31 December 2019. The Audit and Corporate Governance Committee of the Company has met to review the results and the financial statements of the Group for the year ended 31 December 2019 prior to recommending them to the Board for approval.

### **OVERALL RESULTS**

The Group’s profit attributable to shareholders for the year ended 31 December 2019 was HK\$6,897 million, representing a decrease of 8% compared with HK\$7,499 million reported for 2018.

The Group measured its investment property portfolio on a fair value basis and recorded an increase in fair value of investment properties (net of deferred taxation) attributable to shareholders of HK\$1,501 million for the year ended 31 December 2019 (2018: HK\$4,154 million). Before taking into account the effects of the aforementioned increase in fair value, the Group recorded an increase of 61% in profit attributable to shareholders to HK\$5,396 million for the year ended 31 December 2019 (2018: HK\$3,345 million). The increase was mainly due to the provision for impairment loss for property under development in Macau amounting to HK\$1,175 million in 2018 (2019: Nil) (Note 3) and the recording of net decrease in fair value on financial assets at fair value through profit or loss amounting to HK\$1,461 million in 2018 (2019: increase of HK\$5 million) (Note 4).

Earnings per share for the year ended 31 December 2019 were HK\$4.74, representing a decrease of 8% compared with HK\$5.16 per share in 2018.

\* For identification purpose only

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

	<b>Year ended 31 December</b>		Change
	<b>2019</b>	2018	
	<b>HK\$ million</b>	HK\$ million	
Profit attributable to shareholders before taking into account the net increase in fair value of investment properties and related tax effects	<b>5,396</b>	3,345	61%
Add:			
Net increase in fair value of investment properties and related tax effects	<b>1,501</b>	4,154	
Profit attributable to shareholders after taking into account the net increase in fair value of investment properties and related tax effects	<b><u>6,897</u></b>	<u>7,499</u>	-8%

The Board has recommended the payment of a final dividend of HK\$0.95 per share for the year ended 31 December 2019 (the "**Final Dividend**"). Together with the interim dividend of HK\$0.40 per share, the total cash dividend for the year ended 31 December 2019 will be HK\$1.35 per share (2018: HK\$1.35 per share).

## CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December	
		2019 HK\$'000	2018 HK\$'000
Revenue	2	18,025,422	21,433,216
Cost of sales and direct expenses		<u>(9,041,440)</u>	<u>(11,965,122)</u>
Gross profit	2	8,983,982	9,468,094
Other income and net gains		692,178	673,010
Provision for impairment loss for property under development	3	-	(1,175,281)
Net increase/(decrease) in fair value on financial assets at fair value through profit or loss	4	4,534	(1,461,152)
Administrative and other operating expenses		(1,602,120)	(1,605,108)
Increase in fair value of investment properties		<u>1,185,018</u>	<u>4,457,289</u>
Operating profit before finance costs		9,263,592	10,356,852
Finance costs	5	<u>(812,565)</u>	<u>(584,501)</u>
Operating profit	5	8,451,027	9,772,351
Share of results of associates and joint ventures		<u>1,584,917</u>	<u>2,141,846</u>
Profit before taxation		10,035,944	11,914,197
Taxation	6	<u>(2,342,856)</u>	<u>(3,178,019)</u>
Profit for the year		<u><u>7,693,088</u></u>	<u><u>8,736,178</u></u>
Profit attributable to:			
Company's shareholders		6,897,450	7,499,295
Non-controlling interests		<u>795,638</u>	<u>1,236,883</u>
		<u><u>7,693,088</u></u>	<u><u>8,736,178</u></u>
Earnings per share	7		
- Basic		<u><u>HK\$4.74</u></u>	<u><u>HK\$5.16</u></u>
- Diluted		<u><u>HK\$4.74</u></u>	<u><u>HK\$5.16</u></u>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<b>Year ended 31 December</b>	
	<b>2019</b>	<b>2018</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Profit for the year	<b>7,693,088</b>	8,736,178
Other comprehensive income		
Items that may be reclassified to profit or loss		
Cash flow hedges	<b>(23,899)</b>	(57,059)
Share of other comprehensive income of associates and joint ventures	<b>49,056</b>	122,121
Net translation differences on foreign operations	<b>(1,391,680)</b>	(3,348,023)
Items that will not be reclassified to profit or loss		
Fair value gains on financial assets at fair value through other comprehensive income	<b>127,482</b>	61,511
Other comprehensive income for the year, net of tax	<b>(1,239,041)</b>	(3,221,450)
Total comprehensive income for the year	<b><u>6,454,047</u></b>	<u>5,514,728</u>
Total comprehensive income attributable to:		
Company's shareholders	<b>6,079,120</b>	5,025,143
Non-controlling interests	<b>374,927</b>	489,585
	<b><u>6,454,047</u></b>	<u>5,514,728</u>

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
	Note	2019 HK\$'000	2018 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment		5,250,030	5,693,610
Investment properties		80,209,689	74,228,117
Leasehold land and land use rights		-	1,940,187
Right-of-use assets		2,004,077	-
Properties under development		17,693,616	12,621,212
Land deposits		7,981,265	10,105,186
Associates and joint ventures		28,426,306	23,032,323
Derivative financial instruments		42,550	24,877
Financial assets at fair value through other comprehensive income		1,453,753	1,326,271
Financial assets at fair value through profit or loss		1,095,300	2,448,729
Mortgage loans receivable		3,062,327	3,969,991
Intangible assets		122,504	122,504
		<b>147,341,417</b>	<b>135,513,007</b>
<b>Current assets</b>			
Properties under development		5,346,346	8,408,933
Completed properties held for sale		10,881,168	10,151,508
Accounts receivable, prepayments and deposits	8	1,503,907	1,277,878
Current portion of mortgage loans receivable		33,838	35,905
Tax recoverable		325,346	217,190
Tax reserve certificates		189,598	189,598
Financial assets at fair value through profit or loss		6,863	7,145
Restricted bank deposits		511,687	522,698
Cash and bank balances		11,743,843	13,860,952
		<b>30,542,596</b>	<b>34,671,807</b>
<b>Current liabilities</b>			
Accounts payable, deposits received and accrued charges	9	6,290,259	6,908,110
Contract liabilities		2,549,048	6,499,300
Current portion of lease liabilities		50,461	-
Taxation		2,451,597	2,254,966
Short-term bank loans and current portion of long-term bank loans	10	8,494,117	8,141,552
		<b>19,835,482</b>	<b>23,803,928</b>
<b>Net current assets</b>		<b>10,707,114</b>	<b>10,867,879</b>
<b>Total assets less current liabilities</b>		<b>158,048,531</b>	<b>146,380,886</b>
<b>Non-current liabilities</b>			
Long-term bank loans	10	28,712,976	22,625,008
Fixed rate bonds		2,334,345	2,344,683
Amounts due to non-controlling interests		2,772,606	2,131,319
Lease liabilities		99,958	-
Derivative financial instruments		114,228	62,581
Deferred taxation		8,631,391	8,275,622
		<b>42,665,504</b>	<b>35,439,213</b>
<b>ASSETS LESS LIABILITIES</b>		<b>115,383,027</b>	<b>110,941,673</b>
<b>EQUITY</b>			
Capital and reserves attributable to the Company's shareholders			
Share capital		1,456,501	1,455,208
Share premium		13,061,007	13,019,604
Other reserves		8,526,697	9,192,306
Retained profits		78,660,305	73,873,846
		<b>101,704,510</b>	<b>97,540,964</b>
Non-controlling interests		13,678,517	13,400,709
<b>TOTAL EQUITY</b>		<b>115,383,027</b>	<b>110,941,673</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Basis of preparation and accounting policies

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants. In addition, these financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The following change in the presentation of consolidated income statement has been made to better align with the function of the expenditure:

Hotel depreciation and amortisation previously reported under cost of sales and direct expenses have been reclassified to administrative and other operating expenses. The comparative figures have been reclassified to conform with the current year’s presentation.

Except as described below, the accounting policies are consistent with those as described in the Group’s financial statements for the year ended 31 December 2018.

The following standard, amendments and interpretation to existing standards have been published that are effective for the accounting period of the Group beginning on 1 January 2019:

HKFRS 16, ‘Leases’

Amendments to HKFRS 9, ‘Prepayment features with negative compensation’

Amendments to HKAS 19, ‘Plan amendment, curtailment or settlement’

Amendments to HKAS 28, ‘Long-term interests in an associate or joint venture’

Annual improvements to HKFRSs 2015-2017 cycle

HK(IFRIC) – Int 23, ‘Uncertainty over income tax treatments’

The impact of the adoption of the above standard, amendments and interpretation to existing standards had no material impact on the consolidated financial statements of the Group except for the followings.

*HKFRS 16, ‘Leases’*

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

Following the adoption of HKFRS 16, leasehold land and land use rights were reclassified to right-of-use assets on 1 January 2019.

## 1. Basis of preparation and accounting policies (continued)

The following amendments to existing standard were early adopted by the Group from 1 January 2019.

### Amendments to HKFRS 3, ‘Definition of a business’

The amendments clarify the definition of a business and provide additional guidance with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or an asset acquisition. Furthermore, an optional concentration test is introduced to permit a simplified assessment of whether an acquired set of activities and assets is not a business.

The Group considers that the amendments better reflect the substance of the acquisition, and has early adopted the amended standard. Accordingly, the impact to the Group was reflected in the consolidated financial statements.

The following standard, amendments to existing standards and framework, which are relevant to the operations of the Group, have been published and are mandatory for the Group’s accounting periods beginning on or after 1 January 2020; but the Group has not early adopted them:

	Applicable for accounting periods beginning on/after
Amendments to HKAS 1 and HKAS 8, ‘Definition of material’	1 January 2020
Amendments to HKAS 39, HKFRS 7 and HKFRS 9, ‘Hedge accounting’	1 January 2020
Conceptual Framework for Financial Reporting 2018	1 January 2020
HKFRS 17, ‘Insurance contracts’	1 January 2021
Amendments to HKFRS 10 and HKAS 28, ‘Sale or contribution of assets between an investor and its associate or joint venture’	To be determined

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

## 2. Principal activities and segmental analysis of operations

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

	Revenue		Gross profit	
	Year ended 31 December		Year ended 31 December	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Principal activities:				
Property rental and others				
- Mainland Property	<b>3,635,915</b>	3,685,853	<b>2,781,823</b>	2,905,140
- Hong Kong Property	<b>1,274,510</b>	1,164,338	<b>999,175</b>	926,071
	<b>4,910,425</b>	4,850,191	<b>3,780,998</b>	3,831,211
Property sales				
- Mainland Property (Note)	<b>6,150,265</b>	7,515,833	<b>2,107,875</b>	2,381,200
- Hong Kong Property	<b>5,011,216</b>	6,959,118	<b>2,333,765</b>	2,398,477
	<b>11,161,481</b>	14,474,951	<b>4,441,640</b>	4,779,677
Hotel operations - Mainland Property	<b>1,953,516</b>	2,108,074	<b>761,344</b>	857,206
	<b>18,025,422</b>	21,433,216	<b>8,983,982</b>	9,468,094
Principal markets:				
- Mainland	<b>11,739,696</b>	13,309,760	<b>5,651,042</b>	6,143,546
- Hong Kong	<b>6,285,726</b>	8,123,456	<b>3,332,940</b>	3,324,548
	<b>18,025,422</b>	21,433,216	<b>8,983,982</b>	9,468,094

Note: Sales of investment properties for the year ended 31 December 2019 amounting to HK\$117,743,000 (2018: HK\$90,902,000) are excluded from revenue.



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

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

	Year ended 31 December 2019				
	Mainland Property HK\$'000	Hong Kong Property HK\$'000	Total		Total HK\$'000
			Operating	Others	
			Segments	HK\$'000	
Revenue	<u>11,739,696</u>	<u>6,285,726</u>	<u>18,025,422</u>	<u>-</u>	<u>18,025,422</u>
Results					
Segment results - gross profit	5,651,042	3,332,940	8,983,982	-	8,983,982
Other income and net gains					692,178
Net increase in fair value on financial assets at fair value through profit or loss					4,534
Administrative and other operating expenses					(1,602,120)
Increase in fair value of investment properties					1,185,018
Operating profit before finance costs					9,263,592
Finance costs					(812,565)
Operating profit					8,451,027
Share of results of associates and joint ventures					1,584,917
Profit before taxation					10,035,944
Taxation					(2,342,856)
Profit for the year					<u>7,693,088</u>
Profit attributable to:					
Company's shareholders					6,897,450
Non-controlling interests					795,638
					<u>7,693,088</u>
Depreciation and amortisation	<u>452,758</u>	<u>22,043</u>	<u>474,801</u>	<u>2,712</u>	<u>477,513</u>

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

	Year ended 31 December 2018				
	Mainland Property HK\$'000	Hong Kong Property HK\$'000	Total		Total HK\$'000
			Operating	Others	
			Segments	HK\$'000	
Revenue	13,309,760	8,123,456	21,433,216	-	21,433,216
Results					
Segment results - gross profit	6,143,546	3,324,548	9,468,094	-	9,468,094
Other income and net gains					673,010
Provision for impairment loss for property under development					(1,175,281)
Net decrease in fair value on financial assets at fair value through profit or loss					(1,461,152)
Administrative and other operating expenses					(1,605,108)
Increase in fair value of investment properties					4,457,289
Operating profit before finance costs					10,356,852
Finance costs					(584,501)
Operating profit					9,772,351
Share of results of associates and joint ventures					2,141,846
Profit before taxation					11,914,197
Taxation					(3,178,019)
Profit for the year					8,736,178
Profit attributable to:					
Company's shareholders					7,499,295
Non-controlling interests					1,236,883
					8,736,178
Depreciation and amortisation	490,022	16,114	506,136	3,148	509,284

### 3. Provision for impairment loss for property under development

In May 2018, Macau SAR Government has officially declared expiry of the land lease of a project located at Lot C12 at Nam Van Lake, Macau (“**Nam Van Lake Project**”), full impairment provision for the Nam Van Lake Project amounting to approximately HK\$1,175 million was made in 2018.

### 4. Net increase/(decrease) in fair value on financial assets through profit or loss

The change in fair value on financial assets through profit or loss for the year ended 31 December 2018 includes the decrease in fair value of HK\$1,500 million relating to the investment in Shanghai Krupp Stainless Co. Ltd. (“**SKS**”).

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

In May 2016, the Shanghai Municipal Government issued an approval covering the planning change for the site to commercial development use (“**May approval**”). Subsequently in August 2017, another approval was granted by the Shanghai Municipal Government to include the site as part of the newly planned World Expo Cultural Park.

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

In the second quarter of 2018, the Shanghai municipal authorities communicated to the project company their intention to incorporate the project site into the World Expo Cultural Park development. Since then discussions and negotiations were held with the Shanghai municipal authorities with a view to arriving at a mutually acceptable solution to enable the Group to withdraw from the project. An agreement for the acquisition compensation was reached in the second half of 2019.

## 5. Operating profit

	Year ended 31 December	
	2019	2018
	HK\$'000	HK\$'000
Operating profit is stated after crediting/charging the following:		
<i>Crediting</i>		
Dividend income	63,002	70,101
Interest income	570,289	676,569
Gain on sale of investment properties, net	51,384	37,924
<i>Charging</i>		
Depreciation of property, plant and equipment and right-of-use assets and amortisation of leasehold land and land use rights	477,513	509,284
Total finance costs incurred	1,166,840	971,234
Less: amount capitalised in properties under development and investment properties under development	(354,275)	(386,733)
	812,565	584,501

## 6. Taxation

	Year ended 31 December	
	2019	2018
	HK\$'000	HK\$'000
The taxation (charge)/credit comprises:		
Mainland taxation		
Current	<b>(1,389,442)</b>	(1,474,115)
(Under)/over-provision in prior years	<b>(1,177)</b>	903
Deferred	<b>(443,237)</b>	(1,199,041)
	<b>(1,833,856)</b>	(2,672,253)
Hong Kong profits tax		
Current	<b>(468,970)</b>	(469,618)
Over-provision in prior years	<b>671</b>	2,630
Deferred	<b>(23,803)</b>	(22,255)
	<b>(492,102)</b>	(489,243)
Overseas taxation		
Current	<b>(8,170)</b>	(9,037)
Over/(under)-provision in prior years	<b>1,131</b>	(1,905)
Deferred	<b>(9,859)</b>	(5,581)
	<b>(16,898)</b>	(16,523)
	<b><u>(2,342,856)</u></b>	<b><u>(3,178,019)</u></b>

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profit for the year. Income tax on the Mainland and overseas profits has been calculated on the estimated assessable profit for the year at the respective rates of taxation prevailing in the Mainland and the overseas countries in which the Group operates.

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

The Group's share of taxation of associates and joint ventures for the year of HK\$451,401,000 (2018: HK\$483,954,000) is included in the share of results of associates and joint ventures in the consolidated income statement.

## 7. Earnings per share

### *Basic*

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

	Year ended 31 December	
	2019	2018
Weighted average number of ordinary shares in issue	<u>1,455,974,642</u>	<u>1,452,417,742</u>
	HK\$'000	HK\$'000
Profit attributable to shareholders	<u>6,897,450</u>	<u>7,499,295</u>
Basic earnings per share	<u>HK\$4.74</u>	<u>HK\$5.16</u>

### *Diluted*

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

	Year ended 31 December	
	2019	2018
Weighted average number of ordinary shares in issue	1,455,974,642	1,452,417,742
Adjustment for share options	<u>514,809</u>	<u>1,621,526</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>1,456,489,451</u>	<u>1,454,039,268</u>
	HK\$'000	HK\$'000
Profit attributable to shareholders	<u>6,897,450</u>	<u>7,499,295</u>
Diluted earnings per share	<u>HK\$4.74</u>	<u>HK\$5.16</u>

## 8. Accounts receivable, prepayments and deposits

Included in accounts receivable, prepayments and deposits are trade receivables. The Group maintains a defined credit policy. The ageing analysis of trade receivables as at 31 December 2019 is as follows:

	As at 31 December 2019 HK\$'000	As at 31 December 2018 HK\$'000
Below 1 month	77,960	120,826
Between 1 month and 3 months	41,044	16,544
Over 3 months	16,496	26,094
	<u>135,500</u>	<u>163,464</u>

## 9. Accounts payable, deposits received and accrued charges

Included in accounts payable, deposits received and accrued charges are trade payables. The ageing analysis of trade payables as at 31 December 2019 is as follows:

	As at 31 December 2019 HK\$'000	As at 31 December 2018 HK\$'000
Below 1 month	444,515	334,407
Between 1 month and 3 months	22,706	22,732
Over 3 months	10,437	9,631
	<u>477,658</u>	<u>366,770</u>

## 10. Bank loans

	As at 31 December 2019 HK\$'000	As at 31 December 2018 HK\$'000
Bank loans - unsecured	35,288,001	28,378,777
Bank loans - secured	1,919,092	2,387,783
Total bank loans (note (i))	37,207,093	30,766,560
Less : Short-term bank loans and current portion of long-term bank loans	(8,494,117)	(8,141,552)
	<u>28,712,976</u>	<u>22,625,008</u>

## 10. Bank loans (continued)

(i) As at 31 December 2019, the Group's bank loans were repayable as follows:

	As at 31 December 2019 HK\$'000	As at 31 December 2018 HK\$'000
Within one year	8,494,117	8,141,552
In the second to fifth year		
- In the second year	5,586,658	8,731,082
- In the third year	11,577,601	6,908,349
- In the fourth year	5,298,717	5,684,072
- In the fifth year	5,850,000	1,301,505
	28,312,976	22,625,008
Repayable within five years	36,807,093	30,766,560
Over five years	400,000	-
	37,207,093	30,766,560

## 11. Commitments

At 31 December 2019, the Group had capital and other commitments in respect of investment properties, land costs, properties under development, interest in joint ventures and others contracted for at the end of the year but not provided for in these financial statements as follows:

	As at 31 December 2019 HK\$'000	As at 31 December 2018 HK\$'000
Investment properties	779,226	920,725
Land costs	7,906,141	4,005,274
Properties under development	8,711,199	4,237,180
Interest in joint ventures	-	126,251
Others	-	297,635
	17,396,566	9,587,065



## 12. Contingent liabilities

### Guarantees for banking facilities

	As at 31 December 2019 HK\$'000	As at 31 December 2018 HK\$'000
- Guarantees for banking facilities of certain associates and joint ventures (note (i))	2,702,503	2,680,659
- Guarantees to certain banks for mortgage facilities granted to first buyers of certain properties in the Mainland (note (ii))	<u>1,826,090</u>	<u>2,296,125</u>
	<u><b>4,528,593</b></u>	<u><b>4,976,784</b></u>

- (i) The Group has executed guarantees for banking facilities granted to certain associates and joint ventures. The utilised amount of such facilities covered by the Group's guarantees which also represented the financial exposure of the Group as at 31 December 2019 amounted to approximately HK\$2,702,503,000 (2018: HK\$2,680,659,000). The total amount of such facilities covered by the Group's guarantees as at 31 December 2019 amounted to approximately HK\$3,303,412,000 (2018: HK\$2,680,659,000).
- (ii) The Group has executed guarantees to certain banks for mortgage facilities granted to first buyers of certain properties developed by the Group in the Mainland. The utilised amount of such facilities covered by the Group's guarantees which also represented the financial exposure of the Group as at 31 December 2019 amounted to approximately HK\$1,826,090,000 (2018: HK\$2,296,125,000).

Apart from the above, there are no material changes in contingent liabilities of the Group since 31 December 2018.

## 13. Pledge of assets

At 31 December 2019, the Group's total bank loans of HK\$37,207,093,000 (2018: HK\$30,766,560,000) included an aggregate amount of HK\$35,288,001,000 (2018: HK\$28,378,777,000) which is unsecured and an aggregate amount of HK\$1,919,092,000 (2018: HK\$2,387,783,000) which is secured. The securities provided for the secured banking facilities available to the Group are as follows:

- (i) legal charges over certain properties with an aggregate net book value of HK\$16,035,262,000 (2018: HK\$16,408,731,000); and
- (ii) assignments of insurance proceeds of certain properties.

## MANAGEMENT DISCUSSION AND ANALYSIS

### REVIEW OF PROPERTY BUSINESS

#### OVERVIEW

The economic slowdown in mainland China and Hong Kong has weighed on the Group's performance. Despite a decline in our results for the year ended 31 December 2019, our business remains healthy and we continued to deliver stable recurrent income from the investment asset portfolio.

As at 31 December 2019, the Group held a portfolio comprising properties under development with a gross floor area ("GFA") of 26.82 million square feet (2018: 25.36 million square feet), completed investment properties of 14.47 million square feet (2018: 13.10 million square feet), hotel properties of 4.67 million square feet (2018: 4.67 million square feet), and properties held for sale of 2.04 million square feet (2018: 2.32 million square feet). This prime asset portfolio continues to underpin the Group's position for long-term growth.

#### Property Portfolio Composition

As at 31 December 2019:

	Group's attributable GFA				Total
	The Mainland	Hong Kong	Macau <sup>(1)</sup>	Overseas	
Completed Investment Properties	8,404	4,196	-	1,867	14,467
Hotel Properties	4,126	38	-	504	4,668
Properties Under Development	21,826	953	1,988	2,057	26,824
Properties Held for Sale	1,657	381	-	-	2,038
<b>Total GFA</b>	<b>36,013</b>	<b>5,568</b>	<b>1,988</b>	<b>4,428</b>	<b>47,997</b>

Note:

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

#### MAINLAND PROPERTY DIVISION

The Mainland Property Division recorded a 12% decrease in revenue to HK\$11,739 million (2018: HK\$13,310 million), mainly attributable to a 18% decline in sales revenue from completed properties. Gross profit also decreased by 8% to HK\$5,651 million (2018: HK\$6,143 million).

During the year, the overall policy direction for the real estate sector remained unchanged despite a moderating economy. While a slower pace of property sales was recorded by the Division, our Mainland portfolio of investment assets continued to remain strong and deliver a stable rental performance.

## INVESTMENT PROPERTIES

During the year, the Mainland portfolio of completed investment properties delivered a revenue of HK\$3,636 million (2018: HK\$3,686 million) and gross profit of HK\$2,782 million (2018: HK\$2,905 million), representing year-on-year declines of 1% and 4% respectively.

As at 31 December 2019, the completed investment property portfolio in the Mainland constituted an aggregate GFA of 8.40 million square feet (2018: 8.45 million square feet), comprising apartment, commercial and office properties. Their respective composition and occupancy rates were as follows:

### As at 31 December 2019:

	Group's attributable GFA							Total	Occupancy Rate
	Beijing	Shanghai	Shenzhen	Hangzhou	Shenyang	Tianjin	Jinan		
	('000 square feet)								
Office	711	1,388	1,552	102	354	-	195	4,302	90%
Commercial	98	1,096	104	798	486	435	34	3,051	93%
Apartment	277	774	-	-	-	-	-	1,051	89%#
	1,086	3,258	1,656	900	840	435	229	8,404	

### As at 31 December 2018:

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

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

### Comparative occupancy rates of key investment properties are outlined below:

Property	Occupancy rate as at 31 December 2019	Occupancy rate as at 31 December 2018
Jing An Kerry Centre Phase I	97%	96%
Jing An Kerry Centre Phase II <sup>(1)</sup>	96%	98%
Kerry Parkside <sup>(1)</sup>	94%	97%
Beijing Kerry Centre <sup>(1)</sup>	96%	96%
Shenzhen Kerry Plaza	92%	97%
Hangzhou Kerry Centre <sup>(1)</sup>	94%	92%
Shenyang Kerry Centre <sup>(1)</sup>	66%	39%

Note:

(1) Excluding the hotel portion.

## **Major Mixed-use Developments in the Mainland**

### ***Jing An Kerry Centre, Shanghai***

This landmark mixed-use development stands in the heart of Shanghai's Nanjing Road business district. The Group holds 74.25% and 51% interests in its Phases I and II respectively. With a GFA of 3.74 million square feet, Jing An Kerry Centre integrates office, serviced apartment, retail space and hotel overlooking a beautifully landscaped piazza. While the luxurious Shangri-La Hotel is a key feature, the development is also the pre-eminent shopping venue and most exclusive office address in Shanghai. As at 31 December 2019, 97% of the office space (2018: 99%) and 95% of the retail space (2018: 97%) were leased. Jing An Shangri-La Hotel achieved an average occupancy rate of 78% during the year (2018: 78%).

### ***Kerry Parkside, Shanghai***

Kerry Parkside, located in Shanghai's Pudong District, is a 40.8%-held mixed-use property comprising offices, serviced apartments, a retail mall and hotel. As at 31 December 2019, the retail space and offices were 94% and 98% leased respectively (2018: both 100%), while the serviced apartments were 82% occupied (2018: 85%). Kerry Hotel Pudong, Shanghai reported an average occupancy rate of 74% during the year (2018: 74%).

### ***Beijing Kerry Centre***

Beijing Kerry Centre, located in the heart of the capital city, comprises high-quality office space, serviced apartments, a shopping mall and Kerry Hotel Beijing. The Group holds a 71.25% interest in this mixed-use development. As at 31 December 2019, the occupancy rate of the retail portion was 94% (2018: 85%), while the offices were 98% leased (2018: 99%). The serviced apartments were 92% leased as at 31 December 2019 (2018: 93%). Kerry Hotel Beijing recorded an average occupancy rate of 86% during the year (2018: 85%).

### ***Hangzhou Kerry Centre***

Hangzhou Kerry Centre is located at the intersection of Yan'an Road and Qingchun Road, adjacent to the Xihu (West Lake). This 2.2 million square-foot mixed-use property comprises Grade-A offices, premium apartments, a retail-mall complex and a luxury hotel. As at 31 December 2019, the offices were 94% leased (2018: 82%), while 94% of the retail space was leased (2018: 94%). Midtown Shangri-La, Hangzhou reported an average occupancy rate of 76% during the year (2018: 77%). The Group holds a 75% stake in the project.

### ***Shenzhen Kerry Plaza***

Shenzhen Kerry Plaza, wholly owned by the Group, comprises three Grade-A office towers. Located at the core of the Futian CBD, it is conveniently connected with Futian railway station on the Guangzhou-Shenzhen-Hong Kong Express Rail Link. As at 31 December 2019, the occupancy rate of the development was 92% (2018: 97%).

### ***Tianjin Kerry Centre***

Tianjin Kerry Centre is a riverfront property on the east bank of the Haihe River in the Hedong CBD, Tianjin, where it enjoys convenient access to a major transportation network. Phase I of this 49%-owned mixed-use project includes upscale residences, a shopping mall and a hotel, delivering a GFA of approximately 3.6 million square feet. Phase II of the development is pending planning approval. As at 31 December 2019, the Riverview Place mall was 82% leased (2018: 74%). Shangri-La Hotel, Tianjin reported an average occupancy rate of 72% during the year (2018: 73%).

### ***Shenyang Kerry Centre***

Opened in 2018, Shenyang Kerry Centre has added office and commercial space to the Group's existing rental property portfolio. The development is located on the east side of Qingnian Street in Shenyang, Liaoning Province. As at 31 December 2019, the occupancy of the offices increased to 51% (2018: 19%) upon commissioning of the space, while 88% of the retail space was leased (2018: 68%). Shangri-La Hotel, Shenyang reported an average occupancy rate of 67% (2018: 68%). The Group holds a 60% stake in the project.

### ***Jinan Enterprise Square***

Jinan Enterprise Square is located at Lixia District, Jinan, Shandong Province. As at 31 December 2019, the offices were 84% leased (2018: 76%), while 97% of the retail space was leased (2018: 37%). Shangri-La Hotel, Jinan reported an average occupancy rate of 69% (2018: 58%). The Group holds a 55% stake in the project.

## **SALES OF PROPERTIES**

During the year, sales of completed properties in the Mainland delivered a revenue of HK\$6,150 million (2018: HK\$7,516 million), mainly from recognised sales of Castalia Court in Hangzhou, Shenyang Arcadia Height, Jinling Arcadia Court in Nanjing, Lake Grandeur in Hangzhou and Habitat in Qinhuangdao. A gross profit of HK\$2,108 million (2018: HK\$2,381 million) was derived therefrom.

### ***Castalia Court, Hangzhou***

This wholly owned residential and commercial development is located in the core area of the Hangzhou Zhijiang National Tourist and Holiday Resort. With an aggregate site area of approximately 1.53 million square feet, the development has a GFA of approximately 2.27 million square feet of residential property, Castalia Court, as well as approximately 250,000 square feet of commercial space. Phases I and II of the development have been completed and sold. Phase III has also been completed with sales ongoing. As at 31 December 2019, 99% of the total of 725 Phase III units had been sold.

### ***Arcadia Height, Shenyang***

Two towers of Arcadia Height at the Shenyang Kerry Centre Phase II development have been completed and delivered for occupation. Sales of this project have met with a strong response and as at 31 December 2019, 81% of the total of 495 Phase II residential units had been sold/pre-sold. The Group holds a 60% interest in this project.

### ***Jinling Arcadia Court, Nanjing***

Jinling Arcadia Court is located in Nanjing's Qin Huai District along Da Guang Road. This residential project wholly owned by the Group has a site area of approximately 396,000 square feet and a GFA of approximately 1 million square feet. As at 31 December 2019, all units were sold and handed over.

### ***Lake Grandeur, Hangzhou***

Lake Grandeur, with a GFA of approximately 330,000 square feet, is situated at Hangzhou Kerry Centre. This completed development overlooks the renowned West Lake in Hangzhou. As at 31 December 2019, 40% of the total of 121 units had been sold. The Group holds a 75% interest in this project.

### ***Habitat, Qinhuangdao***

Phase I of Habitat, the Group's 60%-owned deluxe seaside residential project close to Beidaihe in Qinhuangdao, Hebei Province, has been completed. As at 31 December 2019, 87% of the total of 778 Phase I residential units had been sold. The Phase I development has a GFA of approximately 1.6 million square feet.

## **PROPERTIES UNDER DEVELOPMENT**

The Group has continued to selectively acquire and bank prime land in the Mainland for development of large-scale mixed-use properties and residences in coveted locations.

### ***Shenyang***

The Group's 60%-owned Shenyang Kerry Centre project is located on the east side of Qingnian Street, to the south of Qingnian Park in Shenyang, the provincial capital of Liaoning Province. Lying at the core of the city's landmark Golden Corridor development, the site will yield a GFA of approximately 11 million square feet according to the current plan. This mixed-use project will include offices, residences, a shopping mall and a hotel. Phase I of the development has been completed and Phase II is partially completed, while Phase III is now under construction.

### ***Wuhan***

In 2018, the Group won a bid to acquire the land-use rights of a site located in Jiangnan District, Wuhan, Hubei Province. Lying in a prime commercial district at the intersection of the Yangtze and Han rivers, and in the vicinity of the Inner Ring Road city-centre area, the development will enjoy direct access to the Wuhan Metro Line 13 currently under planning. This wholly owned project, with an aggregate site area of approximately 700,000 square feet, is designed to yield a total GFA of approximately 4.4 million square feet. The Group plans to develop a large-scale complex with office, commercial, residential and educational components.

## ***Qianhai, Shenzhen***

The Group is developing Qianhai Kerry Centre in three phases in the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone. The three sites offer unobstructed seafront views, and are designated for mixed-use developments comprising office, apartment and commercial spaces and a hotel. This development represents the first substantial investment in Qianhai by a major Hong Kong corporation.

The Phase I development is wholly owned by the Group and has a total buildable GFA of approximately 2.2 million square feet, on a commercial site of 350,000 square feet. This phase will include a portfolio of office, apartment and retail properties, and is expected to be completed in 2020. One apartment tower was launched for pre-sale in 2018 to a strong response. The leasing of office and retail spaces commenced in September 2019.

The Group, Kerry Holdings Limited and The Bank of East Asia, Limited are jointly developing Phase II on an adjacent site with an area of approximately 207,000 square feet. This phase is designed to yield a GFA of approximately 1.3 million square feet for the development of office and hotel properties. The Group holds a 25% interest in the Phase II development.

Phase III of the project is situated on a parcel of land in the Qianwan area, adjacent to the other two phases. This new phase has an area of approximately 184,000 square feet, which is planned to yield a GFA of approximately 886,000 square feet, accommodating office and retail spaces, as well as complementary community facilities. This phase is developed through a joint venture with Sino Land Company Limited ("**Sino Land**"), in which the Group holds a 70% interest.

Qianhai is a special economic zone situated in a key location in the Pearl River Delta. All three sites lie conveniently close to the Guangshen-Yanjiang Expressway. Their development will help realise the Group's plan to build a modern, integrated hub for work, business activity and urban living in the centre of Qianhai.

## ***Fuzhou***

In 2018, the Group won a bid for a commercial (including retail and commercial services) and residential site in Cangshan District, Fuzhou, Fujian Province. This wholly owned project, with an aggregate site area of approximately 1.4 million square feet, is planned to yield a total GFA of approximately 3.6 million square feet. This project is located in the Sanjiangkou area, where it enjoys a captivating waterfront view. It also lies conveniently at the intersection of the Fuzhou-Xiamen Expressway, and will be linked to Fuzhou Metro Line 6. The Group plans to develop an integrated complex with office, commercial and residential space.

## ***Qinhuangdao***

The development, Qinhuangdao Habitat, comprises of two phases and is scheduled to be developed into apartments, villas, and commercial properties. The Group holds a 60% interest in the project.

Tower Two and Three of Phase I development have been completed with the sold units delivered. Phase II is currently under planning.

## ***Hangzhou***

On 17 May 2019, the Group won a bid for a residential and commercial site in Hangzhou, Zhejiang Province. The site is located in the Xiacheng District, a premier location in the vicinity of a major road link and the soon-to-be-commissioned Hangzhou Metro Line 5. With a site area of approximately 1.06 million square feet, the project is planned to yield a GFA of approximately 2.4 million square feet. The Group's plan is to develop the site into a large-scale complex with office, commercial and residential components.

## ***Zhengzhou***

The Group and Shangri-La Asia Limited (“**Shangri-La**”) are collaborating on a development located on the east side of Huayuan Road and to the south of Weier Road in Zhengzhou, Henan Province. The site will yield a GFA of approximately 2.1 million square feet for development into office, commercial and residential properties and a hotel. The project is scheduled to be completed in phases from 2023 onwards. The Group holds a 55% interest in this project.

## ***Tianjin***

The Group has a 49% interest in this project. The site, with GFA of approximately 5.1 million square feet, is planned to be developed in two phases. Phase I of the development has been completed and phase II is pending planning approval.

## ***Kunming***

The Group, together with Shangri-La, is developing two adjoining sites in Kunming, Yunnan Province. The sites are earmarked for apartment and hotel use, with a GFA of approximately 696,000 square feet. The Group holds a 55% interest in this project, which is scheduled to be completed in 2022.

## ***Nanchang***

In Nanchang, the provincial capital of Jiangxi Province, the Group is developing a project through a joint venture with Shangri-La. This 80%-held project is situated on the west bank of the Ganjiang River in the heart of the Honggutan Central District. The development includes offices, high-end residential, commercial properties and a hotel. The hotel and residential portions have been completed, delivering a GFA of approximately 1.7 million square feet. The construction permit for the office site was issued in December 2019.

## ***Putian***

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



## Shanghai

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

In the second quarter of 2018, the Shanghai municipal authorities communicated to the project company their intention to incorporate the project site into the World Expo Cultural Park development. Since then discussions and negotiations were held with the Shanghai municipal authorities with a view to arriving at a mutually acceptable solution to enable the shareholders, including the Group, to withdraw from the project. The acquisition compensation agreement was reached in October 2019.

## Properties under development in the Mainland

As at 31 December 2019:

	Residential	Group’s Attributable GFA Upon Completion			Total
		Office	Commercial	Hotel	
		('000 square feet)			
Wuhan	2,593	1,360	484	-	4,437
Fuzhou	2,055	689	843	-	3,587
Shenyang	2,223	551	423	-	3,197
Shenzhen	646	1,999	365	107	3,117
Hangzhou	1,190	624	624	-	2,438
Qinhuangdao	1,870	-	150	-	2,020
Zhengzhou	558	349	24	226	1,157
Tianjin	156	489	92	-	737
Nanchang	-	496	36	-	532
Kunming	125	-	-	258	383
Putian	-	-	21	200	221
<b>Total</b>	<b>11,416</b>	<b>6,557</b>	<b>3,062</b>	<b>791</b>	<b>21,826</b>

## HONG KONG PROPERTY DIVISION

During the year ended 31 December 2019, the Hong Kong Property Division recorded a revenue of HK\$6,286 million (2018: HK\$8,123 million) and a gross profit of HK\$3,333 million (2018: HK\$3,325 million).

The Division’s revenue for the year was mainly derived from recognised sales of completed residential properties at Mantin Heights, The Bloomsway and Mont Rouge.

The portfolio of investment properties in Hong Kong continued to contribute a steady stream of recurrent income as it achieved high occupancy levels and stable rental rates during the year.

## INVESTMENT PROPERTIES

The rental performance of the Group's premier portfolio of residential, commercial and office properties in Hong Kong remained robust in 2019. Revenue generated by the completed investment properties in Hong Kong totalled HK\$1,275 million (2018: HK\$1,164 million), producing a gross profit of HK\$999 million for the year (2018: HK\$926 million).

To strengthen its investment asset base and complementing its prime Mid-Levels portfolio in Hong Kong, the Group has curated a new, urban-chic residential rental brand, Resiglow. Following the successful launch in 2017 of the first leasing project under the Resiglow brand, Resiglow - Happy Valley, another apartment property, Resiglow - Bonham, was added to the portfolio during the year.

Considering the redevelopment potential of warehouse buildings, the Group acquired two warehouses in Sha Tin and Chai Wan from a wholly owned subsidiary of Kerry Logistics Network Limited during the year. The Group will consider redevelopment of the warehouses for long-term investment so as to add value to its portfolio.

With the addition of the two warehouse properties, the aggregate GFA of the completed investment property portfolio in Hong Kong increased to 4.20 million square feet as at 31 December 2019 (2018: 2.86 million square feet). Set out below is the breakdown of GFA and the respective occupancy rates, together with comparative figures:

	As at 31 December 2019		As at 31 December 2018	
	Group's attributable GFA ( <i>'000 square feet</i> )	Occupancy rate	Group's attributable GFA ( <i>'000 square feet</i> )	Occupancy rate
Apartment	871	90% #	803	99%
Commercial	1,224	100%	1,219	99%
Office	835	97%	841	97%
Warehouse	1,266	69%	-	-
	<u>4,196</u>		<u>2,863</u>	

# Excluding the Resiglow - Bonham with leasing commenced in August 2019.

### ***Enterprise Square Five / MegaBox, Kowloon Bay***

MegaBox blends shopping, entertainment, dining and sports into one innovatively designed complex. This pioneering retail and lifestyle landmark in Kowloon East has a GFA of 1.1 million square feet. As at 31 December 2019, the mall had an occupancy rate of nearly 100% (2018: nearly 100%).

MegaBox, as well as the overall economy, have inevitably been affected by the dual blows of the trade conflict between the Mainland and the US and the local social unrest. While the direct impact of these events on the mall's rental performance was moderate during the year, MegaBox took steps to flexibly rearrange the floor space to yield greater efficiency and appeal to customers. It also implemented measures to enhance the visitor experience, and organised activities to draw traffic.

The two Grade-A office towers of Enterprise Square Five, with a GFA of 519,000 square feet, recorded stable rental rates and were 97% leased as at 31 December 2019 (2018: 97%).

### ***Kerry Centre, Quarry Bay***

Kerry Centre, at No. 683 King's Road, Quarry Bay, is the Group's 40%-held flagship office property in Hong Kong. This Grade-A office tower has a GFA of approximately 511,000 square feet. Benefitted from the office decentralisation trend, Kerry Centre continued to record high occupancy rates and stable rentals. As at 31 December 2019, 100% of the office space was leased (2018: 100%).

### ***Resiglow - Happy Valley***

Resiglow - Happy Valley is located at No. 7A Shan Kwong Road, Happy Valley. It provides 106 units, including two penthouses, over a GFA of approximately 81,000 square feet. As at 31 December 2019, 87% of the units (2018: 100%) leased.

### ***Resiglow - Bonham, Sai Ying Pun***

Resiglow - Bonham is situated at No. 8 Hing Hon Road, and has a buildable GFA of approximately 68,000 square feet. The project obtained its Occupation Permit in July 2019. Leasing commenced in August 2019 and, as at 31 December 2019, 59% of the units (2018: N/A) were leased.

## **SALES OF PROPERTIES**

During the year, recognised sales of completed properties in Hong Kong contributed a revenue of HK\$5,011 million (2018: HK\$6,959 million) to the Group. A gross profit of HK\$2,334 million (2018: HK\$2,399 million) was generated, mainly from recognised sales of Mantin Heights, The Bloomsway and Mont Rouge.

### ***Mantin Heights, Ho Man Tin***

The Group's residential project, Mantin Heights, is situated at No. 28 Sheung Shing Street, Ho Man Tin, with a saleable area of approximately 992,000 square feet. As at 31 December 2019, 98% of the total of 1,429 units had been sold.

### ***The Bloomsway, So Kwun Wat***

The Bloomsway is located at Nos. 18, 28 and 29 Tsing Ying Road, So Kwun Wat. The project has a saleable area of approximately 838,000 square feet. As at 31 December 2019, 96% of the total of 1,100 units had been sold.

### ***Mont Rouge, Beacon Hill***

The Group has developed Mont Rouge at No. 9 Lung Kui Road in Beacon Hill with a saleable area of approximately 115,000 square feet. This low-density premium residential project comprising two residential towers and 19 houses obtained its Certificate of Compliance in January 2019. As at 31 December 2019, 7% of the total of 45 units had been sold.

## PROPERTIES UNDER DEVELOPMENT

### *Lung Kui Road, Beacon Hill*

The Group acquired a further site in Beacon Hill in 2016. This site, at No. 3 Lung Kui Road and occupying an area of 235,000 square feet, will be developed into an upscale low-density residential property with a buildable GFA of approximately 343,000 square feet. The project lies adjacent to Mont Rouge and is scheduled to be completed in 2021.

### *La Salle Road, Ho Man Tin*

The Group is developing a residential project at No. 10 La Salle Road in Ho Man Tin, following amalgamation of the entire building at Nos. 168-168C Boundary Street with the adjacent plot at No. 10 La Salle Road. Lying next to 8 LaSalle, this redevelopment project will deliver an aggregate buildable GFA of approximately 45,000 square feet and is scheduled for completion in 2020.

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

Together with Sino Land, the Group is co-developing the Wong Chuk Hang Station Package Two Property Development. The Group holds a 50% stake in the project. Located on the south-western segment of the Wong Chuk Hang Station Property Development, the site is designated for private residential purposes. This project will enjoy direct transport connection and the upside of the vibrant neighbourhood of Wong Chuk Hang. It occupies an area of approximately 92,000 square feet and will generate a buildable GFA of approximately 493,000 square feet. The project is scheduled for completion in 2023.

### *Wong Chuk Hang Station Package Four Property Development, Wong Chuk Hang*

On 28 October 2019, a consortium formed by the Group, Sino Land and Swire Properties Limited was awarded the tender for the Wong Chuk Hang Station Package Four Property Development project. Located on the south-eastern segment of the Wong Chuk Hang Station Property Development, the site is designated for private residential purposes and on the same lot as the project currently under co-development by the Group and Sino Land. This new project is expected to deliver two residential towers, offering a total of about 800 units over a buildable GFA of approximately 638,000 square feet. The Group holds a 50% interest in this project.

## Properties under development in Hong Kong

As at 31 December 2019:

	<b>Group's attributable GFA upon completion ('000 square feet)</b>
Residential	953
	<b>953</b>

## Macau

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

In May 2018, the Macau SAR Government gazetted the expiry of the land lease of the Nam Van Lake project for the reason of non-development. The Group filed an appeal (“**Appeal**”) in June 2018 in the Second Instance Court of Macau SAR (“**Second Instance Court**”) against the decision of the Chief Executive of Macau SAR in declaring the expiry of the land lease. The Second Instance Court handed down its decision in January 2020 dismissing the Appeal. The Group filed a further appeal (“**Final Appeal**”) in the Court of Final Appeal of Macau SAR in February 2020 seeking to overturn Second Instance Court’s decision. The Group also filed with the Administrative Court of Macau SAR a petition in July 2019 against the Macau SAR Government claiming, *inter alia*, due compensation for damages and loss of profits caused and the case is still under judicial proceedings.

As regards the reclamation project in Macau, joint venture partners have recently reviewed the course of action and submitted a written enquiry about the land exchange progress. A formal reply was received in July 2019 from the Macau SAR Government acknowledging that the case will be considered together with all other land debt cases in Macau.

## OVERSEAS PROPERTY DIVISION

### The Philippines

The Group maintains a portfolio of upscale properties in the Philippines. These investments are held through Shang Properties, Inc. (“**SPI**”), in which the Division maintains a 34.61% equity interest and a 30.75% interest in its depository receipts. SPI holds a 100% interest in the Shangri-La Plaza Mall, Manila, and a 70.04% interest in The Enterprise Center, an office and commercial property in Makati, Manila’s financial district. As at 31 December 2019, the occupancy rates of Shangri-La Plaza Mall and The Enterprise Center were 94% and 98% respectively (2018: 93% and 95%, respectively).

SPI holds a high-rise residential project, Shang Salcedo Place in Makati City, with a GFA of approximately 655,000 square feet. As at 31 December 2019, 100% of the total of 749 residential units had been sold, with 5 units to be held for long-term investment.

In addition, SPI holds a 60% interest in a hotel and luxury residential development in Fort Bonifacio, Taguig, Manila. The development includes a hotel with a total area of more than 850,000 square feet, residential and serviced apartment units covering 593,000 square feet, and commercial space with a total area of 47,400 square feet. As at 31 December 2019, 96% of the total of 98 residential units available for sale had been sold and 4 units, including 2 units of penthouse, have been retained by the developer for long-term investment. The hotel recorded an average occupancy rate of 71% (2018: 63%) during the year, while the serviced apartments were 82% leased as at 31 December 2019 (2018: 84%).

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

The first is being developed on a site of more than 116,000 square feet located in Malugay Street, Makati City. This project, The Rise, will have a GFA of approximately 1.63 million square feet, comprising 3,044 residential units and approximately 96,000 square feet of commercial space. Sales of The Rise have met with a strong market response, and 96% of the total of 3,044 units had been sold as at 31 December 2019, with 25 units to be held for long-term investment.

SPI launched another project in 2018, located at Wack Wack Road, Mandaluyong City, with a site area of more than 36,000 square feet. This project, Shang Residences at Wack Wack, will have a GFA of approximately 860,000 square feet, comprising 404 residential units. Sales of Shang Residences at Wack Wack were launched in September 2018, and 45% of the total of 404 units had been reserved and sold as at 31 December 2019, with 4 units to be held for long-term investment.

SPI also has a 50% interest in a joint venture to develop a site of more than 98,000 square feet in Fort Bonifacio Global City, Manila. The development, Aurelia, will deliver residential units, serviced apartments and commercial spaces. Pre-sale started in September 2019 and 46% of the total of 279 units had been reserved and sold as at 31 December 2019.

### **Sri Lanka**

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

The project will be developed in two phases. Phase I will include a high-rise residential tower, and Phase II will comprise residential and retail components. The entire project will take eight to nine years to develop.

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

### **Singapore**

The Group and Allgreen Properties Limited (“**Allgreen**”) have formed joint venture in which the Group holds a 30% interest. The joint venture won a tender for a land parcel located at Pasir Ris Central on 22 March 2019. With an area of approximately 409,000 square feet, the site is planned for residential and commercial uses.

This joint development aligns with the business strategies of the Group in building up a prime property portfolio and pursuing sound investment opportunities. In addition, the co-operation between the Group and Allgreen will provide a synergistic effect for both parties and will allow them to share their management and strategic expertise in the project.

## Overseas Property Portfolio

As at 31 December 2019:	Group's attributable GFA ('000 square feet)
<b>Investment properties</b>	
Office	406
Commercial	1,362
Apartment	99
<b>Sub-total</b>	<b>1,867</b>
<b>Hotel properties</b>	
Hotel	335
Hotel lease	169
<b>Sub-total</b>	<b>504</b>
<b>Properties under development</b>	
Residential	1,941
Commercial	116
<b>Sub-total</b>	<b>2,057</b>
<b>Total</b>	<b>4,428</b>

## OUTLOOK

### MAINLAND PROPERTY DIVISION

The Mainland real estate market has entered a period of adjustment against a background of tighter government controls and prudent financing policies. Adverse global trading conditions and geopolitical tensions have also had an impact on China. Property transactions have slowed down with prices softening slightly as home buyers adopt a 'wait-and-see' attitude. Developers are generally taking a more cautious approach towards land banking and new developments.

In the first quarter of 2020, the coronavirus disease ("COVID-19") caused disruption of supply chains and normal business operations on the Mainland. We took immediate action to co-ordinate the infection control measures taken by our local teams. Contingency plans were quickly developed and implemented to deal with the ad hoc issues raised by the epidemic.

Having weighed the impact of the epidemic and existing control policies for the property sector, we believe our market-driven sales approach remains appropriate. We will prudently plan and adjust our sales activity in accordance with the market situation.

Despite much lower visibility for the near term, we are confident in the long-term economic resilience of China. The property market will continue to grow healthily as the country's urbanisation process gathers pace. To sustain our growth momentum, we will continue to seek land-banking opportunities in major cities and locations with development potential.

In line with the Group's vision of building up a healthy recurrent income base, we will continue to identify and bank prime land for the development of large-scale mixed-use properties. These projects will feature a mix of office, residential, shopping and hotel components, which collectively will help stabilise our rental base. They will also facilitate the creation of community spaces, which is an important part of our social responsibility in helping improve the neighbourhoods we operate in.

The year 2020 is expected to bring many challenges, but the Group's solid fundamentals will continue to provide a firm foundation for ongoing developments. With careful control of risks, and continued responsiveness to opportunities in the market, we should be able to minimise the adverse impact caused to the Group by the COVID-19.

## **HONG KONG PROPERTY DIVISION**

On the home front, the volume of property transactions fell last year as both global trade tensions and local social unrest weighed on sentiment. As Hong Kong heads for an uncertain 2020 with outlook remaining subdued, we will continue to adopt a cautious approach in our business rollout.

The first half of 2020 will likely see the local economy affected by the COVID-19. With the future becoming less predictable, we will prudently manage risks, but at the same time maintain an open and positive mindset towards exploring and capturing growth possibilities. The Division's healthy portfolio of projects under development will provide impetus for our sales activity in the next few years. Going forward, we will continue to seek opportunities to replenish our land bank in Hong Kong.

Our Hong Kong investment property portfolio is an important contributor to the Group's long-term focus on building a strong recurrent income base. Key components of this portfolio – our premier Mid-Levels residences, offices in Island East and Kowloon East, and the MegaBox mall – are all achieving satisfactory occupancies and steady rental rates. We will also continue to expand the Resiglow line of apartments with a view to adding new recurrent income streams for the Group.

For the year ahead, we expect to record stable rental performance for our apartment and office portfolios. We believe our office properties will continue to benefit from the decentralisation trend. However, the retail portfolio may well meet with more challenges. Our mall management teams will actively address these difficulties, and work with our tenants to transform our mall spaces to stay relevant for new-generation consumers.

While the outlook for the Hong Kong economy and property market is subject to a significant level of uncertainty, we maintain that the city's core strength and supply-and-demand fundamentals are solid and unchanged. We have a long track record of demonstrating resilience across market cycles, and are confident of sustaining a robust performance over the long term.



## **FINANCIAL REVIEW**

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

The Group closely reviews and monitors its foreign exchange exposure. As at 31 December 2019, total foreign currency borrowings (excluding RMB bank loans) amounted to the equivalence of HK\$4,131 million and RMB bank loans amounted to the equivalence of HK\$4,474 million. Therefore, non-RMB total foreign currency borrowings and RMB bank loans represented approximately 10% and 11% respectively, of the Group's total borrowings of HK\$39,541 million as at 31 December 2019.

The non-RMB total foreign currency borrowings of HK\$4,131 million include US\$300 million Fixed Rate Bonds (net of direct issue costs) and approximately AUD328 million bank loans. The Group has arranged cross currency swap contracts amounting to US\$297 million and approximately AUD328 million to hedge the exchange rate exposure between United States dollars and Hong Kong dollars and between Australian dollars and Hong Kong dollars, respectively.

Out of the Group's total borrowings as at 31 December 2019, HK\$8,494 million (representing approximately 22%) was repayable within one year, HK\$7,921 million (representing approximately 20%) was repayable in the second year, HK\$22,726 million (representing approximately 57%) was repayable in the third to fifth years and HK\$400 million (representing approximately 1%) was repayable over five years. The Group continued to maintain most of its borrowings on an unsecured basis, with unsecured debt accounting for approximately 95% of total borrowings as at 31 December 2019. The Group will continue to obtain financing on an unsecured basis whenever possible, and supplement such borrowings with secured project financing as and when the need arises.

As at 31 December 2019, the gearing ratio for the Group was 26.8% (2018: 19.2%), calculated based on net debt of HK\$27,286 million and shareholders' equity of HK\$101,705 million.

As at 31 December 2019, the Group had outstanding interest rate swap contracts which amounted to HK\$1,700 million in total, enabling the Group to hedge its interest rate exposure and to have a more stable interest rate profile.

In terms of the Group's available financial resources as at 31 December 2019, the Group had total undrawn bank loan facilities of HK\$12,590 million and cash and bank deposits of HK\$12,255 million. In addition, the generation of strong recurrent cashflows from the Group's investment property portfolio and hotel operations provides the Group with a strong financial position, and enables the Group to reap the benefits of investment opportunities as and when they arise.

Details of contingent liabilities and pledge of assets are set out in notes 12 and 13 to the financial statements of the Group included in this announcement.

## **STAFF**

As at 31 December 2019, the Company and its subsidiaries had approximately 8,400 employees. Salaries of employees are maintained at competitive levels while bonuses are granted on a discretionary basis. Other employee benefits include provident fund, insurance, medical cover, subsidised educational and training programmes as well as share option schemes.

## **SHARE OPTIONS**

On 5 May 2011, the shareholders of the Company (the “**Shareholders**”) approved, among other things, the adoption of a share option scheme (the “**2011 Share Option Scheme**”). The 2011 Share Option Scheme is designed to motivate executives and key employees and other persons who may make a contribution to the Group, and enables the Group to attract and retain individuals with experience and ability and to reward them for their contributions.

As at 31 December 2019, options to subscribe for a total of 19,153,500 share options of the Company (the “**Share Options**”) were outstanding under the 2011 Share Option Scheme.

## **PROPOSED ADOPTION OF THE 2020 SHARE OPTION SCHEME AND TERMINATION OF THE 2011 SHARE OPTION SCHEME**

Approval will be sought from the Shareholders at the forthcoming annual general meeting of the Company to be held on Wednesday, 20 May 2020 (the “**2020 AGM**”) for the adoption of a new share option scheme (the “**2020 Share Option Scheme**”) and the termination of the 2011 Share Option Scheme (to the effect that no further Share Options shall be offered but the Share Options which had been granted during the life of the 2011 Share Option Scheme shall continue to be valid and exercisable in accordance with their terms of issue and in all other respects) with effect from the conclusion of the 2020 AGM. Details of the proposal are set out in the circular enclosed with the annual report of the Company for the year ended 31 December 2019 to be despatched to the Shareholders together with a notice of the 2020 AGM.

## **CORPORATE GOVERNANCE**

During the financial year ended 31 December 2019, the Company has complied with the code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited except that Mr. Wong Siu Kong is both the Chairman and the Chief Executive Officer (“**CEO**”) of the Company from 1 January 2019 to 31 May 2019. This is a deviation from A.2.1 of the code provisions which requires that the roles of chairman and chief executive should be separated and should not be performed by the same individual. However, the Board believes that the balance of power and authority had not been impaired by such arrangement as the Board comprises experienced and high caliber individuals.

On 1 June 2019, Mr. Wong Siu Kong has relinquished his position as the CEO of the Company and remains as the Chairman and an Executive Director of the Company and Mr. Kuok Khoon Hua, the Non-executive Director of the Company, has been re-designated as an Executive Director of the Company and appointed as the Vice Chairman and CEO of the Company. The Company has therefore complied with A.2.1 of the code provisions since 1 June 2019.

## **2020 AGM**

The 2020 AGM will be held on Wednesday, 20 May 2020 at 2:30 p.m. at Island Ballroom, Level 5, Island Shangri-La Hotel, Pacific Place, Supreme Court Road, Central, Hong Kong.

## **CLOSURE OF REGISTERS OF MEMBERS**

The registers of members of the Company (the “**Registers of Members**”) will be closed from Friday, 15 May 2020 to Wednesday, 20 May 2020, both days inclusive, for the purpose of determining Shareholders’ eligibility to attend and vote at the 2020 AGM and during which period no transfer of shares will be effected. In order to be entitled to attend and vote at the 2020 AGM, all transfers accompanied by the relevant share certificates must be lodged for registration with the Company’s branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:30 p.m. on Thursday, 14 May 2020.

The Registers of Members will also be closed on Wednesday, 27 May 2020 for the purpose of determining Shareholders’ entitlement to the Final Dividend and no transfer of shares will be effected on that date. In order to qualify for the Final Dividend, all transfers accompanied by the relevant share certificates must be lodged for registration with Tricor Abacus Limited at the above address not later than 4:30 p.m. on Tuesday, 26 May 2020. The Final Dividend is payable on Friday, 5 June 2020 to Shareholders whose names appear on the Registers of Members on Wednesday, 27 May 2020.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES**

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities during the year ended 31 December 2019.

By Order of the Board  
**Wong Siu Kong**  
*Chairman*

Hong Kong, 17 March 2020

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

**Executive Directors:** *Messrs. Wong Siu Kong, Kuok Khoon Hua, Bryan Pallop Gaw and Wong Chi Kong, Louis*

**Independent Non-**

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